

The Conformity of Social Responsibility in Terms of Islamic Social Reporting Index (ISR) among Islamic Banks in Indonesia

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Abstract---This research aims to determine the compatibility of disclosure in social responsibility by adopting Islamic Social Reporting (ISR) for the Islamic banks in Indonesia. This research adopted the descriptive analysis in the qualitative approach and used content analysis technique. Sampling method is purposive sampling. There are 13 Islamic banks in Indonesia that are the object of research. Data used is secondary data of the annual reports of total 13 Islamic banks in 2016-2018 were downloaded from the banks official website. The findings of this research indicated that Islamic banks in Indonesia able to disclose the compatibility of social disclosure but not full disclosure yet. Furthermore, the results revealed that 15% of Islamic banks are not compatible with disclosure in social responsibility and 33% of categories are not compatible with Islamic Social Reporting (ISR), which are labour and environment section.

Keywords---Corporate Social Responsibility, Islamic Social Reporting Index, Islamic Banking.

I. Introduction

The appearance of sharia banks in Indonesia is strengthened by The Law of Republic Indonesia no. 21/2008 about Sharia Banking, which makes the banking in Indonesia has a legal basis and is compatible to be a competitor against the conventional bank that has been existing for so long. The existence of sharia banking can answer all the doubts for a country with the biggest Muslim population in the world, as juridical it has fundamental differences in the principle, though functionally there are not many differences from the main objectives of conventional banks.

Economic development and Islamic financial institutions in Indonesia is of course cannot be separated from the industrial growth of global Islamic finance. At first, the issue of implementation of sharia banking has existed since 1974, where at that time the Indonesia-Middle East seminar was held by the Social Sciences Study Institute (Lembaga Studi Ilmu-Ilmu Kemasyarakatan). From there, lots of Islamic financial institutions were established, from banks to non-bank financial institutions. This was started when there was a recommendation from Ulama workshop and Indonesian Ulama Council (Majelis Ulama Indonesia) about bank's interest and banking, followed by the validation of Law of Republic Indonesia no. 7/1992 about banking with the "profit-sharing" system and then followed by the establishment of Bank Muamalat Indonesia.

Sharia banking industry in Indonesia has changed massively on its growth last few years. Other than the internal development of banking itself, the growth of sharia banking industry is influenced by the external development outside from banking, such as development on economics, politics, law, and social. Sourced from the official website of Indonesian Financial Services Authority (Otoritas Jasa Keuangan), the number of sharia banks in unit has grown from year to year. From

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2008 to 2017, the number of sharia banks had a rapid growth. In 2008, there was only five sharia banks and in 2017 there was 14 banks.

By this growth of financial industry, especially on the sharia sector, the citizens are expecting for sharia banks to not only think about how to increase their profit, but also to think about how they can contribute on preserving the environment and the people in it. Other than that, sharia banking is also forced to expose the social responsibility that has been done in their annual reports. Sourced from the official website of Global Islamic Finance Report, on index value from Islamic Finance Country Index (IFCI), it shows that Indonesia is one of the top 10 countries with the highest sharia financial index in the world, where Indonesia is ranked seventh with score of 23.98.

Corporate Social Responsibility (CSR) can be defined as responsibilities that are carried out by corporates to stakeholders by behaving ethically and fulfilling every aspect: economic, social, and environment to create sustainable development [1]. Corporate's sustainability and growth are not depending on profit only, but also the act that has been done by them to the environment (planet) and justice (people). this term is known as Triple Bottom Line (3P) and all of them are done to create sustainable development [2].

Though the practice of Corporate Social Responsibility (CSR) has been done a lot by mining and manufacturing companies (high profile corporates), the global trend of this practice has also been done by banking industry especially sharia banking in doing and exposing their social responsibility practices in their annual reports. This is done by sharia banking industry as there is obligation that is established by the government to create balance between company, society, and environment in the middle of social and environment issues.

In carrying Corporate Social Responsibility (CSR), it is not immediately a positive thing to do. Issues regarding ethics in Indonesia has also been one of the barriers on implementing Corporate Social Responsibility (CSR) itself. This has raised questions, are the Corporate Social Responsibility (CSR) activities done by companies already based on the responsibility that fits with the companies' moral to society, or are they are done just to keep the good image of the companies?

Values of Islam that was carried by Muhammad SAW can be used as the base of Corporate Social Responsibility (CSR), where the values have relevant relations on the contribution towards the concept of social responsibility that has been developed until now. This concept emphasizes the form of devotion from human beings to Allah SWT in companies.

In general, companies engaged in fields such as mining, manufacturing, and even banking are using Global Reporting Initiative index (GRI) on their practice of exposing their social responsibilities. This index is created to create a sustainable global economy where organizations can manage their responsible social performances, economics, environment, and governance; and to create a transparent reporting. As the industry is rapidly growing, especially now that sharia-based industry has existed, another relevant index is needed to expose the practice of exposing social responsibilities.

On a writing titled "Social Reporting Disclosure: An Islamic Perspective", it reveals an index that can expose a more relevant social responsibility practice for Islamic-based corporates, and that is Islamic Social Reporting (ISR) [3]. This index is the extension from the standard disclosure, in a form of social performance reporting that covers community expectations, were it is not only about the role of the organization in the economy, but also the role of the organization in spiritual perspective that emphasizes social justice towards environment, minority's rights, and employees [4]. Islamic Social Reporting (ISR) has been developed based on reporting standard from AAOIFI (Accounting and Auditing Organization for Islamic Financial Institution), then it is developed by each researcher, and it becomes the standard of performance reporting for sharia-based companies. Islamic Social Reporting (ISR) is not only helping the Muslims on decision-making but it also helps the whole organization in order to fulfill their obligations towards Allah SWT and community.

Unfortunately, the development of Islamic Social Reporting index (ISR) in Indonesia is still slow compared to other Islamic countries, where the index has become a part of reporting for sharia-based organizations. Islamic Social Reporting (ISR) is still seen as new and even it still unknown to lots of Islamic organizations in Indonesia, meanwhile this index is expected to make disclosure in a form of social performance reporting that covers community expectation towards the role of the organization in spiritual perspective that emphasizes social justice.

II. Literature Review

Hafiez Sofyani and Anggar Setiawan (2012) conducted a research on the comparison of social performance of sharia banking in Indonesia and Malaysia, using Islamic Social Reporting (ISR) reporting model and Global Reporting Initiative (GRI) [1]. The result showed that social performance of sharia banking in Malaysia, in general, was higher than in Indonesia. When statistically tested, the difference did not show a significant score. Also, there were non-Islamic banking in Indonesia and Malaysia that got 100% score on social performance based on Islamic Social Reporting (ISR) and Global Reporting Initiative (GRI).

Nadia Rahma (2012) researched on the implementation of Islamic Social Reporting index (ISR) on Corporate Social Responsibility (CSR) disclosure done by sharia banks in Indonesia [5]. The result showed that the disclosure of ISR index on six sharia banks in Indonesia was good, with a score of 64.83% out of 100%. It has not reached the perfect score, as there were still some items of ISR index that have not been fully disclosed.

III. Research Design

The approach that is used for this research is the descriptive qualitative method with content analysis technique, and sampling method is purposive sampling. Content analysis is a method for summarizing any form of content by counting various aspects of the content of documents or various formats. This research was conducted on 13 sharia banks in Indonesia by seeing the conformity on social responsibility disclosure that was reviewed from Islamic Social Reporting index (ISR). The data was obtained from annual reports from the official websites of each sharia banks in 2016-2018. Data of each category of Islamic Social Reporting Index was collected with content analysis technique, then the scoring was conducted after all data were gathered by seeing the conformity reviewed from Islamic Social Reporting index (ISR) to conclude the answer for problem formulation.

IV. Results and Discussion

Bank Muamalat Indonesia was able to disclose 11 out of 16 items on finance and investment category accordingly, 9 out of 10 items on products and services category accordingly, 11 out of 16 items on workforce category accordingly, 10 out of 11 items on social category accordingly, and all of the items on corporate governance category accordingly. However, on environment category, Bank Muamalat Indonesia was only able to disclose 4 out of 10 items accordingly. Bank Muamalat Indonesia was only able to disclose 5 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was "Informative".

Bank Mandiri Syariah was able to disclose 11 out of 16 items on finance and investment category accordingly, 9 out of 10 items on products and services category accordingly, 11 out 16 items on workforce category accordingly, 10 out of 11 items on social category accordingly, and all of the items on corporate governance category accordingly. However, on environment category, Bank Mandiri Syariah was only able to disclose 5 out of 10 items accordingly. Bank Syariah Mandiri

was able to disclose 5 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

Bank BRI Syariah was able to disclose 10 out of 16 items on finance and investment category accordingly, 8 out of 10 items on products and services category accordingly, 9 out of 16 items on workforce category accordingly, 9 out of 11 items on social category accordingly, and 25 out of 26 items on corporate governance category accordingly. However, on environment category, Bank BRI Syariah was only able to disclose 5 out of 10 items accordingly. Bank BRI Syariah was able to disclose 5 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

Bank BNI Syariah was able to disclose 12 out of 16 items on finance and investment category accordingly, all of the items on products and services category accordingly, 10 out of 16 items on workforce category accordingly, 9 out of 11 items on social category accordingly, 7 out of 10 items on environment category accordingly, and all the items on corporate governance category accordingly. Bank BNI Syariah was able to disclose all the categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

Bank Mega Syariah was able to disclose 10 out of 16 items on finance and investment category accordingly, 8 out of 10 items on products and services category accordingly, 9 out of 11 items on social category accordingly, and all of the items on corporate governance category accordingly. However, on workforce category, Bank Mega Syariah was only able to disclose 8 out of 16 items accordingly and only 5 out of 10 items on environment category. Bank Mega Syariah was able to disclose 4 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

Bank Panin Dubai Syariah was able to disclose 10 out of 16 items on finance and investment category accordingly, 8 out of 10 items on products and services category accordingly, 9 out of 16 items on workforce category accordingly, 6 out of 11 items on social category accordingly, and all the items on corporate governance accordingly. However, on environment category, Bank Panin Dubai Syariah was only able to disclose 4 out of 10 items accordingly. Bank Panin Dubai Syariah was able to disclose 5 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

Bank Syariah Bukopin was able to disclose 7 out of 10 items on products and services category accordingly, 9 out of 16 items on workforce category accordingly, 9 out of 11 items on social category accordingly, and all of the items on corporate governance category accordingly. However, on finance and investment category and environment category, Bank Syariah Bukopin was only able to disclose 7 out of 16 items and 3 out of 10 items accordingly, respectively. Bank Syariah Bukopin was able to disclose 4 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

Bank BCA Syariah was able to disclose 9 out of 16 items on finance and investment category accordingly, 8 out of 10 items on products and services category accordingly, 10 out of 11 items on social category accordingly, and all of the items on corporate governance category accordingly. However, on workforce category and environment category, Bank BCA Syariah was only able to disclose 6 out of 16 items and 3 out of 10 items accordingly, respectively. Bank BCA Syariah was able to disclose 4 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

Maybank Syariah was able to disclose 6 out of 10 items on products and services category accordingly, and 25 out of 26 items on corporate governance category accordingly. However, Maybank Syariah was only able to disclose 7 out of 16

items on finance and investment category accordingly, 8 out of 16 items on workforce category 5 out of 11 items on social category accordingly, and unable to disclose any items on environment category accordingly. Maybank Syariah was only able to disclose 2 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Not Informative”.

Bank Victoria Syariah was able to disclose 11 out of 16 items on finance and investment category accordingly, 6 out of 10 items on products and services category accordingly, 8 out of 11 items on social category accordingly, and 25 out of 26 items on corporate governance category accordingly. However, on workforce category, Bank Victoria Syariah was only able to disclose 7 out of 16 items and was unable to disclose any items on environment category accordingly. Bank Victoria Syariah was able to disclose 4 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

Bank BJB Syariah was able to disclose 10 out of 16 items on finance and investment category accordingly, 6 out of 10 items on products and services category accordingly, 9 out of 16 items on workforce category accordingly, 8 out of 11 items on social category accordingly, and all of the items on corporate governance category accordingly. However, on environment category, Bank BJB Syariah was only able to disclose 1 out of 10 items accordingly. Bank BJB Syariah was able to disclose 5 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

Bank BTPN Syariah was able to disclose 6 out of 10 items on products and services category accordingly, 7 out of 11 items on social category accordingly, and 25 out of 26 items on corporate governance category accordingly. However, on finance and investment category, Bank BTPN Syariah was only able to disclose 6 out of 16 items accordingly, 5 out of 16 items on workforce category accordingly, and was unable to disclose any items on environment category. Bank BTPN Syariah was only able to disclose 3 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Not Informative”.

Bank Aceh was able to disclose 11 out of 16 items on finance and investment category, 8 out of 10 items on products and services category accordingly, 9 out of 16 items on workforce category accordingly, all of the items on social category accordingly, and 25 out of 26 items on corporate governance category accordingly. However, on environment category, Bank Aceh was only able to disclose 2 out of 10 items accordingly. Bank Aceh was able to disclose 5 out of 6 categories of Islamic Social Reporting (ISR) accordingly. Therefore, their social responsibility disclosure predicate was “Informative”.

The total number of disclosure done by 13 sharia banks was 818 items that were disclosed accordingly and 339 items that were not disclosed accordingly, from the total of 1157 items. When the average number was calculated, the percentage of disclosure done by 13 sharia banks was 70.7%, which showed that sharia banking in Indonesia has been able to disclose their social responsibilities accordingly, although have not reached 100%.

V. Results Analysis

This research was conducted to see the conformity of the social responsibility disclosure reviewed by Islamic Social Reporting index (ISR) on sharia banks in Indonesia. There are several categories from the index: finance and investment, products and services, workforce, social, environment and corporate governance.

In finance and investment category, there were items such as the identification of activities that contain *riba* (unjust, exploitative gains made in trade or business) and activities that contain *gharar* (uncertainty), zakat calculation method, the identification of policy to overcome insolvent clients, Current Value Balance Sheet, Value Added Statement, investment

activity (in general), and financing project (in general). In this category, sharia banks obtained an average of 9.6 disclosures out of 16 items or 60%, which made this category better and able to be expressed accordingly, though not fully. Most of the sharia banks were able to disclose items such as zakat distribution from the bank (the calculation method, sources, the total number, and the distribution), current value balance sheet, value added statements, investment activity, and financing project. However, these banks were still unable to disclose specifically the details regarding to activities that contain *riba*, *gharar*, and their policies to prevent insolvent clients. Sharia banks tend to be careful in disclosing those activities and disclose more of the social activities.

In products and services category, there were items such as green product, the halal status of their products, the classification and description of their products, the quality and safety of the products, product development, and the service for customers' complaints. In this category, sharia banks obtained an average of 7.6 disclosures out of 10 items or 76%, which made this category better and able to be expressed accordingly, though not fully. Most of the sharia banks were able to disclose items such as the halal status of the products, classification and description of each product, quality and safety of the products, product development, and the service for customers' complaints. However, most of the sharia banks still have not had environmentally friendly products or operations. In banking context, this can be perceived as provision in environmentally friendly credit distribution or known as green lending (loan facility from bank to debtors who are engaged in the business sector that do not affect negatively on the environment quality or the social conditions of the community).

In workforce category, there were items such as the characteristic of the job, employee's education and training, equality of the opportunity, appreciation for outstanding employees, employee's involvement, employee's health and safety, work environment, special recruitment, the implementation of worship activities between upper level employees with middle and lower level employees, permission grant for Muslim employees to do prayers on time and fasting in Ramadhan on working days, an adequate prayer room for employees, and employee's welfare. In this category, sharia banks obtained an average of 8.5 disclosures out of 16 items or 53% that made this category was unable to be expressed accordingly. This happened because items such as the practice of prayers in congregated prayers, permission grant for Muslim employees to do prayers on time and fasting in Ramadhan on working days, and the availability of an adequate prayer room were not disclosed even by all the sharia banks. These items were probably carried out but not disclosed.

In social category, there were items such as the amount and distribution of donation, the types and distribution of *waqf*, the amount and distribution of *qardhul hasan*, volunteers in the form of zakat or donations from employees or customers, education program, work empowerment for school / university graduates, youth development, economic empowerment, concern for children (orphans), charity or other social activities, and sponsorship for charities and other social activities. In this category, sharia banks obtained an average of 8.5 disclosures out of 11 items or 77%, which made this category better and able to be expressed accordingly, though not fully. Most sharia banks not only provide social assistance to the community, but most banks had been able to provide social assistance in the form of special programs for sustainable community empowerment, in order to create improved living standards for the community.

In environment category, there were items such as go green campaign, living environment conservation, preservation of endangered flora and fauna, activities to reduce environmental pollution and the effects of global warming, education about living environment, certification in the environment field, product relationship to the environment, availability and repairmen of public facilities, environmental audit or verification statement from government, and environmental management policy. In this category, sharia banks obtained only 3 disclosures out of 10 items or 30% that made this category was unable to be expressed accordingly. This happened because the operation of sharia banks did not directly impact the environment, unlike

other manufacturing companies. As a result, there was lack of pressure from stakeholders on Islamic banking to make disclosures on environmental preservation.

In corporate governance category, there were items such as sharia compliance status, shareholding structure (the number of Muslim shareholders), organizational profile and strategy, organizational structure, maximum distribution of funds (BPMD), the transparency of financial and non-financial conditions, income and usage of non-halal funds, company ethics, statement of prohibited activity, lawsuit, and anti-corruption policy. In this category, sharia banks obtained an average of 25.6 disclosures out of 26 items or 98.5% that made this category better and able to be expressed accordingly by most of the banks, although some of them had not fully disclosed it. This is indicated by the element of compliance towards sharia, therefore this category was able to be disclosed accordingly by most of sharia banks. The compliance towards Islamic Social Reporting (ISR) proved that sharia banks were not only obeying the government, but also Allah SWT in accordance with sharia.

VI. Conclusion

The results showed that the level of disclosure of social responsibility carried out by sharia banks in Indonesia in terms of the Islamic Social Reporting index (ISR) is appropriate, though it is not yet fully. There are two categories that have not been disclosed accordingly, which are environment and workforce, and their predicate is "Not Informative". Other categories such as finance and investment, products and services, social and corporate governance, are able to be disclosed accordingly and the predicate is "Informative". The items in each category that were not disclosed might not be disclosed because of 1) sharia banks did the social responsibility disclosure but it is not fully disclosed into their reports, and 2) sharia banks did not do the disclosure in accordance to sharia.

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