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ISLAMIC SOCIAL REPORTING OF INDONESIA SHARIA BANKS: EMPIRICAL FINDINGS

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Abstract

Finding and analyzing the effects of the Zakat Performance Ratio, Disclosure of Islamic Corporate Governance (Shariah Governance, General Governance), Firms Size, and Islamic Securities on Islamic Social Reporting was the goal of the study. The study employed a casual comparative methodology. Between 2017 and 2021, the population has Sharia banks registered with the Financial Service Authority. 13 samples were collected using the census (saturated) sampling method. Multiple linear regression variables were used to evaluate the data at a significance level of 5%. The study's findings demonstrated that the Zakat Performance Ratio had a favorable, considerable impact on Islamic Social Reporting. Islamic Social Reporting was negatively impacted by Islamic Corporate Governance with the indication of Sharia Governance. Islamic Corporate Governance with the indicator of General Governance had positive and significant influence on Islamic Social Reporting. Firm Size had negative and insignificant influence on Islamic Social Reporting. Islamic Securities had positive and insignificant influence on Islamic Social Reporting.

Keyword: Zakat Performance Ratio, Islamic Corporate Governance, Firm Size, Islamic Securities, Islamic Social Reporting

I. INTRODUCTION

According to Islamic economic, a business must be a part of the social community, which cannot be separated from the social community where the firm has obligations to God Almighty in addition to shareholders, governments, creditors, and communities. Corporate Social Responsibilty (CSR), which has not yet been judged sufficient to explain the needed disclosure under Islamic principles, is made possible by the creation of the global Sharia financial instruments. The CSR terms' disclosure on Zakat, Infaq, Sedakah, and Halal goods and services is still pending. Furthermore, according to Nasution, Lubis, and Fachrudin (2018), there are still a lot of presumptions regarding both conventional and sharia financial products and services. Haniffa developed Islamic Social Reporting (ISR) in 2002, which is thought to be an early form of corporate social responsibility (CSR) compliant with sharia law.

Since the previous ten years, numerous academics have tested the ISR degree of transparency on a variety of financial institutions, focusing primarily on sharia banks. The majority of the findings from the ISR disclosure research on sharia banks did not offer enough information to serve as a means of God's accountability. Sharia banks only do ISR disclosure with regard to companies that have received positive stigma, and they are less likely to do so with companies that have received bad stigma (Charles and Chariri 2012). A social reporting experiment was conducted to 29 Sharia Banks in 16 countries by a number of researchers who revealed the disclosure of ISR on Sharia Banks, such as Maali, Casson, and Napier (2006). They found that the average social reporting disclosure was 13.3%, which was in line with the standard of social reporting of AAOIFI. The average social reporting rate was reported to be 39% by Kamla & Rammal (2013), who also conducted a social reporting experiment at 19 Sharia Banks across numerous nations. Then, according to Mallin, Farag, and Ow-Yong (2014), the average social reporting disclosure across 90 banks in 13 countries is 44%.

Additionally, El-Halaby & Hussainey (2015) reported that 138 Sharia banks in 25 countries provided 26% of the social reporting disclosure. The ISR disclosure of Indonesian Sharia public banks has not been adequately related to disclosure of non-halal income, zakat, and sharia level of compliance, providing a significant negative influence on the profitability of Sharia banks, according to research by Nasution, Lubis, and Fachrudin (2018). Ibrahim and Marshall's (2013) study of the ISR disclosure rate for non-financial corporations listed on the Malaysian Stock Exchanges included numerous firms that were Shariah-compliant companies (SCC), The study found that only 60% of the company's annual report's ISR disclosure rate discloses general activities; it does not yet disclose activities with an Islamic value, despite the fact that many studies have claimed that ISR disclosure is just as important as business strategy for enhancing corporate business competence (Yadiat, Gustani, and Amrania 2017).

According to Othman, Thani, and Ghani (2015), the ISR disclosure is highly impacted by the firm size, the presence of a Muslim board of directors, and profitability, but not by the industry type. According to Putri & Yuyetta's (2014) research, the ISR is positively impacted by a company's size, profitability, industry sector, and Sharia securities, however a negatively impacted ISR is not as substantial as a negatively impacted profitability.

II. METHODOLOGY

A. Population dan Samples

The population of this study is all sharia banks registered with the Indonesian Financial Services Authority (OJK) from 2017-2021. The method used is a saturated sample so that the entire population becomes sample. The number of samples used was 13 sharia banks so the number of observations was 65.

B. Measurement

TABLE
Measurement of variables

Variables	Measurement
Islamic Social Reporting (ISR)	Self-constructed disclosure index
Zakat Performance Ratio (ZPR)	Zakat Divided by Total assets
Islamic Coporate Governance (ICG)	Self-constructed disclosure index of Shariah Governance and General Governance
Firm Size	Log Natural of Total Assets
Islamic Securities	Dummy variables

Source: Processed By Researchers From Various Sources

The content analysis used in ISR measurements was developed from AAOIFI Disclosure Index and enhanced with researcherd by Arshad, Othman, & Othman (2012). The measurement of Zakat Performance Ratio (ZPR) using the research based of Hameed, Wirman, Alrazi, Nor, & Pramono (2004). The measurement of Islamic Corporate Governance (ICG) used two approaches: Shariah Governance approach and general governance approach. The measurement of firm size variable used the natural logarithm of the total company assets and Islamic securities variable used the dummy variable approach, where 0 = the company that has not publish the Islamic Securities in the n year; 1 = The company has published the Islamic Securities in the n year.

C. Data Analysis

The data in this study will be anlyzed by using a double linear regression analysis technique with a significance of 5%. The sofware statistic is used is a Minitab.

III. RESULTS

A. Pearson Correlation Test

Correlation: ZPI; Shariah Governan; General Governan; Firm Size; Islamic Sec; ISR

	ZPI	Shariah Governan	General Governan	Firm Size	Islamic Sec
Shariah Governan	**0,009**				
General Governan	**0,083**	**0,310**			
Firm Size	**-0,194**	**0,220**	**0,238**		
Islamic Sec	**0,052**	**0,112**	**0,043**	**-0,049**	
ISR	**0,042**	**0,022**	**0,327**	**-0,148**	**0,075**

Cell Contents: Pearson correlation

Source: Author's processing data results, using Minitab

It can be seen from Pearson correlation test above there is no correlation between variables above 0.8, and it can be concluded that there is no multicholinerity between variables.

B. Multiple Analysis Regression

Regression Analysis: ISR versus ZPI; Shariah Gove; General Gove; Firm Size; Islamic Secu

Simultaneous Test (F-Test)

Analysis of Variance

Source	DF	Adj SS	Adj MS	F-Value	P-Value
Regression	5	1,87774	0,37555	20,21	0,000
ZPI	1	1,38348	1,38348	74,46	0,000
Shariah Governance	1	0,01199	0,01199	0,65	0,425
General Governance	1	0,23760	0,23760	12,79	0,001
Firm Size	1	0,01178	0,01178	0,63	0,429
Islamic Securities	1	0,00263	0,00263	0,14	0,708
Error	59	1,09629	0,01858		
Total	64	2,97403			

Model Summary
S R-sq R-sq(adj) R-sq(pred)
0,136313 63,14% 60,01% 53,47%
Individual test (T-test)
Coefficients
Term Coef SE Coef T-Value P-Value VIF
Constant -0,0987 0,0824 -1,20 0,236
ZPI 0,1683 0,0195 8,63 0,000 1,06
Shariah Governance -0,0797 0,0992 -0,80 0,425 1,15
General Governance 0,0620 0,0173 3,58 0,001 1,16
Firm Size -0,0150 0,0189 -0,80 0,429 1,15
Islamic Securities 0,0185 0,0493 0,38 0,708 1,02

Source: Author's processing data results, using Minitab

The P-Value of 0.000 < 0.05 indicates that simultaneously the variables ZPI, Shariah Governance, General Governance, Firm size and Islamic securities affected the ISR. The result of T-test shows the value of P-Value ZPI 0.000 < 0.05 and the value of positive coefficient indicates ZPI has significantly positive effect on the ISR. The Islamic Corporate Governance with the Shariah governance indicator shows the value of P-value 0425 > 0.05 and the value of negative coefficient indicates that Shariah Governance has no significant negative influence on the ISR. And the Islamic Corporate Governance with the general Governance indicator has a value of P-value 0.001 < 0.05 and a value of negative coefficient indicates that general governance has a significant positive effect on the ISR. The P-value of firm size variable is 0.429 > 0.05 and the negative coefficient indicates that firm size has insignificantly negative affects towards the ISR. The value of P-value Islamic Securities is 0.708 > 0.05 and the value of the positive coefficient indicates that Islamic Securities has an insignificantly positive effect on the ISR. The Summary model shows the adjusted value of R-square by 60%, it means that the selection of the independent variable model is good enough in reflecting and predicting dependent variables.

IV. CONCLUSION

The processing statistic data individually demonstrated that the variable ZPI significantly had a favorable effect on the ISR disclosure, i.e., the greater ZPI that a sharia bank paid, the higher the ISR disclosure made by that bank. The shifting of the role of Sharia banks as a site of payment and distributing zakat from the community to the community will have a positive impact on sharia banks because the function of sharia banking is not only to raise the funds for commercial activities but also as a place to welfare of the people. In addition to making zakat payments based on total assets, Sharia banks also disclose their compliance with Sharia law. Government zakat regulations can lower taxes by requiring sharia banks to pay zakat on a regular basis. The indicator Shariah Governance along with the variable of Islamic Corporate Governance has a negative influence on the ISR disclosure, indicating that the impact of the Shariah Bank reporting Shariah Governance is not favorable. Some of the disclosures in Shariah governance, like internal unit Shariah compliance and internal Shariah audit in the sharia bank in Indonesia, show that sharia banks have not fully adhered to sharia procedures in their commercial operations. The variables of Islamic Corporate Governance with general governance indicators have a strong beneficial impact on ISR disclosure, therefore the more Sharia bank general governance is implemented, the better the ISR Sharia bank disclosure. The firm size variable does not significantly have a negative impact on ISR disclosure, demonstrating that there is no relationship between the company's total assets and ISR disclosure for Sharia banks. There is no association between a portion of sharia bank issuance and an ISR disclosure of Sharia banks, according to the fact that the Islamic Securities factors have a negligible beneficial impact on the ISR disclosure.

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