THE EFFECT OF ZAKAT ON FINANCIAL PERFORMANCE OF SHARIA BANKING IN INDONESIA

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The purpose of this study is to analyze the effect of zakat fund allocation on financial performance in Sharia Banking in Indonesia. Data analysis is calculated using secondary data in the form of financial statements obtained from the annual report of each Sharia Bank Sampling method is by purposive sampling and analysis method used Partial Least Square Base on the research can be concluded indicate that zakat fund allocation has a positive significant effect on the financial performance of Sharia Banking in Indonesia. zakat fund allocation have effect on the financial performance of Sharia Banking in Indonesia.

Keywords : Zakat, Financial Performance, Sharia Banking

Introduction

One of the problems faced by almost all countries including Indonesia is the problem of poverty. Various attempts have been taken by the Indonesian government to reduce poverty. One of the instruments of income distribution especially among Muslim communities of Indonesia is the institution of *zakat, infaq, shadaqah* (ZIS). Demographically, the majority of Indonesians are Muslim, and culturally the obligation of zakat, infaq, and shadaqah in the way of Allah SWT is in the traditions of Muslim society.

Syariah Islamic banks as financial business institutions are materialized in the forms of activities of collection and distribution of zakat, infaq, charity, grants and endowments. In addition, Syariah Islamic banks also have qardh (fund of virtue) financing products . This product can be categorized as a form of social responsibility of sharia banks which cannot be obtained from conventional banks. Sharia bank promotion activities are not merely commercial purposes, but show the role of sharia banks in public education about sharia finance and banking. The development of Islamic banking is an interesting phenomenon, it is seen from the number of sharia commercial banks in Indonesia which rose from previous years. Currently, sharia banks in Indonesia was amounted to 12 banks. In this case the Islamic Bank is required to be a manager of zakat, in the sense of obligatory to pay , collect, administer and distribute zakat. Company performance shows the company's ability to benefit from assets, equity, and debt. Company performance is a work of company presentation.

Some research results about zakat are found in the research conducted by Amira and Teguh (2013) showing that zakat puts effect on the financial performance of sharia banks on the

third party funds and fully mediates the effect of zakat fund allocation on the financial performance of sharia banking.Fachrudin (2011), shows that capital structure has a positive effect on company performance

This shows the higher the zakat, the third party funds increase. While the research results by Akhmad Fauzi (2014) shows that Corporate Social Responsibility (CSR) does not affect the performance of banks. So that the size of expenditure for CRS will not affect the performance of banking. Zakat banking significantly influence banking performance. This shows that higher value of zakat banking will affect the total income (Banking Performance). Adnan et,all, (2013), Intellectual capital in religious organisations: Malaysian zakat institutions perspective

A research to identify what the factors are that influence financial performance at sharia bank is interesting to do. Therefore, the researchers are interested to conduct a research entitled: "Allocation of Zakat funds to financial performance at Sharia Islamic banks.

Theoretical review

A. Definition of Zakat

Zakat is a masdar isim from the word zaka-yuzaku-zakah which means a blessing, good clean and growing. Thus the person issuing zakat is expected to clean his heart. According to terminology (syar'i) zakat is a certain amount of property that is required by Allah SWT to be given to people who are entitled to receive zakat (mustahiq) with certain conditions.

Some jurists define zakat as follows:
1.   According to Abi Shuja
     Zakat is a certain name taken from certain property and given to certain groups
2.   According to Sayyid Sabig.
     Zakat is the name of a right of Allah issued to a poor person, and is called zakat because there is hope to gain blessings, cleanse the soul and add some goodness.
3.   According to Didin Hafidhuddin
     Zakat is a treasure that has fulfilled certain conditions issued by its election to the person entitled to receive it.

Some of the wisdom of zalcat execution is that zakat can purify itself from the filth of sin, purify the soul (cultivate the noble morality, generous, have a high sense of humanity), and erode the gritty and greedy nature so that it can feel inner calm as it is free from the demands of Allah SWT and community obligations.

B. Various kinds of Zakat
   Zakat is a compulsory shodaqoh that has been specified kinds and types. In the science of Fiqh zakat is divided into 2 kinds, namely zakat fitrah and zakat maal
   1. Zakat Fitrah
      Zakat fitrah is the zakat issued by every Muslim who has the advantage for a reasonable family needs on the night of Eid al-Fitr. Zakat is called zakat fitrah because it is associated with one's self (al-Fitrah). Zakat fitrah is paid in the month of Ramadan until the Eid al-Fitr prayer. The amount and type of zakat is 1 sha 'tamar or one sha' wheat, depending on the type of staple food contained in certain areas.
   2. Zakat Maal

Zakat maal is zakat in the form of assets issued by a person or legal entity with the provision has fulfilled one nishab and has been owned for one year.

Zakat is a component of social disclosure of financial statements (Corporate Social Responsibility), meaning that zakat is one of the concept of social responsibility that is inherent in the activities of sharia companies, where in running the operations of sharia companies are not merely to get the benefits targeted by management in term short or long term, but all aspects of both external and internal companies need to be considered.

C. Financial performance

Financial performance is a picture of the achievement of the implementation in realizing the goals, mission, and vision of an organization. In realizing the vision and mission of the organization, companies need to have a measure to measure how the achievement of goals and objectives within a certain period of time. The financial performance is used to assess the success rate of the bank in a certain period based on the work plan, the realization report of the work plan, and the bank's periodic report; the aspects considered primarily include capital, assets, management, earning, and liquidity or CAMEL.

Hypothesis Formulation

Zakat and Financial Performance

Zakat is one of the Islam laws which is obligatory for every Muslim who is independent and has property up to a certain nisab amount. According to Islam's view, Allah is the absolute owner of the universe and its contents, so that the possessions of human beings are only temporary deposits, in which people are given the power to manage them.

Performance is required to identify and evaluate the level of success of financial activities that have been implemented by a company. Company performance shows the company's ability to benefit from assets, equity, and debt. It can be concluded that the performance of the company is an important thing that must be achieved by every company anywhere, because the performance is a reflection of the company's ability to manage and allocate resources. The linkage between the performance of the company and the zakat is that with good performance the bank will tend to issue zakat in accordance with the provisions of the religion.

Based on the description above, the hypothesis of this study is formulated as follows:
Hypothesis: The allocation of Zakat funds has a significant effect on company performance.

Research Method
1. Sample
A sample is a part of the population that must have the population characteristics and fit the research objectives. Determining the sample in this study will be done by purposive sampling, namely determining the sample on the basis of the suitability of certain characteristics and criteria. Sample criteria taken are as follows:
a. The sample is a sharia bank financial institution
b. A sharia bank that publishes a complete financial report so that the necessary data for research are available.
c. Having reports on the source and use of zakat funds in 2013-2016.

Based on the above criteria, there are 10 syariah banks which become the samples of the research; those are: Bank BCA Syariah, Bank BNI Syariah, Bank Muamalat Indonesia, PT Bank May Bank, Bank Syariah Mandiri, Bank Mega Syariah, Bank Syariah Bukopin, Bank Savings Pension, Bank Viktoria and Bank Panin.

2. Sumber dan Metode pengumpulan data

The data source of the research is the annual financial statements of companies contained in the Financial Services Authority (OJK), reports of scientific researches, scientific research journals and through the website of each syariah bank.

3. Research Variables

a. Independent Variable

The independent variable is the variable that influences or causes the change or the incidence on the dependent variable. The independent variable in this study is the allocation of Zakat funds use.

b. Dependent Variables

The dependent variable is the variable that is affected or becoming the result, because of the independent variables. Dependent variable in this research is Sharia Financial Performance.

Sharia financial performance can be seen through:

1) Capital factor

One of the financial ratios used to calculate capital adequacy is known as Capital Adequacy Ratio (CAR). For CAR which is below 8% then the bank concerned must add capital. The following is the formula of CAR performances:

$$\text{CAR} = \frac{Modal}{ATMR} \ X \ 100\%$$

2) Assets Quality

The research applies Assets to Loan Ratio to measure the amount of credit channeled with assets owned by banks. The Assets to Loan Ratio formula is as follows*:*

$$\text{Asset} = \frac{Total \ Loans}{Total \ Assets} \ X \ 100\%$$

3) Management Aspect

The research applies Net Profit Margin (NPM). NPM can be formulated as follows:

$$Net \ Profit \ Margin = \frac{\text{Net Income}}{\text{Operating Income}} \ X \ 100\%$$

NPM is a ratio that describes the level of bank profits, compared to the revenue received from its operational activities. Net profit margin is considered good if it is more than 5%.

4) Earning Aspect

The earning aspect on bank evaluation can be proxized with ROE Ratio. ROE formula is as follows:

$$ROE = \frac{Net\ Income}{Equity\ Income}\ X\ 100\%$$

5) Liquidity Aspect
   The indicator used in this liquidity aspect is quick ratio. This ratio is to determine the ability of a bank in refinancing its obligations to customers who deposit funds with their cash assets. The Quick ratio formula is as follows:

$$Quick\ Ratio = \frac{Cash\ asset}{Total\ Deposit}\ X\ 100\%$$

Findings and Discussions
     This section contains the research findings and discusses the result of the research. Table 1 shows descriptive statistics of the variable, consisting of the minimum, maximum values, the average (mean) and standard deviation of the variable values.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ZAKAT	40	27,00	5689,00	6,2165	1113,07464
CAR	40	1,76	172,24	50,4460	47,22769
ASSET	40	0,00	68,85	20,8170	28,99187
MANAGEMENT	40	0,73	21,78	7,0145	4,94778
EARNING	40	7,16	1949,26	2,0986	416,51091
LIQUIDITY	40	4,29	339,99	44,8478	67,65349
Valid N (leastwise)	40				

     Table 1 shows that the average value of zakat is 6,2165. Furthermore, the average value of financial performance variable measured by CAR is 50,4460. Asset 20,8170. Management 7,0145, Earning 2,0986. 2,0986. 44,8478,

***Structural Equation Modeling* Analysis**

Structural Equation Modeling Analysis is an expansion of the regression model used to test the fit of the correlation matrices of two or more models compared by the researchers. This model is illustrated with circles and arrows that indicate causality. Regression is done for each variable in the model. The regression values predicted by the model are compared with the correlation matrix of variable observation results and the goodness-of-fit values are calculated. The best model is chosen based on the goodness-of-fit value.

In SEM analysis, the relationship between constructs is shown by the line of one arrow showing the causality relationship from one construct to another. Figure 1 is SEM in this research.
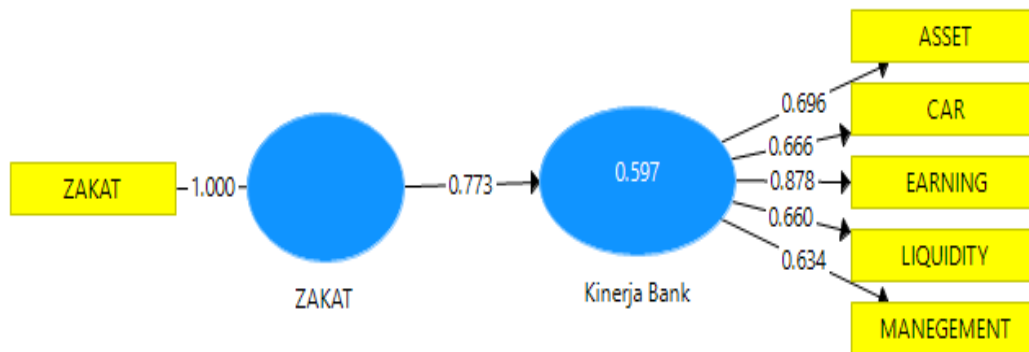

Figure. 1

Structural Equation Modeling

Figure 1 shows that the loading value of bank performance variables above 0,597 while CAR is 0,666. Asset of 0,696. Management of 0,634 Earning of 0,878 and liquidity of 0,634. The coefficient value of Zakat to bank performance is 0,773.

Table 2
Path Coefficients

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
ZAKAT -> Performance bank	0,773	0,728	0,242	3,191	0,001

The parameter coefficient for the variable zakat of 0,773, P of 0,0001 which means there is a positive influence between the allocation of zakat funds to the Performance bank. Or it can be interpreted that the better the allocation of zakat funds then the bank's performance will increase.

Goodness of Fit Model **Test Result**

The test results of goodness of fit overall model are used to find out whether the hypothetical model is supported by empirical data. The results of the evaluation of goodness-of fit criteria are presented in Table 3 below.

Table 3
Goodness-fit-model

	R-Square	Sample Mean	Standard Deviation	T Statistics	P Values
Performance bank.	0,597	0,589	0,158	3,770	0,000

Table 2 shows that the value of R - Square sebesa 0,589, can be explained that the influence of zakat fund allocation on bank performance gives a value of 0.589. Which can be interpreted that the construct variable of bank performance can be explained by the construct of CAR, Asset, Management, Earning and Liquidity of 58.90%. While the remaining 41.1% is explained by other variables outside of the studied.

Conclusion

It is concluded that: The use of zakat allocation has a positive and significant effect on the financial performance of sharia banking. It shows that the bigger the use of zakat allocation, the higher the financial performance of sharia banking. Based on the test results, the zakat coefficient is positive and statistically significant as expected. These results indicate that the greater the use of corporate zakat allocation of samples, the higher the financial performance of sharia banking. This discovery supports Rhamadhani (2016) research that zakat has a significant influence on Corporate Performance. This study proves that zakat will not reduce the ability of banks in generating net profit through the use of a number of bank assets. The results of this research are also in accordance with the teachings of Islam, because Allah SWT has guaranteed that zakat will not reduce property, instead it will increase the wealth.

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