

Islamic Social Reporting Disclosure and Determinant Factors: Empirical Evidence from Islamic Banks in Indonesia

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Abstract. This research aims to measure Islamic Social Reporting Disclosure score and to test the factors that affected them. The determinant factors tested were Profitability, Company Size, Company Age, and Liquidity. The population in this research include Islamic banks in Indonesia in the period of 2013-2016. Purposive sampling was used and data were obtained from 36 observations in 9 Islamic Banks. The analytical technique used in this research was multiple linear regressions. The analysis results show that the awareness of Islamic banks to report their social responsibility is still low. Profitability has no positive effect on Islamic Social Reporting Disclosure. Bank size has a positive effect on Islamic Social Reporting Disclosure, while both Liquidity and Bank Age have a negative effect on Islamic Social Reporting Disclosure.

Keywords: profitability, company size, company age, liquidity, islamic banks.

11 banks (38%) disclosed their social responsibility according to AAOIFI standards (Accounting and Auditing Organization for Islamic Institutions). The results indicated that there are many Islamic banks that have not revealed their social responsibility as expected.

The results an Indonesian study conducted by Sofyani et al. [5] comparing the ISR index to measure the social performance between Indonesian sharia banks and Malaysia sharia banks provide empirical evidence that all Islamic banks both in Indonesia and Malaysia are achieving excellent performances. Similar results are shown by the research of [6] who found that there are no Islamic banks, either in Indonesia or Malaysia that 100% implement their ISR's.

Consider the importance of Islamic social responsibility reporting for Islamic banks, this study measures the extent of social responsibility implementation of Islamic banks to the surrounding stakeholders, and tests the determinants affecting ISR, which include profitability, company size, company age, and liquidity.

INTRODUCTION

Sharia bank is a business institution which operates based on sharia values. Institutions which run their business based on sharia will refer to the Holy Qur'an and Sunnah in interacting with the social environment and their stakeholders. Islamic Social Reporting is the answer and solution to the needs of the interested parties concerned with the company's financial statements [1] ISR becomes a very important thing for the reputation and performance of Islamic financial institutions, because by disclosing the ISR, Islamic financial institutions that succeed in revealing their ISR value will be perceived as a reliable entity by the Muslim community in channeling their fund [2].

However, even though ISR disclosure is important, in Indonesia there is no uniform provision of items to be disclosed in the ISR. So far, companies in the world use disclosure standards indexed by Global Reporting Initiative (GRI) [3]. So, ISR items disclosed by each bank differ from bank to bank.

This is supported by the results of research conducted, among others [4] who tested 29 samples of Islamic banks in Islamic countries, which found that only

METHOD

This quantitative research emphasizes on theories testing through research variables using numbers as a benchmark to test the hypothesis [7]. The population in this research includes all Sharia Commercial Bank in Indonesia in the period of 2013-2016. Sampling was taken using purposive sampling method. Data analysis was done by giving check mark on each item which revealed its social activity in sharia bank annual report. If there are items that are revealed, then it will get a score of "1" and if not, then it will get a score of "0". Checklist marks are based on content analysis contained in the annual report. In regard to ISR index components, there are 43 items divided into six categories, namely investment and finance, organizational governance, products and services, labor, social, and environment [8]. The items of Islamic Social Reporting consist of standard items of CSR specified by AAOIFI (Accounting and Auditing Organization for Islamic Institutions), later developed by researchers on CSR items that should be disclosed by an Islamic entity [8]. Islamic Social Reporting Disclosure (ISRD) is assessed by comparing the disclosure of Islamic Social Reporting, which has

been done by a Sharia Bank with the maximum amount of ISRD to be disclosed by Sharia Commercial

The profitability ratio shows a company's ability to make a profit [9]. Profitability in this research is measured using Return on Assets (ROA) ratio. ROA as a proxy of profitability is measured by comparing profit before tax with total assets of the company.

Company size is the level of big or small company size identification. Larger companies do larger activities. The larger the company size, the more capital is invested so that large resources and funds within the company tend to have a wider demand for its corporate reporting information. Company size is measured using the total natural asset logarithm.

Bank.

The company age can be seen from how long the company is listed on the IDX. [10] [11] assumed that younger companies are predicted to spread more information than older companies with a view to reducing uncertainty of operating risks and to boost investor confidence in their positions [12].

Liquidity is a company's ability to fund its short-term liabilities. A measurement that can represent liquidity is by comparing the total current assets owned by the company with total short-term liabilities [13] [14].

RESULT

Table1

Index ISR Measurement Results During the Period Of 2013-2016

Code	Bank	Year				Average
		2013	2014	2015	2016	
BMS	B.Mandiri Syariah	62.79	60.46	60.46	60.46	61.04
BMI	B. Muammalat Indonesia	60.46	60.46	60.46	60.46	60.46
BNIS	B.Negara Indonesia Syariah	62.76	62.79	65.12	65.12	63.94
BCAS	B.Central Asia Syariah	46.51	53.49	53.49	55.84	52.33
BUKOPIN	B.BUKOPIN	48.84	53.49	55.81	60.46	54.65
BRIS	B.Rakyat Indonesia Syariah	58.14	60.46	60.46	60.46	59.88
PANIN	B. PANIN Syariah	48.84	58.14	58.14	62.79	56.98
MEGA	Bank Mega Syariah	54.59	53.49	53.49	60.46	55.51
MAYBANK	Maybank Syariah	46.51	46.51	48.84	48.84	47.67

Source: content analysis, 2017

Table 2 indicates that the highest index score achieved by Bank Negara Indonesia Syariah is 63.94%. Meanwhile, the lowest score occurred in Maybank Syariah with a score of 47.47%.

Predicate of Sharia Banks Disclosure Score Based on ISRD Index

Name of Islamic Banks	2013	2014	2015	2016
	Predicate			
BSM	Less informative	Less informative	Less informative	Less informative
BMI	Less informative	Less informative	Less informative	Less informative
BNIS	Less informative	Less informative	Informative	Informative
BCAS	Less informative	Less informative	Less informative	Less informative
BUKOPIN	Not informative	Less informative	Less informative	Less informative
BRIS	Less informative	Less informative	Less informative	Less informative
PANIN	Not informative	Less Informative	Less informative	Less informative
MEGA	Less informative	Less informative	Less informative	Less informative
MAYBANK	Not informative	Not informative	Not informative	Not informative

Source: content analysis, 2017

Notes:

Predicate Classification:

Very Informative: 81%-100%; Informative: 66-80%;
Less informative 51%-65%; Not informative: 0-50%

Table 2 shows the ISRD predicate of Sharia Commercial Banks. From the nine samples of banks in the observation year of 2013-2016, banks that revealed its informative social responsibility is Bank BNI Syariah

in 2015 and 2016. This result shown that the awareness of Islamic banks to report their social responsibility is still low.

Table 3 indicates, the profitability coefficient is 0.001 with a positive direction and the significance level is $0.301 > 0.05$. In the calculation $t_{table} = (n-k-1)$ notes that t_{table} in this study is 1.697, while t_{stat} of $1.053 < 1.697$. This means that H_0 is received and H_a is rejected. The

level of corporate profitability does not affect ISRD. Companies which have high profitability do not necessarily have more social activities because the companies are more oriented to profit. The results of this study support research conducted by [9]; [11]; [14] who found empirical evidence that profitability has no positive effect on ISR disclosure. However, to the findings of this study are contrary to the findings of [10]; [11]; [15]; and [16] who found that profitability has a positive effect on the extent of ISRD.

Table 3

Hypothesis Test Result

Variable	Hypothetical Direction	β	t-stat	P value	Decision
Profitability	+	0.001	1.053	0.301	Not Supported
Company Size	+	0.038	6.549	0.000	Supported
Company Age	+	-0.002	-2.101	0.044	Not Supported
Liquidity	+	-0.001	-2.444	0.021	Not Supported

a. Dependent Variable : ISRD

The coefficient variable of company size is 0.038 with a positive direction and its significance level is $0.000 \leq 0.05$, whereas t_{stat} is $6.549 > 1.697$. This means that H_0 is rejected and H_a is accepted. The results of this study support the theory of legitimacy that there is a social contract implicated between institutions and society. The bigger a company, the higher the level of corporate responsibility disclosure by Islamic banks [17]. The results of this study support research conducted by [1, 17, 18] and [14] which provide empirical evidence that company size positively affects ISRD. However, this study does not support the results of [19, 20] study which found that company size variable has no positive effect on ISRD.

The coefficient variable of company age is -0.002 with a negative direction and its significance level is $0.044 < 0.05$. Meanwhile, t_{stat} is $-2.101 < 1.697$. This means that H_0 is accepted and H_a is accepted. The results of the study show the negative effect between company age and ISRD, which proves that younger companies will make it possible to disclose their Islamic social responsibility more broadly. It may be aimed at reducing risk uncertainty and increasing investor confidence, especially Muslim investors, towards their position. The results of this study support the study of [21] which provides empirical evidence that the company age has a positive effect on ISRD. However, this study does not support [11] study which provides empirical evidence that the company's age negatively affects ISRD.

The coefficient variable of liquidity is -0.001 with a negative direction and the significance level is $0.021 < 0.05$. Meanwhile t_{stat} is $-2.444 < 2.042$. This means that H_0 is rejected and H_a is accepted. These results indicate that Liquidity negatively affects ISR disclosure. From the

results of the above analysis, it can be concluded that the higher the level of liquidity of Sharia Commercial Bank, the narrower the ISR disclosure is done. The results of this study support [21] and [22] studies which provide empirical evidence that liquidity negatively affects ISR disclosure. However, this study does not support the results of [20] which provides empirical evidence that liquidity positively affects ISRD.

CONCLUSION

From the calculation result of ISR Score, it can be concluded that the awareness of Islamic banks to report their social responsibility is still low. Profitability variable does not positively affect the disclosure of Islamic Social Reporting. The bank size variable has a positive effect on the disclosure of Islamic Social Reporting. The bank age and liquidity variables negatively affect the disclosure of Islamic Social Reporting.

This study has some limitations that might affect the results that are: Index of disclosure of the ISR is directed to refer to Othman et al (2009). Further research is suggested to use the ISR index in addition to referring to Othman et al (2009). The goal is to find out how different the disclosure results are with other ISR indexes.

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