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**CONFERENCE
PROCEEDING**

SUB THEMES

- 1. CORPORATE GOVERNANCE**
- 2. ISLAMIC BANKING AND CAPITAL MARKET**
- 3. MONEY PAYMENT SYSTEM & FINANCIAL INNOVATION**
- 4. TAKAFUL & RISK MANAGEMENT**
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***ISLAMIC BANKING
AND
CAPITAL MARKET***

Sub Theme		Islamic Banking and Capital Market		
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1	6th AICIF: 011-003	Does Islamic Banking Promote Financial Inclusion among Women in OIC Member Countries?	T.A.R Tengku Humaira, S.Shahida, M.N. Shifa	Universiti Kebangsaan Malaysia
2	6th AICIF: 008-007	Potentiality of Islamic Deposit Insurance System in Nigeria: A Lesson from Malaysia	Shamsuddeen Muhammad Ahmad, Salisu Hamisu, Abuja	University Malaysia Perlis (UNIMAP)
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4	6th AICIF: 023-014	Potentials and Challenges of Sukuk as a Liquidity Management Instrument in Bangladesh	Md. Mizanur Rahman	Islamic Bank Bangladesh Limited
5	6th AICIF: 028-017	Does Islamic Finance Follow Financial Hierarchy? Evidence from the Sukuk Primary Market	Mamoru Nagano	Seikei University
6	6th AICIF: 044-035	The Potential of Islamic Syndicated Financing in Supporting Funding Needs of Green Infrastructure Projects	Aida Noraini Manap, Rusni Hassan	International Islamic University Malaysia
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9	6th AICIF: 167 - 162	Alternative Financing Modes for Higher Learning Institutions in Malaysia – Socially Responsible Investment (SRI) Sukuk & Social Impact Bonds (SIB)	Engku Rabiah Adawiah Engku Ali, Rusni Hassan, Salina Kassim, Syed Marwan Mujahid Syed Azman, Nor Razinah Mohd Zin	International Islamic University Malaysia
10	6th AICIF: 163-154	The Performance of Stocks Portfolio Based on Ethical Investment in Indonesia (Study On Islamic Index and Socially Responsible Index)	Lilis Renfiana, Syafiq M. Hanafi, Darmawan	UIN Sunan Kalijaga, Indonesia
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Islamic Social Reporting Holistic Approach on Sharia Banking in Indonesia

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Abstract

This research is about the holistic approach of Islamic Social Reporting in Islamic banking that can be used as a consideration for Islamic banking companies in carrying out social responsibilities in accordance with Islamic provisions. In this study, the identification and inventory of the factors that influence Islamic bank ISR reporting in Indonesia are carried out using factor tests. The object of this research is ISR disclosure on Islamic banking in Indonesia through secondary data, literature review, and census methods for all Islamic banks in Indonesia.

Keywords: Islamic Social Reporting, the determinant of ISR, Islamic Social Reporting disclosure, Islamic banks in Indonesia.

1. Introduction

Islamic Social Reporting (ISR) is a benchmark for the implementation of corporate social responsibility (Islamic banking) which contains the compilation of CSR standard items set by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The index of accountability disclosure of Islamic entities in its social relations discloses matters relating to Islamic principles including: transactions that have been free from the elements of usury, speculation and *gharar*, expressing zakat, sharia compliance status and social aspects such as *sodaqoh*, *waqf*, *qordul hasan* and also the disclosure of worship in the company environment (Sunarsih and Ferdiansyah, 2017). The Islamic financial industry, especially Islamic banking, is currently growing rapidly. These developments must be followed by an increase in the role of Islamic banks in the social responsibility of Islamic banking (Luluk, 2015). The important thing is that all listed public companies must disclose Corporate Social Responsibility at the annual report (Ismail and Rahman, 2013).

Farag and Mallin (2014) show that CSR in Islamic banks influences financial performance. The disclosure of CSR will show a strong commitment by Islamic banks towards the social dimension, specifically that they emphasize social contributions, and stimulate equality and social justice in society and shows the bank's commitment to the social dimension that includes disadvantaged segments in society, useful tools to ensure equality in the distribution of wealth (Tilt and Rahin, 2015). However, Abdelsalam and Nizamee (2014), Kamla and Rammal (2013) show the low level of CSR disclosure in Islamic banking. Luluk and Bedjo (2014) regarding Islamic Social Reporting disclosures on Islamic banks in Indonesia and Malaysia show that overall the disclosure of Islamic Social Reporting in Islamic banking in Malaysia is higher than in Indonesia. Abdullah, Percy, and Steward (2013), Chik (2012), Darmadi (2011) and Abd Majid et al. (2011) suggest the need for

mandatory enforcement as a standard in ISR disclosure. This shows Islamic Social Reporting (ISR) is still voluntary. There is no a standardized in sharia regarding sharia CSR reporting so that the CSR reporting of each Sharia company is not the same.

The concept of CSR began to develop in the Islamic economy, it was proven that more companies are applying sharia principles in every business activity that is expected to be able to carry out Corporate Social Responsibility. The development of CSR in Islamic economics also has an impact on increasing public attention to institutions or sharia institutions.

Frederick (2012) argues that religious attitudes and values are one of the important considerations that will increase the obligation of Corporate Social Responsibility. Raimi, Patel, Yekini, and Aljadani (2013) explained that Islam and other religions have a relationship with CSR. The existing CSR theory is dominated by western views, which cannot show the philosophy of Islam. Muslims want to apply Islamic principles to all aspects of their lives, including in business (Vinnicombe, 2014). The Islamic principle in CSR is formulated by AAOIFI in measuring the implementation of Islamic banking social responsibility and is more commonly referred to as Islamic Social Reporting (ISR). This is what will be examined in this study with a qualitative approach in terms of disclosure of CSR in the field of accounting and analyzed with Islamic ethical principles. This research is expected to produce findings of Islamic Social Reporting (disclosure) approach to Islamic banking in Indonesia which forms the basis of a holistic approach based on Islamic Social Reporting disclosure. This research is very important to be done in order to obtain the development of science and technology, especially in accounting related to disclosure in the financial statements of Islamic banking.

2. Literature Review

2.1 Islamic Social Reporting (ISR)

Islamic Social Reporting is an extension of social reporting which is not only in the form of the great desire of all people towards the role of companies in the economy but rather related to a spiritual perspective (Haniffa, 2002). This study uses the framework of Islamic Social Reporting with the main reference Haniffa (2002) which is modified with the items contained in the research Othman, Thani, and Ghani (2009). The following five themes of disclosure in Islamic Social Reporting used in this study are:

2.1.1 Riba (Usury)

Riba comes from Arabic which means additional (*al-ziyadah*), develops (*an-nuwuw*), increases (*al-irifa*'), and grows (*al-'uluw*). Prohibition of usury in the Qur'an Q.S. Al baqarah 278-280:

"Believers! Have fear of Allah and give up all outstanding interest if you do truly believe. But if you fail to do so, then be warned of war from Allah and His Messenger.³²³ If you repent even now, you have the right of the return of your capital; neither will you do wrong nor will you be wronged. But if the debtor is in straitened circumstance, let him have respite until the time of ease; and whatever you remit by way of charity is better for you, if only you know".

2.1.2 Gharar (uncertainty)

It occurs when there is incomplete information between the two parties that transact in terms of quantity, quality, price, time of delivery, and contract. An example of a transaction containing gharar is a lease and purchase transaction due to uncertainty in the contract that was made between the two parties.

2.1.3 Zakat

Zakat is an obligation for all Muslims on possessions after it reached Nisab. Zakat is not the same as donations, donations, and sadaqah. Zakat has clear rules regarding property that must be forgiven, limits on assets that are affected by zakat, the method of calculation, and anyone who may receive zakat in accordance with what has been arranged by Allah SWT.

2.1.4 The Policy for late payment of receivables and deletions

Uncollectible debt suspension or debt cancellation must be carried out with the prior investigation to the debtor regarding his inability to pay the receivables. Suspension or debt cancellation is a form of helping attitude that is recommended in Islam according to the word of Allah SWT in the Qur'an Al-Baqarah verse 280:

"But if the debtor is in straitened circumstance, let him have respite until the time of ease; and whatever you remit by way of charity is better for you, if only you know".

2.1.5 Current value balance sheet

The present value in the balance sheet will be used as a guideline to determine how much zakat is issued. The present value can be obtained from the estimated value of the average transaction that occurs or the transaction that will occur if the asset is traded by the company. In Statement of Financial Accounting Standards (PSAK) No. 19 (revised 2000) stated that entities can only use the acquisition price in measuring intangible assets. The concept of the current value states that each entity is given the freedom to use the acquisition price or revaluation in measuring intangible assets. Therefore, the classification of the current value balance sheet is not relevant to be used as criteria in the disclosure of this research.

2.1.6 Value added statement

Value-added statements are statements that report the calculation of value-added and its utilization by the company's stakeholders. Value-added statements refer more to value-added statements in the company's annual report in the form of products and services including green products, product halal status, quality and safety of a product, consumer complaints/indicators that are not met in regulations and voluntary codes (if any), employees, community, and environment.

2.2 The Previous Study

Research related to the holistic approach of Islamic Social Reporting in Islamic banking has not been widely carried out, but there are much researches were done partially:

1. Research of Luluk and Bedjo (2014) concerning the disclosure of Islamic Social Reporting on Islamic banking in Indonesia and Malaysia. The results of the study show that the overall disclosure of Islamic Social Reporting in Islamic banking in Malaysia is higher than in Indonesia.
2. Research of Luluk and Nourma (2015) concerning determinant of ISR disclosure. It shows several factors that influence ISR.
3. Research of Luluk (2015) regarding the influence of companies characteristics on Islamic Social Reporting shows that firm size, leverage, and profitability affect Islamic Social Reporting.
4. Research of Luluk (2016) regarding the influence of Islamic Corporate Governance on Islamic Social Reporting disclosure, showing the size of the Sharia Supervisory Board (SSB) and the composition of the expertise of the Sharia Supervisory Board influencing the ISR disclosure

3. Research Methodology

3.1 Population and Sample of the Research

The population in this study is all Islamic banking in Indonesia. Taking census sampling means that as many as 11 Islamic banks in Indonesia will be examined for the disclosure of their four-year Islamic social reporting. In addition to these secondary data, a review literature is needed.

Table 1. List of Sharia Commercial Banks

No	Companies
1.	<i>Bank Muamalat</i>
2.	<i>Bank Syariah Mega Indonesia</i>
3.	<i>Bank BNI Syariah</i>
4.	<i>Bank BRI Syariah</i>
5.	<i>Bank Syariah Mandiri</i>
6.	<i>Maybank Syariah Indonesia</i>
7.	<i>Bank Victoria Syariah</i>
8.	<i>Bank Panin Syariah</i>
9.	<i>Bank Syariah Bukopin</i>
10.	<i>BPD Jawa Barat Banten Syariah</i>
11.	<i>BCA Syariah</i>

3.2 Operational Definition and Variable Measurement

1. Islamic Social Reporting

Islamic Social Reporting (ISR) is an extension of social reporting that is not only in the form of the great desire of all people towards the role of companies in the economy but rather related to a spiritual perspective (Haniffa, 2002). Islamic Social Reporting was measured using 38 items of social disclosure.

$$\text{Disclosure} = \frac{\text{Total Item complete}}{\text{Maximum score}}$$

2. Profitability

Profitability is the ability of the company to gain profit (Hardika, 2006). This variable is measured by the ROA ratio or return on assets.

$$\text{ROA} = \frac{\text{Profit after tax}}{\text{Total of Assets}}$$

3. Company Size

Company size is a scale, which can be classified as the size of the company (Widiawati and Raharja, 2012). It is measured by the natural logarithm of total assets.

$$\text{Size} = \frac{\text{Ln}}{\text{Total of Assets}}$$

4. Leverage

Leverage is a ratio to measure a company's ability to fulfill all of its obligations to other parties (Luluk, 2014). It is measured by the ratio of total debt to total assets owned by the company.

$$\text{Leverage} = \frac{\text{Total of debt}}{\text{Total of Assets}}$$

5. The Expertise Composition of the Sharia Supervisory Board (SSB)

The composition of SSB is a driving factor in the effectiveness of the supervision of the Sharia Supervisory Board (umam, 2016). Measurement of the expertise composition of SSB is done through competency, track record, work experience, and SSB integrity.

$$\text{Expertise Composition of SSB} = \text{Total Measurement Items}$$

6. Measurement of the Sharia Supervisory Board (SSB)

The size of SSB is a measure that shows the magnitude of the authority to monitor company compliance with sharia principles (Khan and Noor, 2015). SSB size can be seen from the number of members of SSB in a company.

Size of SSB = Total SSB (Sharia Supervisory Board)

7. Commissioner Size

The Commissioner size is a measure that shows supervision of information that a manager might conceal (Khan and Noor, 2015). It can be seen from the number of commissioners in a company.

Commissioner Size = Total of the Commissioner Board

4. Finding and Discussion

4.1 Descriptive statistics

This study uses 11 Islamic Commercial Banks in Indonesia for 4 years so that the number becomes 44 data. Table 1 shows the descriptive statistics of each research variable, namely Islamic social reporting, the existence of SSB, composition of SSB, size of the Commissioner Board, Independent Commissioners Board, number of the Commissioner meeting Board, size of the audit committee, independent audit committee, and number of audit committee meetings. The detailed description of the data can be described in the following table:

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Company	44	1	11	6.00	3.199
The existence of SSB	44	1	1	1.00	.000
Composition of SSB	44	0	1	.82	.390
The commissioner board	44	2	6	3.68	.959
Independent	44	14.00	100.00	64.1677	21.92194
Commissioners Board	44	2	49	18.80	10.418
Number of the	44	2	7	3.68	1.052
Commissioner Board	44	7	100	74.40	28.078
Size of audit committee	44	4	31	12.32	6.505
Independent Audit	44	.4474	.8158	.633370	.1107089
Committee	44				
Number of audit	44				
committee meeting	44				
Islamic Social Reporting	44				
Valid N (listwise)	44				

From the table above, it can be seen that the percentage of the existence of SSB on each BUS is 100%, it means that all BUS have SSB. The existence of SSB is the obligation to have every BUS to oversee the activities of the Bank to comply with sharia principles.

The size of SSB shows the number of commissioners. Through a descriptive statistical test table, it is seen that the minimum value of the number of commissioners is 2 and the maximum value is 6 with an average of 3.68. The highest number of commissioners is *PT. Bank Muamalat Indonesia* with 6 commissioners for 2 years.

Table 2
Summary of Independent Commissioner in the Company

Note	Number of BUS	BUS
BUS that has independent commissioner 0%-30%	4	9,09%
BUS that has independent commissioner 31%-40%	1	2,27%
BUS that has independent commissioner 41%-50%	9	20,46%
BUS that has independent commissioner >=50%	30	68,18%
Total	44	100%

Based on POJK No. 33 / POJK.4 / 2014, the number of independent commissioners required to have at least 30% (thirty percent) of the total members of the Commissioners Board. Based on the table and diagram above, it can be seen that within 4 (four) years there is 4 (four) BUS which has independent commissioners 0% -30%, namely *PT. Bukopin Islamic Bank* in 2017, *BPD Jawa Barat Banten Syariah* in 2014 and 2017, and *PT BCA Syariah* in 2017.

Table 3
Summary of Number of the Commissioners Board Meetings According to PBI No. 11/33 / PBI / 2009

Note	Number of BUS	Company
Number of the Commissioners Board meetings <6 kali	3	6,82%
Number of the Commissioners Board meetings >6 kali	41	93.18%
Total	44	100%

The number of commissioner meetings show at least 2 times and the most are 49 times in one year. The statistical descriptive test results also show a range of values of distant variables with a standard deviation value of 10.42, more than half of the mean indicates that the data is widespread. There are still many BUS that has not fulfilled Regulation of *Bank Indonesia* No. 11/33 / PBI / 2009 where the Commissioners Board Meeting must be held at least 1 (one) time in 2 months or at least in 1 (one) year is 6 times the Commissioners Board Meeting.

Then, it is seen from the size of the audit committee which is the number of audit committees in a company. The minimum number of audit committees in the company is 2 and the most are 7 with an average of 3.68. The descriptive statistical test results show that at least the audit committee meeting is 4 times and the most are 31 times in one year. Seeing the standard deviation value is 6.505 which are more than half of the mean, it can be concluded that the data is widespread.

Table 4
Summary of Independent Audit Committee in the Company

Note	Number of BUS	BUS
BUS that has independent audit committee 0%-30%	6	13,64%
BUS that has independent audit committee 30%-50%	2	4,55%
BUS that has independent audit committee >=50%	36	81,81%
Total	44	100%

From the table above, it shows that BUS that has an independent audit committee is 0% - 30% there is 6 BUS; 30% -50% has 2 BUS, and 36 BUS have an audit committee of more than 50%.

From the results of descriptive statistical tests, it can be seen that the minimum value of ISR is 0.4474 and the maximum value is 0.8158. This value was obtained by 2 BUS, namely *PT. Bank Muamalat Indonesia* and *PT. Bank Bukopin Indonesia*. The standard deviation obtained is also small at 0.1107 below the mean. This means that the range among BUS in ISR disclosure is not far and the data is not too widespread.

4.2 Data Analysis Result

The purpose of this research is to identify and to inflate the factors that influence the disclosure of Islamic Corporate Reporting (ISR) of Islamic banks in Indonesia both in terms of the large Islamic Corporate Governance and companies' characteristic groups. To answer this goal, a factor analysis statistical tool was used with the SPSS version 23 program. In this study, 7 variables were tested. Judging from the KMO and Bartlett's Test table, KMO results have met the requirements of up to 0.5 (0.538). Similarly, Bartlett's Test of Sphericity was also significant at 0.005. This means that factor analysis can be continued and used in this study. Here is Bartlett's test of sphericity output:

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,538
Bartlett's Test of Sphericity	Approx. Chi-Square	90,960
	df	21
	Sig.	,000

Source: Data Processed, 2018

Furthermore, each variable was tested by MSA and apparently there were no variables that had MSA under 0.5 so that the seven variables met the requirements for factor analysis.

From the seven variables analyzed, it turns out that the results of computer extraction become two factors (*eigen* value > 1 becomes a factor). Factor 1 is able to explain 36.251% variation, while factor 2 can only explain 23.705%. So, overall both factors can explain 59,955% variation. The following is the total variance table:

Table 5. Summary of Total Variance Explained

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	2,538	36,251	36,251
2	1,659	23,705	59,955
3	0,988	14,113	74,068
4	0,847	12,102	86,170
5	0,437	6,244	92,414
6	0,331	4,731	97,146
7	0,200	2,854	100,00

Source: Data Processed, 2018

Next, when it is seen from the Communalities Table containing the Initial column that describes Principle Component Analysis, all initial values are 1. This means that each variable is "fully captured" by the variable. The principal component explains the number of factors extracted that is 2. Two cumulative extraction factors reflect 59.95% of total variance. Variables whose variance has captured the two-factor solution are *Rpt* (= Number of board meetings) with communality 0.771. And the smallest variable catching is *KomDPS* (= Composition of SSB) with the value of communality 0.362. Here is the Communalities Table:

Communalities

	Initial	Extraction
KomDPS	1,000	,362
UD	1,000	,522
KomIndep	1,000	,696
Rpt	1,000	,771
KomDit	1,000	,677
KAI	1,000	,484
JmlRpt	1,000	,684

Extraction Method: Principal Component Analysis.

Then, the two factors formed are rotated using the varimax method. Both rotational factors are then named according to the variables included within, where the variables have been ranked based on the order of the largest loading factors. The loading factor sequence from the largest will show the correlation sequence of the height of a variable to the factor. The order of the two factors and variables included within are summarized in the following table.

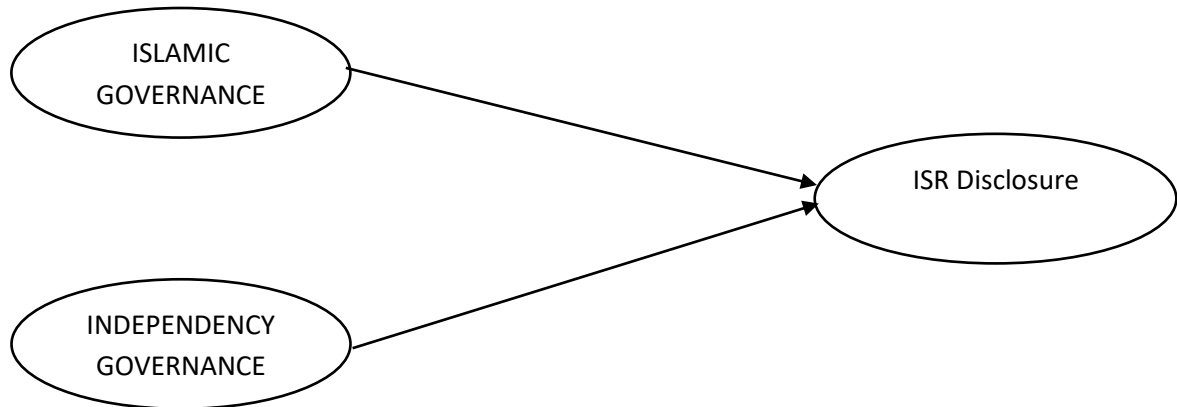
Table 5. Grouping of Factors

FACTOR	EIGEN VALUE S	% VARIANCE	NAME OF FACTOR	COVERED VARIABLE	FAKTOR LOADING
1	2,538	36,251	Islamic Governanc e	Number of Audit Committee Meetings	0,826
				The Commissioners Board meetings	0,819
				The composition of SSB Existence	0,599
				Size of the Audit Committee	0,728
2	1,659	23,705	Independen cy Governanc e	Independent Commissioners Board	0,821
				Size of the Commissioners Board	-0,573
				Independent Audit Committee	0,694
Total		59,955%			

In the table above, it shows that from 7 variables, it is used only 6 variables are included in 2 factors, while 1 other variable is not included in the factor or excluded from the model because the loading value is less than 0.5 which is the size of the Commissioners Board. The existence of SSB is a variable that is not a factor in the ISR because the composition of SSB is considered more decisive in the existence of Islamic Governance.

By looking at the component matrix and varimax rotated component matrix it is clear that the grouping of factors 1 is the SSB (SSB Composition), *Rpt* (Commissioners Board Meeting), *Komdit* (Audit Committee Size), *JmlRpt* (Number of Audit Committee Meetings) all have the loading factors above 0.50. While those grouping in factor 2 is *UD* (Commissioners Board Size), *KomIndep* (Independent Commissioners Board), *KAI* (Independent Audit Committee) each with a loading factor of -0.573, 0.821, 0.694. All elements of the company's characteristics have no effect on the ISR. Whereas Islamic Governance consists of SSB Composition, Commissioners Board Meeting, Audit Committee Size, and Number of Audit Committee Meetings Size of the Commissioners Board, Independent Commissioners Board, and Independent Audit Committee.

The composition of SSB, Commissioners Board Meeting, Size of Audit Committee, Number of Audit Committee Meetings became factor 1, henceforth was given the name Islamic Governance. While those grouping in factor 2 were then named Independent Governance as the Independent Commissioners Board and Independent Audit Committee.



5. Conclusion and Suggestion

5.1 Conclusion

Based on the description above, it can be concluded that:

1. The basic concept of ISR disclosure for Islamic Commercial Banks in Indonesia is summarized in 2 factors. The two factors that are considered dominant towards ISR disclosures in Islamic Commercial Banks in Indonesia include factor 1). ISLAMIC GOVERNANCE, 2). INDEPENDENCY GOVERNANCE.
2. The important variables that are considered dominant towards ISR disclosure in Islamic Commercial Banks in Indonesia include the variables: 1). the composition of Existence of SSB and 2). Independent Commissioners Board

5.2 Suggestion

In this study, two factors have been found to be dominant to ISR disclosure in Islamic Commercial Banks in Indonesia. This research is the basis for further research which will then be tested to identify and inflate the factors that influence the disclosure of Islamic Corporate Reporting (ISR) of Islamic banks in Indonesia both in terms of the large group of Islamic Corporate Governance and its characteristic companies. It is hoped that with this result, a draft determinant of Islamic Social Reporting (ISR) disclosure will be obtained.

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