

Improving Financial Performance to Social Disclosure of Sharia Bank Performance Based on Islamic Social Reporting Index

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ABSTRACT

This study aims to examine the role of Social Banking Performance Disclosure to improve the financial performance of sharia banks. This study uses a sample of Sharia Commercial Banks in Indonesia that publishes annual report. Hypothesis testing using simple regression with 95% confidence level. The main variables used in this study consist of six disclosure themes with ISR index, ie funding and investment, products and services, employees, community, environment, and corporate governance. The results of this study indicate the Disclosure of Funding and Investment, Products and Services, Employees and Society has no effect on the Financial Performance of Sharia Commercial Banks in Indonesia. While the disclosure of the Environment and the Manpower Statement of the Company has a significant and significant impact on the Financial Performance of Sharia Commercial Banks in Indonesia.

Keywords: Bank Syariah Financial Performance, and Islamic Social Reporting Index.

1. Introduction

Islamic banks, which are financial institutions that carry out their activities on the basis of Islamic principles, are expected to demonstrate the goals of the socio-economic of Islam and should combine both social benefits and responsibilities into their goals because they should have an ethical identity (Hanifa and Hudaib, 2007) . Sharia banks must have high social responsibility, can be seen in the bank's annual report. Sharia banking should disclose the CSR activities in the Annual Report. Zubairuetal (2011). The disclosure of social responsibility in Shari'ah is known as the Islamic Social Reporting Index (ISR). The ISR index contains a compilation of standard CSR items defined by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions).

Index Islamic Social Reporting (ISR) is used as an indicator in reporting the social performance of sharia business institutions. Haniffa (2002) makes five themes of ISR disclosure, namely Fund and Investment Themes, Themes of Products and Services, Employee Themes, Themes of Society, and Themes of the Environment. Then. The five ISR disclosures were then developed by Othman et al (2009) by adding a theme of disclosure that is the theme of Corporate Governance.

Previous research results indicate a research gap. Mosaidan Boutti (2012) and Arshad (2012) studies reveal that ISR has no significant effect on financial performance. who research on Islamic CSR. While research conducted by Lindrawati, Nita Felicia, and J. Th Budianto T (2008) concluded that the communication of corporate

social responsibility affect the company's performance.

This research refers to previous research by Gustani (2013) analyzing the disclosure of social performance in sharia banking in Indonesia reviewed by using Islamic Social Reporting Index. Based on the results of ISR index calculation analysis on BUS, shows that the overall level of disclosure of BUS social performance in Indonesia is still Less Informative, but continues to increase every year. Meanwhile, among the five BUSs that have the highest level of social performance disclosure is BSM.

Literature Review

1. Corporate Social Responsibility (CSR)

CSR aims to keep the company's operations not focused solely on the interests of shareholders, but also focus on the welfare of those in the business practice: workers, communities, governments, NGOs, consumers and the environment. From a trade union perspective, social and environmental disclosure includes the following items: a) Working conditions. b) Earnings of Employees. c) Working Hours d) Influence of technology. e) Quality and training. f) Subsidies the company receives. g) Environmental pollution. h) Corporate contributions to social goals such as regional development, unemployment, and others. Ullmann, (cited by Chariri and Ghazali, 2007).

According to Martin Freedman (2007), there are three approaches in social performance reporting: (1) Social Audit, (2) Social Reports (Dilley and Weygandt divide it into four groups: Inventory Approach, Cost Approach, Program Approach Management, Cost Benefit Approach)

and (3) Disclosure In Annual Report. Some forms of CSR disclosure that have been initiated include:(1). Islamic Social Reporting Index (ISR Index), initiated by Haniffa (2002) and developed by Othman et al (2009). (2). Shariah Enterprise Theory (SET), an enterprise theory that has been internalized with Islamic values to produce a transcendental and more humanist theory. One of the researchers who once discussed SET is Iwan Triyuwono (2007). (3). Islamicity Performance Index (IPI), a method of measuring the performance of sharia banks that contain financial and social ratios. In this study the method used to measure the level of disclosure of Islamic banks' social performance is the ISR Index.

2. Corporate Social Responsibility in an Islamic Perspective

"Not to face east and west is virtue, but in truth its virtue is to believe in God, the last day, angels, books, prophets and give beloved treasures to relatives, orphans, poor people, travelers (who need help) and beggars, and (freeing) slaves, establishing prayers, and doing charity, and those who keep their promises as promised, and those who are steadfast in suffering, narrowly and in war. They are the righteous (their faith), and they are the people, those who fear Allah."(Surat al-Baqarah: 177)

From the above paragraph it can be concluded that Islam is a religion that prioritizes the importance of social value in society rather than just facing us west and east in prayer. Without undermining the importance of prayer in Islam, the Qur'an integrates the meaning and purpose of prayer with social value. Besides giving the value of faith to faith to Allah SWT, His Book, and

Doomsday. The Qur'an asserts that faith is imperfect if it is not accompanied by practice of care and social services to brothers, orphans, poor people, and travelers and ensures the well-being of those in need. In this context, CSR in the Islamic perspective is a business practice that has ethical responsibility in an Islamic way. The company incorporated Islamic religious norms marked by a genuine commitment to protect social contracts in its operations. CSR in the Islamic perspective according to AAOIFI are all activities undertaken by Islamic financial institutions to fulfill the interests of religious, economic, legal, ethical, and discretionary responsibilities as financial intermediaries both individuals and institutions (Rizkiningsing, 2012).

According to Islam, the CSR should aim to create the virtue that is done not through activities that contain the element of usury, but with the practices that God commands such as zakat, infak, alms and waqf. CSR should also prioritize the value of generosity and sincerity (Suharto, 2010).

In addition, the implementation of CSR in Islam is also one of the efforts to reduce the social problems that occur in society by encouraging the productivity of society and maintain the balance of wealth distribution in the community. Islam requires the circulation of wealth to occur in all members of society and prevent the occurrence of circulation of wealth only in a handful of people (Yusanto and Yunus, 2009: 165-169).

Islam orders CSR practices on the environment. Environment and preservation is one of the core teachings of Islam. The fundamental principles that shape the philosophy of environmental virtue that is done holistically by the Prophet Muhammad is a belief in the existence

of interdependence among the creatures of Allah Almighty. Because Allah Almighty created the universe measurably both quantitative and qualitative (see QS Al Qamar: 49) and in a balanced condition (Surah Al Hadid: 7). The nature of interdependence between living beings is a nature of Allah SWT. From this principle the consequence is that if humans corrupt or neglect one part of Allah's creation, then nature as a whole will experience suffering which in the end will also harm human (Sharing, 2010).

3. Islamic Social Reporting (ISR)

Tabel 1. Forms of Accountability and Transparency in ISR

| | |
|--|--|
| <p>ISR Objectives:</p> <ul style="list-style-type: none"> • As a form of accountability to Allah SWT and society. • Improving the transparency of business activities by presenting relevant information with regard to the spiritual needs of Muslim investors or Shariah compliance in decision making. | |
| <p>Forms of Accountability:</p> <ol style="list-style-type: none"> 1. Provide a halal and good prduk 2. Meet the rights of God and society 3. Pursuing a reasonable profit in accordance with Islamic principles 4. Achieving business goals. 5. Become an employee and community 6. Ensure ecologically sustainable business activities 7. Making work a form of worship | <p>Forms of Transparency:</p> <ol style="list-style-type: none"> 1. Provide information on all halal and haram activities conducted 2. Provide relevant information on financing and investment policies 3. Provide relevant information regarding employee policies 4. Provide relevant information about the relationship with the community 5. Provide relevant information on resource use and environmental protection |

4. Financial performance

According to Helfert in (Widyastuti, 2006) financial performance is the result of many individual decisions made continuously by management. Performance measurement using Return On Investment (ROI). Return on investment is the ratio between net income after tax with total assets.

Hypothesis

- H₁: The disclosure level of investment and funding, of Sharia Banks based on ISR Index has an effect on Financial performance
- H₂: The Disclosure lefel of products and services, of Sharia Bank based on the ISR Index has an affects on Financial performance
- H₃: The disclosure level of employees, of Sharia Bank based on the ISR Index has an affects on Financial performance
- H₄: The disclosure level of Sharia Banks based on ISR Index has an effect on Financial performance
- H₅: The environmental disclosure rate of Sharia Banks based on the ISR Index has an affects on Financial performance
- H₆: The disclosure level of corporate governance, of Sharia Banks based on ISR Index has an effect on Financial performance.

2. Research Method

The sampling process of this research using purposive sampling method. There are 12 BUS. Variable operational deviation

Financial Performance (ROI)

Return on investment is a ratio that shows how much net profit obtained by the company when

measured from the value of the asset (Syafri, 2008: 63). Return on Investment is calculated by the formula:

$$\text{ROI} = \frac{\text{Net profit after tax}}{\text{Total assets}} \times 100\%$$

Islamic Corporate Social Responsibility Index

To analyze the Corporate Social Responsibility of sharia banking, an analysis content consisting of 6 (six) disclosure themes, namely Fund and Investment Themes, Products and Services Themes, Employee Themes, Community Themes, Themes of the Environment and Themes of Corporate Governance. From each theme there is a sub-theme of disclosure that totals 45 (forty five) sub-themes. The Check List is attached to the attachment section.

After determining ISR index component, ISR index score on BUS is performed by giving score on each index of ISR expressed in BUS annual report. If there is a sub-theme that is revealed it will get a score of "1", and if not then it will get a score of "0". If all sub-themes are disclosed it will get a score of "45".

The extent of disclosure of the ISR Index on each ISR theme or cumulatively is used as follows: Gustani (2013).

$$\text{INDEX ISR} = \frac{\text{Number of points disclosed}}{\text{Maximum score}} \times 100\%$$

Once the ISR index is known for each theme or cumulatively, it will determine the level of disclosure of social performance of each BUS. In the evaluation of BUS social disclosure performance level, the authors used the approach used by Irwanto in Pramono (2005 in Munawaroh 2007) where the disclosure score was classified

into 4 categories: Very Informative (81-100), Informative

Table 2. Predicate Level of Social Disclosure of Islamic Banking Performance

| Predicate | Value Index (%) |
|------------------|-----------------|
| Very Informative | 81 s/d 100 |
| Informative | 66 s/d 80 |
| Less Informative | 51 s/d 65 |

Data Analysis Method

The data feasibility test is accomplished by the impact test. Hypothesis testing uses SPSS version 22, with 95% confidence level.

3. Discussion

By using purposive sampling, obtained nine sharia banks yng can be used as sample, three years of observation, so that obtained 27 data for the observation. The results of data testing obtained normal distributed data, no heterokedasitas, not multicolariaritas and no autololeration. The feasibility test of the model (F-test) shows the sig value. at 0.026. So it can be concluded adequate model and data processing can be forwarded.

The results of the analysis test show at table 3, that the variable of Funding and Investment Disclosure has no significant effect on the financial performance of sharia commercial bank in Indonesia. The results of this study are consistent and consistent with classical economic theory which states that corporate social responsibility is not worth noting (Fauzi et al., 2009). This study is also supported by research from Rakhiemah et al (2009) found that there is no

significant effect between performance socially with financial performance. CSR in developing countries is driven by external corporate strength such as pressure from international markets and international institutions (Belal and Momin, 2009, p. 1 in Bowrin, 2013).

Disclosure of Products and Services has no effect on financial performance. This means investors do not respond to CSR disclosures that have been done by the company. These results are in line with Adhima (2012) and Waddock and Graves in Fauzi et al., (2009).

Employee Disclosure has no effect on the financial performance of Sharia Commercial Banks. In line with Nurul Fitria Septiadini, 2010.

Public disclosure has no effect on Performance. This means that the large disclosure of ISRs regarding the society of sharia banks in Indonesia has no influence with the improvement of its financial performance. This study concurs with Rizkiningsih (2012) and McWilliam and Siegel in Fauzi, 2009.

The disclosure of the environment affects the financial performance of Sharia Commercial Banks in Indonesia. This means that the extent of ISR disclosure about the environment of sharia banks in Indonesia will have an influence with the improvement of BUS's financial performance.

Disclosure of Corporate Governance significantly affects the financial performance (ROI) of Sharia Commercial Banks in Indonesia. Good Management Theory in Lako (2010) explains that companies capable of managing stakeholders well will be able to achieve better financial performance. Companies that have good corporate social responsibility will get a positive appreciation from stakeholders, so the company

can increase sales and reduce costs that led to increased profit of the company. This agrees with Othman et al (2009) and Adam, in Nor Hadi, (2011).

Tabel 3. Hypothesis testing (T – Test) Statistical test result T Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|------------------------|-----------------------------|------------|---------------------------|--------|------|-------------------------|-----------|
| | B | Std. Error | | | | Beta | Tolerance |
| (Const.) | -1,152 | 2,006 | | -,574 | ,572 | | |
| Funding and Investment | -,027 | ,020 | -,367 | -1,373 | ,185 | ,362 | 2,760 |
| Products and Services | ,012 | ,009 | ,270 | 1,314 | ,204 | ,616 | 1,623 |
| Employees | ,002 | ,016 | ,032 | ,146 | ,886 | ,525 | 1,904 |
| Society | -,009 | ,008 | -,214 | -1,074 | ,296 | ,655 | 1,527 |
| Living environment | -,014 | ,006 | -,554 | -2,360 | ,029 | ,471 | 2,124 |
| Corporate governance | ,042 | ,019 | ,521 | 2,221 | ,038 | ,471 | 2,124 |

a. Dependent Variable: ROI

4. Conclusion

This study aims to examine the role of Social Banking Performance Disclosure to improve the financial performance of sharia banks. This study

uses a sample of Sharia Commercial Banks in Indonesia that publishes annual report. Hypothesis testing using simple regression with 95% confidence level. The main variables used in this study consist of six disclosure themes with ISR indexes, namely funding and investment, products and services, employees, community, environment, and corporate governance. The results of this study indicate the Disclosure of Funding and Investment, Products and Services, Employees and Society has no effect on the Financial Performance of Sharia Commercial Banks in Indonesia. While the disclosure of the Environment and the Manpower Statement of the Company has a significant and significant impact on the Financial Performance of Sharia Commercial Banks in Indonesia.

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