

## Sustainability Reporting and Value Creation: Unveiling Strategic Impacts of an Islamic Non-Profit Organisation

### *Pelaporan Kelestarian dan Penciptaan Nilai: Mendedahkan Impak Strategik bagi Organisasi Bukan Untung Islam*

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### ABSTRACT

Sustainability reporting has emerged as a primary tool for enhancing accountability and fostering strategic objectives in organisational practices. While sustainability reporting is extensively implemented in for-profit organisations in the evolving business landscape, its adoption within non-profit organisations remains underexplored. This paper explores how sustainability reporting, consisting of environmental, social, and governance initiatives, contributes to value creation in zakat institution. Lembaga Zakat Selangor (LZS), registered as a non-profit organisation, was selected in this study due to its recognition as a recipient of the Sustainability and Corporate Social Responsibility Malaysia Awards 2024, highlighting its commitment to sustainability and corporate social responsibility. Adopting a single case study approach, this study critically analysed sustainable reporting practices in LZS. Data were gathered through content analysis of the LZS Sustainability Report 2023 to gain comprehensive insights into the reporting. The findings reveal that sustainability reporting improves operational efficiency, enhances stakeholder engagement, and strengthens the organisation's strategic positioning, thus driving substantial value creation by upholding trust and enhancing transparency. In line with the global sustainability goals, this study offers valuable insights for enhancing organisational effectiveness and reinforcing their societal contributions to the well-being of zakat recipients. By shedding light on integrating sustainability reporting into value creation, this study provides a foundation for further exploring how zakat institutions operationalise ESG, revealing unique intersections between Islamic ethical principles and global sustainability frameworks.

*Keywords: ESG; Value Creation; NPOs; Sustainability; Zakat*

### ABSTRAK

*Pelaporan kelestarian telah muncul sebagai alat utama untuk meningkatkan akauntabiliti dan memupuk objektif strategik dalam amalan organisasi. Walaupun pelaporan kelestarian dilaksanakan secara meluas dalam organisasi berasaskan keuntungan dalam landskap perniagaan yang berkembang, penggunaannya dalam organisasi bukan untung masih kurang diterokai. Kertas kerja ini meneroka bagaimana pelaporan kelestarian, yang terdiri daripada inisiatif alam sekitar, sosial dan tadbir urus, menyumbang kepada penciptaan nilai dalam institusi zakat. Lembaga Zakat Selangor (LZS), yang berdaftar sebagai organisasi bukan untung, telah dipilih dalam kajian ini kerana pengiktirafannya sebagai penerima Anugerah Kelestarian dan Tanggungjawab Sosial Korporat Malaysia 2024, yang*



*menonjolkan komitmennya terhadap kelestarian dan tanggungjawab sosial korporat. Mengguna pakai pendekatan kajian kes tunggal, kajian ini menganalisis secara kritis amalan pelaporan mampan dalam LZS. Data dikumpul melalui analisis kandungan Laporan Kelestarian LZS 2023 untuk mendapatkan pandangan komprehensif tentang pelaporan. Penemuan mendedahkan bahawa pelaporan kelestarian meningkatkan kecekapan operasi, meningkatkan penglibatan pihak berkepentingan, dan mengukuhkan kedudukan strategik organisasi, sekaligus memacu penciptaan nilai yang besar dengan menegakkan amanah dan mempertingkatkan ketelusan. Selaras dengan matlamat kemampanan global, kajian ini menawarkan pandangan berharga untuk meningkatkan keberkesanan organisasi dan mengukuhkan sumbangan masyarakat mereka kepada kesejahteraan penerima zakat. Dengan memberi penerangan tentang penyepaduan pelaporan kelestarian ke dalam penciptaan nilai, kajian ini menyediakan asas untuk meneroka lebih lanjut bagaimana institusi zakat mengoperasikan ESG, mendedahkan persimpangan unik antara prinsip etika Islam dan rangka kerja kelestarian global.*

*Kata kunci: ESG; Penciptaan Nilai; NPOs; Kelestarian; Zakat*

## INTRODUCTION

Sustainability reporting has emerged as a primary tool for enhancing accountability and fostering strategic objectives in organizational practices. Traditionally prevalent in for-profit organizations, sustainability reporting has been instrumental in promoting transparency, strengthening stakeholder trust, and aligning corporate strategies with broader Environmental, Social, and Governance (ESG) goals. However, within the evolving landscape of organizational accountability, the adoption of sustainability reporting in non-profit organizations (NPOs) remains comparatively underexplored. As NPOs play a critical role in addressing social and environmental challenges, the integration of sustainability reporting becomes increasingly vital in demonstrating their impact, improving resource management, and fostering long-term value creation. In the context information disclosure within NPOs, sustainability reporting serves as a strategic mechanism for enhancing transparency, strengthening institutional accountability, gaining stakeholder trust, and reinforcing mission-driven social objectives (Abdullah et al., 2023; Gazzola et al., 2021; Nair et al., 2023; Ortega-Rodríguez et al., 2020). By clearly communicating how resources are managed and impacts are achieved, sustainability reporting enhances the credibility of NPOs, particularly among stakeholders who place high importance on transparency and responsible fund management in advancing social sustainability goals.

Zakat is a cornerstone of Islamic finance instrument that promotes economic justice, social welfare, and wealth redistribution. As a compulsory form of almsgiving, it embodies the principles of social solidarity and economic equity, aiming to reduce poverty and foster community well-being. Beyond addressing immediate financial needs, zakat supports long-term socio-economic development by empowering marginalized groups and promoting inclusive growth. Zakat institutions play a vital role in this process by systematically collecting, managing, and distributing zakat funds in accordance with Shariah principles. Acting as intermediaries between zakat payers (*muzakki*) and beneficiaries (*asnaf*), zakat institutions ensure efficient and equitable fund allocation, contributing significantly to poverty alleviation, education, healthcare, and community development while aligning with national socio-economic goals. Incorporating sustainability reporting further enhances this trust by providing clear insights into the Islamic institution's socio-economic impact, resource allocation, and long-term goals. Lembaga Zakat Selangor (LZS) stands out as a leading zakat institution in Malaysia, effectively blending strategic management practices with its religious mandate to drive socio-economic development. Moving beyond traditional zakat distribution, LZS adopts a holistic approach that empowers the *asnaf* community through education, entrepreneurship, healthcare, and social welfare programs, fostering pathways to economic independence and enabling some beneficiaries to transition into zakat contributors. LZS's commitment to transparency and accountability is central to its success, which strengthens social cohesion and builds trust among stakeholders, including zakat payers, government agencies, and the broader community. Through structured programs and transparent reporting, LZS not only fulfills its religious obligations but also actively contributes to national development agendas, such as poverty eradication, education equity, and social welfare enhancement,

exemplifying the principles of Islamic finance while advancing broader sustainability and value creation efforts.

The primary aim of this study is to explore how LZS integrates sustainability reporting frameworks to drive value creation for its stakeholders. As a leading zakat institution in Malaysia, LZS plays a pivotal role in addressing socio-economic differences through its structured zakat collection and distribution. Beyond its religious and philanthropic mandate, LZS recognizes sustainability reporting as a vital tool for delivering value, elevating stakeholder trust, and aligning its operations with long-term socio-economic goals. This study explores how LZS implements sustainability reporting frameworks and integrates ESG principles into its operations within its governance and operational strategies. This study highlights how sustainability reporting reinforces accountability and also strengthens social impact, stakeholder engagement, and organizational resilience.

## LITERATURE REVIEW

### Sustainability Reporting in Non-Profit Organizations (NPOs)

NPOs face increasing pressure to demonstrate accountability, transparency, and integrity in their operations. Sustainability practices, particularly ESG as a strategic initiative, have become central to strengthening organizational viability and safeguarding economic interests while pursuing social missions. In this context, NPOs are increasingly adopting sustainability reporting frameworks as a means to enhance transparency, accountability, and social impact. Sustainability reporting involves the systematic disclosure of an organization's ESG impacts, thereby providing stakeholders with a holistic view of performance beyond traditional financial metrics. For NPOs, this practice extends conventional reporting to capture the broader consequences of their programs and operations on society and the environment. By embracing sustainability reporting, NPOs can offer a comprehensive and credible account of their activities, reinforcing their commitment to ethical conduct, responsible stewardship of resources, and long-term stakeholder trust. This growing emphasis in the literature positions sustainability reporting as a key mechanism through which NPOs can align mission-driven objectives with expectations for transparency and good governance.

In recent years, growing stakeholder demands for transparency have driven nonprofit organizations (NPOs) to adopt more comprehensive sustainability reporting practices. Donors, beneficiaries, and regulators now expect NPOs to provide detailed insights beyond financial disclosures, focusing on their environmental, social, and governance (ESG) impacts. To meet these expectations, many NPOs utilize globally recognized frameworks such as the Global Reporting Initiative (GRI) Standards and align their efforts with the United Nations Sustainable Development Goals (SDGs). These frameworks help standardize and strengthen reporting processes, enhancing the clarity and credibility of sustainability disclosures. Despite the benefits, NPOs face unique challenges in sustainability reporting due to constrained resources and the complexity of measuring social impact with standardized metrics. Nevertheless, embracing sustainability reporting enables NPOs to improve transparency, attract funding, build stakeholder trust, and enhance strategic decision-making. This, in turn, strengthens their capacity to fulfill their missions and contribute meaningfully to societal well-being. Thus, sustainability reporting is increasingly recognized as a vital tool for accountability and long-term organizational resilience in the nonprofit sector.

Strategic sustainability reporting empowers nonprofit organizations (NPOs) to systematically measure and communicate their contributions to societal well-being with transparency and accountability. By openly disclosing governance and ESG initiatives, NPOs demonstrate their commitment to positive change, attract aligned support, and foster continuous improvement in social impact. Transparency through reporting builds trust and credibility among donors, beneficiaries, and partners, reassuring stakeholders of an organization's integrity and effectiveness.

Moreover, sustainability reporting serves as a vital tool for internal assessment and strategic planning. It enables NPOs to evaluate ESG performance, identify risks and opportunities, and make informed decisions that enhance operational efficiency and resilience. Aligning sustainability goals with

organizational objectives helps ensure long-term mission sustainability. Additionally, by adopting comprehensive reporting frameworks, NPOs strengthen their reputation, stakeholder engagement, and accountability, ultimately reinforcing their capacity to create lasting social value. Thus, sustainability reporting is not only a disclosure mechanism but a multifaceted strategy that advances organizational sustainability and stakeholder trust.

### **Value Creation in NPOs through Sustainability Reporting**

Value creation in non-profit organizations (NPOs) is multi-dimensional, encompassing financial, social, and reputational benefits, all of which are strengthened through strategic sustainability reporting. Prior studies have documented mixed findings on the impact of sustainability reporting and value creation (Adams, 2020; Francisco, 2023; Nguyen, 2020). From a financial perspective, strategic sustainability reporting enhances funding opportunities, promotes cost-efficiency and financial stability for the operation and growth of NPOs. Francisco (2023) suggested that diversifying revenue streams can help reduce financial volatility, promote long-term financial sustainability, and ultimately have a positive impact on the communities served. Donors are more inclined to support organizations that demonstrate financial transparency and responsible resource management. Detailed reporting also enables NPOs to identify inefficiencies, leading to cost savings and allowing more resources to be directed toward mission-driven activities.

### **Sustainability and Trust**

Implementing robust sustainability practices significantly enhances the social value of NPOs by strengthening stakeholder trust. Transparent communication of an NPO's goals, processes, and outcomes fosters deeper engagement, leading to increased collaboration and a more profound societal impact. When NPOs effectively showcase their contributions and the tangible results of their initiatives, they build stronger connections with the communities they serve. Consistent and comprehensive reporting not only enhances an NPO's legitimacy but also bolsters public support. By sharing information, NPOs demonstrate good governance and accountability, which are crucial for maintaining stakeholder confidence and ensuring long-term sustainability. Sustainability reporting is a way of communication of an organization about the company's activities related to environmental, social and governance to the user of financial statements about how its activities not solely affect the financial performance but also create impact on the betterment of society and ecological systems. Basically, the sustainability reporting provides an understanding to the stakeholders about how companies manage business's growth and risks meanwhile stay resilience to ensure sustainability.

Empirical studies provide evidence that sustainable reporting has led to company's value creation. For example, sustainability reporting is found positively related to a firm's financial performance and market perception (Lawrence et al. 2017), provide incremental value relevance through transparency and communication (Augustine et al. 2024; Maryam et al. 2025) and support long-term value creation by providing a complete view of company's strategy, governance and performance (Gulsah A. 2017; Laura and Marco 2019; Kristine 2023). Specifically, sustainability reporting enhances transparency, accountability and credibility, thus leading to value creation of trust. This report requires transparent disclosure which includes detailed environmental, social and governance metrics that build stakeholder confidence. By being transparent, perceived risk absorbed by the stakeholders may be reduced since they are well informed about the strategic risk management implied by the management specifically related to sustainability risk. This report also provides stakeholders with a comprehensive view on impact and effort of the company in achieving sustainable development (Goh 2025; Maria et al. 2024). Through sustainability reporting, it ensures that the information included in the report is relevant and material for the stakeholders' interest. Thus, it creates better understanding among the stakeholders about the company. The company also needs to make sure there is stakeholders' engagement in the process of reporting. Thus, creating a sense of inclusion and accountability (Dubravka 2020; Sie Bing and Azlan 2018). Sustainability reporting also builds trust by encouraging consistency and comparability. Adhering to international reporting frameworks such as the Global Reporting Initiatives

(GRI) ensure consistency and comparability across different companies (Goh 2025; Maria et al. 2024). This application also ensures the reports are easy to understand. Additionally, there is also an increase in adoption of third-party assurance on sustainability reporting which also leads to improved credibility and assurance (Akasha and Amresh 2025; Saleh and Alhamzah 2025). These elements enhanced the confidence of the stakeholders in the credibility and quality of the information, thus assisting the stakeholders to make informed decisions.

### **Sustainability and Transparency**

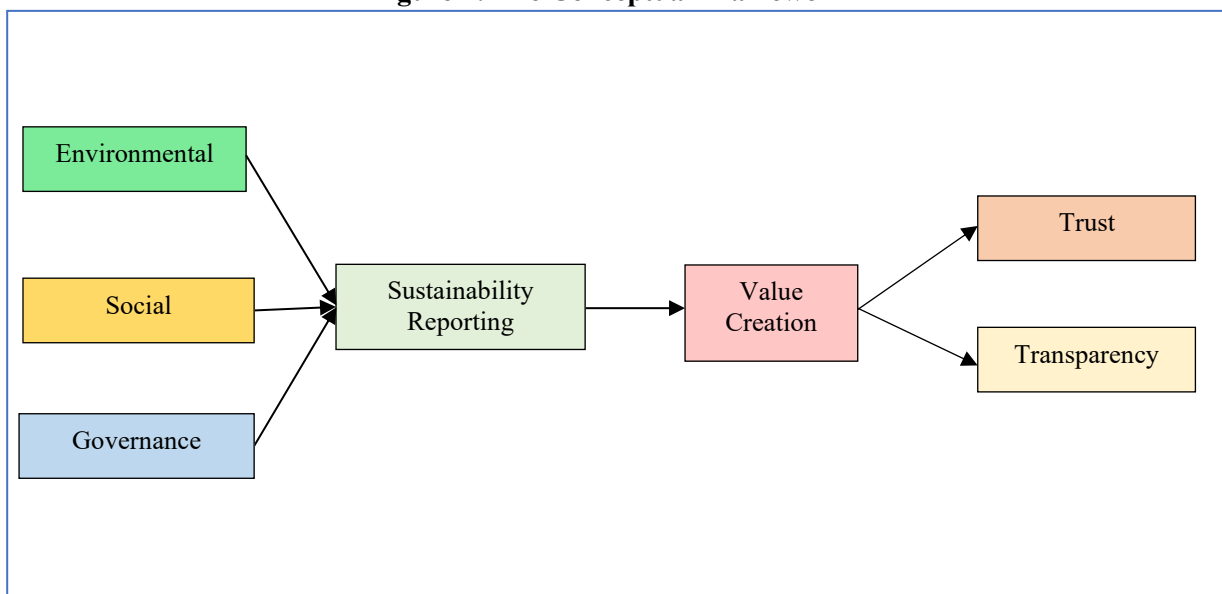
Reputational value is equally critical, as consistent and honest reporting enhances an NPO's legitimacy and public support. A strong reputation, built on accountability and transparency, not only attracts donors but also appeals to volunteers, partners, and beneficiaries, creating a virtuous cycle of trust and engagement. By prioritizing transparency and accountability through robust sustainability reporting, NPOs can strengthen stakeholder trust, boost financial stability, expand social impact, and solidify their reputational standing. This holistic approach not only supports the organization's immediate goals but also ensures its long-term sustainability and relevance within the broader community. NPOs are also seeking collaborations with businesses to foster organizational viability and economic interests. Value creation often stems from collaboration, where the joint value created is greater than the sum of individual contributions. Effective governance design, involving clearly defined responsibilities and fair allocation of decision rights, is essential for creating value in public-private interactions. Additionally, by identifying inefficiencies through detailed reporting, NPOs can achieve cost savings, thereby allocating more resources toward their mission-driven activities. A strong reputation built on accountability and transparency attracts not only donors but also volunteers, partners, and beneficiaries, creating a virtuous cycle of trust and support. By prioritizing transparency and accountability through robust sustainability reporting, non-profit organizations can build and maintain stakeholder trust, thereby enhancing their financial stability, social impact, and reputational standing. Santos et al. (2021) found that strategic management practices have a direct and positive impact on value creation, while strategy formulation can also yield positive outcomes when effectively implemented. The study highlights the crucial role of strategic management NPOs, providing a valuable benchmark for leaders aiming to fulfill their organization's mission by identifying key performance indicators within strategic management frameworks.

Unlike traditional reporting, sustainable reporting structured disclosures related to environmental, social and governance activities conducted by the company and its impact. The report not only includes positive implications but also nonfavourable information. Disclosure of financial and non-financial information provides better insight for the stakeholders into company activities and how it operates beyond financial metrics. Sustainability reporting also includes disclosure on sustainability-related risks, governance mechanisms and internal control discrepancies. Sharing this information with the stakeholders improves their understanding of internal decision-making processes. As there are pressures from significant stakeholder groups, such as customers, clients, employees, and environmental advocates, companies are motivated to provide more detailed and transparent reports to meet stakeholder expectations (Belen et al. 2014) besides using this report as a form of communication (Akanshah and Kumar 2025; Maria et al. 2024; Oluyomi et al. 2022), which is publicly available. This effort improves the quality, accountability and transparency of sustainability reports. Sustainability reporting also fosters transparency through robust materiality assessments (James 2014), which helps organizations to identify and prioritize key sustainability issues. This continuous internal process (Maria et al. 2024) promotes alignment and collaboration within the organization. Regular assessment and report on sustainability performance enables the company to identify areas for improvements and plan for corrective actions (Hsim et al. 2024), thus leading to more transparent and effective reporting.

## CONCEPTUAL FRAMEWORK

This study examines how sustainability practices influence value creation by fostering trust and transparency. Sustainability reporting covers environmental, social, and governance (ESG) practices, which are proposed as strategic drivers of value creation in nonprofit organizations. ESG initiatives demonstrate an NPO's commitment to responsible resource use, ethical behaviour, and community well-being. When effectively communicated through sustainability reports, these practices reduce information asymmetry and strengthen trust and transparency among donors, beneficiaries, regulators, and partners. This increased trust ultimately leads to value creation, reflected in enhanced social outcomes, improved organizational credibility, higher donor retention, and more efficient resource utilization. Therefore, the conceptual model positions ESG practices as an essential initiative that improve stakeholder perceptions, increase accountability, and support long-term sustainable value creation in nonprofits.

**Figure 1: The Conceptual Framework**



## METHODOLOGY

By adopting a single case study approach, this study critically analyses the sustainability reporting practices of LZS and explores how sustainability practices enhance values through various channels. LZS was selected as a participant in this study as it was conferred the Sustainability and CSR Malaysia Awards for the year 2024. Data were gathered through content analysis of the LZS Sustainability Report in 2023. Content analysis is a qualitative research method that examines documents to identify patterns and themes, providing a clear framework to assess how sustainability reporting improves transparency, accountability, and value creation for NPOs. This study also reviewed the Global Reporting Initiative (GRI) Standards, which offer clear guidelines for organizations to report on their environmental, social and governance impacts, ensuring consistent and reliable sustainability reporting. LZS has disclosed the information outlined in the GRI Content Index from 1 January 2023 to 31 December 2023, in alignment with the GRI Standards. This index serves as a vital reference for stakeholders, offering clear insights into the scope and depth of Lembaga Zakat Selangor's (LZS) sustainability reporting while reinforcing its commitment to transparency and accountability. The reporting is structured based on four core ESG themes: elevating the asnaf community, upholding trust and integrity, developing and nurturing talent, and protecting the environment, reflecting LZS's holistic approach to sustainability and its focus on creating long-term value for all stakeholders. By analyzing the sustainability report, this study highlights how faith-based organisation can leverage sustainability practices to strengthen governance, optimize resource allocation, and maximize socio-economic impact.

A comparative analysis was conducted on zakat institutions, including Majlis Agama Islam Melaka and Pusat Zakat Melaka (PZM), to evaluate the implementation of governance practices. The study revealed that although elements of good governance have been incorporated, these practices have not been fully optimized (Abdullah Sani et al., 2021). Deficiencies were identified in the disclosure of zakat-related information on institutional websites, which limits the demonstration of the effectiveness and efficiency of zakat management and distribution. Consequently, transparency is compromised, thereby hindering stakeholders' ability to adequately assess organizational performance. It is therefore recommended that improvements in information disclosure be prioritized to strengthen accountability and stakeholder trust within these institutions.

## RESULTS AND ANALYSIS

### Organizational Background of Lembaga Zakat Selangor (LZS)

Pusat Pungutan Zakat was established in 1994 under the Selangor Islamic Religious Council to manage the collection and distribution of zakat. In 2006, it was corporatized under the Trustees (Incorporation) Act 1952, a key legislative framework governing nonprofit organizations in Malaysia, and subsequently renamed Lembaga Zakat Selangor (LZS). This transition represented a strategic move towards enhanced accountability and professionalism, reflecting LZS's commitment to serving the ummah with integrity, transparency, and efficiency in zakat fund management. In its efforts to uphold trust and integrity, LZS places strong emphasis on corporate governance, risk management, Shariah compliance, and responsible financial stewardship to maintain stakeholder confidence and ensure effective resource management. Since its inception, LZS has been dedicated to the equitable collection and distribution of zakat to the asnaf community, prioritizing poverty eradication, social welfare enhancement, and economic sustainability. These core objectives underpin LZS's comprehensive sustainability agenda, reinforcing its critical role as a catalyst for long-term socio-economic development within the community.

### LZS Sustainability Framework

LZS is committed to strategic sustainability initiatives and has developed a comprehensive sustainability framework and roadmap that integrates ESG priorities into its organisational strategy. By embedding ESG principles, LZS strengthens its governance and social impact and embraces environmental responsibility, fostering opportunities for long-term sustainable growth. This strategic integration aligns LZS's efforts with the broader global sustainability agenda and the United Nations Sustainable Development Goals (UN SDGs) 2030, ensuring that its programs contribute meaningfully to global targets while addressing local community needs. Through this approach, LZS reinforces its role as a responsible, mission-driven organisation committed to promoting social equity, economic sustainability, and environmental stewardship.

LZS's sustainability framework is anchored on four ESG themes: i) fulfilling duties to the asnaf community and elevating their quality of life; ii) upholding trust and integrity through strong governance and Syariah principles; iii) developing, nurturing, and inspiring talent within the workforce; and iv) protecting the environment through climate action and advocacy (LZS, 2023). These four themes are consistent with eight UN SDGs, allowing LZS to make meaningful contributions to sustainability. In elevating the asnaf community, LZS is implementing five Community Welfare and Development initiatives comprise Social Development Program, Educational Development Program, Economic Development Program, Human Development Program and Religious Institutions Development Program. These initiatives mainly aim to elevate the quality of life of asnaf by providing various types of social uplifting assistance. In upholding trust and integrity, LZS is committed to ensuring ethical and efficient management of the zakat funds by strengthening the governance structure and risk management framework, practising responsible financial management, transforming business digitalization and enhancing procurement management practices. LZS is upholding Syariah compliance guided by four

pillars; integrity, accountability, transparency and effectiveness of implementation. LZS prioritises talent development and employee management in developing and nurturing talent. LZS recognizes the importance of climate change mitigation and adaptation, energy efficiency and environmental stewardship in protecting the environment.

Through a materiality assessment, LZS has identified 11 material matters relevant to the four ESG themes, which are energy efficiency, community welfare and development, climate change, employee management, environmental stewardship, Syariah compliance, talent development, corporate governance and risk management, supply chain management, business digitalisation and responsible financial management. To drive ESG responses, six key strategies, which are community or stakeholder, people, strategy and governance, operations, risk management and technology, and reporting, have been aligned with its strategy initiatives and ESG themes.

LZS has implemented a structured sustainability governance framework, with the Board of Trustees providing oversight on sustainability-related matters, supported by the ESG Committee and Senior Management Committees to ensure effective strategy implementation and alignment with organizational goals. Disclosing an organization’s governance structure for managing sustainability matters is crucial for ensuring accountability, oversight, and effective risk management (Bursa Malaysia, 2015). Key disclosures should include the role of the highest governance body in defining the organization’s purpose, values, and strategies that integrate sustainability considerations. Additionally, it should outline the responsibilities of the governing body or designated individuals in identifying, evaluating, monitoring, and managing environmental, economic, and social risks and opportunities. Moreover, LZS is dedicated to continuously improving its sustainability initiatives and strengthen its reporting practices and overall impact. LZS strive to embed material ESG issues into its daily operations, and collaborate with other strategic partners to drive the ESG agenda. Figure 2 presents a comprehensive sustainability framework developed by LZS.

Figure 2: LZS Sustainability Framework



Source: LZS Sustainability Report 2023

## Value Creation through Sustainability Reporting

Sustainability practices contribute significantly to value creation within organizations, including LZS, by various mechanisms. LZS prioritizes improving operational efficiency to generate enduring positive impacts for the asnaf community. This commitment encompasses efficient energy management, minimizing environmental footprints, and optimizing resource utilization. Crucially, LZS ensures that its sustainability initiatives are harmonized with Syariah principles, thereby maintaining compliance with Islamic laws. This alignment enhances trust among zakat payers and asnaf, reinforcing LZS's legitimacy and social acceptance. Sustainability practices also play a pivotal role in elevating LZS's reputation and brand value, while fostering and sustaining trust with key stakeholders. These practices are underpinned by the principles of transparency, accountability, and ethical conduct, which inform LZS's operational and stakeholder engagement frameworks. Strategic collaborations with government agencies and the private sector are actively pursued to leverage collective resources and expertise, thereby enhancing operational efficiency and advancing wider social and economic objectives.

Effective corporate governance and risk management are integral to LZS's sustainability framework, ensuring responsible zakat fund utilization and proactive risk identification aligned with organizational risk appetite. Digital transformation initiatives further enhance service delivery, streamline payment processes for zakat payers and beneficiaries, and reduce operational costs, thereby supporting sustainability goals. Additionally, talent development is prioritized to cultivate a skilled workforce capable of fulfilling LZS's mission, with upskilling initiatives mitigating operational risks.

In advancing community welfare, LZS invests in initiatives aimed at improving the livelihoods of the asnaf, aligning its practices with evolving stakeholder expectations concerning environmental responsibility and planetary health. This comprehensive approach aligns with multiple United Nations SDGs. The cumulative findings indicate that the integration of sustainability reporting enhances operational efficiency, strengthens stakeholder engagement, and bolsters LZS's strategic positioning, ultimately driving substantial value creation within the organization.

In the context of Islamic governance for NPOs, the implications for policy formulation and ESG standardization are profound and multifaceted. Islamic governance frameworks, grounded in principles such as accountability (*al-Amanah*), justice (*al-'Adl*), consultation (*al-Shura*), and stewardship (*Khilafah*), provide a holistic ethical basis for guiding organizational conduct. Consequently, policy formulation within Islamic NPOs must integrate these foundational values to ensure alignment with Shariah and to fulfill the broader socio-religious objectives of serving the community and promoting welfare.

From a policy perspective, the adoption of Shariah-based governance guidelines facilitates the establishment of clear standards and procedures that support transparency, integrity, and ethical decision-making. These policies serve to institutionalize effective governance practices, which are essential for maintaining stakeholder confidence and safeguarding the interests of beneficiaries and donors. Furthermore, the integration of ESG standards tailored to Islamic ethical frameworks enables NPOs to strategically address sustainability in a manner consistent with religious obligations, including responsible resource management, social justice, and environmental stewardship.

Standardizing ESG within Islamic NPOs also promotes consistency and comparability in sustainability reporting, enhancing the credibility and accountability of these organizations in the eyes of both religious and secular stakeholders. This alignment with global ESG trends, while preserving Shariah compliance, positions Islamic NPOs to better meet regulatory expectations and stakeholder demands for transparency and impact measurement, thereby strengthening their social license to operate and long-term sustainability. Ultimately, the harmonization of Islamic governance with contemporary ESG practices fosters a resilient framework that upholds ethical rigor, advances sustainable development goals, and supports the holistic mission of Islamic philanthropic institutions.

## CONCLUSION AND RECOMMENDATION

Sustainability reporting plays a crucial role in driving multi-dimensional value for NPOs, extending beyond financial accountability to encompass social impact, stakeholder engagement, and organizational resilience. Through structured and transparent reporting, NPOs can effectively communicate their contributions to societal well-being, build stakeholder trust, and enhance their operational sustainability. Integrating ESGs into sustainability reporting helps NPOs articulate their impact on specific goals and targets, fostering a clearer connection between their initiatives and broader societal outcomes. The GRI has developed linkage documents that map GRI disclosures to specific SDGs, assisting organizations in aligning their reporting with these goals.

Through this comprehensive sustainability framework, LZS reinforces its role as a trusted zakat institution, committed to adhere to global management standards, asnaf community development, and sustainable socio-economic growth. Strategic alignment between sustainability reporting practices and an organization's mission is essential for maximizing impact, managing resources responsibly and efficiently and elevating stakeholder trust. When reporting processes are designed to reflect the core values and social objectives of LZS, it provides clarity to external stakeholders and serve as a tool for internal reflection and continuous improvement. This alignment ensures that the organization remains focused on its primary mission while adapting to evolving stakeholder expectations and sustainability standards.

However, despite the growing adoption of sustainability reporting, many NPOs face challenges directly linking their disclosures to measurable value creation. Issues such as resource limitations, data management complexities, and the absence of standardised metrics tailored to non-profit contexts continue to hinder the full potential of sustainability reporting in this sector. Despite the recognized importance of transparency, there remains a gap in the literature regarding the implementation of sustainability practices within NPOs. Hansson and Nilsson (2020) note that while there is considerable discussion on the motives behind sustainability efforts and the adoption of reporting mechanisms, there is a paucity of research on how NPOs operationalize these practices. This gap suggests a need for further empirical studies to explore the processes and challenges associated with implementing sustainability reporting in the non-profit context. The growing demand for transparency and accountability has positioned sustainability reporting as a vital practice for NPOs aiming to enhance stakeholder trust and demonstrate their societal impact. While the literature affirms the benefits of such reporting, it also calls for more in-depth exploration into the practical aspects of implementing sustainability initiatives within the non-profit sector.

Sustainability practices, including ESG are crucial for value creation in NPOs. Effective reporting, collaboration, and governance contribute to stakeholder trust, financial stability, and the ability of NPOs to fulfil their missions and create social value. While sustainability reporting promotes enhancing transparency and driving value creation in NPOs, realising this potential requires addressing challenges and complexities related to resources, data quality, reporting complexity, and strategic communication. By overcoming these obstacles, NPOs can better demonstrate the tangible benefits of their sustainability efforts, thereby strengthening stakeholder relationships and advancing their organizational missions.

Future sustainability practices within Islamic governance should reflect the principles of ethical stewardship, social justice, and long-term environmental and socio-economic sustainability rooted in Islamic teachings. Emphasis should be placed on integrating governance frameworks that uphold transparency, accountability, and responsible management of resources in line with Shariah principles. The transformative potential of zakat as a tool for sustainable development can be further harnessed by aligning its use with global sustainability goals, such as the United Nations Sustainable Development Goals (SDGs), while ensuring that governance structures support strategic allocation of resources to environmental conservation, poverty alleviation, and community empowerment.

Moreover, Islamic governance should foster collaborations among religious institutions, policymakers, and communities to promote sustainable livelihoods and ecological preservation. The concept of

stewardship (*khalifah*) underscores the moral obligation of Muslims to safeguard natural resources, advocate for moderation, and pursue equitable socio-economic progress. Future practices must therefore embed these ethical foundations into operational strategies of zakat institutions, promoting initiatives such as green economy-based community development, sustainable agriculture, and environmental education. By doing so, Islamic governance can sustain the holistic objectives of zakat in creating resilient and inclusive societies while addressing contemporary environmental and social challenges effectively.

The recommendation for future studies to incorporate interview protocols is crucial for gaining deeper insights into the governance practices of zakat institutions. Utilizing interviews, especially semi-structured formats, allows for a more nuanced understanding of complex governance issues. Such qualitative methods enable researchers to explore stakeholders' perspectives, experiences, and challenges related to transparency, accountability, and the implementation of good governance frameworks. This approach can uncover barriers to optimal governance, such as gaps in information disclosure or decision-making processes, which are vital for developing tailored strategies for improvement. Moreover, interviews facilitate the collection of rich, context-specific data that support the validation and refinement of existing governance models, thereby enhancing the effectiveness of zakat management and strengthening stakeholder trust. By adopting interview protocols, future research can provide actionable recommendations that address both theoretical and practical aspects of governance in zakat institutions, contributing to their long-term sustainability and social impact.

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