

THE EFFECT OF ISLAMIC GOVERNANCE SCORE AND INVESTMENT ACCOUNT HOLDER ON THE DISCLOSURE OF ISLAMIC SOCIAL REPORTING AT ISLAMIC BANKS IN INDONESIA

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Abstract

This study aims to determine the effect of Islamic Governance Score (IG-Score) and Investment Account Holder (IAH) on Islamic Social Reporting (ISR) Disclosure. This research was conducted on Islamic banks registered with the Financial Services Authority for the 2016-2020 period and obtained 11 samples of Islamic banks. The method used is the panel data regression analysis method. The results showed that the IG-Score and IAH had an effect on the ISR design. IG-Score has an effect on ISR Disclosure, this shows that the presence of Shariah Supervisory Board (DPS) affects and encourages Islamic banks to carry out or improve ISR performance. IAH has an effect on ISR, in this case IAH determines compliance with Islamic banking principles and the consequences for ISR.

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1. Introduction

The Islamic economy is currently experiencing a fairly rapid development. More and more sharia-based companies have sprung up over time. One of the financial institutions that is identical to sharia regulations is Islamic banks. The rapid development of Islamic banks also encourages Islamic banks to be able to report their social responsibilities in accordance with Islamic sharia principles to assess their financial performance. Disclosing social responsibility will have an impact on banking performance (Sutapa and Hanafi, 2019).

The increasing demand from stakeholders for companies to carry out their social responsibility roles and disclosures encourage the involvement of companies in Corporate Social Responsibility (CSR) practices. CSR is a general statement that shows the company's obligation to utilize economic resources in operations to provide and contribute to internal and external stakeholders (Anwar and Rajab, 2019).

In addition to developing in conventional economics, the concept of CSR is also developing in Islamic economics. For Muslim users who want sharia disclosure, the desired disclosure does not only explain what actions are to improve the quality of life of the community and the surrounding environment, but also disclosures about whether the company's operations are in accordance with Sharia. The Shariah Supervisory Board pro-

a conceptual framework for reporting social responsibility based on Islamic principles known as Islamic Social Reporting (ISR).

A reporting framework needed for Muslim stakeholders as an accountability to Allah SWT also increases the transparency of business activities by providing relevant the need for disclosure of social responsibility in Islamic banking today, there is a lot of discussion about the Islamic Social Reporting Index called (the ISR Index). The ISR index contains a compilation of standard CSR items set by AAOFI (Accounting and Auditing Organization for Islamic Financial Institutions) which is then further developed by researches regarding CSR items that should be disclosed by an Islamic entity to determine the extent to which activities are implemented. Islamic-based social media in the company's annual report (Suryadi and Lestari, 2018).

Research on Islamic banking is important, especially using the Islamic Social Reporting index, because this index can provide information to the public and show ethical accountability of Islamic banking performance to stakeholders to assist them in making decisions (Mardiyah et al., 2020). The measurement of social responsibility disclosure used by Islamic banking still uses the Global Reporting Index (GRI) as a reference, even though currently there are many issues regarding the use of Islamic Social Reporting (ISR) in accordance with sharia principles.

The development of ISR in Indonesia is still very slow when compared to other Islamic countries. This is due to the disclosure of ISR which is still voluntary in Islamic Commercial Banks in Indonesia. This situation is compounded by the absence of special regulations that explain and regulate the disclosure items of the ISR index. Research on CSR disclosure in Islamic banking using the ISR index is still limited. Therefore, it is necessary to conduct further research on the factors that influence the disclosure of ISR at Islamic Commercial Banks in Indonesia.

Should the largest Muslim population in the world be able to make Islamic Social Reporting an important matter for the reputation and performance of Islamic financial institutions, because by disclosing ISR, Islamic financial institutions that can disclose their ISR very well will be seen as institutions that can be trusted by the public. Muslim community in channeling their funds.

This is evidenced by the results of research Asriati et al., (2016) shows that the level of implementation and disclosure of Islamic banking social responsibility in Indonesia is lower than Islamic banking in Malaysia. This can be seen from the average disclosure level score obtained by Islamic banks in Malaysia which is higher than in Indonesia during 2012-2014. The social performance of Islamic banking in Indonesia each year has increased by $\pm 8.5\%$, as well as the social performance of Islamic banks in Malaysia has increased during 2012-2014, which is $\pm 9\%$.

The factor in the disclosure of Islamic Social Reporting (ISR) is the Islamic Governance Score (IG-Score). The IG-Score is part of the corporate governance theme which is proxied by the ideal characteristics of the Shariah Supervisory Board is an institution that has a function as a supervisor for the activities and activities of Islamic banks in order to avoid things that are unlawful or not in accordance with Islamic principles. The better the IG-Score, the better the level of CSR disclosure carried out by Islamic banking. The IG-Score is assessed based on several points related to the ideal characteristics of a Shariah Supervisory Board (Widiastuti and Firman, 2019).

Research result Fadhila and Haryanti (2020) that the partial test results show that the Islamic Governance Score has a significant effect on the ISR disclosure of Islamic commercial banks in Indonesia. While the research results Suryadi and Lestari (2018) shows that partially the Islamic governance score variable does not have a positive influence on the disclosure of Islamic Social Reporting.

The next factor in the disclosure of the next ISR is the Investment Account Holder (IAH). Investment Account Holder is a banking ownership structure whose funds come from customers. The higher the proportion of Investment Account Holders, the greater the supervision of Islamic banks to disclose their social responsibilities. Research on the effect of IAH on ISR disclosure also shows different result. Research conducted Mais and Lufian (2018) that the IAH variable has a significant effect on CSR disclosure based on the ISR index in Islamic commercial banks. While the research results Yudhiyati and Solihin (2016) the results of the study show that IAH has no significant effect on CSR.

Based on the explanation of the factors that influence the disclosure of Islamic Social Reporting (ISR) and the differences in the results of previous studies that are not consistent, the researcher is motivated to examine the extent to which Islamic banking companies registered with the Financial Services Authority (OJK) show social responsibility proxied into Islamic Social Reporting (ISR). Based on the above background, the

research questions are: (1) Does the Islamic Governance Score affect the disclosure of ISR? (2) Does the Investment Account Holder affect the disclosure of ISR?. This study aims to determine the effect of Islamic Governance Score and Investment Account Holder on the disclosure of ISR in Islamic banks registered with the Financial Services Authority for the 2016-2020 period.

2. Research Method

The strategy used in this study uses causal associative (Causal Relationship). The type of research used in this research is quantitative research. This study uses time series data, namely the 2016-2020 financial statements, in testing the hypothesis, the researcher uses Eviews software version 10 and the data source used in this study is secondary data obtained from the official website of each Islamic Commercial Bank which publishes its annual report in the 2016-2020 period.

The population of this research is the Islamic Banks contained in the Financial Services Authority in 2016-2020, namely as many as 14 Islamic Banks. The sample in this research is 11 Islamic banks, the sampling method is purposive sampling According to Sanusi, (2014:95) purposive sampling technique is a sampling method based on certain considerations. The criteria for the sample data taken in this study are Islamic Commercial Banks that have been officially registered with the Financial Services Authority (OJK) until 2020, Islamic Commercial Banks that publish Annual Reports during the 2016-2020 period, Islamic Commercial Banks that provide complete information about the variables to be studied.

The dependent variable in this study is Islamic Social Reporting. This variable can be done by giving a score on the component items that make up the ISR in the annual report of the Islamic Bank. These items are based on Islamic values adopted from research by Haniffa (2002), Othman et al., (2009) with some adjustments. The main components of the ISR Index consist of six indicators, namely investment and finance, products and services, employees, society, environment and corporate governance. The six indicators were developed into 50 items. Based on the ISR index model, scoring is done, namely a value of 0 for items that are not and a value of 1 for items that are. After presenting the score (scoring) on the ISR index, the level of disclosure can be determined by the formula:

$$\text{Disclosure Level} = \frac{\text{Number of Disclosures Fulfilled}}{\text{Maximum Total Score}}$$

The independent variables in this study are Islamic Governance Score and Investment Account Holder. The first independent variable is the Islamic Governance Score, Islamic Governance Score (IG-Score) is a proxy for the characteristics of the Shariah Supervisory Board which is seen based on the number, concurrent positions, educational background, and reputation. Members Shariah Supervisory Board measurement of Islamic Governance Score is done using content analysis by scoring. Which is measured based on the characteristics of the Sharia Supervisory Board. In this study, the IG-Score was measured using criteria consisting of four characteristics. Each item that meets these characteristics is given a value of 1 as shown in the following table:

Table 1.

No	SBA Characteristic	Fulfill	Not Fulfill
1	Number of Members of the Sharia Supervisory Board	1	0
2	Cross Members of the Sharia Supervisory Board	1	0
3	Educational Qualifications of Sharia Supervisory Board Members	1	0
4	Insight of Sharia Supervisory Board Members	1	0

Source: Farook et al., (2011) in Widiastuti and Firman (2019)

The second independent variable is the Investment Account Holder. According to Wijaya et al., (2020) Investment Account Holders are part of Corporate Governance, namely the ownership structure element. Ownership structure is a form of ownership in banking institutions whose sources come from customer funds or in this study proxies with temporary syirkah funds.

$$IAH = \frac{\text{Temporary Syirkah Fund}}{\text{shareholder's paid-in capital}}$$

The panel data regression model is as follows :

$$ISR D = \alpha + \beta 1 IGSit + \beta 2 IAHit + eit$$

Description :

- ISR D : Islamic Social Reporting Disclosure
 A : constant
 $\beta 1 IGSit$: Regression coefficient of Islamic Governance Score of company i to period t
 $\beta 2 IAHit$: Regression coefficient of Investment Account Holder of company i on period t
 eit : Error perusahaan ke i pada periode t

3. Results and Discussion

The normality test in this test uses a histogram with the Jarque Bera statistical test, with a significance level of 5%. The normality test results show that the variables used in the regression model are normally distributed. Multicollinearity testing is done by analyzing the correlation between variables using the calculation of the correlation matrix value between the two independent variables is less than 0.80, then it is identified that there is no multicollinearity. The test results show the correlation value between the independent variables 0.80, it can be concluded that there is no multicollinearity. Heteroscedasticity test was carried out by the Glejser test. Based on the results of the Glejser test are the significance probability values above the 5% confidence level. So it can be concluded that the regression model is free from heteroscedasticity. Autocorrelation testing was carried out with the Durbin-Watson test (DW-Test). Based on the test results obtained auto Durbin Watson (DW) correction value is 2.212536. While the lower limit value (dl) is 1.4903 and the upper limit value (du) is 1.6406. So, the value of DW is between du and 4-dl values (du DW < 4-du). So it can be concluded that the independent regression model of autocorrelation.

Table 2 Coefficient Determination Results

R-squared	0.643931	Mean dependent var	0.827818
Adjusted R-squared	0.630236	S.D. dependent var	0.057307
S.E. of regression	0.034847	Akaike info criterion	3.822692
Sum squared resid	0.063145	Schwarz criterion	3.713201
Log likelihood	108.1240	Hannan-Quinn criter.	3.780351
F-statistic	47.01951	Durbin-Watson stat	2.212536
Prob(F-statistic)	0.000000		

Based on the test results in Table 1, the adjusted coefficient of determination value is obtained R² of 0.63026 (63.0236%). This means that the ISR disclosure variation of 63.0236% can be influenced by the Islamic Governance Score and Investment Account Holder, while 36.9764% disclosure can be influenced by other variables not examined in this study. Multiple linear The analysis used to obtain the regression coefficient will determine whether the hypothesis will be accepted or rejected. The t-test aims to determine whether independent the variable partially has a significant effect on the dependent variable and to further test which independent variable that has a significant effect on the disclosure of ISR.

Table 3. The t-test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.715640	0.012492	57.28718	0.0000
IGSCORE	0.031317	0.003920	7.988045	0.0000
IAH	0.007306	0.001962	3.722712	0.0005

Based on Table 2 the Islamic Governance Score variable has a significant value of 0.0000 smaller than of 0.05 significance and has a t value of 7.988045 . This means the first one The hypothesis is accepted which means that the Islamic Governance Score variable influences ISR disclosure, it means that the existence of Shariah Supervisory Board influences and encourages Islamic banks to carry out or increase ISR disclosures. Banking with a high IG-Score proves that the serving Shariah Supervisory Board has a minimum number of 2 Shariah Supervisory Board members, there are cross-members, Education Qualifications, Visibility of Members, so that the supervision will be more stringent. Shariah Supervisory Board will try to pressure banks to disclose their social responsibility openly, transparently, and as is in the financial statements. Therefore, the better the IG-Score in an Islamic bank can encourage a wider level of ISR disclosure, and the higher the Islamic Governance Score obtained by a Sharia Commercial Bank, the better the social reporting of the Sharia Commercial Bank.

The results of this study are in line with research conducted by Wijaya et al., (2020) which states that the Islamic Governance Score has a positive effect on the disclosure of Islamic Social Reporting, the better the company's Islamic Governance Score, the better the nature of compliance with Islamic laws and principles and also in issuing sharia reports, and is more involved in corporate social activities including social disclosure through the ISR index. However, this contradicts the research conducted by Sunarto et al., (2020) where the results of this research state that the Islamic Governance Score has no significant effect on the disclosure of Islamic Social Reporting.

Next is the Investment Account Holder variable has a significance value of 0.007306 which is smaller than 0.05, and has a t value of 3.722712. This means that the second hypothesis is accepted, meaning that the Investment Account Holder variable affects the disclosure of ISR, this happens because the amount of capital that comes from customers, banks have an obligation to carry out the disclosure of Islamic Social Reporting as a form of responsibility to the owner of the funds that the funds distributed are used according to Islamic law. , where the greater the amount of third party funds, the company is required to disclose more by stakeholders on the public funds it collects because the management of third party funds has a considerable risk. So the higher the IAH, the wider the disclosure of ISR in Islamic banking.

The results of this study agree with the research conducted by Astuti and Nurkhin (2019) that Investment Account Holders affect the disclosure of Islamic Social Reporting in this case IAH determines the level of compliance with sharia principles of Islamic banks and the consequences for the disclosure of ISR. However, the results of this study contradict the research conducted by Putri and Mardian (2020) which states that CSR disclosure on the ISR index has a negative effect on IAH.

4. Conclusions

Discussion that has been described, the conclusions that can be drawn from this study are that the Islamic Governance Score has a positive and significant effect on the disclosure of Islamic Social Reporting. The results of this study indicate that the level of Islamic Governance Score can affect the disclosure of Islamic Social Reporting. This means that if the level of Islamic Governance Score is high, then the disclosure of Islamic Social Reporting is getting better.

Investment Account Holder influential and significant to the disclosure of Islamic Social Reporting. The results of this study indicate that the level of Investment Account Holder can affect the disclosure of Islamic Social Reporting. This means that if the level of Investment Account Holder increases, the disclosure of Islamic Social Reporting tends to increase.

This study still has limitations, namely the existence of a content analysis method in assessing the disclosure of Islamic Social Reporting, there is an element of subjectivity in determining the ISR disclosure index, because there is no standard provision that can be used as a standard and reference, so that the determination of the same ISR index indicator between researchers can differ in number the items.

Based on the conclusions that have been described, the advice given in this study is for banks based on the results of research that has been done that Islamic Governance Score and Investment Account Holder affect the disclosure of Islamic Social Reporting, therefore banks are expected to increase the number of Shariah Supervisory Board members, cross Shariah Supervisory Board members, qualifications Shariah Supervisory Board Education, and Visibility of Shariah Supervisory Board Members, Shariah Supervisory Board and increasing ISR index disclosure items and increasing third party funds, so that the description above can emphasize wider ISR disclosure as a form of responsibility to Allah SWT and stakeholders.

Furthermore, for government regulators and regulators such as the Financial Services Authority and Bank Indonesia with Standard setters such as AAOIFI, IFSB and IAI jointly stipulate regulations related to practice, disclosure and supervision of social responsibility reporting actions using the ISR index. Although CSR disclosure using the ISR index is still voluntary, regulations related to the ISR index are needed to support Shariah institutions in disclosing social responsibility reports in accordance with sharia principles.

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