



Profitability and zakat payment: The role of firm size

Section:
Financial management

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Abstract

This study aims to investigate the impact of two profitability proxies, Return on Asset (ROA) and Return on Equity (ROE), on zakat payments in Islamic Commercial Banks between 2016 and 2020. Firm size will be examined as a moderating variable. The research method used is a descriptive quantitative approach. The population of this study consists of Islamic Commercial Banks in Indonesia registered with the Financial Services Authority (OJK) during the designated period, 2016-2020. Nine banks were selected using purposive sampling, resulting in 45 observations. Multiple linear regression analysis was performed using the EVIEWS 12 application tool to test the research hypotheses. The findings revealed that ROA and ROE positively affected company zakat payments. However, firm size did not moderate the effect of ROA on zakat payments. In contrast, it did moderate the impact of ROE on zakat payments.

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Abstrak

Penelitian ini bertujuan untuk mengetahui pengaruh dua proksi profitabilitas yaitu Return on Asset (ROA) dan Return on Equity (ROE) terhadap pembayaran zakat pada Bank Umum Syariah pada tahun 2016 hingga 2020. Ukuran perusahaan akan diuji sebagai variabel moderasi. Metode penelitian yang digunakan adalah pendekatan deskriptif kuantitatif. Populasi penelitian ini terdiri dari Bank Umum Syariah di Indonesia yang terdaftar di Otoritas Jasa Keuangan (OJK) pada periode yang ditentukan yaitu tahun 2016-2020. Sembilan bank dipilih menggunakan purposive sampling, sehingga menghasilkan 45 observasi. Analisis regresi linier berganda dilakukan dengan menggunakan alat aplikasi EVIEWS 12 untuk menguji hipotesis penelitian. Hasil penelitian menunjukkan bahwa ROA dan ROE berpengaruh positif terhadap pembayaran zakat perusahaan. Namun ukuran perusahaan tidak memoderasi pengaruh ROA terhadap pembayaran zakat. Sebaliknya, hal ini memoderasi dampak ROE terhadap pembayaran zakat.

Kata kunci: *Return on Asset, Return on Equity ROE, Firm Size, Zakat.*

INTRODUCTION

Zakat is a fundamental principle in Islamic teachings that requires Muslims who have the means to donate a portion of their wealth to those who are eligible to receive it. This concept has also been applied to businesses and companies through corporate zakat, which obligates companies that generate certain income to donate following Islamic teachings. However, calculating corporate zakat can be complex due to various factors affecting the amount that must be paid. To better understand these factors, research is needed to explore their impact on corporate zakat. This research aims to investigate the factors that can influence the calculation and payment of corporate zakat, such as the company's capital structure, income level, types of assets held, and nature of business operations.

Corporate zakat is calculated based on a portion of the company's income and assets. If a company has a high level of profitability, this usually means that the company generates more revenue. Higher income can increase the amount of zakat that must be paid, especially if zakat is calculated based on a portion of income or profits. In this context, more profitable companies tend to have a more significant potential for paying zakat. Conversely, suppose the company experiences a low level of profitability or even suffers a loss. In that case, zakat payments may be more inadequate or non-existent. This is because zakat is calculated based on a portion of the company's income or assets. However, it is essential to remember that in Islam, zakat is not imposed on companies experiencing significant financial losses or difficulties.

According to the 2020 annual report of Islamic commercial banks, they earned Rp. 240,730,158,000 through zakat realization, based on a 2.5% potential zakat rate of Rp. 292,631,651,059. The table above indicates that Rp. 51,901,493,059 in zakat funds have yet to be disclosed, highlighting the low collection of corporate zakat from BUS in Indonesia. Islamic banking is a financial institution that provides Sharia-based financial services. Devout Muslims must allocate a portion of their income as zakat in compliance with Islamic law and regulations. This practice offers significant benefits for the company's growth and sustainability (Widiastuti, 2018).

Moreover, in the last five years, the profitability of Islamic Commercial Banks (BUS) has experienced quite a fluctuating movement. The annual report of Islamic Commercial

Banks showed a significant increase in 2019, namely at 1.73%. Whereas in the previous year, the profitability of BUS reached 0.27%. However, in 2020, the profitability of BUS has decreased, namely at 1.40%. Zakat and profit have a close relationship, which results from a company's financial performance as a measuring tool for stakeholders in assessing a business entity (Eliana et al., 2020). High profits can reflect an equal distribution of zakat; it is necessary to know how much the profit level of a business entity can be measured through profitability ratios from financial statement analysis. The calculation of profitability ratios is based on linking the items in the profit and loss account with the balance sheet that reflects the company's ability to generate profits (Mashuri, 2016).

The primary objective of the current investigation is to tackle the need for more research on the determinants that affect corporate tax-paying behavior. Prior research (Afandi, 2019) has revealed that profitability and bank size are crucial factors influencing corporate zakat expenditure distribution. Nonetheless, a recent study (Adam & Supriani, 2022) has uncovered that zakat substantially contributes to the profitability of Islamic banks, as evidenced by the metrics of ROA, ROE, and NPM. Such findings have significant implications for the Islamic banking sector and warrant further attention from researchers and practitioners alike. Furthermore, the research highlights the role of company size as a moderating factor. It is observed that larger companies usually generate higher revenues and hold more considerable total assets. In the corporate calculation system of zakat, which calculates zakat as a percentage of income or total assets, more prominent companies are subjected to more extensive zakat obligations in absolute terms. Hence, the bigger the company size, the higher the amount of zakat that needs to be paid.

It is essential to research the relationship between profitability and zakat payments. This will help us understand how a company's financial performance affects the zakat obligations they must pay. We want to determine whether more profitable companies tend to spend more zakat as part of their religious and social responsibilities or if other factors like financial structure and management are more critical. Our study aims to test the hypothesis that there is a connection between company profitability and the amount of zakat payments made. We will collect and analyze financial data from various industries to see if more profitable companies have more outstanding zakat obligations. We will also consider factors like company size that could affect this relationship. Through this research, we will better understand how profitability and zakat payments work together in Islamic business. Our findings will have practical implications for companies in financial management and zakat decisions. This study also contributes to academic literature on the intersection of religion and economics. Ultimately, this research can help businesses make more sustainable and religiously informed decisions.

THEORETICAL BACKGROUND

Apriyanti (2018:26) states that some researchers in Sharia have introduced the concept of Islamic Enterprise Theory. This theory highlights that the purpose of financial statements is to achieve success by adhering to sharia instructions. Another term, Sharia Enterprise Theory, as explained by Iwan Tryuwono, emphasizes that a company's assets should benefit various parties, including the poor (zakat) and temporary syirkah funds. According to terminology, zakat is the expenditure of property specifically for those who have met the nisab and the conditions for zakat (muzakki) to be given to the poor and those entitled to receive it (mustahiq). Law number 23 of 2011 explains that zakat is a property that must be

provided by a Muslim or business entity to those who are entitled to receive it following Islamic law.

In this study, we examine two types of profitability ratios: ROA and ROE. ROA measures the efficiency of a company in generating profits by utilizing its assets. It shows the return on the amount of assets used in the company. This ratio is also often used to evaluate bank performance. The higher the ROA ratio, the more efficient the company uses its assets to generate profits. On the other hand, ROE measures net profit after tax with own capital. It shows how well a company is using its equity to generate profits. The higher the ROE ratio, the better the company's performance in using its equity to generate profits. A company needs to maintain high profitability to ensure its survival and success. Company size is determined by the size of its assets. The larger the support, the more resources the company can use to generate profits. At the same time, smaller investments lead to relatively more minor profits. (Fazriani & Mais, 2019; Umiyati & Baiquni, 2019; Widiastuti, 2018)

The effect of profitability return on asset on the company's zakat payment

Profitability (ROA) is related to the company's zakat payments. The higher the profitability caused by the increase in the company's assets owned by the bank, the better the company's economic ability to generate profits and the better the level of health. This certainly affects the ability of banks to pay corporate zakat, because if the company's economic capacity increases, it is balanced with concern, responsibility and guided by sharia principles to pay corporate zakat. Profitability (ROE) is related to the company's zakat payment. The higher the profitability caused by the increase in the company's capital owned by the bank, the better the company's economic ability in managing the company's operating activities so as to generate profits and the better the level of health. This certainly affects the bank's ability to pay corporate zakat, because if the company's economic capacity increases, it is balanced with concern, responsibility and guided by sharia principles to pay corporate zakat. Hence, this study proposes that ROA and ROE positively relate to corporate zakat payments.

The role of company size as a moderator

To increase the value of the company's zakat so that the increase in assets exceeds the specified nishab, a large scale of operation is needed. The greater the number of assets owned by the bank, the profits obtained will increase, making it possible for banks to carry out their obligations in paying company zakat. In this study, the size of the company is measured by looking at the total assets that tend to increase every year. The increase in assets coupled with the increased performance of banks in carrying out their operating activities caused the profitability (ROA) of banks to tend to increase. So that the increase in the company's zakat payments is thought to be due to the influence of the increasing company size.

To increase the value of the company's zakat so that the increase in assets exceeds the specified nishab, a large scale of operation is needed. The greater the amount of capital owned by the bank, the profits obtained will increase, making it possible for the bank to

carry out its obligations in paying corporate zakat. In this study, the size of the company is measured by looking at the total assets that tend to increase every year. The increase in capital due to the increase in assets is accompanied by the performance of the bank in managing capital so that in carrying out its operational activities, the profitability (ROE) of the bank tends to increase. So that the increase in the company's zakat payments is thought to be due to the influence of the increasing company size.

METHODS

A descriptive quantitative approach was employed in this study, which aimed to investigate the Islamic Commercial Banks in Indonesia registered with the Financial Services Authority (OJK) from 2016 to 2020. The purposive sampling method was used to obtain a representative sample for the study, and 9 banks were selected according to specific predetermined criteria. A total of 45 observations were collected, and to test the research hypothesis, the multiple linear regression analysis technique was applied with the assistance of the EVIEWS 12 application tool.

RESULTS AND DISCUSSION

The present study examines the relationship between profitability and zakat expenditure, focusing on company size as a moderating variable. The researchers employed a statistical technique known as Moderated Regression Analysis (MRA) to achieve this goal, which involves analyzing the interaction between two or more independent variables. Using MRA, the study compared three regression equations to determine the type of moderator variables that best suit the research objectives.

The study's findings revealed a positive correlation between Return On Assets (ROA) and zakat payments for Islamic commercial banks. This conclusion is supported by the regression analysis, which showed a t-statistic $ROA > t\text{-table}$ or $3.745922 > 1.68288$ and a probability value of $ROA < 5\%$ significance value ($0.0006 < 0.05$). Therefore, a higher ROA positively influences a company's zakat payments. Generally, banks with good financial performance are more likely to issue zakat following religious and legal provisions. Moreover, a high ROA can increase profit before tax in Islamic commercial banks, which, in turn, can boost the company's ability to pay zakat.

Overall, the study's results underscore the importance of considering company size as a moderating factor when examining the relationship between profitability and zakat expenditure in Islamic commercial banks. The study's findings have significant implications for policymakers, banking institutions, and investors, highlighting the importance of financial performance in promoting zakat payments in these entities.

This study's findings suggest a correlation between Return On Equity (ROE) and zakat payments for Islamic commercial banks. This is supported by the regression analysis results, which showed that the t-statistic for ROE was more significant than the t-table value ($\text{number}_1 > \text{number}_2$). The probability value for ROE was less than the 5% significance value ($0.0000 < 0.05$). As a result, ROE positively impacts the zakat payments of Islamic commercial bank companies. This is because a high ROE indicates good financial performance resulting from the company's operating activities, which leads banks to comply with religious and legal provisions by issuing zakat. Additionally, a high ROE

increases the profit before tax for Islamic commercial banks and enhances their ability to pay zakat.

The study also found that company size does not moderate the effect of ROA on zakat payments. In fact, there was a negative correlation between the interaction of ROA with company size and zakat payments. Hence, the company size weakens the relationship between profitability (ROA) and zakat payments. The results of the moderation test ($M1 > 0.05$, with the outcome of $0.7021 > 0.05$) support this conclusion, indicating that the company size cannot moderate the effect of ROA on zakat payments.

On the other hand, the study also revealed that company size moderates the effect of ROE on zakat payments. Specifically, there was a positive correlation between the interaction of ROE with company size and zakat payments. This implies that the company size strengthens the relationship between profitability (ROE) and zakat payments. The results of the moderation test ($M2 < 0.05$) support this conclusion, showing that the company size can moderate the effect of ROE on zakat payments. These findings are consistent with the Islamic religious obligation to pay zakat on companies, as stated in the word of Allah SWT.

.Table 1.
Regression results

Variable	Coefficient	t-Statistic	Prob.
ROA	9.546271	3.745922	0.0006
ROE	1.654505	4.582545	0.0000
FIRM SIZE	0.423891	9.880677	0.0000
C	-3.482544	-2.655652	0.0112
M1	-1.023116	-0.385137	0.7020
M2	1.272796	3.985300	0.0003

Source: SPSS 25 output results

Discussion

The payment of zakat by Islamic finance and business companies has gained increasing interest. Zakat is a religious obligation for Muslims who can afford to donate a portion of their wealth to those in need. In the corporate world, zakat payments have been adapted to include obligations for business entities that generate income and own specific assets. Corporate zakat payments are not only religious but also have significant financial and business implications concerning the purpose of zakat. Profitability measures a company's ability to generate profits from its operations. It is a crucial factor influencing its performance and success. The profits generated by the company allow for investment, expansion, and payment of obligations, including zakat. However, the relationship between profitability and zakat payments is sometimes complicated. It raises questions about whether more profitable companies will have a more outstanding zakat obligation or vice versa.

These results support a prior study (Herwanti et al., 2017), which states a positive and significant relationship exists between Islamic Banks' profitability and the amount of

Zakat paid by these banks in Indonesia. Thus, Syariah bank companies operate based on Islamic Sharia principles, which require them to obey Islamic rules. This includes the obligation of paying zakat, an Islamic principle for companies that have fulfilled specific requirements. Company zakat ensures a balance between selfishness and altruism in the operational process. Selfishness may encourage profit, while philanthropy reflects the company's social responsibility towards society and the environment. Using zakat emphasizes transforming net profit achievement into a zakat-oriented approach, where profit is not the ultimate goal but an intermediate one. However, being zakat-oriented means paying attention to the need for maximum profit. In fact, zakat is calculated based on profit obtained, so improving company performance is necessary to maximize zakat obtained (Herwanti et al., 2017).

CONCLUSION

Based on the study's findings, the partial Return on Asset (ROA) and Return on Equity (ROE) positively impact the zakat payments made by companies. This implies that companies with higher ROA and ROE are likelier to make larger zakat payments. Interestingly, the firm's size does not play a role in moderating the effect of ROA on zakat payments. However, it does have a moderating impact on the relationship between ROE and zakat payments. Specifically, larger firms tend to make higher zakat payments with higher ROE than smaller firms. These findings can be helpful for policymakers and companies to understand the factors that influence zakat payments and to develop strategies for enhancing corporate social responsibility.

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Sebagai Variabel Moderasi. 170.

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