

THE IMPACT OF COMPANY CHARACTERISTICS ON CORPORATE ZAKAT PAYMENT: A STUDY ON MALAYSIAN ZAKAT-PAYING COMPANIES

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Received: 27 July 2023, Reviewed: 9 August 2023, Published: 30 September 2023

Abstract: *Thus far, corporate zakat studies are very limited. The majority of studies on company characteristics focused on Islamic Financial Institutions. However, since the nature of Islamic Banks is different compared to the other companies, hence, the gap that this study intends to address. The population of this study encompasses all companies paying zakat in Malaysia, regardless of whether or not the company's paying zakat to the zakat institutions. This study uses SPSS to determine any relationship between the company characteristics (profitability, size, leverage and net asset) and the corporate zakat amount. Companies' criteria influencing companies to pay zakat can give insight into the stakeholders, including the financial analyst and shareholders, on the factors, particularly the characteristics that influence companies paying zakat. Zakat institutions will be able to see the trend in zakat payment among companies, which can be an indicator to the regulators of the factors influencing companies to pay zakat. Thus, appropriate actions can be implemented to increase awareness and encourage more companies to pay zakat.*

Keywords: Zakat, Philanthropy, Corporate Giving, Company

INTRODUCTION

Corporate zakat is an annual religious obligation paid by business entities under the purview of zakat mal or zakat on wealth (Muhammad Ikhlas Rosele et al., 2015). There are two types of zakat: zakat on wealth and zakat fitrah. Zakat on companies is not a new type of zakat but refers to the companies as the zakat payer. Companies need to pay zakat on their profit. The type of zakat that companies need to pay depends on their activities, which is mostly business zakat. Zakat on company wealth is payable on truly owned wealth, productive and excess assets held for a full year. In this sense, truly owned means that the asset is free of claims by others, such as leased assets. Productive assets can generate money for the company, as opposed to assets not used for trading, such as buildings occupied by other businesses. The

zakat rate is 2.5% for businesses that use the Gregorian calendar year and 2.5775% for businesses that use the Islamic calendar year.

Past studies examined the practice of corporate zakat from the perspective of the Islamic Bank (Khairunnisa Abd Samad & Roshima Said 2016; Rosman, Haron & Othman 2019; Samsuwatd Zuha Mohd Abbas, Saliza Sulaiman & Noorbijan Abu Bakar, 2018). With regards to the corporate zakat disclosure, Samsuwatd Zuha Mohd Abbas, Saliza Sulaiman, and Noorbijan Abu Bakar (2018) recommended Islamic Banks disclose the calculation of zakat to ease the shareholders to reconfirm the amount of zakat that they should pay. The authors suggested that the companies shall be given the privileged to opt for corporate zakat rather than tax in line with their shariah compliance objective. Islamic banks have been bombarded with accusations that they are similar to conventional banks, and are driven by profit maximisation. However, in actuality Islamic banks are not only operating based on profit but on religion as well; they must comply to Shariah requirements to uphold their name proudly. On the other hand, as business entities, they are expected to generate profit out of their business. Hence, they must find a balance between operating according Islamic laws and as business institutions (Nurul 'Iffah M A Zaaba & Rusni Hassan, 2020). Reporting standards and guidelines from Bank Negara Malaysia, Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Jabatan Wakaf, Haji dan Zakat (JAWHAR) and Malaysia Accounting Standard Board (MASB) were employed by these banks in calculating, distributing and reporting zakat (Nurul 'Iffah M A Zaaba & Rusni Hassan, 2020).

Apart from that, few studies investigated zakat in companies in general (Adibah Abdul Wahab & Joni Tamkin Borhan, 2016; Poon et al., 2021).

PROBLEM STATEMENT

Past studies look upon the influence of ROA and ROE on corporate zakat (Romzie Rosman, Razali Haron & Nurul Balqis Mohamed Othman, 2019). However, it is limited to Islamic banks; thus, it does not represent the whole population of zakat-paying companies, particularly in Malaysia. Based on the list from the Zakat Institutions (Pusat Pungutan Zakat Wilayah Persekutuan (PPZWP), Lembaga Zakat Kedah, Pusat Zakat Sabah dan Majlis Agama Islam dan Istiadat Kelantan) zakat-paying companies is not only consisted of the Islamic Banks but other companies as well. Adibah Abdul Wahab and Joni Tamkin Borhan (2016) discovered 15 companies paying zakat that disclosed their respective zakat amount in their Annual Reports.

LITERATURE REVIEW

A business's main objective is to gain as much profit as possible. However, the zakat-paying companies' main aim is not solely profits. They also must ensure that their business complies with the shariah or Islamic law (Haron, Radzali and Nomran, 2021).

Ismail, Tohirin and Ahmad (2013) asserted that business entities such as Islamic banks are considered vehicles to create value and wealth for individuals. In addition, Ebrahim and Joo (2001) identified fostering the growth of the economy of Muslims by developing financial markets, institutions and instruments as one of the Islamic banks' goals. In tandem with the above, AIBIM highlighted the equitable distribution of income and wealth as another goal of Islamic banks. The findings from the literature indicated that Islamic banks are the right vehicle to achieve those goals. The identified goals can be achieved through the zakat payment

made by these institutions (Samsuwatd Zuha Mohd Abbas, Saliza Sulaiman & Noorbijan Abu Bakar, 2018).

In Malaysia, the common practice is that businesses pay zakat to zakat institutions. However, the payment disclosure is a voluntary act of the companies. There is limited standard on the requirements of the disclosure practice. Therefore, companies that pay zakat might not disclose the information in their annual reports.

Meanwhile, corporate zakat can be considered an act of businesses promoting the welfare of others that falls under the corporate philanthropy concept. Several studies examined the concept of corporate philanthropy as a significant company action that can improve corporate gains. Many studies considered corporate philanthropy as a significant decision. Corporate zakat shall be considered more important since it is a religious requirement. The universal acceptance of corporate philanthropy would deem not practising philanthropic activities as unethical (Gautier & Pache, 2015). Therefore, corporate zakat being part of philanthropic activities is crucial and needs further attention.

Hypotheses Development

The empirical model elaborated in this scholarly essay hypothesises that corporate zakat is determined by company size, profitability, leverage, and net assets.

Profitability

Philanthropic strategies are predicted to draw social attention to the company and, therefore, indirectly enhance a company's financial performance (Brammer & Millington, 2016). Adams and Hardwick (1998) found a positive relationship between firm profitability and the decision to contribute funds to charities. Agency theory predicts an association between available resources and corporate giving (Ronald W. Masulis & Syed Walid Reza, 2015), while stakeholder theory predicts more corporate giving when firms have more available financial resources (Gautier & Pache, 2013).

In addition to social benefits, Barnett (2019) noted that companies could profit from CSR and charitable giving activities. Consequently, it can be inferred that profitable companies have the discretionary funds to contribute to philanthropic and other charitable programmes, while companies with low profits are expected to limit managerial concern over social responsibility costs. By using a sample of 703 companies listed on the Chinese stock market, Zhu and Zhang (2015) investigated how the profitability of these firms was affected by the amount of their philanthropic response to the 2008 Sichuan earthquake. Their study revealed that profitability was positively associated with corporate philanthropy decisions and amounts. Therefore, based on the literature discussed, the relationship between philanthropic activities and firm profitability can be captured in the following hypothesis:

H1. The level of corporate zakat is positively associated with company profitability.

Company Size

Literature that discusses evidence on company size has suggested an increasing social burden on large organisations (Brammer & Millington, 2016). Brammer and Millington (2016) noted a positive relationship between company size and corporate philanthropy; however, the company size-philanthropy relationship significantly varied between different industries.

Company size represents various organisational characteristics, such as economies of scale in production and competitive advantage. The positive relationship between company size and CSR in general and corporate giving, in particular, can be attributed to both the availability of a company's resources and the maturity in investment decisions that large companies usually have (Karyawati, Angesty & Joshi, 2017); hence, the following hypothesis:

H2. The level of corporate zakat is positively associated with company size.

Leverage

In the stakeholder theory literature, companies are anticipated to satisfy and meet the claims of all stakeholders, including the local community and governmental agencies, rather than focusing on satisfying the contractual claims of stakeholders, such as debt-holders receiving a satisfactory return on their investment (Ananzeh, Alshurafat & Hussainey, 2021). In addition to the high risk of bankruptcy, companies with high leverage suffer from different contracting challenges, which may include investment restrictions, numerous audits of the companies' financial data, sinking-fund requirements, and liquidity tests. These costs have particular impacts on companies' expenditures and beyond; for example, high corporate leverage leads to job losses. It was evidenced in the literature that companies with high social responsibility may be associated with a low percentage of debt to assets (Ananzeh, Alshurafat & Hussainey, 2021). In other words, companies with a low percentage of debt to assets (low leverage) often show an association with low contracting costs. Hence, corporate owners and managers would be able to engage with more philanthropic practices that meet some external stakeholders' claims. Therefore, the following hypothesis was formulated:

H3. The level of corporate zakat is negatively correlated with corporate leverage.

Net Asset

The Department of Islamic Development Malaysia (JAKIM) published "Panduan Zakat di Malaysia" in 2001. According to this book, there are two highly recommended methods of applying business zakat. In the first method, *urfiyyah*, also known as adjusted growth capital, takes into account a company's equity and other financial sources. The second method is the *syariyyah*, also known as the adjusted working capital method. The zakat on business shall be calculated based on the net of assets, considering this is the recommended method to pay zakat in accordance with the syariyyah (Jabatan wakaf, Haji dan Zakat (JAWHAR), Samsuwatd Zuha Mohd Abbas, Saliza Sulaiman & Noorbijan Abu Bakar, 2018). Thus, based on this information, the fourth hypothesis is formulated:

H4. The level of corporate zakat is positively related to the net asset (Asset–Liability)

Methodology

The study went through all the Shariah Listed Companies listed in the Bursa Malaysia from the period of 2015 to 2020. Adibah Ab Wahab (2016) stated that the Shariah Listed Companies are expected to pay zakat given their nature of following the Shariah Law. These Shariah Listed Companies are selected after checking their annual report in 2019 to determine whether or not they pay zakat. The Syarikat Berhad complements the list from the Zakat

Institutions. Although they are not listed, their information is still retrievable from the Eikon Datastream. Later, this study added Islamic Financial Institutions to the list since they are required to pay zakat by Bank Negara Malaysia (Nurul 'Iffah M A Zaaba & Rusni Hassan, 2020). Most of these companies are not listed under the Shariah Listed Companies since most of their activities involve interest, which is considered *riba* and strictly prohibited under the Shariah Law as part of the Shariah Listing requirements.

Table 1: Variable measurement

Variables	Description	Data sources	Source
<u>Dependent variables</u>			
Zakat	The corporate zakat amount in the Income Statement	Eikon database	Abbas, 2017
<u>Independent variables</u>			
Profitability	Net profit after income tax	Eikon database	Abdullatif et al., 2019
Size	The total assets	Eikon database	Abdullatif et al., 2019
Leverage	Total liability	Eikon database	Abdullatif et al., 2019
Asset Liability	Total asset – Total liability	Eikon database	Abbas, 2017

1. Profitability in this study refers to the net profit before tax extracted from the Eikon Database.
2. Company size is measured as the natural logarithm of the company's total assets. Total assets are extracted directly from the Eikon Database.
3. Leverage is measured by the ratio of the company's total liabilities to its total value of assets, which are drawn from the balance sheet as extracted from the Eikon Database.
4. Net asset refers to the total asset minus total liability. This is calculated manually based on the company size (total asset) and leverage (total liability).
5. The dependent variable, the level of corporate zakat, refers to the corporate zakat made during the year. The zakat amounts were taken from the Eikon database.

Descriptive

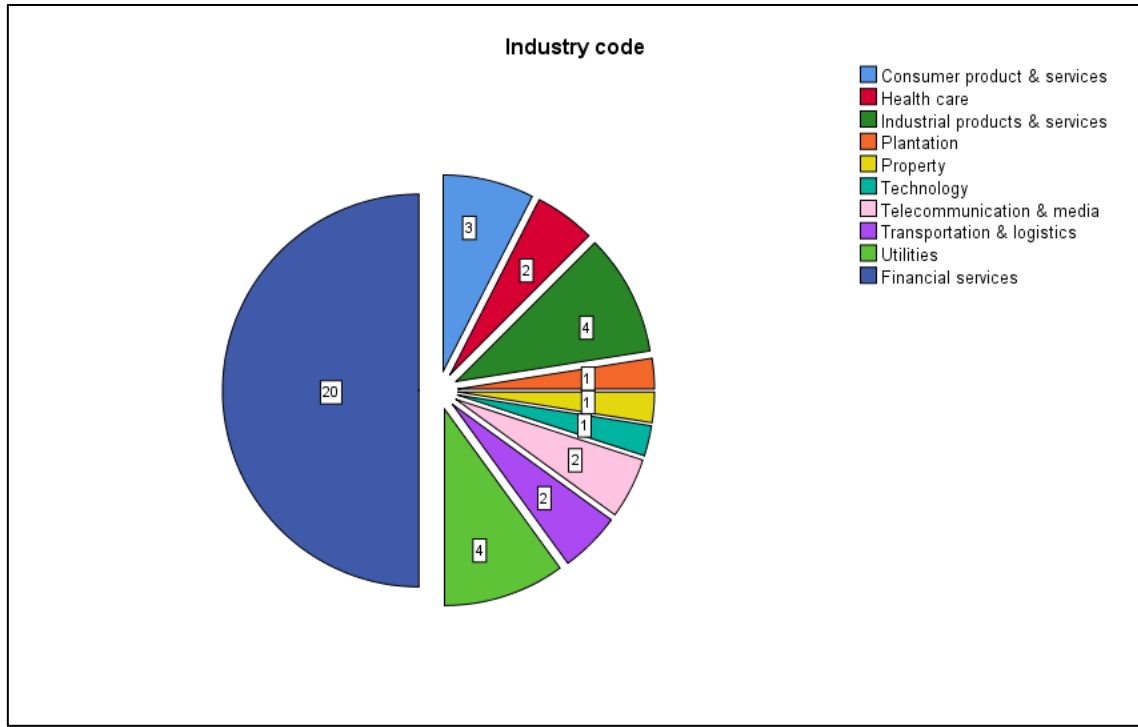


Figure 1: Companies Paying Zakat Divided by The Industry

Figure 1 indicates that companies paying zakat from 2015 to 2020 belong to 10 industries. According to the above diagram, the majority of the companies belong to the financial service industry, which makes up almost 50% of the total population. One reason the highest number of companies belong to this group is the Islamic Financial Service Act 2013 (Akram, 2016), which requires financial institutions and takaful agencies to disclose their zakat obligation. The payment of zakat is in line with the Islamic Financial Institutions’ mission to carry out their operations and conducts according to the Shariah (Islamic law principle). Next, industrial products and services and utilities are the other industries that consist of about five companies paying zakat, followed by consumer products and services, healthcare, telecommunication and media and transportation and logistics.

Table 2 Descriptive table

Variable	N	Minimum (RM)	Maximum (RM)	Mean (RM)	Std. Deviation
Profitability	252	-4,974,692.00	7,320,800.00	432,857.12	1,073,488.91745
Size	252	64,903.00	602,354,899.00	42,036,554.90	87,032,139.83781
Leverage	252	58,792.00	78,338,770.21	35,489,805.35	78,338,770.21684
Asset Liability	252	-86,644.00	57,981,800.00	6,608,360.41	11,394,677.70492
Zakat	228	-9,007.00	74,300.00	6,037.11	9,639.37720

Table 2 presents a descriptive analysis of the study's variables: means, standard deviations, and minimum and maximum profit. The descriptive statistics of profitability, as reflected in Table 1, show that the net income after tax (Profitability) ranges from a loss of almost RM5 million (−RM4,974,692.00) to a net profit of almost RM7 million (RM7,320,800.00). The average number of shareholders in the sample of 100 companies is 15,054.

Size-wise, the biggest company registered a total asset of RM602 million in the financial year from 2015 to 2020, while the smallest company had a total asset of RM64 thousand for the same period. On average, the profitability of the companies stands at RM404 million. The mean of the leverage is 0.49, with a standard deviation of 0.22.

The level of leverage varies from RM58 thousand to RM78 million. On average, the companies in the population have leverage of RM 35 million in the year of study. Next, the net asset records a mean of RM6 million. This indicates that, on average, the companies have a total asset minus a total liability value of RM6 million. The highest net asset recorded was almost RM57 million; however, some companies recorded a deficit of net assets.

Lastly, corporate zakat records a mean of RM6 million. The highest amount of zakat recorded is RM74 thousand, and the least amount of zakat is RM9 thousand.

Correlation

Table 3: Correlation table

Variables	(1)	(2)	(3)	(4)	(5)
Zakat	1				
Profitability	.515**	1			
Size	.278**	.699**	1		
Leverage	-.211**	-.634**	.979**	1	
Netasset	.532**	.798**	.783**	-.732**	1

Multicollinearity is a problem when a high correlation between two or more independent variables can be observed. Table 3 presents the correlation matrix between this study's variables. The correlation analysis is a guide to detect any multicollinearity between the continuous independent variables. A correlation coefficient of around eight or higher shows that there is a presence of serious multicollinearity. However, results indicate that multicollinearity among the independent variable was not a problem in this study. Looking at the correlation coefficients, as shown in Table 2, we can see that corporate zakat is positively and significantly correlated with size, profitability, leverage and net asset. A higher total asset (a proxy for size) equivalent to the company's wealth increases corporate philanthropy opportunities.

Regression**Table 4: Regression table**

Variable	<i>t</i> -value
Profitability	.963
Size	.001
Leverage	.985
Asset Liability	.816

Table 3 exhibits the statistical summary results from the linear regression analysis. The F-statistic for the model is significant at the 0.05 level. The R2 value of 0.173 indicates that the above model can explain 17.3% of the variables contributing to the determination of corporate philanthropy. The result indicates that profitability ($t = 0.963$) has no significant relationship with corporate zakat. With regards to size, the t -value ($t = .001$) indicates a positive relationship with corporate zakat, in line with the hypothesis of a significant relationship. This means that the larger the company, the higher the contribution to philanthropic activities. Hence, the hypothesis relating to company size is supported. The results also show that leverage is negatively related to the level of corporate philanthropy. However, this relationship is insignificant, with a low t -value of 0.985. This finding merely suggests that there is a possibility that leverage negatively affects the tendency of a company to engage in corporate zakat. The positive relationship between net assets and the level of corporate zakat is not significant, with a t -value of 0.816. Therefore, it implies that the relationship between net assets and corporate zakat is weak; thus, net assets will not significantly affect the level of corporate zakat.

CONCLUSION

The size of the companies measured by the proxy of total assets did influence corporate zakat payment. It shows that the higher the assets and wealth of the company, the higher the corporate zakat of the company.

The leverage did not influence the company paying zakat since it is no matter whether or not the company has leverage; as long as the companies have assets, they are eligible to pay zakat (Mohd Shukri Hanapi and Zahri Hamat, 2017). Mawardi et al. (2018) noted that companies with debt are eligible to get help from the zakat institutions to improve the financial position of the company.

Net assets are not significantly positively related to the corporate zakat payment. It shows that companies with excess in their asset after deducting the expenses and the debt are not prone to pay zakat. This is not in line with the suggested method to calculate zakat by JAWHAR, based on the net asset method (Syariyyah method).

The profit is not significantly positively related to the corporate zakat, which shows that the company is not dependent on the amount of profit before they decide to pay zakat or not. This is accurate based on the concept of zakat, whereby although the company is making a loss, it still needs to pay the corporate zakat since zakat is based on wealth.

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