Islamic Governance, Maqashid Sharia Index, and Islamic Social Reporting: The Case of Islamic Banks in Indonesia

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Abstract—Many previous studies still examine the Islamic maqashid index as a performance measurement system. This collaborative research uses the maqashid sharia index in another perspective as a determinant that influences the level of Islamic social reporting. In addition, Islamic governance and Islamic social reporting were used in this study. The novelty offered from this study is on the research model which includes financial determinants and non-financial determinants of Islamic social reporting. Financial determinants in this study use profitability, company size, and age of the company. The non-financial determinants include Islamic governance and maqashid sharia index. This study aims to obtain empirical evidence about the influence of Islamic governance, maqashid sharia index, and financial performance on Islamic social reporting. The sample of this research is 11 Islamic banks in Indonesia in the period 2015-2018. The data analysis technique uses Partial Least Square with SmartPLS version 3 by applying convergent validity, discriminant validity, reliability and hypothesis testing. The research findings show that the Maqashid Sharia index and financial performance influence the level of Islamic social reporting. The better the maqashid sharia index the wider the level of social reporting. The stronger effect produced by financial performance on the level of social reporting. In contrast, Islamic governance does not affect the maqashid Sharia index and Islamic social reporting.

Keywords: Islamic governance, maqashid sharia index; financial performance; Islamic social reporting

I. INTRODUCTION

The implementation of governance in Islamic banks is different from conventional banks, namely the obligation to comply with sharia principles in Islamic banks. Sharia principles refer to the principles of Islamic law in banking activities based on fatwas issued by the National Sharia Council which was formed by the Indonesian Ulama Council. The low compliance with sharia principles against sharia principles provides an opportunity for fraud in Islamic banks. Therefore, guarantees regarding the fulfillment of sharia principles (sharia compliance) from a customer fund management activity by Islamic banks are very important in the business activities of Islamic banks [8]. Even adherence to sharia principles does not only represent an operational system but must become a work culture through worship practices [32]. Good governance is expected to increase the credibility, effectiveness, and efficiency of Islamic banks. One of the important issues regarding the existence of sharia governance is the existence of a Sharia Supervisory Board or what is known as the Sharia Advisory Board (SAB). This regulation regarding the Sharia Supervisory Board is regulated in Bank Indonesia Regulation No. 41/33/PBI/2009 [52] and Bank Indonesia Circular Letter No. 12/13/DPbS [53]. Islamic banks are required not only to achieve profit maximization but also to maximize the achievement of rights to Allah through the payment of zakat and the state through the payment of taxes. In addition, above all, the profits generated by Islamic Banks must be able to lead to increased security, health, and welfare for every Muslim [33]. The concept of maqashid sharia is what distinguishes it from...
conventional banks. This is understandable because Islamic banks use maqashid sharia as a foothold so that people can take advantage of Islamic social financing and take advantage of funds from the surplus side. Islamic banks provide sustainable and impactful financing for those who have limited access to conventional banks [41].

The maqashid sharia index (MSI) in several previous studies [24], [39] used 3 indicators, namely educating individuals (taedzibul fard), upholding justice (iqamatul adl), and producing benefits (jalul madalath). This shows that Islamic banks have a very important role in the fields of education, justice, and benefit. This condition is relevant to the objectives of Islamic banks, where Islamic banks do not only aim to maximize profits but must be responsible to God and fulfill human rights socially [33].

Islamic social reporting (ISR) was first initiated by [15]. The ISR was further developed more extensively by [36] in Malaysia and currently, the ISR is still being developed by further researchers. According to [15], there are many limitations in conventional social reporting, so he proposes a conceptual framework for ISR based on sharia provisions that are measured using an ISR index. The ISR index is an extension of social reporting which includes public expectations not only regarding the role of companies in the economy but also the role of companies from a spiritual perspective. In addition, the ISR index also emphasizes social justice in relation to reporting on the environmental, minority rights, and employees.

[23] explains that the high ISR value of Islamic Banks in Indonesia is also influenced by the high value of disclosure on the theme of corporate governance. This happened because the government issued Bank Indonesia Regulation Number 11/33/PBI/2009 concerning the Implementation of Good Corporate Governance for Islamic Banks [52]. In addition, there are also regulations governing disclosure of social responsibility, including [48], [49].

The results of research on the effect of governance on the disclosure of social responsibility show contradictory results. The size of the sharia supervisory board is empirically proven to affect the disclosure of social responsibility [34], [43]. The results of other studies prove that governance represented by the size of the sharia supervisory board has no effect on the disclosure of corporate social responsibility [7], [21].

However, when compared to other Islamic countries, the development of the ISR index in Indonesia is still relatively slow [39]. This is because ISR disclosure in Islamic banking in Indonesia is still voluntary, not mandatory. In addition, there are also no specific regulations governing disclosure items in the ISR index such as in Islamic countries such as Malaysia, Sudan, Bahrain, United Arab Emirates, Iran, Palestine, Kuwait, Bangladesh, and Qatar, where the ISR index has become a part of it, from the reporting of Islamic organizations in the countries concerned. This is evident from the many studies on the ISR index in these countries [10].

To improve the level of ISR disclosure at Islamic Banks in Indonesia, it is necessary to examine the factors that influence the disclosure. There are many factors that influence the level of ISR disclosure apart from governance, including the maqashid sharia index, profitability, size, and age of the company. Social disclosure in most studies still uses the global reporting initiative (GRI). Disclosure with GRI has not revealed information about the principles that are in accordance with Islamic teachings because they are still general in nature. Current research uses Islamic social reporting disclosures which according to [15] show accountability to Allah and society and to increase transparency and provide relevant information to stakeholders. Much of the previous empirical research used the basis of legitimacy theory and agency theory to explain the influence of several variables on Islamic social reporting [40].

The company characteristics in this study use profitability, company size, and company age. In the context of the relationship between profitability and disclosure of social responsibility, managers in profitable companies tend to disclose information on social responsibility more broadly in order to obtain personal benefits such as promotions and compensation. Several previous studies from [2], [7], [29], [47] succeeded in confirming agency and legitimacy theory and proved the positive effect of profitability on the level of corporate social responsibility disclosure. The greater the level of profit the company gets, the wider the level of disclosure of corporate social responsibility.

Based on agency theory, it can be explained that the larger the company size, the agency costs that must be incurred are also quite large. Thus, the company will seek to reduce agency costs through broader disclosure of social responsibility. Most of the research confirms both agency theory and legitimacy theory in explaining the relationship between company size and disclosure of corporate social responsibility, as research conducted by [1]-[2], [13], [19], [38], [42].

Current research is important to do to address previous research gaps. In the context of the relationship between governance and disclosure of social responsibility, research gaps occur because of inconsistent findings from previous research. In addition, there are still few studies examining the effect of factors on Islamic Social Reporting (ISR). The finding of this study is a complete research model, namely the determinant model of Islamic social reporting disclosure in Islamic banks (Figure 1). The determinants are not only financial determinants but also non-financial determinants. Financial determinants include profitability, company size, and company age. The non-financial determinants include Islamic governance as represented by the characteristics of the sharia supervisory board (SSB) and the maqashid sharia index. Based on the background, the problem formulations in this study are: (1) Does Islamic governance affect Islamic social reporting? (2) Does the maqashid sharia index affect Islamic social reporting? (3) Do firm characteristics as represented by profitability, company size, and company age affect Islamic social reporting?, and (4) Does Islamic governance affect the maqashid sharia index?.
The first grand theory is agency theory. Agency theory requires a separation between the principal and the agent; this trigger asymmetric information in which the agent has better information about the organization than the principal. The existence of asymmetric information can trigger agency problems in the form of moral hazard and adverse selection [20]. Regarding the possibility of agency problems, according to [20], agency costs to suppress agency problems consist of (1) monitoring costs, (2) bonding expenditure, and (3) residual loss. [9] argues that a conflict of interest or agency problem arises when a conflict arises between the expectations or goals of the owner/shareholder and the directors, and when the owners have difficulty verifying what management is actually doing. The implication of agency theory for this research is that management as an agent is inseparable from any actions towards the principal. Islamic banks know more about fund management than customers. This is what is often referred to as asymmetric information. With the existence of asymmetric information, it is possible that agency problems will arise [37]. The agency conflict can be resolved by implementing corporate governance. Corporate governance is implemented through structures and mechanisms.

The second grand theory is legitimacy theory. Legitimacy is based on the idea that the company has a social contract with the community, whereby the company agrees to take actions that the community wants for the company’s business sustainability. Legitimacy theory argues that disclosures made by companies are related to environmental factors (economic, social, and political) that these disclosures legitimize the company [17], [28], [30]. In legitimizing its actions through disclosure, the company hopes to continue its business existence [28].

According to the legitimacy theory, disclosure of corporate social responsibility is carried out so that the community gives a positive response to company performance. This response will give birth to a good value of the company from the perspective of the community so that in the end it can increase the achievement of company profits. In order to test the theory of legitimacy, [27] compared CSR disclosure on companies that do tax aggressiveness with companies that do not do tax aggressiveness in Australia. The results of their study succeeded in confirming the legitimacy theory in the context of tax aggressiveness.

B. Islamic governance

Islamic banks must carry out their functions properly in accordance with applicable banking regulations and in accordance with Sharia principles. To ensure the implementation of Sharia principles, in Islamic banking activities there is one very important party, namely the Sharia Supervisory Board (SSB). The role of the sharia supervisory board is very strategic in implementing Sharia principles in Islamic banking institutions.

In Bank Indonesia Regulation No. 11/33/PBI/2009 in Article 47, the SSB has the duty and responsibility to provide advice and suggestions to the board of directors as well as to supervise bank activities in accordance with Sharia principles [52]. The implementation of SSB duties and responsibilities includes:

1. Assess and ensure compliance with the Sharia principles of operational guidelines and products issued by the bank.
2. Oversee the process of developing new products of the bank to comply with the fatwa of the National Sharia Council - Indonesian Ulama Council.
3. Requesting a fatwa from the National Sharia Council - Indonesian Ulama Council for new products of the bank for which there is no fatwa.
4. Conduct regular reviews on the fulfillment of Sharia principles on the mechanism for raising funds and channelling funds as well as bank services.
5. Request data and information related to sharia aspects from the Bank’s work units in the context of carrying out their duties.

According to Bank Indonesia Regulation No. 6/24/PBI/2004 in Article 26 (1) states that the number of members of the Sharia Supervisory Board is at least 2 people and a maximum of 5 people [50]. Bank Indonesia Regulation No. 11/33/PBI/2009 stipulates that SSB members may only hold concurrent positions as SSB members at the maximum of two banking institutions and two non-bank Islamic financial institutions and members of the Sharia Supervisory Board are prohibited from concurrently serving as consultants in all Islamic banks [52]. One SSB member is allowed to concurrently serve as a member of the National Sharia Council.

Bank Indonesia Regulation No. 11/33/PBI/2009 regulates the Sharia Supervisory Board meetings [52], including:
1. Meeting of the Sharia Supervisory Board must be held at least 1 time in 1 month.
2. Decisions made by the Sharia Supervisory Board are made based on deliberation to reach consensus.
3. All decisions of the Sharia Supervisory Board set forth in the minutes of the meeting are joint decisions of all members of the Sharia Supervisory Board. The results of the Sharia Supervisory Board meeting as referred to in paragraph 1 must be recorded in the minutes of the meeting and well documented.

C. Maqashid Sharia

According to Salman et al. (2018) [39], Islamic sharia is grouped into three, namely belief (aqidah), worship, and morality (akhlaq). Akhlaq is an inseparable part of sharia. The main objective of implementing sharia is to achieve benefits (maslahah), by providing protection to humans. Apart from aiming to avoid harm (mafsadah), sharia also aims to protect humans from damage, this goal is known as maqashid which is defined as the goal and target of Islamic law.

In this context, Maqashid sharia plays a very important role for a society in maintaining one’s wealth, encouraging everyone to generate, collect, preserve, protect, and distribute wealth fairly. Therefore, the role of the legal financial institutions is very important to integrate policies to achieve the Maqasid Sharia [22].

According to [4], maqashid is defined as the intent, purpose, intention, cover, or principle behind Islamic law or rules. The definition of maqashid al-Ghazali focuses on the meaning of protection and preservation. Maqasid sharia in its development is also a business model that involves human, social, economic, and environmental development [5].

D. Firm Characteristics

Profitability is the ability of a company to make a profit through its business operations using asset funds owned by the company. Another definition also shows that profitability shows the company’s ability to generate profits and measures the level of operational efficiency and efficiency in using the assets it owns [31]. The age of the company reflects how long the company is able to survive. Company age is estimated to have a positive relationship with corporate social responsibility disclosure. According to [46], the longer the company survives, the more information the public has about the company. Company size is the variable most frequently used in making annual reports. Generally, companies with a larger scale tend to disclose more information about increasing ownership due to high dividend receipts [6].

E. Islamic Social Reporting

Corporate social responsibility reporting in conventional systems only focuses on material and moral aspects. The spiritual aspect should also be the main focus in corporate social responsibility reporting because decision-makers have the expectation that companies will voluntarily disclose the latest information to help fulfil their spiritual needs. Therefore, there is needs to be a special framework for reporting social responsibility in accordance with Islamic principles [15].

Such a framework is not only useful for Muslim decision-makers but also useful for Islamic companies in fulfilling accountability to Allah and society. This framework is known as Islamic social reporting (ISR). Islamic social reporting (ISR) uses sharia principles as its basic foundation. Sharia principles in ISR produce material, moral, and spiritual aspects that are the main focus of corporate social reporting. Islamic social reporting (ISR) is an extension of social reporting which is not only in the form of a great desire from the whole community for the role of companies in the economy but is related to a spiritual perspective [15]. The current research uses an Islamic social reporting framework with the main reference [15] which is modified with the items contained in the research of [36].

F. The Effect of Islamic Governance on Islamic Social Reporting

The characteristics of the Sharia Supervisory Board are the number of SSB members in a company and in Islamic banking. The increasing number of sharia supervisory boards can increase the ISR level disclosure. The more the number of members of the sharia supervisory board, the more effective and efficient the bank's performance will be so that the disclosure of Islamic social reporting will increase.

A large number of Sharia Supervisory Boards with a variety of perspectives and experiences can result in better corporate report reviews, especially in terms of corporate governance and social responsibility reporting. The smaller the number of members of the sharia supervisory board, the ineffective and inefficient performance of Islamic banks and companies so that the disclosure of Islamic Social Reporting will decrease. This is because the number of SSB members is small so that there is a lack of company and Islamic banking performance reviews and a lack of reporting on social responsibility.

The influence of the variable characteristics of the Sharia Supervisory Board with stakeholder theory is that the Sharia Supervisory Board is also said to have an interest in companies and banks. A large number of Sharia Supervisory Boards will make Islamic companies and banks adapt easily. The relationship between stakeholder theory in this variable is that a large number of Sharia Supervisory Boards will have the right to know all the information in companies and Islamic banking. The impact can be seen through corporate social responsibility reporting that the Sharia Supervisory Board will provide financial and non-financial information in accordance with the company’s real conditions. The effect of the variable characteristics of the Sharia Supervisory Board with agency theory, namely the greater the number of Sharia Supervisory Boards, the more frequent meetings will be held between the principal and the agent so that the cooperation between companies and Islamic banking will be increasingly established so that they can delegate decision-making authority.
Based on empirical research, [7] did not find the effect of the size of the Sharia Supervisory Board (SSB) on the disclosure of Islamic social reporting (ISR). [7] uses the object of Islamic banks in Germany and produces empirical evidence that expertise, number of meeting frequency, and member size of the Sharia Supervisory Board (SSB) do not affect the level of corporate social responsibility disclosure.

Their results differed from the empirical research conducted by [34], [43] which revealed that the size of the Sharia Supervisory Board has an effect on Islamic social reporting. Based on the results of this study, it can be concluded that legitimacy theory is able to explain the effect of Islamic governance on the level of responsibility disclosure.

G. The Effect of Magashid Sharia Index on Islamic Social Reporting

The influence of the magashid sharia index on Islamic Social Reporting can be explained in the context of legitimacy theory. In legitimacy theory, it is explained that to be accepted by society, companies must fulfill social contracts through disclosure of economic, social, and political information [17], [28], [30]. Based on the theory of organizational sociopolitical legitimacy, it can be in the form of financial performance and the maqashid sharia index. Companies that have good financial performance and maqashid sharia index tend to be more in line with social norms through broader disclosure of social responsibility.

The results of the study of [36] found a positive effect of company performance on the level of corporate social responsibility disclosure. Supporting the study of [36], [39] found that the maqashid sharia index has a positive effect on the level of corporate social responsibility disclosure. The higher the maqashid sharia index, the greater the impact on corporate social responsibility reporting. Companies that perform well tend to express social responsibility at a higher level in order to gain the trust of the community so that they can maintain their performance in the future. Their results differed from those of [18], [42] who did not find the effect of company performance on the level of corporate social responsibility disclosure.

H. The Effect of Profitability on Islamic Social Reporting

The profitability of the company is related to the theory of legitimacy because if the profits obtained by large companies will get a wider disclosure of information. Companies with high returns on investment will use relatively small debt. If the company wants to live in order to grow and develop, the company must earn a profit.

Profitability is closely related to the effectiveness of a company's management in determining strategic steps to gain profit. Companies that have a higher level of profit will attract investors by providing better information to the public and other stakeholders by increasing social responsibility disclosure. This means that the higher the profitability, the wider the ISR disclosure will be. High profitability means that the company will be more flexible and free in managing profits to disclose social responsibility to stakeholders. [35], [36] prove that profitability has a positive effect on the level of social responsibility disclosure. Different results were found by [40] were the results of their study found no effect of profitability on the level of Islamic social reporting. The argument of [40] is that corporate social responsibility for sharia entities is a form of implementation of maqashid sharia so that sharia entities are still obliged to disclose their social responsibility regardless of the level of profitability it generates.

I. The Effect of Company Size on Islamic Social Reporting

The size of the company can be determined based on the total assets owned. Company size is an estimator variable in annual reports which is mostly used to explain various aspects of the company. The size of the company will influence the company's decision to disclose the information in the annual report. The ISR in the annual report is significantly related to the company size and the disclosure value is higher for large, well-performing companies [29].

[29], [45] revealed that company size has a significant effect on ISR disclosure. Companies that have high total assets will conduct a wider social responsibility disclosure than companies that have lower total assets because more sources of funds are used to carry out social responsibility activities. The results of this study are supported by the study of [40] who succeeded in confirming the effect of company size on the level of social responsibility disclosure from the perspective of sharia.

J. The Effect of Company Age on Islamic Social Reporting

Company age is associated with better performance and more experience so that it is able to reveal information in the form of broader corporate social responsibility [3]. The results of [29] found that company age has an effect on ISR disclosure because long-established companies will gain the trust of investors and also affect the company's financial statements so that companies have more information along with the company's development and company growth. In contrast, the results of the study by [3] did not find an effect of company age on social responsibility disclosure. This is because companies are accustomed to carrying out corporate social responsibility by using other media such as magazines and the internet [3].

K. The Effect of Islamic Governance on Maqashid Sharia Index

The regulation regarding the Sharia Supervisory Board (SSB) is regulated in Bank Indonesia Regulation No. 11/10/2009 where Article 11 states that the Sharia Supervisory Board (SSB) can concurrently be at the most at 4 other financial institutions [51]. The characteristics of the members of the Sharia Supervisory Board which include
experience, expertise, and high professional and social networks show better performance. More and more members of the Islamic supervisory board will also increase the level of compliance of Islamic banks. In addition, better supervision will show a reduction in agency problems carried out by bank management. With the reduction of agency problems, the performance of maqashid Islamic banks will be better [24].

III. METHODOLOGY

This research is included in quantitative research because it uses quantitative data and uses statistical testing tools to test the research hypothesis. Based on the source or type of data, this study uses indirect research or uses secondary data in the form of financial reports and company annual reports. Secondary data sources can come from books and government publication journals with economic indicators, census data, statistical abstracts, media, and company annual financial reports [12]. Meanwhile, according to [25], secondary data is data that has been collected by data collection agencies and published to the data user community.

A. Research Variables

Islamic governance is governance that is implemented based on sharia principles. Islamic governance in this study is measured by several indicators which include:

a. Number of SSB members

According to Bank Indonesia Regulation No. 11 of 2009 states that the maximum number of SSB members is five people. Measurement of the variable size of the Sharia Supervisory Board is by writing the number of members of the Sharia Supervisory Board of each Islamic bank in Indonesia.

b. Concurrent positions as SSB members

Concurrent positions as members of the Sharia Supervisory Board are members of the Sharia Supervisory Board who perform more than one job apart from being SSB. Measurement of multiple SSB positions in this study was carried out by assigning a value of one to the Sharia Supervisory Board performing concurrent positions in accordance with Bank Indonesia regulations and giving a zero value to the Sharia Supervisory Board who carried out concurrent positions that were not in accordance with Bank Indonesia regulations.

c. The educational background of SSB members

Measurement of the educational background variable of SSB members is by giving a value of one to the Sharia Supervisory Board who has a doctoral background. Zero scores on the Sharia Supervisory Board with a non-doctoral educational background (only one, not both).

d. Number of SSB member meetings

The number of SSB member meetings in a year is calculated based on the realization of the frequency of SSB member meetings in a year.

In this study, the maqashid sharia index is defined as the level of achievement of the objectives of the Islamic entity. The goals to be achieved include tahdzibul fard (educating individuals), iqamah al-'adl (building justice), and maslahah (creating benefits). The main objective is individual education, in the sense that the Islamic entity must develop the knowledge, skills, and spiritual values of everyone in the company. Islamic entities must also provide information to all stakeholders that the products offered are in accordance with sharia principles. The second objective is to build justice, in the sense that Islamic entities should be honest in all transactions and business activities that are carried out. This second objective indicates that all contracts in Islamic banks must be free from unfair elements such as maysir (gambling), gharar (uncertainty), and usury. The third objective is to provide benefits, in the sense that Islamic entities should develop investment projects and services of a social nature to improve community welfare. This third objective can be seen from the amount of zakat issued by sharia entities and the amount of investment in the real sector [39]. In addition to zakat, waqf can also be included in this third objective because waqf has played a strong Islamic social financial instrument throughout Islamic history [44].

The profitability used in this study is profit before tax and return on assets (ROA). ROA is a financial ratio related to potential profit or profit at the level of income, assets, and share capital. The size of the company is seen from the total assets owned by the company, which can be used for the company's operational activities. If the company has large total assets, the management will be more flexible in using existing assets in the company. The company size indicator uses [6]. Company age is representative of the company period in the industry [29]. The age of the company can be measured from the length of time the company was established to date, measured in years.

Islamic social reporting is a disclosure of corporate social responsibility which is carried out based on Islamic sharia principles. This variable is measured through content analysis with the following scoring conditions:

a. Value 0 if there is no disclosure of the item in the annual report.

b. Value 1 if there is a disclosure of the item in the annual report.

If all items are disclosed by Islamic banks, the maximum value is 35. The calculation of the ISR disclosure index score in this study refers to the research of [36] where variable scoring is the number of items disclosed divided by the total number of items available multiplied by 100%.

B. Population and Sample

The population in this study are all Islamic banks in Indonesia. The sampling technique used was purposive sampling method. There are two criteria for sampling based on purposive sampling, namely (1) Islamic banks that publish annual reports in the 2015-2018 period; and (2) Data related to
the measurement of profitability, company size, company age, and Islamic social reporting.

C. Method of Collecting Data

Data collected through the documentation method is quantitative data sourced from financial reports and annual reports for a period of 4 years starting from 2015-2018. Financial reports and annual reports are taken from the website of the Financial Services Authority and the websites of each Islamic bank.

D. Data Analysis Technique

The data analysis technique used in this study was Partial Least Square analysis with SmartPLS version 3.0 software. PLS is an alternative approach that shifts from a covariance-based to a variance-based SEM approach. Covariance-based SEM generally tests causality or theory, while PLS is more of a predictive model. PLS can also explain the relationship between variables according to [11], [14].

IV. RESULTS AND DISCUSSION

Based on the selected criteria, the research sample is 11 Islamic commercial banks that have complete financial statements and annual reports in the 2015-2018 period. The samples in this study were Bank Muamlat Indonesia; Bank Victoria Syariah; Bank BRI Syariah; Bank BNI Syariah; Bank Syariah Mandiri; Bank Mega Syariah; Bank Panin Dubai Syariah; Bank Syariah Bukopin; Bank BCA Syariah, and Bank Maybank Syariah Indonesia.

A. Convergent and Discriminant Validity Test

Convergent validity testing is done by looking at the value of the outer loading of each research indicator. This study uses a rule of thumbs above 0.5 as a condition for each indicator to meet convergent validity. After eliminating some of the loading factor indicators below 0.5, the results of the second convergent validity test were obtained (Table 1). The second test results show that there are no indicators that have a loading factor below 0.5.

Table 1: Convergent Validity Testing

<table>
<thead>
<tr>
<th>MSI</th>
<th>ISR</th>
<th>Firm Characteristics</th>
<th>Islamic Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1.2</td>
<td></td>
<td>0.902</td>
<td>0.667</td>
</tr>
<tr>
<td>X1.3</td>
<td></td>
<td></td>
<td>0.856</td>
</tr>
<tr>
<td>X2.2</td>
<td></td>
<td>0.860</td>
<td></td>
</tr>
<tr>
<td>X2.3</td>
<td></td>
<td>0.717</td>
<td></td>
</tr>
<tr>
<td>X3.1</td>
<td></td>
<td>0.842</td>
<td></td>
</tr>
<tr>
<td>Y1.1</td>
<td></td>
<td>0.594</td>
<td></td>
</tr>
<tr>
<td>Y1.2</td>
<td></td>
<td>0.783</td>
<td></td>
</tr>
<tr>
<td>Y1.3</td>
<td></td>
<td>0.869</td>
<td></td>
</tr>
<tr>
<td>Y1.5</td>
<td></td>
<td>0.689</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s elaboration

Discriminant validity testing is done by looking at cross loading. Based on Table 2, all variables have the highest correlation in themselves compared to the correlation on other variables so that the discriminant validity requirements in the measurement model are met. Maqashid Sharia Index variable has a value of 0.882, higher than the correlation with other variables, namely 0.405 (ISR), 0.175 (company characteristics), and 0.192 (Islamic governance).

Table 2: Discriminant Validity Testing

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>MSI</th>
<th>ISR</th>
<th>Firm Characteristics</th>
<th>Islamic Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maqashid Sharia Index</td>
<td>0.882</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Islamic Social Reporting</td>
<td>0.405</td>
<td>0.741</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm Characteristics</td>
<td>0.175</td>
<td>0.599</td>
<td>0.782</td>
<td></td>
</tr>
<tr>
<td>Islamic Governance</td>
<td>0.192</td>
<td>0.419</td>
<td>0.257</td>
<td>0.767</td>
</tr>
</tbody>
</table>

Source: Author’s elaboration

B. Reliability Test

Reliability testing using cronbach alpha and composite reliability. Cronbach alpha and composite reliability were used to measure the reliability of the reflexive measurement model. The rule of tums in this study for the reliability test is 0.70. Based on the results of the reliability test, two variables were obtained, namely company characteristics and Islamic governance which had a score less than the rule of tums 0.70 (Table 3).

Table 3: Reliability Testing

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Cronbach’s Alpha</th>
<th>rho_A</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maqashid Sharia Index</td>
<td>0.716</td>
<td>0.729</td>
<td>0.875</td>
<td>0.777</td>
</tr>
<tr>
<td>Islamic Social Reporting</td>
<td>0.723</td>
<td>0.778</td>
<td>0.827</td>
<td>0.540</td>
</tr>
<tr>
<td>Firm Characteristics</td>
<td>0.371</td>
<td>0.386</td>
<td>0.758</td>
<td>0.612</td>
</tr>
<tr>
<td>Islamic Governance</td>
<td>0.312</td>
<td>0.336</td>
<td>0.738</td>
<td>0.588</td>
</tr>
</tbody>
</table>

Source: Author’s elaboration

C. Inner Model

R Square value of 0.75 indicates strong; 0.50 indicates moderate or 0.25 indicates a weak model. R Square (R²) in the model with ISR as the dependent variable of 46.5% indicates that the model is in the moderate category, meaning that the Islamic Social Reporting variable can be explained in the research model by 46.5% and the remaining 53.5%. Model 2 with MSI as the dependent variable produces R² of 3.7% which indicates a weak model (Table 4).
E. The Effect of Maqashid Sharia Index on Islamic Social Reporting

In the research, there are 2 indicators of the Maqashid Sharia Index (MSI) that meet the validity and reliability tests, namely justice and welfare. Conceptually it is stated that a high MSI score can have an impact on increasing disclosure related to ISR. This concept is in line with the theory of legitimacy, which states that Islamic banks must fulfill social contracts through disclosure of information in order to be accepted by the public. Islamic banks that perform well are not only financial performance, even including non-financial performance such as MSI, tend to disclose social responsibility at a higher level to gain the trust of the public.

The trend analysis shows that the two indicators (justice and benefit) are indeed more than the indicators of educating individuals (tauhidul haid). However, among the three, the indicator of fairness is the best indicator produced by Islamic banks. In addition, the upward trend also occurs in indicators of equity. The second indicator after justice is the welfare indicator, but the welfare indicator tends to decrease at an insignificant level.

Based on hypothesis testing through SmartPLS Version 3.0, it is known that MSI represented by indicators of justice and benefit has a positive effect on the level of ISR disclosure. The results of the research prove empirically that Islamic banks that have a good performance in terms of justice and benefit have a tendency to better ISR disclosure. As previously informed, these findings are supported by the results of descriptive analysis. The average value of the Maqashid Sharia Index variable represented by indicators of justice, and welfare has the best performance and has increased during the study period.

The results of this study support the study of [36], [39] who found that there was a positive influence on MSI's disclosure of ISR in Islamic banks in Indonesia. The better the Maqashid Sharia Index which is indicated by the higher the score for the MSI variable, the wider the social responsibility reporting carried out by Islamic banks. Islamic banks that have good performance tend to express higher social responsibility in order to gain trust from the public so that Islamic banks can maintain their performance in the future. However, the current findings differ from those of [18], [42] who did not find the effect of company performance on the level of corporate social responsibility disclosure.

F. The Effect of Profitability on Islamic Social Reporting

Based on hypothesis testing through SmartPLS Version 3.0, it can be proven empirically that ROA has a positive effect on ISR disclosure. The results indicate that Islamic banks that are able to manage funds in overall profit-generating assets will attempt to disclose ISR on a broader scale. This is a form of accountability to owners of capital for the funds that have been provided and to add value to Islamic banking.

Likewise, the results of this study are in line with the legitimacy theory in the relationship between profitability and
ISR. Based on this theory, it is revealed that ISR disclosure can make the company more widely known by the wider community and can continue to grow. Therefore, this is one of the priorities for Islamic banks, especially a concern for Islamic banks that have performed well in terms of profitability through disclosure of social responsibility on a broader scale. The results of this study are supported by the analysis of previous trends which show that the ratio of profitability, company size, and company age has increased during the study period. Performance conditions that are getting better from year to year have contributed to the increasingly widespread disclosure of social reporting.

The results of this study are in line with the study of [16],[29],[35]-[36], as well as [26] who also found a positive effect of profitability on ISR disclosure in Islamic bank in Indonesia. However, the results of the current study differ from those of [40] were the results of their study found no effect of profitability on the level of Islamic social reporting.

G. The Effect of Company Size on Islamic Social Reporting

Company Size will influence banking decisions to disclose information in the annual report. This is also in line with the stakeholder theory where if the total assets and total income of large Islamic banks are then allocated to carry out extensive Islamic Social Reporting disclosures, it will have a major impact on stakeholders. Stakeholders will continue to improve their performance in order to obtain assets and increasing income.

Based on hypothesis testing through SmartPLS Version 3.0, empirical evidence is obtained that company size has a positive effect on the level of disclosure of Islamic Social Reporting. Research proves empirically that Islamic banks that have high total assets will disclose Islamic Social Reporting widely compared to Islamic banks that have low total assets because more sources of funds are used to disclose Islamic Social Reporting. This is supported by the results of descriptive analysis, where the average value of total assets has increased from 2015-2018 and the ISR variable which is represented by 5 indicators also has an increased average value from 2015-2018.

The results of this study support [29],[36],[45],[40] who found a positive influence on company size on ISR disclosure in Islamic banks in Indonesia. Islamic banks that have high total assets tend to conduct wider ISR disclosures because more resources are available.

H. The Effect of Islamic Governance on Maqashid Sharia Index

Based on agency theory, it is stated that good governance can improve company performance due to the presence of appropriate control mechanisms. The control mechanism in this study used SSB characteristics. The better the SSB in carrying out operational supervision of Islamic banks in compliance with sharia principles, the better the performance of Islamic banks can be, both in financial performance and in the form of maqashid sharia index.

The results showed that there are two indicators of Islamic governance that meet the validity and reliability test, namely multiple positions, and backgrounds of SSB members. There is a tendency of underperformance in the two indicators in Islamic banks. This condition causes the role of SSB to be unable to increase the maqashid sharia index.

The results of the study states that the small number of concurrent positions of SSB members results in the performance of SSB members who are more focused and professional in sharia supervision. The minimum number of concurrent positions for SSB members is expected to improve the performance of SSB supervision so that agency problems can be suppressed and, in the end, can improve the performance of Islamic banks. The results of the study contradict the statement of [24] which states that SSB holds multiple positions or does not have the same quality level.

V. CONCLUSION

This study proves the importance of the role of the maqashid sharia index in improving Islamic social reporting at Islamic banks in Indonesia. Islamic banks, which have a high maqashid sharia index, tend to produce social reporting on a broader scale. The high index of maqashid sharia is indicated by increasing the attention of Islamic banks to aspects of justice and benefit, so that it has a positive impact on the disclosure of their social responsibility. In addition, this study also succeeded in proving the effect of firm characteristics on Islamic social reporting. The higher the level of profitability and the size of the company owned by a Islamic bank, the impact on the increase in social reporting disclosed by Islamic banks. Another interesting finding from this study shows that the role of the Sharia Supervisory Board is ineffective in influencing the level of social reporting disclosed by Islamic banks. Likewise, the Sharia Supervisory Board variable does not affect the maqashid sharia index. This is because there are only two indicators that meet the validity and reliability requirements, namely multiple positions, and educational background.

One of the limitations of this study and an area that arises for future research is that the influence of the aspect of educating individuals as part of the maqashid sharia index on Islamic social reporting was not investigated in this research. Future research can use other indicators to measure Islamic governance in order to better test the maqashid sharia index.

This study has very important practical implications for Islamic banks. The maqashid sharia index increases Islamic social reporting with aspects of justice and benefits so that Islamic banks must design and implement programs that are in line with the increase in the maqashid sharia index. In addition, Islamic banks must increase profitability and firm size in order to expand Islamic social reporting.
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