

STRENGTHENING ZAKAH COMPLIANCE AMONG INDONESIAN MUSLIMS THROUGH THE ROLE OF INSTITUTIONAL CAPABILITIES

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ABSTRACT

This study examines the mediating role of institutional capabilities in the complex interplay between zakah regulation, leadership, and entrepreneurial competencies, aiming to understand their collective impact on the augmentation of zakah compliance. To this end, a questionnaire was distributed to 833 Indonesian Muslims who actively contribute zakat to official institutions, and the data are analyzed using partial least squares structural equation modeling. The findings underscore the pivotal role of institutional capabilities as a mediator between zakah regulation, leadership, and entrepreneurial competencies, with entrepreneurial skills exerting the most notable influence on zakah compliance. Further, perceived taqwa emerges as a robust influencer of compliance, while zakah regulation demonstrates a dual impact on both compliance and institutional capabilities. Additionally, the study advocates for prioritizing the development of entrepreneurial competencies within zakah institutions, aligning regulations with institutional growth, and nurturing perceived taqwa to fortify zakah compliance on a global scale. Departing from conventional approaches, this study adopts an innovative method by evaluating the efficacy of zakat institutions through institutional capabilities, particularly focusing on entrepreneurial competencies. The introduction of institutional capabilities as a mediating factor signifies a departure from the traditional framework, providing a novel perspective on the evaluation of resource reallocation and strategic direction.

Keywords: Zakah compliance, Institutional capabilities, Indonesian Muslims, PLS-SEM.

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I. INTRODUCTION

The institutions of zakah play a crucial role in raising funds for the welfare of the poor, yet the systematic verification of their institutional capabilities remains unexplored. Jean & Tan (2019) emphasize the vital role of institutional capabilities in enhancing an organization's performance, spanning across businesses and philanthropy. In Indonesia, zakah institutions have exhibited commendable performance, collecting IDR 33.00 Trillion in zakah funds in 2023, a notable 31.88% increase from the previous year (Zaenal et al., 2024). The zakat management framework adopts a decentralized approach, wherein collection and allocation operations are regionally oriented. Consequently, zakat funds collected are primarily allocated to eligible recipients (mustahik) within their respective geographical areas (Zaenal et al., 2024), and distributed through two schemes: the consumptive scheme, addressing recipients' daily needs, and the productive scheme, which supports medium, small, and micro-scale businesses (Anam, 2022). Indonesia has been recognized for its exceptional zakah collection and distribution globally (Bin-Nashwan et al., 2020). Collaborating with over 80 digital platforms, zakah institutions have utilized payment gateways, crowdfunding, e-commerce, QRIS for zakah, chatbot technology, and augmented reality (AR) to increase zakah collection by 26-30% during the Covid-19 pandemic (Humas BAZNAS, 2022). Furthermore, zakah institutions in Indonesia have ventured into the metaverse, introducing zakah metaverse during Ramadan 2022, providing zakah-related services like education and counters, with the aim of advocating and boosting zakah collection in Indonesia (Humas BAZNAS, 2022).

However, the performance of zakah collection often falls short of its full potential, leading to a significant loss of resources that could otherwise be instrumental in alleviating poverty and enhancing the well-being of society (Bin-Nashwan et al., 2020). Asfarina et al. (2019) state that the potential of zakat is quite significant, while Supanji (2022) highlights that the potential for zakah in Indonesia amounts to IDR 239 trillion annually, yet the actual collection reaches only IDR 14.1 trillion. This disparity in zakah compliance is a pressing issue experienced by many Muslim-majority nations attempting to increase zakah collection rates. Malaysia (Abdullah & Sapiei, 2018), Saudi Arabia (Alosaimi, 2018), Yemen (Bin-Nashwan, Abdul-Jabbar, Dziegielewski, et al., 2021), Pakistan (Hassan et al., 2019), and Nigeria (Saad & Farouk, 2019), as well as in Muslim-minority nations like Philippines (Andam & Osman, 2019) have all faced similar challenges in zakah compliance. Considering the points discussed earlier, the present study explores how institutional capabilities contribute to strengthening zakah compliance among Indonesian Muslims. The research seeks to understand how these institutional capabilities play a role in strengthening zakah compliance and their potential for optimizing the resources of zakah institutions.

So far, studies on institutional capability in the context of zakat compliance have not received sufficient attention from scholars (Junidar, 2020; Khafsoh et al., 2021; Maidoki, 2018). Previous studies have explored institutional capabilities, but not specifically in the context of zakah compliance due to the niche nature of Islamic finance, the complexity of zakah as a religious obligation, challenges in accessing relevant data, as well as interdisciplinary hurdles and perceived lack of incentives compared to conventional financial research. Some of these studies

include Mathews' (1998) investigation into post-crisis recovery, Salmon et al.'s (2008) examination of e-learning in a dual-mode university, Carney et al.'s (2016) exploration of state and private enterprise, Jean & Tan's (2019) analysis of e-business ventures, Peng et al.'s (2019) study on IT application maturity, and Kisubi et al.'s (2022) evaluation of small and medium-sized enterprise performance. These studies use institutional capabilities as a metric to assess past shortcomings and subsequently adopt them as a measure to address those deficiencies. However, our study diverges from this approach. Instead, we utilize institutional capabilities as a yardstick to evaluate zakat institutions' ability to reconfigure and harness their resources. Subsequently, we introduce it as an intervening variable that influences zakat compliance among Muslim community. Thus, institutional capabilities are essential for zakah compliance as they facilitate collection, distribution, and oversight, establish clear guidelines, provide education, and enhance trust in the system, ensuring accountability and effectiveness.

This study's primary goal is to overcome prior research limitations concerning institutional capabilities in zakah compliance exploration. It specifically focuses on zakah compliance among Indonesian Muslims and the mediating influence of institution capabilities in zakah organizations. Findings will serve as the foundation for a tailored zakah compliance model for Indonesia. The research studies four independent variables: Perceived taqwa (piety), zakah regulation, leadership, and entrepreneurial competencies. Their individual impacts on institutional capabilities and zakah compliance are assessed, with a focus on entrepreneurial competencies. While prior research links perceived taqwa, zakah regulation, and leadership to zakah compliance (Bin-Nashwan et al., 2020; Sawmar & Mohammed, 2021), this study uniquely contributes by examining the relationship between entrepreneurial competencies, institutional capabilities, and zakah compliance. Additionally, the study illuminates how institutional capabilities mediate the process of strengthening zakah compliance.

II. LITERATURE REVIEW

2.1. The Theory of Dynamic Capability

In 1994, Teece (2014b) and Pisano (2017) pioneer the theory of dynamic capabilities, which addresses an organization's agility in knowledge, skills, and adaptation within a dynamic competitive sphere. It underscores competitive advantage from dynamic abilities, with two aspects highlighted (Pisano, 2015): Firstly, "dynamic" denotes environmental shifts, strategic responses, and time for accelerated market innovation. Secondly, the capability underscores strategic management's role in adapting, integrating, and reconfiguring internal and external resources in response to changes. Three categories define dynamic capabilities: managerial processes, organizational position, and path (Teece, 2014a; Pitelis & Wang, 2019). Our study applies this theory to zakah institutions, focusing on their adept resource reconfiguration and harnessing abilities.

2.2. The Theory of Zakah

Yusuf al-Qaradawi, a prominent contemporary Islamic scholar, offers a comprehensive theory of zakat that underscores its foundational significance within Islam and its profound potential as a mechanism for socioeconomic equity. Central to his perspective is the notion that zakat extends beyond mere charity; it represents a fundamental obligation incumbent upon every Muslim, serving as a means of wealth redistribution and social solidarity (Al-Qarādāwī, 2006). Al-Qaradawi advocates for a nuanced approach to zakat distribution, wherein it is channeled towards specific eligible groups in need, while also advocating for its utilization in broader societal development endeavors. He envisions zakat as a transformative force capable of addressing systemic economic disparities and fostering inclusive growth (Al-Qarādāwī, 2006). In this regard, Al-Qaradawi emphasizes the importance of adaptability in zakat practices, urging for its continuous reassessment and adjustment to contemporary socio-economic realities. Moreover, he highlights the necessity of transparency and accountability in zakat management, both at the individual and institutional levels, to ensure its effective deployment towards uplifting marginalized communities and advancing societal well-being (Ihsan et al., 2022). Through strategic investment in critical areas such as education, healthcare, and infrastructure development, Al-Qaradawi envisions zakat as a catalyst for sustainable progress, empowering individuals and communities to thrive (Yusrizal & Sasmita, 2023).

2.3. Perceived Taqwa and Zakah Compliance

Taqwa, rooted in “*waqaa-yaqii-wiqaayatan*,” serves as more than a defensive stance; it acts as a proactive shield against divine retribution (Ma’luf, 2014). Thanthawi (1997) elevates Taqwa to a philosophical standpoint in the context of Allah (Ittaqullah), portraying it as a comprehensive safeguard against existential harm. This conceptualization involves meticulous adherence to Allah’s commands, deliberate avoidance of prohibitions, and a multi-faceted approach outlined by Al-Baydhowi (1997) to evade perpetual retribution, preserve spiritual purity, and exercise discernment between realms of evil and truth. Al-Qurthubi (1964) introduces a semantic shift, presenting caution as an art form aligned with divine guidance. In an advanced interpretation, caution becomes *furqan*—a cognitive ability to discern intricacies. The psychological realm of Taqwa, as per Al-Ghazali (1994), involves renouncing desires and avoiding pitfalls like polytheism and hypocrisy. With this understanding, individuals with perceived taqwa may be more inclined to fulfill the obligation of zakah as a form of support for social justice. Similar to piety or God-consciousness as explained by Bhatti et al. (2015), perceived Taqwa significantly motivates individuals to uphold religious duties, including zakah. Perceived taqwa propels zakah compliance, with the devoutly inclined dutifully fulfilling their zakah obligation (Nettler, 1994). Delza (2022) asserts that perceived taqwa cultivates responsibility and accountability, driving Muslims to earnestly meet obligations, such as zakah. This spiritual awareness positively impacts compliance, encouraging generous contributions (Haramen, 2017). Conversely, weak Taqwa weakens zakah compliance. According to Bin-Nashwan et al. (2020) and Sawmar & Mohammed (2021), low God-consciousness

may lead to negligence or evasion, rooted in weak moral responsibility or misunderstanding zakah's Islamic significance. Perceived Taqwa tightly intertwines with zakah compliance, as it fosters commitment, while its absence may yield weaker adherence. Therefore, the proposed hypothesis is:

H1: Perceived taqwa strengthens zakah compliance

2.4. Zakah Regulation, Institutional Capabilities and Zakah Compliance

Zakah regulation embodies Islamic principles for zakah's collection, distribution, and management (Badan Pemeriksa Keuangan Republik Indonesia - BPK RI, 2017). Institutional capabilities, like effectiveness and capacity (Jean & Tan, 2019), are pivotal for zakah's execution. Effective zakah regulation furnishes guidelines for transparent, efficient duty fulfillment, setting standards for collection, recipient determination, and equitable distribution (Badan Pemeriksa Keuangan Republik Indonesia - BPK RI, 2017). Robust institutional capabilities, such as adept personnel and transparent systems (Bin-Nashwan, et al., 2020), enhance collection, management, and distribution, strengthening public trust (Jean & Tan, 2019), and zakah compliance (Haramen, 2017). Clearly communicated regulations instill responsibility and accountability, increasing adherence (Bin-Nashwan, et al., 2020). This relationship fosters compliance by defining standards and legal consequences (Badan Pemeriksa Keuangan Republik Indonesia - BPK RI, 2017). Therefore, the proposed hypotheses are:

H2a: Zakah Regulation affects institutional capabilities of zakah institutions

H2b: Zakah Regulation affects strengthening zakah compliance

2.5. Leadership and Institutional Capabilities

The relationship between leadership and the institutional capabilities of zakah organizations is paramount in ensuring their efficient operation and success in fulfilling their responsibility of collecting, managing, and distributing zakah funds to eligible recipients. Leadership plays a crucial role in promoting honesty and equity within these organizations, as noted by Pancasila et al. (2020). In zakah institutions, effective leadership is vital for enhancing their abilities to carry out zakah-related duties efficiently. Strong leadership, as described by Chiniara & Bentein (2018) and Mitterer (2017), encompasses vision, competence, compliance, transparency, and resource management, all contributing to the institution's overall effectiveness and impact. Within zakah institutions, capable leaders have a significant responsibility in advancing the organization's mission and ensuring that zakah funds reach those genuinely deserving (Khuwaja et al., 2020), thereby fulfilling one of the fundamental pillars of Islamic charity and social welfare. Therefore, the proposed hypothesis is:

H3: Leadership affects institutional capabilities of zakah institutions

2.6. Entrepreneurial Competencies and Institutional Capabilities

Entrepreneurial competencies and institutional capabilities are pivotal for zakah organizations' success. Competencies empower leaders to innovate and tackle challenges, enhancing overall performance (Aidara et al., 2021; Tehseen & Ramayah, 2015). Strong institutional capabilities, a foundation per Khalid & Bhatti (2015), support competencies. Robust systems, compliance measures, and resource management enable successful implementation of ideas and strategies (Man et al., 2008). Entrepreneurial competencies drive innovation, while solid institutional capabilities provide the structure for zakah institutions to fulfill responsibilities and impact lives positively. Together, they ensure efficient fund collection, management, and distribution to eligible recipients, amplifying the institution's mission. Therefore, the proposed hypothesis is:

H4: Entrepreneurial competencies affect institutional capabilities of zakah institutions

2.7. Institutional Capabilities and Zakah Compliance

According to Jean & Tan (2019), institutional capability (capabilities) refers to the development of processes that empower individuals, organizations, institutions, and communities to effectively address problems and achieve their objectives. These institutional capabilities have a direct impact on the level of compliance among zakah payers and play a crucial role in the overall success of zakah collection and distribution efforts. As stated by Bin-Nashwan, et al. (2020), when zakah institutions possess well-defined processes, efficient resource management, effective communication, and transparent distribution mechanisms, individuals are more likely to willingly and diligently fulfill their zakah obligations. Strong institutional capabilities foster trust and confidence among donors and recipients (Mediacerita.com, 2016), ensuring that zakah funds are utilized for their intended purpose and ultimately have a positive impact on the welfare of the community. Therefore, the proposed hypothesis is:

H5: Institutional capabilities affect strengthening zakah compliance

2.8. Institutional Capabilities as Mediator

Zakah, a fundamental Islam pillar (Mohd Nor et al., 2021), holds vital Islamic finance and governance importance. Governments and Islamic bodies implementing zakah regulations significantly foster Muslim compliance (Bin-Nashwan, et al., 2020). Effective institutional capabilities encompassing streamlined administrative processes, clear directives, and robust enforcement mechanisms (Jean & Tan, 2019) bridge zakah regulation and societal adherence. Leadership in Islamic institutions, governments, and religious authorities crucially influences compliance (Hussain, 2019), with adept leaders promoting awareness, emphasizing Islamic teachings, and spurring compliance (Alosaimi, 2018). Such leadership shapes institutional traits, like culture, decision-making, and resource allocation (Carney et al., 2016), bridging leadership and enhanced zakah adherence. Entrepreneurial competencies within the Muslim community also aid compliance (Bin-Nashwan et al., 2020), as prosperous entrepreneurs inspire zakah fulfillment and socially

responsible businesses, propelled by zakah-centric values (Saad & Farouk, 2019). Ventures’ capabilities, combined with entrepreneurial impact (Kisubi et al., 2022), mediate the link between entrepreneurial competencies and strengthening zakah compliance. Therefore, the proposed hypothesis is:

- H6 (a-c): Institutional capabilities can mediate between:
- a. Zakah regulation and strengthening zakah compliance
 - b. Leadership and strengthening zakah compliance
 - c. Entrepreneurial competencies and strengthening zakah compliance

2.9. Research Model

Figure 1 illustrates the model with perceived taqwa, zakah regulation, and institutional capabilities influencing zakah compliance. Likewise, zakah regulation, leadership, and entrepreneurial competencies affect institutional capabilities. Institutional capabilities is also a mediating variable and zakah compliance is the dependent variable. Rigorous scholarly analysis grounds each element. In conclusion, this study enriches academic literature by shedding light on the intricate link between entrepreneurial competencies, institutional capabilities, and zakah compliance.

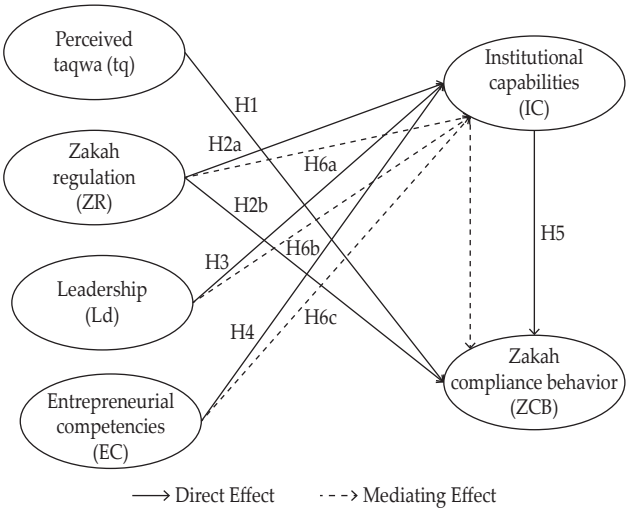


Figure 1.
Research Model

III. METHODOLOGY

3.1. Sample and Data

From September to December 2023, we conducted a detailed data collection using non-probability judgmental sampling. Our target group is Indonesian residents who practice Islam (Amin, 2022a). We utilized the Google Form platform, shared via WhatsApp, gathering 833 meaningful responses. This comprehensive dataset mirrors the sample composition, encompassing 833 Indonesian Muslims. Adhering

to research standards, our participant pool exceeds the minimum requirement of ten times the investigative instruments, aligning with Hair et al.'s (2010) guidelines, as supported by Kyriazos (2018) and Schermelleh-Engel et al. (2003).

3.2. Measurement

This study validates the conceptual model through a questionnaire with two sections. The first section outlines objectives and participant guidance, gathering socio-demographic data like age, marital status, gender, occupation, education, zakah payment details, media usage, and payment location. The second section involves the constructs employed in the study using statements with a 5-point Likert scale ("Strongly Disagree" [1], "Disagree" [2] "Slightly Agree" [3], "Agree" [4], and "Strongly Agree" [5]; Amin, 2022a). It includes 20 statements: 3 for "Zakah Compliance" (ZCB), "Institutional Capabilities" (IC), " Perceived Taqwa" (Tq), "Zakah Regulation" (ZR), and 4 for "Leadership" (Ld) and "Entrepreneurial Competencies" (EC) each. The detailed measurement of these constructs can be found in Table 1.

Table 1.
Measurement of Constructs

No	Constructs	Codes	Measurement	Sources
1	Strengthening zakat compliance (ZCB)	ZCB1	Cultural adaptation boosts Muslim engagement in zakat	Haramen (2017), Bin-Nashwan et al. (2020) and Sawmar & Mohammed (2021)
		ZCB2	Tech-savvy users benefit from enhanced zakat app compliance	
		ZCB3	Local leaders drive zakat responsibility through events and sermons	
2	Institutional capabilities (IC)	IC1	Institutional capabilities ensure precise zakah management and timely donor compliance	Teece (2014b), Pisano (2017), Jean & Tan (2019) and Bin-Nashwan et al. (2020)
		IC2	Robust capabilities ensure transparent, trusted, and compliant zakat fund management	
		IC3	Capabilities enhance zakat education, fostering awareness and compliance	
3	Perceived Taqwa (Tq)	Tq1	Perceived Taqwa strengthens zakat compliance, fostering responsibility and compassion	Al-Ghazali (1994), Thanthawi (1997), and Bhatti et al. (2015)
		Tq2	Perceived Taqwa fuels sincere zakat for wealth purification and divine approval	
		Tq3	Perceived Taqwa inspires voluntary giving and social justice commitment through zakat	

Table 1.
Measurement of Constructs (Continued)

No	Constructs	Codes	Measurement	Sources
4	Zakah regulation (ZR)	ZR1	Clear regulations ensure accurate zakah compliance for Muslims	Badan Pemeriksa Keuangan Republik Indonesia - BPK RI, 2017), Haramen (2017), and Bin-Nashwan et al. (2020)
		ZR2	Zakah rules educate on obligations, calculations, and impact, fostering compliance	
		ZR3	Consistent regulations build trust, ensuring just zakat management and enhancing compliance	
5	Leadership (Ld)	Ld1	Leadership defines goals, priorities, and ensures lasting viability for zakah institutions	Pancasila et al. (2020), Chiniara & Bentein (2018), Mitterer (2017), and Khuwaja et al. (2020)
		Ld2	Robust leadership empowers zakah teams, fostering collaboration, innovation, and shared responsibility	
		Ld3	Adept leadership optimizes resources for efficient zakah collection and distribution	
		Ld4	Leaders innovate for effective, lasting service in zakah institutions	
6	Entrepreneurial competencies (EC)	EC1	Entrepreneurial competencies drive innovation, enhancing zakah institutions	Man et al. (2008), Tehseen & Ramayah (2015), Khalid & Bhatti (2015), and Aidara et al. (2021)
		EC2	Entrepreneurial competencies ensure zakah institutions' adaptability and effectiveness	
		EC3	User-driven zakah institutions forge impactful partnerships, expanding reach and capabilities	
		EC4	Entrepreneurial competencies optimize zakah institutions for sustainable growth	

3.3. Data Analysis

This study uses the partial least squares structural equation modeling (PLS-SEM) method with the assistance of SmartPLS 4 software, the latest iteration of software tailored for PLS-SEM analysis (Ascarya & Indra, 2022; Ringle et al., 2022). The two-step analysis of SEM-PLS begins with the measurement model, evaluating validity and reliability. Convergent validity requires factor loadings, composite reliability, and average variance extracted (AVE) to exceed 0.7 (Hair et al., 2019). Discriminant validity is assessed using cross-loading and Fornell-Larcker criterion (Chawla & Joshi, 2019). For reliability, we use Cronbach’s alpha, with values above 0.6 indicating reliability (Gottems et al., 2018). Adherence to measurement conditions precedes hypothesis testing. The structural model analysis involves assessing multicollinearity, where a variance inflation factor (VIF) < 5 (Hair, et al., 2021) is sought, alongside examining the Coefficient of Determination (R-square) to ensure it is above 0.2 with varying thresholds indicating weak (> 0.25), moderate

(> 0.50), or substantial (> 0.75) relationships (Hair, et al., 2021). Effect size is evaluated using Cohen's f-square, while predictive relevance is assessed via Stone-Geisser's Q-square (> 0), with specific thresholds indicating small (0.02), medium (0.15), or large effect sizes (0.35; Hair, et al., 2021). Additionally, robustness tests are conducted using non-linearity criteria, following the guidelines outlined by Sarstedt et al. (2020).

IV. RESULTS AND ANALYSIS

4.1. Results

4.1.1. Demographic Profile of the Respondents

Table 2 provides a comprehensive demographic overview encompassing gender, age, marital status, occupation, education level, zakah payment type, media, and payment location. Female respondents dominate (53.4%), state employees lead (33.3%), and 70.5% are married. Education level, 55.3% hold bachelor's degrees, while 42.6% fall in the "20 to 29 years" age range. "Zakah of fitrah" ranks highest (34%) in payment types, and cash payments prevail (54.4%) in payment media. "Another official zakah institution" (36.2%) is the primary payment location.

Table 2.
Demographic Profile of the Respondents

Criteria	Category	Frequency	Percent
Gender	Male	388	46.6
	Female	445	53.4
Age	20 to 29 years	355	42.6
	30 to 39 years	261	31.3
	40 to 49 years	144	17.3
	50 to 59 years	69	8.3
	60 to 69 years	3	0.4
	70 to 79 years	1	0.1
Marital status	Single	234	28.1
	Married	587	70.5
	Divorce	5	0.6
	Husband/wife has passed away	7	0.8
Occupation	Lecturer	82	9.8
	Teacher	128	15.4
	State employee	277	33.3
	Private employee	28	3.4
	Company employee	18	2.2
	Army/police	31	3.7
	Entrepreneur	99	11.9
	Pension	4	0.5
	Farmer	10	1.2
	Others	156	18.7

Table 2.
Demographic Profile of the Respondents (Continued)

Criteria	Category	Frequency	Percent
Education level	Elementary school	5	0.6
	Junior High School	16	1.9
	Senior high school	167	20.0
	Diploma	2	0.2
	Bachelor's	461	55.3
	Master's	142	17.0
	Doctor's	40	4.8
Type of zakah payment	Zakah of fitrah	283	34.0
	Zakah of wealth	74	8.9
	Zakah of income	94	11.3
	Zakah of farming	3	0.4
	Zakah of fitrah and wealth	83	10.0
	Zakah of fitrah and income	44	5.3
	Zakah of fitrah and farming	2	0.2
	Zakah of fitrah, wealth and income	216	25.9
	Zakah of fitrah, wealth and farming	8	1.0
	Zakah of fitrah, income and farming	1	0.1
	Zakah of fitrah, wealth, , income and farming	25	3.0
Zakah payment media	By digital payment	273	32.8
	By cash payment	453	54.4
	By cash and digital payment	107	12.8
Place to pay zakah	District zakah institution	244	29.3
	Provincial zakah institution	270	32.4
	Central zakah institution	17	2.0
	Another official zakah institution	302	36.2

4.1.2. Measurement Model Assessment

The SEM-PLS model's assessment involves Loading factors, Cronbach's alpha, Composite reliability, AVE, and Discriminant validity. Table 3 displays values for these measures. All surpass the recommended thresholds ($\alpha > 0.7$, $AVE > 0.5$). This shows robust measurement, aligned with Hair et al. (2011), enhancing the research model's credibility.

Table 3.
Validity and Reliability Output

Constructs	Indicators	Loading factors	Cronbach's alpha	Composite reliability	AVE
Strengthening Zakah Compliance (ZCB)	ZCB1	0.944	0.950	0.964	0.869
	ZCB2	0.945			
	ZCB3	0.941			
Institutional Capabilities (IC)	IC1	0.939	0.924	0.952	0.868
	IC2	0.931			
	IC3	0.925			
Perceived Taqwa (Tq)	Tq1	0.956	0.956	0.968	0.883
	Tq2	0.960			
	Tq3	0.960			
Zakah Regulation (ZR)	ZR1	0.933	0.956	0.971	0.919
	ZR2	0.955			
	ZR3	0.941			
Leadership (Ld)	Ld1	0.936	0.938	0.960	0.890
	Ld2	0.951			
	Ld3	0.925			
	Ld4	0.945			
Entrepreneurial Competencies (EC)	EC1	0.922	0.938	0.960	0.889
	EC2	0.942			
	EC3	0.937			
	EC4	0.927			

In Table 4, AVE values (>0.50) confirm strong convergent validity. In line with Fornell and Larcker Criteria, square roots of AVE exceed inter-construct correlations. Bold diagonal items indicating square root of AVE surpass intercorrelations, highlighting robust discriminant validity, as emphasized by Hair et al. (2019).

Table 4.
Fornell-Larcker Criterion Output

Latent Construct	EC	IC	Ld	Tq	ZCB	ZR
EC	0.932					
IC	0.875	0.932				
Ld	0.874	0.833	0.939			
Tq	0.775	0.735	0.786	0.959		
ZCB	0.817	0.827	0.770	0.793	0.943	
ZR	0.906	0.849	0.859	0.808	0.829	0.943

4.1.3. Structural Model Assessment

Table 5.
Direct Effect Output

Hypotheses	Construct Relationship	Original sample	Sample mean	Standard deviation	T-Statistics	P-Values	Decision
H1	Tq -> ZCB	0.297	0.294	0.045	6.569	0.000	Accepted
H2a	ZR -> IC	0.225	0.229	0.070	3.240	0.001	Accepted
H2b	ZR -> ZCB	0.259	0.258	0.058	4.498	0.000	Accepted
H3	Ld -> IC	0.223	0.222	0.053	4.207	0.000	Accepted
H4	EC -> IC	0.476	0.474	0.083	5.723	0.000	Accepted
H5	IC -> ZCB	0.389	0.393	0.058	6.725	0.000	Accepted

Using Smart PLS 4, the structural model assesses direct and indirect effects per research goals in Figure 1. Hypotheses in Table 5 and Figure 2 are validated ($P < 0.05$ or $T > 1.96$): Perceived taqwa strengthens zakah compliance, zakah regulation affects institutional capabilities, and leadership, entrepreneurial competencies, and institutional capabilities bolster zakah compliance.

Indirect effects are evaluated using PLS-SEM bootstrap, aligned with Hair et al. (2014). Table 6 and Figure 2 display outcomes, affirming Hypotheses H6a, H6b, and H6c ($P < 0.05$ or $T > 1.96$). Institutional capabilities exclusively mediate the Indonesian Muslims' relationship between zakah regulation, leadership, entrepreneurial competencies, and zakah compliance.

Table 6.
Indirect Effect Output

Hypotheses	Construct Relationship	Original sample	Sample mean	Standard deviation	T-Statistics	P-Values	Decision
H6a	ZR -> IC -> ZCB	0.088	0.091	0.032	2.712	0.007	Accepted
H6b	Ld -> IC -> ZCB	0.087	0.087	0.025	3.512	0.000	Accepted
H6c	EC -> IC -> ZCB	0.185	0.185	0.040	4.631	0.000	Accepted

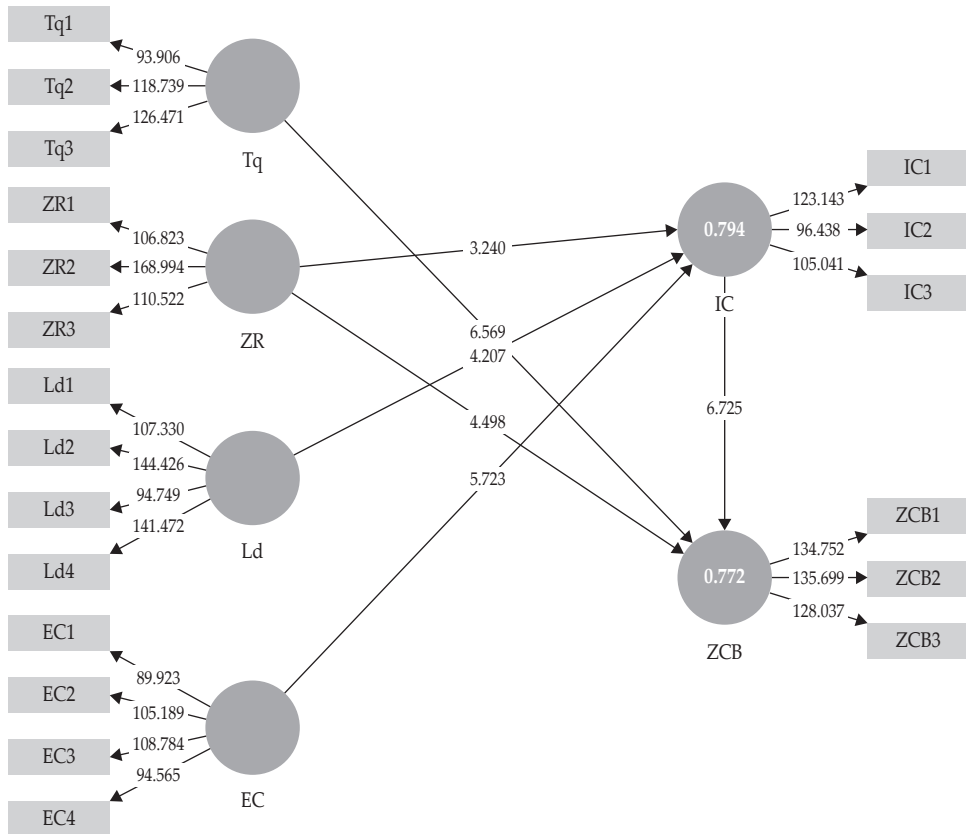


Figure 2.
Output of Full Model

Table 7.
R-Square and Adjusted R-Square Output

Variables	R-Square	Adjusted R-Square
Strengthening zakah compliance (ZCB)	0.772	0.771
Institutional capabilities (IC)	0.794	0.793

Table 7 reveals R-Square and Adjusted R-Square values, indicating variables' impact on the dependent variable. Zakah regulation, leadership, and entrepreneurial competencies contribute 79.4% to institutional capabilities. Perceived taqwa, zakah regulation, and institutional capabilities contribute 77.2% to zakah compliance. Adjusted R-Square values (> 0.50) predict well. While, Table 8 presents the effect size and predictive relevance of the model. Cohen's f-square is used to assess the relationship strength between variables, with values of 0.02 (small), 0.15 (medium), and 0.35 (large) serving as benchmarks for predictive effect magnitude (Hair, et al., 2021). The results in Table 8 indicate that the overall f-square ranges from 0.039 to 0.158. Additionally, predictive relevance analysis is

conducted using Stone–Geisser’s Q-square. Q-square values serve as indicators of the predictive relevance of independent variables for dependent variables (Hair, et al., 2021). For the sustainable performance variable, the Q-square value ranges from 0.655 to 0.689, surpassing the minimum threshold of > 0, suggesting proper reconstruction of observed values and thus the model has predictive relevance.

Table 8.
Effect Size and Multicollinearity Output

Construct Relationship	f-Square	Q-Square	VIF
Zakah regulation (ZR) -> Institutional capabilities (IC)	0.039	0.678	6.264
Leadership (Ld) -> Institutional capabilities (IC)	0.051	0.689	4.735
Entrepreneurial competencies (EC) -> Institutional capabilities (IC)	0.158	0.690	6.937
Perceived Taqwa (Tq) -> Strengthening zakah compliance (ZCB)	0.131	0.658	2.956
Zakah regulation (ZR) -> Strengthening zakah compliance (ZCB)	0.061	0.655	4.848
Institutional capabilities (IC) -> Strengthening zakah compliance (ZCB)	0.181	0.664	3.666

4.2. Robustness Check

This study employs non-linearity criteria to conduct robustness checks, in accordance with recommendations by Sarstedt et al. (2020). The presumption that the relationship between constructs is consistently linear, grounded in theory, often diverges from empirical observations. Statistically, in instances where the relationship between two constructs exhibits non-linearity, the magnitude of the effect between them is contingent not solely upon the extent of change in the exogenous construct, but also upon its value (Hair & Sarstedt, et al., 2021). Consequently, this study integrates a polynomial model and introduces a quadratic effect. The results of the quadratic effect analysis reveal non-significance across all pathways (refer to Table 9). It may be deduced that the absence of a significant interaction furnishes evidence for the robustness of the linear effect (Sarstedt et al., 2020).

Table 9.
Output of Quadratic Effect

Construct Relationship	B	P-Values	f-Square
Zakah regulation (ZR) -> Institutional capabilities (IC)	0.225	0.001	0.039
Leadership (Ld) -> Institutional capabilities (IC)	0.223	0.000	0.051
Entrepreneurial competencies (EC) -> Institutional capabilities (IC)	0.476	0.000	0.158
Perceived Taqwa (Tq) -> Strengthening zakah compliance (ZCB)	0.297	0.000	0.131
Zakah regulation (ZR) -> Strengthening zakah compliance (ZCB)	0.259	0.000	0.061
Institutional capabilities (IC) -> Strengthening zakah compliance (ZCB)	0.389	0.000	0.181
Quadratic Effect (ZR -> IC)	0.015	0.321	0.039
Quadratic Effect (Ld -> IC)	0.013	0.210	0.051
Quadratic Effect (EC -> IC)	0.066	0.324	0.158
Quadratic Effect (Tq -> ZCB)	0.087	0.228	0.131
Quadratic Effect (ZR -> ZCB)	0.049	0.255	0.061
Quadratic Effect (IC -> ZCB)	0.079	0.301	0.181

4.3. Analysis

Table 5 displays significant T-Values (6.569, 4.498, 6.725) and β -values (0.297, 0.259, 0.389) for perceived taqwa, zakah regulation, and institutional capabilities, confirming their substantial impact on zakah compliance (H1, H2b, H5). This aligns with studies by Heriyanto & Mariyanti (2022), Hidayat (2017), Junidar (2020), and Muslih et al. (2019), highlighting these factors' vital role in Indonesian Muslim community's zakah compliance enhancement.

In Indonesia, the core factors for strengthening zakah compliance encompass perceived taqwa (piety), zakah regulation, and institutional capabilities. Indonesian Muslims prioritize cultivating perceived taqwa, fostering enhanced faith and social responsibility. Committed zakah adherence addresses disparities, aligning with Islamic teachings on marginalized care (Amin, 2022). Well-defined zakah regulation ensures effective fund utilization, aiding the needy (Munandar et al., 2019). This fosters transparency, trust, unity, and purpose (Muflih, 2023). Tangible zakah impact spurs sustained practice, advancing communal well-being. Empowered by robust institutions, zakah institutions adapt to societal needs (Bin-Nashwan et al., 2020), channeling resources into vital areas like education, healthcare, and poverty relief. The Indonesian Muslim community emerges as a proactive social justice agent, uplifting the marginalized, aligning with Islamic ideals, and contributing to societal progress (Mawardi et al., 2023). Synthesizing piety, zakah, and institutional efficacy positions them as a transformative force, harmonizing faith and practical efforts. Therefore, this integration becomes instrumental in realizing a sustainable and inclusive society, where the principles of compassion, justice, and solidarity are upheld.

Additionally, Table 5 also displays T-Values (3.240, 4.207, 5.723) and β -values (0.225, 0.223, 0.476) revealing zakah regulation, leadership, and entrepreneurial competencies' direct impacts on institutional capabilities (H2a, H3, H4). These findings emphasize these variables' significant role in enhancing institutional capabilities within zakah institutions. In agreement with Ab Rahman et al. (2021), Abdullah Sani et al. (2021), Bahri et al. (2021), and Hafsa (2018), it's evident that collective influences of zakah regulation, leadership, and entrepreneurial skills shape an organization's institutional capacities.

Three key factors contribute to elucidating this matter. Firstly, zakah regulation establishes a structured framework for fund collection, distribution, and management, ensuring accurate financial oversight, transparent distribution, and ethical practices, as emphasized by Bafadhal (2021). Sihombing et al. (2020) underscore that these measures foster institutional capabilities, creating an organized environment for resource utilization and clearly defined responsibilities. Secondly, effective leadership plays a profound role in guiding organizations, driving innovation, making strategic decisions, and motivating teams, thereby shaping institutional capabilities. The significance of leadership is emphasized by Mitterer (2017), while Chiniara & Bentein (2018) stress its adaptability and opportunity leveraging, optimizing teamwork to tackle complexities and achieve goals. Thirdly, entrepreneurial competencies, crucial for agility, adaptability, and innovation, empower institutions. Abdalla & Nakagawa (2022) highlight this importance, and Li et al. (2022) underscore the significance of diversifying resources and establishing sustainable models. When combined with robust leadership and

adherence to zakah regulations, entrepreneurial competencies enhance overall institutional capabilities, fostering innovation and operational expansion.

Likewise, the mediating effect of institutional capabilities between zakah regulation, leadership, and entrepreneurial competencies, and strengthening zakah compliance is evident (T-Values: 2.712, 3.512, 4.631; β -values: 0.088, 0.087, 0.185; Table 6). These outcomes validate institutional capabilities' significant role in mediating the relationship. Thus, H6a, H6b, and H6c are supported. Particularly, zakah regulation, leadership, and entrepreneurial competencies shape institutional capabilities, impacting zakah compliance among Indonesian Muslims, aligning with Foltean et al. (2019), Mata et al. (2021), and Menshawy et al. (2022).

Institutional capabilities, as highlighted by Teece (2014a), and Pitelis & Wang (2019), encompass resource management, fulfillment of responsibilities, and objective attainment within an organization. The interplay between zakah compliance and its drivers involves mediation, with institutional capabilities serving as a crucial bridge for the impacts of zakah regulation, leadership, and entrepreneurial competencies to enhance compliance, especially within contexts such as Indonesia's Muslim community. Zakah regulation, according to Fahrozi & Suprima (2022), establishes structured fund frameworks. Sihombing et al. (2020) elaborate on how institutional capabilities refine regulations, ensuring accurate fund collection, transparent distribution, and ethical utilization. Leadership qualities, as noted by Abdullah Sani et al. (2021), provide guidance to an organization's trajectory. Institutional capabilities mediate this relationship, enhancing leadership through effective communication, collaboration, and alignment. Entrepreneurial competencies, as discussed by Bin-Nashwan, Abdul-Jabbar, & Aziz (2021), represent an additional layer of mediation. These capabilities, when boosted by institutional support, empower zakah institutions to implement creative compliance measures, such as innovative outreach or fundraising initiatives.

With a specific focus on entrepreneurial competencies, it becomes evident that, among the three factors scrutinized for their mediating effect, the strength of entrepreneurial competencies (indicated by T-Values of 4.631 and β -values of 0.185) emerges as the most potent force in this complex network of relationships (refer to Table 6). This assertion firmly establishes that, in the intricate interplay of these components, the role of "institutional capabilities" as a mediator between "entrepreneurial competencies" and "zakah compliance" is not only substantial but profoundly influential. This proposition signifies that entrepreneurial competency significantly contributes to fortifying zakah compliance, with their impact further amplified by an institution's adept ability to harness and apply these skills for cultivating and enhancing adherence to zakah obligations (Costa & Pita, 2021). In essence, the robustness of this connection underscores how institutional capabilities intricately navigate and optimize the positive influence of entrepreneurial competencies, leading to a more pronounced achievement of elevated zakah compliance standards.

V. CONCLUSION AND RECOMMENDATION

The key finding of this study underscores the crucial role played by institutional capabilities in effectively moderating the correlation among zakah regulation, leadership, entrepreneurial competencies, and the enhancement of zakah compliance, with entrepreneurial competencies taking precedence. Additionally, the study reveals that the combination of perceived taqwa, zakah regulation, and institutional capabilities significantly contributes to strengthening zakah compliance. Simultaneously, a reciprocal dynamic is established, showcasing the substantial impact of zakah regulation, leadership attributes, and entrepreneurial competencies on the development of institutional capabilities. These findings collectively highlight the intricate interplay of these factors, emphasizing their synergistic influence in shaping a comprehensive framework for promoting and facilitating zakah compliance within the Muslim community.

In the context of regulatory bodies, this study emphasizes the need for a profound understanding of the factors influencing zakah compliance. Institutional capabilities mediate the effects of zakah regulation, leadership, and entrepreneurial competencies on compliance, with entrepreneurial competencies emerging as the primary driver. Developing these skills within zakah institutions is imperative for enhancing their overall effectiveness. Furthermore, effective regulations are crucial for both compliance and institutional growth, shaping institutional capabilities. Leadership and entrepreneurial competencies play pivotal roles in enhancing zakah institutions' capacity, facilitating resource management, adaptation, innovation, and community service. A holistic approach addressing leadership, entrepreneurship, regulation, and religious aspects can fortify zakah institutions and contribute to increased compliance among Muslims worldwide. Recommendations for zakah institutions include developing entrepreneurial and leadership competencies, while regulators should craft effective regulations that provide incentives for compliance and allow room for innovation. Further research could explore the influence of social, economic, and cultural factors on zakah compliance and identify strategies for enhancing compliance and the welfare of Muslims overall.

This study has at least four limitations: (1) Context specificity: The findings are limited to the context of Muslim community, and their applicability to other regions or cultures may be uncertain, (2) Generalization: The text suggests that entrepreneurial competencies are the primary driver of zakah compliance, but this may not hold true universally and could vary based on different cultural and socio-economic contexts, (3) Scope of factors: The text focuses on a few specific factors (institutional capabilities, perceived taqwa, zakah regulation, leadership, and entrepreneurial competencies), potentially overlooking other relevant variables that could also influence zakah compliance, and (4) Temporal factors: The text does not consider the potential effects of changing socio-economic conditions, political factors, or external events that could impact zakah compliance over time. Addressing these limitations would enhance the study's robustness and broaden its applicability beyond the specific context of Indonesian Muslims.

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