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WHAT DRIVES THE LEVEL OF DISCLOSURE IN SOCIAL REPORTING AT ISLAMIC COMMERCIAL BANKS?

Abstract

This study analyzes the factors driving the level of disclosure in Islamic social reporting in Islamic commercial banks. Specifically, this study examines the relationship between Islamic governance, Islamic social reporting and the sharia maqashid index in Islamic banks. The empirical analysis uses a panel data collection of 11 Islamic commercial banks in Indonesia from 2010 to 2019. The partial least squares with SmartPLS is used to estimate the relationship proposed in the hypothesis. The results show that Islamic governance affects Islamic social reporting. The better Islamic rule carried out by Islamic banks, the more comprehensive the Islamic social reporting disclosed by Islamic banks. The results also show that the maqashid sharia index does not affect Islamic social reporting. This study is the first empirical essay to focus on the relationship between Islamic governance and Islamic social reporting. Next, we analyse the influence of the maqashid sharia index on Islamic social reporting on this relationship in the context of Islamic banking in Indonesia. The robustness of the research results can be further investigated by using an extended study period, and the research sample can be extended to other sharia entities. The implication of this empirical finding for Islamic banks is the demand to increase the maqashid sharia index because it is proven that the low index does not significantly affect the disclosure of social responsibility in Islamic banks.

Keywords: Islamic governance, maqashid sharia index, Islamic social reporting, Islamic commercial bank
JEL Classification: G21, G34, M21, M41

1. Introduction

Based on a review of prior studies, it is known that research on the aspects that determine the disclosure of corporate social responsibility is still dominated by tax aggressiveness and company characteristics, including company size, profitability, and leverage. Studies examining the effect of the level of tax aggressiveness on disclosure of corporate social responsibility include Deegan (2019), Apriyanti & Arifin (2021), Salman (2018), Zeng (2016), dan Lanis & Richardson (2013). Likewise, the study of Handoyo (2020), Salman et al. (2018), Widiyanti & Hasanah (2017), Habbash (2016), Sunarsih & Ferdiansyah (2016), Istianingsih (2015), Abdulhaq & Muhamed (2015), Al-Ajmi et al. (2015), Khasharmeh & Desoky (2013), and Lestari (2013), tested the effect of company characteristics on the level of corporate social responsibility disclosure. Research that examines the influence of governance on corporate social responsibility is carried out by Salman (2021) and Habbash (2016).

This study examines the influence of Islamic governance and the maqashid sharia index on Islamic social reporting. Governance, in general, is a management system that is expected to improve banking performance, protect various stakeholders, increase compliance with relevant rules and regulations and available moral values (Kholid & Bachtiar, 2015). In Islamic governance, adherence to sharia principles differentiates it from governance in general. Therefore the function of the Sharia Supervisory Board (SSB) as an essential organ of Islamic governance aims to oversee the management of sharia entities to ensure the compliance of sharia entities to sharia principles.

In achieving its goals, a sharia entity is not permitted to be only profit-oriented but also needed to reach the maqashid sharia where its performance measurement is based on sharia principles. Chapra (1990) describes that maqashid sharia includes guarding the mind (al-aql), guarding religion (ad-din), guarding the soul (an-nafs), guarding descent (an-nasb) and safeguarding property or wealth (al- maal). Mohammed & Taib (2015) explained that the attainment of maqashid sharia performance could be seen from three goals which include educating individuals (tahdzibul fard), creating justice (iqamatul 'adl) and acquiring the public interest (jalbul maslahah). Several examinations that have been carried out are still related to the use of maqashid sharia in the context of a performance measurement approach, such as research conducted by Mohammed et al. (2008), Jazil & Syahruddin (2013), Al Arif & Yati (2021), and Analia & Anto (2019).

This research is encouraged to address the gaps in the results of prior studies concerning the determinants of Islamic social reporting, especially on three factors, namely the subject of analysis, variables and research findings. Prior examinations used established companies or entities, while current research uses another sample rarely researched by previous studies, namely Islamic bank entities. The second reason is related to the research variables. Determinants still dominated prior research in financial performance or company characteristics. At the same time, this study offered the novelty of variables, especially those related to Islamic principles such as Islamic governance and the maqashid sharia index as determinants of the level of Islamic social reporting. The third reason in this study relates to the limited findings of previous studies and shows inconsistent results.

2. Literature Review

Agency theory describes two options for principals to reduce agency problems by curbing the agent's opportunistic behaviour (Eisenhardt, 2018). In order to reduce agency problems, companies can establish a good governance structure to monitor the behaviour of agents (Chrisman et al., 2007). Good governance can be achieved when an organization has reporting systems and procedures, a management structure or a board of directors (Donaldson & Davis, 1991). In addition, agency problems can be reduced through a agreement between the principal and agent that allows the agent to produce the best performance. Contracts can be based on the actual results of the agent's performance so that agents who perform well will get a more significant contract compared to other agents (Eisenhardt, 2018). These options generate agency costs that the principal must bear to monitor and assess agent behaviour. An example of this type is a salary in the form of an incentive, where the salary is given as an incentive for high performing agents (Chrisman et al., 2007). Risk is transferred to the agent and, in this way, can create motivation for the agent to act in the interests of the principal (Davis et al., 1997; Eisenhardt, 2018). In essence, from these two ways, the principal can choose between constructing a governance structure established on the agent's natural behaviour or the outcome of that behaviour (Eisenhardt, 2018). These options generate agency costs that the principal must bear to monitor and assess agent behaviour.

Legitimacy theory becomes the basic theory in this study because the current study analyzes the factors that affect the social reporting of a sharia entity. This theory explains the existence of a social agreement between the company and the community so that the company has a positive impact and is following the community's expectations. Thus, this has implications for increasing the viability of an organization. Legitimacy theory argues that disclosures made by companies are related to environmental factors (economic, social and political) that these disclosures legitimise the company (Deegan, 2002; Driver, 2006; Tsang, 1998). According to the legitimacy theory, corporate social responsibility disclosure is carried out so that the community positively responds to company performance. This response will give birth to good value for the company from the community's perspective so that, in the end, it can increase the company's profit achievement.

Corporate governance aims to make value-added for all stakeholders by regulating and controlling the company. The concept of corporate governance emphasises two things, namely (1) the importance of fulfilling the rights of shareholders to acquire objective and opportunely information; and (2) the company's responsibility to inform details about firm performance, ownership, and stakeholders in an objective, timely and transparent manner (Hemphill, 2006).

Islamic governance directs to governance that is carried out in an Islamic way. Of course, Islamic governance is different from corporate governance in general. The difference lies in the values that underlie it. Islamic governance must be based on Islamic principles derived from the Al-Qur'an and the hadith of the Prophet. The principles of Islamic governance are regulated in Surah Al-Hajj verse 41, which means: "*(that is) those who, if We affirm their position on earth, undoubtedly they will pray, pay zakat, order to do ma'ruf and prevent any actions that are Munkar, and it is to Allah that all matters return*".

Sharia entities do not only use Islamic principles in the field of fiqh in the form of the legality of products and services by Islamic principles alone, but more than that, Islamic principles should have a broader consequence on economic and social factors as an effort to achieve Maqashid Shariah (Salman & Farid, 2016). More specifically, Mohammed et al. (2008) explained that the objectives of Islamic banks could be derived from the purposes of sharia (maqashid sharia). Islamic banks aim to achieve profit and have goals with a social dimension. have designed performance evaluation directions based on the concept of maqashid sharia. The indicators utilised include *tahdzibul fard*, *iqamatul 'adl*, and *jalbul mashalih*.

Maali et al. (2006) revealed that the critical objective of Islamic Social Reporting (ISR) disclosure is to show whether the organisation is adhering to Islamic principles, to show how the organisation's operations affect Islamic society, and to assist others in carrying out their religious obligations. Sharia entities should disclose how to fulfil their responsibilities and obligations according to sharia principles such as sharia transactions, zakah payments to recipients (*mustahik*), alms (charities/gifts), wages, and the objectives of the business entity to protect the environment. Furthermore, Othman & Thani (2010) and Othman et al. (2009) described the existence of six disclosure themes in Islamic social reporting.

2.1. Islamic Governance and Islamic Social Reporting

Corporate governance is essential for controlling manager behaviour that tends to benefit self-interest. It emphasises the shared interests rather than the interests of each individual. Company managers will seek to behave by the owner's interests in achieving organisational goals. Thus, companies that implement corporate governance will disclose information on social responsibility more broadly. In other words, as explained by Indrawaty & Wardayati (2016), the effectiveness of the implementation of Islamic governance is shown in Islamic social reporting, which is an index of social activity reporting from Islamic Banks.

Examinations on the effect of governance mechanisms on the disclosure of social responsibility have been carried out by Farook et al. (2011), Dienes & Velte (2016), Zolfaghar Arani (2016), García-Sánchez et al. (2021), and Cabral & Sasidharan (2021). Zolfaghar Arani (2016) found a significant relationship between the three governance mechanisms, namely institutional owners, the proportion of non-executive directors and board size, with the level of social responsibility disclosure. In contrast, the size of the auditor cannot affect the extent of the level of CSR. Another study by Dienes & Velte (2016) found that gender diversity positively impacts the intensity of CSR disclosure. Farook et al. (2011) revealed that CSR disclosures by Islamic banks varied significantly. This variation is best explained by the variables “influence from the related public” and “sharia corporate governance mechanism”. Empirical results show that the sharia supervisory board as a governance tool can improve the CSR exposure of Islamic banks.

The outcomes of empirical research reveal that board diversity, the existence of a CSR committee, the scope of analysts, and institutional investors increase the likelihood of confirming CSR reports. In contrast, board independence decreases the possibility of substantiating CSR reports (García-Sánchez et al., 2021). The empirical results also find that board size is negatively related in India and South Africa, while CEO duality is positively associated with corporate social performance in India and China (Cabral & Sasidharan, 2021). Othman et al. (2009) discovered that the proportion of Muslim and non-Muslim boards affects CSR disclosure.

Islamic governance, from the results of previous studies, still uses the number of members of the board of directors and the number of members of the audit committee as a variable measures. Previous research specifically conducted to examine the influence of the Sharia Supervisory Board (SSB) on the level of Islamic social reporting was conducted by Farook & Lanis (2005), Salman et al. (2018), and Sunarto (2016). Farook & Lanis (2005) obtained empirical evidence that Islamic governance, as measured by the number of Sharia Supervisory Boards (SSB), has a positive and significant impact on CSR disclosure. The greater the number of SSB members who oversee the operations of Islamic banks, the level of CSR disclosure will also increase. In addition, Salman et al. (2018) found that the better implementation of Islamic governance carried out by Islamic banks has a positive influence on the complete Islamic social reporting. Sunarto (2016) also found that the role of Islamic bank directors affects disclosure by using Islamic Social Reporting, while the sharia supervisory board affects disclosure by using the GRI index.

H1: Islamic governance affects Islamic social reporting

2.2. Maqashid sharia performance-Islamic Social Reporting

The legitimacy theory explains that companies must fulfil social contracts by disclosing financial, social, and political information to be accepted by society. Socio-political legitimacy refers to the suitability of organisational attributes, characteristics, and results in social norms (Aldrich & Fiol, 1994; Suchman, 1995). Hossain et al. (2006), Othman et al. (2009), and Sunarsih & Ferdiansyah (2016) investigated the effect of company performance on the level of ISR. Their results show inconsistencies. Their results show inconsistencies. Othman et al. (2009) succeeded in finding empirical evidence regarding the effect of company performance on the level of Islamic social reporting. The more extensive ISR, the better the company's performance impacts. However, Hossain et al. (2006) and Sunarsih & Ferdiansyah (2016) gave opposite results by failing to find a significant result of company performance on ISR.

H_2: Maqashid sharia performance affects Islamic social reporting

3. Methodology

3.1 Sample

The population of Islamic commercial banks in Indonesia amounted to 11 banks in 2010. The sampling technique used the census method where the entire population became the research sample so that the current research sample amounted to 11 Islamic commercial banks in Indonesia in the ten years (2010-2019 research period). The research period began in 2010, considering that Bank Indonesia (2009) issued Regulation No. 11/33/PBI/2009 concerning GCG for Islamic Commercial Banks, which came into force on January 1, 2010. Prior to 2010, there were no specific rules regarding governance for Islamic banks. So starting in 2010, Islamic banks have conducted a self-assessment regarding the governance they are implementing. Data analysis and hypothesis testing employed the Partial Least Square (PLS) approach with Smart PLS software version 3.3.7.

3.2 Endogenous Variable

In this study, Islamic social reporting (ISR) is the extent to which the company carries out the process of disclosing social and environmental information on the company's economic actions to specific groups that have fulfilled Islamic principles. The indicator for this variable refers to Othman & Thani (2010), Othman et al. (2009), and Salman et al. (2018) consist of six indicators which include: Finance and Investment ($Y_{1.1}$), Products ($Y_{1.2}$), Employee ($Y_{1.3}$), Society ($Y_{1.4}$), Environment ($Y_{1.5}$), and Corporate Governance ($Y_{1.6}$).

3.3 Exogenous Variables

Islamic governance (IG) in this study is the level to which Islamic entities by Islamic sharia carry out governance. Research indicators refer to Act Number 21 of 2008 Concerning Islamic Banking (2008) and Regulation No. 11/33/2009 concerning the Implementation of Good Corporate Governance in Sharia Commercial Banks and Sharia Business Units, which took effect on January 1, 2010 (Bank Indonesia, 2009). There are 11 indicators, namely

a. Execution of tasks and obligations of the Board of Commissioners ($X_{1.1}$);
b. Execution of tasks and obligations of the Board of Directors ($X_{1.2}$);
c. Completeness and implementation of Committee duties ($X_{1.3}$);
d. Execution of tasks and obligations of the Sharia Supervisory Board ($X_{1.4}$);
e. Execution of sharia principles in the activities of raising funds and channelling funds as well as services ($X_{1.5}$);
f. Handling of conflicts of interest ($X_{1.6}$);
g. Execution of the Bank's compliance function ($X_{1.7}$);
h. Execution of the internal audit function ($X_{1.8}$);
i. Application of the external audit function ($X_{1.9}$);
j. Maximum Fund Distribution Limit ($X_{1.10}$);
k. Clarity of financial and non-financial conditions reports on implementing good corporate governance and internal reporting ($X_{1.11}$).

Maqashid sharia index (MSI) is the level of achievement of goals generated by a sharia entity, including preservation of religion or faith, preservation of life or soul, and preservation of intellect or mind. There are three indicators, namely: educating individuals (*tahdzibul fard*) ($X_{2.1}$), building justice (*iqamatul 'adl*) ($X_{2.2}$), and benefit (*maslahah*) ($X_{2.3}$).

4. Empirical Results

4.1 Validity and Reliability Test

After conducting the third convergent validity test, it can be concluded that most of the indicators have met the convergent validity test, as shown in Table 1. All indicators in Table 1 have a loading factor value above 0.07.

Table 1 Outer Loading Results

Indicators	*Outer Loading*
Execution of tasks and obligations of the Board of Commissioners ($x_{1.1}$)	0.985
Execution of tasks and obligations of the Board of Directors ($X_{1.2}$)	0.769
Completeness and implementation of Committee duties ($X_{1.3}$)	0.995
Execution of tasks and obligations of the Sharia Supervisory Board ($X_{1.4}$)	0.997
Execution of sharia principles in the activities of raising funds and channelling funds as well as services ($X_{1.5}$)	0.996
Handling of conflicts of interest ($X_{1.6}$)	0.633
Execution of the Bank's compliance function ($X_{1.7}$)	0.872
Execution of the internal audit function ($X_{1.8}$)	0.996
Maximum Fund Distribution Limit ($X_{1.10}$)	0.538
Clarity of financial and non-financial conditions reports on implementing good corporate governance and internal reporting ($X_{1.11}$)	0.997
Educating individuals (tahdzibul fard) ($X_{2.1}$)	1.000
Finance and Investment ($Y_{1.1}$)	0.780
Corporate Governance ($Y_{1.6}$)	0.885

All variables studied have met the discriminant validity test. It can be obtained because each variable has a higher correlation with its variable than its correlation with other variables (Table 1), so it is feasible to continue the reliability test.

Table 2 Discriminant Validity Results

Variables	MSP	ISR	IG
Maqashid Sharia Performance (MSP)	1.000		
Islamic Social Reporting (ISR)	0.141	0.834	
Islamic Governance (IC)	-0.036	-0.446	0.893

Based on the results of the reliability test obtained good results. All variables have a score more significant than the rule of thumb 0.70, except for Cronbach's alpha score on the Islamic Social Reporting Level variable (Table 3). Thus, all variables meet the reliability requirements and are eligible for hypothesis testing.

Table 3 Reliability Results

Variables	*Composite Reliability*	*Cronbach Alpha*
Islamic Governance (IG) (X_1)	0.974	0.968
Maqashid Shariah Performance (MSP) (X_2)	1.000	1.000
Islamic Social Reporting (ISR) (Y_1)	0.820	0.569

4.2 Hypothesis Testing

The study results indicate that there is one research hypothesis that is accepted, namely the first hypothesis. In contrast, the second hypothesis is rejected based on data processing results with SmartPLS version 3.3.7 (Table 4). In the method, it is revealed that the research hypothesis is accepted if the p-value is less than 0.05, and conversely, the research hypothesis is rejected if the p-value is more than 0.05. In the first hypothesis, the test results show a p-value of 0.003 (<0.05) so that the first hypothesis is accepted. The interpretation of the first study results is that good Islamic governance can expand the disclosure of Islamic social reporting carried out by Islamic banks. On the other hand, the results displayed that the second hypothesis was rejected because it had a p-value of 0.387 (>0.05). The interpretation of the results of the second study is that the good or bad maqashid sharia index obtained by Islamic banks does not significantly impact the extent of disclosure in Islamic social reporting run by Islamic banks.

Table 4 Hypothesis Testing Results

Research Hypothesis	*Original Sample (O)*	*T Statistics*	*P values*	*Results*
Islamic Governance → Islamic Social Reporting	-0,441	2,944	0,003	*Significant*
Maqashid Sharia Performance → Islamic Social Reporting	0,125	0,865	0,387	*Not significant*

5. Discussion

5.1 The Effect Of Islamic Governance On Islamic Social Reporting

Legitimacy theory describes the association between Islamic governance and disclosure of corporate social responsibility. From an Islamic perspective, social responsibility disclosure is termed Islamic social reporting. To gain acceptance and approval from the community, companies need to take concrete actions that positively affect the community. In the case of the movement to disclose information about social responsibility, it is an action based on a system of public norms, values, and beliefs (Deegan, 2002). Similarly, the relationship between the two variables is explained by Indrawaty & Wardayati (2016). This study found that the better the implementation of Islamic governance by Islamic banks, the more disclosure of Islamic social reporting. The results of this study have been achieved in proving the theory of legitimacy in explaining the relationship between good governance and disclosure of corporate social responsibility. The results also show that the better the level of sharia governance carried out by Islamic banks, Islamic banks can control the behaviour of internal parties to take actions that produce benefits for the common interest, especially from the investors. With the roles and duties of the Sharia Supervisory Board, it is easier for Islamic banks to exercise control over internal parties.

One indicator of the level of Islamic governance is the execution of the tasks and obligations of the Board of Commissioners. This study found that the better the execution of the tasks and obligations of the Board of Commissioners affects the extent of Islamic social reporting disclosure. Based on descriptive analysis, the most information disclosed by Islamic banks is the disclosure of information about government, society and the workforce, which includes: information on the status of sharia compliance and activities that are prohibited; information regarding sadaqah, waqf, benevolence funds; information regarding employment, employee education and training, employee involvement, and the work environment. The study results support prior examinations performed by Issa et al. (2022), Ratmono et al. (2021), Rahma & Aldi (2020), and Ullah et al. (2019) concerning the association between commissioners board and corporate social responsibility disclosure.

Issa et al. (2022) examined the effect of board diversity on the corporate social responsibility disclosure index. The sample used is banks registered in the Gulf Cooperation Council countries from 2011-2019. The approach used is GMM. The study results prove empirically that the diversity of the board has a significant effect on the level of voluntary CSR disclosure. Another study by Ratmono et al. (2021) obtained empirical evidence that state ownership, the number of commissioners, and the ratio of independent commissioners have a positive and significant effect on CSR disclosure. In their study, Ratmono et al. (2021) used a sample of 194 companies with 582 observations. The approach used is Partial Least Square (PLS). In addition, another study conducted by Rahma & Aldi (2020) found that the ethnicity of the commissioners had a significant impact on CSR disclosure, while the gender of the commissioners and the nationality of the commissioners did not affect CSR disclosure. The study uses data from LQ45 companies listed on the Indonesia Stock Exchange for 2015-2017.

The study results are supported by indicators of the implementation of the duties and responsibilities of the Board of Directors, which obtained a high average score that indicates that the board of directors' duties and responsibilities have been carried out correctly. It supports Othman et al. (2009), Ibrahim & Hanefah (2016) and Sunarto (2016). Othman et al. (2009) obtained empirical results that the composition of the board of directors determines Islamic social reporting. Sunarto (2016) found that the number of members of the board of directors affects the disclosure of Islamic social reporting. The greater the number of members of the board of directors is directly proportional to the extent of disclosure of Islamic social reporting. Ibrahim & Hanefah (2016) examined the effect of the diversity of characteristics of the board of directors, namely independence, gender, age and nationality of the board of directors on the level of disclosure of CSR in companies listed on the Amman Stock Exchange. The study results indicate a positive and significant relationship between the level of CSR disclosure and the board diversity variable.

The study results indicate that the better the committee's duties can affect how Islamic banks carry out Islamic social reporting disclosures. The results of this study support Barako et al. (2006) and Mohammadi et al. (2021). Barako et al. (2006) found that the existence of an audit committee is an essential factor that can be associated with the level of voluntary disclosure. Using a sample of 150 firms listed on the Tehran Stock Exchange from 2012 to 2018, Mohammadi et al. (2021) found that the audit committee's member size, independence, and financial expertise significantly affect CSR.

One of the vital organs in Islamic banks that distinguishes them from conventional banks is the sharia supervisory board (SSB). SSB is only found in Islamic commercial banks and is a crucial characteristic of Islamic commercial banks. SSB plays a significant role in overseeing the compliance of Islamic banks with sharia principles. Based on data analysis regarding the results of the convergent validity test, it was found that the SSB indicator was valid. The results of the current study strengthen several previous studies that have succeeded in ensuring the effectiveness of SSB at the level of corporate social responsibility exposure, including Farook & Lanis (2005), Sunarto (2016), Dienes & Velte (2016), and Salman et al. (2018).

One of the indicators of the level of Islamic governance is sharia principles in raising funds and channelling funds and services. This study demonstrates that the better the performance of sharia principles in collecting and distributing funds impacts the extent of Islamic social reporting (ISR). This finding is interesting because there is a tight relationship between the execution of sharia principles and ISR. Exposure of social reporting is interconnected to the disclosure of information regarding usury, gharar, zakat activities; halal product status; work environment; sadaqah, waqf, charity; environment, and level of sharia compliance and information on activities that are prohibited by sharia.

5.2 The Effect Of Maqashid Sharia Index On Islamic Social Reporting

Legitimacy theory is often used in research in accounting as a fundamental theory to test the determinants of social responsibility disclosure. Therefore this theory is the social contract between the company and society. Socio-political legitimacy refers to the characteristics, attributes, and organizational outcomes of social norms that are acceptable or not (Aldrich & Fiol, 1994; Suchman, 1995). The maqashid sharia index is one measure of non-financial performance obtained by Islamic banks. The maqashid sharia index relates to how Islamic banks contribute to education and training, justice, and benefit. The better the contribution of Islamic banks in these three aspects, the more comprehensive the social reporting made by Islamic banks.

The study result failed to prove the role of legitimacy theory in clarifying the relationship between the maqashid sharia index and the level of Islamic social reporting. *First*, in terms of data on the cost of education and training for seven years (2010-2019). Based on the previous descriptive analysis results, education and training expenses in Islamic banks is still relatively low, namely an average of 1.1% during the 2010-2019 period. The most influential ratio was obtained in 2013, namely 1.48%, while the lowest percentage was acquired in 2012 at 0.84% and in 2016 at 0.86%. *Second*, based on data, it is understood that the average ratio of research and development expenses divided by total costs during seven years (2010-2019) is relatively low at 0.2%. Some Islamic banks do not present research and development expenses in their financial statements and annual reports as a cost item. However, the ratio increased from 2010-2012 to 2013-2016. Research and development costs in 2010-2012 were only 0.05% and raised in 2013-2016 to 0.32%. *Third*, in terms of data on promotion expenses for seven years (2010-2019). The promotion aspect is associated with increasing public awareness of products and services in Islamic banks. Compared to prior expenses, promotion expenses reached a higher score, namely 2.19% in the 2010-2019 period. However, indifference to research and development costs, most Islamic banks have presented information on promotion expenses in financial statements and annual reports. All Islamic banks have disclosed promotion expenses since 2013, so the average ratio of promotion expenses divided by total expenses in 2013-2016 increased to 2.23% compared to 2010-2012 of 2%.

This research is a pioneer study to examine the maqashid sharia index in Islamic social reporting. Therefore, no previous research obtained similar results; namely, the maqashid sharia index does not affect Islamic social reporting. However, several previous studies did not find a significant effect of financial performance on Islamic social reporting, including Hossain et al. (2006) and Sunarsih & Ferdiansyah (2016). The study results support previous research by Hossain et al. (2006) and Sunarsih & Ferdiansyah (2016), where both studies failed to confirm the effect of company performance on the level of Islamic social reporting. On the other hand, the outcomes of the current study are different from the previous research conducted by Othman et al. (2009) and Deegan (2002), where Othman et al. (2009) succeeded in proving the influence of company performance on the level of Islamic social reporting empirically. Deegan (2002) found that organisations that perform well tend to disclose corporate social responsibility at a more comprehensive level to achieve legitimacy from the society to sustain their performance.

6. Conclusion

This research is pioneer research that analyzes the interaction between governance and disclosure of social responsibility from an Islamic perspective. In addition, this study also pioneered the analysis of the influence of the maqashid sharia index on the disclosure of social responsibility from an Islamic perspective. This study uses the level of Islamic social reporting to measure the extent of disclosure of social responsibility. The study results found a significant finding: Islamic governance significantly affects the level of Islamic social reporting. This study finds a positive direction, meaning that the better the implementation of Islamic governance in Islamic banks, the wider the disclosure of Islamic social reporting. Thus these findings reveal that legitimacy theory can explain the effects of governance on the level of Islamic social reporting. The study results provide practical implications for Islamic banks to pay attention to good governance guidelines under the Islamic perspective. With good governance, Islamic banks can expand their social responsibility roles realized through various social activities to the community.

The study results did not find the influence of the maqashid sharia index on the level of Islamic social reporting. Based on these results, the legitimacy theory proved unable to explain the influence of the maqashid sharia index on the level of Islamic social reporting. The implication of this empirical finding for Islamic banks is the demand to increase the maqashid sharia index because it is proven that the low index does not significantly affect the disclosure of social responsibility in Islamic banks. Future research can be directed at sharia entities and other indicators. Future research can use the characteristics of the Sharia Supervisory Board and the index of compliance with sharia principles to measure Islamic governance. On the variable side of the maqashid sharia index, separate indicators can be developed that are specifically under the characteristics of Islamic banks in a country. Therefore, future research can elaborate a separate and distinctive maqashid sharia index that reflects Islamic banks' financial statements and annual reports in a country.

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2.Bukti Konfirmasi Review dan Hasil Review Pertama (12 Juni 2023)

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ya.mospanova@manuscript-adminsystem.com <ya.mospanova@manuscript-adminsystem.com> Mon, Jun 12, 2023 at 11:36 PM
To: kautsar@perbanas.ac.id

Dear Kautsar Riza Salman,

the manuscript WHAT DRIVES THE LEVEL OF DISCLOSURE IN SOCIAL REPORTING AT SHARIA COMMERCIAL BANKS?, submitted to Banks and Bank Systems Journal, needs to be revised.

Comments:

Authors are asked to comply with the requirements and preliminary recommendations. To simplify the process, you should check your text with this one.

When finalizing the manuscript in accordance with the requirements of the journal, please pay special attention to the fact that this is a research paper, which is a final report on the finished original experimental study (the structure is Abstract, Introduction, Literature review, Method, Results, Discussion, and Conclusion). The length of the manuscript (maximum) should be up to 6,000 words (not including the abstract, list of sources and appendices). Divide the material into sections correctly. Clearly and specifically formulate the purpose of the study! The title of the article should be specific, indicate the purpose of the study, and correlate with it. The purpose of the article is indicated in the abstract, at the end of the literature review, and in the Conclusion. The abstract (its volume is 150-250 words, but abstracts are welcome, in which the volume approaches 200-250 words) should have the following sequence of presentation of the material - relevance, purpose, method, result, and conclusion. This is exactly the sequence that should be. Most of the abstract should be devoted to the result. Give a quantitative description of the result. Do not enter in the abstract and do not use (also in conclusions) unestablished abbreviations.

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The introduction is a half-page - a page of text devoted to the relevance of the research topic and the formulation of the SCIENTIFIC problem (in which this research is being conducted) as a whole. You should not conduct a literature review here. There is no need for a literature review here. It is not necessary to tell how the research will be conducted, how the article is structured, what is the purpose of the research and what tasks the authors will solve.

The literature review should include 30-40-50 analyzed sources. It should begin with a few introductory sentences. The sequence of the text must have logic (it is not determined by the place of the mentioned work on the shelf). It must be subordinated to the purpose of the study. Do not start each paragraph with a reference to the source, but structure the text in such a way that one paragraph is an analysis of one source. The review should be concluded with 2-3 generalizing sentences. Then the purpose of the study should be formulated. After that, formulate hypotheses (right here, all together, and do not insert text between them). Of course, if you foresee them. As for the hypotheses, they should be formulated clearly and unambiguously! They should be clear and not repeat each other.

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The Discussion section should include a discussion of the results of the study, a comparison with previous ones, a discussion of why the authors have such results, and an indication of future prospects.

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Don't start chapters with subsections. Don't break sections into a bunch of subsections. Variables in formulas must have established designations. They should be explained. Captions for figures and tables should be clear and understandable, even if they are shown in the context of the article. Do not indicate under the figures and tables that this is your own (author's) development or your own calculations because it should be so a priori. Column and row names in tables should be clear and complete.

Carefully study each sentence, each paragraph, and the entire text of the article.

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Kind regards,

Yaroslava Mospanova
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Journal Banks and Bank Systems

WHAT DRIVES THE LEVEL OF DISCLOSURE IN SOCIAL REPORTING AT ISLAMIC COMMERCIAL BANKS?

Abstract

This study analyzes the factors driving the level of Islamic social reporting. Based on the literature review, it was revealed that the lack of consensus from the drivers of discolure of Islamic reporting in Islamic banks, especially in Indonesia, is different from disclosure in conventional banks, which have a lot of consensus in it. Empirical analysis uses panel data collection from 12 Islamic commercial banks in Indonesia from 2010 to 2022. In order to estimate the relationship between variables, EViews 12 software is used. The control variables used in this study are ROA, ROE, and size of Islamic banks. The results of the study show that sharia governance has not been empirically proven to be able to encourage the extent of Islamic social reporting in Islamic banks. The results of the study did not find empirical evidence that the performance of maqashid sharia related to educating individuals and establishing justice is not a driver that has an impact on the reach of Islamic social reporting. However, the performance of sharia maqashid in the form of promoting welfare through the amount of zakat funds channeled by Islamic banks has been proven empirically to influence the extent of Islamic social reporting. ROE and ROA have no significant effect on Islamic social reporting, while the size of Islamic banks has a positive and significant effect on the extent of Islamic social reporting on Islamic banks in Indonesia.

Keywords Islamic social reporting, Islamic governance, maqashid sharia performance, Islamic commercial bank

JEL Classification G21, G34, M21, M41

INTRODUCTION

Islamic social reporting recognizes the need to comply with Islamic concepts and is an evolution of corporate social responsibility disclosure. Islamic social reports disclosed by Islamic financial institutions follow the compilation of Sharia standard elements published by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) (Sunarto, 2016). The Islamic Social Report is not only intended as a form of Sharia banking accountability to the public (*hablum minannas*) through transparency of its business activities by providing relevant information to the public (stakeholders) but also as a form of accountability as a form of sharia entity accountability to Allah (*hablum minallah*) as part of out of obligation to Allah (Haniffa, 2002). Governance and maqashid sharia are the factors that determine the level of disclosure in Islamic social reporting.

Governance, in general, is a management system that is expected to improve banking performance, protect various stakeholders, increase compliance with relevant rules and regulations and available moral values (Kholid & Bachtiar, 2015). In Islamic governance, adherence to sharia principles differentiates it from governance in general. Chapra (1990) describes that maqashid sharia includes guarding the mind (al-aql), guarding religion (ad-din), guarding the soul (an-nafs), guarding descent (an-nasb) and safeguarding property or wealth (al- maal). Mohammed & Taib (2015) explained that the attainment of maqashid sharia performance could be seen from three goals which include educating individuals (*tahdzib al-fard*), establishing justice (*iqamah al-'adl*) and promoting welfare (*jalb al-mashalih*). Several examinations that have been carried out are still related to the use of maqashid sharia in the context of a performance measurement approach such Mohammed et al. (2008), Jazil & Syahruddin (2013), Al Arif & Yati (2021), and Analia & Anto (2019).

This research is encouraged to address the gaps in the results of prior studies, especially on three factors, namely the subject of analysis, variables and research findings. Prior examinations used established companies, while current research uses another sample rarely researched by previous studies, namely Islamic bank entities. The second reason is related to the research variables. Determinants still dominated prior research in financial performance or company characteristics. At the same time, this study offered the novelty of variables, especially those related to Islamic principles such as Islamic governance.

1. LITERATURE REVIEW AND HYPOHESES

Agency theory describes the agent's opportunistic behaviour (Eisenhardt, 2018). In order to reduce agency problems, companies can establish a good governance structure to monitor the behaviour of agents (Chrisman et al., 2007). Good governance can be achieved when an organization has reporting systems and procedures, a management structure or a board of directors (Donaldson & Davis, 1991). In addition, agency problems can be reduced through a agreement between the principal and agent that allows the agent to produce the best performance. Contracts can be based on the actual results of the agent's performance so that agents who perform well will get a more significant contract compared to other agents (Eisenhardt, 2018). Risk is transferred to the agent and, in this way, can create motivation for the agent to act in the interests of the principal (Davis et al., 1997; Eisenhardt, 2018). In essence, from these two ways, the principal can choose between constructing a governance structure established on the agent's natural behaviour or the outcome of that behaviour (Eisenhardt, 2018). Legitimacy theory explains that the company has a positive impact and is following the community's expectations. Thus, this has implications for increasing the viability of an organization (Deegan, 2002; Driver, 2006; Tsang, 1998).

Prior studies that determine the disclosure of corporate social responsibility is dominated by tax aggressiveness and company characteristics, including company size, profitability, and leverage. Studies examining the effect of the level of tax aggressiveness on disclosure of corporate social responsibility include Deegan (2019), Apriyanti & Arifin (2021), Salman (2018), Zeng (2016), dan Lanis & Richardson (2013). Likewise, the study of Handoyo (2020), Salman et al. (2018), Widiyanti & Hasanah (2017), Habbash (2016), Sunarsih & Ferdiansyah (2016), Istianingsih (2015), Abdulhaq & Muhamed (2015), Al-Ajmi et al. (2015), Khasharmeh & Desoky (2013), and Lestari (2013), tested the effect of company characteristics on the level of corporate social responsibility disclosure. Research that examines the influence of governance on corporate social responsibility is carried out by Salman (2021) and Habbash (2016).

Corporate governance aims to make value-added for all stakeholders by regulating and controlling the company. The concept of corporate governance emphasises two things, namely (1) the importance of fulfilling the rights of shareholders to acquire objective and opportunely information; and (2) the company's responsibility to inform details about firm performance, ownership, and stakeholders in an objective, timely and transparent manner (Hemphill, 2006). Islamic governance is different from corporate governance in general. The principles of Islamic governance in Surah Al-Hajj verse 41: "*(that is) those who, if We affirm their position on earth, undoubtedly they will pray, pay zakat, order to do ma'ruf and prevent any actions that are Munkar, and it is to Allah that all matters return*".

Sharia entities do not only use Islamic principles in the field of fiqh in the form of the legality of products and services by Islamic principles alone, but more than that, Islamic principles should have a broader consequence on economic and social factors as an effort to achieve Maqashid Shariah (Salman & Farid, 2016). More specifically, Mohammed et al. (2008) explained that the objectives of Islamic banks could be derived from the purposes of sharia (maqashid sharia).

Sharia entities should disclose how to fulfil their responsibilities and obligations according to sharia principles such as sharia transactions, zakah payments to recipients (*mustahik*), alms (charities/gifts), wages, and the objectives of the business entity to protect the environment. Maali et al. (2006) revealed that the critical objective of Islamic disclosure is to show whether the organisation is adhering to Islamic principles, and to assist others in carrying out their religious obligations. Furthermore, Othman & Thani (2010) and Othman et al. (2009) described the existence of six disclosure themes in Islamic disclosure.

Corporate governance is essential for controlling manager behaviour that tends to benefit self-interest. It emphasises the shared interests rather than the interests of each individual. Company managers will seek to behave by the owner's interests in achieving organisational goals. In other words, as explained by Indrawaty & Wardayati (2016), the effectiveness of the implementation of Islamic governance is shown in Islamic social reporting.

Examinations on the effect of governance mechanisms on the disclosure of social responsibility have been carried out by Farook et al. (2011), Dienes & Velte (2016), Zolfaghar Arani (2016), García-Sánchez et al. (2021), and Cabral & Sasidharan (2021). Zolfaghar Arani (2016) found a significant relationship between the three governance mechanisms, namely institutional owners, the proportion of non-executive directors and board size, with the level of social responsibility disclosure. Another study by Dienes & Velte (2016) found that gender diversity positively impacts the intensity of CSR disclosure. Farook et al. (2011) revealed that CSR disclosures by Islamic banks varied significantly.

The outcomes of empirical research reveal that board diversity, the existence of a CSR committee, the scope of analysts, and institutional investors increase the likelihood of confirming CSR reports (García-Sánchez et al., 2021). The empirical results also find that board size is negatively related in India and South Africa, while CEO duality is positively associated with corporate social performance in India and China (Cabral & Sasidharan, 2021). Othman et al. (2009) discovered that the proportion of Muslim and non-Muslim boards affects CSR disclosure. Farook & Lanis (2005) obtained empirical evidence that Islamic governance has significant impact on CSR disclosure. In addition, (Salman et al., 2018) found that the better implementation of Islamic governance carried out by Islamic banks has a positive influence on the complete Islamic social reporting. Sunarto (2016) also found that the role of Islamic bank directors affects disclosure by using Islamic Social Reporting.

The legitimacy theory explains that companies must fulfil social contracts by disclosing financial, social, and political information to be accepted by society. Socio-political legitimacy refers to the suitability of organisational attributes, characteristics, and results in social norms (Aldrich & Fiol, 1994; Suchman, 1995). Hossain et al. (2006), Othman et al. (2009), and Sunarsih & Ferdiansyah (2016) investigated the effect of company performance on the level of ISR. Their results show inconsistencies. Their results show inconsistencies. Othman et al. (2009) succeeded in finding empirical evidence regarding the effect of company performance on the level of Islamic social reporting. The more extensive ISR, the better the company's performance impacts. However, Hossain et al. (2006) and Sunarsih & Ferdiansyah (2016) gave opposite results by failing to find a significant result of company performance on ISR.

In order to achieve the research objectives, this study formulated the following hypothesis:

H1: *Islamic governance implemented by Islamic banks is able to drive widespread disclosure regarding Islamic social reporting*

H_2: *Maqashid sharia performance (educating individual, establishing justice, and promoting welfare) achieved by Islamic banks is able to drive broad disclosure regarding Islamic social reporting*

2. RESEARCH METHODOLOGY

The research sample is 12 Islamic commercial banks in Indonesia with a research period of 13 years (2010-2022). The number of observations is 140 observations. Banks included in the sample are Bank Bukopin Syariah, Bank Maybank (Net) Syariah, Bank Mega Syariah, Bank Muamalat Indonesia, Bank Panin Dubai Syariah, Bank BCA Syariah, Bank Jabar Banten Syariah, Bank BNI Syariah, Bank BRI Syariah, Bank Syariah Mandiri, and Bank Syariah Indonesia. The selection of the research sample was based on consideration of the similarity of financial report templates, annual reports, and reports on the implementation of good corporate governance. Thus the data collected reflects the same characteristics in a country. The research period began in 2010, considering that Bank Indonesia (2009) issued regulation, which came into force on January 1, 2010. Prior to 2010, there were no specific rules regarding governance for Islamic banks. So starting in 2010, Islamic banks have conducted a self-assessment regarding the governance they are implementing. Data analysis and hypothesis testing employed panel least square with EViews 12.

Islamic social reporting is the extent of disclosing social and environmental information on the company's economic actions to specific groups that have fulfilled Islamic principles. The indicator for this variable refers to Othman & Thani (2010), Othman et al. (2009), and Salman et al. (2018) consist of six indicators which include: Disclosure of Finance and Investment, Disclosure Products and Services, Disclosure of Employee, Disclosure of Society, Disclosure of Environment, and Disclosure of Corporate Governance. This variable is measured by the percentage of the number of Islamic social reporting items disclosed by Islamic banks in the annual report divided by the total disclosure items (37 items).

Table 1. Islamic social reporting

No	Themes	Disclosure items
1	Finance and Investment theme	Riba Activities
		Gharar
		Maysir
		Non-Halal income/Revenue
		Profit Sharing Reconciliation Report
2	Produts and service theme	Green Product)
		Halal Status of Product & Service
		Product or Service Quality
		Customer Complaints (customer care)
3	Employees theme	Nature of Work
		Education and Training
		Equal Opportunities
		Employee Involvement
		Health and Work Safety
		Working Environment
		Higher echelons in the company perform the congregational prayers with lower and middle level managers
		Muslim employees are allowed to perform their obligatory prayers during specific times and fasting during Ramadhan on their working day
		Proper place of worship for the employees
4	Society theme	Infaq / Sadaqah (sumbangan)
		Waqaf
		Zakat

		Qard Hasan Education-School Adoption Scheme (Scholarships) Underprivilage Community Children Care Charities/Gifts/Social Activities Sponsoring Public Health
5	Environment	Conservation of Environment) Environmental Pollution Environmental Education Environmental Products/Process related Environmental Management System/Policy
6	Corporate governance theme	Shariah Compliance Status Ownership Stucture Board structure-muslim vs non-muslim Forbidden Activities Anti-Corruption, Collucion and Other Fraud Policie

Islamic governance in this study is the level to which Islamic entities by Islamic sharia carry out governance. This variable refers to Act Number 21 of 2008 Concerning Islamic Banking (2008) and Regulation No. 11/33/2009, which took effect on January 1, 2010 (Bank Indonesia, 2009), namely

a. Execution of tasks and obligations of the Board of Commissioners;
b. Execution of tasks and obligations of the Board of Directors;
c. Completeness and implementation of Committee duties;
d. Execution of tasks and obligations of the Sharia Supervisory Board;
e. Execution of sharia principles in the activities of raising funds and channelling funds as well as services;
f. Handling of conflicts of interest;
g. Execution of the Bank's compliance function;
h. Execution of the internal audit function;
i. Application of the external audit function;
j. Maximum Fund Distribution Limit; and
k. Clarity of financial and non-financial conditions reports on implementing good corporate governance and internal reporting.

The Islamic governance variable is measured from the GCG score obtained from a self-assessment conducted by an Islamic bank where, 1 indicates very good, 2 indicates good, 3 indicates fairly good, 4 indicates not good, and 5 indicates not good.

Maqashid sharia performance is the level of achievement of goals generated by a sharia entity. There are three variables, namely: educating individuals (*tahdzib al-fard*), establishing justice (*iqamah al-‘adl*), and promoting welfare (*jalb al-mashalih*). Educating individually is calculated from the ratio of the costs of education, training, publication/promotion, research and development divided by the total cost of the business. Establishing justice is calculated from the ratio of the amount of profit sharing that is the right of a third party divided by the amount of temporary syirkah funds. Promoting welfare is calculated from the natural logarithm of the amount of zakat distributed by Islamic banks.

Control variables include ROE, ROA, and SIZE. ROE (return on equity) is calculated from the ratio of net income divided by total equity, ROA (return on assets) is calculated from the ratio of net income divided by total assets, and SIZE is calculated from the natural logarithm of the total assets owned by Islamic banks.The following is the regression model used in the study.

$$ISR_{i,t} = \beta_0 + \beta_1 IG_{i,t} + \beta_2 MSEIP_{i,t} + \beta_3 MSEJP_{i,t} + \beta_4 MSEJP_{i,t} + \beta_5 ROE_{i,t} + \beta_6 ROA_{i,t} + \beta_7 SIZE_{i,t} + \varepsilon_{i,t} \qquad (1)$$

where *ISR* is the Islamic social reporting, *IG* is the Islamic governance, *MSEIP* is the maqashid sharia of educating individual performance, *MSEJP* is the maqashid sharia of establishing justice performance, *MSPWP* is the maqashid sharia of promoting welfare performance, ROE is return on equity, ROA is return on asset, SIZE is size of Islamic banks and ε is the error term.

3. RESULTS

Table 1 provide important and relevant information related to the variables that drive Islamic disclosure. Islamic disclosure to Islamic banks differs from disclosure to conventional banks in the disclosure of usury (*riba*), obscurity (*gharar*), and zakat to Islamic banks. The mean of Islamic social reporting variables reflects a very good level of 0.632579 (> 0.50). This shows that most of the disclosure items disclosed by Islamic banks are greater than 50%. The mean variable of Islamic governance is 1.921429 indicating that the average self-assessment score on the implementation of Islamic governance is at a score of 1 which indicates very good and a score of 2 which indicates good. The mean performance of maqashid sharia in relation to educating individuals is 0.030156 which indicates that Islamic banks provide a fairly low portion of education and training, research and development, and publication (promotion) costs of 3% of the total costs over the last 13 years (2010- 2022). The performance of maqashid sharia related to establishing justice shows that the level of profit sharing received by customers from managing funds by Islamic banks is still low, namely 5.22%. For maqasid sharia performance related to promoting welfare, there are still Islamic banks that do not distribute zakat funds as seen from the minimum value of 0. Mean ROE and ROA also show positive numbers indicating that over the last 13 years (2010-2022) profitability performance Islamic banks are quite good not to be affected by the Covid-19 pandemic in 2020. (Table 1).

Table 1. Descriptive statictics

Variables	Obs	Mean	Std Dev	Min	Max
Islamic social reporting (Y)	140	0.632579	0.183697	0.224074	0.93333
Islamic Governance (X_1)	140	1.921429	0.600574	1	3
Maqashid sharia of educating individuals (MSEI Performance)	140	0.030156	0.023195	0.000742	0.120261
Maqashid sharia of establishing justice (MSEJ Performance)	140	0.052152	0.019097	0.000000	0.134189
Maqashid sharia of promoting welfare (MSPW Performance)	140	20.82483	3.002660	0.000000	26.35663
ROE (control variable)	140	0.034627	0.153531	-0.940100	0.579800
ROA (control variable)	140	0.004675	0.032866	-0.201300	0.111500
Size (control variable)	140	29.81621	1.439375	26.54239	33.35372

The results of the chow test show that the fixed effect model (FEM) is better than the common effect model (CEM). This can be seen from the probability value of cross-section F and cross-section Chi-square of 0.0000 (<0.05) (Table 2). The results of the Hausman test show that the fixed effect model (FEM) is better than the random effect model (REM) as the random cross-section probability value is 0.0135 (<0.05) (Table 3). Based on these two tests, the selected panel data regression model is the fixed effect model.

Table 2. Chow test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	16.261594	(13,119)	0.0000
Cross-section Chi-square	142.965584	13	0.0000

Table 3. Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.670460	7	0.0135

The results also provide an R-squared value of 0.826055 and an adjusted R-squared value of 0.796821. This shows that variations in Islamic social reporting variables can be explained by Islamic governance, maqashid sharia performance, return on equity, return on assets, and size of 79.68%, while the remaining 20.32% is explained by other factors not present in the regression model. Based on the results of the F test, it was also obtained a p-value of 0.000 (<0.05) indicating that the regression model is a fit model and proves that all independent variables in the model simultaneously affect Islamic social reporting. (Table 4).

Table 4. Adjusted R-Square and F test

Cross-section fixed (dummy variables)			
Root MSE	0.076340	R-squared	0.826055
Mean dependent var	0.632579	Adjusted R-squared	0.796821
S.D. dependent var	0.183697	S.E. of regression	0.082802
Akaike info criterion	-2.007246	Sum squared resid	0.815886
Schwarz criterion	-1.565999	Log likelihood	161.5072
Hannan-Quinn criter.	-1.827936	F-statistic	28.25628
Durbin-Watson stat	0.887605	Prob(F-statistic)	0.000000

The regression equation with the fixed effect model is shown as follows:

$$ISR = -4.505911 - 0.006749IG - 0.940263MSEIP + 0.341728MSEJP - 0.007606MSPW - 0.538206ROA + 0.012634ROE + 0.178509SIZE$$

The first hypothesis was rejected because it has a p-value of 0.6990 (> 0.05) so that it can be said that Islamic governance is not significant in influencing the extent of Islamic social reporting in Islamic banks in the 2010-2022 period. As for the performance of maqashid sharia related to educating individuals and establishing justice it is not significant in influencing the extent of Islamic social reporting because it has a p-value of 0.1169 (> 0.05) and 0.5173 (> 0.05). The performance of maqashid sharia related to promoting welfare has been empirically proven to have an effect on Islamic social reporting with a p-value of 0.0990, significant at the 10% significance level. For the two control variables, namely ROE and ROA, it was not proven to have a significant effect on Islamic social reporting with p-values of 0.1383 and 0.8701. For the third control variable, namely Islamic bank size, it has been empirically proven to have a positive and significant effect on the extent of Islamic social reporting as a p-value of 0.000 (<0.05) (Table 5).

Table 5. Factors driving ISR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IG	-0.006749	0.017415	-0.387544	0.6990
MSEI_PERFORMANCE	-0.940263	0.595360	-1.579317	0.1169
MSEJ_PERFORMANCE	0.341728	0.526130	0.649512	0.5173
MSPW_PERFORMANCE	-0.007606	0.004575	-1.662597	0.0990
ROA	-0.538206	0.360645	-1.492344	0.1383
ROE	0.012634	0.077094	0.163881	0.8701
SIZE	0.178509	0.015211	11.73522	0.0000
C	-4.505911	0.425472	-10.59039	0.0000

DISCUSSION

Companies need to take concrete actions that positively affect the community. In the case of the movement to disclose information about social responsibility, it is an action based on a system of public norms, values, and beliefs (Deegan, 2002). Similarly, the relationship between the two variables is explained by Indrawaty & Wardayati (2016). The results show that the better the level of sharia governance carried out by Islamic banks, Islamic banks can control the behaviour of internal parties to take actions that produce benefits for the common interest, especially from the investors.

Based on content analysis, the most disclosed information by Islamic banks is the disclosure of information on sharia compliance status and prohibited activities; information regarding zakat, shodaqoh, waqf, qardhul hasan; information on employment, employee education and training, employee engagement, and work environment. Bank BNI Syariah received the highest score for Islamic social reporting of 0.93333 in 2015 and 2016 and 0.90000 in 2020. Bank Maybank Syariah obtained the lowest score of 0.224074 in 2010 and 2011, and Bank BRI Syariah of 0.237963 in 2010.

Based on the descriptive analysis for the Islamic governance variable, it was found that the application of Islamic governance with a score of 1 indicating very good was obtained by many

Islamic banks at the beginning of the study period. Bank Muamalat Indonesia obtained a score of 1 in the 2010-2015 consecutive period, while Bank BCA Syariah obtained a score of 1 in the 2014-2022 period. Likewise Bank BRI Syariah and Bank BNI Syariah obtained a score of 1 in 2012 and 2013, and Bank Syariah Mandiri obtained a score of 1 in 2010 and 2015-2020. Bank Mega Syariah received a score of 1 in 2014 and 2018.

The results of the current study are in contrast to the previous examination by Issa et al. (2022), Ratmono et al. (2021), Rahma & Aldi (2020), and Ullah et al. (2019). Issa et al. (2022) found the effect of governance through board diversity on the level of voluntary social responsibility disclosure. Ratmono et al. (2021) obtained empirical evidence that state ownership, the number of commissioners, and the ratio of independent commissioners have a positive and significant effect on CSR disclosure. In addition, Rahma & Aldi (2020) found that the ethnicity of the commissioners has a significant effect on CSR disclosure. However, these previous studies did not specifically examine the influence of Islamic governance on Islamic social reporting.

Based on the self-assessment conducted by Islamic banks, it shows that the results of the implementation of Islamic governance by Islamic banks are good. The Board of Directors of an Islamic bank has adequate integrity, competence and financial reputation and all of them have obtained approval from the Financial Services Authority (OJK). Based on content analysis, it was found that the Board of Directors of Islamic banks had carried out their duties and responsibilities independently based on prudential principles and sharia principles. In addition, the Board of Directors has also been accountable for carrying out their duties to shareholders through the general meeting of shareholders. In carrying out its duties, the Board of Directors is supported by committees under its auspices including the financing policy committee, the risk management committee, the human resources committee and other committees. This finding supports Othman et al. (2009), Ibrahim & Hanefah (2016) and Sunarto (2016). Othman et al. (2009) revealed the importance of the composition of the board of directors. Sunarto (2016) found the importance of the number of members of the board of directors. Ibrahim & Hanefah (2016) found the importance of board diversity. The research results support Barako et al. (2006) and Mohammadi et al. (2021) regarding the important role of committees. Barako et al. (2006) found the importance of having an audit committee. Using a sample of 150 companies listed on the Tehran Stock Exchange from 2012 to 2018, Mohammadi et al. (2021) found that regarding the important role of audit committee member size, independence, and financial expertise. The Sharia Supervisory Board (SSB) plays an important role in overseeing the compliance of Islamic banks with sharia principles. The results of this study strengthen several previous studies which revealed the important role of the Sharia Supervisory Board including Farook & Lanis (2005), Sunarto (2016), Dienes & Velte (2016), and Salman et al. (2018).

Exposure to social reporting related to information disclosure such as usury, gharar, maysir, non-halal revenue; halal product status; work environment; zakat, infaq/sodaqoh, waqf, qardh al-hasan; environment; and the level of sharia compliance as well as information on activities that are prohibited by sharia. Socio-political legitimacy refers to the characteristics, attributes, and organizational outcomes of social norms that are acceptable or not (Aldrich & Fiol, 1994; Suchman, 1995). Maqashid sharia performance is one measure of social performance obtained by Islamic banks. Maqasid syariah performance consists of educating individuals, establishing justice, and promoting welfare.

Based on descriptive analysis, the largest individual educating ratio was obtained by Bank BNI Syariah of 0.120261 in 2012, meaning that the portion of education and training costs, publication costs (promotions), and research and development costs amounted to 12.03% of the total business costs. On the other hand, the lowest scores of 0.074% and 0.076% were obtained by Bank Mega Syariah in 2019 and 2018, and many obtained scores below 1% at other Islamic banks. This finding shows the lack of attention of Islamic banks on the individual educating aspect as shown by the mean educating individual below 5%. This condition has no impact on the spread of Islamic social reporting disclosed by Islamic banks in the research period (2010-2022).

Based on the descriptive analysis, the results show that the mean performance of maqashid syariah related to establishing justice is 0.052152. This ratio indicates that the level of profit sharing received by customers from the management of temporary syirkah funds by Islamic banks is 5.22% of the total temporary syirkah funds received by Islamic banks. From the screening data, it was found that the maximum establishing justice ratio was obtained from Bank Bukopin Syariah of 13.42% and 8.66% in 2020 and 2014. High establishing justice scores were also obtained from Bank Victoria Syariah of 9.44% and 8.92% in 2015 and 2014. On the other hand, the lowest establishing justice ratio was obtained by Bank Maybank Syariah of 0% in 2018 and 2019; 0.00388% in 2021; and 0.39% in 2020. These findings indicate the still low level of profit sharing received by customers from the management of mudharabah contracts carried out by Islamic banks during the research period (2010-2022) so that they are unable to influence the extent of Islamic social reporting disclosed by Islamic banks.

Based on the descriptive analysis, the results show that the performance of maqashid syariah related to promoting welfare has a mean of 20.82483 which is the natural logarithm value of the total zakat, infaq/alms and waqf funds that can be channeled by Islamic banks. The highest promoting welfare score was obtained by Bank Syariah Indonesia of 26.35663 in 2022, 25.95512 in 2021, and 25.92600 in 2020. On the other hand, the lowest value of promoting welfare was obtained by Bank BCA Syariah of 0 in 2010 and 13.94107 in 2012. The study results prove empirically that maqashid sharia performance related to promoting welfare has an impact on the extent of Islamic social reporting. However, the direction of the negative relationship shows that the performance of maqashid sharia related to promoting welfare decreases the level of Islamic social reporting. This finding can be explained because there are still Islamic banks that do not distribute zakat, infaq/shodaqoh, waqf, and qardhul hasan funds and several other Islamic banks only distribute a portion of the zakat, infak/sodaqoh, waqf, and qardhul hasan funds they receive. In reports on sources and uses of qardul hasan, several Islamic banks do not distribute all of the qardhul hasan they receive and leave it as the final balance of qardhul hasan in the current year. Likewise, in reports on sources and distribution of zakat funds, several Islamic banks do not distribute all of their zakat funds to amil zakat institutions and leave it as the final balance of zakat funds in the current year.

The study results support previous research by Hossain et al. (2006) and Sunarsih & Ferdiansyah (2016), Othman et al. (2009), and Deegan (2002) regarding the important role of corporate performance on corporate social disclosure. Othman et al. (2009) found the effect of company performance on the level of Islamic social reporting. Deegan (2002) found that organizations that perform well tend to disclose corporate social responsibility at a more comprehensive level to gain legitimacy from society in order to maintain their performance.

Based on tests on the control variables, it was found that profitability as measured by return on equity and return on assets did not affect the level of Islamic social reporting, while the size of Islamic banks was empirically proven to have a positive and significant effect on the extent of Islamic social reporting. Profitability ratio data (ROE and ROA) show that many Islamic banks have negative profitability ratios spread over the period 2010 to 2022 and the most in 2021-2022 when they were affected by the Covid-19 pandemic. The results of the study reveal that the size of Islamic banks has grown significantly during the research period (2010-2022) in almost all Islamic banks, except for Bank Maybank Syariah. Bank Maybank Syariah has the smallest size of 27.21840 (natural logarithm of total assets) in 2018; 27.29642 in 2019; and 27.304446 in 2020.

CONCLUSION

This study aims to examine Islamic governance and the performance of maqashid sharia as drivers that can encourage the level of disclosure of Islamic social reporting. The results of the study reveal that governance carried out by Islamic banks is at a good score based on self-assessment studies carried out by Islamic banks over the span of the study. However, empirical findings prove that the level of Islamic governance does not significantly affect the extent of Islamic social reporting in Islamic Banks. This study found a negative direction, meaning that the better the implementation of Islamic governance in Islamic banks is indicated by the lower the score, the wider the Islamic social reporting. The results of the study did not find the effect of the performance of maqashid sharia relating to educating individuals and establishing justice on the level of Islamic social reporting. This finding is supported by the low ratio of educating individuals and the ratio of establishing justice during the study period. In contrast, the results of the study found that promoting welfare had a significant effect on the level of Islamic social reporting. The value of promoting welfare influences the extent of Islamic social reporting disclosed by Islamic banks.

The practical implications for Islamic banks are related to the performance of maqashid sharia so that Islamic banks increase the portion of education and training costs, research and development, as well as publication and promotion of the total business costs. The practical implications for Islamic banks are to pay attention to the ratio of establishing justice by increasing the profit sharing ratio received by customers. For Islamic banks to immediately distribute zakat, infaq/sodaqoh, and waqf, as well as qardhul hasan funds to those who are entitled to receive them. The practical implications for Islamic banks are related to governance so that Islamic banks always pay attention to good governance guidelines from an Islamic perspective. For Islamic banks that still get a score of 3, namely "good enough", they must strive to make improvements to the implementation of Islamic banks so that the score can be increased in the future. With good governance carried out by each Islamic bank, it is hoped that it can expand its social responsibility role which is manifested through various social activities to the community. Further research can be directed at other sharia entities such as sharia people's financing banks and baitul maal. Future research can use the characteristics of the Sharia Supervisory Board and the Sharia Principles Fulfillment Index to measure Islamic governance. On the variable side of the performance of maqashid sharia, separate indicators can be developed which are specifically under the characteristics of sharia banks in a country.

AUTHOR CONTRIBUTIONS

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3. Bukti Konfirmasi Review dan Hasil Review Kedua (19 Juni 2023)

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Comments:

Authors are requested to follow the previous recommendations. The article is about 11 banks. About which ones? Why don't the authors list them? Why were these banks chosen? Why isn't any of their characteristics given? Why does the data end in 2019 and is already quite out of date?

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Follow the previous recommendations. ALL! Including: Shorten the Discussion section by 2-3 times. Transfer part of the material to the Literary review. In the Discussion section, there should be a discussion of the results of the study, a comparison with previous ones, a discussion of why the authors have such results, and determination of future prospects. Short conclusions. The Conclusions should have the following logic - we indicate the purpose of the study, briefly demonstrate the obtained result, and indicate what conclusions should be drawn from it. Do not refer to sources in the Conclusions and do not repeat sentences from the Abstract here.

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WHAT DRIVES THE LEVEL OF DISCLOSURE IN SOCIAL REPORTING AT ISLAMIC COMMERCIAL BANKS?

Abstract

This study analyzes the factors driving the level of Islamic social reporting. Based on the literature review, it was revealed that the lack of consensus from the drivers of discolure of Islamic reporting in Islamic banks, especially in Indonesia, is different from disclosure in conventional banks, which have a lot of consensus in it. Empirical analysis uses panel data collection from 12 Islamic commercial banks in Indonesia from 2010 to 2022. In order to estimate the relationship between variables, EViews 12 software is used. The control variables used in this study are profitability and size of Islamic banks. The results of the study show that sharia governance has not been empirically proven to be able to encourage the extent of Islamic social reporting in Islamic banks. The results of the study did not find empirical evidence that the performance of *maqashid sharia* related to educating individuals and establishing justice is not a driver that has an impact on the reach of Islamic social reporting. However, the performance of *maqashid sharia* in the form of promoting welfare through the amount of *zakat* funds channeled by Islamic banks has been proven empirically to influence the extent of Islamic social reporting. ROE and ROA have no significant effect on Islamic social reporting, while the size of Islamic banks has a positive and significant effect on the extent of Islamic social reporting on Islamic banks in Indonesia.

Keywords reporting, governance, performance, profitability, size, justice, welfare, bank

JEL Classification G21, G34, M21, M41

INTRODUCTION

Islamic social reporting recognizes the need to comply with Islamic concepts and is an evolution of corporate social responsibility disclosure. Islamic social reports disclosed by Islamic financial institutions follow the compilation of Sharia standard elements published by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) (Sunarto, 2016). The Islamic Social Report is not only intended as a form of Sharia banking accountability to the public (*hablum minannas*) through transparency of its business activities by providing relevant information to the public (stakeholders) but also as a form of accountability as a form of sharia entity accountability to Allah (*hablum minallah*) as part of out of obligation to Allah (Haniffa, 2002).

There are two factors that are strongly suspected of influencing Islamic social reporting, namely governance and *maqashid sharia*. Governance, in general, is a management system that is expected to improve banking performance, protect various stakeholders, increase compliance with relevant rules and regulations and available moral values (Kholid & Bachtiar, 2015). In Islamic governance, adherence to sharia principles differentiates it from governance in general. Chapra (1990) describes that *maqashid sharia* includes guarding the mind (*al-aql*), guarding religion (*ad-din*), guarding the soul (*an-nafs*), guarding descent (*an-nasb*), and safeguarding property or wealth (*al-maal*). Mohammed & Taib (2015) explained that the attainment of *maqashid sharia* performance could be seen from three goals which include educating individuals (*tahdzib al-fard*), establishing justice (*iqamah al-'adl*), and promoting welfare (*jalb al-mashalih*).

This research is encouraged to address the gaps in the results of prior studies, especially on three factors, namely the subject of analysis, variables, and research findings. Prior examinations used established companies, while current research uses another sample rarely researched by previous studies, namely Islamic bank entities. The second reason is related to the research variables. Determinants still dominated prior research in financial performance or company characteristics. At the same time, this study offered the novelty of variables, especially those related to Islamic principles such as Islamic governance.

1. LITERATURE REVIEW AND HYPOHESES

Agency theory describes the agent's opportunistic behaviour (Eisenhardt, 2018). In order to reduce agency problems, companies can establish a good governance structure to monitor the behaviour of agents (Chrisman et al., 2007). Good governance can be achieved when an organization has reporting systems and procedures, a management structure or a board of directors (Donaldson & Davis, 1991). In addition, agency problems can be reduced through a agreement between the principal and agent that allows the agent to produce the best performance. Contracts can be based on the actual results of the agent's performance so that agents who perform well will get a more significant contract compared to other agents (Eisenhardt, 2018). Risk is transferred to the agent and, in this way, can create motivation for the agent to act in the interests of the principal (Davis et al., 1997; Eisenhardt, 2018). In essence, from these two ways, the principal can choose between constructing a governance structure established on the agent's natural behaviour or the outcome of that behaviour (Eisenhardt, 2018). Legitimacy theory explains that the company has a positive impact and is following the community's expectations. Thus, this has implications for increasing the viability of an organization (Deegan, 2002; Driver, 2006; Tsang, 1998).

Prior studies that determine the disclosure of corporate social responsibility is dominated by tax aggressiveness and company characteristics, including company size, profitability, and leverage. Studies examining the effect of the level of tax aggressiveness on disclosure of corporate social responsibility include Deegan (2019), Apriyanti & Arifin (2021), Salman (2018), Zeng (2016), dan Lanis & Richardson (2013). Likewise, the study of Handoyo (2020), Salman et al. (2018), Widiyanti & Hasanah (2017), Habbash (2016), Sunarsih & Ferdiansyah (2016), Istianingsih (2015), Abdulhaq & Muhamed (2015), Al-Ajmi et al. (2015), Khasharmeh & Desoky (2013), and Lestari (2013), tested the effect of company characteristics on the level of corporate social responsibility disclosure. Research that examines the influence of governance on corporate social responsibility is carried out by Salman (2021) and Habbash (2016).

Corporate governance aims to make value-added for all stakeholders by regulating and controlling the company. The concept of corporate governance emphasises two things, namely (1) the importance of fulfilling the rights of shareholders to acquire objective and opportunely information; and (2) the company's responsibility to inform details about firm performance, ownership, and stakeholders in an objective, timely and transparent manner (Hemphill, 2006). Islamic governance is different from corporate governance in general. The principles of Islamic governance in Surah Al-Hajj verse 41: "*(that is) those who, if We affirm their position on earth, undoubtedly they will pray, pay zakat, order to do ma'ruf and prevent any actions that are Munkar, and it is to Allah that all matters return*".

Sharia entities do not only use Islamic principles in the field of fiqh in the form of the legality of products and services by Islamic principles alone, but more than that, Islamic principles should have a broader consequence on economic and social factors as an effort to achieve *maqashid sharia* (Salman & Farid, 2016). More specifically, Mohammed et al. (2008) explained that the objectives of Islamic banks could be derived from the purposes of sharia (*maqashid sharia*). Several examinations that have been carried out are still related to the use of *maqashid sharia* in the context of a performance measurement approach such Mohammed et al. (2008), Jazil & Syahruddin (2013), Al Arif & Yati (2021), and Analia & Anto (2019).

Sharia entities should disclose how to fulfil their responsibilities and obligations according to sharia principles such as sharia transactions, *zakat* payments to recipients (*mustahik*), alms (charities/gifts), wages, and the objectives of the business entity to protect the environment.

Maali et al. (2006) revealed that the critical objective of Islamic disclosure is to show whether the organisation is adhering to Islamic principles, and to assist others in carrying out their religious obligations. Furthermore, Othman & Thani (2010) and Othman et al. (2009) described the existence of six disclosure themes in Islamic disclosure.

Corporate governance is essential for controlling manager behaviour that tends to benefit self-interest. It emphasises the shared interests rather than the interests of each individual. Company managers will seek to behave by the owner's interests in achieving organisational goals. In other words, as explained by Indrawaty & Wardayati (2016), the effectiveness of the implementation of Islamic governance is shown in Islamic social reporting.

Examinations on the effect of governance mechanisms on the disclosure of social responsibility have been carried out by Farook et al. (2011), Dienes & Velte (2016), Zolfaghar Arani (2016), García-Sánchez et al. (2021), and Cabral & Sasidharan (2021). Zolfaghar Arani (2016) found a significant relationship between the three governance mechanisms, namely institutional owners, the proportion of non-executive directors and board size, with the level of social responsibility disclosure. Another study by Dienes & Velte (2016) found that gender diversity positively impacts the intensity of CSR disclosure. Farook et al. (2011) revealed that CSR disclosures by Islamic banks varied significantly.

The outcomes of empirical research reveal that board diversity, the existence of a CSR committee, the scope of analysts, and institutional investors increase the likelihood of confirming CSR reports (García-Sánchez et al., 2021). The empirical results also find that board size is negatively related in India and South Africa, while CEO duality is positively associated with corporate social performance in India and China (Cabral & Sasidharan, 2021). Othman et al. (2009) discovered that the proportion of muslim and non-muslim boards affects CSR disclosure. Farook & Lanis (2005) obtained empirical evidence that Islamic governance has significant impact on CSR disclosure. In addition, (Salman et al., 2018) found that the better implementation of Islamic governance carried out by Islamic banks has a positive influence on the complete Islamic social reporting. Sunarto (2016) also found that the role of Islamic bank directors affects disclosure by using Islamic Social Reporting.

The legitimacy theory explains that companies must fulfil social contracts by disclosing financial, social, and political information to be accepted by society. Socio-political legitimacy refers to the suitability of organisational attributes, characteristics, and results in social norms (Aldrich & Fiol, 1994; Suchman, 1995). Hossain et al. (2006), Othman et al. (2009), and Sunarsih & Ferdiansyah (2016) investigated the effect of company performance on the level of ISR. Their results show inconsistencies. Their results show inconsistencies. Othman et al. (2009) succeeded in finding empirical evidence regarding the effect of company performance on the level of Islamic social reporting. The more extensive ISR, the better the company's performance impacts. However, Hossain et al. (2006) and Sunarsih & Ferdiansyah (2016) gave opposite results by failing to find a significant result of company performance on ISR.

This study aims to examine the role of Islamic governance and *maqashid sharia* performance as drivers that influence Islamic social reporting. This study formulated the following hypothesis:

H1: *Islamic governance implemented by Islamic banks is able to drive widespread disclosure regarding Islamic social reporting*

H_2: *Maqashid sharia performance (educating individual, establishing justice, and promoting welfare) achieved by Islamic banks is able to drive broad disclosure regarding Islamic social reporting*

2. RESEARCH METHODOLOGY

The research sample is 12 Islamic commercial banks in Indonesia with a research period of 13 years (2010-2022). The number of observations is 140 observations. Banks included in the sample are Bank Bukopin Syariah, Bank Maybank (Net) Syariah, Bank Mega Syariah, Bank Muamalat Indonesia, Bank Panin Dubai Syariah, Bank BCA Syariah, Bank Jabar Banten Syariah, Bank BNI Syariah, Bank BRI Syariah, Bank Syariah Mandiri, and Bank Syariah Indonesia. The selection of the research sample was based on consideration of the similarity of financial report templates, annual reports, and reports on the implementation of good corporate governance. Thus the data collected reflects the same characteristics in a country. The research period began in 2010, considering that Bank Indonesia (2009) issued regulation, which came into force on January 1, 2010. Prior to 2010, there were no specific rules regarding governance for Islamic banks. So starting in 2010, Islamic banks have conducted a self-assessment regarding the governance they are implementing. Data analysis and hypothesis testing employed panel least square with EViews 12.

Islamic social reporting is the extent of disclosing social and environmental information on the company's economic actions to specific groups that have fulfilled Islamic principles. The indicator for this variable refers to Othman & Thani (2010), Othman et al. (2009), and Salman et al. (2018) consist of six indicators which include: Disclosure of Finance and Investment, Disclosure Products and Services, Disclosure of Employee, Disclosure of Society, Disclosure of Environment, and Disclosure of Corporate Governance. This variable is measured by the percentage of the number of Islamic social reporting items disclosed by Islamic banks in the annual report divided by the total disclosure items (37 items).

Table 1. Islamic social reporting

No	Themes	Disclosure items
1	Finance and Investment theme	*Riba* Activities
		Gharar
		Maysir
		Non-Halal income/Revenue
		Profit-Sharing Reconciliation Report
2	Products and service theme	Green Product
		Halal Status of Product & Service
		Product or Service Quality
		Customer Complaints (customer care)
3	Employees theme	Nature of Work
		Education and Training
		Equal Opportunities
		Employee Involvement
		Health and Work Safety
		Working Environment
		Higher echelons in the company perform the congregational prayers with lower and middle level managers
		Muslim employees are allowed to perform their obligatory prayers during specific times and fasting during Ramadhan on their working day
		Proper place of worship for the employees
4	Society theme	*Infaq* / *Sadaqah*
		Waqaf
		Zakat

		Qard Hasan Education-School Adoption Scheme (Scholarships) Underprivilage Community Children Care Charities/Gifts/Social Activities Sponsoring Public Health
5	Environment	Conservation of Environment) Environmental Pollution Environmental Education Environmental Products/Process related Environmental Management System/Policy
6	Corporate governance theme	*Shariah* Compliance Status Ownership Stucture Board structure-muslim vs non-muslim Forbidden Activities Anti-Corruption, Collucion and Other Fraud Policie

Islamic governance in this study is the level to which Islamic entities by Islamic sharia carry out governance. This variable refers to Act Number 21 of 2008 Concerning Islamic Banking (2008) and Regulation No. 11/33/2009, which took effect on January 1, 2010 (Bank Indonesia, 2009), namely

a. Execution of tasks and obligations of the Board of Commissioners;
b. Execution of tasks and obligations of the Board of Directors;
c. Completeness and implementation of Committee duties;
d. Execution of tasks and obligations of the Sharia Supervisory Board;
e. Execution of sharia principles in the activities of raising funds and channelling funds as well as services;
f. Handling of conflicts of interest;
g. Execution of the bank's compliance function;
h. Execution of the internal audit function;
i. Application of the external audit function;
j. Maximum fund distribution limit; and
k. Clarity of financial and non-financial conditions reports on implementing good corporate governance and internal reporting.

The Islamic governance variable is measured from the Good Corporate Governance (GCG) score obtained from a self-assessment conducted by an Islamic bank where, 1 indicates very good, 2 indicates good, 3 indicates fairly good, 4 indicates not good, and 5 indicates not good.

Maqashid sharia performance is the level of achievement of goals generated by a sharia entity. There are three variables, namely: educating individuals (*tahdzib al-fard*), establishing justice (*iqamah al-'adl*), and promoting welfare (*jalb al-mashalih*). Educating individually is calculated from the ratio of education and training expense, publication/promotion expense, research and development expense divided by the total operating expenses. Establishing justice is calculated from the ratio of the amount of profit-sharing that is the right of a third party divided by the amount of temporary *shirkah* funds. Promoting welfare is calculated from the natural logarithm of the amount of *zakat* distributed by Islamic banks.

Control variables include ROE, ROA, and SIZE. ROE (return on equity) is calculated from the ratio of net income divided by total equity, ROA (return on assets) is calculated from the ratio of net income divided by total assets, and SIZE is calculated from the natural logarithm of the total assets owned by Islamic banks.The following is the regression model used in the study.

$$ISR_{i,t} = \beta_0 + \beta_1 IG_{i,t} + \beta_2 MSEIP_{i,t} + \beta_3 MSEJP_{i,t} + \beta_4 MSEJP_{i,t} + \beta_5 ROE_{i,t} + \beta_6 ROA_{i,t} + \beta_7 SIZE_{i,t} + \varepsilon_{i,t} \qquad (1)$$

where *ISR* is the Islamic social reporting, *IG* is the Islamic governance, *MSEIP* is the *maqashid sharia* of educating individual performance, *MSEJP* is the *maqashid sharia* of establishing justice performance, *MSPWP* is the *maqashid sharia* of promoting welfare performance, ROE is return on equity, ROA is return on asset, SIZE is size of Islamic banks and ε is the error term.

3. RESULTS

Table 1 provide important and relevant information related to the variables that drive Islamic disclosure. Islamic disclosure to Islamic banks differs from disclosure to conventional banks in the disclosure of *riba*, uncertainty (*gharar*), and *zakat* to Islamic banks. The mean of Islamic social reporting variables reflects a very good level of 0.632579 (> 0.50). This shows that most of the disclosure items disclosed by Islamic banks are greater than 50%. The mean variable of

Islamic governance is 1.921429 indicating that the average self-assessment score on the implementation of Islamic governance is at a score of 1 which indicates very good and a score of 2 which indicates good. The mean performance of *maqashid sharia* in relation to educating individuals is 0.030156 which indicates that Islamic banks provide a fairly low portion of education and training, research and development, and publication (promotion) expense of 3% of the total operating expenses over the last 13 years (2010- 2022). The performance of *maqashid sharia* related to establishing justice shows that the level of profit-sharing received by customers from managing funds by Islamic banks is still low, namely 5.22%. For *maqashid sharia* performance related to promoting welfare, there are still Islamic banks that do not distribute *zakat* funds as seen from the minimum value of 0. Mean ROE and ROA also show positive numbers indicating that over the last 13 years (2010-2022) profitability performance Islamic banks are quite good not to be affected by the Covid-19 pandemic in 2020. (Table 1).

Table 1. Descriptive statictics

Variables	**Obs**	**Mean**	**Std Dev**	**Min**	**Max**
Islamic social reporting (Y)	140	0.632579	0.183697	0.224074	0.93333
Islamic Governance (X_1)	140	1.921429	0.600574	1	3
Maqashid sharia of educating individuals (MSEI Performance) (X_2)	140	0.030156	0.023195	0.000742	0.120261
Maqashid sharia of establishing justice (MSEJ Performance) (X_3)	140	0.052152	0.019097	0.000000	0.134189
Maqashid sharia of promoting welfare (MSPW Performance) (X_4)	140	20.82483	3.002660	0.000000	26.35663
ROE (control variable)	140	0.034627	0.153531	-0.940100	0.579800
ROA (control variable)	140	0.004675	0.032866	-0.201300	0.111500
Size (control variable)	140	29.81621	1.439375	26.54239	33.35372

The results of the chow test show that the fixed effect model (FEM) is better than the common effect model (CEM). This can be seen from the probability value of cross-section F and cross-section Chi-square of 0.0000 (<0.05) (Table 2). The results of the Hausman test show that the fixed effect model (FEM) is better than the random effect model (REM) as the random cross-section probability value is 0.0135 (<0.05) (Table 3). Based on these two tests, the selected panel data regression model is the fixed effect model.

Table 2. Chow test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	16.261594	(13,119)	0.0000
Cross-section Chi-square	142.965584	13	0.0000

Table 3. Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.670460	7	0.0135

The results also provide an R-squared value of 0.826055 and an adjusted R-squared value of 0.796821. This shows that variations in Islamic social reporting variables can be explained by Islamic governance, *maqashid sharia* performance, return on equity, return on assets, and size of 79.68%, while the remaining 20.32% is explained by other factors not present in the regression model. Based on the results of the F test, it was also obtained a p-value of 0.000 (<0.05) indicating that the regression model is a fit model and proves that all independent variables in the model simultaneously affect Islamic social reporting. (Table 4).

Table 4. Adjusted R-Square and F test

Cross-section fixed (dummy variables)			
Root MSE	0.076340	R-squared	0.826055
Mean dependent var	0.632579	Adjusted R-squared	0.796821
S.D. dependent var	0.183697	S.E. of regression	0.082802
Akaike info criterion	-2.007246	Sum squared resid	0.815886
Schwarz criterion	-1.565999	Log likelihood	161.5072
Hannan-Quinn criter.	-1.827936	F-statistic	28.25628
Durbin-Watson stat	0.887605	Prob(F-statistic)	0.000000

The regression equation with the fixed effect model is shown as follows:

$$ISR = -4.505911 - 0.006749IG - 0.940263MSEIP + 0.341728MSEJP - 0.007606MSPW - 0.538206ROA + 0.012634ROE + 0.178509SIZE$$

The first hypothesis was rejected because it has a p-value of 0.6990 (> 0.05) so that it can be said that Islamic governance is not significant in influencing the extent of Islamic social reporting in Islamic banks in the 2010-2022 period. As for the performance of *maqashid sharia* related to educating individuals and establishing justice it is not significant in influencing the extent of Islamic social reporting because it has a p-value of 0.1169 (> 0.05) and 0.5173 (> 0.05). The performance of *maqashid sharia* related to promoting welfare has been empirically proven to have an effect on Islamic social reporting with a p-value of 0.0990, significant at the 10% significance level. For the two control variables, namely ROE and ROA, it was not proven to have a significant effect on Islamic social reporting with p-values of 0.1383 and 0.8701. For the third control variable, namely Islamic bank size, it has been empirically proven to have a positive and significant effect on the extent of Islamic social reporting as a p-value of 0.000 (<0.05) (Table 5).

Table 5. Factors driving ISR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IG	-0.006749	0.017415	-0.387544	0.6990
MSEI_PERFORMANCE	-0.940263	0.595360	-1.579317	0.1169
MSEJ_PERFORMANCE	0.341728	0.526130	0.649512	0.5173
MSPW_PERFORMANCE	-0.007606	0.004575	-1.662597	0.0990
ROA	-0.538206	0.360645	-1.492344	0.1383
ROE	0.012634	0.077094	0.163881	0.8701
SIZE	0.178509	0.015211	11.73522	0.0000
C	-4.505911	0.425472	-10.59039	0.0000

DISCUSSION

Companies need to take concrete actions that positively affect the community. In the case of the movement to disclose information about social responsibility, it is an action based on a system of public norms, values, and beliefs (Deegan, 2002). Similarly, the relationship between the two variables is explained by Indrawaty & Wardayati (2016). Based on content analysis, the most disclosed information by Islamic banks is the disclosure of information on sharia compliance status and prohibited activities; information regarding *zakat*, *sodaqoh*, *waqf*, *qardhul hasan*; information on employment, employee education and training, employee engagement, and work environment. Bank BNI Syariah received the highest score for Islamic social reporting of 0.93333 in 2015 and 2016. Bank Maybank Syariah obtained the lowest score of 0.224074 in 2010 and 2011. Based on the descriptive analysis for the Islamic governance, it was found that the application of Islamic governance with a score of 1 indicating very good. Bank Muamalat Indonesia obtained a score of 1 in 2010-2015, while Bank BCA Syariah obtained a score of 1 in 2014-2022. Bank BRI Syariah and Bank BNI Syariah obtained a score of 1 in 2012 and 2013, and Bank Syariah Mandiri obtained a score of 1 in 2010 and 2015-2020.

Based on content analysis, it was found that the board of directors of Islamic banks had carried out their duties and responsibilities independently based on prudential principles and sharia principles. In carrying out its duties, the board of directors is supported by committees under its auspices including the financing policy committee, the risk management committee, the human resources committee and other committees. The importance of the role of the board of directors was stated by Othman et al. (2009), Ibrahim & Hanefah (2016) and Sunarto (2016). Othman et al. (2009) revealed the importance of the composition of the board of directors. Sunarto (2016) found the importance of the number of members of the board of directors. Ibrahim & Hanefah (2016) found the importance of board diversity. The importance of the role of committees was stated by Barako et al. (2006) and Mohammadi et al. (2021). Barako et al. (2006) found the importance of having an audit committee. Using a sample of 150 companies listed on the Tehran Stock Exchange from 2012 to 2018, Mohammadi et al. (2021) found that regarding the important role of audit committee member size, independence, and financial expertise. Furthermore, the Sharia Supervisory Board (SSB) plays an important role in overseeing the compliance of Islamic banks with sharia principles as explained by Farook & Lanis (2005), Sunarto (2016), Dienes & Velte (2016), and Salman et al. (2018).

The results of the current study are in contrast to the previous examination by Issa et al. (2022), Ratmono et al. (2021), Rahma & Aldi (2020), and Ullah et al. (2019). Issa et al. (2022) found the effect of governance through board diversity on the level of voluntary social responsibility disclosure. Ratmono et al. (2021) obtained empirical evidence that state ownership, the number of commissioners, and the ratio of independent commissioners have a positive and significant effect on CSR disclosure. In addition, Rahma & Aldi (2020) found that the ethnicity of the commissioners has a significant effect on CSR disclosure. However, these previous studies did not specifically examine the influence of Islamic governance on Islamic social reporting.

Exposure to social reporting related to information disclosure such as *riba*, *gharar*, *maysir*, *non-halal* revenue; *halal* product status; work environment; *zakat*, *infaq*/*sodaqoh*, *waqf*, *qardhul hasan*; environment; and the level of sharia compliance as well as information on activities that are prohibited by Islam. Socio-political legitimacy refers to the characteristics, attributes, and organizational outcomes of social norms that are acceptable or not (Aldrich & Fiol, 1994; Suchman, 1995). On the other hand, *maqashid sharia* performance is one measure of social performance obtained by Islamic banks. *Maqashid sharia* performance consists of educating individuals, establishing justice, and promoting welfare.

The largest individual educating ratio was obtained by Bank BNI Syariah of 0.120261 in 2012, meaning that the portion of education and training expense, promotions expense, and research and development expense amounted to 12.03% of the total operating expense. Conversely, the lowest scores of 0.074% and 0.076% were obtained by Bank Mega Syariah in 2019 and 2018, and many obtained scores below 1% at other Islamic banks. This finding shows the lack of attention of Islamic banks on the individual educating aspect as shown by the mean educating individual below 5%. This condition has no impact on the spread of Islamic social reporting disclosed by Islamic banks in the research period (2010-2022).

The results of study show that the mean performance of *maqashid sharia* related to establishing justice is 0.052152. This ratio indicates that the level of profit-sharing received by customers from the management of temporary *shirkah* funds by Islamic banks is 5.22% of the total temporary *shirkah* funds received by Islamic banks. From the screening data, it was found that the maximum establishing justice ratio was obtained from Bank Bukopin Syariah of 13.42% and 8.66% in 2020 and 2014. High scores were also obtained from Bank Victoria Syariah of 9.44% and 8.92% in 2015 and 2014. Conversely, the lowest ratio was obtained by Bank Maybank Syariah of 0% in 2018 and 2019. These findings indicate the still low level of profit-sharing received by customers from the management of *mudharabah* contracts carried out by Islamic banks during the research period (2010-2022). The findings support the study which suggests that financing in Islamic banks is still dominated by buying and selling based financing (Azifah, 2020), so that revenue sharing has not been able to optimize the ability of Islamic banks to generate profits (Fatmala & Wirman, 2021). However, the results of this study differ from these two studies (Wahyuantika et al., 2023; Fahmiyah et al., 2016) where both found a positive effect of the profit-sharing ratio on Islamic social reporting. Differences in indicators for measuring profit-sharing are thought to be the cause of different results, where both used the calculation of the amount of *mudharabah* financing plus *musharakah* divided by total financing.

The results show that the *maqashid sharia* performance related to promoting welfare has a mean of 20.82483 which is the natural logarithm value of the total *zakat*, *infaq*/*sodaqoh*, and *waqf* funds that can be channeled by Islamic banks. The highest promoting welfare score was obtained by Bank Syariah Indonesia of 26.35663 in 2022, 25.95512 in 2021, and 25.92600 in 2020. Conversely, the lowest value of promoting welfare was obtained by Bank BCA Syariah of 0 in 2010 and 13.94107 in 2012. The study results prove empirically that *maqashid sharia* performance related to promoting welfare has an impact on the extent of Islamic social reporting. This finding can be explained because there are still Islamic banks that do not distribute *zakat*, *infaq*/*sodaqoh*, *waqf*, and *qardhul hasan* funds and several other Islamic banks only distribute a portion of the *zakat*, *infaq*/*sodaqoh*, *waqf*, and *qardhul hasan* funds they receive. Several Islamic banks do not distribute all of the *qardhul hasan* they receive and leave it as the final balance of *qardhul hasan* in the current year. Likewise, several Islamic banks do not distribute all of their *zakat* funds to amil institutions and leave it as the final balance of *zakat* funds in the current year.

The study results support previous research by Othman et al. (2009), Deegan (2002), Wahyuantika et al. (2023), Azifah (2020), and Fatmala & Wirman (2021). Othman et al. (2009) found the effect of company performance on the level of Islamic social reporting. Deegan (2002) found that organizations that perform well tend to disclose corporate social responsibility at a more comprehensive level to gain legitimacy from society. The study findings strengthen the argument that zakat is the third pillar in Islam and is used as one of the goals in Sharia accounting (Wahyuantika et al., 2023), as a commitment to corporate social responsibility (Azifah, 2020), and in the end zakat payments reflect the performance of Islamic banks. (Fatmala & Wirman, 2021).

Based on tests on the control variables, it was found that profitability did not affect the level of Islamic social reporting, while the size of Islamic banks was empirically proven to have a positive and significant effect on the extent of Islamic social reporting. Profitability ratio show that many banks have negative profitability ratios spread over the period 2010 to 2022 and the most in 2021-2022 when they were affected by the Covid-19 pandemic. The study reveal that the size of Islamic banks has grown significantly during the research period (2010-2022) in almost all Islamic banks, except for Bank Maybank Syariah. Bank Maybank Syariah has the smallest size of 27.21840 (natural logarithm of total assets) in 2018; 27.29642 in 2019; and 27.304446 in 2020.

CONCLUSION

This study aims to examine Islamic governance and the performance of *maqashid sharia* as drivers that can encourage the level of disclosure of Islamic social reporting. The results of the study prove that the level of Islamic governance does not significantly affect the extent of Islamic social reporting in Islamic Banks. The results of the study did not find the effect of the performance of *maqashid sharia* relating to educating individuals and establishing justice on the level of Islamic social reporting. In contrast, the results of the study found that promoting welfare had a significant effect on the level of Islamic social reporting. The value of promoting welfare influences the extent of Islamic social reporting disclosed by Islamic banks. The results of the study also found a positive effect of Islamic bank size on the level of Islamic social reporting, whereas profitability had no effect on the level of Islamic social reporting.

The implications for Islamic banks are related to the performance of *maqashid sharia* so that Islamic banks increase the portion of education and training, research and development, as well as publication and promotion of the total operating expenses. Islamic banks have to pay attention to the ratio of establishing justice by increasing the profit-sharing ratio received by customers. For Islamic banks to immediately distribute *zakat*, *infaq*/*sodaqoh*, and *waqf*, as well as *qardhul hasan* funds to those who are entitled to receive them. The implications for Islamic banks are related to governance so that Islamic banks always pay attention to good governance guidelines from an Islamic perspective. Further research can be directed at other sharia entities such as sharia people's financing banks, sharia cooperative, and *baitul maal*. Future research can use the characteristics of the Sharia Supervisory Board to measure Islamic governance. On the variable side of the performance of *maqashid sharia*, separate indicators can be developed which are specifically under the characteristics of sharia banks in a country.

AUTHOR CONTRIBUTIONS

Conceptualization: Kautsar Riza Salman.
Data curation: Kautsar Riza Salman.
Formal analysis: Kautsar Riza Salman.
Funding acquisition: Kautsar Riza Salman.
Investigation: Kautsar Riza Salman.
Methodology: Kautsar Riza Salman.
Resources: Kautsar Riza Salman.
Software: Kautsar Riza Salman.
Validation: Kautsar Riza Salman.
Writing – original draft: Kautsar Riza Salman.
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ACCEPTANCE LETTER

Dear Kautsar Riza Salman,

We are pleased to inform you that your paper "What drives the level of disclosure in social reporting at Islamic commercial banks?" has been double-blind peer-reviewed and accepted for publication in the international journal "Banks and Bank Systems", which is scheduled to be published in Volume 18, Issue 4, 2023.

With cordial regards,
Yaroslava Mospanova

Managing Editor
International research journal
"Banks and Bank Systems"

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6. Bukti Konfirmasi Artikel Published Online
(16 Oktober 2023)

UNIVERSITAS HAYAM WURUK
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MA7686_article has been published

1 message

ya.mospanova@manuscript-adminsystem.com <ya.mospanova@manuscript-adminsystem.com> Mon, Oct 16, 2023 at 5:21 PM
To: KAUTSAR RIZA SALMAN <kautsar@perbanas.ac.id>

Dear Kautsar Riza Salman,

Your article "What drives the level of social reporting disclosure at Islamic commercial banks?" has been published on the 16th of October, 2023.

Here is the link to the article: http://dx.doi.org/10.21511/bbs.18(4).2023.06

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