

The Effect of Islamic Social Reporting on Performance of Maqashid Sharia

Farida^{1*}, Gita Dwi Cahyani¹, Pranita Siska Utami², Ravindra Ardiana Darmadi²

¹Department of Accounting, Universitas Muhammadiyah Magelang, 56122, Indonesia

²Department of Management, Universitas Muhammadiyah Magelang, 56122, Indonesia

Corresponding author's email: farida_feb@unimma.ac.id

ABSTRACT

The purpose of this study is to investigate and assess the impact of Islamic Social Reporting (ISR) on the performance of Maqashid Sharia in Islamic Banks in Indonesia and Malaysia. ISR is used to assess Islamic banks' social responsibility, whereas the Maqashid Sharia Index (MSI) indicator with the Abu Zahrah approach is used to assess their financial performance. The target audience for this study is Islamic banks operating across Indonesia and Malaysia from 2016 to 2020. Then, using the purposive sampling method, a sample of 21 Islamic banks was obtained. Simple linear regression analysis and statistical t tests are used to test hypotheses. The findings revealed that Islamic Social Reporting had a beneficial impact on Maqashid Sharia performance. Another finding is that when comparing the Maqashid Sharia performance of Islamic banks in Indonesia and Malaysia, the average value of the Maqashid Sharia Index in Indonesian Islamic banks is greater than in Malaysian Islamic banks.

Keywords: *Islamic Social Reporting; Performance of Maqashid Sharia; Islamic Bank.*

1. INTRODUCTION

The Islamic banking industry has significant development from year to year. It is known that Islamic banking through assets, disbursed financing and third-party funds continues to show positive development which is also accompanied by steadily improving growth in the key performance ratios [1]. Islamic banking emerged in a number of countries, including Indonesia and Malaysia. Hery Gunardi, President Director of PT Bank Syariah Indonesia Tbk (BSI), highlighted that Indonesia's Islamic economics and finance industry lags significantly behind Malaysia's. In Indonesia, Islamic banking has a market share of less than 7% compared to all other banks, while it is around 30% in Malaysia. This worsening situation is not counterbalanced by shariah conformity [2]. The study shows that Indonesian Islamic banking discloses more Islamic ideals than Malaysian Islamic banking [3].

The increasing growth of Islamic banks causes business competition between banks to be increasingly tight. This requires Islamic banking to be able to strengthen the competitiveness and performance of the company, not only in financial aspects, but also in conformity with shariah principles. This is necessary to assess performance from the point of view of shariah

values applied in the company's operational activities [4]. One of the performance measurements in accordance with shariah principles is maqashid sharia. Maqashid sharia is the goal to realize human benefit in this world and the hereafter. In terminology, maqashid sharia consists of 2 (two) words, namely maqashid and sharia.

Maqashid means goals and sharia is the teachings, rules, and laws of Allah revealed to his servants to achieve the welfare of the world and the hereafter [5]. The purpose of sharia is to improve human welfare for all problems of human life that are directly related to human activities in their daily lives [6]. And the measurement of maqashid sharia performance indicators not only reveals financial performance indicators presented in financial statements based on accounting principles, but also reveals non-financial performance indicators [7]. Measuring the performance of Islamic institutions with non-financial performance disclosures is important to assess the company's performance in accordance with sharia principles

One way to achieve this main goal is to create welfare for humans and the environment through *Corporate Social Responsibility* (CSR). CSR is a sustainable development which is a company concern based on three basic principles known as the triple boot line, namely

profit, people and planet. In addition to pursuing profit, companies must be involved in the welfare of the society (people) and contribute to preserving the environment (planet) [8]. This is in accordance with POJK or the Indonesian Financial Services Authority Regulation number 51/POJK.03/2017 [9] on the implementation of sustainable financing for Issuers, Financial Services Institutions, and Public Companies [10]. The Islamic Social Reporting Index, a CSR disclosure based on sharia principles (ISR).

ISR disclosure has six components: funding and investment, products and services, community, social, and environmental issues, and corporate governance. These six aspects include items that are both suitable and consistent with shariah standards [11]. This aspect of ISR is also in line with the maqashid sharia concepts, namely prioritizing the values of life and human beings, justice, and the public interest. The existence of this harmony shows that the concept of ISR is in line with maqashid sharia. Previous research results show that companies that are good at disclosing CSR will provide positive feedback for companies, so they will compete to disclose CSR [12] ; [13].

Several studies reveal that ISR has a positive effect on financial performance [14], [15], [16]. Some research shows that ISR has a positive effect on the performance of the Maqashid Sharia Index (MSI) [17] and [18]. However, other research shows that ISR has no effect on the financial performance of Islamic banking [19], [20].

The purpose of this study is to examine the impact of ISR on Maqashid Sharia performance. This research builds on prior work [18]. The comparison of Maqashid Sharia performance in Indonesia and Malaysia is a new development in this study. This is because the development of the Islamic economics and finance industry in Indonesia is still far below Malaysia.[2]. Meanwhile, several studies show that shariah compliance in Indonesian Islamic banks is greater than Malaysia [3], [21] and the average value of maqashid syariah index in Indonesian Islamic banks is higher than Malaysia [22], while the results of another study by Widiasmara [23] show that the financial performance of islamic commercial banks based on MSI in Malaysia is better than Indonesia [24], [25]. Then, the previous research used the Abdul Majid Najjar approach, this study adopted the Abu Zahrah approach. The concept of Abu Zahrah is measured by the Maqashid Sharia Index. It consists of three main objectives namely educating individuals, justice, and public interest (*maslahat*). This concept is formed into elements measured by a certain ratio, then rank of each indicator. The sample in this study is Islamic Commercial Banks in Indonesia and Malaysia that operated during 2016-2020 and have complete annual reports during the observation period.

2. METHOD

This is a quantitative study based on secondary data. The target audience for this research is Islamic banks in Indonesia and Malaysia from 2016 to 2020. In this study, the sample collection method is purposive sampling, with the following criteria:

- Islamic Banks that publish annual reports in 2016-2020.
- Islamic Banks that have complete data related to ISR (Table 2) and MSI

The measurement of the dependent variable in this research was carried out through three stages which included:

- Assessment of the elements of the maqashid sharia performance ratio (Table 1).
- Determine the ranking based on the Performance Indicators (IK).

The process of determining performance indicators and the level of MSI is as follows [26]:

2.1. Educating Individual

$$IK(T_1) = W_1(E^1_1xR^1_{1+} + E^2_1xR^2_{1+} + E^3_1xR^3_{1+})$$

Description:

T_1 = MSI's 1st goal (*Tahzib al Fard*)

W_1 = Average weight of 1st goal (*Tahzib al Fard*)

2.2. Establishing Justice

$$IK(T_2) = W_2(E^5_2xR^5_{2+} + E^6_2xR^6_{2+} + E^7_2xR^7_{2+})$$

Description:

T_2 = MSI's 2nd goal (*Iqamah al-Adl*)

W_2 = Average weight of 2nd goal (*Iqamah al-Adl*)

2.3. Public Interest

$$IK(T_3) = W_3(E^8_3xR^8_{3+} + E^9_3xR^9_{3+} + E^{10}_3xR^{10}_{3+})$$

Description:

T_3 = MSI's 3rd goal (*Jalb al Maslahah*)

W_3 = Average weight of 3rd goal (*Jalb al Maslahah*)

2.4. Scoring the MSI

$$MSI = IK(T_1) + IK(T_2) + IK(T_3)$$

Table 1 Ratio of Maqashid Sharia

Goal	Elements	Performance Ratio
Educating Individual	E1. Educational Grant	R1. Educational Cost/ Total Cost
	E2. Research	R2. Research Cost/ Total Cost
	E3. Training	R3. Training Cost/ Total Cost
	E4. Publication	R4. Publication Cost/ Total Cost
Establishing Justice	E5. Fair Return	R5. Net Income/ Total Income
	E6. Distribution Functions	R6. Mudharabah and Musyarakah Financing/ Total Financing
Public Interest	E7. Interest Free Product	R7. Interest Free Income/ Total Income
	E8. Earnings Ratio	R8. Net Income/ Total Asset
	E9. Individual Earning	R9. Zakat/ Net Income
	E10. Investment Ratio and Real Sector	R10. Investment in Real Sector/ Total Investment

Table 2 Measurement of ISR

Variable	Measurement
Islamic Social Reporting	$ISR_j = \frac{\sum x_{ij}}{N}$ ISR _j : Disclosure of Islamic Social Reporting from j company. ∑x _{ij} : The number of items disclosed by the company. (It is denoted by the number 1 if item i is disclosed, and the number 0 if item i is not disclosed) N : Total item (78) [27]

3. RESULT AND DISCUSSION

The findings of the classical assumption test indicate that the data do not exhibit multicollinearity, homoscedasticity, autocorrelation, or normal distribution. As a result, the regression model developed is appropriate for solving this research problem.

3.1. Classical Assumption Test

3.1.1. The Normality Test

The normality test showed a statistical value of 0.081 with a significance of 0.146 > 0.05, so the data were normally distributed. The results of the normality test:

Table 3 Normality Test

	Unstandardized Residual
N	105
Test Statistic	0.081
Asymp. Sig. (2-tailed)	0.146

3.1.2. The Multicollinearity Test

A correlation between independent variables was discovered using the multicollinearity test used to

Table 6 Autocorrelation test

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.458 ^a	0.210	0.202	0.44551	2.051

establish the regression model. These results show that the tolerance value is greater than 0.1 or VIF 10, indicating that the regression model is not multicollinear.

Table 4 Multicollinearity test

Variable	Tolerance	VIF
ISR	1.000	1.000

3.1.3. The Heteroscedasticity Test

The heteroscedasticity test is used to see if there is an inequality in variance between the residuals of one observation and the residuals of another. The significance value of the independent variable is > 0.05, and there is no heteroscedasticity in the regression model.

Table 5 Heteroscedasticity test

Variable	t	Sig.
ISR	0.597	0.552

3.1.4. The Autocorrelation Test

The results of autocorrelation test showed that value of Durbin Watson (DW-test) 2.051. DW value 2.051 > (du) 1.7011 and less than 4 - 1.7011 (4 - du), there is no positive or negative autocorrelation, so there is no autocorrelation on the linear regression model.

3.2. Simple Linear Regression Analysis

The F test is used to determine whether this research model is feasible. The calculated F-count is 78.533, with a probability level of 0.000 0.05, according to the test findings. 3.93 is the F-table value. Because F-count (78.533) is more than F-table (3.93), H_a is accepted and H_o is refused. This indicates that the model used is effective (fit). Table 3 (linear regression test) and Table 4 (Independent Sample T-test) show the outcomes of the hypothesis testing.

Table 7 Simple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Result
	B	Std. Error	Beta			
1 (Constant)	-0.377	0.065		-5.844	0.000	
ISR	0.856	0.097	0.658	8.862	0.000	H1 supported

Table 8 Independent Sample t- test

	Levene's Test for Equality of Variances		Result
	F	Sig.	
Maqashid Sharia	34.557	0.000	H2 supported

3.3. Discussion

3.3.1. The Effect of Islamic Social Reporting on the Performance of Maqashid Sharia

The results of the study show that ISR has a positive effect on the performance of Maqashid Sharia. ISR disclosure shows the company is able to meet stakeholder interests and comply with Shariah principles. The existence of corporate responsibility towards God as the highest stakeholder, humans and the natural environment as a place for the company to carry out all its activities. And the bank is more concerned with Islamic performance by prioritizing Islamic activities, one of which is by encouraging profit-sharing transactions [28]. This result is consistent with research [18], [17] which states that ISR has a positive effect on Maqashid Sharia. However, it is not consistent with [19], [20] which states that there is no effect of ISR to performance on Islamic banks.

3.3.2. Differences of Performance Maqashid Sharia in Indonesia and Malaysia

Based on the results of the Independent Sample T-test, there are differences in the performance of maqashid sharia between Islamic banks in Indonesia and Malaysia. Maqashid Sharia has 3 goals, including Educating Individual Goals (grants for education, research, training, and publications.) The second goal is to Establishing Justice (fair returns, distribution functions, and interest-free income). And the third objective is Public Interest (earning ratio, individual earning, and investment ratio in

The results of simple linear regression in table 7 show that the ISR variable regression coefficient is 0.856 with $t = 8.862 > t \text{ table} = 1.983$ and $p \text{ value} = 0.000 < \alpha = 0.05$. These results indicate that ISR has a positive effect on the performance of Maqashid Sharia, so H_1 is accepted. The independent sample test results in Table 8, show a significant level of $0.00 < 0.05$; that is, there is a difference of maqashid sharia in Islamic banks in Indonesia and Malaysia.

the real sector). Based on the calculation of the maqashid Sharia index, the highest value for the first goal of Islamic banks in Indonesia was 0.07 (Bank Nasional Indonesia Syariah), and Malaysia was at 0.03 (Alliance Islamic Bank Berhad, HSBC Amanah Malaysia Berhad, and Hong Leong Islamic Bank Berhad). For the second objective, the highest index value for Indonesian Islamic banks is 0.261 (Bank Bukopin Syariah) and Malaysia is 0.318 (Cimb Islamic Bank Berhad) and for the third objective, the highest index value for Indonesian Islamic banks is 0.092 (Bank Muamalat Indonesia) and Malaysia is at 0.057 (Cimb Islamic Bank Berhad). Based on this explanation, the performance of maqashid sharia in Indonesia is higher than Malaysia. This shows that Islamic banking in Indonesia is more optimal in achieving the goals of maqashid Sharia compared to Malaysia. This means that banks in Indonesia put more effort into fulfilling financial and non-financial aspects, because the concept of maqashid is "kaffah", which states that balance is in fulfilling all aspects of life, both material and non-material. This research is in accordance with [22] which shows the results that the average value of the maqashid sharia index in Indonesia is higher than in Malaysia. Meanwhile [23] which states that financial performance based on the maqashid sharia index in Malaysia is better than Indonesia.

4. CONCLUSION

This study aims to analyse the effect of Islamic social responsibility disclosure on the performance of maqashid sharia in Islamic banks in Indonesia and Malaysia. The results of this study indicate that the disclosure of Islamic

social responsibility has a positive effect on the performance of maqashid sharia. Based on the results of independent sample t-test, it shows that there are differences the performance maqashid sharia in Indonesia and Malaysia, where the average value of Islamic banks in Indonesia is higher than Malaysia. The limitation in this study is that the researcher only uses one independent variable and test the hypothesis by combining data from each variable in two countries with different economic conditions. In further research, researchers can add other independent variables to better explain the variables that affect the performance of Maqashid Sharia and conduct a separate hypothesis test in two countries with different economic conditions to show more valid results.

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