



JURNAL AKSI

Akuntansi dan Sistem Informasi

<http://aksi.pnm.ac.id>

Implications of Good Corporate Governance and Cost Efficiency on Islamic Social Reporting (Case Studies on Islamic Banking Companies in Indonesia)

Abd Rohman Taufiq¹⁾, Juli Murwani²⁾, Jenizar Khusnul Utami³⁾

^{1,2,3)} PGRI Madiun University

ARTICLE INFO

Keywords:

Good Corporate Governance, Cost Efficiency, Islamic Social Reporting

Article History:

Received: 15-07-2023

Accepted: 15-08-2023

Corresponding author:

Abd Rohman Taufiq

E-mail:

rohmantaufik@unipma.ac.id

ABSTRACT

The Islamic banking industry in Indonesia is experiencing very strong growth with the potential for Islamic financial assets of 99 billion, making Indonesia ranked 4th in the world in 2020. The issue of increasing Corporate Social Responsibility (CSR) sustainability disclosure has made the issue of Islamic Social Reporting a reality (ISR) is also increasing. This study aims to examine the effect of Good Corporate Governance and cost efficiency on Islamic social reporting (ISR). The type of data in this study uses panel data taken using a time span of five years from the 2014-2020 period. The analysis technique used consists of classical assumption test, multiple linear regression analysis test and partial test (t). The results show that Good Corporate Governance has a negative and significant effect on Islamic Social Reporting (ISR). Meanwhile, cost efficiency has no effect on Islamic Social Reporting (ISR).

INTRODUCTION

Financial institutions have a very important role in the country's economic efforts. Indonesia's banking is growing rapidly, based on statistical data on the increase in banking activity until January 2019 as many as 1,922 banking units. The existence of Law Number 21 of 2008 concerning Islamic banking supports, the development of Islamic banking in Indonesia (OJK, 2019). The Islamic banking industry in Indonesia is experiencing very strong growth with potential Islamic financial assets of 99 billion, making Indonesia the 4th ranked country in the world in 2020. This is also considering that Indonesia's population is predominantly Muslim so the development of the Islamic economy is always increasing every year. Islamic banking assets increased by 10.97%, Islamic banking third-party funds also increased by 11.56%, and financing also increased by 9.42% (Farisa, 2021). In addition, Indonesian Islamic finance has also managed to rise to 2nd place in the 2020 Islamic Finance Development Indicators (IFDI). Instrumental factors that are used as the main indicators in the IFDI calculation are quantitative growth, management, governance, awareness, and Corporate Social Responsibility (CSR) (Puspaningtyas & Noor, 2020).

The obligations of the CSR disclosure within the company makes the company not only a single-bottom-line concept that is oriented towards achieving maximum profit, but the company should pay attention to the triple-bottom-line which includes the company's financial aspects, social life and the environment. Disclosure of CSR can also help companies improve financial performance, increase company value, and increase the company's attractiveness as a good place to work (Putra, 2014). In simple terms, CSR implies that the company has a moral duty that is being honest, complying with the law, uphold integrity, and not be corrupt (Cahya, 2018). This concept is very linear when implemented

p-ISSN: 2528-6145, e-ISSN: 2541-3198 Accredited Third Grade by Ministry of Research, Technology and Higher Education of The Republic of Indonesia, Decree No: 148/E/KPT/2020

Cite this as: Taufiq, A.R, Murwani, J, and Utami, J.K. (2023). Implications of Good Corporate Governance and Cost Efficiency on Islamic Social Reporting (Case Studies on Islamic Banking Companies in Indonesia). JURNAL AKSI (Akuntansi dan Sistem Informasi), 8 (2), 200-205. <http://doi.org/10.32486/aksi.v8i2.561>

in the ISR concept. The ISR concept emphasizes that companies must develop business practices that are ethical and economically, socially, also environmentally sustainable by syariah principles. The issue of increasing disclosure of CSR sustainability has also increased the issue of Islamic Social Reporting (ISR). The ISR concept is seen as a strong rationale regarding the importance of CSR initiatives from an Islamic perspective. ISR is also a concept of corporate social responsibility with dimensions of Islamic economics, Islamic legal, Islamic ethics and Islamic philanthropy based on Islamic values found in the Al-Qur'an and Al-Hadith (Khurshid et al., 2014).

ISR was first initiated by Haniffa & Hudaib (2002) and was later developed by Othman & Thani (2010) in Malaysia. Haniffa & Hudaib (2002) created 5 ISR themes, each of which is funding and investment, products and services, employees, society, also the environment. Haniffa & Hudaib (2002) revealed that social reporting in conventional companies still has limitations, so there is a need for an ISR conceptual framework based on syariah provisions. Then, this theme was developed by Othman, et.al (2010) who added the theme of corporate governance. Therefore, until now ISR disclosure uses 6 disclosure themes. ISR not only assists decision-making for Muslims but also helps companies in fulfilling responsibilities to Allah SWT and society. ISR has 2 main objectives, each of which is (1) as a form of accountability to Allah SWT and society and (2) to increase the transparency of business activities by presenting relevant information by paying attention to the spiritual needs of Muslim investors or syariah adherence in decision making. ISR has advantages in terms of both accountability and transparency. The forms of accountability from ISR disclosure are (1) providing halal and good products; (2) fulfilling the rights of God and society; (3) pursuing reasonable profits by Islamic principles; (4) achieving business objectives; (5) being an employee and society; (6) ensuring ecologically sustainable business activities and (7) making work a form of worship. While the form of transparency from ISR includes: (1) providing information regarding all halal and haram activities; (2) providing relevant information regarding financing and investment policies; (3) providing relevant information regarding employee policies; (4) providing relevant information regarding relations with the community and (5) providing relevant information regarding resources and environmental protection.

ISR is becoming an urgent issue for many companies due to increasing public awareness about the company's impact on the environment. The CSR journey that began centuries ago has always experienced growth at a significant pace (Quazi, et al., 2015). This is proven by the number of companies issuing sustainability reports from the 250 largest companies in the world, <50% had presented sustainability reports in 2004. However, >80% presented sustainability reports in 2008 (KPMG, 2008). In addition, ISR is also able to increase company value by increasing sales and company profitability through consumer loyalty which is built by implementing social activities in their environment (Cahya, 2018). The following is an overview of the development of ISR in Islamic banking companies in Indonesia.



Figure 1. ISR Disclosure of Banking Company in Indonesia

Based on Figure 1 above, it illustrates that ISR disclosure is very fluctuating from 6 themes. From 2015 to 2017, the disclosure of the community theme was the highest compared to other disclosure themes. Whereas in 2018 and 2019, the disclosure of employee themes was the highest

compared to other themes. Meanwhile, the disclosure of corporate governance was very small starting in 2015-2019. In 2015, there were 4 indicators of corporate governance disclosure, 3 indicators in 2016, 2 indicators in 2017 and 2018 & 2019 5 indicators of corporate governance disclosure.

According to Law Number 21 of 2008 concerning Syariah banking, Syariah banks and carrying out social functions by receiving funds from zakat, infaq, alms and channeling them to wakaf managers (nazhir). In addition, the law also states that it is mandatory to maintain the wellness of a bank. This can be done through Good Corporate Governance and cost efficiency. Sari & Helmayunita (2019) revealed that GCG affects ISR. Hasanah et al., (2018) also stated that there is an influence of GCG on ISR. However, it is different from the research of Kurniawati, M., & Yaya. (2017) states that GCG does not affect on ISR. Sutapa & Hanafi (2019) said that the characteristics of GCG have not been able to improve supervision properly to encourage widespread CSR disclosure. Meanwhile, Perwitasari (2019) states that efficiency through the Operational Income Operational Cost indicator does not affect the disclosure of Islamic Social Reporting (ISR).

This study aims to examine the effect of Good Corporate Governance and cost efficiency on Islamic Social Reporting (ISR). The novelty of this research compared to previous studies is that GCG indicators use self-assessment in which there are three main aspects of governance, namely: (1) Governance Structure; (2) Governance Processes; and (3) Governance Outcomes. This research is expected to provide benefits for practitioners and other stakeholders in supervising and evaluating the corporate governance of Islamic banking. In addition, this research can provide a new model in developing Islamic Social Reporting theory. Therefore, ISR Disclosure is interesting to re-examine in Indonesia because it increases from year to year, especially in the Islamic banking sector.

METHOD

Islamic Social Reporting

Islamic Social Reporting (ISR) is a theory of corporate social performance reporting that prioritizes social justice in reporting on the environment and employees. ISR was first proposed by Hannifa and Hudaib in 2002, then developed by other researchers such as Rohana Othman, Azlan Thani, Raditya in 2009 (Siska et al., 2021). ISR is not only a decision-making tool for investors, but can help companies to fulfill their obligations to Allah SWT and society. ISR has objectives, among others, to form accountability to Allah SWT and the community, and to increase transparency in business transactions by presenting relevant information in accordance with syariah provisions for decision making. The ISR index is an important point in disclosure which has been used as a form of indicator in social responsibility reporting (Umiyati & Baiquni, 2018). Haniffa & Hudaib (2002), disclosure of the ISR index, which is financing and investment, products and services, employees, society, environment, and corporate governance.

Good Corporate Governance

Good Corporate Governance (GCG) is a theory that has internal controls within the company to manage significant risks based on business objectives by increasing investors' investment for quite a long time. According to Siska et al. (2021), a theory states that companies can implement a good management system within the company. Disclosure of corporate social responsibility influences the basic concept of GCG. When connected with the disclosure of social responsibility, it can have a very large role in increasing the effectiveness of monitoring management and facilitating control. According to Rakhmat (2013) GCG can be applied in Islamic banking, namely: (1) Transparency, which is the basic principle of the company in protecting objects and providing information that can be accessed by stakeholders; (2) Accountability, which is accountability for performance in a transparent manner; (3) Responsibility, which is a rule of law and performs responsibility to society; (4) Independence, which is a business that is managed independently, with no mutual assignment by other parties; (5) Fairness, which is the company's activities in the interests of investors and stakeholders based on fairness provisions.

Cost Efficiency

Cost efficiency is used to measure the ability of bank management to control operational costs against operating income. In this study, the cost efficiency used is the ratio of Operational Income to Operational Costs (BOPO). According to Wahyuningsih & Gunawan (2017), BOPO is a ratio that can be used to measure the level of efficiency and the ability of a company to carry out its operations. Operational costs can also be interpreted as a form of costs that can be incurred by a company in carrying out a business activity while operating income can be interpreted as the company's main

income by obtaining credit funds and other operating income. According to Wahyudi (2015) the BOPO ratio contributes greatly to a company's ability to manage assets to generate profits. If the ratio value is above 90% and close to 100% then the company's performance shows a very low level of efficiency. However, if the value is close to 75% then the efficiency level is high. In other words, the lower the BOPO value of a bank, the more efficient the bank will be in managing its operational costs so that the profits will increase.

Research Methodology

This study uses a quantitative method with secondary data taken from the company's annual report data to determine GCG data, cost efficiency and Islamic Social Reporting (ISR). The type of data in this study uses panel data taken using a span of five years from the 2014-2020 period. The population in this study is Islamic banking in Indonesia which is listed on the Indonesia Stock Exchange (IDX) in 2014-2020, the samples taken from this study were 13 companies. The sampling method in this study used a purposive sampling method. Data analysis used SPSS version 18 to obtain accurate data.

RESULTS AND DISCUSSION

Table 2. Descriptive Statistical Test Result

	N	Min	Max	Mean	Std. Deviation
ISR	91	0,26	0,70	0,4847	0,10066
GCG	91	1	3	2,07	0,646
EB	91	56,00	217,00	94,6044	25,55512
Valid N (listwise)	89				

Source: Processed data, 2022

Based on the results of the descriptive statistical test in Table 1, it shows that the ISR variable has an average of 0.4847 with a standard deviation of 0.10066. The GCG variable has an average of 2.07 with a standard deviation of 0.646. The cost efficiency variable has an average value of 94.6044 with a standard deviation of 25.55512.

Before the multiple linear regression test was carried out, this study had passed the classic assumption test which included: normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test. Furthermore, this study was tested with multiple linear regression. The following are the results of multiple linear regression test:

Table 3. Multiple Linear Regression Test Result

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constant)	0,540	0,049	
GCG	-0,060	0,015	-0,385
EB	0,001	0,000	0,183

Source: Processed data, 2022

a. Dependent Variable: ISR

Table 3 above presented the results from multiple linear equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

$$ISR = 0,540 - 0,060 GCG + 0,001 EB$$

The constant on the ISR test shows a value of 0.540, so when the independent variable is zero, a value of 0.540 will be obtained. The regression coefficient on the GCG variable has a value of -0.060 which means that it is in the same direction as the ISR relationship of -0.060, so if GCG increases by 1 unit

and the ISR increases by -0.060. The regression coefficient on the cost efficiency variable has a value of 0.001, which means that it is in the same direction as zakat by 0.001, so if cost efficiency increases by 1 and ISR increases by 0.001.

Table 4. Statistical T Test Result

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,540	0,049		10,973	0,000
	GCG	-0,060	0,015	-0,385	-3,951	0,000
	EB	0,001	0,000	0,183	1,877	0,064

Source : Processed Data, 2022

a. Dependent Variable: ISR

Based on table 4 it is known that the calculated t value of the GCG variable is -3.951 with a significance value of $0.000 < 0.05$, this indicates that GCG has a significant negative effect on ISR. While the cost efficiency variable shows a t value of 1.877 with a significance value of $0.064 > 0.05$ this shows that cost efficiency cannot affect ISR.

Table 5. Determination Coefficient Test Result

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,428 ^a	0,184	0,165	0,09288

Source : Processed Data, 2022

a. Predictors: (Constant), EB, GCG

b. Dependent Variable: ISR

Based on table 5, R Square has a value of 0.172. This means that the percentage of GCG-independent variables and cost efficiency that affect the dependent variable ISR is 18.4%. From these results, it has a remainder of 81.6% which is explained by variables other than in this study.

Based on the research described, GCG has a significant level of 0.000 with a t-value of -3.951. These results indicate that GCG has a significant negative effect on ISR because the significance level is < 0.05 ($0.000 < 0.05$). In other words, it can be said that the higher the GCG, the lower the ISR.

The results of this study are supported by research conducted by Prihatingsih & Hayati (2021) stating that there is a significant effect of GCG on ISR. Kasih & Dewi (2021) also revealed that GCG had a positive effect on ISR. Khoirudin (2013), GCG also influences ISR. However, Sutapa & Hanafi (2019) said that GCG does not affect ISR. Likewise, Nusron and Diansari (2021) also revealed that GCG does not affect ISR. This is because if investors will invest in syariah companies, the main thing is because of financial reports so that information related to good governance is slightly ignored and makes the ISR report maximally.

Based on the results of the study, it shows that cost efficiency has a significant level of 0.064 and a t-value of 1.877. These results indicate that cost efficiency does not affect ISR because the significance level is > 0.05 ($0.064 > 0.05$). This means that cost efficiency does not affect ISR. This research is in line with Prasetyoningrum (2018) which states that cost efficiency has a negative and insignificant effect on ISR. The same results were also expressed by Arianugrahini & Firmansyah (2020) which revealed that cost efficiency did not affect ISR. Therefore, the size of the cost efficiency generated by Islamic banking does not affect ISR disclosure

CONCLUSION

Based on the results of the research and discussion above, this study concludes that GCG affects ISR, so that as GCG increases, ISR will decrease. Meanwhile, cost efficiency does not affect ISR. Therefore, the size of the cost efficiency generated by Islamic banking does not affect ISR disclosure.

REFERENCES

- Arianugrahini, I., & Firmansyah, E. A. (2020). Determinan Pengungkapan *Islamic Social Reporting* (ISR) pada Perbankan Syariah di Indonesia (*Determinants of Islamic Social Reporting (ISR) Disclosure at Islamic Commercial Banks in Indonesia*). *Perisai: Islamic Banking and Finance Journal*, 4(2). <https://doi.org/10.21070/perisai.v4i2.841>
- Cahya, D. B. T. (2018). *Islamic Social Reporting Representasi Tanggung Jawab dan Akuntabilitas Perusahaan Berbasis Syariah*. UIKA Press.
- Farisa, F. C. (2021). *Jokowi: Ekonomi Syariah Indonesia Tahun 2020 Peringkat 4 Dunia*. Kompas.Com. [https://nasional.kompas.com/read/2021/02/01/14322611/jokowi-ekonomi-syariah-indonesia-tahun-2020-peringkat-4-dunia#:~:text=%22Tahun 2019 naik menjadi peringkat,1%2F2%2F2021](https://nasional.kompas.com/read/2021/02/01/14322611/jokowi-ekonomi-syariah-indonesia-tahun-2020-peringkat-4-dunia#:~:text=%22Tahun%202019%20naik%20menjadi%20peringkat,1%2F2%2F2021)).
- Haniffa, R., & Hudaib, M. A. (2002). *A Theoretical Framework for the Development of The Islamic Perspective of Accounting*. *Commerce & Finance: The Islamic Perspective Journal*, 6(1&2).
- Hasanah, N. T., Widiyanti, N. W., & Sudarno, S. (2018). Analisis Pengaruh GCG dan Kinerja Keuangan Terhadap Pengungkapan *Islamic Social Reporting* (ISR). *E-Journal Ekonomi Bisnis dan Akuntansi*, 5(2). <https://doi.org/10.19184/ejeba.v5i2.8645>
- Kasih, M. C., & Dewi, V. S. (2021). *Does Financial Performance Moderate Islamic Corporate Governance and Islamic Social Reporting?* *Jurnal Ilmiah Ekonomi Islam*, 7(3).
- Khoirudin, A. (2013). *Corporate Governance dan Pengungkapan Islamic Social Reporting pada Perbankan Syariah di Indonesia*. *Accounting Analysis Journal*, 2(2). <https://doi.org/10.15294/aaj.v2i2.2919>
- Khurshid, M. A., Al-Aali, A., & Amin, S. M. (2014). *Developing an Islamic Corporate Social Responsibility Model (ICSR)*. *Competitiveness Review*, 258–274.
- Kurniawati, M., & Yaya, R. (2017). Pengaruh Mekanisme *Corporate Governance*, Kinerja Keuangan dan Kinerja Lingkungan terhadap Pengungkapan *Islamic Social Reporting*. *Journal of Accounting and Investment*, 18(2), 163–171.
- Othman, R., & Thani, A. M. (2010). *Islamic Social Reporting Of Listed Companies In Malaysia*. *International Business & Economics Research Journal*, 9(4). <https://doi.org/10.19030/iber.v9i4.561>
- Perwitasari, D. (2019). Pengungkapan *Islamic Social Reporting*, ROA, ROE, dan BOPO : Pada Bank Syariah di Indonesia Tahun 2015-2017. *ASSET: Jurnal Manajemen*, 3(1), 57–66.
- Prasetyoningrum, A. K. (2018). Pengaruh Ukuran Perusahaan, Profitabilitas, Leverage, Efisiensi Biaya, dan Umur Perusahaan Terhadap *Islamic Social Reporting* (ISR) Pada Perbankan Syariah di Indonesia. *MALIA : Journal of Islamic Banking and Finance*, 2(2).
- Prihatingsih, L., & Hayati, N. (2021). Pengaruh *Good Corporate Governance* dan Kinerja Keuangan Terhadap Pengungkapan *Islamic Social Reporting*. *Jrak*, 12(83), 01–19.
- Puspaningtyas, L., & Noor, A. (2020). *Keuangan Syariah RI Naik Peringkat*. *Republika*.Id. [https://www.republika.id/posts/12518/keuangan-syariah-ri-naik-peringkat#:~:text=JAKARTA-Keuangan syariah Indonesia berhasil,menempati posisi ketiga dan keempat](https://www.republika.id/posts/12518/keuangan-syariah-ri-naik-peringkat#:~:text=JAKARTA-Keuangan%20syariah%20Indonesia%20berhasil,menempati%20posisi%20ketiga%20dan%20keempat).
- Putra, H. F. (2014). Analisis Pelaksanaan dan Pengungkapan *Corporate Social Responsibility* (CSR) Pada Perbankan Syariah Di Indonesia Berdasarkan *Ideks Islamic Social Reporting* (ISR). *Jurnal Ilmiah Mahasiswa FEB*, 1–12.
- Rakhmat, A. (2013). *Good Corporate Governance (GCG) Sebagai Prinsip Implementasi Corporate Social Responsibility (CSR)*.
- Sari, M. S., & Helmayunita, N. (2019). Pengaruh *Good Corporate Governance* Terhadap Pengungkapan *Islamic Social Reporting*. *Jurnal Eksplorasi Akuntansi (JEA)*, 1(2). <https://doi.org/10.24036/jea.v1i2.108>
- Siska, E., Shalihah, B., & Afzelin, A. (2021). Pengaruh *Good Corporate Governance* (GCG) Terhadap Pengungkapan *Islamic Social Reporting* (ISR) (Studi pada Bank Umum Syariah Periode 2015-2019). *Jurnal Akuntanika*, 7(05), 54–68.
- Sutapa, S., & Hanafi, R. (2019). Dampak *Islamic Corporate Governance, Islamic Social Reporting* Pada

- Kinerja Keuangan Bank Syariah di Indonesia. *Jurnal Akuntansi Indonesia*, 8(2), 155–165.
- Umiyati, U., & Baiquni, M. D. (2018). Ukuran Perusahaan, Profitabilitas, dan Leverage Terhadap *Islamic Social Reporting* Pada Bank Umum Syariah Di Indonesia. *Jurnal Akuntansi Dan Keuangan Islam*.
- Wahyudi, R. (2015). Pengaruh Zakat terhadap Kinerja Perbankan Syariah di Indonesia. *Jurnal Muqaddimah*, 21(2), 1–28.
- Wahyuningsih, D., & Gunawan, R. (2017). Pengaruh Tingkat Efisiensi (BOPO) dan Kemampuan Likuiditas (LDR) dalam Menilai Kinerja (ROA) Perbankan yang Terdaftar di BEI. *III*(03), 420–431.