The 1st International Conference on Business and Accounting Studies (ICBAS) was held on November 4-5, 2016 in Jember, East Java, and was hosted by the Faculty of Economics and Business, University of Jember. The theme of the Conference was “Socio-Culture Entrepreneurship and Corporate Accountability”. There were six subthemes of the papers presented in this Conference, i.e.: (1) Accounting Information System/Management Information System (AMS); (2) Capital Market (CPM); (3) Entrepreneurship, Small and Medium Enterprise (ENT); (4) Financial Accounting and Auditing (FAA); (5) Sharia (SHA); (6) Taxation and Public Sector (TPS).

The Proceedings contains most of the papers presented during the Conference. There are 60 papers published in these proceeding consist of 5 (five) papers under AMS subtheme; 5 (five) papers under CPM subtheme; 9 (nine) papers under ENT subtheme; 20 papers under FAA subtheme; 8 (eight) papers under SHA subtheme; and 13 papers under TPS subtheme.

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Chairman of the Organizing Committee
Dr. Yosefa Sayekti, SE, M.Comm, Ak, CA
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THE VALUE OF ISLAMIC SOCIAL REPORTING DISCLOSURE

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ABSTRACT

Indonesia is one of the largest Muslim countries in the world. Therefore, Islam has significant value that influences the manner in which Muslims conduct their public and private lives. In fact, the rapid development in Islamic Capital Markets and Sharia banks in Indonesia, show that Sharia Islam has formulated a comprehensive ethic governing how business should be run and how banking and finance is to be arranged. Those also force accounting to have an additional dimension to financial reporting to stakeholders. The Shariabanks need to disclose a religious aspect to their financial statement. The additional information should cover the fulfillment of companies obligation with Sharia frameworks, such as zakat, sadaqa, Shariah compliance status, wages and compensation, etc. This situation makes companies, particularly Sharia banks, are expecting to have Islamic social reporting disclosure. The Muslim stakeholders need to be assured that the companies were operating under Islamic laws or Sharia framework. This paper aims to measure the extent of ISR as practiced by Sharia banking in their annual report on 2015. The result showed that there were two themes that were highly disclosed by Sharia banking, which were employees and society. Based on the data of the disclosure index, it could be concluded that the extent of ISR in the annual reports of 5 top Sharia banking in Indonesia around 2015 is considered to be adequate.

Keywords: Islamic social reporting disclosures, Sharia framework, Sharia banking

1. Introduction

Financial reporting was one of effective communication language for corporations to their stakeholders, such as the employee, individual and institutional investors, and also the government. Such communication deemed important as it reflects the companies’ accountability towards their stakeholders. Stakeholders, commonly shareholders and other potential investors are mostly rely on financial report to assist them to make economic decisions. Information
is useful for decision-making when social and environmental information are provided according to the demand of the more influential users (Zain, 1999).

Financial report made based on the principle of full-disclosure, no information of substance of interest to an average rational investor should omitted or concealed as this may affect judgement (Haniffa, 2002). Financial reporting standard stated that as means of full-disclosure, additional information should be included in financial report. One kind of disclosure that are needed by stakeholders is social reporting. The primary purpose of social reporting is to determine the impact of corporate actions on the quality of life of the society (Daykin, 2006)

Companies have been pressured by stakeholders to expand their social reporting and disclosed in the annual reports. Each stakeholdes have various needs of information. Companies need to take into account those needs in order to improving stakeholders’ decisions. Thus would affect how companies formulated their disclosure policy. Although it is hard to accommodate all the needs of the stakeholders, it is company’s responsibility to provide information and disclose it to all users.

Additionally, there was massive growth on corporate disclosure perspective. The disclosure has extended to encompass other types of information concerning employees, community and the environment. Companies must go beyond the economic responsibility and respond to the changing on expectations of the society. Companies disclosure policies need to accommodate the values, norms, beliefs and attitudes of each stakeholders which are always changing all the time, as demanded by society.

Since there are various needs on corporate disclosure, thus has resulted in a non-standardized CSR form of measurement. For example, the CSR form of measurement build by Environics International, construct from 4 dimensional measurement. The first is the consumer behaviour towards an irresponsible company. Secondly is the company’s role expectation. Thridly is the notion factors of the company and the fourth is the ability to testify a responsible company. Another way to measure the CSR was build by China CSR mapping. There were
five measurement dimensions which are the environment, community, employees, customers’ interest and policy of the company (Wolzak, 2010)

Furthermore, with the resurgence of Islam, muslim decision-makers may expect companies to disclose more information that would help them fulfil their spiritual needs (Othman, 2010). In Islamic perspective, the context of CSR form of measurement was different with the typical CSR measurement build. Asyraf Wajdi (2008) has developed two dimension on Islamic CSR disclosure, namely Shariah (Islamic Law) and Piety. Shariah is used as tool to guidance companies to understand the concept of CSR. The characteristics of CSR such as human dignity, free will, equality and rights, truth and responsibility called Piety. The similar research is conducted by Chamhuri and Hossain (2009). It is showed the importance of responsible behaviour on society, environment and economy. The study also highlighted the relevance of Islam and the concept of CSR.

However from those study above, the conceptual model of Islamic CSR was not a major concern. It is apparently considered as a research gap to the knowledge of the CSR especially in Sharia Banking practice. Lacking of study that look specifically into the Islamic CSR, caused a big gap on developing Islamic CSR literature. In accordance with the universal nature of Islam, Islamic CSR measurement also faced inconsistency of the use of dimension and element. Those problem becoming the gap to the research on Islamic CSR.

This study attempt to measure the extent of Islamic CSR as practiced by 5 sharia-banking in their annual reports in Indonesia during 2015. Indonesia is the country with the fast growing numbers of moslem in the society. Therefore sharia-bankings have an important role as financial institutions and financial intermediaries. Sharia bankings are built to fulfill the needs of muslim related to finance. They were expected to be more accountable in terms of reporting their activities in conformance with Shariah.
2. Literature Review

2.1 Accountability

Accountability on Islamic perspective was an extension of the basic Islamic concept of Tauhid which meant of “unity with God”. It means that every person was accountable to God, society and the environment. Thus would bring consequences that every corporations must strive for an optimal balance on making close and good relationships among society and God. Therefore the difference between Islamic CSR and typical CSR definition is in the concept of accountability to the God. Commonly CSR goals only related to the interest of people or organizations. This built relationship involves only the human relation (habl min al-nas) without achieving spiritual needs, namely the human relation with the God (habl min Allah).

The Islamic perspective of disclosures comprises of two essential principles. The two principles are underlie the concept of accountability in Islam. It consist of full disclosure and the concept social accountability (Baydoun and Willet, 2000). The concept of full disclosure and social accountability have the similar purposes to serve the public interest. Public particularly Islam society has the right to know about how corporations conduct their operations, how its affect society and whether the objectives are appropriate with the requirements of Shariah. Hence the importance of Islamics CSR disclosure were, to show the compliance of corporations with sharia and the affect of corporations to their society, and also to help muslims perform their duties to God.

2.2 Nature of Social Reporting

Gray, Owen and Maunder (1987) has been defined corporate social reporting as follow:

“...the process of communicating the social and environmental effects of organisation’s economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly companies)
From the definition above, social reporting reflect the new and broader expectation of society with regard to the role of companies. It also part of communicating information about social reality for both inside and outside of companies.”

However, as a form of communication process, social reporting consist of the five elements of communications which are: source (who), channel (how), encoding process (why), message (what) and recipient (to whom). From those five elements, there are two elements caused problems in communicating social reporting. The two elements are ‘encoding process’ which referring to the objectives of disclosing social reporting and the ‘message’ which referring to the extent and format of disclosure.

The objectives of the corporate responsibility are vary depends on how companies interpreted the concept of CSR. Identification and interpretation on activities that are generally recognised as beneficial to the well being of society is often based on human ethical or moral reasoning (Adnan, 2015). In ethics perspective, it is hard to decide the ‘the rights’ and responsibilities’ of users of financial statement and companies respectively. There also no mandatory regulation that particularly decide on the extent and type of disclosure. From the perspective of the users of information, more disclosure means better information to make optimal decision. However, it also has consequences. Generally, companies unwilling to adding additional cost through expanded disclosures unless there are law mandatory for that.

Hence, the problems of social disclosure can be identified as two important factors. Firstly, to find the appropriate balance between cost and benefit of disclosure, without neglecting the accountability and responsibility to the stakeholders. Another problems appear due to reaching a consensus on type of information to be disclosed, and form of measurement and presentation of social reporting.
2.3 The Sharia Framework

There were development on several frameworks in addressing the issue on corporate social reporting. One of the conventional frameworks has the basic elements developed by Gray et all., 1996. He stated that:

“a formal account: prepared and communicated by an organisation; about social and environmental aspects of organisation’s activities; and communicated to the internal and external participants of the organisation”

In the conventional framework, one of the drawbacks is that companies commonly do not give reasoning on disclosing or not disclosing some items of information on their financial report. Furthermore, there are limited discussions on social impact of social reporting”.

The conventional framework might not be perfect, since it based on human faith. The frameworks objective basically address material and moral aspects (Haniffa, 2002). The spiritual aspect is less relevance to accounting disclosure practice.

In contrast, the sharia framework would be the most comprehensive. It takes into account the material, moral and spiritual elements and balance between those elements and obligation to serve God. It also part of manifestation of value commitment and value fulfilment as embodied in the Quran and Hadith.

The basic foundation of the Sharia is Tawahid (unity of God). God is the ultimate owner of everything on the universe (Quran, 57:5) and that ummah is ultimately accountable to God (Quran, 2:28). This directs moslem to accepting Sharia Islamiyyah wich is derived from Quran, Hadith and Fiqh. Sharia consisting of God’s commands and prohibitions, govern man’s external actions, human reasoning and intuition of what is right and wrong (Khadduri, 1984). Mainly sharia concerned on promoting social justice and realising benefits for the people in this world and hereafter.

2.4 Islamic Social Reporting

Islamic social reporting is an extention of social reporting which encompasses not only a broader expectation of the society with regard to
companies’ role in the economy but also on spiritual perspective (Haniffa, 2002). The major concern of Islamic social reporting is on social justice, instead of the environment, minority interests and employees. Another issue which also considered as most importance are related to the well-being of the society pertaining to interest and unfair trading practices (Sulaiman, 2005). For example, their lawful dealing, income distributions to the beneficiaries called zakat, sadaqa(charities or gift), etc. It is consistent to the stakeholders’ theory whereby management need to maintain company’s success by providing information to all stakeholders. Therefore, management need to identify, evaluate and disseminate information on social and environmental information for fullfill the stakeholders’ need.

Recently, there was an increasing number of Islamic bankings and Islamic capital market. They were expected to present a religious dimension to their financial statement disclosures for Islamic stakeholders. Haniffa and Hudaib (2001) clearly stated that the conceptual framework for Islamic accounting should be based on sharia and it was supported by the purposes of Islamic accounting. Commonly the purposes of Islamic accounting are to assist in achieving socio-economic justice and obey the obligations to God (Allah), society and individual concerned. Islamic accounting also suggested that corporations need to disclose certain information on how corporate’s work to fullfill all the requirements on sharia (Ghani, 2016). For example: Islamic corporations was expected to disclose on the obligation to pay zakat as part of their social responsibility through society. Thise meant that financial reporting disclosure in Islamic corporation was more detailed than the conventional disclosure requirements.

Islamic social reporting has been developed based on Sharia. Sharia addressed three interrelated dimensions which are: 1. Establishing socio-economic justice as primary objective 2. Sharing benefits to the community 3. Achieving wealth. Those three interrelated dimensions would lead to the essential characteristic of the report. Islamic social reports need to address the importance of the concept of ummah and the obligation and prohibitions om matters related to commercial activities (Baydoun and Willet, 2000).
2.5 Development of Islamic Social Reporting Disclosure Index

Prior studies were undertaken to develop a list of ISR disclosures index. The study conducted by Haniffa (2002) result on the scope of ISR disclosure is confined to five main themes: finance & investment, product, employees, society and environment. The table below explained the summary contents of Islamic Social Report according to Haniffa, 2002.

<table>
<thead>
<tr>
<th>Theme</th>
<th>Ethics</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance &amp; Investment</td>
<td>Tawhid; Halal v Haram</td>
<td>Riba activities: Identify activities and % profit contribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gharar activities: Identify activities and % of profit contribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Zakat: amount and beneficiaries</td>
</tr>
<tr>
<td>Product</td>
<td>Tawhid; Halal v Haram</td>
<td>Nature of product/service: Identify activities and % of profit contribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wages</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nature of work: religious provisions: Holidays and leave, working hours</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Education and training; Equal opportunities</td>
</tr>
<tr>
<td>Employees</td>
<td>Tawhid; Adl; Amanah</td>
<td>Wages</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nature of work: religious provisions: Holidays and leave, working hours</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Education and training; Equal opportunities</td>
</tr>
<tr>
<td>Society</td>
<td>Tawhid; Ummah; Amanah</td>
<td>Saddqa: Amount and Beneficiaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Waqf: Type and Value</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Qard Hassan: amount and beneficiaries</td>
</tr>
<tr>
<td>Environment</td>
<td>Tawhid; Khilafah; Mizan; Akhirah; I'tidal v Israf</td>
<td>Use of resources: Description and amount</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Conservation of Environment : Description and amount spent</td>
</tr>
</tbody>
</table>

Source: Haniffa, 2002

Othman (2010) adding some other themes on disclosures of the Islamic social reporting. He was reviewing the dislosure requirements of the Companies Act 1965, Financial Reporting Act 1997, Malaysian
Accounting Standard Board, Financial Reporting Standard 2006 and Malaysian Code of Corporate Governance Revised 2007, and made some changes in the disclosure index. The disclosure created by Othman are: finance and investment, product and services, employee, society, environment and corporate governance. The ISR disclosures made by Othman has a total of 43 items of disclosures index were developed under the 6 themes above. The full items available in the appendix.

3. Research Method

The objective of this study is to measure the extent of Islamic social reporting disclosed in the annual reports of shariah banking companies in Indonesia. The research method was content analysis because this method mainly used to examine written material contained in the annual reports (Othman, 2010). The sample data selected from 5 top sharia banking in Indonesia based on their total asset. A review of annual reports was done on 2015.

Data Analysis made through content analysis. It was used to describe the presence of absence of the 43 ISR items, built by Othman (2010) which were coded according to the themes of the disclosures The nominal score was used to record the absence (represented by “0”) or the presence (represented by “1”)of an item which was called the un-weighted approach. This was displayed in appendix.

3.1 Data Analysis

Descriptive statistic through content analysis was used to describe the presence of absence of the 43 ISR items which were coded according to the themes of the disclosures. The table displayed in appendix A. The maximum score for each items was 43 items multiplied by 5.

3.2 Key Finding

There were two ISR themes that were frequently disclosed by the sharia banking in Indonesia, employees theme and society themes. There were 8 items under employees theme that frequently disclosed, which were: nature of work: working hours/holidays/other benefit; education and training/human capital
development; equal opportunities, employee involvement, health and safety, working environment, higher echelons in the company perform the congregate
prayers with lower and the middle level managers; muslim employees are allowed to
perform their obligatory prayers during specific times and fasting during ramadhan on their working day. Almost all sharia banks disclose those 8 items in their annual report. This means that employees were have an important role on the operation of the company and therefore have to be disclosed.

This study also found that under society theme, there were 7 items that commonly disclosed in the annual report. There were: saddaqa/donation, qard hassan, graduate employment, underprivileged community, children care, charities/gifts/social activities and sponsoring public health/recreational project/sport/cultural events. Society also was the highest theme of disclosure on annual report of 5 sharia banking in Indonesia on 2015.

The riba activities were reported as ‘interest income’ or ‘interest expense’in the annual report. All the sharia banks disclosed that they were not involve in riba activities. Those were suitable with the status of sharia banking, which had to be comply the sharia frameworks.

Another key findings were that several items that were not disclosed, namely policy on late repayments and insolvent clients/bad debt written-off, current value balance sheet, employment of other-special-interest-group, endangered wildlife, ownership structure: number of muslim shareholders and its shareholdings, BOD structure muslim vs non muslim members.

There were two themes which highly disclosed in the annual reports of 5 top Sharia Banking in Indonesia on 2015. The results show that employees and society were two themes which commonly disclosed in the annual reports. In average, the ISR disclosure of 5 top sharia banking on 2015 annual reports was 68%. This showed that sharia banks were well aware of their corporate responsibility and the involvement of companies with society was a key part of ISR. This result comply with the study of Othman, 2010.
4. Conclusion

The objective of this study was to examine the extent of Islamic social reporting in the annual reports by 5 top sharia banking in Indonesia. There were two themes, emplot yees and society which highly disclosed in annual reports on 2015. Based on the data, it showed that the disclosure index was adequate. In average there were 68% items were disclosed on annual reports. Thus indicating that there were transparency in the disclosure with respect to Islamic values despite the fact that the concept of social accountability under Islam is related to the principle of full disclosure. This were also show that sharia banks in Indonesia were aware of primary objective of muslim society. Based on sharia framework, companies had obligation to establish the social justice, equitability and maintenance of welfare. All these should lead to better transparency and accountability to society, especially for muslim society.

5. Future Research

This research had focussed only on annual reports of 5 top sharia bankings on 2015 to measure the extent of Islamic social reporting disclosure practices. Future research could be extended to include other forms of disclosures for example press release, interim reports etc. The interpretation of some items in the coding process was subjective. Therefore, future research could be improved by using objective rating and evaluation.

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