

Does Zakat Signal the Firm Value? An Additional Inference of Mining and Manufacturing Zakatnomics

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ABSTRACT

Mining and manufacturing industries are two contributive sectors having high economic value. Optimalization of their zakat potential should be estimated not only addressed to provide the gain for public welfare, but firms should also obtain the economic value on their performance. This research aims to provide an empirical inference on mining and manufacturing zakatnomics. The effect of corporate zakat potential on the firm value is tested in this research. The sample comprises 47 mining companies and 180 manufacturing companies listed in Indonesia Stock Exchange by utilizing financial statements of 2018 period. The result of this research finds that zakat potential was found positive on the firm value. This research also finds that zakat has a positive impact on profitability. Therefore, the finding in this research draws an inference that zakat empirically signals firm value and profitability.

Keywords: Zakat, Mining, Manufacture, Firm Value, Profitability

INTRODUCTION

Zakat on corporate income still becomes one of the emerging sharia issues. The increasing drive to pay zakat has led into the economics concept. The BAZNAS Center of Strategis Studies (2019) recorded the concept of zakatnomics in 2019. It refers zakat to economics. One of objectives of the zakatnomics is to disclose the tenet providing the number of corporate zakat potentials paid by firms. Indonesia with the largest Islamic population would create great zakat potential. Firdaus et al. (2012) estimated the zakat potential in Indonesia about 217 trillion rupiah or 3.4 percent of GDP of 2010. If the corporate sector engages with zakat, the number of the distributions will be greater. The starting purpose of this research is to disclose the magnitude of zakatability in the mining and manufacturing companies. The increasing income trend in the business industry occurs every year. The collection of zakat should be based on

the incomesize. The magnitude of economic value in the mining and manufacturing sectors could be huge corporate zakat potential. For instance, one of sectors is the manufacture. In 2019, the number of large and medium manufacturing was 33.923 companies (BPS, 2019). It will provide huge zakat potential if they are fully engaged

The final point of conducting this research is to test the impact of mining and manufacturing zakat potential on the firm value. A final unexplored avenue in the context of corporate zakat is its link with firm value. The emerging phenomenon shows that the zakatnomics has been conceptualized in the mining and manufacturing area. It provides a voice in order that firms can be involved in alleviating the poverty through zakat as social performance. Meanwhile, the corporate area generally expects the value driving the business performance. To address this case, this research aims

to find the effect of corporate zakat potential on the firm value.

Since firms provided stock ownership to the public, we should have taken into account the financial performance in the market measurement. Firm value derives from market valuation. The market is a creation source of the firm value. The stakeholders tend to give high concern when the reputation of the firm increases. This research uses Tobin's Q due to a driving determinant behind the decision to do investment. Q is a ratio to assess the financial performance in the market using value creation deriving from market expectation. When the market has the level of better trust to the firm, the performance in the eyes of investor and public would increase. If using the accounting measurement through profitability including ROA and ROE, it would be no estimation of marginal cost and less representative value. Nevertheless, to solve the debating point in prior literatures, this research will include the use of the profitability.

Zakat for business area may be social performance creating the value over financial performance. Meanwhile, many studies exist investigating the nexus between zakat and financial performance of profitability. There has been relatively no empirical evidence at all on the firm value. The empirical analysis has been devoted to the nexus between financial performance and corporate zakat using profitability. Their findings still become inconclusive showing that there is no definite nexus between zakat and profitability (Al-Azizah, 2018; Al-Malkawi and Javaid, 2018; Darsiya et al., 2019; Rhamadhani, 2017; Samad et al., 2015; Yusnita et al., 2019; Utari et al., 2019). This research appears to find conclusive specification

model. The context of the academic debate around should be solved by employing the additional analysis in this research in order to contribute to the respective existing empirical literature.

This research contributes to enrich the studies about the zakat providing the signal within enhancing firm value. The finding of this research adds to the recent literature on zakat leading the increase into firm value. This research also provides the consistent finding with prior literature that zakat has the nexus with financial performance of profitability empirically. It provides an additional inference on the concept of zakatnomics booked by BAZNAS Center of Strategic Studies. The evidence of finding of this research may help the corporate area make a decision concerning zakatnomics.

The remainder of this research is organized as follows. Further section presents the literature review, research method, result and conclusion. In reviewing the literature, this research elaborates the concept of zakatnomics and develops the hypothesis on the relationship between zakat and firm value under the stakeholder theory. Sample and variable information are presented in research methodology. The result of this research provides the finding and the conclusion draws an inference followed by the suggestion for future study.

LITERATURE REVIEW

Zakat is the distribution of ownership rights to certain people determined by the Shari'a because of Allah. It aims to improve the welfare by alleviating the poverty. BAZNAS Center of Strategic Studies (2019) has just released the concept of Zakatnomics to implement in various sectors of business (agriculture,

mining, manufacture, as well as service and trade). In the terminologically, zakatnomics refers zakat to economics. It provides the awareness of building of islamic economics order with the purpose the happiness, equal life and ultimate glory. A faith, productivity revolution, a fair economic, and the implementation of zakat are the main pillars of the concept of zakatnomics.

Corporate zakat defines as the zakat payment of corporation to community and social. Zakat is part of social obligation, sharia compliance and depending on the economic ability. The liability of zakat in the corporate sector is based on Management of Zakat Chapter 4 verse 2 Letter c (commerce) and Letter g (industry) and the regulation of religion minister of PMA No. 52 of 2014 concerning Sharia and Procedures for measuring mal and fitrah zakat. Firms have varying zakatability relying on their incomes. Utari et al. (2019) stated that the factor influencing the corporate zakat is a growth of return on asset. It implies that zakat paid by corporate depends on the growth of profitability. The level of profitability is correlated with the magnitude of zakat payment and its correlation has been captured by some scholars (Afandi, 2019; Firmansyah and Rusydiana, 2013; Yusnita et al., 2019). Bakar and Rashid (2010) stated that one of motivations to pay zakat is economic factor.

BAZNAS Center of Strategic Studies (2019) stated that zakatnomics in the mining and manufacturing sectors generates the economic value providing the zakat potential. If it can be explored, the distribution will be greater. The optimalization from mining and manufacturing sector is able to become a policy to overcome the poverty and to increase the quality of human being life such as in the form of the service fund to

education and health. The mining and manufacture sectors tend to gain the increasing earnings each period. The study of BAZNAS implied zakat potential was 22 trillion rupiah in the mining and 59 trillion in 2017.

The corporate zakat potential means zakat payment of corporation to community and social. It may be corporate obligation when the regulation zakat can be taxable income deduction. Zakat is part of the religious and social commitment. It represents key social instrument used to help the social welfare (Ahmed, 2007; Al-Sabban et al., 2014; Al-Malkawi and Javaid, 2018). In the corporation, it may show the amount of expenditure in the terms of social and performance. It is related to the Corporate Social Responsibility (CSR). Under its concept, companies truly undertake social activities to legitimate their business so that its value may increase. They commit to take into account social and environmental concern when they regard it as the performance value. Nowadays, the concept of CSR has been well implemented. It has been considered as corporate responsibility toward the society and put it into social performance. Related to zakat, Islam has imposed zakat as a liability toward the society not only addressed to an individual responsibility, but it can also be extended as the responsibility of all the organizations. As a result, the zakat contribution can be considered as the main instrument to increase the social performance in the business organization.

Zakat can be a *win-win* strategy to optimize returns and improve performance while taking into account public as a whole (Al-Malkawi and Javaid, 2018). This research provides a theoretical support to develop a single

hypothesis. When CSR signals positively the firm value (Bhagawan and Mukhopadhyay, 2018; Bing and Li, 2019; Chung et al., 2018; Hardiningsih et al., 2019; Nielsen, 2018; Oh and Park, 2015), zakat can be relevant with the firm value as well. CSR has been considered as a response of social pressures and relative to stakeholders' demands (Crisostomo et al., 2011). Zakat can also be a response of social and religion demand.

Firms still need to continually commit to implement the CSR and it only achieves the sustainability in the future by involving in the social performance (Jiao and Xie, 2013). Zakat should also be taken into account as a response coming from islamic compliance. It could be one of the social instruments in the corporate social responsibility as found by Lin et al. (2009) using charity expenditure as the proxy of CSR. They found that the charity expenditure increases the performance. In addition to the prior literature. Al-Malkawi and Javaid (2018) also found zakat as the proxy of CSR leading the increase into corporate financial performance using ROE and Price to Book Ratio. In their justification, zakat tends to affect positively to both accounting and market performance while considering the society as a whole.

Related to corporate zakat, the compliance to sharia principle in corporate sector enhances the firm's reputation (Nomran et al., 2018). The stakeholders tend to give high concern when the reputation of their firm increases. Zakat could be an initiative of realizing social responsibility for the sake of enhancing social welfare. Therefore, the nexus between zakat and firm value can be elaborated under the stakeholder theory. The firm is not an entity that only operates for its own

interest for the sake of profit. It should benefit the stakeholder (Freeman, 2010). Firms build the relationship with the stakeholder would generate higher returns.

The payment of zakat is regarded as voluntary like CSR. However, an argument given in this research that attention to the interest of various stakeholders may enhance firm image and reputation. Through channels of zakat, the society may lead improvement into the firm value. Zakat can act as a signal to build business image with government, public, and investor facilitating the capital resulting from the increase of the level of trust in the market. The better company signal, the more interested the investors to make investment decision. As a result, this research develops a hypothesis (H1) underlining that the corporate zakat potential has positive effect on the firm value. This indicates that firms with zakat payments leads the increase into their firm value.

RESEARCH METHODOLOGY

Sample and Data

The sample of this research was go public firms listed in Indonesia Stock Exchange over period of 2018. This research identified 682 firms in whole sectors. Mining and manufacturing industries are two contributive sectors having high economic value. Therefore, the process of sample selection was started from the number of mining and manufacturing companies listed in Indonesia Stock Exchange. Data containing the financial statements of 2018 period were collected. Those were selected based on the criteria as follows.

Table 1. Sample Selection

Criteria	Firm
Mining Sector	47
Incomplete Data & Financial Statements using Non Rupiah	(30)
Firms with Net Loss	(4)
<i>Sample</i>	13
Manufacturing Sector	180
Incomplete Data & Financial Statements using Non Rupiah	(61)
Firms with net loss	(18)
<i>Sample</i>	101
Total Final Sample	114

This research obtained unavailable data due to delisting firms so that incomplete data were eliminated. Financial statements presented using dollar were also eliminated in this research. During the period of observation, two firms were found with net loss. Thus, final sample in the mining sector was 13 firms. In the manufacturing sector, 61 firms were also eliminated due to unavailable data and the use of dollar. Firms suffering from loss were also discarded so that the final sample of manufacturing industry was 101 firms. As a result, total final sample of this research was 114 firms.

Research Variables

This research utilized the corporate zakat potential as independent variable and the firm value as dependent variable. Zakat was measured under income approach as formulated 2.5 percent from net income before tax.

Firm value was proxied using Tobin's Q measured as total market value of firm and total book value of liabilities divided by total book value of assets. Total market value refers to the market capitalization calculated by multiplying the number of outstanding shares by the current share price. The

result of Q is between overvalued and undervalued ratio. A high Q ratio points out the Q value greater than 1 indicating that the firm stock is overvalued. This implies that the market value reflects is greater the firm's recorded asset. A high Tobin's Q value encourages firms to invest more because they are assessed to be worth more than the price paid for them in the market (Abbas, 2018). Conversely, a low Q ratio shows ratio less than 1 and records the firm stock as undervalued indicating the asset value of firm records greater than the market value. If a company obtains 1.0 ratio, its stock performance will be valued the same as the asset's value.

Statistical Analysis

This research employed descriptive statistics and the test of effect through linear regression. The description of variables in this research was presented into the chart, maximum, minimum, and mean. To test the hypothesis, the regression technique was used in this research. The significance of effect would be accepted at the 0.05 level. The equation model of this research is presented as follows.

$$Q = \alpha + \beta_1 \text{Zakat} + \varepsilon$$

This research symbolizes firm value into Q implying Tobin's Q ratio and corporate zakat potential into Zakat in natural logarithm.

RESULT AND DISCUSSION

Statistical Analysis

This research has identified the mining and manufacture sector listed in Indonesia Stock Exchange providing financial statements of 2018 period. The firms are further classified into type of the variables.

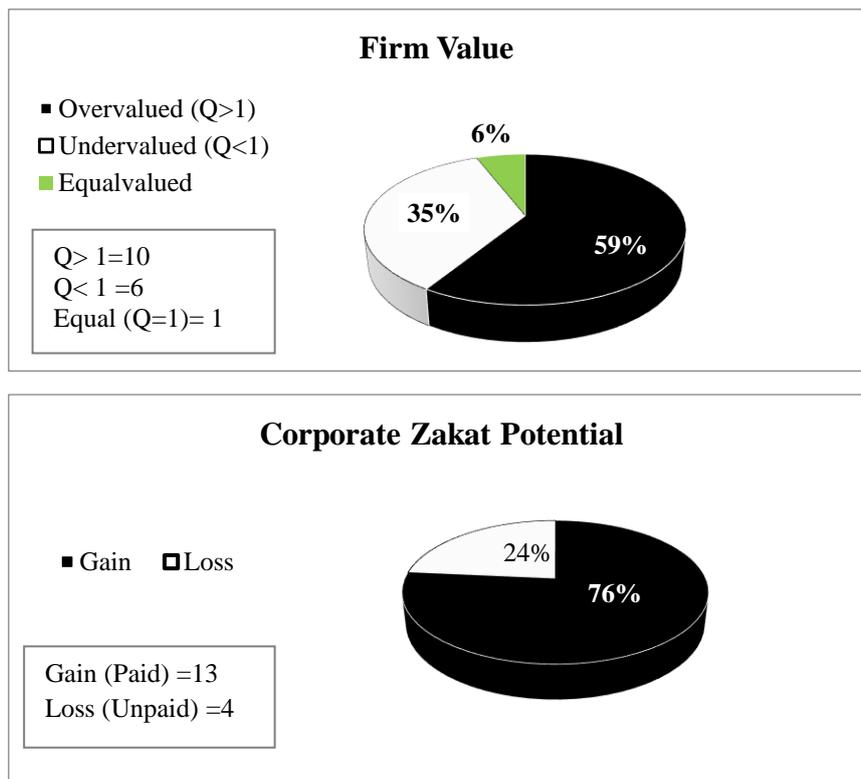


Chart 1. Mining Sector

In the mining sector presented in Chart 1, the firm value of sample has generated overvalued and undervalued stock performance. Total mining companies were 17 firms with 59 percent of overvalued firms ($Q > 1$), 35 percent of undervalued firms ($Q < 1$) and 6 percent of equal valued firm. Overvalued firms show a ratio higher than one indicating that it is earning a rate of return higher than cost of the incurred assets. Since firm obtained overvalued ratio, the market value has exceeded the replacement value and it has been a sale. An undervalued firm shows a ration less than one that it is recording the market value lower than the asset value. Furthermore, firms with 1.0 ratio show that their stock performance is valued the same as the asset's value. Chart 1 also presents the result of corporate zakat potential. Total firms with earnings before income tax

were 76 percent showing that the firm pays zakat, whereas firms with no payment due to suffer from loss were 24 percent.

Chart 2 further presents the result of variables in the manufacturing sector. Sample of this research is 104 firms. The overvalued firms were 63 percent ($Q > 1$), undervalued firms were 32 percent ($Q < 1$) and 5 percent of firms were equal in 2018. In the zakat variable, there were 85 percent of firms gaining the income and the rest of 15 percent of firms suffers from loss. Overall, when the mining value is compared to the manufacturing value, the result shows that overvalued firms in the manufacturing sector are higher than in the mining sector. On the other hand, corporate zakat potential in the manufacture estimates payment greater than in the mining companies.

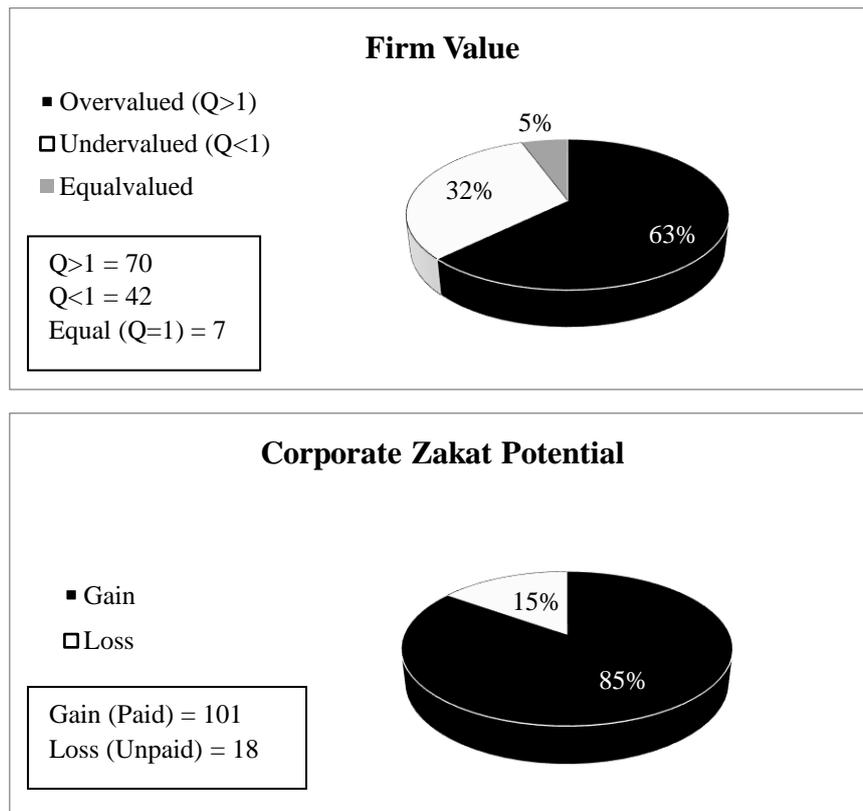


Chart 2. Manufacturing Sector

After sample of this research is selected based on the established criteria, firms suffering from loss are also discarded in this research so that the final sample is 114 firms consisting of 13 minings and 104 manufactures. Statistic descriptive of sample firms is presented in Table 2 as follows.

Table 2. Statistic Descriptive

Panel A. Mining Sector (N=13)			
<i>Variable</i>	<i>Max</i>	<i>Min</i>	<i>Mean</i>
Firm Value	6.9	0.5	2.2
Zakat (billion)	171	0.2	21
Panel B. Manufacturing Sector (N=101)			
<i>Variable</i>	<i>Max</i>	<i>Min</i>	<i>Mean</i>
Firm Value	18.4	0.3	2.0
Zakat (billion)	874	6	31

As for mining company in Panel A (Table 1), that with a firm value, it showed 6.9 at maximum value and 0.5 at

minimum value indicating that the highest firm value recorded 6.9 as an overvalued firm and the lowest firm value recorded 0.5 as undervalued firm in 2018. The mean of the firm value in mining sector was 2.2 and so it could be said overvalued firm. Related to mining zakat potential, the highest potential value of zakat payment was 874 billion rupiah and the lowest potential value was 6 billion rupiah. The mean of zakat showed 31 billion rupiah. This result provides the amount of rupiah potential for alleviating the poverty.

Panel B (Table 2) presents manufacture companies. It recorded 18.4 at maximum value and 0.3 at minimum value. The mean of the firm value was 2.0 indicating that the mean of firm was overvalued in 2018. For manufacturing zakat potential, that with the mean, it showed 31 billion rupiah. If the

manufacture firms pay the zakat, the potential of rupiah will be 31 billion. On the other hand, the mean of firms both the mining and manufacture sectors shows an overvalued ratio and high zakat potential, but is there the effect of magnitude of corporate zakat potential on the firm value?. The further test is run to find the level of significance.

Table 3 presents the result of the effect test. It provides positive effect of zakat on the firm value at the level 0.05 significance. This test indicates the increasing drive of the firm value due to the zakat payment. The proportion of variation explained by the estimated regression line is 14.8 percent in R square and 14.0 percent in Adjusted R Square.

Table 3. The Result of the Effect Test

$Q = \alpha + \beta 1Zakat + \varepsilon$			
Model	Coefficients	t-statistic	Sig.
Constant	-0.068	-1.728	0.087
Zakat	0.226	4.412	0.000

N= 114

R square = 0.148

Adjusted R square=0.140

F Statistic = 19.465 Sig. 0.000

Dependent Variable = Q (firm value)

Independent Variable=Zakat in natural logarithm

The formulation of H1 outlining that the corporate zakat potential has a positive effect on the firm value is accepted. Positive effect indicates that zakat leads the increase into the firm value.

Additional Test

The increasing drive to solve a debate, whether zakat payment can benefits a firm economically or not, has led the studies into inconclusive results. This research conducts the additional test to

find a consistent result. AMOS is run to test multidependent variables of this research comprising ROA and ROE.

The dependent variable of Q is also included in the model. As for independent variable, corporate zakat potential is proxied into the natural logarithm. This research figures the model of relationship in the path diagram presented in Figure 1.

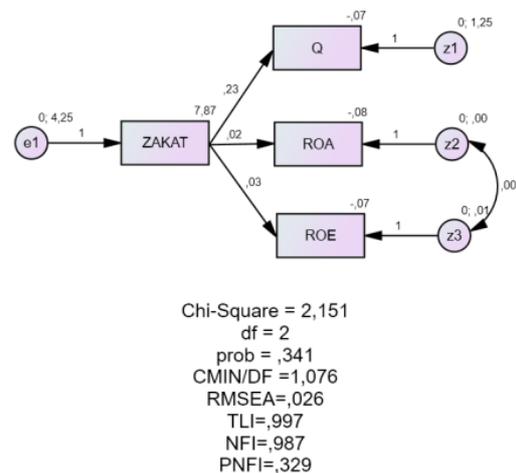


Figure 1. The Path Diagram

The starting point to assess the research model is by overcoming the assumption of a variety of fit indices. The assumptions to assess goodness of model have described good fit as presented in Table 4.

Table 4. Fit Indices

Goodness	Cut off	Result	Description
<i>Chi-square</i>	Prob. ≥ 0.05	0.341	Good Fit
<i>CMIN/DF</i>	≤ 2.0	2.0	Good Fit
<i>RMSEA</i>	≤ 0.08	0.026	Good Fit
<i>TLI</i>	≥ 0.90	0.99	Godd Fit
<i>NFI</i>	≥ 0.90	0.98	Good Fit

Furthermore, this research runs the significance test shown in Table 5. As stated in the test, all dependent variables including Q, ROA and ROE have been affected positively by zakat as independent variable at the 0.01 level. The models of this research has obtained

three proportions of variation explained by the estimated regression line of 14,8 percent, 31.6 percent and 28.3 percent as shown in Square Multiple Correlation. As a result, the effect test provides

consistent effects between variables. The three models provide similar results indicating that zakat potential has positive effect on the firm value and profitability of ROA and ROE.

Table 5. Significance Test

Regresssion Weight				
Model	Estimate	S.E	C.R	P
Zakat → Q	0.226	0.051	4.432	***
Zakat → ROA	0.021	0.003	7.228	***
Zakat → ROE	0.026	0.004	6.685	***
Chi-square = 2.151				
Degrees of freedom = 2				
Probability level = 2.341				
Standardized Regression Weights		Squared Multiple Correlation		
Zakat → Q	0.385	Q	0.148	
Zakat → ROA	0.562	ROA	0.316	
Zakat → ROE	0.532	ROE	0.283	

Corporate Zakat Potential and Firm Value

The mining and manufacturing zakat potential generated the billion rupiah during 2018. The average corporate zakat potential gained 21 billion rupiah in mining sector with the average firm value about 2.2 indicating overvalued market performance and gained 31 billion rupiah in manufacturing sector with the average value firm about 2.0 indicating overvalued market performance.

Corporate zakat potential in the manufacture has been higher one billion rupiah than in the mining. This research has also tested the significance level on the nexus between zakat and firm value. The positive effect has been found in the equation model (Table 3). It means that the zakat potential positively affects the firm value. Corporate zakat potential paid by firms enhances the value. In addition to the test, this research has included the profitability of ROA and

ROE. It provides same effect like Q ratio. It means that the three dimensions of firm performance have been found positive effect through the zakat payment.

Firms may have to be evaluated not only through accounting performance indicators but they are also assessed in the market performance. They obtain the assessment coming from the investor and public by understanding the market performance through Tobin's Q. The relationship between market valuation and intrinsic value has been described by Q ratio. If it is more than one, the stock market is overvalued. In this case, the market has seen firms to try to maximize their value. In the addition model specification, it has found the positive nexus between zakat payment and profitability performance. The determinant of firm value and profitability has held the effect through zakat. Firms have gained the economic value through zakat contribution. This

finding is in line with Al-Malkawai and Javaid (2018) reporting positive association between zakat and financial performance. They state that zakat can be a win-win strategy to optimize the performance and society as whole. Firms engage in zakat with the goal of enhancing shareholder wealth and social welfare. It can be addressed to provide the gain for public welfare and increase the firm value as well as profitability.

The finding of this research underpins the stakeholder theory. Stakeholders are people having an interest in the activities of firm and tend to concern more with zakat. They realize the sharia compliance benefiting the society and may be regarded as islamic social responsibility. We know that Indonesia is the largest muslim population. It enables that they are embracing the sharia compliance and zakat is regarded as the social responsibility so that when firms put the zakat, the market tends to assess more their performances.

Islam has imposed that zakat is an obligation toward the society because it is not only addressed to benefit the society but muzakki (payer) can also be gained. Zakat payment helps muzakki meet their responsibility toward God and society. This research underlines the nexus between zakat and firm value that when a company involves in social responsibility by paying zakat, it can affect the value not only deriving from the society, but it is also from stakeholders.

Awareness of building of the happiness, equal life and ultimate glory in the humanity encouraging business sustainability is truly responsibility. Therefore, the zakat contribution can be considered as the reputation strategy to increase social performance in the corporation. Zakat provides a signal to

build a business image with stakeholders so that the increase of performance appears at the level of great trust in the market. When the market has put highly positive trust to the firm, the stakeholders tend to enhance more their investment.

CONCLUSION

The starting point of this research demonstrates that the average corporate zakat potential for 2018 gained approximately 21 billion rupiah in the mining sector and gained approximately 31 billion rupiah in the manufacturing sector. Related to the firm value, the average firm obtained overvalued ratio in both sectors.

This research is empirically successful to reach the main objective through the effect test. Its result has pointed out that firms earn the positive value through zakat payment. In addition to the test, the profitability using ROA and ROE obtains positive effect in the equation model. The three models developed in this research empirically provide similar results indicating that the mining and manufacturing zakat potential does signal the financial and market performance.

This research documents that zakatability signals the firm value in profitability and marketability. The implication of this research overall is twofold. First, this research becomes additional inference on the concept of zakatnomics in the mining and manufacturing sector. The finding of this research discloses the corporate zakat with huge potential in the mining and manufacturing sector affecting the firm value. It empirically supports the policy of the National Board of Zakat in Indonesia leading the optimization of zakatnomics into the mining and

manufacturing sector. Second, the finding of this research encourages all firms to engage zakatnomics initiatives because they taking part of zakat contribution indeed enhance stakeholder's value. For future study, other sectors should be explored to draw wider inferences.

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