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Characteristics of the Sharia Supervisory Board, Sharia Company Size, Zakah, and Islamic Social Reporting on Sharia Banks in Indonesia

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ABSTRACT

Keywords:
Good Corporate Governance; Islamic Social Reporting; sharia supervisory board; Zakah.

This study aims to determine the effect of the characteristics of the Sharia Supervisory Board as proxied by the size of the sharia supervisory board, concurrent positions of the sharia supervisory board, sharia supervisory board meetings, company size, and Zakah on Islamic Social Reporting. Employing quantitative method, this study used panel data of Islamic commercial banks in Indonesia from 2015 to 2019. The data were analyzed using multiple linear regression by employing EViews 9 softwere. The result found that the variable of the size of the sharia supervisory board, concurrent positions of the sharia supervisory board, and the company size have a significant positive effect on Islamic Social Reporting. Meanwhile, sharia supervisory board meetings and Zakah have no effect on Islamic Social Reporting. The results of this study contribute to enriching the discourse of Islamic social reporting of sharia commercial banks in Indonesia, especially in terms of zakah and sharia supervisory characteristics.

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INTRODUCTION

Corporate Social Reporting in public companies distinct from sharia-based companies. In sharia companies, especially Corporate Social Responsibility banks from Islamic overview is so-called Islamic Social Reporting (ISR) (Che Azmi, et. al, 2020; Riduwan & Wahyudi, 2020; Auliyah & Basuki, 2021; Jihadi, et. al, 2021; Iqramuddin & Djalil, 2020). The guidelines for ISR disclosure refer to the Islamic Social Reporting Index (Hussain, et. al, 2020; Amyulianthy, et. al, 2020; Khanifah, et. al, 2020; Wahyunia, et. al, 2020; Sarea & Salami, 2021; Budiandru, M. (2021). Hamidi & Worthington, 2021). Unlike conventional banks whose inseparable business and social orientation, social activities in Islamic banks are added values for increasing long-term profitability and goodwill in a positive business image that can increase stakeholder confidence (Basri et al., 2016; Khediri et al., 2015). Othman (2009) explained that Islamic Social Reporting contains social reporting standards set by the Accounting and Auditing Organization for Sharia Institutions (Mukhlisin, 2020; Astuti, 2020; Mukhlisin & Fadzly, 2020; Amin, et. al, 2021), which was later developed by Haniffa (2002) based on Islamic Social Reporting items that must be disclosed by a sharia entity.

The first Islamic Social Reporting Index measured by Haniffa (2002) revealed that there are limitations in conventional social reporting. Thus, there is a conceptual framework with sharia law. According to Haniffa & Cooke (2005), ISR is a way to show the company's accountability not only to God but also to society. In the disclosure process, there are parties who supervise Islamic social reporting. Chariri (2012) states that the sharia supervisory board (henceforth SSB) also influences management policies, specifically including the disclosure of Islamic social reporting. The SSB focuses on the implementation of sharia principles carried out by Islamic banks in collecting and distributing funds or checking the feasibility of sharia products and services (Mulazid, 2016).

Table 1. Sharia Bank Development In Indonesia

Growth	2016	2017	2018
Asset	20.28%	18.97%	12.57%
Financing	16.41%	15.24%	12.21%
Third-Party Funds	20.84%	19.89%	11.14%

Source: Financial Services Authority of Indonesia (OJK), 2018

Data shows that assets, financing, and third party funds of Islamic banking showed positive growth despite a slowdown compared to the previous year. In the last three years, the growth of Islamic banking assets has been maintained at double digits. The rapid growth must be balanced with sharia-based management with the existence of SSB.

The existence of the SSB is the fundamental distinction between Islamic banks and conventional banks. It directs, supervises, and reviews the activities of Islamic Banks to ensure they are in accordance with the sharia principles and community expectations (Ousama & Fatima, 2010). Musibah & Alfattani (2014) conducted a study to determine the effect of the SSB on corporate social responsibility in 36 Islamic banks in Gulf Cooperation Council countries from 2007 to 2011. They found a positive relationship between the SSB and corporate social responsibility. In contrast to the previous researches (Bukair & Rahman, 2015; Khoirudin, 2013), the variable of the size of the SSB has no effect on corporate social responsibility disclosure using the Islamic Social Reporting Index of Islamic banks in Indonesia. Khoirudin (2013) studying all Islamic banks in Indonesia as the study population explains that the average disclosure of Islamic social reporting by Islamic Banks is 55.20%. Sharia Governance Score is also claimed to have no significant effect on the ISR disclosure. It shows the lack of attention to the Islamic social reporting by the SSB.

Previous researchers investigating ISR disclosure in Islamic banks (Bukair & Rahman, 2015; Farook et al., 2011; Mallin et al., 2014; Nugraheni & Khasanah, 2019) identified the effect of the characteristics of the Islamic supervisory board on corporate social responsibility disclosures. The study endeavour to empirically prove the relationship between the SSB and the corporate social responsibility disclosure of Islamic banks in Indonesia. The results show that the combination of characteristics of Islamic supervisors depends on the corporate social responsibility disclosures of Islamic banks. Darus et al. (2009) explained that Islamic social reporting contains social reporting standards set by the Accounting and Auditing Organization for Sharia Institutions (AAOFI) which was then developed based on Islamic social reporting items that must be disclosed by a sharia entity. The theme of Islamic social reporting is similar to that of conventional social disclosure. The difference of Islamic social reporting is that it aims to serve Islamic business ethics principles with different items reported. Haniffa & Cooke (2005) propose five themes of disclosure, namely finance, investment, product, employee, and environment.

Islamic banks implement their corporate governance by establishing a regulator known as the SSB which functions as sharia compliance as the embodiment of sharia compliance principles (Basri et al., 2016; Haniffa & Cooke, 2005). The concept of accountability is related to the principle of full disclosure to serve the public interest (Othman et al., 2009). This roles comes from the agency theory that describes the relationship between principals and agents (Jensen & Meckling, 1976) because agency problems in Islamic banks force them to carry out more supervision by implementing good corporate governance. The main party is the one that regulates another party, the agent, in carrying out all activities on behalf of the principal in its capacity as a decision-maker (Jensen & Meckling, 1976). Agency theory assumes that the CEO (agent) has more information than the principal since the principal cannot observe continuous and periodical activities to produce asymmetric information (Handriani & Robiyanto, 2018).

Faozan, (2013) fount that the SSB is a board that supervises sharia principles in the business of Islamic banks. In running their functions, they act independently. Idrees (2014) argues that it is the responsibility of the SSB to analyze actions and the behavior of individuals and institutions to all compliant with sharia principles.

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SSB in several Islamic banks functions to increase information disclosure since they can compare reports to determine which report is the best (Bukair & Rahma, 2015; Haniffa & Cooke, 2005). If Islamic banks have good governance transparency, the SSB will consider following up on further corporate social responsibility information in the annual report. The characteristics of the SSB in this study consist of the size of the SSB and the concurrent position of the SSB (El-Halaby & Hussainey, 2016; Farook et al., 2011; Rahayu & Cahyati, 2014).

In this study, the characteristics of the sharia supervisory board were proxied by the size of the SSB, the concurrent position of the SSB, and several SSB meetings. The researcher added the variable of the company size and zakah. Studies conducted by Othman (2009) & Meutia et al. (2019) find that the company size has a significant effect on ISR disclosure. Meanwhile, the effect of zakah in Arradini's research (2017) shows a significant effect on ISR disclosure. Haniffa & Cooke (2005) found that the objectives of sharia social reporting consist of two things. *First,* Islamic social reporting is a way to show company accountability not only to God but also to society. *Second,* Islamic social reporting is used to increase the transparency of business by providing relevant information in forming conformity with the spiritual needs of decision-makers. According to Cho & Patten, 2007; Haniffa & Cooke, 2005), found that on corporate social disclosure firms are required to be more transparent in their disclosure, not just displaying legitimacy to the community.

RESEARCH METHOD

The research employed quantitative methods to examine the relationship between two or more variables (Sugiyono, 2017). This study examined the effect of the variables of the size of the SSB, the concurrent position of the SSB, and the SSB meetings on the ISR disclosure. The other variables are company size and zakah on the ISR disclosure of Islamic banks in Indonesia. This study used multiple linear regression analysis using EViews 9 software since this study used panel data types.

The population in this study were all Islamic commercial banks registered with the Financial Services Authority (OJK) from 2015 to 2019. The selection of this population was based on differences in the characteristics of the SSB and ISR disclosures that differentiated them from other types of companies and conventional banks.

Purposive sampling was used as the sample selection method. Purposive sampling is a sample selection technique with predetermined criteria (Sugiyono, 2017). The criteria for selecting the sample were: *first,* sharia banks in 2015-2019 which published annual reports. *Second,* , sharia banks having complete data on research variables. *Third,* sharia banks that issue zakah reports

The variables of this study are: *first,* the dependent variable is Islamic Social Reporting. *Second,* the independent variable is the characteristics of the sharia supervisory board which consists of the size of the sharia supervisory board, the concurrent position of the sharia supervisory board, and sharia supervisory board meetings, while the other variables are the company size and Zakah.

Table 2. Operational Definition and Variable Measurement

Variable	Definitions
Islamic Social Reporting	Islamic Social Reporting index in Roszaini, Haniffa and Hudaib (2007)
The size of the sharia supervisory board	The overall number of sharia supervisory board's members at the end of every year (Haniffa & Cooke, 2005)
Concurrent position of the sharia supervisory board	The overall number of sharia supervisory board's concurrent position of holding two or more positions (Roszaini Haniffa & Hudaib, 2007)
Sharia supervisory board meetings	Total number of sharia supervisory board meetings during the year
Company size	Firm size is used as a log of total assets (Othman et al., 2009)
Zakah	Zakah is used as a log of the total zakah amount

Hypotheses Development

The influence of Size of the Sharia Supervisory Board on Islamic Social Reporting

According to Bank Indonesia Regulation (2009), the minimum number of members of the SSB is two persons. The number of SSB members in Islamic financial institutions will lead to better Sharia compliance (Garas, 2012). Hamza (2016) argues that a large SSB contains scholars with various experiences, skills, and *mazhab* that lead to clear thinking. Interpretation of the process and products of Sharia complaints and the results can improve performance. This is because the collective knowledge and experience of the SSB are expected to lead to wider ISR disclosure (El-Halaby & Hussainey, 2016; Farook et al., 2011; Rahayu & Cahyati, 2014). Researches conducted by Kurniawati & Yaya (2017); Wardani & Sari (2019) found that the size of the SSB has a positive effect on the ISR disclosure in Islamic banking in Indonesia. From this description, a hypothesis is made:

H_1: The size of the sharia supervisory board has a positive effect on the Islamic social reporting disclosure.

The influence of Concurrent Position of the Sharia Supervisory Board on Islamic Social Reporting

Cross-membership of SSB will result in better monitoring performance and higher Islamic social reporting levels because SSB members with cross-membership will have more opportunities to discuss the application of Islamic law in banking (Farag et al., 2018; Farook et al., 2011; Mohammed & Muhammed, 2017). The scoring limitation on cross-membership characteristics refers to the Financial Services Authority (2014) that maximum cross-membership of SSB is carried out at four Islamic financial institutions. Research conducted by (Meutia et al., 2019) found that cross-membership has a

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significant positive effect on Islamic social reporting. From this description, the following hypotheses can be made:
H_2: Concurrent Position of the sharia supervisory board has a positive effect on the Islamic social reporting disclosure.

The influence of Sharia Supervisory Board Meeting on Islamic Social Reporting

SSB members in Islamic financial institutions have at least one meeting in one month (Bank Indonesia Regulation, 2009). The existence of the SSB is almost the same as the purpose of the audit committee to oversee Islamic financial institutions. The high frequency of meetings held by the SSB will have an impact on better ISR disclosure (Ertanto & Chariri, 2012); Rahayu & Cahyati, 2014). This is due to the coordination and supervision carried out by the SSB in Islamic financial institutions (Al-Tuwaijri et al., 2004). More SSB meetings will impact the level of social performance of Islamic banks. Rahayu & Cahyati (2014) found that the SSB meeting had a positive effect on social reporting disclosure. Thus, the hypothesis to be proposed is:
H_3: The sharia supervisory board meeting has a positive effect on the Islamic social reporting disclosure.

The influence of Sharia Company Size on Islamic Social Reporting

Larger company size possesses more complex activities, more resources, and a greater impact on society, the environment, and other stakeholders (Othman 2009). Large-scale financial institutions tend to face higher requests for information regarding the condition of the company compared to small-scale financial institutions (Ramadhani et al., 2016). Large companies tend to be better at disclosing Islamic social reporting. The research results of studies carried out by Othman et al. (2009) & Meutia et al., (2019) found that company size had a significant positive effect on the level of Islamic social reporting. Thus, the hypothesis to be proposed is:
H_4: Sharia company size has a positive effect on the Islamic social reporting disclosure.

The influence of Zakah on Islamic Social Reporting

Zakah is one of the main social institutions that can be used to build social justice, equality, income redistribution, and lasting peace in Muslim societies (Al-Malkawi & Javaid, 2018; Al-Sabban et al., 2014). The greater amount of zakah will show the high social performance of Islamic banks that affects Islamic social reporting. Arradini (2017) found a significant relationship between the amount of Zakah Funds on ISR disclosure. Thus, the hypothesis is:
H_5: Zakah has a positive effect on the Islamic social reporting disclosure.

RESULT AND DISCUSSION

The results of descriptive statistics for the dependent variable of Islamic social reporting and independent variable consisting of the size of the sharia supervisory board, the concurrent position of the sharia supervisory board, sharia supervisory board meetings, company size, and zakah can be seen in the following **Table 3.**

Table 3. Descriptive statistics

Variable & Measurement	ISR	UDPS	RJDPS	RDPS	Size	Zakah
Mean	0.762000	2.444444	4.333333	14.53333	26997131	7805670.
Median	0.770000	2.000000	4.000000	13.00000	8757964.	2772610.
Maximum	0.880000	3.000000	6.000000	27.00000	1.12E+08	36850000
Minimum	0.560000	2.000000	3.000000	9.000000	876401.0	0.000000
Std. Dev.	0.078988	0.502519	0.825723	4.335897	29308863	9949178.
Skewness	-0.640836	0.223607	0.544331	1.279445	1.215029	1.254434
Kurtosis	2.913132	1.050000	2.833333	4.049533	3.578167	3.576943
Observations	45	45	45	45	45	45

The coefficient of determination (R^2) is used to determine the effect of the independent variable on the dependent variable. The coefficient of determination (R^2) is in the interval 0 to 1 ($0 < R^2 < 1$) (Ghozali & Ratmono, 2013). This means that the coefficient of determination close to 1 shows better the regression results for the panel data used and the variable can explain its effect on the dependent variable. Table 4 is the result of the coefficient of determination with the common effect model (CEM):

Tabel 4. Coefficient of Determination (R^2)

R-squared	0.696690	**Mean dependent var**	0.762000
Adjusted R-squared	0.657804	**S.D. dependent var**	0.078988
S.E. of regression	0.046206	**Akaike info criterion**	-3.187848
Sum squared resid	0.083265	**Schwarz criterion**	-2.946960
Log likelihood	77.72658	**Hannan-Quinn criter.**	-3.098047
F-statistic	17.91622	**Durbin-Watson stat**	1.613009
Prob(F-statistic)	0.000000		

The coefficient of determination results shows Adjusted R^2 of 0.6578, meaning that the variable of the size of SSB, the concurrent position of SSB, SSB meeting, company size, and zakah can explain its influence on the variable of Islamic social reporting of 65.78%. The remaining 34.22% is explained by factors other than the research variables.

The F test serves to determine the effect of the independent variable on the dependent variable simultaneously. **Table 4** shows that the F-statistic is 17.916 and the probability value (F-statistic) is 0.0000 <0.05. It can be concluded that the size of the SSB, the concurrent position of SSB, SSB meetings, company size, and zakah

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simultaneously affect Islamic social reporting.

This T-test was used to determine the effect of each independent variable on the dependent variable and to test whether the proposed hypothesis is accepted or rejected. In determining whether the hypothesis is accepted or rejected, it compared the probabilities in the results of the data processing and the specified alpha. If the probability value is > 0.05, then H_0 is rejected. On the other hand, if the probability value is < 0.05, H_1 is accepted.

Tabel 5. Regression Analysis Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.008690	0.115919	-0.074970	0.9406
UDPS	0.034116	0.015162	2.250055	0.0302
RJDPS	0.031509	0.013518	2.330866	0.0250
RDPS	0.001868	0.001782	1.048341	0.3009
LNSIZE	0.034939	0.008823	3.959997	0.0003
LNZAKAH	-0.003566	0.002867	-1.243513	0.2211

Based on the results of the Common Effect Model in **Table 5**, it can be interpreted as follows: *first,* the variable of the size of the sharia supervisory board has a probability value of 0.0302 which is smaller than 0.05 (0.0302 < 0.05) with a coefficient of 0.034116. This means that the size of the sharia supervisory board has a positive effect on Islamic social reporting. Thus, H_1 is accepted.

Second, the variable of the concurrent position of the sharia supervisory board has a probability value of 0.0250 which is smaller than 0.05 (0.0250 > 0.05) with a coefficient of 0.031509. This means that the concurrent position of the sharia supervisory board has a positive effect on Islamic social reporting. Thus, H_2 is accepted.

Third, the variable of the number of meetings of the sharia supervisory board has a probability value of 0.3009 with a coefficient of 0.001868. The probability value is greater than 0.05 (0.3009>0.05) which means that the number of sharia supervisory board meetings has no effect on Islamic social reporting. Thus, H_3 is rejected.

Fourth, the variable of the company size obtained a probability value of 0.0003 which is smaller than 0.05 (0.0003<0.05) with a coefficient of 0.034939. Thus, it can be concluded that the company size has a positive effect on Islamic social reporting. Thus, H_4 is accepted.

Fifth, The variable of zakah has a probability value of 0.2211 and a coefficient of -0.003566. The resulting probability value is more than 0.05 (0.2211>0.05). Thus, it can be concluded that zakah has no effect on Islamic social reporting. From the result, H_5 is rejected.

The size of the SSB has a probability value of 0.0123 with a coefficient of 0.010546. This means that the size of the SSB has a positive effect on Islamic social reporting. This finding in line with the findings of Wardani & Sari (2018), Kurniawati &Yaya (2017) that the size of the SSB has a positive effect on the ISR disclosure. Bukair & Rahman (2015) found that it deals with performance improvement and minimization of

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asymmetric information. The size of the board is likely to affect the ability to control and review all Islamic bank transactions to ensure its operations are in compliance with Sharia rules and principles.

The concurrent position of the SSB has a probability value of 0.0123 with a coefficient of 0.010546. This means that the cross-membership of the SSB has a positive effect on Islamic social reporting. The cross-membership of the SSB (Farag, Mallin, & Ow-Yong, 2018; Farook, Hassan, & Lanis; 2011; Mohammed & Muhammed; 2017) will result in better monitoring performance and higher Islamic social reporting levels. This is because SSB members with cross-membership will have more opportunities to discuss the application of Islamic law in banking.

The SSB meeting has a probability value of 0.3009 with a coefficient of 0.001868. The probability value is greater than 0.05 which means that the SSB meeting has no effect on Islamic social reporting. The results of this study are not in line with Rahayu & Cahyati (2014) that the SSB meeting has a positive effect on ISR disclosure. Purwanti (2016) found that the SSB meeting has no effect on Islamic social reporting. This identifies that it may be that the disclosures in the Annual Report are only for reporting. Thus, it is not necessary to have meetings frequently. They just follow what has been regulated by the regulator.

The company size obtained a probability value of 0.0003 which is smaller than 0.05 with a coefficient of 0.034939. Thus, it can be concluded that the size of Islamic banks has a positive effect on Islamic social reporting. This is in line with Othman et al. (2009) that the size of Islamic banks had a positive effect on Islamic social reporting. The larger the size of the company, the better the ISR disclosure.

Zakah has a probability value of 0.2211 and a coefficient of -0.003566. The probability value is more than 0.05. Thus, it can be concluded that Islamic bank zakah has no effect on Islamic social reporting. This is not in line with Arradini (2017) that zakah has a positive effect on Islamic social reporting. According to Ahzar (2013), Islamic social reporting prioritizes social activities even though in Islamic social reporting, there are more other indicators that must be disclosed. Hence, the amount of zakah issued is not the main factor in the ISR disclosure.

CONCLUSION

The primary results of this study demonstrate that the size of the sharia supervisory board, concurrent positions of the sharia supervisory board, and the company size have a significant positive effect on Islamic social reporting. On the other hand, sharia supervisory board meetings and zakah have no effect on Islamic social reporting. The results imply that dual position of the sharia supervisory board increases the Islamic social reporting because the sharia supervisory board can compare between Islamic banks in ISR disclosure. The company size has a significant effect on Islamic social reporting where large bank sizes tend to have a high demand for ISR disclosure. Meanwhile, the sharia supervisory board meeting has no significant effect on Islamic social reporting because the sharia supervisory board meeting may only be held for regulatory purposes.

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It is also revealed that Zakah has no effect on the disclosure of Islamic social reporting. These results provide useful contribution to enrich the discourse of Islamic social reporting of Islamic banks in Indonesia, particularly in terms of zakah and supervisory board characteristics.

Despite of the compelling results, this study acknowledges a research limitation. The characteristics of social reporting of Islamic banks in Indonesia are only proxied by three variables (the size of the sharia supervisory board, concurrent positions of the sharia supervisory board, sharia supervisory board meetings), so that a total of 34.22% is influenced by other variables. Due to the limitation, the authors suggest future research to integrate other proxies of sharia supervisory board such as the education background and gender of supervisory board. In addition, future research can also add the length of observation period so the research will result in more comprehensive determination of Islamic social reporting of sharia commercial banks.

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