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Zakat As a Corporate Social Responsibility: How Does It Affect the Financial Performance of Islamic Banks?

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ABSTRACT

Islamic banks should actively engage in Corporate Social Responsibility (CSR) activities as part of their moral obligations to contribute to society and surroundings. This study aims to investigate the influence of Zakat contribution, as a proxy of CSR, on the financial performance of Islamic banks in Malaysia. The study used panel-data analysis, whereby the annual reports of 11 local Islamic banks in Malaysia were analyzed over a ten-year period from 2010 to 2019. Fixed- and random-effect regression model analyses were conducted to analyze the results of the study. The findings reveal that there is a positive and significant relationship between Zakat contribution and the financial performance proxied by Return on Asset (ROA) and Return of Equity (ROE) of the Islamic banks in Malaysia. Hence, the findings of the study confirmed the importance of social elements, like Zakat, in the operations of Islamic banks, as well as in the banks' performance.

Keywords: CSR, Financial performance, Islamic banks, Zakat, Malaysia.

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الزكاة بوصفها مسؤولية اجتماعية للشركات: كيف تؤثر على الأداء المالي للبنوك الإسلامية؟

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ملخص

يجب أن تشارك البنوك الإسلامية في أنشطة المسؤولية الاجتماعية للشركات (CSR) بوصفها جزءاً من التزاماتها في الدعم المعنوي ومساهمتها في المجتمع ومحيطها. تهدف هذه الدراسة إلى معرفة تأثير مساهمة الزكاة بصفتها وكيل المسؤولية الاجتماعية للشركات على الأداء المالي للمصارف الإسلامية في ماليزيا. وتستخدم الدراسة تحليل بيانات اللوحة، حيث يتم تحليل التقارير السنوية لـ 11 مصرفًا إسلاميًا محليًا في ماليزيا على مدى عشر سنوات (من 2010 إلى 2019). ويتم إجراء تحليل نماذج الانحدار ذات التأثير الثابت والتأثير العشوائي لتحليل نتائج الدراسة. وأظهرت النتائج أن هناك علاقة إيجابية وذات دلالة إحصائية بين مساهمة الزكاة والأداء المالي ممثلاً في العائد على الأصول (ROA) وعائد حقوق الملكية (ROE) للبنوك الإسلامية في ماليزيا. ومن هنا تظهر نتائج الدراسة أهمية العناصر الاجتماعية – مثل الزكاة – في عمليات البنوك الإسلامية، وكذلك في أداء البنوك.

الكلمات الدالة: المسؤولية الاجتماعية للشركات، الأداء المالي، البنوك الإسلامية، الزكاة، ماليزيا.

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1. INTRODUCTION

The growth of global Islamic banking assets is significant, amounting to around USD1.77 trillion in 2019 as stated by the Islamic Financial Services Board (2020). This has led to the growth of the most domestic market shares of Islamic banks all over the world, including Malaysia. Currently, Malaysian Islamic banks accumulated approximately USD195.6 billion of global Islamic banking assets in 2019 (Ali et al., 2021). The Islamic banking industry in Malaysia has been acknowledged as one of the international Islamic Financial Institutions (IFIs) ever since its financial performance began showing remarkable improvements year by year. According to the Islamic Financial Services Board (2020), the current domestic market share of Malaysian Islamic banks is about 28.4% and is continuously growing at an accelerated rate, which requires correct strategies to maintain and possibly increase the market share.

It is reported by the Islamic Financial Services Board that the financial performance of Islamic banks in terms of Return on Equity (ROE) was higher than that of conventional banks in the E.U. and the U.S. in 2018, while financial performance in terms of Return on Asset (ROA) and ROE of Islamic banks in Malaysia was higher than that of conventional banks in 2019. The financial performance of Islamic banks is believed to be affected by internal and external drivers, similar to conventional banks. Numerous empirical studies have proven that banks' specific characteristics and economic forces; for example, liquidity and capital adequacy (Sufian & Kamarudin, 2015; Al-Qaisi, 2017), operational cost (Hadriche, 2015; Lee & Isa, 2017), bank size and equity financing (Sufian & Kamarudin, 2015; Chowdhury & Mohd Rasid, 2017), Gross Domestic Product (GDP) and inflation (Wasiuzzaman & Tarmizi, 2010; Mohammed & Muhammed, 2017), have a significant influence on financial performance of banks. However, Islamic banks are suggested to focus on non-financing activities to increase their financial performance, since those financial and economic factors resemble the financial performance of conventional banks (Zarrouk et al., 2016).

Social responsibility, or its synonym, CSR practices, is one of the banks' non-financing activities, whereby the banks perform their moral obligations of social engagement and environmental sustainability. Davis (1960) and McGuirie (1963) defined CSR as the actions taken by a corporation, not only as economic and legal obligations, but also as certain obligations to society, extending beyond economic and legal obligations. Carroll (1991) defined CSR as the obligation of a business toward the four elements of responsibilities; i.e., the economic, legal, ethical and philanthropic responsibilities. Carroll (1991) argued in favour of the stakeholder concept to be fitted for CSR as a response to the famous argument that CSR is vague. Many prominent Islamic finance scholars have supported the stakeholder theory to explain the concept of CSR (Dusuki, 2008; Dusuki & Abdullah, 2007; Farook, 2007; Arsad et al., 2015; Abu Bakar, 2016) in that CSR is about doing business sustainably and ethically and being responsible for the well-being of all stakeholders.

Understanding the relationship between CSR and financial performance is crucial, since organizations need to spend additional funding for CSR activities that might not directly influence the financial performance of the business. Malik (2015) noted that most scholars have acknowledged the impact of CSR on financial performance. Many prior empirical studies have proven that CSR practices positively influence the financial performance of the business entity (Feng et al., 2015; Famiyeh, 2017; Park, 2017; Devie et al., 2018; Ling, 2019). Few empirical studies in banking sectors-including Islamic banks-also found CSR to have a significant impact on the financial performance of banks (Arshad et al., 2012; Wu & Shen, 2013; Cornett et al., 2016; Menne, 2016; Buallay, 2019; Gangi et al., 2018; Galdeano et al., 2019). On the other hand, a few prior studies have found a negative relationship between CSR and financial performance (Rutledge et al., 2014; Omar & Zallom, 2016; Sekhon & Kathuria, 2019; Auliyah & Basuki 2021).

However, the issues concerning the most inclusive CSR measurement model or a framework of the Islamic banks' practices are still being debated among scholars (Salma Sairally, 2013; Wan Jusoh & Ibrahim, 2017; Zafar & Sulaiman, 2020). Most of the previous studies valued the disclosure of CSR practices, such as the studies of Mallin et al. (2014), Sujana (2015), Amran et al. (2017) and Menassa and Dagher (2019), which recognized the common dimensions of CSR; for examples, community, workplace, environment and marketplace, to identify the CSR implementation of Islamic banks. However, Auliyah and Basuki (2021) claimed that these dimensions of measurement are widely used in conventional banks as well as in other organizations and are considered not relevant to *Shariah*-oriented companies, since they are not based on *Shariah* (Islamic law) principles. Meanwhile, Wan Jusoh et al. (2014) found that the dimensions of CSR applied by previous empirical studies were derived from various sources of reference when it comes to identifying CSR practices of banks. On top of that, according to Adnan (2015), most of the Malaysian Islamic banks are currently referring to CSR framework guidelines issued by Bursa Malaysia in evaluating their CSR practices. Since various sources were referred to in informing the current CSR dimensions of Islamic banks, banks must identify specific standards and appropriate CSR guidelines and framework for their institutions (Wan Jusoh & Ibrahim, 2020). As Islamic banks are dominated by Muslim stakeholders, it would be interesting for the organization to improve its dimensions of measurement for CSR, since the stakeholders may expect more comprehensive and different dimensions of CSR activities compared to those adopted by conventional banks.

Therefore, this paper aims to investigate the influence of CSR, proxied by Zakat contribution, on the financial performance of Islamic banks in Malaysia, since the empirical evidence of Zakat as a part of Islamic CSR framework and its impact on financial performance in Malaysia remain sparse.

2. Literature Review

2.1 Corporate Social Responsibility in Islam

From the Islamic perspective, CSR is a set of operation-based activities focused on the achievement of *Maqasid Al-Shariah* (objectives of Islamic law) (Muzawir et al., 2006; Dusuki & Abdullah, 2007; Yusof & Bahari, 2011; Ali Basah & Md Yusoff, 2013; Darus et al., 2013; Abu Bakar & Yusof, 2016; Issalih et al., 2015; Arsad et al., 2015; Said et al., 2018). According to the studies of Dusuki (2008) and Ali Basah and Md Yusuf (2013), *Shariah* is the fundamental basis for understanding CSR in Islam. *Shariah* has evolved within the guidelines set by *Maqasid Al-Shariah* which aim to promote the well-being of all mankind. Authors added that the fundamental understanding of *Shariah* is *Taqwa* (fear of God). It implies making a deliberate effort to achieve the objectives of *Shariah* in the ways prescribed by *Shariah* itself. Persons with *Taqwa*-paradigm are instilled with a great understanding that they are responsible to manage and develop the world in line with *Shariah* principles. This is supported by Darrag and Bassiouny (2013) who argued that Islamic CSR requires a *Taqwa*-based paradigm, where business organizations are not only focusing on profit-maximization, but also need to be driven by *Shariah* principles and guidance to find ultimate pleasure in this life and the life hereafter. Business organizations have to acknowledge their social and moral responsibilities for the well-being of others, including their shareholders and stakeholders.

Furthermore, Kamil and Jan (2014) argued that CSR in Islam should be constructed through a *Taqwa*-paradigm as highlighted in Al-Quran and the As-Sunnah.

Dusuki (2008) further elaborated the concept of *Taqwa*-dimension CSR by which business organizations as groups of individuals assume the roles and responsibilities as servants and vicegerents in all situations. Similarly, Farook (2007) claimed that the basic principles of CSR in Islam are the vicegerency of mankind on earth, divine accountability and the duty on mankind to enjoin good and forbid evil. He added that as representatives of God, human beings are responsible for taking care of the resources which belong to the ultimate Creator of the universe. Thus, persons with righteousness value understand that their role in this worldly life is to manage and develop the world in line with *Shariah* principles and values. Meanwhile, Mohammed Shamim and Md. Nesarul (2011) supported that CSR in Islam incorporates a broader meaning in embracing the value of *Taqwa* in all situations, by which Muslims in organizations must play their roles and assume their responsibilities as servants and vicegerents of God.

Furthermore, Siwar and Hossain (2009) noted that business organizations as a group of individuals assume the roles and responsibilities as servants and vicegerents in all situations. Thus, a relationship with God would be inspired by the values of truthfulness, fairness, kindness and uprightness rather than envy, backbiting and discrimination. This should naturally manifest in business activities as well as in the relationship with other human beings, especially stakeholders. Other prior literature (Muzawir et al., 2006; Yusoff & Bahari, 2011; Khurshid, 2014; Abu Bakar & Yusof, 2015) further supported CSR in Islam as practices to uphold a strong relationship with God, other human beings and the surrounding environment to achieve *Maqasid Al-Shariah* for *Maslahah*. The concept of relationship proposes that business organizations have a responsibility towards God, the society and the environment while managing their business operations.

2.2 Zakat As CSR and Its Impact on Financial Performance

Zakat is defined as alms or charity (Lewis, 2001; Tuan Ibrahim et al., 2020; Al-Malkawi & Javaid, 2017). Zakat is one of the five pillars of Islam and can be considered as a part of the religious duties of Muslims. It functions as a tool to redistribute wealth to the poor. Furthermore, Muslims believe that Zakat is used to purify one's soul and wealth to find Allah's blessings (Al-Quran, 2:110). According to Saad and Haniffa (2014), Zakat means purity, blessings and a way of giving charity, all of which are forms of submission to Allah and the social commitment of every Muslim. In addition, Zakat is one of the tools to solve prevailing social and economic problems; namely, poverty and to alleviate social inequality (Adnan & Abu Bakar, 2007, Raimi et al., 2014; Aziz & Mohamad, 2016; Sheikh Mokthar et al., 2018: Bilo & Machado, 2020).

Zakat has been tested in empirical studies and found to have a significant impact on the society and economy. Many empirical studies have investigated the impact of Zakat on poverty, such as in Malaysia (Senadjki & Sulaiman, 2015), in Indonesia (Herianigrum et al., 2020; Sari et al., 2019); and in Bangladesh (Ali et al., 2019). These scholars have found the benefit of zakat in reducing poverty in their countries. These studies have also indicated that Zakat is a part of a faith-based model, which carries Islamic values towards poverty reduction. Zakat has also been proven to have a significant impact on economic growth. Suprayitno (2019) investigated the impact of Zakat contribution on the macro-economy in Malaysia and noted that Zakat has positive and significant relationships with economic growth, consumption and investment. Similarly, a recent study by Jedidia and Guerbouj (2020) examined the impact of Zakat on economic growth with a sample of eight Muslim countries, including Malaysia. The authors highlighted that Zakat stimulates the country's growth, as it increases consumption, investment or government expenditure.

The guidelines of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) on CSR disclosure state that the provision of Zakat is among the important components of CSR. Menne et al. (2016), Al-Malkawi and Javaid (2017), Saeed and Alali (2020) and Tuan Ibrahim et al. (2020) considered Zakat as a part of CSR activities of a business entity, including Islamic banks. Since organizations make a profit from their business operations, the paying of Zakat is encouraged as both an obligation and a responsibility to improve the well-being of people. According to Abu Bakar and Md Yusof (2015), Zakat is considered as a tool to achieve *Maqasid Al-Shariah* for *Maslahah,* whereby IFIs, such as Islamic banks, need to show social and economic responsibility by paying Zakat out of their profit earned. Besides, Zakat-payment obligation might also demonstrate the commitment and contribution of Islamic banks *via* CSR activities to society in need. In addition, Dusuki and Abdullah (2007) suggested that from an Islamic point of view, IFIs, such as Islamic banks, should consider *Maqasid Al-Shariah* and *Maslahah* with CSR management to fulfil the interests of their stakeholders.

In the case of Islamic banks in Malaysia, they are active in CSR activities (Jaiyeoba et al., 2018), since their stakeholders expect them to focus on social objectives as well (Dusuki, 2008). The majority of Islamic banks in Malaysia use their Zakat allocation as a tool of CSR activities to distribute the Zakat collected to the poor and those in need. Badarulzaman et al. (2016) stated that according to the current practices of Islamic banks in Malaysia, banking Zakat is paid by the shareholders of the banks while saving Zakat is paid by the depositors of the banks. A half of the Zakat payment by Islamic banks is handed over to State Islamic Religious Councils (SIRCs) and the remaining Zakat portion is distributed by the Islamic banks themselves. However, the computation and the assessment methods of Zakat vary among the Islamic banks and the decision on Zakat contribution is made by the management, the *Shariah* committee as well as the Board of Directors of the bank (Badarulzaman et al., 2016; Rosman et al., 2019).

Several prior studies have looked into the influence of Zakat as a CSR measure of the financial performance of the banks (Saeed & Alali, 2020; Menne et al., 2016; Sidik & Reskino, 2016; Rosman et al., 2019; Tuan Ibrahim et al., 2020; Auliya & Basuki, 2021). These studies analyzed the secondary data from annual reports of the banks and found a significantly positive relationship between Zakat and the financial performance of banks. Meanwhile, Al-Malkawi and Javaid (2017) conducted a study in non-financial firms in Saudi Arabia by employing fixed- and random-effect models for the regression analysis and found a positive impact of Zakat on the financial performance of the firms. It is recommended that Zakat contributes positively to the company's financial performance and can be considered as an exceptional strategy to increase profitability, while addressing the needs of society as a whole. By paying Zakat, Islamic banks can satisfy the interest of their stakeholders who are demanding the banks to be responsible for the society in need. This satisfaction would lead to sustainable support from their stakeholders towards their products and services in the short-term and the long-term periods. In contrast to the findings above, only a few studies have found that financial performance is not significantly affected by Zakat contribution. A study by Samad et al. (2015) found an insignificant relationship between Zakat and the profitability of the Islamic banks in Malaysia throughout 2010-2014. The study concluded that the findings may be due to either the Islamic banks paying Zakat based on their own calculations or they do not pay Zakat due to lack of enforcement by the relevant authority. Similarly, Al Azizah et al. (2018)

studied financial and non-financial firms in Indonesia and indicated that there is no relationship between Zakat and the profitability of the firms. In light of these observations, the current study formulated the following hypothesis.

H1: There is a positive and significant relationship between Zakat and the financial performance of Islamic banks in Malaysia.

2.3 Theoretical Review

The stakeholder theory posits that an organization needs to depend on certain target groups in order to continue to survive (Freeman, 1984). Under this theory, internal management is not the only important component of an organization; external parties are also involved, such as suppliers, customers, the government, investors, the community and competitors. The theory also argues that these groups of stakeholders participate in a firm to obtain benefits and advantages (Donaldson & Preston, 1995). Furthermore, the stakeholder theory states that related parties are essential to the success of an organization, since they might influence the performance of the business (Freeman, 1994; Clarkson,1995). In other words, the organization should consider all stakeholders' interests in every decision towards achieving the goals of the organization.

Donaldson and Preston (1995) categorized the stakeholder theory into three approaches; namely, instrumental, descriptive and normative approaches. The instrumental view is that firms will respond to stakeholders' concerns only when they are consistent with profit-maximization objectives. In other words, the instrumental approach explores specific links between stakeholder management and company performance. The descriptive approach focuses on the past, present and future activities of companies and their stakeholders, to create predictive plans that are related to stakeholder management, while the normative approach tries to interpret the establishment of some fundamental moral and philosophical principles (Donaldson & Preston, 1995).

However, the interests of the stakeholders of different organizations vary. It has been argued that by responding to stakeholders' interests, organizations would be able to enrich their reputation and develop the trust of their customers, which can positively lead to increasing their financial performance (Famiyeh, 2017; Park, 2017). Besides, the stakeholder theory posits that organizations must consider the interests of different stakeholders as an effective approach to promoting CSR practices in their respective organizations (Ullmann, 1985; Carroll, 1991). Ullmann (1985) added that information, such as social and environmental information, should be disclosed by firms to maintain their relationship with stakeholders.

Stakeholders have been regarded as important target groups for CSR activities. Many scholars have supported the stakeholder theory in CSR literature on various types of organizations, including Islamic banking institutions (Arshad et al., 2012; Feng et al., 2015; Hafez, 2015; Menne, 2016; Park, 2017; Famiyeh, 2017; Galdeano et al., 2019; Platonova et al., 2018; Devie et al., 2018; Ling, 2019). The theory ststes that organizations should be socially responsible for various types of stakeholders, since this will improve their financial performance. Islamic banks should focus on the interests of the stakeholders by integrating their social and environmental objectives into the banks' economic development objectives. The banks should also interact with the stakeholders and demonstrate good financial performance. If Islamic banks fail to cater to the interests of their stakeholders, this may lead to declining support, which in turn, will adversely impact the image and economic sustainability of the banks.

3. Methodology

3.1 Study Population, Sample and Sources of Data

The study focuses on the local Islamic banks in Malaysia. The data of the study was collected from the annual reports of the banks for a period of ten years (2010-2019). A total of 11 local Islamic banks, as in Table 1, comprising full-fledged banks and subsidiaries, were analyzed.

Table (1)

List of Islamic banks in Malaysia *(Source: Bank Negara Malaysia, 2021)*

No.	Islamic banks	Particulars
1.	Bank Muamalat Malaysia Bhd	Full-fledged
2.	Bank Islam Malaysia Bhd	Full-fledged
3.	MBSB Bank Bhd	Full-fledged
4.	Affin Islamic Bank Bhd	Subsidiary
5.	Alliance Islamic Bank Bhd	Subsidiary
6.	AmIslamic Bank Bhd	Subsidiary
7.	CIMB Islamic Bank Bhd	Subsidiary
8.	Hong Leong Islamic Bank Bhd	Subsidiary
9.	Maybank Islamic Bhd	Subsidiary
10.	Public Islamic Bank Bhd	Subsidiary
11.	RHB Islamic Bank Bhd	Subsidiary

3.2 Measurement of Variables

The independent variable of CSR is represented by Zakat measurement as in the studies of (Menne et al., 2016; Al-Malkawi & Javaid, 2017; Saeed & Alali, 2020; Tuan Ibrahim et al., 2020). The Zakat variable is measured by the total Zakat contribution to net assets of the banks as in the studies of (Mohamed Ibrahim et al., 2004; Noordin & Hudaefi, 2019; Rosman et al., 2019; Saeed & Alali, 2020). The dependent variable (financial performance) is proxied by Return on Asset and Return on Equity of the banks (Mallin et al., 2014; Cornett et al., 2016, Al-Qaisi, 2017; Buallay, 2018; Shakil et al., 2019; Khadash & Washali, 2019). Finally, two control variables in this study are the size of the bank (Al-Malkawi & Javaid, 2017; Tuan Ibrahim et al., 2020) and the leverage (Hafez, 2015; Platonova et al., 2019, Devie et al., 2018; Buallay, 2019). The operational definitions and measurement of the variables are as follows:

Table (2)
Description of variables' measurement

Variables	Description	Source
Dependent		
Return on Asset (ROA)	Net Profit / Average Total Asset	Annual Report
Return on Equity (ROE)	Net Profit / Average Total Equity	
Independent		
Corporate Social Responsibility (CSRZ)	Zakat /Net Asset	Annual Report
Control variables		
Size (SIZE)	The log of total assets of the bank	Annual Report
Leverage (LV)	Total liabilities/ Total assets	

3.3 Models

The study employed multiple-regression analysis to test the association between CSR measured by Zakat and the financial performance of the banks. The dependent variable is the financial performance (FP) measured by Return on Asset (ROA) and Return on Equity (ROE) of the bank, while the independent variable is CSR involving Zakat contribution (CSRZ). Also, the study included bank size (SIZE) and bank leverage (LV) as control variables in the regression models.

The following equations demonstrate the multiple-regression models of the study:

ROA Model: $ROA_{it} = \alpha_0 + \beta_1 CSRZ_{it} + \beta_2 SIZE_{it} + \beta_3 LV_{it} + \varepsilon_{it}$

ROE Model: $ROE_{it} = \alpha_0 + \beta_1 CSRZ_{it} + \beta_2 SIZE_{it} + \beta_3 LV_{it} + \varepsilon_{it}$

where,
For each bank (*i*) and each year (*t*)
ROA = Return on Asset
ROE = Return on Equity
CSRZ= Corporate Social Responsibility measured by Zakat
SIZE = Size
LV = Leverage
α = Constant
β = Coefficient
ε = Error

4. Study Results

In this section, the results of the descriptive statistics of the variables and regression analysis are presented. Several diagnosis tests, such as removing outliers, multicollinearity, heteroscedasticity, serial correlation and Hausman tests, were conducted before undertaking the regression analysis.

4.1 Descriptive Analysis

Table 3 presents the descriptive statistics of the variables in the present study. It presents the number of observations (n), mean, median, standard deviation, skewness and kurtosis of the variables. A total of 103 observations were used after five observations were removed from the analysis due to outliers detected in the data of the study. Mean values of ROA, ROE, CSRZ, SIZE and LV are 0.807, 11.834, 0.118, 4.453 and 0.923, respectively, while median values are 0.801, 11.480, 0.058, 4.497 and 0.927, respectively. The standard deviation scores for the variables are 0.406 (ROA), 5.644 (ROE), 0.140 (CSRZ), 0.427 (SIZE) and 0.030 (LV).

In addition, the normality test was conducted by analyzing the skewness and kurtosis values of the variables. According to Hair et al. (2010), the critical value for skewness and kurtosis is at +/- 2.58. From Table 3, the skewness and kurtosis values of all variables in this study are within the acceptable range except the kurtosis values for ROA (14.178) and LV (6.568). However, Gujarati (2009) argued that normality assumption in a large sample (over 100) may be relaxed, because it does not assume a critical role.

Table (3)
Descriptive statistics for dependent and independent variables

Variable	ROA	ROE	CSRZ	SIZE	LV
n	103	103	103	103	103
Mean	0.807	11.834	0.118	4.453	0.923
Median	0.801	11.480	0.058	4.497	0.927
Std. Deviation	0.406	5.644	0.140	0.427	0.030
Skewness	-1.933	-0.134	1.416	-0.501	-2.407
Kurtosis	14.178	2.555	1.836	0.627	6.568

4.2 Diagnosis Test Analysis

Multicollinearity test checks how independent variables are interrelated in a given model. According to Pallant (2010), multicollinearity exists in the correlation matrix when the correlation values indicate 0.90 and above. From Table 4, all the correlation values are below 0.90. Hence, no evidence for the presence of multicollinearity can be found among the independent and dependent variables of the models.

Table (4)
Correlation matrix

	ROA	ROE	CSRZ	SIZE	LV
ROA	1				
ROE	0.804	1			
CSRZ	0.189	0.098	1		
SIZE	0.381	0.588	0.206	1	
LV	0.468	0.684	0.124	0.701	1

In addition, Variance Inflation Factor (VIF) and Tolerance (1/VIF) tests were conducted in order to detect any multicollinearity in the dataset. Hair et al. (2010) argued that multicollinearity issues arise if the VIF values are greater than 10 or the tolerance values are smaller than 0.10. The existence of the problem of multicollinearity could not be verified when referred to Table 5, as the variables have VIF values less than 10 with an average of 1.61 and 1/VIF values above the threshold of 0.10.

Table (5)
Variance inflation factors

Variables	CSRZ	SIZE	LEV
VIF	1.05	2.02	1.97
1/VIF	0.957	0.495	0.509

Notes: The average value of VIF is 1.61.

Bruesch-Pagan, Wooldridge and Hausman test results are shown in Table 6. The Bruesch-Pagan test was conducted in order to detect the presence of heteroscedasticity in the models of the study. The p-value of the Bruesch-Pagan test for the ROE model reported more than 0.01(p-value<0.01). Thus, it can be concluded that there is no heteroscedasticity in the ROE model of the study. However, the p-value of the ROA model is less than 0.01, which indicates the presence of a heteroscedasticity problem which needs to be corrected before undertaking the regression analysis. For detecting the existence of serial correlation in the models of the study, the Wooldridge test was employed. From Table 6, the p-value of the Wooldridge test is significant at p<0.01 for both models, indicating the existence of serial correlation in the models of the study. The presence of serial correlation in the models of the study needed to be corrected by performing robust standard error in the regression of the study. The problems of heteroscedasticity and autocorrelation in the data of the study were corrected by employing robust standard-error estimators in the regression analysis, as recommended by Hoechle (2007).

To choose between fixed-effect and random-effect models, the Hausman specification test was conducted. If the p-value of the test is less than 0.05, then a fixed-effect model should be applied. However, if the p-value of the test is more than 0.05, then the random-effect model is appropriate. From Table 6, Hausman-test results for the study suggested that the random-effect regression model is more appropriate for the ROA model, since the p-value was more than 0.05, while the fixed-effect model was appropriate to perform regression analysis for the ROE model (p<0.05). The discrepancy in Hausman test for both models was due to the difference in the measurement of predictors in the regression models. The results of Hausman test for both models are in line with the findings of Mwambuli (2016), Singh Bagga (2019) and Ali et al. (2021), who reported different regression models for ROA and ROE.

Table (6)
Diagnostic tests

Test	ROA Model		ROE Model	
	Chi^2/Statistic	P-value	Chi^2/Statistic	P-value
Bruesch-Pagan	48.24	0.0000	0.21	0.6506
Wooldridge	51.140	0.0000	37.397	0.0001
Hausman	4.55	0.2081	26.69	0.0000

4.3 Multiple-regression Analysis

Multiple regression analysis was conducted by using STATA software. The results of the regression models are shown in Table 7 and Table 8.

The random-effect regression model was conducted with a robust standard error by using the option "clustered robust" in order to rectify the heteroscedasticity and serial correlation issues in the ROA model. The F-value of the regression shows significance at the $p<0.01$ level, while the R-square value (between) was 0.3749, which shows that 37.49% of the Zakat contribution and the control variables describe the total variance of ROA of the banks.

Table (7)
Regression results of ROA model

	Coefficients	**Std. Err.**	**t**	**Sig.**
CSRZ	0.806	0.374	2.16	0.031**
SIZE	0.154	0.314	0.49	0.624
LV	4.128	1.175	2.41	0.016**
_cons	-3.793	1.313	-2.89	0.04
Prob. F-Value	0.0066*			
R^2 (between)	0.3749			

Notes: **Significant at 1% level ($p < 0.01$). * Significant at 5% level ($p < 0.05$).

The results of the study indicate that there is a positive and significant association between CSRZ and ROA, at a 5% level of significance ($p < 0.05$). For SIZE, the results indicate a positive, but an insignificant, association. Meanwhile, the results indicate a positive and significant association between LV and ROA. Hence, the findings in Table 7 show that the Zakat contribution has a direct relationship with the ROA of the Islamic banks.

Fixed-effect regression model was conducted with robust standard error in order to remove the serial-correlation problem in the ROE model. F-value of the regression shows significance at the $p<0.05$ level, while the R-square (within) is 0.2275, which indicates that 22.75% of the Zakat contribution describes the total variance of ROE of the banks.

Table (8)
Regression results of ROE model

	Coefficients	**Std. Err.**	**t**	**Sig.**
CSRZ	12.869	5.586	2.30	0.444*
SIZE	-1.278	4.178	-0.31	0.766
LV	126.913	76.776	1.65	0.129
_cons	-100.977	57.794	-1.75	0.111
Prob. F-Value	0.0162*			
R^2 (within)	0.2275			

Notes: *Significant at 5% level ($p < 0.05$).

The results of the study indicate that there is a positive and significant association between CSRZ and ROE, at a 5% level of significance ($p < 0.05$). For SIZE, the results indicate a negative, insignificant association. However, LV is positively associated, but the association is insignificant. Hence, the findings in Table 8 show that the Zakat contribution of the Islamic banks reflects profitability in terms of ROE.

5. Discussion

The results of the study provide evidence on Zakat-contribution influence on the financial performance of the Islamic banks in Malaysia. The results of the study reveal that there is a positive and significant effect of Zakat on financial performance measured by ROA and ROE.

Based on the above discussion, the findings of the study can be summarised as follows.

Table (9)
Summary of the findings

Hypothesis	**Financial Performance**	
	ROA	**ROE**
H1	Supported	Supported

The results of the study provide evidence on how CSR, represented by Zakat contribution, influences the financial performance of Islamic banks in Malaysia. The results reveal that there is a positive and significant association between Zakat and the financial performance of the studied banks. Both ROA and ROE proxies of financial performance are found to be directly affected by Zakat contribution of the studied banks. It can be concluded that more Zakat payment made by the Islamic banks would lead to better financial performance in terms of ROA and ROE. The results of the study are in line with the previous findings of Menne et al. (2016), Sidik and Reskino (2016), Al-Malkawi and Javaid (2017), Rosman et al. (2019), Saeed and Alali (2020), Tuan Ibrahim et al. (2020) and Auliyah and Basuki (2021), who found significant positive effects of Zakat on financial performance of organizations. Moreover, the results of the present study indicate the high value of variability in financial performance concerning the Zakat contribution of Islamic banks in Malaysia by using a different regression model of the study.

Regarding the real goals of IFIs towards achieving social welfare and benefits, Zakat can be considered as a tool to generate returns while considering the well-being of the society as a whole. In addition, the results of the study are in line with the stakeholder theory from an Islamic perspective, whereby Islamic banking and finance institutions should focus on the interests of the stakeholders by integrating their social and Islamic values into their economic development plans, in addition to enhancing their financial performance. Income and wealth generated from Islamic banking operations should be utilized to meet shareholders' interests and for the well-being of the society (Mohamad et al. 2016). Hence, the obligation of Zakat has been imposed on business operations, including Islamic banks, in order to purify their wealth, because Zakat is the most important instrument for the redistribution of income and wealth in the society (Abu Bakar & Abd Ghani, 2011; Lewis, 2001). Thus, the payment of Zakat may help companies fulfil their responsibilities to both God and the society. To conclude, when Islamic banks participate in socially responsible activities by contributing Zakat, this will in turn contribute to sustainable economic growth, providing justice and realizing success.

6. Conclusion

The objective of is study is to examine the influence of CSR on financial performance using Zakat contribution as a proxy for CSR. The study used ROA and ROE measures for financial performance and included two control variables; i.e., size and leverage of the banks. The study investigated a sample of 11 local Malaysian Islamic banks over 10 years (from 2010 to 2019).

The study may have significant contributions and recommendations for IFIs, regulators and academics. Islamic banks, as IFIs, should not only operate to satisfy shareholders and project high profit, but should also consider the well-being of the society as an important aspect to focus on when conducting their activities. The Islamic economic system itself emphasizes that Muslims should not enjoy their wealth while fellow Muslims are striving to cope with the rising costs of living. The income and wealth of Islamic banks should be distributed to the society, so that each Muslim is assured that he/she will have an equitable, favourable and reasonable standard of living.

In terms of the limitations of the study, the data collected was secondary data from the annual reports of the 11 local Islamic banks available from their websites for ten years (from 2010 until 2019) only. Instead of focusing on Islamic banks, future researchers may consider other types of banks and other Islamic regions. Those organizations may have a different perspective and variance in Zakat contribution and financial performance. Also, the sample size of the present study is small. It is recommended that researchers increase the sample size in future studies to obtain more precise results.

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