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# Ethical Values Reflected on Zakat and CSR: Indonesian Sharia Banking Financial Performance\*

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## Abstract

The objective of this study is to identify the effects of ethical values reflected on zakat and Corporate Social Responsibility (CSR) on the financial performance of sharia banking in Indonesia. This study contributes to the Indonesia Financial Service Authority (Otoritas Jasa Keuangan (OJK) policies concerning the need for implementing ethical values in sharia banking and other sharia financial entities based on the philanthropic model, this study posits that firms undertaking zakat and charity are ethical firms. The population of this study is 8 sharia banks listed on the Indonesia Stock Exchange (IDX) in 2014-2018. The result of the study showed that zakat disclosure significantly affected financial performance. Moreover, ethical values that were proxied by CSR disclosure did not significantly affect financial performance. The limitation of the study is the limited number of the sample; therefore, it is expected that the future research adds other sharia financial entities and adds the dimension of management, sustainability, product, and the environment as benchmarks of ethical values. The originality of this study offers an additional explanation of the relationship between ethical values and performance by investigating zakat and CSR disclosure which is a unique factor in Indonesia.

**Keywords:** Corporate Social Responsibility, Financial Performance, Ethical Values, Zakat Disclosure

**JEL Classification Code:** A13, G21, P21, P44, P46

## 1. Introduction

An unethical company(bank) is considered as having poor management which will affect the willingness of customers and investors to save or invest their money in that bank (Ibrahim,

Hashim, & Ariff, 2020). Ethical values are important to be applied in companies for long term sustainability and gaining trust from the stakeholders (Rahman, Danbatta, & Saimi, 2014). Ethical values in Islamic teaching concerns social care. The social care concept is in line with the philanthropy concept. Quran suggests the companies must be responsible socially by giving charity and taking care of people in need (Hasan, 2001). Islam teaches that zakat payment is obligatory on Muslim individuals and businesses for charity purposes; therefore, it can balance between the rich and the poor (Aribi & Gao, 2010). Zakat disclosure is mandatory for sharia-oriented companies through reports on fund sources and zakat fund distribution in the financial statements. Sharia Statement of Financial Accounting Standard/PSAK Sharia No. 109 on Zakat and Alm/Infaq describes that zakat accounting should comply with sharia principles.

Ethics implementation in companies will improve their financial performance. Companies with a strong ethical identity tend to maintain a higher degree of stakeholder satisfaction, positively influencing the financial results of the company (Faisal et al., 2020; Jo & Kim, 2008). In contrast, companies that violate ethical values will lead to decreasing the trust of customers and investors (Arfah et

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al., 2020; Saiz & Pilorge, 2010). Ethically, stakeholders' trust leads to sustainable financial performance ( Ibrahim, Hashim, & Ariff, 2020). In addition to Zakat disclosure, another study states that CSR as a business strategy shows that ethics are varied in result, so it improves the relationship of stakeholders positively and affects the relationship of the company negatively. The negative selection includes items such as violation of pollution standards, while the positive selection includes corporate compliance and environmental care (Dentchev, 2004).

The philanthropy view asserts that companies that implement CSR will affect the life quality of the stakeholders (Hill et al., 2007; Usman, Andriyani, & Pambuko, 2019) and for the sake of the community (Carroll, 1979). Islamic countries tend to focus on values that come directly from their religion and it can be explained that the shift in the social order would happen if CSR practices are related to zakat in ethical judgments (Al-Malkawi & Javaid, 2018; Ibrahim, Hashim, & Ariff, 2020).

This practice is implemented when the company has good ethical values and social awareness (Goby & Nickerson, 2016). Ethical values with zakat proxies measured by ROA and ROE have positive effects on financial performance (Andani, 2019; Darsiya, Amin, & Junaidi, 2019). Abd Samad et al. (2015) stated that Zakat has no significant effect on financial performance as measured by ROA and ROE. There is a negative relationship between zakat payment and firm performance because of the factors of zakat is an act of voluntarism and lack of disclosure on the corporate zakat calculation. However, the study also found that firm size has a positive relationship with zakat payable. The companies in Islamic economies can efficiently and effectively implement paying Zakat, as a successful measure to implement CSR program, therefore benefiting the society by narrowing the gap between the rich and poor, that leads to achieving successfully its goals and enhances the firm value in the market (Al-Malkawi & Javaid, 2018; Lestari, 2018).

CSR also has a considerable effect on financial performance as measured by ROA and ROE (Beiner et al., 1997; Mallin, Farag, & Ow-Yong, 2014; Platonova et al., 2018). CSR disclosure is one of the primary obligations of Islamic banks; therefore, the demand to disclose CSR activities is increasing for the banking sector, including Islamic banks. Some studies showed that CSR does not have a significant effect on financial performance (Madorran & Garcia, 2016; McWilliams & Siegel, 2000; Ofori, S-Darko, & Nyuur, 2014). To meet the needs of various stakeholders, zakat and CSR disclosure contributes to profitability and can be considered a win-win strategy to maximize returns and improve financial performance by considering the surrounding community (Al-Malkawi & Javaid, 2018).

This research is important for the following reasons: (1) In Indonesia, only a few studies discussed the ethical

values proxied by zakat and CSR disclosure on financial performance. (2) The researchers use sharia companies as the research object, which is sharia banking. (3) This research is a breakthrough in research that tries to juxtapose the Islamic perspective measured by zakat disclosure and the social perspective measured by CSR in assessing the ethical values on financial performance. The researchers used a social perspective with CSR proxy (Al-Malkawi & Javaid, 2018; Goby & Nickerson, 2016; Lev, Petrovits, & Radhakrishnan, 2010). This study utilized ROA and ROE proxies. The researchers used ROA because it had been widely used by previous studies to measure profitability. ROE is useful for measuring the company's abilities to manage available capital after paying zakat and disclosing CSR. The objective of this study is to determine the effects of ethical values on financial performance in the sharia banking sector in Indonesia.

## 2. Literature Review

### 2.2. Stakeholder Theory

Stakeholder theory states that the company and its management act and make reports according to the wishes and power of different stakeholder groups (Ullmann, 1985). Stakeholder theory explains that corporate applied ethics have stronger effects on stakeholder satisfaction than the ethics expressed by the company. Their findings reveal that stakeholders gain more value from concrete actions (i.e. company behavior, actions, and policies) than simple ethical disclosure (for example, communication of company ethical attitudes and beliefs).

Stakeholder demands specific activities from the company in evaluating the behavior of an ethical company ( Ibrahim, Hashim, & Ariff, 2020). Ethics implementation can be seen from a company's responsibilities to the surrounding environment, increasing the welfare of the surrounding community, as well as social welfare responsibility to its employees. Increasing the welfare of the surrounding community can be performed by paying zakat. Through zakat, a company can support the government in eradicating poverty.

#### 2.2.1. Legitimation Theory

Legitimacy theory and stakeholder theory are theoretical perspectives within the framework of political economy theory (Gray, Kouhy, & Lavers, 1995). Legitimacy theory focuses on the interaction between a company and the community. Legitimacy theory is part of an organization that seeks to bring harmony between social values inherent in its activities and behavioral norms existing in society's system. As long as the two value systems are aligned, it can be seen as corporate legitimacy (Dowling & Pfeffer, 1975).

Legitimacy theory asserts that companies try to convince the society that they run their business in conformance to prevailing norms, rules, and social contracts where they operate so that their activities are accepted by outsiders as “legitimate” (Deegan, Rankin, & Tobin, 2002). Since people’s expectations change over time, organizations must also make disclosures to show that they have changed over time and in line with community expectations (Deegan, Rankin, & Tobin, 2002)

### 2.2.2. Philanthropy

Philanthropy in Indonesia is still considered new, especially those related to finance. Today, social activities are needed by companies to maintain their reputation. Philanthropy can be described as gifts by firms to charitable causes such as promoting education, aiding natural disaster victims, and donating for health care and wellness program services (Godfrey 2005; Seifert, Morris, & Bartkus, 2004). Philanthropy usually is not related to the firm’s economic activities or legal requirements but extends beyond these phenomena. Carroll (1979) discussed four stages of CSR namely economic, legal, ethical, and discretionary. Philanthropy falls in the discretionary level or category.

Philanthropy is considered as an action that utilizes high-quality resources (resource optimization) for company sustainability (Cavalli et al., 2008). This philanthropic practice is manifested in voluntary giving in the form of donations, alms, and endowments, while the obligation is reflected in zakat to help people in need, especially eight categories of zakat receiver (*asnaf*) as a form of love. This research added philanthropy to the implementation of CSR. The mass media first brought up philanthropy in 1990 as a form of mobilizing people to care for others. It is followed by Zakat Management Organization (OPZ) in raising zakat, alms, and infaq using modern methods such as by email, SMS, the Internet, and even WhatsApp (Satrio, 2015).

### 2.2.3. Financial Performance

Financial performance is an illustration of each economic result achieved by a company in a certain period through company activities to generate profit effectively and efficiently. In general, effectiveness is defined as a measuring tool to assess how far a goal has been achieved. Efficiency is defined as the ability of a company to utilize its assets to operate properly and precisely so that the company goals are achieved.

In this study, the researchers used profitability ratio with Return on Assets (ROA) and Return on Equity (ROE) as proxies. Several findings imply that ROA and ROE proxies are related to assessing financial performance. The previous studies that used ROA to determine financial performance were conducted by Ibrahim, Hashim, and Ariff (2020).

The previous research used ROE to determine financial performance (Al-Malkawi & Javaid, 2018; Andani, 2019; Lestari, 2018; Putri & Adityawarman, 2014).

### 2.2.4. Ethical Values

Ethical values are individual behavior in deciding according to moral principles the merits of an action (Ram et al., 2011). Ethics can be seen as a complement to rules and laws although it is not related to optimizing value for owners, but is related to social values based on morality (Ferrell & Fraedrich, 1991). Companies with high social values will gain the trust of the community. This authority does not only lead to profit, but also social welfare (Paulet, 2011). Ethics in Islam is based on the Quran and Hadiths so that human life can be peaceful and harmonious ( Ibrahim, Hashim, & Ariff, 2020). Ethics is also related to courtesy and respect for others since human behavior on this Earth will be held accountable in the afterlife (Elmelki & Ben Arab, 2009). Islam suggests people must always do good, respect each other, speak honestly, fairly, and protect human dignity. Testing ethical values can be done in various ways, such as zakat and CSR.

In the Islamic perspective, ethical values are contained in the third pillar of Islam, which is paying zakat. Zakat is an obligation for Muslims ( Ibrahim, Hashim, & Ariff, 2020). Zakat must be paid by individuals to purify their property with the aim that it can strengthen unity among Muslims. Junaidi (2015) and Saleh et al. (2020) investigated the relationship and influence between religiosity, reward, and engagement in the public administration sector, both directly and causally via moderation. The results revealed that the direct combined effect of reward and religiosity has a positive and significant influence on the engagement. Investors are interested in the disclosure of responsibilities in their annual reports. This is in line with the legitimacy theory that companies must pay attention to the community in every activity based on moral values and provide solutions if unwanted actions occur (Tilt, 1994).

Various rationales have been advanced to explain the phenomenon of CSR. Among these has been legitimacy theory which posits that corporate disclosures are made as reactions to environmental factors and to legitimize corporate actions. A variable but significant pattern of social reporting was identified and compared with an earlier study of social reporting. The results of this study failed to confirm legitimacy theory as the primary explanation for CSR (Guthrie & Parker, 1989). In overcoming social problems, a program that provides for the needs of the community is required. Several previous studies examined the relationship between ethical values proxied by CSR on financial performance (Brammer & Millington, 2008; Faisal et al., 2020; McGuire, Sundgren, & Schneeweis, 1988).

The researchers used zakat and CSR disclosures to assess ethical values. Many institutions use sharia policies, but in presenting their CSR disclosure they use the same CSR standard as other conventional institutions. Global Reporting Initiative's (GRI) reporting guidelines can be used to help a company create ethical CSR strategies. Given the increased demand for accountability for the actions of companies toward their stakeholders, particularly the environment, using the GRI's performance indicators can continue dialogue on how CSR programs are evaluated by the ethics community, the public, and business. This is the basis for the researchers in measuring CSR indicators using GRI as done by previous studies (Islam, Fatima, & Ahmed, 2011; Oeyono, Samy, & Bampton, 2011; Siucia, Wang, & Deladem, 2019). While for zakat disclosure, the researchers used indicators in accordance with Samad and Said (2016). This method is developed to use zakat and CSR as proxies for ethical values based on the previous research (Brammer, Millington, & Rayton, 2007; Fatiema, Ibrahim, & Hafiza, 2020; McGuire, Sundgren, & Schneeweis, 1988; Abbasi et al., 2010; Zubairu, Sakariyau, & Dauda 2011).

### 2.3. Effects of Zakat on Financial Performance

The perspective of the philanthropic model for ethical values does not carry out due to legal responsibility, but rather voluntary actions by companies (Harbaugh, 1998). Islamic companies tend to disclose matters related to zakat as disclosures to measure company performance. Zakat is very beneficial for people who cannot afford it according to the Quran Surah At-Taubah, verse 103. Zakat is also useful for eradicating poverty because the property we have in this world belongs to the Almighty, as such, that humans are obliged to help each other (Atia, 2011; Hasan, 2006).

The relationship between zakat and company performance is that with companies disclosing zakat, financial performance will be better and more stable because the company can maintain stakeholder confidence regarding Islamic religious provisions (Rhamadhani, 2016). This is in line with the stakeholder theory that companies are accountable to several interest groups including employees, customers, suppliers, and the community in general, in addition to shareholders (Freeman, 2010). Furthermore, stakeholder theory explains that fulfilling the wishes of stakeholders within sharia scope will expect sharia activities such as carrying out trusted obligations in managing sharia resources and carrying out practices ordered by Allah SWT (Kalbarini, 2018). Zakat is not limited to individual responsibility, but it can be expanded as the responsibility or obligation of all companies or organizations to the society, as entities can generate profits and they can support social causes, as well (Al-Malkawi & Javid, 2018).

Based on the previous research (Ibrahim, Hashim, & Ariff, 2020), ethical values measured by zakat disclosure have positive effects on financial performance as measured by ROA.

Zakat has a positive relationship with financial performance as measured by ROE. Zakat has significant effects on financial performance. In the research conducted in Indonesia, zakat has significant effects on financial performance. And it has a significant impact on the performance of sharia commercial banks. Zakat has significant and positive effects on financial performance as measured by ROA and ROE (Andani, 2019; Kurniawan & Suliyanto, 2013; Zafar et al., 2011). The researchers formulate hypotheses as follows:

$H_{1a}$  = Zakat disclosure affects financial performance as measured by ROA

$H_{1b}$  = Zakat disclosure affects financial performance as measured by ROE

### 2.4. Effects of CSR on Financial Performance

Responsibility disclosure is a strategy of management in enhancing its reputation (Jeffrey, Rosenberg, & McCabe, 2019). Legitimacy theory states that to improve the company's image and reputation in the eyes of the surrounding community, CSR disclosure is required. Companies make CSR disclosures in their annual reports voluntarily to get attention from the investors (Deegan, Rankin, & Tobin, 2002; Zafar et al., 2011). In Islam, business activities must be carried out not only to fulfill material needs and desires but also to fulfill religious responsibilities. Financial performance as measured by profitability as proxied by ROA and ROE is considered appropriate in reflecting the company's efforts to generate profit from its resources. For long-term investors, the profitability ratio can be used to see the benefits they will receive in the form of a dividend (Mithas et al., 2012). For management, a profitability ratio is used to evaluate the effectiveness and efficiency of company management in managing all company assets. Companies' philanthropy is included under the domain of CSR. Specifically, corporate philanthropy includes those actions aimed at the community. Philanthropic actions may also have intangible results in areas such as enhanced confidence, mutual improvement, reduced conflict, greater cooperation, reciprocity, cohesion, leadership, innovation, and stability. The company's actions towards CSR have significant effects on its financial performance. Companies which highly contribute to social responsibility will increase customer loyalty and result in better company performance (Brammer & Millington, 2008).

Based on the previous research, the relationship between CSR and company performance shows a positive relationship (Gbadamosi, 2016; Zafar et al., 2011). Islamic bank has greater social disclosure than conventional banks because there are no rules or standards to disclose it. The social performance level of sharia banking in Indonesia and Malaysia show that sharia banking in Malaysia has a higher level of social performance than sharia banking in Indonesia.

CSR has significant effects on financial performance. CSR disclosure has significant and positive effects on financial performance as measured by ROE. Several studies have proven that CSR has effects on company performance. The researchers formulate hypotheses as follows:

$H_{2a}$  = CSR disclosure affects financial performance as measured by ROA

$H_{2b}$  = CSR disclosure affects financial performance as measured by ROE

### 3. Research Method

#### 3.1. Population and Sample

The population of this study focused on sharia banks listed on the IDX in 2014-2018. The reason for using the 2014-2018 financial reporting year was because cases of ethics violation often occurred in 2014 and increased in 2018. The samples in this study were 8 sharia banking from 2014-2018. This research is focused on sharia banking since it has the same function as conventional ones, but what distinguishes it is its products and operations are based on sharia principles. In Indonesia, the number of sharia banks is limited and this is the limitation of this study. Reporting on ethical values is a sensitive matter for companies; therefore, this study only used banks that used sharia PSAK.

#### 3.2. Variable Measurement

##### 3.2.1. Financial Performance

This study measured financial performance using ROA and ROE. ROA data was collected manually from annual reports. ROA is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. A higher value indicates management efficiency in creating a company (Kabajeh, Nu'Aimat, & Dahmash, 2012) with the formula below:

$$\text{Return On Asset (ROA)} = \frac{\text{Profit after Tax}}{\text{Total Asset}}$$

ROE reflects how the company manages effectively in using funding from the shareholders. It measures the ability of a firm to generate profits from its shareholders' investments in the company. A higher ratio is an indicator of higher managerial performance. The following is how to calculate ROE (Al-Malkawi & Javaid, 2018):

$$\text{Return On Equity (ROE)} = \frac{\text{Profit after Tax}}{\text{Total Asset}}$$

##### 3.2.2. Ethical Values

In this study, ethical values consisted of the zakat disclosure index and CSR disclosure index. Zakat index can be measured according to the index developed by Samad and Said (2016) which is measured by dummy variables with the following formula:

$$\text{Zakat Disclosure} = \frac{\text{Number of disclosed item}}{\text{Total disclosure item}}$$

CSR disclosure index is measured based on the Global Reporting Initiative (GRI) index (Oeyono, Samy, & Bampton, 2011) which is measured by a dummy variable with the following formula:

$$\text{CSR} = \frac{\text{Number of disclosed item}}{\text{Total disclosure item}}$$

##### 3.2.3. Control Variable

###### Company Size

Larger companies are usually more willing to take part in social obligation since the activities gain competitive advantages and increase values. Company size can also be an indicator in determining the nature, scope, extent, and frequency of charitable activities. The company size with the ability to show a competitive advantage has large assets and an adequate number of employees. The external stakeholders of the company include the government, society, consumers, and investors who are socially responsible and are increasingly putting pressure on the company to operate in accordance with their expectations. As a result, the bigger the size of the company, the more company performance will increase. Firm size was computed as the natural log of the total asset (Maury, 2006)

$$\text{Company Size} = \text{Ln}(\text{Total Asset})$$

###### Leverage

The second control variable is financial leverage, which is the liability ratio. The liability ratio reflects the company's costs which can affect financial performance. For companies that can be managed efficiently, their financial leverage increases profitability, and in the long run, lower levels of leverage can improve company performance. Leverage in this study was measured using the percentage ratio between total liability and total equity (Al-Tally, 2014; Ibrahim, Hashim, & Ariff, 2020).

$$\text{Leverage} = \frac{\text{Total Liability}}{\text{Total Equity}}$$

### Company Age

The last control variable used in this study was the years the company has operated. Companies that have been operating for longer are expected to have better opportunities in investment. Company age may influence the profitability and growth (Loderer & Waelchli, 2010). The company age in the study was measured by how long the company had been listed on the IDX in the unit of years.

### 3.3. Regression Model

This study used multiple linear regression analysis to examine the effects between ethical values and financial performance. The dependent variable was financial performance, while the independent variable was ethical values involving zakat and CSR. In line with the previous research, this study included company size, leverage, and company age as control variables in the regression model (Brammer & Millington, 2008; Tsoutsoura, 2004)). Each hypothesis was analyzed using SPSS version 21 software to test the relationship between variables. The formula used in this study is as follows:

$$ROA = \alpha + \beta_1 ZAKAT + \beta_2 CSR + \beta_3 SIZE + \beta_4 LEV + \beta_5 AGE + e$$

$$ROE = \alpha + \beta_1 ZAKAT + \beta_2 CSR + \beta_3 SIZE + \beta_4 LEV + \beta_5 AGE + e$$

Description:

ROA = Return on Asset

ROE = Return on Equity

Zakat = Zakat Disclosure

CSR = Social Disclosure

SIZE = Company Size

LEV = Leverage

AGE = Company Age

$\alpha$  = Constant

$\beta$  = Regression line direction coefficient

### 3.4. Data Analysis

This section discusses the elements of zakat and CSR disclosure followed by descriptive variables used in the regression analysis. Correlation analysis was also carried out before conducting the regression analysis to test the hypothesis.

### 3.5. Zakat and CSR Disclosure

In terms of zakat and CSR disclosure, this study found differences regarding the disclosures made by sharia banking. By comparing the average value for zakat and CSR, it was found that zakat disclosure reported by sharia companies was 46.09%, while CSR disclosure reported by sharia companies was 23.87%. This difference showed that zakat disclosure was emphasized more in sharia-oriented companies because it was an obligation in Islam. Zakat disclosure is more powerful than CSR disclosure since zakat is a direct command from Allah SWT. The following is the descriptive statistics table:

The Kolmogorov-Smirnov test was applied to test for a normal distribution. The normality test of the independent variables and control variables on the financial performance variable (ROA) was 0.394 while the ROE was 0.091. Therefore, it could be said to be normally distributed. Each independent variable and control variable had a VIF value <10 and a Tolerance value > 0.10, therefore it could be concluded that in this study there was no multicollinearity.

Spearman's rank correlation test is used to detect the presence of heteroscedasticity. Each independent variable and control variable had a significant value > 0.05; therefore, it could be concluded that the data in this study did not have heteroscedasticity. The Durbin-Watson test is used to detect the presence of autocorrelation. The autocorrelation test showed that the result of testing the independent variables and control variables on the financial performance variable (ROA) was 2.050. The independent variables and control variables test on the financial performance variable (ROE) was 2.231. Therefore, it could be concluded that the data in this study did not have autocorrelation.

**Table 1:** Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Zakat	40	.38	.56	.4609	.07312
CSR	40	.10	.33	.2387	.06325
Size	40	15.13	30.77	22.3198	5.35639
Leverage	40	.14	8.52	2.2739	2.34265
Age	40	4	59	31.75	18.143
ROA	40	.0001	.0802	.013790	.0181227
ROE	40	.0016	10.4228	.615591	2.2839699

### 3.6. Multiple Regression Analysis

The determinant coefficient test in testing the dependent variable financial performance (ROA) showed that the correlation coefficient value (R) was 0.743 which indicated that the correlation between variables was strong. Meanwhile, the adjusted R2 value was 0.486. It showed that the percentage of the effects of independent variable and control variables on financial performance (ROA) was 48.6%. Testing the dependent variable financial performance (ROE) showed that the coefficient value (R) was 0.543 which indicated that the correlation between variables was moderate. Meanwhile, the adjusted R2 value was 0.189. It showed that the percentage of effects of the independent variable and control variables on financial performance (ROE) was equal to 18.9%.

Table 3 presents multiple linear regression testing. In testing the financial performance (ROA), it showed that zakat disclosure had significant effects on financial performance (ROA), while CSR disclosure had no significant effect on financial performance (ROA). Therefore, it could be concluded that H1a was accepted and H2a was rejected. In testing the financial performance (ROE), it showed that the independent variable of zakat and CSR disclosure had no significant effect on financial performance (ROE). So, it could be concluded that H1b and H2b was rejected.

**Table 2:** Coefficient Determinant

Dependent Variable	R	R Square	Adj. R Square	Std. Error
ROA	0.743	0.552	0.486	0.0129951
ROE	0.542	0.293	0.189	2.0564155

**Table 3:** T-test

Variable	B	Sig
<b>Dependent: ROA</b>		
Zakat	-0,125	0,000
CSR	-0,017	0,711
<b>Dependent: ROE</b>		
Zakat	-5.366	0.286
CSR	0.553	0.938
Size	0.199	0.007
Leverage	0.173	0.276
Age	0.046	0.101

In testing the financial performance variable (ROA), it showed that the size and leverage variables did not have significant effects on financial performance (ROA), while age had a significant effect on financial performance (ROA). In testing the financial performance (ROE), it showed that the leverage and age variables did not have significant effects on financial performance (ROA), while size had a significant effect on financial performance (ROA).

### 3.7. Effects of Zakat Disclosure on Financial Performance

The test result of H<sub>1a</sub> showed that zakat disclosure had significant effects on financial performance as measured by ROA, while the test results of H<sub>1b</sub> showed that zakat disclosure had no significant effect on financial performance as measured by ROE. The zakat disclosure has significant effects on financial performance. This research does not support the study by Al-Malkawi and Javaid (2018) that zakat disclosure has significant effects on financial performance. This research supports the research of Samad et al. (2015) and Zafar et al. (2011) that zakat disclosure has no significant effect on financial performance as measured by ROE.

The results of the study support the stakeholder theory that companies are accountable to several interest groups including employees, customers, suppliers, and the community in general, in addition to the shareholders. Moreover, the stakeholder theory explains that fulfilling the wishes of the stakeholders within the sharia scope will expect sharia activities such as carrying out trusted obligations in managing sharia-based resources and carrying out practices ordered by Allah SWT. Companies' performance will not decrease for companies disclosing zakat. It is supported by Islamic teachings, as Allah SWT has guaranteed that zakat will not reduce assets in relation to the company's financial performance. Besides, zakat disclosure is not the only consideration for investors to invest in a company. This is why zakat disclosure has no effect on financial performance as measured by ROE.

#### 3.7.1. Effects of CSR Disclosure on Financial Performance

The test result of H<sub>2a</sub> showed that CSR disclosure had no significant effect on financial performance as measured by ROA; therefore, H<sub>2a</sub> was rejected. While the test results of H<sub>2b</sub> showed that CSR disclosure had no significant effect on financial performance as measured by ROE; therefore, H<sub>2b</sub> was rejected. Therefore, it could be concluded that CSR disclosure had no significant effect on financial performance.

The test results of H2 in this study indicated that CSR disclosure had no significant effect on financial performance. The results of this study support the research of (Madorran & Garcia, 2016; Peloza, 2002; Saleh et al., 2020). CSR does not have significant effects on financial performance. This study does not support the research of (Beiner et al., 2006; Mallin, Farag, & Ow-Yong, 2014; Platonova et al., 2018) stating that CSR disclosure has significant effects on financial performance.

The results of this study do not support the legitimacy theory. It explains that the CSR activities of the company do not have a direct impact on the company's financial performance. It indicates that sharia banking companies are service and knowledge-based companies such that their activities emphasize more the role of human resources. The factors causing the non-impact of CSR are, first, lack of understanding about CSR activities of companies which causes poor public awareness. Second, company management is less consistent in planning, implementing, and disclosing CSR activities such that it has not triggered innovation in increasing the role and position of sharia companies in global business.

The third reason why CSR does not affect financial performance is due to the CSR measurement tool which uses GRI G4. The use of GRI G4 is considered not relevant to sharia-oriented companies because the indicators only present social, economic, and environmental disclosures and it is not based on Islamic sharia principles such as disclosing haram transactions, almsgiving, waqaf, qard hasan, and other charitable activities. This is why CSR does not have a significant effect on financial performance.

#### 4. Conclusion, Limitation, and Suggestion

This research concluded that the ethical values proxied by zakat disclosure had significant effects on financial performance as measured by ROA; however, zakat disclosure did not have a significant effect on financial performance as measured by ROE. Besides, the ethical value proxied by CSR disclosure did not have a significant effect on financial performance as measured by ROA or ROE.

The limitation of this research is that small sample size was used, as such, further research is expected to add other Islamic financial entities and other dimensions such as governance, sustainability, product, and the environment as benchmarks for ethical values. Likewise, the measurement of CSR may use the Islamic Social Reporting (ISR) issued by AAOIFI because ISR is a CSR measurement tool with the principles of Islamic law. The future research may add the research objects or add variables of corporate ethical identity (CEI) and corporate social performance (CSP) in assessing the ethical values.

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