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The Effect Of Sharia Supervisory Board, Board Of Commissioners And Board Of Directors On Islamic Social Reporting Disclosure At Sharia Commercial Banks In Indonesia

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Abstract. *This research aims to examine the effect of sharia supervisory board, board of commissioners, and board of directors on Islamic Social Reporting disclosures. The kind of quantitative research using secondary data exists annual report. The research sample of 12 sharia commercial banks in Indonesia was determined by purposive sampling technique with an observation period from 2018 to 2022. The analytical of research using multiple linear regression with the help of SPSS software. The result of research shows that board of commissioners and board of directors does have significant effects on Islamic Social Reporting disclosures. However, the sharia supervisory board does not have insignificant effect on Islamic Social Reporting disclosures.*

Keywords: *Sharia Supervisory Board, Board of Commissioners, Board of Directors, Islamic Social Reporting Disclosures*

1. INTRODUCTION

Banks in Indonesia which are run on Islamic law developed rapidly after the ratification of Law Number 21 of 2008 concerning about Sharia Banking. One of the progree was marked by 3 state-owned enterprise consisting of Bank Mandiri Syariah (BMS), Bank Negara Indonesia Syariah (BNIS), and Bank Rakyat Indonesia Syariah (BRIS) merging become Bank Syariah Indonesia (BSI). Sharia banking as an Islamic organization, has a special relationship that must be maintained between God, humans, and the universe. It means that every action taken by sharia banking will bring consequence. In Islamic economics sector, sharia banking have responsibility to disclose all activities that occur have the potential to support going concern. Social responsibility disclosure based on Islamic substance in accordance with the Al-Qur'an and Hadist is called Islamic Social Reporting (Utami et al., 2020).

Islamic Social Reporting (ISR) explains 6 theme which include funding and investment, product, employee, society, environment, as well as corporate governance (Hasanah et al., 2017). Then, Sutapa & Hanafi (2019) explained that the 6 themes were detailed more clearly and present detailed benchmark items in the ISR index. At a time,

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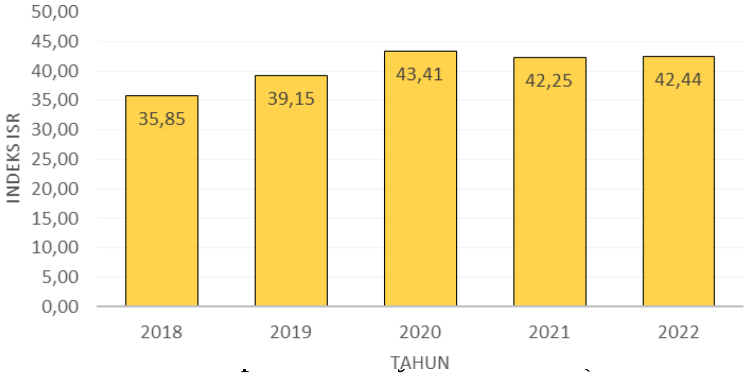
Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) decided that ISR index as a standard for social responsibility disclosure in Islamic banking. ISR disclosure in Indonesia has been carried out, but not yet in full, so it is reflecting a lack of accountability and transparency. Therefore, with further research we can know what factors can increase ISR disclosure.



Picture 1.1 ISR Disclosure at Sharia Commercial Banks in Indonesia

Carrying out good business requires good corporate governance (GCG) to control and create added value for internal and external parties of the company. Then, conceptGood Corporate Governance(GCG) according to sharia developed until the term emergedIslamic Corporate Governance(ICG) (Febriyanti et al., 2022). This research focuses on structureIslamic Corporate Governancewhich is proxied in the sharia supervisory board, board of commissioners and board of directors.

The sharia supervisory board is tasked with ensuring, supervising and implementingreview on sharia compliance in sharia commercial banking activities. DPS is able to encourage wider ISR disclosure because it relates to bank products and services. Pratiwi et al., (2020) have conducted research analyzing the effect of the sharia management board on ISR disclosure and show that the results have an influence. However, this is not in line with the results of Kimsen's (2022) research which shows that there is no influence of the sharia supervisory board on ISR disclosure.

Furthermore, the board of commissioners has the authority to monitor and evaluate the strategic policies of sharia commercial banks. Therefore, we are also directly responsible for relevant information including ISR disclosure. Research conducted by Diva & Lukman (2022) produced the influence that the board of commissioners has on ISR disclosure. Meanwhile, the research results of Firdaus & Setiawan, (2023) show that the board of commissioners has no influence on ISR disclosure.

In addition, there is a board of directors who has full obligations to create and implement strategies and manage policies for sharia commercial banks, thus having an impact on the expansion of ISR disclosures. Previous research by Azifah (2019) found that the board of directors had an influence on ISR disclosure. These results contradict Millenia & Syafei (2021) who explain that the board of directors has no influence on ISR disclosure.

Obtaining these inconsistent research results encouraged the author to conduct further research in order to provide new findings on the importance of the influence of the sharia supervisory board, board of commissioners and board of directors on ISR disclosure.

2. LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) interpret agency theory as a contractual bond between principal (shareholders) and agent (management) to carry out company activities and make decisions. Agency problems can occur due to differences in interests that can encourageagentto prioritize personal interests in order to maximize utility and put aside interestsprincipal. To overcome this problem, agency fees are required which include:monitoring costs, bonding costs, and residual losses.

Islamic Social Reporting Disclosure

Accounting and Auditing Organization for Islamic Financial Institutions(AAOIFI) explains that ISR is the activity of Islamic financial bodies in serving the needs of religion, commerce, law, norms and discretionary responsibilities as a financial institution that acts as a liaison between individuals and institutions (Hadinata, 2019). The ISR disclosure standard that is compatible with the Islamic point of view is called by ISR index. Othman & Thani (2010) explains the ISR index have 6 category themes consisting of funding and investment, products and services, employees, society, environment and corporate governance.

Sharia Supervisory Board

Based on Law no. 21 Sharia Banking (2008), a sharia supervisory board was formed to carry out responsibility for ensuring sharia compliance in the implementation of sharia commercial banks activities. DPS supervises the management of charity funds (zakat, infaq and alms) which in this case includes the form of ISR. So, the existence of a sharia supervisory board supports agency theory that effective monitoring will increase ISR disclosure, especially in compliance sharia compliance (Azifah, 2022). Therefore, the sharia supervisory board is able to pressure management to carry out performance transparency in annual reports so that it can expand ISR disclosures.

Board of Commissioners

The board of commissioners carries out the function of managing bank in role a decision maker and supports the realization of a good internal control system (Afroh & Hafidzi, 2022). Azifah (2022) explains that the form of agency theory used by the board of commissioners is to monitoring management that allows them to hide information for personal interests. Therefore, the board of commissioners also participates in monitoring management to obtain the quality information that can be accounted for by various interested parties. This makes ISR disclosure even more so wide.

Board of Directors

The board of directors has the authority to manage sharia commercial banks so they are in accordance with the vision & mission, and the the board of directors must prepare a good bank plan within the time short or long period (Pratiwi et al., 2020). In agency theory, Azifah (2022) confirms that the board of directors will optimize ISR disclosure. Therefore, the position of the board of directors must also be adjusted to their respective competencies so that they are more focused on implementing banking policies, including ISR disclosures.

3. METHODS

This type of quantitative research uses secondary data in the form of financial reports of sharia commercial banks in Indonesia listed in the Financial Services Authority for the 2018-2022 period. Sample selection is carried out through purposive sampling techniques, and get 12 banks for 5 years, then get a total of 60 units of analysis. Data collection was carried out through documentation techniques, by downloading the annual report on the official website of each sharia commercial bank in Indonesia. The analysis method using multiple linear regression analysis, with formula as following:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Information:

Y = Islamic Social Reporting

a = Constant

X_1 = sharia supervisory board

X_2 = board of commissioners

X_3 = board of directors

$\beta_1, \ldots, \beta_3$ = estimate coefficient

4. RESULTS

Tests intended to provide accuracy and certainty in estimates of the regression model equation.

Normality test

Table 1.1 Normality Test

Source: Data processed by researchers (2024)

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		60
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	6,83635805
Most Extreme Differences	Absolute	,089
	Positive	,084
	Negative	-,089
Test Statistic		,089
Asymp. Sig. (2-tailed)		,200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Normality test with one sample Kolmogorov-smirnov have a significant value criterion of less than 0.05 means that the data is normally distributed. The test results shown in table 1.1 have Asymp. Sig value 0.200. This concludes that the data is normally distributed.

Classic assumption test

1. **Multicollinearity Test**

Table 1.2 Multicollinearity Test

Source: Data processed by researchers (2024)

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	36,094	4,623		7,807	,000		
	DPS	,113	2,057	,008	,055	,956	,812	1,231
	DK	-1,678	1,492	-,218	-1,125	,265	,436	2,292
	DD	2,438	1,118	,403	2,180	,033	,478	2,091

a. Dependent Variable: ISR

The purpose of the multicollinearity test is to determine whether a correlation is strong or not. A regression model is said to be good if it has not correlation, with value requirements tolerance > 0.1 and VIF value < 10. According to the research results, it is known that each variable independent has tolerance value greater than 0.1 and the VIF value is smaller than 10. So, the conclusion is that the independent variable is free from multicollinearity problems.

1. Autocorrelation Test

Table 1.3 DW TesT

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,387[a]	,150	,087	6,839	2,002

a. Predictors: (Constant), ISR, DPS, DD, DK

b. Dependent Variable: ISR

Source: Data processed by researchers (2024)

Autocorrelation testing using the Durbin-Watson test requires that the d value must be between dU and 4-dU, then it can be said that there is no autocorrelation problem. The presentation of research results according to table 1.3 shows that the d value is 2.002. According to the Durbin- Watson table, it is known that the dU value is 1.6889 so that for the 4-dU calculation the result is 2.3111. So, the regression model that occurs is 1.6889 < 2.002 < 2.3111, which means that it is cut off from autocorrelation.

2. Heteroscedasticity Test

Table 1.4 Gletjer Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4,538	2,599		1,746	,086
	DPS	-,396	1,156	-,050	-,342	,733
	DK	,379	,839	,091	,452	,653
	DD	,145	,629	,044	,231	,818

a. Dependent Variable: ABS_RES

Source: Data processed by researchers (2024)

The results of the heteroscedasticity test using the Gletjer test method which obtained a significant value > 0.05 means that the regression method does not occur heteroscedasticity. Based on the research results, it is stated that the independent variable has a significant value of > 0.05, it is known that heteroscedasticity does not occur.

Multiple Linear Regression Analysis

Testing to see the magnitude of the impact that occurs between the independent variable on the dependent variable. The following are the results of the regression equation obtained based on the tests that have been carried out:

$$Y = 36.094 + 0.113\ X1 - 1.678\ X2 + 2.438\ X3$$

A constant value of 36.094 indicates that if the independent variable does not change, the dependent variable will have a constant value of 36.094. The sharia supervisory board has a positive value of 0.113. Furthermore, the board of commissioners showed a negative value of -1.678. Lastly, the board of directors has a positive value of 2.438.

Hypothesis testing

Hypothesis testing is carried out to prove the truth in data analysis

1. F Test

Table 1.5 F Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	252,322	3	84,107	6,833	,001[b]
	Residual	689,353	56	12,310		
	Total	941,675	59			

a. Dependent Variable: ISR

b. Predictors: (Constant), DD, DPS, DK

Source: Data processed by researchers (2024)

Table 1.5 has presented the values Sig.0.001. It means that the significant value is less than 0.05. Mark F-Count amounting to 6,833. The conclusion is the sharia supervisory board, board of commissioners, and the board of directors simultaneously influences ISR disclosure.

2. Determination Coefficient Test

Table 1.6 R2 Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,518[a]	,268	,229	3,509

a. Predictors: (Constant), DD, DPS, DK

b. Dependent Variable: ISR

Source: Data processed by researchers (2024)

The coefficient of determination value obtained is 0.229, which means that the independent variable can describe variations in changes of 22.9%. Meanwhile, the remaining 77.1% was influenced by variables outside this research.

3. T test

Table 1.7 t test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	36,094	2,312		15,614	,000
	DPS	,113	1,028	,014	,110	,913
	DK	-1,678	,746	-,390	-2,250	,028
	DD	2,438	,559	,721	4,360	,000

a. Dependent Variable: ISR

Source: Data processed by researchers (2024)

1. Sharia supervisory board shows sig. value 0,913 > 0,05. it’s mean that sharia supervisory board has not significant effect on Islamic social reporting disclosures.
2. Board of commissioner have sig. value 0,028 < 0,05. It’s mean that board of commissioner has significant effect on Islamic social reporting disclosures.
3. Board or directors get sig. value 0,000 < 0,05. It’s mean that board of directors has significant effect on Islamic social reporting disclosures.

5 DISCUSSIONS

1. The effect of Sharia Supervisory Board on Islamic Social Reporting Disclosure at Sharia Commercial Banks in Indonesia

Table 1.7 shows the results 0.913 > 0.05. This means that DPS has not influence on ISR disclosure. This indicates that sharia commercial banks that have a large or small number of DPS do not pose a problem in ISR disclosures. DPS only has a role in supervising sharia compliance in the implementation of bank operations, so the existence of DPS is not related to ISR disclosure. The research results are in line with Kimsen (2022) and Mustika et al. (2021) which shows that DPS has not influence on ISR disclosure. However, this is different from Sutapa & Hanafi (2019) who state that DPS influences ISR disclosure.

2. The effect of Board of Commissioners on Islamic Social Reporting Disclosure at Sharia Commercial Banks in Indonesia

The test in table 1.7 obtained a value of 0.028 < 0.05. This means that the board of commissioners has influence on ISR disclosure. This shows that a number of board of commissioners can increase ISR disclosure in sharia commercial banks. The board of commissioners is responsible for disseminating information to stakeholders. Therefore, a large board of commissioners can increase management supervision and emphasis on management in ISR disclosure. This result accordance with Kurniawati & Yaya (2017) and Kimsen (2022) that the board of commissioners influences ISR disclosure. Meanwhile, Rachmania & Alviana (2020) and Mustika et al. (2021) states that the board of commissioners has not influence on ISR disclosure.

3. The effect of Board of Directors on Islamic Social Reporting Disclosure at Sharia Commercial Banks in Indonesia

From table 1.7 it is known that the results obtained are 0.000 < 0.05. It means that the board of directors has influence on ISR disclosure. The number of members of the board of directors is adjusted to their abilities, so they can concentrate more on the duties and responsibilities carried out by each individual. This is because the authority of the board of directors can improve its performance, including in terms of ISR disclosure. The results of this research is same as (Pratiwi et al., 2020) that the board of directors influences ISR disclosure. Meanwhile, Millenia & Syafei (2021) have results that the board of directors has not effect on ISR disclosure.

6 CONCLUSIONS AND RECOMMENDATIONS

Based on the description of the data, the conclusion is the board of commissioners and board of directors show an influence on ISR disclosure, while the sharia supervisory board has not influence on ISR disclosure. Suggestions for the future research authors are to expand the research sample to other sharia financial institutions such as UUS or BPRS. In addition, it is hope that the research period will be extended to find more tested findings.

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