

CHAPTER I INTRODUCTION

A. Background

Sharia bank is an institution that carries out activities to collect funds from the public in the form of savings and distribute them to the people who need them in the form of credit or financing. Based on Law Number 21 of 2008 concerning amendments to Law Number 10 of 1998 concerning Sharia Banking, Sharia Bank is expected to be able to restore the confidence that occurs in the banking sector in this country. The growth of Sharia bank in Indonesia which has consistently shown development over time and answers to doubts that existed when the banking system with sharia was legalized operated but did not develop rapidly in 1992. However, as it is known that around 1997-1998 monetary crisis occurred which resulted in massive losses to the financial industry in Indonesia. At that time many banks collapsed, but at that time the existing Sharia bank at that time namely Bank Muamalat Indonesia showed its ability to survive and was included in the category of healthy bank.

The data based on uploads by the Financial Services Authority show the growth of sharia bank is also indicated by based on sharia banking statistics until 2018, Sharia Commercial Banks (BUS) amounted to 14, Sharia Business Units (UUS) amounted to 34, and Sharia Financing Banks (BPRS) totaled 167 (Financial Services Authority, 2019). No doubt the development of sharia banking when this experienced a significant increase. Based on the Financial Services Authority of Indonesia or OJK growth in Sharia banking has grown to 20.65% on an annual basis or year on year. That growth can be seen from the growth of Sharia bank assets (BUS and UUS) which

have increased continuously from year to year, when compared to the total assets owned by the banks in general (BUK, BUS, and UUS) (Hastuti, 2019).

Based on Law No. 21 of 2008 Article 7 "form of sharia bank legal entity is a Limited Liability Company", in carrying out social and environmental responsibility, sharia banks refer to Law No. 40 of 2007 Article 74 concerning limited liability companies (PT). The article explained that the ISR aims to create a harmonious, balanced and compatible company relationship with the environment, values, norms and culture of the local community.

Article 74 of Law No. 40 of 2007 which was then followed up with Government Regulation of the Republic of Indonesia No. 47 of 2012 concerning Limited Corporate Social and Environmental Responsibility. Article 4 paragraph (1) of Government Regulation No. 47 of 2012 states, "Social and environmental responsibility is carried out by the Board of Directors based on the Company's annual work plan after obtaining approval from the Board of Commissioners or GMS in accordance with the Company's articles of association, unless otherwise stipulated in legislation. In line with the growth of Sharia banking in Indonesia, it is fitting that Sharia banks show as an entity based on Islam by taking into account the community and the surrounding environment as a form of responsibility to the community (Indayani, 2019).

Corporate social responsibility (CSR) is a form of social responsibility issued by companies. Form of social responsibility issued by the company is an annual report from the company. Company reports provide an overview of financial or non-financial information (Lestari, 2016). The information provided is the community's need for

company roles and responsibilities. The concept of Corporate Social Responsibility is a form of corporate commitment to the process of communicating the social and environmental influences of economic activities. Corporate responsibility is based on the traditional role of providing financial statements to the owners of capital, mostly shareholders (Asyhari, 2016).

In creating a good relationship between the company and the community, a company must have a real social responsibility. Companies are required to disclose information about corporate social responsibility or Corporate Social Responsibility (CSR) based on social, environmental and financial aspects (Nurani, 2017). The concept of Corporate Social Responsibility (CSR) which was previously implemented in many manufacturing companies and mining companies, but now has begun to penetrate the banks that began to develop, especially in Islamic banking. The development of Islamic banking is also supported by the majority of Indonesian people who are Muslims, should be able to implement and carry out all its activities in accordance with Islamic principles based on the Qur'an and Al-Hadith (Lestari, 2016).

However, until now the practice of ISR disclosure in Islamic banking is still not optimal. This is because the public still does not have public trust in Islamic banks. One of the factors that can be used by Islamic banking to be more advanced is required by asking for complaints about corporate social responsibility (Sawitri, Juanda, & Jati, 2017). The concept of social responsibility disclosure developing shows that companies that have made social responsibility disclosures, disclosures that were previously only done on conventional companies with the development of an era of

social responsibility began to be applied in companies or Islamic institutions (Asrori & Jannah, 2016).

Increased Corporate Social Responsibility (CSR) compared to previous years, both in increasing quantity and quality. Initially, reporting on corporate CSR that is voluntary becomes mandatory based on Law Number 40 of 2007 regarding Limited Liability Companies that annual reports must contain some information, which includes one of them is a report on the implementation of social and environmental responsibility. While sharia social known as Islamic Social Reporting (ISR) is still voluntary, so the forms of CSR reporting in every sharia company are not the same (Purnama, 2016).

ISR disclosures that have so far been carried out by sharia institutions or institutions still refer to Financial Services Authority Regulation Number 6 / POJK.03 / 2015 concerning Transparency and Publication of Bank reports and Financial Services Authority Regulation Number 29 / POJK.04 / 2016 concerning Issuer's Annual Report or Public companies. Both regulations are enforced by the Financial Services Authority for conventional banks and Islamic banks. Disclosure of social responsibility from an Islamic perspective is not only a form of accountability to humans, but also to Allah SWT (Indayani, 2019).

Disclosure of corporate social responsibility in accordance with Islamic principles is known as Islamic Social Reporting (ISR). Islamic Social Reporting is a standard measure of accountability for reporting on CSR disclosure of sharia companies which contains a compilation of items of CSR standards set by the Accounting and Auditing Organizing for Islamic Financial Institutions (AAOIFI)

which are then further developed by researchers regarding CSR items that can be disclosed by an Islamic entity (Ferdiansyah, 2017). There are several studies that have developed the ISR index, including Haniffa (2002) then developed again by Othman (2009). As for Haniffa R (2002) made five items that have the theme of disclosure of the ISR index, namely Funding and Investment, Products and Services, Employees, Society, and the Environment. Then an item development was carried out by Othman (2009) by adding one disclosure theme namely Corporate Governance (Sawitri, Juanda, & Jati, 2017).

According to (Sari D. D., 2018) Disclosure of Islamic Social Reporting (ISR) is also a form of human accountability to Allah SWT and as a form of transparency to the surrounding community by providing relevant information based on needs and compliance with decision making. This is in accordance with Surat Al-Baqarah verse 282. The verse reads:

...وَأَشْهِدُوا إِذَا تَبَايَعْتُمْ...

"... and recommend (witness) if you transact with each other ...".

In Surat Al-Baqarah verse 282 it is clear that the disclosure of the Islamic Social Report is a form of accountability to Allah SWT and the community. Accountability is aimed at increasing the transparency of business activities by providing information that is in accordance with Islamic regulations. The Islamic Social Reporting Index (ISR) can be used as a starting point in terms of Corporate Social Responsibility (CSR) disclosure standards which are indeed in line with the Islamic perspective. In ISR which has zakat indicator causes ISR to be different from

CSR. Zakat in Islamic perspective in the sense of reporting is very important because it is to attract the confidence of customers, especially Muslim customers. In addition, ISR reveals matters relating to the Islamic principles of transactions that were free from riba, speculation, and gharar (Sulistyawati & Yuliani, 2017).

When viewed from an Islamic perspective, companies that are managed based on Islamic principles are one way of anticipating the environmental losses caused by company management. In the law governing human relations with other humans, Allah SWT has explained in Surah An-Nahl verse 90 regarding social responsibility to fellow living beings. The verse reads:

إِنَّ اللَّهَ يَأْمُرُ بِالْعَدْلِ وَالْإِحْسَانِ وَإِيتَاءِ ذِي الْقُرْبَىٰ وَيَنْهَىٰ عَنِ الْفَحْشَاءِ وَالْمُنْكَرِ وَالْبَغْيِ، يَعِظُكُم لَعَلَّكُمْ تَذَكَّرُونَ

"Verily Allah commands (you) to do justice and do good, give to relatives, and God forbids cruel munkar and hostility. He teaches you so that you can take lessons ".

In the above verse, it is clear that the relationship between humans if done according to the principles that Allah SWT has explained in the An-Nahl verse 90, then the relationship will become harmonious and complementary between people. Therefore, human relations are also applied in business processes that can meet the needs of the community.

Islamic Social Reporting (ISR) is a place for complaints that can answer and be a solution to the needs of parties related to the company's financial statements, where the stakeholders of the company also need to know whether the company has

fulfilled Islamic principles. Islamic Social Reporting (ISR) is very important to improve the performance and performance of companies that can be a benchmark and assessment of the community. Social enterprise is important, but in Indonesia there are no provisions that serve as benchmarks and uniform provisions for preparation in ISR. According to Wahyuni, (2018) so far the items issued by each company differs from bank to bank, the results of the research conducted are related to Sharia banks are still not responsible for social corporate social responsibility in accordance with what is expected.

Consideration of the importance of reporting corporate social responsibility of Islamic banks is aimed at measuring the level of implementation of Islamic bank social responsibility to the public and increasing investor interest in the company. The company is expected to be able to be well accountable to the community by paying attention to the quality of the social life of the community, so the community can easily make making decisions to invest. Therefore, the form of Islamic social responsibility can be demonstrated by disclosure of the assessment of bank financial performance which is influenced by several things. First, profitability which is the ability of a company to be able to make a profit on its transactions. So when the level of profitability of the company in generating profits is higher then it can affect the level of disclosure made in the company. The results of research conducted by (Kurniawati & Yaya, 2017) show that the effect of profitability has a positive effect on ISR disclosure. So the results of the research explain that profitability is closely related to the level of the company in obtaining higher profits. However, the results of the study

are different from those conducted by (Ramadhani, 2016) which finds that profitability has no effect on the disclosure of Islamic Social Reporting to the company.

The disclosure of Islamic Social Reporting is also influenced by the effect of liquidity which is the company's ability to meet its obligations to show liquidity ratios in the short term. In addition to the effect of profitability that has been explained previously, liquidity is also an important factor in the disclosure of company evaluations by interested parties. (Rahmatulloh, 2017) found that the effect of liquidity on the disclosure of Islamic Social Reporting had a negative effect. These results are in line with the research conducted by Purwani, et al (2018) that finds liquidity that has no positive effect on the disclosure of Islamic Social Reporting. However, the results of the study are different from those conducted by (Nurani, 2017) which found that liquidity has a positive effect on the disclosure of Islamic Social Reporting on the company.

In addition to the effect of profitability and liquidity in the disclosure of Islamic Social Reporting, disclosures made by the company must also consider the influence of the leverage factor. Leverage is the ability within the company to see the company's ability to settle all its obligations to outsiders with the ability of the company to show capital or assets. Research conducted by (Asyhari, 2016) shows that leverage has a positive effect on the disclosure of Islamic Social Reporting. However, these results are not in line with the research conducted by (Sari D. D., 2018) and (Pratama et al, 2018) that leverage does not have a positive effect on the company's Islamic Social Reporting disclosure.

In addition to the effect of profitability and liquidity in the disclosure of Islamic Social Reporting, disclosures made by the company must also consider the influence of the leverage factor. Leverage is the ability within the company to see the company's ability to settle all its obligations to outsiders with the ability of the company to show capital or assets. Research conducted by (Asyhari, 2016) shows that leverage has a positive effect on the disclosure of Islamic Social Reporting. However, these results are not in line with research conducted by (Sari D. D., 2018) and (Pratama et al, 2018) that leverage does not have a positive effect on the company's Islamic Social Reporting disclosure.

Next is the effect of company size on the disclosure of Islamic Social Reporting. (Hidayah & Wulandari, 2017) found that company size had a positive influence on the disclosure of Islamic Social Reporting. These results are in line with the research conducted by (Umiyati & Baiquni, 2018) showing that company size has a positive effect on the disclosure of Islamic Social Reporting on companies. Where the size of the company is the level of the size of the company when measured using the value of a company's total assets. The larger the size of the company will provide more information to investors who invest. However, the research conducted by (Permatasari & Trisnawati, 2019) shows different results that company size does not have a positive effect on the company's Islamic Social Reporting disclosure.

After that is the influence of the age of the company, here the age of the company based on the company was founded and operates. Haniffah and Cooke (2002) revealed that older firms tend to make broader disclosures to show their compliance

with the rules. This is in line with research conducted by (Lestari, 2016) that company age affects the disclosure of corporate Islamic Social Reporting.

Based on the previous research that discusses Islamic Social Reporting (ISR), there are several variables that influence the company's social disclosure that still show different results and show conflicting results between studies with one another. Given the Islamic banking industry in Indonesia is growing. Coupled with the disclosure of corporate social responsibility with the concept of Islamic Social Reporting (ISR) which is increasingly spread out, therefore this study tries to uncover the Corporate Social Responsibility of Islamic banking in Indonesia based on Islamic Social Reporting (ISR) items.

This research is a replication of the development of research conducted by Yuliani, et al (2017). This study has differences compared to the previous research which is located in the sample and the addition of variables used. First, by this study uses a sample of companies listed on the Indonesian Syariah Stock Index (ISSI) for the 2012-2014 period. Second, there is the absence of liquidity and age variables of the company.

Based on the background that has been explained, then the writer takes the title **“The Factors that Influence towards Social Reporting Islamic (ISR) Disclosure in Sharia banking in Indonesia (Empirical Studies of General Sharia Bank that listed in Bank Indonesia period of 2013-2018)”**

B. Research Question

Based on the background description, the formulation of the problems to be examined in this study are:

1. Does profitability have a positive effect on disclosure of Islamic Social Reporting (ISR) on Sharia commercial banks?
2. Does liquidity have a positive effect on disclosure of Islamic Social Reporting (ISR) on Sharia commercial banks?
3. Does leverage have a positive effect on disclosure of Islamic Social Reporting (ISR) on Sharia commercial banks?
4. Does the size of the company have a positive effect on disclosure of Islamic Social Reporting (ISR) on Sharia commercial banks?
5. Does the age of the company have a positive effect on disclosure of Islamic Social Reporting (ISR) on Sharia commercial banks?

C. Research Objectives

The objectives of this study include:

1. To test the positive effect of profitability on the disclosure of Islamic Social Reporting (ISR) on Sharia commercial banks in Indonesia.
2. To test the positive effect of liquidity on the disclosure of Islamic Social Reporting (ISR) on Sharia commercial banks in Indonesia.
3. To test the positive effect of leverage on the disclosure of Islamic Social Reporting (ISR) on Sharia commercial banks in Indonesia.
4. To test the positive effect of company size on the disclosure of Islamic Social Reporting (ISR) at Sharia commercial banks in Indonesia.

5. To test the positive effect of the company's age on the disclosure of Islamic Social Reporting (ISR) at Sharia commercial banks in Indonesia.

D. Significance of Study

1. Practical Benefits

- a. The results of this study can be useful for Sharia banks in Indonesia which can provide a view in companies that CSR report in the form of the ISR index has an important role for the development of the company.
- b. The results of this study can be useful as input and improvement to previous studies to be able to be used as an evaluation or recommendation for companies to be able to apply the concept of a better ISR in the future.

2. Theoretical Benefits

- a. The results of this study are expected to add insight to readers in understanding Islamic Social Reporting (ISR), namely by providing information and knowledge in further research development.
- b. The results of this study are expected to provide empirical evidence of the factors that influence the disclosure of Islamic Social Reporting (ISR), and this study is expected to be a reference for future research on Islamic Social Reporting (ISR).