The current issue dan full text archive of this journal is available at
www.jraba.org
Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5 No. 1 (2020) 818-833 ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

IMPROVING FINANCIAL PERFORMANCE THROUGH ISLAMIC CORPORATE SOCIAL RESPONSIBILITY AND ISLAMIC CORPORATE GOVERNANCE

Maya Indriastuti[1]
Naila Najihah[2]

ABSTRAK

Penelitian ini bertujuan untuk menganalisis dan menguji secara empiris *Islamic corporate social responsibility* dan *Islamic corporate governance* dalam meningkatkan kinerja keuangan Bank Umum Syariah. Populasi penelitian ini adalah seluruh Bank Umum Syariah yang terdaftar di Bank Indonesia tahun 2013-2018 yang berjumlah sebanyak 72 Bank Umum Syariah. Sampel penelitian yang digunakan dalam penelitian ini berdasarkan teknik purposive sampling sebanyak 60 Bank Umum Syariah. Semua data dalam variabel ini akan di analisis menggunakan analisis regresi linier berganda dengan bantuan SPSS versi 22. Hasil penelitian menunjukkan bahwa *Islamic corporate social responsibility* dan *Islamic corporate governance* berpengaruh positif dan signikan terhadap peningkatan kinerja keuangan Bank Umum Syariah. Artinya, seluruh Bank Umum Syariah telah mengimplementasikan *Islamic corporate social responsibility* dan *Islamic corporate governance* dengan baik dan konsisten. Secara teoritis, hasil penelitian ini mendukung teori agensi dan teori *sharia enterprise* sehingga dapat dijadikan sebagai salah satu referensi untuk penelitian yang akan datang. Secara praktis, hasil penelitian ini dapat memicu Bank Umum Syariah untuk selalu mengembangkan praktik *Islamic corporate social responsibility* dan *Islamic corporate governance*, sehingga mampu meningkatkan minat masyarakat untuk selalu bertransaksi di Bank Umum Syariah.

Keyword : **Kinerja Keuangan, Islamic, Corporate Social Responsibility, Corporate Governance**

ARTICLE INFO

***Article History* :**

Received 19 January 2020

Accepted 05 Mei 2020

Available online 31 May 2020

Introduction

Financial performance is an organization's ability to manage and direct its resources (IAI, 2018). The financial performance of Islamic banks gradually increased significantly. Recorded in the period of six years (2010-2015), the number of assets in Islamic banks has increased by 134,236 billion rupiah. In addition, in 2014-2018, Islamic banking was able to record a Compounded Annual Growth Rate (CAGR) of 15%, higher than the national banking industry in which the CAGR was recorded for 10%. It indicates that the performance of islamic is better than the national banking.

[1] Corresponden Author : Dosen Fakultas Ekonomi UNISSULA
Telp. 081575372844
Email : maya@unissula.ac.id

[2] Second Author : Dosen Fakultas Ekonomi UNISSULA
Telp. 085641192424
Email : naila.najihah@unissula.ac.id

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Unfortunately, the development of Islamic Banks performance is not followed by a large number of Islamic banking customers. This condition confirms that the interest of Indonesian people to have an account at Islamic Bank is still low. It is also reflected through the market share percentage which is around 5.44% or around 17 million of the total population in Indonesia (www.ojk.go.id). This is due to the low general public insight on Islamic banking, therefore a strategy is needed to boost financial performance in order to be able to compete with conventional banks. Some aspects that can improve financial performance are the disclosure of Islamic corporate social responsibility and Islamic corporate governance.

Islamic Corporate Social Responsibility (ICSR) is believed to be an appropriate befnchmark for CSR disclosure. According to Sofyani et al., (2012) a body that applies sharia-based business is essentially rooted in the philosophy of the Qur'an and Sunnah, so that it becomes the basis for executors when dealing with the environment and society. Al-Qur'an Surah Al-Qashash verse 77:

> "And look for what Allah has bestowed upon you (happiness) of the afterlife, and do not forget your happiness from worldly (enjoyment), and do good (to others) as Allah has done good to you, and do not do anything damage on earth. Surely Allah does not like those who do mischief".

Triyuwoyono (2015) saids that sharia enterprise theory illustrates theoretical plans that are able to convey the principles of accounting basics and methods. This theory results accountability understanding and facts that are needed by stakeholders in sharia business.. Allah is the Only and absolute owner, meanwhile stakeholders are trust from Allah who have obligation to utilize mission which is determined by Allah.

Darmawati (2014) tolds that Islam holds accountability which is comparable in all arrangements and fields, between soul and body, between individual and family, between individuals and social, and between a community with another society. Social responsibility states about obligations industry in order to protect and convey participation to society where the industry is located. Hadi (2016) argued a good company is a company that does not only focus on profit only, but also has interest on environmental sustainability and community peace. Islamic Bank is demanded not only to have high profitability, but also to have concern for the environment and society. CSR disclosure has become mandatory since the issuance of Law No. 40 year 2007 article 74 paragraph 1 which contains the implementation of social and environmental responsibility.

The ICSR disclosure plays a very significant condition for Islamic banking performance. Islamic banks that disclose ICSR reports can be seen as companies that are able to strengthen the trust of Muslim community in managing and distributing budgets. The ICSR idea can be used as a business policy by companies against selective business competition.

The research of Sidik and Reskino (2016) shows that ICSR has a positive effect on Islamic banking financial performance. This result is supported by Indrayani and Risna (2018) which indicated that ICSR has a positive but not

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

significant effect on Islamic banking financial performance. Research by Dewi and Widagdo (2012) also reveals that CSR affects company performance. However, this is in contrast with the research of Arifin and Wardani (2016), that ICSR has a negative effect on Islamic banking financial performance with ROA as the indicator.

Islamic corporate governance is a set of institute policy whereby Islamic financial institutions are able to validate an independent philosophy of sharia compliance beyond the method of publication of an appropriate sharia law, distribution of data information and internal review of sharia compliance (FASB, 2009). The implementation of Corporate Governance in Islamic commercial banks differs from the principles of Corporate Governance in conventional banks. Bhatti (2009) argues that businesses that have roots in Islam should develop a conducive and sustainable business climate with the realization of market discipline that comes from customary Islamic business governance.

Regarding with agency theory, the members of sharia supervisory board become parties who supervise banks as management that can be trusted to manage organizations without individuals interest. The members of sharia supervisory board must often meet and ensure that the company is already in accordance with sharia principles in conducting the banks' activities. The more frequent of sharia supervisory board conduct meetings then the more often the members give their views for Islamic Bank progress.

Hartono (2018) stated Islamic corporate governance has a significant positive impact on financial performance. Puspasari (2017) stated that Islamic corporate governance seen from the number of sharia supervisory board meetings has a positive impact on performance. In contrast, the results of Indrayani and Risna's research (2018) stated that Islamic corporate governance has a negative and significant effect on financial performance. Asrori (2014) and Kholid and Bachtiar (2015) argued that the sharia supervisory board had a negative insignificant effect on financial performance.

This study aims to analyze and test empirically about Islamic corporate social responsibility and Islamic corporate governance in improving the financial performance of Islamic banks. The novelty of this study is the measurement of sharia financial performance variables using Sharia Conformity and Profitability (SCnP) It chooses the Islamic aspects of Islamic Income. The SCnP method is a method of measuring financial performance that has been adapted to sharia scheme in order to evaluate the socio-economic commitments of Islamic banks.

Sharia Conformity and Profitability (SCnP) model is one of the measurement models for financial performance in banks, especially in Islamic banking. SCnP combines its orientation on profitability indicators to assess conventional financial performance through the orientation index in conformity with sharia system (Kuppusamy et al., 2010). It aims to assess the socio-economic obligations of Islamic banks. The strengths of the SCnP model are: First, the measurement of Sharia Conformity and Profitability (SCnP) method is more complex because it combines two valuation orientations that are inseparable, namely the bank's sharia aspects and bank's financial aspect. Second, by combining the two socio-economic orientations on Sharia Conformity and

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Profitability (SCnP), the results of these measurements are more effective. Therefore, the measurement of financial performance by Sharia Conformity and Profitability (SCnP) model can be used as an alternative measurement of Islamic banks financial performance.

This research is expected to be able to contribute both theoretically and practically. Theoretically, this research is expected to be a reference for future research. This research can support agency theory and sharia enterprise theory. This is because Islamic corporate governance is able to reduce agency conflicts that arise between principals and agents, so that the rights and relationships among all stakeholders can be guaranteed. Whereas Islamic corporate social responsibility is a corporate resources perspective, as a mandate from God inherent in responsibility. Corporate social activity is a form of compliance and responsibility of the company owner for the trust of stakeholders, in order to maintain and share with the surroundings. Islamic corporate social responsibility also as a form of concern for the needy.

Practically, this research can contribute (1) for Islamic banks to direct to Islamic social actions that are expected to increase public interest in Indonesia Islamic banks. (2) For regulators providing empirical facts about the effectiveness of policies issued by FSA regarding the importance of Islamic Corporate Social Responsibility and Islamic Corporate Governance. So that it improves Islamic Corporate Social Responsibility and Islamic Corporate Governance practices in Indonesia. In addition, it is expected to be able to fix existing policies; and (3) for investors giving predictions about the annual financial statements so that they can be used as a reference for investment considerations.

Literature Review

Agency Theory

Jensen and Meckling (1976) described agency theory as a commitment between the principal and the agent that links the delegation of authority when taking consideration to the agent. The interaction between owner and manager will normally give information asymmetry. This case takes place when the manager stores greater information about the company's actual activities than the owner. The agency interaction triggered agency problems where the managers try to optimize their own profits by forgetting the needs of the owner. The existence of the agency case requires the implementation of Islamic corporate governance which is expected to be able to maximize the performance of Islamic banks, pay attention to the needs of stakeholders and increase compliance with laws and ethical values globally (Faozan, 2013). Islamic corporate governance procedures are required for the preparation of sharia supervisory boards so that they are able to control agency issues when realizing their operations in accordance with the Islamic view (Kholid and Bachtiar, 2015).

Sharia Enterprise Theory

Sharia enterprise theory is a theoretical concept that recognizes accountability not only to the owner of the company but to a wider stakeholder group (Triyuwono, 2015). This theory is used to understand corporate stakeholders

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

in the perspective of Islamic religion, in shari'ah enterprise theory states that corporate stakeholders are not only humans and nature around them, but also Allah SWT. God is the last center of responsibility for all activities in the world (Triyuwono, 2015).

The link between this concept and Islamic Corporate Social Responsibility is the perspective of resources by the company, as a mandate from God that is inherent in a responsibility.Corporate social activity is a form of compliance and responsibility of the company owner for his beliefs, in order to maintain and share with the surrounding. It is a way to contribute to the good of all those who need it.

Islamic Corporate Social Responsibility

Islamic Corporate Social Responsibility (ICSR) concepts consist of the concept of zakat, justice, benefit, responsibility, and falah (success) (Syukron, 2015). The purpose of Islamic law (Maqashid al syariah) is maslahah (Islamic divine law), so that business can be a way to build maslahah, not only for profit. Islam believes in the equal responsibility of all its structures and fields, between body and soul, between individual and family, between individual and social, and between one society and another society. Social responsibility states the obligation of the industry to protect and convey participation to the community where the industry is located (Darmawati, 2014). The disclosure index used in this study was Islamic Social Reporting (ISR) disclosure index compiled by Othman et al. (2009). It covers six disclosure themes including; finance and investment, products and services, employees, society, environment, and corporate governance.

Islamic Corporate Governance

Islamic corporate governance is an organizational structure. In this organizational structure, Islamic financial institutions can convince independent principles of sharia compliance through the relevant sharia guidance structuring methods, fatwa (official statement or order from an Islamic religious leader) and sharia compliance internal review (IFSB, 2009). The composition and methods that must be carried out so that Islamic corporate governance is realized properly include:

1) Relevant guidance statement. The Sharia Supervisory Board legalizes the affirmation of Islamic finance industry statement.
2) Distribution of facts regarding statements issued to Islamic financial institutions in order to monitor the consistency with operational guidelines and transactions.
3) The existence of internal shariah compliance audit in order to validate sharia compliance and non-compliance, which then will be written and reported.
4) Conduct an audit of sharia compliance every year and the results must be written by sharia supervisory board.

Based on the circular letter of OJK number 10 / SEOJK.03 / 2014 concerning the evaluation of Islamic bank health level and sharia business units, the subject of independent evaluation for Islamic Bank covers 11 (eleven) aspects of the evaluation in corporate governance implementation, including:

1) Duties and responsibilities implementation of the board of commissioners.
2) Duties and responsibilities implementation of directors.
3) Completeness and implementation of the committee's duties.
4) Duties and responsibilities implementationof the sharia supervisory board.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

5) Implementation of sharia principles in the activities of raising funds, distributing funds and services.
6) Handling conflicts of interest.
7) Compliance function implementation.
8) Internal audit function implementation .
9) External audit function implementation.
10) The maximum limit for distributing funds.
11) Transparency of BUS financial and non financial conditions

The implementation of corporate governance as well as Sharia governance internal reporting in this study was assessed in terms of the sharia supervisory board member meeting. based on Bank Indonesia regulation number 11/33 / PBI / 2009 article 49 about the implementation of Good Corporate Governance. In the regulation, it is stated that sharia supervisory board meetings must be held at least once a month and the meeting decision-making of sharia supervisory board is conducted based on consensus.

Financial Performance

Financial performance is an organization's ability to manage and direct its resources (IAI, 2018). The measurement of Islamic banks financial performance in this study used Shariah Conformity and Profitability (SCnP) Model. Shari'ah Conformity and Profitability (SCnP) is one of the models to evaluate the financial performance in banks, particularly in Islamic banks (Kuppusamy et al., 2010). Islamic financial performance in this study used an Islamic income indicator. It is the ratio of division between Islamic income and non-Islamic income.

Hypothesis Development

Impact of Islamic Corporate Social Responsibility on Financial Performance

Islamic corporate social responsibility (ICSR) is a disclosure of social responsibility carried out by companies as a form of responsibility to Allah SWT and stakeholders (Hadi, 2016). Disclosure of ICSR becomes very important for the performance of Islamic financial institutions, because by disclosing ICSR in a transparent and good manner, Islamic financial institutions will be seen as entities that can be trusted by Muslim communities in channeling their funds (Darmawati, 2014 and Syukron, 2015).

Indrayani and Risna (2018) showed that ICSR has a significant positive effect on the company's financial performance. In line with the research results of Sidik and Reskino (2016); Nisa and Kurniasari (2017) stated that ICSR has a positive impact on the company's financial performance. The higher disclosure of social information, the greater financial performance. Other studies that have similar results are Arshad et al., (2012), Suciwati et al., (2017), Dewi and Widagdo (2012) and Platnova et al.,(2015) that ICSR has a positive impact on Islamic financial performance. Based on this explanation, the first hypothesis can be formulated as follows:

H1: Islamic corporate social responsibility has positive impacts to financial performance

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Impact of Islamic Corporate Governance on Financial Performance

Islamic corporate governance is a system that regulates and controls companies in conducting their business in order to increase success and accountability based on Islamic laws (IFSB, 2009; Sutedi, 2011). One of Islamic corporate governance is the existence of a sharia supervisory board. The sharia supervisory board is tasked to supervise the company so that company manages the organization in accordance with sharia principles. The more supervision conducted by the sharia supervisory board, the better company's financial performance.

Samy and Chris (2010); Rahayu and Cahyati (2014); Puspasari (2017) proved that the more intense supervision conducted by the sharia supervisory board, the better company's financial performance. The same results were also expressed by Asrori (2011) who stated that high company performance is correlated with the high implementation of Islamic corporate governance. Based on this explanation, the second hypothesis can be formulated as follows:

H2: Islamic corporate governance has positive impacts to financial performance

Research methods

Data Types and Sources

The type of data in this research is quantitative data. It discusses the theories test through research variables test with numbers and analyze the data with statistical procedures (Indriantoro and Supomo, 2014). The data source of this research is secondary data. It obtained from researchers that are not directly from the object, but through other sources both oral and written (Indonesia Dictionary). The data sources obtained from each website of Islamic Bank and www.bi.go.id. The data were annual report in the period 2013-2018 cited by the disclosure of Islamic corporate social responsibility and Islamic corporate governance. It also obtained from various scientific articles.

Population and Research Samples

The populations in this study were 72 Islamic banks registered at Bank Indonesia in 2013-2018 (12 Islamic Banks x 6 years). The sample selection method used purposive sampling method, with the following criteria: (1) Islamic banks registered at Bank Indonesia in 2013-2018; (2) Islamic banks which publish annual financial reports in rupiah; (3) Islamic banks which publish reports on the implementation of Islamic Corporate Social Responsibility and Islamic Corporate Governance. Based on these criteria, the total sample of Islamic Banks used in this study were 60 Islamic Banks (10 Islamic Banks x 6 years).

Definition contents of operational and Measurement Variabel

Islamic Corporate Social Responsibility (X1)

Islamic Corporate Social Responsibility (ICSR) is the responsibility of organizations that realize their businesses based on sharia on the Qur'an and Sunnah (Sofyani et al.,2012). ICSR measurement used a ratio between the number of ICSR disclosed items and the total number of ICSR items (Arifin and Wardani, 2016). The ICSR measurement scale used a ratio scale, that has an absolute zero and has the same distance.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

$$\text{ICSR} = \frac{\text{the number of ICSR disclosed items}}{\text{the total number of ICSR items}}$$

Islamic Corporate Governance (X2)

Islamic corporate governance (ICG) is a system that regulates and controls companies in conducting their business in order to increase success and accountability based on Islamic laws (IFSB, 2009 and Sutedi, 2011). ICG is obtained from the frequency of sharia supervisory board members' meetings (Kholid and Bachtiar, 2015, and Indrayani and Risna, 2018). The ICG measurement scale used a ratio scale, that has an absolute zero and has the same distance.

ICG = the frequency of sharia supervisory board members' meetings

Financial Performance (Y)

Financial performance is an organization's ability to manage and direct its resources (IAI, 2018) Financial performance used a proxy for Islamic income obtained from a comparison between Islamic income with total Islamic and non-Islamic income (Asrori, 2014). The ICSR measurement scale used a ratio scale, that has an absolute zero and has the same distance.

$$\text{FP} = \frac{\text{Islamic Income}}{\text{Islamic Income + Non Islamic Income}}$$

Data analysis technique

Descriptive statistics

Statistical analysis descriptive is employed in this study to analyze the data. The analysis is by describing collected data without intending to make general conclusion. According to Ghozali (2016), the data is assesed by its minimum value, maximum value, average value, standard deviation, and sum.

Classic Assumption Test

The classic assumption test is used to find out whether the data in this study is biased or not. It is often called BLUE (Best Linear Unexpected Estimator) (Ghozali, 2016). Classic assumption tests include normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

Multiple Linier Regression Analysis

Linear regression analysis is used to predict the value of a dependent variable based on the value of other variables. Regression analysis can also be used to figure out the impact of independent variable (X) on the dependent variable (Y). The model of this research is expressed as follows :

$$\mathbf{FP=\alpha+\beta1ICSR+\beta2ICG+ e}$$

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Information :

FP : Firm Performance
α : Constanta
β : Coeffisient Regression Model
ICSR : Islamic Corporate Social Responsibility
ICG : Islamic Corporate Governance
e : *Error*

Results

Descriptive statistic Test

The descriptive statistical calculations results of Islamic corporate social responsibility, Islamic corporate governance, and Islamic Bank financial performance are shown in table 1.

Table 1. Descriptive statistic results

	N	Min	Max	Mean	Std, Deviation
ICSR	60	0,34	0,73	0,56	0,10
ICG	60	8	35	15,38	5,66
FP	60	0,81	1,00	0,93	0,04
Valid N (listwise)	60				

Source : Data secunder is proceeds 2020

Table 1 shows the descriptive statistical data of each variable. Islamic Corporate Social Responsibility is measured by ISR index with total of 38 items disclosure. The ICSR average of 60 samples was 0.563815 which showed that the average Islamic banks has ICSR items for 56.38% during 2013-2018 period. Islamic corporate governance is proxied by the frequency of sharia supervisory board meetings show an average value of 15.38, it means that Islamic Corporate Governance in companies, that become research samples, is quite high. The regulation of Financial Services Authority Number 30/POJK.05/201 regarding Good Corporate Governance for Financing Companies, article 40 paragraph (1) stated that sharia supervisory board must hold periodic sharia supervisory board meetings at least 6 (six) times in 1 (one) year, thus the research sample has met the regulations. Financial performance that is proxied by Islamic income shows an average value of 0.9312, which means that financial performance in companies used as research samples is quite high. In addition, Islamic income is greater than non-Islamic income, thus it can be interpreted that Islamic Bank basically has abide sharia principles.

Classic Assumption Test

A good regression model must fulfill the absence of classic assumption problem. The results of classic assumption test is presented in table 2.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Table 2: The Results of Classic Assumption Test

Dependent Variable	Independent Variable	Normality Test		Multicollinearity Test		Heteroscedasticity Test		Auto Correlation Test
		K-S	Sig	Tolerance	VIF	t	Sig	D-W
Financial Performance	ICSR	1.774	.855	.744	1.765	4.139	.676	1.805
	ICG			.993	1.056	4.557	.480	

Source : Data secunder is proceeds, 2020

Table 2 shows the results of classic assumptions test for each variable. Kolmogorov Smirnov value shows a figure of 1,385 with a significance value of 1,774, means that the data is normally distributed. Muticollinearity test results showed that all variables have met the multicollinearity criteria with a tolerance value higher than the default standard value fot 0.10 and the VIF value showed lower than 10. Therefore it can be said that all independent variables (ICSR and ICG) of financial performance meet the requirements. In other words, there is no multicollinearity problem between the independent variables to the dependent variable. Heteroscedasticity test results show a significance value above 5%, it can be interpreted that the influence of independent variables (ICSR and ICG) on financial performance do not occur heterocedasticity problems. The autocorrelation test results show the Durbin Watson value of 1.80. This means that the results show the Durbin Watson value is greater than the upper limit value (du) of 1,659 and the lower limit (dl) of 1,335, while the DW value of 1,804 is smaller than 4-du of 2,341, so it can be concluded 1,659<1,804<2,341 or du<d<4-du. The independent variables (ICSR and ICG), on financial performance have no autocorrelation problems.

Multiple Linier Regression Analysis

The results of multiple linear regression analysis tests that include the coefficient of determination test results and t test results can be seen in table 3.

Table 3: t test results

Model	Unstandardized Coefficients B	t	Sig.	Hipotesis
ICSR	0,072	0,475	0,015	Accepted
ICG	0,014	0,335	0,004	Accepted

Dependent Variable: Financial Performance
Adjusted R square = 0,265
Predictors: (Constant), ICSR, ICG

The results of regression test in table 3 indicate that the coefficient of ICSR variable is 0.475 with a significant level of 0.015, and the coefficient of ICG variable is 0.335 with a significant level equal to 0.004. Therefore, the ICSR and ICG have positive effects to financial performance. Thus, the first and second hypothesis are accepted.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Discussion

Impact of Islamic Corporate Social Responsibility on Financial Performance

Islamic corporate social responsibility has positive impact to financial performance. This result indicates that the increase or decrease in the number of Islamic Corporate Social Responsibility issued affects the financial performance which is proxied by Islamic income. This indicates that all information in the ICSR activities has been linked to Islamic income-acquisition activities. Islamic income is the activity of placing funds that do not contain gharar and interest (riba) on an asset. Indrayani and Risna (2018) stated that ICSR has a significant positive impact on the company's financial performance.

In this study, all Islamic banks have carried out the obligation to issue Islamic Corporate Social Responsibility. This means that Islamic banks have performed their obligations as a company that is responsible for the environment around the company. As the result, it can help the company's internal and external stakeholders. This is justified in Islamic economic system, because in the Islamic economy there is a justice principle in the concept of distribution. This principle does not justify the management of wealth only for certain groups of people but spread throughout society.

The results of this study are in accordance with Shari'ah enterprise theory concept. It is a concept (zakat, justice, benefit, responsibility, and falah) that shows the ability in producing accountability and information needed by stakeholders (Triyuwono, 2015). Islamic Banks financial performance is shown by Islamic income. The income is derived from fund placement activities that do not contain acts of society, gharar, and usury on an asset or more (Triyuwono, 2015). The dislosure level of ICSR are 38 items. The items have been linked to the activities of obtaining Islamic income by using funds from infaq, alms, and halal income.

Corporate social responsibility in the perspective of Islamic economics is an internal consequence of Islam. The purpose of Islamic law is securing benefit and removing harm (maslahah). Thus business is an effort to create maslahah not only for profit. Business in Islam has a very noble and strategic position because it is not only permitted but instead is directly ordered by Allah in Qur'an as explained in surah Al-Jumu'ah verse 10 as follows:

> "And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed".

The meaning of the above verse is that beside our worship, we are also required to work and look for sustenance in the way of Allah. Some of the Islamic principles in running CSR-related business are protecting the environment and preserving it, trying to alleviate poverty, putting something morally clean out of something that is morally dirty, even though it brings greater benefits, and honesty and trust. In the context of Islamic corporate social responsibility, needs are not only oriented for the short term, but also for the long term in achieving God's pleasure. Economic activities not only involve material aspects, but also the quality of the faith to Allah SWT.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

In line with the research result of Sidik and Reskino (2016), and Nisa and Kurniasari (2017) stated that ICSR have a positive impact on the company's financial performance. The higher disclosure of social information, the greater financial performance. Other studies that have similar results are from Arshad et al., (2012), Suciwati et al., (2017), Dewi and Widagdo (2012) and Platnova et al., (2015) suggested that ICSR has a positive impact on Islamic financial performance. This means that the company's concern with the environment can improve the quality of banking financial performance, to be good and transparent.

Indrayani and Risna (2018) argued that ICSR has positive and insignificant impact to financial performance. It means that the increase or decrease in the number of Islamic Corporate Social Responsibility issued can not affects the financial performance. However, it is different with Arifin and Wardani (2016) research which stated that ICSR has a negative effect on the financial performance of Islamic banks. This indicates that the higher level of concern for companies with the environment cannot guarantee an increase in the quality of banking financial performance.

Impact of Islamic Corporate Governance on Financial Performance

Islamic corporate governance has positive impact to financial performance. This result indicates that the increase or decrease in the implementation number of Islamic Corporate Governance issued affects the financial performance which is proxied by Islamic income.

Dealing with agency theory, sharia supervisory board at Islamic Bank is considered as the party to ensure that bank as management can be trusted to manage the organization and act in the interests of all stakeholders. The results of this study indicate that Islamic corporate governance variable from the perspective of the members' meetings frequency have a positive and significant effect on Islamic banks financial performance. This indicates that the frequency of sharia supervisory board members meeting is considered capable to enhance the Islamic banks financial performance. This indication is in accordance with Financial Services Authority Regulation number 30 / POJK.05 / 2014 regarding Good Corporate Governance for Financing Companies, article 40 paragraph (1). It is stated that sharia supervisory board is obliged to hold sharia supervisory board meetings periodically at least 6 (six) times in a year.

The existence of Sharia Supervisory Board is a key aspect of good corporate governance implementation in order to improve the Islamic banking performance as Islamic financial institutions. The main performance of Islamic banking is measured by using Islamic income proxy obtained from a comparison between Islamic income with total Islamic and non-Islamic income (Asrori, 2014). Samy and Chris (2010); Rahayu and Cahyati (2014); Puspasari (2017); Hartono (2018) proved that the more intense supervision conducted by the sharia supervisory board, the better company's financial performance. The same results were also expressed by Asrori (2011) who stated that high company performance is due to the high implementation of Islamic corporate governance.

This is because the implementation of Islamic Corporate Governance in Islamic banking corporate governance mechanism has fulfilled sharia compliance.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Sharia compliance in collecting and distributing funds, also in banking services is very important to improve the Islamic banks performance. The results of this study are in line with the statement of IFSB (2009) that sharia compliance is at the core of integrity and credibility in Islamic financial institutions.

Inconsistent with Indrayani and Risna (2018); Puspasari (2017); Sherif and Khaled (2016); Maradita (2014); Samy (2012) argued that Islamic corporate governance cannot improve the financial performance. Asrori (2014); Kholid and Bachtiar (2015) stated that sharia supervisory board has a negative and insignificant effect on financial performance.; stated that Islamic Corporate Governance has insignificant effect to financial performance. This is because the banking mechanism in Indonesia still adheres to the dual banking system, so that the Islamic banks financial performance still has income that is not in accordance with sharia principles such as income from interest, penalties and other income, sometimes it cannot be avoided.

Conclusion

The results of this study showed that Islamic corporate social responsibility, Islamic corporate governance have a positive impact to financial performance. The Islamic banks have ICSR disclosure items for 56.38% during 2013-2018 and all Islamic banks have implemented Islamic corporate governance properly.

Limitation

The limitations of this study include: (1) the low ability of independent variables in explaining dependent variable which is 26.5% , below 50%. (2) The raw data processed in this study indicated an outlier. The outlier data belongs to extreme data, so that this study only used 10 Islamic Banks. Meanwhile for the other 2 Islamic Banks there are indicated having outlier.

Suggestion

The suggestions for future research are: (1) adding independent variables (such as zakat or Islamic corporate governance in the number of sharia supervisory board members). (2) increasing period of this study, so that the range of research is wider. In addition, it anticipates outliers data.

Implication

The implication of this study are: first it can be useful for Islamic Banks, second it can continue to develop ICSR and ICG practices in increasing public interest in Islamic Banks, third it increases Islamic income because Islamic income is halal income and in accordance with Islamic law. The implication for regulators, they can find out the implementation and effectiveness of policies issued by the Financial Services Authority regarding the importance of ICSR and ICG. This can be used by regulators to improve existing policies. Meanwhile for investors, they can be aware about the aspects of ICSR and ICG implementation as a reference for investment considerations. If an investor invests in Islamic banks that conduct ICSR and ICG, the investor indirectly gets involved in the activity.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

References

Al-Qur'an Surat Al-Qashash ayat 77

Arifin dan Wardani. 2016. Islamic Corporate Social Responsibility Disclosure, Reputasi, Dan KinerjaKeuangan: Studi Pada Bank Syariah Di Indonesia. *Jurnal Akuntansi & Auditing Indonesia*. Vol. 20 No.1.Pp.527-541.

Arshad, Roshayani, Othman, Suaini, Othman, Rohana. 2012. Islamic Corporate Social Responsibility, Corporate Reputation and Performance. *International Journal of Social, Behavioral, Education, Economic, Business and Industrial Engineering*. Vol. 6 No.4. Pp.643-647.

Asrori. 2011. Pengungkapan Syari'ah Compliance dan Kepatuhan Bank Syariah Terhadap Prinsip Syariah. *Jurnal Dinamika Akuntansi*. Vol.3 No.1. Pp.1–7.

Asrori. 2014. Implementasi Islamic Corporate Governance dan Implikasinya Terhadap Kinerja Bank Syariah. *Jurnal Dinamika Akuntansi*. Vol.6 No.1. Pp.90-102.

Bhatti, Maria, dan Bhatti, I. 2009. Development in Legal Issue of Corporate Governance in Islamic Finance. *Journal of Economic & Administrative Sciences*. Vol.25 No.1.Pp.67–91.

Darmawati. 2014. Corporate Social Responsibility dalam Perspektif Islam. *Mazahib*. Vol.13 No.2. Pp.125–138.

Dewi, R.,K, and Widagdo,B. 2012. Pengaruh Corporate Social Responsibility dan Good Corporate Governance terhadap Kinerja Perusahaan. *Jurnal Manajemen Bisnis*. Vol 2 No.1.Pp.1-15.

Faozan, Akhmad. 2013. Implementasi Good Corporate Governance dan Peran Dewan Pengawas Syariah di Bank Syariah. *Jurnal Ekonomi Islam*. Vol 8 No.1.Pp. 183-199.

Ghozali, Imam. 2016. *Aplikasi Analisis Multivariat dengan Program IBM SPSS 23.* Semarang: Badan Penerbit Universitas Diponegoro.

Hadi, A.,C. 2016. Corporate Social Responsibility dan Zakat Perusahaan dalam Perspektif Hukum Ekonomi Islam. *Ahkam*. Vol.16 No.2.Pp.1-16.

Hartono, Nono. 2018.Analisis Pengaruh Islamic Corporate Governance (ICG) dan Intellectual Capital (IC) terhadap Maqashid Syariah Indeks (MSI) pada Perbankan Syariah di Indonesia. *Al-Amwal*. Vol. 10 No.2.Pp.1-15.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Ikatan Akuntansi Indonesia (IAI). 2018. Pernyataan Standar Akuntansi Keuangan (PSAK). Jakarta: IAI

Islamic Financial Services Board (IFSB).2009. *Guiding Priciples on Shariah Governance System for Institutions Offering Islamic Financial Services*, December 2009.

Indriantoro, Nur dan Bambang Supomo. 2014. *Metodologi Penelitian Bisnis Untuk Akuntansi & Manajemen.* Edisi 1. Cetakan ke-12. Yogyakarta: BPFE.

Indrayani dan Risna. 2018. Pengaruh Islamic Corporate Social Responsibility (ICSR) DanSharia Governance Terhadap Kinerja Perusahaan. *Jurnal Akuntansi, Keuangan & Perpajakan Indonesia*. Vol. 6 No.1.Pp.1-15.

Jensen, M.,C., dan Meckling, W. H. 1976. Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure. *Journal of Financial Economics*. Vol.4. No.2. Pp.305–360.

Kholid dan Bachtiar. 2015. Good Corporate Governance Dan Kinerja Maqasid SyariahBank Syariah Di Indonesia. *JAAI*. Vol.19 No.2. Pp.126-136.

Kuppusamy, M., Saleh, A.,S and Samudhram, A. 2010. Measurement of Islamic Banks Performance Using a Syariah Conformity and Proftablity Model. *Review of Islamic Economics*. Vol.13 No.2. Pp.35-48

Maradita, A. 2014. Karakteristik Good Corporate Governance. *Yuridika*. Vol.29 No.2. Pp.191–204.

Nisa, F.,N., and Kurniasari, D. 2017. Pengaruh Islamic Corporate Social Responsibility Disclosure terhadap Reputasi dan Kinerja Keuangan Perusahaan. *Jurnal Ilmu Manajemen dan Akuntansi Terapan*. Vol.8 No.2.Pp.1-18.

Peraturan Otoritas Jasa Keuangan Nomor 30/POJK.05/2014 Tentang *Tata Kelola Perusahaan Yang Baik Bagi Perusahaan Pembiayaan*.

Peraturan Bank Indonesia Nomor 11/3/PBI/2009 tentang *Bank Umum Syariah*.

Peraturan Bank Indonesia Nomor 11/33/PBI/2009 tentang *Pelaksanaan GCG bagi Bank Syariah*.

Platonova, E., Asutay, M., Dixon, R., Mohammad, S.2018. The Impact of Corporate Social Responsibility Financial Performance: Evidence from The Good Corporate Governance Islamic Sector.*Journal of Business Ethics.* Vol.151 No.2.Pp.451-471.

Jurnal Riset Akuntansi dan Bisnis Airlangga Vol. 5. No. 1 (2020) 818-833
ISSN 2548-1401 (Print) ISSN 2548-4346 (Online)

Puspasari, O.,R. 2017. Mekanisme Islamic Corporate Governance Pada Kinerja Bank Umum Syariah Menggunakan Islamic Performance Index. *JRKA*. Vol. 3 No.2. Pp.45 – 58.

Rahayu, R., S., dan Cahyati, A.,D. 2014. Faktor-Faktor Yang Mempengaruhi Pengungkapan Corporate Social Responsibility (CSR) pada Perbankan Syariah. *Jurnal Riset Akuntansi Komtemporer*. Vol.5 No.2.Pp.38-51.

Samy, N.,G, and Chris, P. 2010. Shari'a Supervision of Islamic Financial Institutions, *Journal of Financial Regulation and Compliance*.Vol.18 No.4. Pp.386-407.

Samy, N.,G. 2012. The Control of the Shari'a Supervisory Board in the Islamic Financial Institutions, *International Journal of Islamic and Middle Eastern Finance and Management*.Vol.5 No.1.Pp.8-24.

Sherif El-Halaby, Khaled Hussainey. 2016. Determinants of Compliance with AAOIFI Standards by Islamic Banks, *International Journal of Islamic and Middle Eastern Finance and Management*.Vol. 9 No. 1.Pp.143-168.

Sidik dan Reskino. 2016. Pengaruh Zakat dan ICSR terhadap Reputasi dan Kinerja. *Simposium Nasional Akuntansi XIX*.

Sofyani, Ulum, dan Syam. 2012 Islamic Social Reporting Index Sebagai Model Pengukuran Kinerja Sosial Perbankan Syariah. *Jurnal Dinamika Akuntansi*.Vol.4 No.1.Pp.36-46.

Suciwati, Desak, P., Pradnyan, Desak, P.A., Ardina, Cening. 2017. Pengaruh Corprate Social Responsibility terhadap Kinerja Keuangan. *Jurnal Bisnis dan Kewirausahaan*. Vol.12 No.2. Pp.104-120.

Sutedi, A.2011. *Good corporate governance*. Jakarta: Sinar Grafika.

Syukron, A. 2015. CSR dalam Perspektif Islam dan Perbankan Syariah. *Jurnal Ekonomi dan Hukum Islam*.Vol.5 No.1.Pp.1–22.

Triyuwono, I. 2015. *Akuntansi Syariah Perspektif, Metodologi dan Teori*. Ed. Kedua. Jakarta: PT RajaGrafindo Persada.

Undang-undang Dasar (UUD). 2007. Perseroan Terbatas Nomor 40 Tahun 2007 Pasal 74 ayat 1 tentang *Tanggung Jawab Sosial dan Lingkungan.*

www.ojk.go.id