The Influence of Islamic Social Reporting to the Return on Asset
(Case study of Islamic Banks in Indonesia)

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Abstract

This study was to determine the effect of disclosure of Islamic social reporting to the return on assets in Islamic banks in Indonesia by using descriptive and statistical analyses. The used samples were nine syariah banks in Indonesia which publish annual reports and CSR reports for the period of 2012-2015. The disclosure ISR was done by the analysis of content through the scoring method. The scoring results showed that the average disclosure ISR index could be said to be good, which was equal to 64.34%, 63.88%, 66.41% and 71.98% during four periods respectively. The descriptive analysis results of study showed that the average disclosure ISR was highest in 2015 as 71.98%. The highest level of disclosure ISR respectively during the period 2012-2015 was Bank Syariah Mandiri, the percentage reached 77.08%. The lowest one was Panin Bank Syariah that reached the percentage of 64.58%. The results were also obtained the averages of ROA during the period 2012-2015 as
1.66%, 1.32%, 1.22% and 1.09% respectively. The results showed that the exposure of Islamic Social Reporting was not significant impact to the return on assets, amounted to 5.70% variable Y (ROA) which could be explained by the X variable (ISR).

Keywords: CSR, disclosure, Islamic social reporting, return on assets, syariah banks.

1. INTRODUCTION

Today, economic activity and trade are increasingly open. They have caused the level of competition among business units become more competitively. Companies compete to each other to seek profitability alone, so sometimes neglect aspects of social enterprise. However, thinking about it now has changed. Davis, a professor at Arizona State University, emphasized the importance of CSR. CSR (Corporate Social Responsibility) is generally defined as an obligation that must be carried out related to the company's social life. Corporate Social Responsibility (CSR) has now become a concept that we often hear. In Indonesia, the concept and implementation of CSR in accordance with Article 74 of the Company Law (Law limited liability company), ie the Law number 40 of 2007. By this law, the company must perform its obligations in question that not burdensome.

Currently, the Corporate Social Responsibility (CSR), a discourse that is being raised in the world of multinational companies. The development of Corporate Social Responsibility (CSR) in Indonesia has increased, both in quality and quantity than those from previous years. The development of CSR in Islamic economics also increased public attention to the institution of syariah. That case is caused by the public needs to know more within the agency or institution of syariah, the greater over time.

Currently, it is the flare discussion to the Islamic Social Reporting related to the disclosure requirement regarding ownership in the social responsibility of syariah. Reporting social responsibility that is developed by using syariah Islamic Social Reporting Index. ISR index is a measure of social performance of Islamic banking which contains a compilation of the items standard CSR set by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), which was then further developed by the researchers regarding the items of CSR that should be disclosed by the Islamic entity. ISR index is believed to be widened base in terms of CSR disclosure standards in accordance with the Islamic perspective.

The research that looked at factors affecting the Islamic Social Reporting (ISR) conducted by Raditya (2012) [1] studied the factors those influence the ISR on companies entering the list of Islamic securities and the results showed that the
issuance of sukuk (legal instrument, deed, cheque) did not have influence significantly. The company size and profitability have significant positive effects on ISR and the industry types do not have significant effect on the ISR. The ratio of profitability was measured by ROA measure. The effectiveness of overall management is shown by the size of profit level of s in connection with the sale or investment. The better the profitability ratio, the better the ability of company profitability. The return on assets focus on the company's ability is to obtain earnings from the company's operations. Thus, in this study, the return on assets was used as the measure of profitability and performance of Islamic banking. So far, the research on disclosure of Islamic Social Reporting on Islamic banking that generally conducted in Indonesia was still very low and limited compared to other countries. Based on this thinking, the researchers were interested in conducting research on testing how the "Influence Disclosure of Islamic Social Reporting (ISR) Against the Return On Asset (ROA)" on Islamic Banks in Indonesia in 2012-2015.

Based on the above description, regarding the influence of Islamic Social revealed the reporting on Return on Asset, it could be the formulation of problem as follows.

1. Knowing how the development of Islamic Social Reporting disclosure on the Islamic commercial bank in Indonesia for the period 2012-2015.
2. Knowing how the development levels of ROA at the Islamic commercial bank in Indonesia for the period 2012-2015.
3. Knowing how the influence of Islamic Social Reporting disclosure to ROA at the Islamic commercial bank in Indonesia for the period 2012-2015.

2. LITERATURE REVIEW

CSR (Corporate Social Responsibility) is generally defined as an obligation that must be carried out related to the company's social life. The development of Corporate Social Responsibility (CSR) in Indonesia has increased, both in quality and quantity than those from previous years. The development of CSR in Islamic economics also increased public attention to the institution or the institution of syariah. This case caused by the public need to know more within the agency or institution of syariah, the greater over time. Currently, the flare discusses the Islamic Social Reporting related to the disclosure requirement regarding ownership in the social responsibility of syariah. The reporting of social responsibility is developed by using syariah Islamic Social Reporting (ISR) Index. ISR index is a measure of social performance of Islamic banking which contains a compilation of items standard CSR, set by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), which was then further developed by the researchers regarding the items of CSR that should be disclosed by an Islamic entity. ISR index is believed to be widened base in terms of
CSR disclosure standards in accordance with the Islamic perspective. ISR was first conceived by Ross Haniffa in 2002 [2], in his article titled "Social Reporting Disclosure: An Islamic Perspective". ISR was further developed more extensively by Rohana Othman, Azlan Md Thani, and Erlane K Ghani in 2009 [3] in Malaysia and the current ISR is still being developed by researchers. ISR is the standard social performance reporting companies based on syariah. This index was developed with the base born of reporting standards by AAOIFI which was then developed by each subsequent researchers.

Islamic Social Reporting is an extension of social reporting which includes not only people's expectations regarding the company's role in the economy, but also the company's role in the spiritual perspective (Haniffa, 2002). Islamic Social Reporting emphasis on social justice related to reporting on environment, minority rights, and employees.

ISR index is composed of several related research with particular reference to the Othman et. al (2009) which expresses the theme disclosure of Islamic Social Reporting. Every theme has a sub-theme as an indicator of theme disclosure. Some items below are six themes disclosure of Islamic Social Reporting.

1. Financial and Investment Themes

The important information that must be disclosed in the financial and investment themes is include interest-fee (riba) and speculative-fee (gharar) which is absolutely prohibited under Islamic syariah, according to the word of Allah Ta'ala in Al-Quran, surah Al-Baqarah verse 278-279 (Haniffa, 2002).

2. Products and Service Themes

According to Othman et al (2009), some necessary aspects were expressed on these themes were the status of halal products and services those were used on consumer complaints. In addition, the complaint customer service must also be a priority of Islamic banks in order to maintain customer confidence. Today, almost all aspects of business service for their customers or clients, because the good service would have an impact on the level of customer loyalty.

3. Employees Theme

In the ISR, everything associated with employees is originated from the concept of ethics and fairness mandate. The information related to wages, the nature of work, the support of education and training and equal opportunities should be disclosed in the annual report. The employees must be treated and paid fairly and in accordance, with
the employer shall ensure compliance with the basic obligations of employees, such as spiritual needs (Haniffa, 2002). The other aspects were written by Othman et al (2009) which was a remuneration policy for employees, equal career opportunities for all employees of both men and women, health and safety of employees, employee involvement in company policy, employees of special groups such as the physically disabled or victims drugs, adequate places of worship, as well as the time or religious activities for employees. Additionally, Haniffa and Hudaib (2007) [4] also added some aspects of disclosure in the form of welfare of employees and the number of employees employed.

4. Community Themes
Haniffa (2002) explained that the basic concept underlying this theme was the ummah, trust and fair. The concept emphasized the importance of sharing and relief to the people in the community and it could be realized through sadaqah (social activities), endowments, and qard hasan (lending money without interest / benefit), and these activities should be disclosed by the company. While some aspects of the other were developed by Othman et al (2009) of whom were volunteers from among the employees, granting scholarships, empowering business school graduates or students in the form of internships, youth development, improved quality of life for the poor, care for children, charities or social, and support to health-related activities, entertainment, sports, culture, education and religion.

5. Environmental Themes
The underlying concept of environmental themes in the ISR was the concept mizan (balance), i'tidal (middle), and akhirah caliphate. The concepts were based on the principles of balance, the middle, and the responsibility to protect the environment, so that the information related to the use of resources and programs that were used to criteria such as the conversion of the environment, activities reduce the effects of global warming, environmental education, independent verification statement or environmental audits and environmental management.

6. Governance Companies
The theme of corporate governance in the ISR was the addition of Othman et al (2009) in which this theme could not be separated from the company in order to ensure supervision on aspects syariah companies. Formally, the corporate governance can be defined as a system of rights, processes, and controls overall are set internally and externally over the management of business entity for the purpose of protecting the interests of stakeholders.
Munid (2007) [5] described the four principles of corporate governance in Islamic economics, namely:

a. Accountability
In terms of accountability, Muslims must believe that whatever has been done on the earth would have no reward in the hereafter later. Therefore, humans must run the command of Allah Ta'ala solely to attain His pleasure.

b. Transparency
The concept of transparency contained in the Quran surah Al-Baqarah verse 282

c. Justice
The principle of fairness contained in the word of Allah Ta'ala in Q.S. An-Nisaa: 58

d. Responsible
The concept of responsibility is closely related to the concept of accountability.

The ISR theme of corporate governance was an additional theme of Othman et al (2009), where the theme of corporate governance could not be separated from the company in order to ensure the supervision of the syariah aspects of the company. The explanation ISR index above was an adjustment to the theme of research, namely the Islamic bank. The implementation of ISR index in Islamic banks have differences with the implementation by other Islamic industry, because of the characteristics of different industries.

The profitability ratios measured the effectiveness of overall management of the size indicated by the level of profits in connection with the sale or investment. The better the profitability ratio, the better the ability of the high profitability of the company.

The profitability was an appropriate indicator to measure the performance of bank and its ability to compete. One of indicators used to measure the level of profitability was through Return on Assets (ROA) or return on assets ratio.

According to Lestari and Sugiharto (2007: 196) [6], ROA was the ratio used to measure the net benefits derived from the use of the asset. The higher this ratio, the better the productivity of assets in net profit. Thus, the ROA formula was used by the
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author in this study are as belows.

3. RESEARCH METHODS

The population used in this study were all Islamic banks in Indonesia. Based on data obtained from Bank Indonesia's population, in this study, the total were 11 banks. Based on the obtained data from the official website of Islamic banks, the population in this study was an Islamic commercial banking sector during the study period the total of 11 banks. The sampling was done by the purposive sampling method. The sample in this study was that the banks published the annual financial reports (annual report) as well as other information during the observation period from 2012 to 2015 and the bank that issued and publish social responsibility reports of companies during the observation period 2012-2015. To identify the disclosure ISR used content analysis with how to read and analyze the company's annual report. Furthermore, after the specified index components ISR, ISR did scoring index on Syariah Commercial Bank, namely by giving scores on each index ISR disclosed in the annual report the Common Syariah Banks. If there was a sub-theme was expressed, it would receive the score of 1, and if not, it would receive the score of 0. If the entire sub-themes would be given a score -48. After disclosed scoring (scoring) on indeks ISR completed, the amount of disclosure level could be determined by the following formula of

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IRS \text{ index} = \frac{\text{The expressed point number}}{\text{Maximumscore number}} \times 100\%
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(1)

4. RESULTS AND DISCUSSION

Percentage disclosure of Islamic Social Reporting (ISR) in the respective syariah banks in Indonesia. In whole sample studied Islamic banks during the period 2012-2015 that in 2012 an Islamic commercial bank with the highest index value was equal to 75% BNI bank, later in 2013 BSM was the bank amounted to 72.92%, in 2014 was the BCA bank as 72.92% and 2015 was BSM bank amounted to 77.08%. When viewed from the entire Islamic commercial bank that was being sampled in this study, the average total growth rate during the 2012-2015 ROA decreased levels of ROA of 1.66% in 2012 to 1.32% in 2013, to 1.23% in the year 2014 and the drastic decline occurred in year 2015 with an average ROA reached 1.10%.

The test results of descriptive statistics above show that in this study the variables Islamic Social Reporting (ISR) has the minimum value of 54.17 and the maximum value of 77.08 with the average value of 66.6669 and a standard deviation of 6.33856. Variable Return On Asset has the minimum value of 0.08 and the
maximum value of 3.57 with the average value of 1.3278 and the standard deviation of 0.78091. ISR disclosure variable had the value \( t_{count} \) of -1.430 with the significant value of 0.022. While \( t_{table} \) could be seen in table \( t \) with the significant level used was 0.05 or 5% to the value of \( df = n-2 \) (df = 36-2 = 34; 0.05, \( t \) table was 1.69092). Based on the statistical test showed that \( t < t_{table} \) was -1.430 <1.69092 then \( H_0 \) was accepted, which meant that there was no significant effect of disclosure of Islamic Social Return On Asset Reporting to the Islamic banks were to be sampled in the study. The equation of the known value of \( R^2 \) was 0.057, it meant that the variable 5.70% Return on assets could be explained by the disclosure of Islamic social reporting and the remaining 94.3% was explained by other variables outside the Islamic social reporting disclosures that were not included in this study. It could be concluded that the influence of Islamic disclosure of social reporting against Return on assets in Islamic banks were being sampled in this study was still very weak.

5. CONCLUSION

The results of research and discussion were used in accordance with the purpose hypothesis was done by simple linear regression analysis, it could be concluded that the results of research based on analysis of nine Islamic banks into the sample from year 2012 to 2015 showed that the disclosure of Islamic social reporting did not significantly influence the return on the assets. This was evidenced by \( t_{count} \) of -1.430 with the significant level of 0.022 (<0.05).

6. SUGGESTIONS

Implications of advice that could be delivered in this study were as follows.
1. For the regulator governing Islamic banking in Indonesia, in this case, it was in order to create and improve the social performance reporting standards for Islamic banking better and refers to the ISR index.
2. For Islamic banks to be able to continue to improve the level of ISR development through the annual report or other communication media.
3. For the next researcher who wish to assess the level of disclosure ISR Islamic bank with the index ISR, the ISR should continue to develop an index that was really relevant to be applied in Islamic banks. In addition, the researchers suggest the sample, the number of periods and the independent variables were used so much propagated that research results could be generalized to the right.
REFERENCES


