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What Factors Cause the Disclosure of Islamic Social Reporting?

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1 *Abstract*—This study aims to determine the effect of Sharia Governance, Intellectual Capital, profitability, and firm size on the disclosure of Islamic Social Reporting (ISR) on Islamic Banking in Indonesia registered with the Financial Services Authority for the period 2011-2015. The data in this study uses secondary data and retrieved through the site www.ojk.go.id and press release from each Islamic banking and Islamic banking 9 samples obtained are there in Indonesia. The method used is content analysis, namely by giving scoring on every item the disclosure of ISR in the Sharia banking annual report where a value of 1, if Islamic banking did its annual reports on the ISR disclosure and a value of 0, if Islamic banking is not doing its annual reports on the ISR disclosure. The results showed that sharia governance have an impact on disclosure of ISR. This suggests that the higher the Sharia Supervisory Board of trustees, then the higher is also the disclosure of ISR conducted by Islamic banking. Intellectual capital has no effect against the disclosure of ISR because of Islamic banking in Indonesia has not yet seriously enter the intellectual capital in the decision-making process, in particular the disclosure of ISR. Profitability has no effect against the disclosure of ISR, because it has a different way of looking towards disclosure of ISR and company size influence on disclosure of ISR, because the larger the asset owned Islamic banks the possibility of increasingly greater disclosure of ISR conducted by Islamic banking.

1 *Keywords*—islamic social reporting; shariah governance; intellectual capital; profitability; the size of the company

I. INTRODUCTION

Development of an enterprise is inseparable from the social life including the banking sector. Along with the development of Islamic banking in Indonesia has made discussion of sustainability development languid to discuss. The concept emphasized that the activities of the company are not the only economic activity alone (single bottom line), but also on the responsibility towards environmental and social (triple bottom line) [1]. If the company simply gave up on the financial aspect, then it will not guarantee companies can grow in a sustainable way so that required a comprehensive responsibility, namely the responsibility towards economic, social and environmental. An increase in demand from the various stakeholders about the corporate social responsibility report, making a variety of industries including the banking sector needs to provide reports on social responsibility in

annual reports the company [2]. Social responsibility report in Indonesia is regulated in Act No. 40 Year 2007 regarding limited liability company and was followed by the growth of sharia bank in Indonesia encourage Islamic banks to include social responsibility disclosure reports Islamic-based.

The concept of social responsibility disclosure is not new, since it Islam governs not only regulates the relationship of man with God, but also regulate human surrounding environment. Whereas in the social responsibility disclosure-based Islamic oriented not only to explain the contribution of what the company has done in improving the quality of life of communities and the surrounding environment but also the operational suitability that run the company has been in compliance with sharia principles. This shows that social responsibility disclosure-based Islam have relationships with humans. This is made clear in the Quran Al-A'raaf verse 56 that sent a man to keep the nature and At-Taqabun verse 16 which means having to have charity through the alms door and all activities carried out by humans in the world will be accounted for before Allah SWT [3]. Social responsibility disclosure-based Islam have differences with social responsibility disclosure conventionally. Disclosure of Islamic-based social responsibility has differences with conventional social responsibility disclosures. Disclosure of social responsibility is only used as a consideration for users of the report to find out what actions the company has taken in contributing to improving the quality of life of the community and the surrounding environment. Whereas in the disclosure of Islamic-based social responsibility is not only to explain what contribution the company has made in improving the quality of life of the community and the environment but also the operational suitability with sharia principles. This shows that the disclosure of Islamic-based social responsibility has accountability to Allah SWT.

Assessment of social responsibility disclosure-based Islamic index using ISR. The standard of disclosure of ISR has been tailored to Islamic values i.e. the Qur'an and Sunnah as the guidelines and rules set by the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI). Sharia index was first created by Haniffa [4] and then developed by Othman et al., [5]. Index to the ISR that created Haniffa consists of five themes, namely the disclosure of finance and investment, product, employee, society, and

environment [4]. While the index ISR developed by Othman et al., consists of six theme disclosure namely finance and investment, product and service, employee, society, environment, and corporate governance [5].

The ISR index has been developed Othman et al., [5] have incorporated themes corporate governance which has been tailored to Islamic values and the most important part in Sharia Governance Supervisory Board Sharia is the presence of (DPS) and explained that to ensure good service then required the existence of a manager who has the competence and the workers who have the knowledge and ability to run it [6]. Therefore, the company should also be more focus on increased intellectual capital which aims to achieve good returns for shareholders and the company's competitors in the form of the size of the financial statements. Intellectual capital is considered able to provide advantages for the company resulting from the knowledge owned by the company and also the company's resources. So expect to have the intellectual capital of the company will reveal the ISR widely. Qualified human resources in the company can support the work methods that are effective and efficient, so that it can create the optimal products and services that will create increased profit for the company. The profitability of a company owned the capability in generating profits that result in increased value for shareholders [7]. The larger the company earned profit gain will make companies need to disclose information to a wider social but still adequate [8]. The magnitude of the received profit the company and a good business continuity will make the company also continues to grow. The next factor that affect the disclosure of ISR is the size of the company. The larger size companies the possibility of many investors who infuse capital inside, so make demand for the company's increasingly broad reporting information than on the small-sized companies [9]. Therefore, the company is required to provide and disclose the social responsibility report the company performed in the annual report.

Discussion about disclosure of ISR has been researched in them i.e. effected by Othman et al., Sunarsih, and Ferdiansyah, in which his research showed differing results. It is that motivates researchers to do testing again about the factors that affect the disclosure of ISR in Islamic banking [5, 10]. The difference of this research with previous studies is the addition of the free variables that affect the disclosure of ISR i.e. sharia governance and intellectual capital.

Based on the above background, the research question is whether sharia governance, intellectual capital, profitability and company size influence on disclosure of ISR on Islamic banking in Indonesia during the period of 2011-2015?

This research aims to know the influence of sharia governance, intellectual capital, profitability, size of the company against the disclosure of ISR.

Sharia governance have differences with good corporate governance, namely in terms of compliance with sharia in running the operations of the company. So the existence Sharia Supervisory Board (DPS) became important in the implementation of corporate governance in Islamic banks. Research conducted by Grassa that Islamic governance score significant positive effect against widespread disclosure of

CSR [11]. Where the higher-scoring results of Islamic governance score then the higher index a meaningful ISR will more and more also disclosure of CSR which do Shafii declare Islamic governance score has however not significant positive relationship with the level of disclosure of CSR [12]. DPS in great numbers with diverse perspectives and experiences can lead to a review in the company reporting better especially in terms of corporate governance and corporate social reporting. Thus the first hypothesis in this study was:

H1: Sharia Governance effect positive towards the level of disclosure of Islamic Social Reporting.

Intellectual Capital (IC) related to human resource that will handle the company's social responsibility activities. The IC consists of the influence of Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE) Self-employed and Capital Efficiency (CEE). Intellectual capital has an influential role was positive with the CSR, so that every element of Intellectual Capital shows that there is influence by the CSR [13]. The role of intellectual property itself as material considerations regarding the role of increasing resources in the company's financial activity and financial performance [14]. The higher the Intellectual Capital of the company then owned the greater also the company's ability to grab the competitive advantage in the company, including in terms of social responsibility and the environment [14]. Thus the second hypothesis in this study are:

H2: Intellectual Capital disclosure level against positive influential Islamic Social Reporting

Profitability is a company's ability in generating profits, so as to enhance the value of shareholders. According to Haniffa [4] in Islamic view of companies that have the intention to do a full disclosure will not consider whether the company's profit or loss and according to Othman et al., [5] states that influence profitability significantly over the disclosure of ISR, which declared the company with high profitability likely will provide more detailed information, because companies want to convince investors and the other companies will report users profitability company and also companies that have high profitability also have more opportunity to do with social responsibility has the trust of investors and other interested parties. Based on research conducted Othman proves that profitability had a significant positive influence towards the level of disclosure of ISR [5]. Thus, this study suggested that a company with high profitability will be doing a more detailed disclosure about the social responsibility of companies do. Thus the third hypothesis in this study was:

H3: influential positive profitability against the level of disclosure of Islamic Social Reporting.

The size of the company is more often shown with total assets owned by the company. Companies with a large size is certainly is a great company. Large companies have financing, facilities and human resources who can do more so that a more appropriate disclosure [5]. Still according to Othman that large companies as measured by total assets will provide higher disclosure to indicate the existence company that has conducted its social responsibility. The existence of significant influence over company size disclosure of ISR [5,9,15]. Based

on the results of the research that has been done before, then the hypothesis in this study was:

H4: the size of the company a positive effect against the level of disclosure of Islamic Social Reporting.

II. METHOD

This research is quantitative research using secondary data. The research method used is content analysis. The data used in the study is the data panel i.e. annual report Islamic banking in Indonesia 2011-2015 period that can be accessed through the website of each of the existing Islamic bank in Indonesia. The population in this research is the whole Islamic banks in Indonesia which is registered in the financial services authority during the year 2011-2015. Sample in this research were chosen by purposive sampling method with the following criteria: (1) the sharia Bank that publishes and presents annual report 2011-2015-year observation period. (2) Islamic Bank which owns the completeness of data in accordance with the research. Based on these criteria the sample in this research obtained 9 2011-2015 periods of Islamic banks.

III. RESULT AND DISCUSSION

Test of normality in this test using a normal graph analysis with P-P plots and Kolmogorov-Smirnov Test with significant levels of 0.05 and normality test results indicate that the normal distributed regression model. Multicollinearity test is done by analyzing the correlation between variable by using the calculation of the values of tolerance and variance inflation factor (VIF) and the results show there is no variable independent tolerance value is less than 0.10 and less than 10, and concluded there is no multicollinearity. Heteroscedasticity test is performed by the glejser test and done with the retrieved value above their significant confidence level probability 5% and inferred free from heteroscedasticity. Autocorrelation test done with test Durbin Waston (DW-Test) and DW values obtained of 1.834. While the value of the lower limit (dl) of the upper limit value and 1.7762 (du) of 2.2800. Thus, the retrieved value DW value between du and dl-4 (du < DW < 4-du). So it can be concluded that the regression model is independent of autocorrelation.

Based on the result of data processing, the adjusted R square value is 0.529. This means that 52.9% variation of the disclosure of ISR can be explained by the variable sharia governance, intellectual capital, profitability, and the size of the company. While 47.1% disclosure of ISR can be explained by other variables not examined in this study.

T test aims to find out whether the independent variable is partially dependent variables significantly to influential and to examine further where among the influential independent variables significantly to disclosure of ISR. The results of testing against the research hypotheses based on t-test as follows:

Sharia governance variables have significant value of 0.040 smaller $\alpha = 0.05$ and t has a count of 2.127. This means the first hypothesis is accepted which means that sharia governance variable positive effect against disclosure of ISR. As such, that when sharia governance applied in the Islamic bank, then the

disclosure of ISR index also will be higher. The next variable intellectual capital value is significantly larger 0.830 $\alpha = 0.05$ and t has a count of 0.216. This means that the second hypothesis is rejected which means that variable intellectual capital has no effect against the disclosure of ISR. Thus, the increasing intellectual capital in Islamic banks have no effect against the disclosure of ISR. A variable has a value of significant profitability of larger 0.449 $\alpha = 0.05$ and has t count-0.764. This means the third hypothesis was rejected, which means that the variable profitability had no effect against the disclosure of ISR. Thus, the greater profitability of Islamic banks has no effect against the disclosure of ISR. Variable size of the companies have significant value of 0.000 smaller $\alpha = 0.05$ and t has a count of 7.195. This means the fourth hypothesis is accepted, this means that the variable size of the company's influence on disclosure of ISR. Thus, the larger the asset owned Islamic banks have no effect against the disclosure of ISR.

The first hypothesis in this study was a positive effect against sharia governance disclosure of ISR. The test results show that the level of significant 0.0040 smaller than $\alpha = 0.05$ and t has a count of 2.127. The results showed that the first hypothesis states that sharia governance positive effect against disclosure of ISR accepted. This proves that the higher the sharia governance carried out by Islamic banks, the higher ISR disclosure is done [4]. Where the higher activity of the DPS in the review and give suggestions for improvement activities by Islamic banks that do not comply with sharia principles it will be increasingly higher levels of disclosure of ISR to be provided to Muslim investors and users report other Muslims.

The second hypothesis in this study was a positive effect against IC disclosure of ISR. The test results show that the level of significant 0.830 greater than $\alpha = 0.05$ and t has a count of 0.216. The results show that the second hypothesis states that positive effect IC against disclosure of ISR was rejected. So it can be said to be not affect to variable IC in disclosure index ISR in the study made possible the sharia bank in Indonesia currently is still not serious about entering the IC into the consideration used to take decisions included in the disclosure of ISR. This is in accordance with the research conducted [14] that IC has no effect against the disclosure of ISR.

The third hypothesis mentioned that profitability is a positive effect against disclosure of ISR. The test results showed that significant value 0.449. Significant value is greater the larger $\alpha = 0.05$ and has t count-0.764. This suggests that the third hypothesis which States that the profitability of a positive effect against disclosure of ISR is rejected. This illustrates that high low profitability does not affect disclosure of ISR. This influenced how different companies point of view about the profit that is there are some companies who have viewpoints that only profit-oriented because of the existence of social responsibility disclosure According to them only as deduction on profits only. There are unisex which has the opposite view points that by having the profitability of Islamic banking have freedom in expressing social responsibility. The results of this study are in line with research Patten [9] who did not find the existence of a positive influence between profitability with disclosure of ISR.

The fourth hypothesis states that the size of the positive company effect against disclosure of ISR. The test results showed that significant value 0.000. Significantly less value $\alpha = 0.05$ and t has a count of 7.195. This shows that the hypothesis which states that the size of the company a positive effect against disclosure of ISR is accepted. These results show that large companies tend to have higher information disclosure compared to companies that are small because of the size of a large company then the responsibility the company will be the welfare of the community and the surrounding environment will be increasingly noticed by the muslim investors and users report other Muslims. Besides large companies considered more has the ability to provide more extensive disclosure. The results of this study are in line with the research that proves that total assets can affect social responsibility disclosure [9].

IV. CONCLUSION

The results of this research concluded that sharia governance effect on disclosure of ISR. This may imply that the higher activity of the DPS in the review and give suggestions for improvement activities by Islamic banks, it will be increasingly higher levels of disclosure of ISR which will be given to muslim investors and the users report other Muslims. IC has no effect against the disclosure of ISR. This shows that Islamic banks in Indonesia are still not yet seriously enter the IC in consideration for a decision. Profitability has no effect against the disclosure of ISR. It is influenced by how different Islamic banking perspective of profitability. There are some who consider that the ISR as a deduction of profit and There are also some that are contradictory. This can mean that the high low levels of profitability do not affect the broad disclosure of ISR. The size of the companies that have an effect on ISR. Large-sized banks tend to have a higher information disclosure as compared to the smaller Islamic banking. With the size of a large company then the company will be the responsibility of the well-being of the community and the surrounding environment will be increasingly noticed by investors.

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