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Disclosure of Corporate Social Responsibility in Islamic Banks and Conventional Banks and their Determinants

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ABSTRACT
The banking sector is starting to become a concern for research because it plays a major role in addressing social and environmental challenges and can positively influence society through the implementation of CSR. This study aims to determine the differences in CSR (disclosure) between Islamic banks and conventional banks, the effect of capital structure (capital adequacy ratio / CAR) and leverage (debt to asset ratio / DAR) on CSR, and the effect of CSR on profitability (return on assets). The operationalization of the CSR variable refers to the GRI (Global Reporting Initiative) 4.0 and ISR (Islamic Social Reporting) indicators. Panel data were analyzed using PLS-SEM and SPSS 24 tools. The results showed that there was no difference in CSR disclosure between conventional Islamic banks.

Keywords: *Corporate Social Responsibility (CSR), Sharia Commercial Banks, Conventional Commercial Banks.*

1. INTRODUCTION

In general, CSR is a way for a company to achieve balance or integration through economic, environmental and social aspects and at the same time fulfill the expectations of shareholders and stakeholders. [1]. As a developing country, Indonesia is a market with high prospects for the global industry with banking as one of the financial institutions that play an important role in its economic growth. [2]. The CSR program is one of the obligations that must be carried out by the company by the contents of Article 74 of Law No. 40 of 2007 and on 27 July 2017, the supervisory regulator for Indonesian financial services institutions, namely the Financial Services Authority (OJK) has issued a Financial Services Authority Regulation (POJK) No. 51 / POJK.03 / 2017 concerning the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies.

Until now, CSR disclosure in companies is still not optimal. It is interesting to examine this, not companies that are resistant to social and environmental aspects such as the manufacturing and mining sectors, but rather the banking sector which is starting to be a concern for research because the funds they have and the profits they generate can make a large social and environmental contribution [3]. Banking companies play a major role in addressing social, environmental and development challenges [4] and can positively influence society through its CSR [5]. Research on CSR activities in conventional banks from developing countries has received some academic attention to date[6] and maybe not bigger than CSR research in Islamic banks [7]. If conventional banks implement and disclose CSR for rational reasons, then Islamic banks have a strong foundation for implementing and disclosing CSR based on Islamic values or Islamic values, namely social justice and accountability [8].

This research was conducted at banking companies in Indonesia because this is a strategic opportunity for developing countries to capture the abundance of CSR funds that have not been channeled through the problems faced by companies in developed countries, namely they have difficulty finding CSR activities that are relevant to their position (vision and mission) in the business world. On the other hand, they are among the rich countries which of course have very few problems with poverty and environmental pollution. As a result, they will seek "additional outlets" outside their home country. This is a strategic opportunity for developing countries like

Indonesia to be more responsible for people, planet, and profit (3P) through CSR.

1.1. Related Work

1.1.1 Stakeholder Theory

Stakeholder theory is used as a basis in analyzing to whom the objectives of the company group should be responsible. The success of the company is very much dependent on the success of management in managing the company's relationship with its stakeholders [9].

1.1.2 Corporate Social Responsibility

The concept of Corporate Social Responsibility (CSR) has a long and varied history [10]. The European Commission defines CSR as a concept in which companies integrate social and environmental concerns in conducting their business activities and in their interactions with stakeholders based on the principle of volunteerism [11].

1.1.3 Profitability

Profitability can show the company's ability to generate profits during a certain period [12]. Profitability is the company's ability to maximize the company's performance to generate profits through its assets or known as ROA so that ROA is a measure of profitability [13].

1.1.4 Capital Structure

A high level of capital will increase the company's cash reserves, thus opening greater opportunities for banks to increase their profitability. In general, capital structure is measured by the Capital Adequacy Ratio (CAR). CAR is the ratio between the ratio of capital to risk-weighted assets by government regulations [14].

1.1.5 Leverage

Leverage can be used to provide an overview of the capital structure of the company and see the risk level of a debt uncollectible. Analysis of the capital structure needs to be carried out to determine the proportion of capital and debt that is appropriate for achieving an optimal capital structure [15]. One measure of leverage is the Debt to Asset Ratio (DAR). This ratio is calculated by comparing total debt to total assets[14].

1.2. Our Contribution

This research presents that examines the comparative disclosure of CSR in Islamic banks and conventional banks to add and expand the scope of research on CSR in banking which is still contradictory accompanied by the influence of financial variables. The number of Islamic banks that have increased and CSR which is proxied by disclosure according to GRI 4.0 and ISR is a novelty in this study.

1.3. Paper Structure

This research is organized as follows. Section 1 introduces an introduction to this research, which includes the variables used and the research contribution. Section 2 presents a framework based on the research hypothesis. Section 3 research methods, Section 4 discloses the results and Section 5 concludes and provides directions for further research.

2. BACKGROUND

2.1. Disclosure of Corporate Social Responsibility

If conventional banks carry out and disclose CSR for rational reasons, then Islamic banks have a strong foundation for implementing and disclosing CSR based on Islamic values, namely social justice and accountability. So it is hoped that Islamic banks can show more proactive CSR activities than conventional banks, by exploring the concept of CSR based on an Islamic perspective. Islamic values support the need for Islamic banks to conduct and disclose CSR [8]. Previous studies found that there were significant differences in CSR disclosure between Islamic banks and conventional banks [16], the level of disclosure of corporate CSR activities is growing well in Malaysia and Indonesia [17][18]. The results of other studies reveal that there are differences in CSR disclosure in Islamic banks and conventional banks, that Islamic banks are better or superior than conventional banks, but both are still at a low level.[3].

H_1: There are differences in CSR in Islamic Banks and Conventional Banks

2.2. The Effect of Capital Structure on Corporate Social Responsibility

One of the factors that affect bank financial performance is capital [19]. One of the components of the capital factor is Capital Adequacy Ratio (CAR) [20]. Previous research stated that CAR has an effect on CSR [21] by reporting the company's financial performance, it is one way to satisfy the company's stakeholders, so it is hoped that the stakeholders will provide more funds (capital) for the company. The greater funds owned by the company, it is hoped that the funds channeled by the company for its CSR activities will also increase.

H_2: Capital structure has a positive effect on CSR

2.3. Effect of Leverage on Corporate Social Responsibility

Leverage is one of the things that can affect CSR disclosure [22]. Leverage influences CSR, because the leverage ratio is used to provide an overview of the company's capital structure, so that it can be seen as the level of risk of a debt uncollectible [23]. Leverage has an influence on CSR related to agency theory; companies with high leverage have high agency costs, so the company will reduce costs associated with CSR. The higher the leverage, the lower the level of CSR disclosure to avoid the attention of debtholders[24].

H_3: Leverage has a negative effect on CSR

2.4 The Influence of Corporate Social Responsibility on Profitability

Banking companies play a major role in addressing social, environmental and development challenges [4] and can positively influence society through the implementation of CSR [5]. CSR has a positive impact on company profitability in general [25] as well as share returns [1]. In Islamic banking, it is found that there is a significant relationship between profitability and CSR [26] as well as a significant and positive influence on CSR disclosure on profitability in conventional banks in the United Arab Emirates (UAE) [27].

H_4: CSR has a positive effect on profitability

3. METHOD

The population of this research is Sharia Commercial Banks and Conventional Commercial Banks in Indonesia with purposive sampling technique, namely banks that publish annual reports and sustainability reports in the 2016-2018 periods, obtained a total of 61 banks (11 Islamic banks and 50 conventional banks). The CSR variable operationalization is carried out by referring to the GRI 4.0 and ISR indicators. The measurement is done by giving a score of 1 on the indicator if there is disclosure and a score of 0 if there is no disclosure. Meanwhile, the independent variable refers to the company's financial ratios, ROA, CAR and DAR. The data analysis technique was carried out in the form of an Independent Sample T-Test to find out whether or not there is a difference in CSR disclosure made in Islamic banks and conventional banks through SPSS V.24 and hypothesis testing with PLS-SEM (WarpPLS 7.0) which is the existence of path analysis and regression methods and does not require various assumptions that must be fulfilled by data [28].

4. RESULT

4.1. Independent Sample T-Test

Table 1. Different test of GRI indicators

		t-test for Equality of Means		
		t	df	Sig. (2-tailed)
GRI	Equal variances not assumed	-333	396,769	0.739

Table 2. Different test of ISR indicators

		t-test for Equality of Means		
		t	df	Sig. (2-tailed)
ISR	Equal variances not assumed	-1,446	93,078	0.152

Different test with *Independent Sample T-Test* CSR disclosure in Islamic banks and conventional banks is carried out through 2 indicators, in table 1The results obtained were Sig (2-tailed) 0.739 different test through the GRI indicator and table 2 obtained results Sig (2-tailed) 0.151 for the difference test through the ISR indicator. Through these two different tests, the Sig (2-tailed) value is greater than 0.05 (95% Confidence Interval of the Difference). This can be ascertained that H_0 is accepted and H_a is rejected.

H_{01}: μ1 = μ1 There is no difference in CSR disclosure in Islamic banks and conventional banks.

4.3 Hypothesis

Table 3. Hypothesis Results for Islamic Banks

Independent Variable	Dependent Variable	Path Coef	P-Value	Result
CAR (X1)	CSR (Y1)	0.07	0.33	Not significant
DAR (X2)	CSR (Y1)	-0.63	<0.01	Significant
CSR (X3)	ROA (Y2)	0.27	0.04	Significant

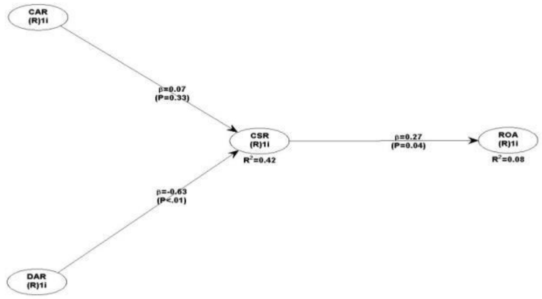

Figure 1. Hypothesis results for islamic banks

Based on the results of data processing using WarpPLS obtained the following results:

1. The path coefficient value or the path coefficient for the capital structure variable CAR is 0.07 (p = 0.33). This shows that CAR (X_1) has no effect on CSR (Y_1), so the hypothesis H_{a2} is rejected.
   $H_{02\ BS}$: β1≤ 0 Capital structure has no positive effect on CSR.
2. The path coefficient value or the path coefficient for the leverage variable of DAR is -0.063 (p <0.01). This shows that DAR (X_2) has a negative effect on CSR (Y_1), so Hypothesis H_{a3} is accepted.
   $H_{a3\ BS}$: β1 <0 Leverage has a negative effect on CSR.
3. The value of path coeficients or the path coefficient of the CSR variable is 0.27 (p = 0.04). This shows that CSR (Y_1) has a positive effect on profitability, which is proxied by ROA (Y_2). That is, Hypothesis H_{a4} is accepted.
   $H_{a4\ BS}$: β1> 0 CSR has a positive effect on profitability

Table 4. Conventional bank hypothesis testing results

Independent Variable	Dependent Variable	Path Coef	P-Value	Result
CAR (X1)	CSR (Y1)	0.09	0.14	Not significant
DAR (X2)	CSR (Y1)	-0.20	<0.01	Significant
CSR (X3)	ROA (Y2)	0.19	<0.01	Significant

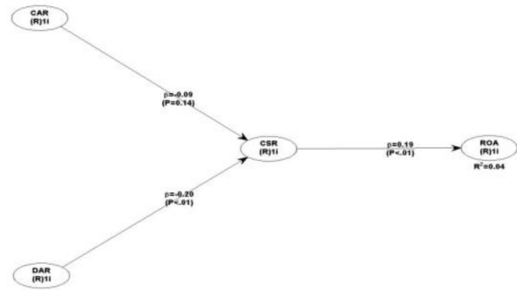

Figure 2 Hypothesis results for conventional banks

Based on the results of data processing using WarpPLS 6.0 obtained the following results:

1. The value of path coeficients or the path coefficient of the capital structure variable CAR is 0.09 (p = 0.14). This shows that CAR (X_1) has no effect on CSR (Y_1), so the hypothesis H_{a2} is rejected.
   $H_{02\ BK}$: β1≤ 0 Capital structure has no positive effect on CSR.
2. The value of path coeficients or the path coefficient of the leverage variable DAR is -0.20 (p <0.01). This shows that DAR (X_2) has a negative effect on CSR (Y_1), so Hypothesis H_{a3} is accepted.
   $H_{a3\ BK}$: β1 <0 Leverage has a negative effect on CSR.
3. The value of path coeficients or the path coefficient of the CSR variable is 0.19 (p <0.01). This shows that CSR (Y_1) has a positive effect on profitability as proxied by ROA (Y_2), meaning that the hypothesis H_{a4} is accepted.
   $H_{a4\ BK}$: β1> 0 CSR has a positive effect on profitability.

5. DISCUSSION

5.1. Corporate Social Responsibility Disclosure

These findings indicate that younger Islamic banks can prove amazing things in the last 4-5 decades and the activities carried out by Islamic banks can provide contrasting choices with existing ones and become competitors, namely conventional banks [29] - [31]. Although not able to outperform conventional banks, Islamic banks offer the same products and services such as financing products, savings and deposits, as well as other financial products and services but interest is not used in transactions because, it must be complied with by sharia regulations [32]. With the results of statistical tests that show no significant difference in CSR disclosure between Islamic banks and conventional banks, the results of this study do not confirm the results of previous studies [3] and [16] who found a significant difference in

CSR disclosure between Islamic banks and conventional banks. Likewise, this result is not in line with the results of other studies which found that the level of disclosure of CSR activities of sharia-based companies in annual reports is quite high [17] and the level of corporate sustainability disclosure of conventional banks is higher than Islamic banks [27]. However, the results of this study are in line with other studies that found that CSR disclosure from Islamic banks generally grows well in Malaysia and Indonesia [33].

5.2. The Effect of Capital Structure on Corporate Social Responsibility

The results showed that CAR did not effect on CSR in both Islamic and conventional banks. This is because banks rely more on loans as a source of income and do not use all of their potential capital. This is in line with the research started that this was alleged because at the beginning of implementing CSR the bank had prepared special funds for CSR, but the following year there was a lack of capital to be allocated to the CSR program [34]. Bank management can be even more creative in determining CSR programs so that their disclosures can attract investors to help CSR programs at the bank and carry out CSR programs to the community so that the programs are better and of quality. Other research states that CAR is a capital in a bank where CSR disclosure cannot change the size of the capital obtained by the bank, this is presumably because the bank will focus more on customers and shareholders [35]. Then the capital has more influence on the financing or operational costs of the bank so that the bank is not so focused on disclosing CSR by using its capital. It is better if bank managers should not keep too large a minimum reserve fund because it will cause idle funds which will eliminate the opportunity to make a profit.

5.3. The Effect of Leverage on Corporate Social Responsibility

The results showed that DAR has a negative effect on CSR in Islamic banks and conventional banks. This means that the relationship between DAR and CSR is inversely related. This is in line with research that found that leverage influences CSR [23] and that leverage can affect CSR disclosure [22]. However, this is not in line with other studies that have found that leverage does not have a significant relationship with CSR [36].

5.4. Influence Corporate Social Responsibility for Profitability

Profitability is a company's ability to maximize company performance to generate company profits using its assets or known as ROA so that ROA is one measure of profitability [13]. The results showed that CSR has a positive effect on ROA in Islamic banks and conventional banks. A company that has high profitability should be able to carry out CSR in a transparent manner. Banking companies play a major role in addressing social, environmental and development challenges [4] and can positively influence society through the implementation of CSR [5]. CSR has a positive impact on company profitability in general [25] as well as share returns [1]. In Islamic banking, it is found that there is a significant relationship between profitability and CSR [26] and a significant and positive effect on CSR disclosure on profitability in conventional banks in the United Arab Emirates (UAE) [27]. Better profitability can encourage banks to be more involved in social activities, as spending on environmental and social activities outweighs the potential benefits of the bank and a broader perspective. CSR activities can be a beneficial element in the company's strategy, contribute to risk management, and maintain relationships that can provide long-term benefits for the company.[37]. One of the benefits expected from disclosing CSR activities is an increase in the company's reputation in the eyes of stakeholders which can attract investors to invest in the company. With the increasing number of investors who are interested in investing, the funds owned by the company to carry out operational activities will be even greater and the company's financial performance will also be better.

6. CONCLUSION

Based on the research results, it can be concluded that there is no difference in CSR disclosure between conventional Islamic banks. The results also show that DAR has a positive effect on CSR and CSR has a positive effect on ROA, and CAR has no effect on CSR both in Islamic banks and conventional banks.The relationship between CSR and positive profitability in this study can add to the scope of research related to profitability in banking companies in Indonesia which have an important role in the country's economic growth.

The results of this study have implications for the practice and disclosure of CSR in both Islamic and conventional banks. The results of the analysis prove that sharia / Islamic principles support CSR practices and disclosures so that Islamic banks are not inferior to conventional banks, although statistically this is not proven. In this case, both Islamic banks and conventional banks are expected to make improvements and pay more attention to CSR activities carried out followed by CSR disclosure. With the existence of regulations regarding CSR for the banking sector through POJK No. 51 / POJK.03 / 2017 concerning the Implementation of

Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies.

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