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RESEARCH ARTICLE

Does Existing Islamic Social Reporting Index Betterto Articulate Sharia Value?

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Abstract

Purpose: This study aims to investigate the Islamic Social Reporting index whether it reflects sharia value implementation within companies listed in Jakarta Islamic Index compare to Sustainability Reporting Award winner.

Design/methodology/approach: Data was taken from companies listed in Jakarta Islamic Index and those whom awarded as first and second place in Sustainability Reporting Award. This research uses quantitative approach to test the consistency of Sharia index implemented in JII companies compare to Sustainable Reporting Awardee companies. Using content analysis, the hypothesis is test uses one sample t-test.

Findings: This study shows that there is ISR disclosure index difference between JII and SRA awardee companies. The SRA awardee outperforms JII companies, which is claimed as sharia holding value in running the business. This paper contributes to stakeholder literature by reshape disclosure index based on the shariah value in relation to social responsibility practices. The findings are noteworthy to the investor that concern with sharia value implementation through concise and consistent sharia rules. This study provides insights to how Islamic organization manage sharia implementation by redesign its indexing using more advanced methodology as well as adapted instead of adopted other guidelines without sufficient methods. There are disclosure items that the company naturally does not want to disclose. So, it cannot be detected through the content of information disclosed by the company. As a result, measurements may become biased.

Originality: This paper give additional insight that even sharia based assessment need to reconstruct its sharia methodology to provide fruitful information for investor. We recommend considering assessment method to reflect sharia value.

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Introduction:-

Shareholder theory is widely used in research on how companies maximize shareholders wealth, whether measured through dividends or increases in stock prices (O'Connell & Ward, 2020). The relationship between the increase in the company's stock price with the main objective of each investor shows a high correlation (Merkle & Weber, 2014). So investors choose a portfolio according to their preferences and characteristics (Peša & Brajković, 2016). Previous researchers have shown support for the shareholder theory that achieving a company's financial performance is an articulation of the company's CEO's accountability to shareholders (Chandren et al., 2021). This is in line with the signaling theory put forward by Ross (1977) that a company with a high level of financial performance will use its financial information to send signals to the market. Financial signals have provided ample empirical evidence (Chen & Chen, (2011),López-Iturriaga & Rodríguez-Sanz (2001), Sabrin et al. (2016),Safitri et al. (2014),Sucuahi & Cambarihan (2016) andTui et al. (2017).

But along with the development of multi-stakeholder theory, the company does not just pay attention to the welfare of shareholders, but is required to provide value for other stakeholders (Ooi & Husted, 2021). Nevertheless, the responsibility to multi-stakeholders must end in the well-being of shareholders (O'Connell & Ward, 2020) and vice versa (Rodriguez-Fernandez, 2016). Thus, the awakening of awareness of stakeholder interests will be part of the company's sustainable strategic management. Because various stakeholders can have conflicting expectations, companies must consider how their business models, including social responsibility programs, can balance conflicting stakeholder needs (Scherer et al., 2013). To cope with those multi-stakeholder challenges, a company needs not only adapting isomorphically to the expectations of the stakeholders, strategically manipulating those expectations without altering the corporation's existing structures and practices but also moral reasoning as an alternative legitimacy strategy. Moral reasoning means that the two parties try to learn from each other and eventually adapt their positions constructively. The aim is to reach a consensus (or at least an informed compromise) and ultimately a new match between organizational practices and societal expectations that will (re)establish legitimacy (Palazzo & Scherer, 2006).

Islamic values are based on faith and faith ('aqîdah), worship, as well as morality and ethics (akhlâq). Everything on the face of the earth is the creation of Allah SWT. So that humans have a responsibility to maintain the trust (responsibility). These values are value whose consensus is widely accepted, especially in countries with a majority Islamic population. Thus,the concept of social responsibility that accommodates Islamic values can be a form of moral reasoning in reaching consensus voluntarily.

The Islamic concept also believes that balance will occur if multi-stakeholder interests are of concern to the company. This concept is in line with the value of Maqâshid al-syarî'ah that came into the light as an elaborate reason to understanding and achieve the purpose behind the behest of Islamic laws. The term of maqâshid al-syarî'ah refers to a purpose, objective, principle, intent, goal or end of Islamic rulings. Imam Al-ghazali explained that maqâshid exists to promote the wellbeing of all mankind, which lies in safeguarding their faith (din), their human self (nafs), their intellect ('aql), their posterity (nasl) and their wealth (maal).

But research on social reporting based on stakeholder theory that pays attention to Islamic principles is still limited (Puspawati et al., 2020). The studies have also yielded mixed results so they have not been able to confirm whether social responsibility disclosure is a good signal from an investor's perspective. In conducting their research, previous researchers used measurements used by Haniffa (2002)and Othman et al. (2009) to assess how Malaysian corporate social responsibility disclosure based on Islamic principles (Sardiyoa & Martini, 2021). In Indonesia, there are no clear rules regarding ISR disclosure among companies Kalbuana et al. (2019) so that the application is very diverse (Waluyo Jati et al., 2020) tend to focus on reporting related returns, sharia-compliant transactions, and excellent service to customers rather than disclosing social factors (Putri & Mardian, 2020). Social responsibility reporting standards based on sharia principles in Indonesia were developed by the association of Islamic economists but the methodology used in the development of social responsibility reporting isinadequate, does not have a standard built on the basis of "best practice" or "empirical" as developed by GRI. They only use relevant literature studies so that the standards built are not aligned with recent development while the implementation of Sharia maqashid values demands adjustments tothe environment and the local regulation(El-Hawary et al., 2004;Nugraha et al., 2020). Thus, the applying those two measurements inappropriately is a threat to construct validity (Burt, 1976).

Researchers conducted research in Indonesia that has great attention to islamic development to provide empirical evidence on how to develop standards of reporting social accountability based on Islamic principles. Thus, this research can contribute to stakeholder theory in a multi-stakeholder context that gives an Islamic feel. The discussion of the nuances of Islam in this study is a novelty because how the business based on maqâshidsyarî'ah should not be regulated in a standard but based on Islamic teachings.

The absence of clear standards causes noise not only in application in the company but also in research. The researchers used diverse ISR measurements without considering the considerations used by the companies. The results were clearly unable to confirm the theory. This study provides empirical evidence that Islamic social reporting researchers in Indonesia measure disclosure indexes without going through a careful assessment process.

This research also contributes to the development of Islamic principles by using selected stocks according to JII. The rise of islamic economy in Indonesia can be seen from the rise of Sharia Capital Market, which is a capital market that is not contrary to Islamic principles. Thus JII becomes a guide for investors who want to invest their funds in Sharia without fear of being mixed with ribawi funds. In addition, JII becomes a benchmark in choosing a halal stock portfolio. Therefore, the selection of companies using the JII index can reduce the bias of sample selection.

Therefore, this research takes the set of research on ISR disclosure index in JII compare to SRA SMEs that are included as a sub-sector of the creative industry. Thus, the results of this study can provide recommendations for SME development policies and programs by the government. The rest of this paper is organised as follows. Section 2 presents the literature review and hypotheses development, while Section 3 explains the research methodology. Sections 4 reports on the findings and section 5 discusses the empirical results. Finally, section 6 provides the conclusion of the study.

Maqashid Sharia Implementation in Indonesia

The concept of sharia in Islam has guidelines that Islamic practitioners should not exploit and prohibit taking profits at the expense of the interests of others (Hussain et al., 2021). Everyone is responsible for prioritizing justice and welfare in society with the aim of obtaining grace from Allah SWT, both achieving success in this world and in the hereafter(Amran et al., 2017). Research on social responsibility disclosure that internalizes Islamic values finds mixed results in the literature. (Jihadi et al., 2021); (Siswanti et al., 2021); and (Nasution et al., 2019). The researchers measured disclosure rates using the indexation used by Haniffa (2002) and Othman et al. (2009). But the researchers did not provide a meaningful explanation as to why they used both measurements. The use of measurement without a solid foundation results in failure to capture what you want to measure (Burt, 1976). The use of ISR developed by Hanifa and Othman in Malaysia is not suitable to be applied in Indonesia without going through a careful research process because the company's characteristics and Sharia conditions in Indonesia have differences (Hutomo, 2020).

Based on shareholder theory, Jihadi conducted research in Indonesia to look at the influence of the ISR on stock performance as a proxy for shareholder welfare (Jihadi et al., 2021). Thus previous studies have been able to show that corporate social responsibility programs that consider multi-stakeholder remain lead to shareholder prosperity. However, some studies give inconsistent results (Agustina, 2020); (Nohong et al., 2019).

Research by (Salman et al., 2018) and (Khoiriyah & Salman, 2020) using indexing developed by Hanifa and Othman concluded that ISR is measure a company's performance based on syarî'ah provisions. Darussalam study even concluded that ISR is better than CSR index developed by GRI in measuring corporate social performance (Darussalam, 2018). However, he compares ISR and CSR index using two groups of companies. So that the comparation cannot reach a conclusion whether one is better than other due to different measurement compare with different object. Since CSR index develop by expert under proper methodology while ISR index developed primarily for Islamic banking by Accounting and Auditing Organization for Islamic Finacial Institution (AAOIFI), we can expect that CSR index generate more comprehensive measurement.

Theoretical Framework and Hypotheses Development

Disclosure of social responsibility costs a lot of money. For that, the company will consider the costs incurred with the benefits that will be received. This disclosure is expected to give a positive signal to stakeholders and provide a good image to the company. Therefore, disclosure of social responsibility requires clear and comprehensive guidelines in order for companies to benefit beyond their disclosure costs.

The Global Reporting Initiative (GRI), which guidelines for reporting conventional corporate social responsibility, was developed with a good and comprehensive methodology, so that the elements of social accountability disclosure actually contain information for stakeholders. Meanwhile, islamic social reporting (ISR) guidelines were not developed with adequate methods resulting in biased guidelines. Thus, GRI has better disclosure items than ISRs.

A research model is developed based on the theoretical reviews covered. This is presented in Figure 1. The framework illustrates that the same measurement apllied to two groups of samples, namely JII and SRA awardee. The conclusion achieved at the end of the one sample t-test, whether there is significant differences between two groups.

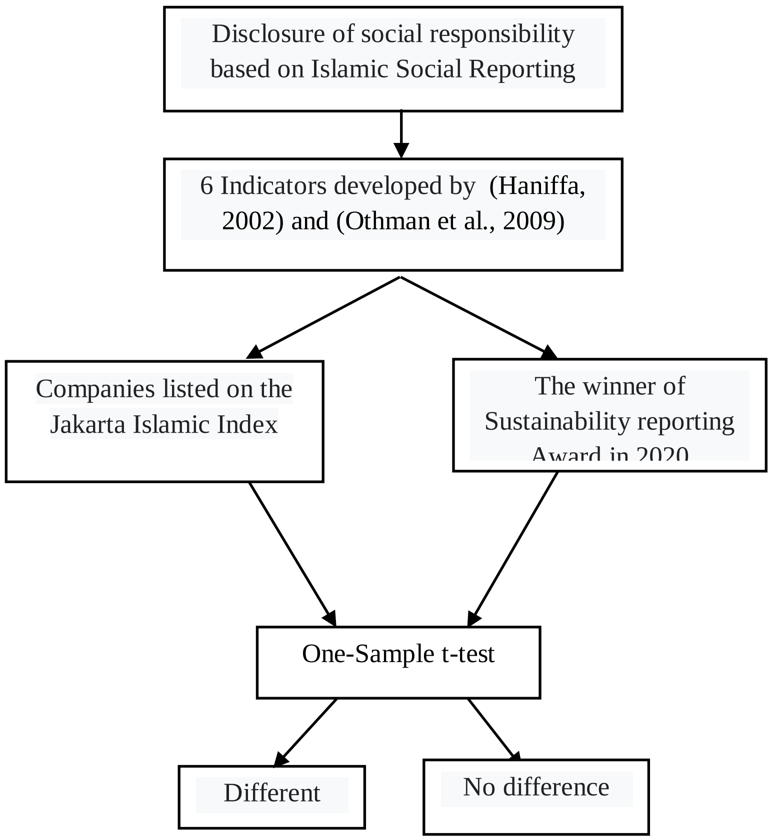

Figure 1:- Research Model.

Based on the above exposure, the hypothesis in this study is

H0 : There is no difference in the quality of social responsibility disclosure based on the Islamic Social Reporting Index between companies listed in the Jakarta Islamic Index and companies that win the Sustainability Reporting Award.

H1 : There is a difference in the quality of social responsibility disclosure based on the Islamic Social Reporting Index between companies listed in the Jakarta Islamic Index and companies that win the Sustainability Reporting Award.

Methodology:-

This study uses a quantitative approach with the aim of providing empirical evidence on the disclosure of social responsibility by considering Islamic values. Secondary data is obtained by accessing annual reports from the official website of the Indonesia Stock Exchange and the website National Center for Sustainability reporting (https://ncsr.id/id/). Documentation techniques are carried out to obtain data and information in the form of books, archives, documentation, writing numbers and images in the form of reports and information that can support research. Measurement of the quality of social responsibility disclosure is done with content analysis techniques. Content analysis is required to assess the suitability of the information presented in the annual report to Islamic Social Reporting developed by Haniffa (2002) and Othman et al. (2009).

Because the purpose of the study was to compare the quality of social responsibility disclosure between companies listed in the Jakarta Islamic Index with sustainability reporting award-winning companies as measured by the Islamic Social Reporting Index, hypothesis testing was conducted with the One-Sample t-test.

This study uses purposive sample selection techniques with the following criteria:

a. Test group is a company registered in the Jakarta Islamic Index while control group is the company that won the Sustainability Reporting Award in 2020.
b. The test group consists of 30 companies listed in the Jakarta Islamic Index in 2020. The data used is taken from annual reports in 2019 and 2020 so that there are 60 companies.
c. Control group consists of 34 companies selected as recipients of sustainability reporting award in platinum and gold category in 2020. The data used is taken from annual reports in 2019 and 2020 so that there are 68 companies.
d. Companies in each group are not double listed in the Jakarta Islamic Index or the Sustainability Reporting Award in 2020.
e. Have complete annual report data

Table 1:- Sample Penelitian Test Group dan Control Group.

Description	JII (Test group)	SRA (control group)
Total sample/year	**30**	**34**
Criteria:		
Not considered in two groups	**2**	**2**
Uncomplete data	**1**	**2**
Sample	**27**	**30**
Number of observation year	**2**	**2**
Final sample	**54**	**60**

Based on the above criteria, it was found that the sample that had met the criteria of 54 test group companies and 60 control group companies.

Definition and Measurement of Variables

Quality of Social Reporting Disclosure based on Sharia Value

Using content analysis, the research instrument uses five indicators with 43 question items consist of:

1. Finance and investment theme, consists of 6 items, namely riba activities, zakat, gharar, policy on late repayments and insolvent clients/bad debts written-off, current value balance sheet, and value added statement(Tovstiga & Tulugurova, 2007) and Ismail (Ismail, 2005).
2. Products and services theme, consists of 4 items, namely green product, halal status of the product, product safety and quality, and customer complaints/incidents of non-compliance with regulation and voluntary codes(Tovstiga & Tulugurova, 2007) and Ismail (Ismail, 2005).
3. Employees theme, consists of 10 items, namely: nature of work (working hours, holidays, other benefits), education and training/human capital development, equal opportunities, employee involvement, health and safety, working environment, employment of other special-interest-group, higher echelons in the company perform the congregational prayers with lower and middle level managers, muslim employees are allowed to perform their obligatory prayers during specific times and fasting during ramadhan on their working day, and proper place of worship for the employees (Tovstiga & Tulugurova, 2007), (Young et al., 2007) and (Ismail, 2005).
4. Society theme, consists of 11 items, namely saddaqa/donation / sumbangan, waqf, qardhassan, employee volunteerism, education-school adoption scheme (scholarships), graduate employment, youth development, underprivileged community, children care, charities/gifts/social activities, and sponsoring public health/recreational project/sports/cultural events (de Castro & Sápez, 2008), (Subramaniam & Youndt, 2005), (Ismail, 2005), and (Chua, 2002).
5. Environment theme, consists of 7 items, namely conservation of environment, endangered wildlife, environmental pollution, environmental education, environmental products/process related, environmental audit/independent verification statement/governance, and environmental management system/policy (García- Muiña & Pelechano- Barahona, 2008).

6. Corporate governance theme, consists of 5 items, namely shariah compliance status, ownership structure (number of muslim shareholders and its shareholdings), board structure-muslim vs non-muslim, forbidden activities (monopolistic practice, hoarding necessary goods, price manipulation, fraudulent business practice, gambling), and anti-corruption policies.

Based on the instructions above, researchers gave a score on each item with the provision item in accordance with Islamic values were given a score of'1' while item that did not match Islamic values were given a score of '0'. Thus the maximum score is 43.

Result And Discussion:-

Descriptive Statistics

Descriptive analysis is a statistic used to analyze data by describing data that has been collected but is not intended to make generally accepted conclusions or generalizations. A descriptive statistical analysis provides an overview of the mean, minimum, maximum and standard deviation contained in the study. The following is the result of the score of each social responsibility assessment item between companies registered with JII and SRA winners in 2020.

Table 2:- Descriptive statistics per item.

		Percentage of ISR disclosure for SRA	**Percentage of ISR disclosure for JII**	**Total**
Finance and investment theme				
1	Ribaactivities	3.33%	0.00%	1.75%
2	Gharar	100.00%	100.00%	100.00%
3	Zakat	11.67%	3.70%	7.89%
4	Policy on Late Repayments and Insolvent Clients/Bad Debts written-off	98.33%	29.63%	65.79%
5	Current Value Balance Sheet (CVBS).	35.00%	100.00%	65.79%
6	Value Added Statement (VAS)	41.67%	87.04%	63.16%
7	Green product	55.00%	62.96%	58.77%
8	Halal status of the product	6.67%	40.74%	22.81%
9	Product safety and quality	100.00%	61.11%	81.58%
10	Customer complaints/incidents of non-compliance with regulation and voluntary codes (if any)	100.00%	29.63%	66.67%
Employees theme				
11	Nature of work:			
	· working hours	31.67%	16.67%	24.56%
	· holidays	26.67%	40.74%	33.33%
	· other benefits			
12	Education and Training/Human Capital Development	100.00%	100.00%	100.00%
13	Equal Opportunities	100.00%	50.00%	76.32%
14	Employee involvement	100.00%	42.59%	72.81%
15	Health and Safety	100.00%	88.89%	94.74%

16	Working environment	100.00%	92.59%	96.49%
17	Employment of other special-interest-group	0.00%	14.81%	7.02%
18	Higher echelons in the company perform the congregational prayers with lower and middle level managers.	0.00%	0.00%	0.00%
19	Muslim employees are allowed to perform their obligatory prayers during specific times and fasting during Ramadhan on their working day.	43.33%	7.41%	26.32%
20	Proper place of worship for the employees.	31.67%	11.11%	21.93%
21	Saddaqa/Donation / sumbangan	100.00%	75.93%	88.60%
22	Waqf	8.33%	0.00%	4.39%
23	Qard Hassan	16.67%	0.00%	8.77%
24	Employee Volunteerism	40.00%	3.70%	22.81%
25	Education-School Adoption Scheme			
	Scholarships	98.33%	77.78%	88.60%
26	Graduate employment	100.00%	0.00%	52.63%
27	Youth development	100.00%	38.89%	71.05%
28	Underprivileged community	90.00%	57.41%	74.56%
29	Children care	86.67%	48.15%	68.42%
30	Charities/Gifts/Social activities	100.00%	87.04%	93.86%
31	Sponsoring public health/recreational project/sports/cultural events	80.00%	40.74%	61.40%
Environment theme				
32	Conservation of environment	81.67%	81.48%	81.58%
33	Endangered wildlife	20.00%	3.70%	12.28%
34	Environmental Pollution	13.33%	59.26%	35.09%
35	Environmental Education	100.00%	5.56%	55.26%
36	Environmental Products/Process related	80.00%	92.59%	85.96%
37	Environmental Audit/Independent Verification Statement/Governance (ISO)	100.00%	75.93%	88.60%
38	Environmental Management System/Policy	100.00%	75.93%	88.60%

Corporate governance theme				
39	Shariah compliance status	26.67%	12.96%	20.18%
40	Ownership structure:			
	Number of muslim shareholders and its shareholdings	0.00%	0.00%	0.00%
41	Board structure-muslim vs non-muslim	0.00%	0.00%	0.00%
42	Forbidden activities:			
	· monopolistic practice	100.00%	100.00%	100.00%
	· hoarding necessary goods	100.00%	100.00%	100.00%
	· price manipulation	100.00%	100.00%	100.00%
	· fraudulent business practice	100.00%	100.00%	100.00%
	Gambling	100.00%	100.00%	100.00%
43	Anti-corruption policies	100.00%	92.59%	96.49%
		53.91%	41.54%	47,73%

Based on descriptive data in table 2 above, it is known that there are several items that score 100% including gharar items, education and training, and forbidden activities. In addition, there are also some items that score very high, namely health and safety (94.74%), working environment (96.49%), charities / gifts / social activities (93.86), and anti-corruption policies (96.49%). On the other hand, in contrast there are some items that have a very low score of even 0%, including higher echelons in the company perform the congregational prayers with lower and middle levelmanagers, number of Muslim shareholders and its shareholdings, and board structure-Muslim vs non-Muslim. Some items that have very low scores such as riba activities (1.75%), zakat (7.89%), employment of other special-interest-group (7.02), waqf(4.39%), and qardhassan (8.77%). When viewed from the total score, the SRA winning company has a higher score (53.91%) than jii-listed companies (41.54%).

Some interesting findings from the description of the data in this study are:
1. Some of the scores obtained on SRA winning companies are higher than items obtained by jii-listed companies, including zakat, riba activities, waqaf, Ward hassan, and Sharia compliance status.
2. However, there are several items where companies listed in JII have a greater score than SRA winning companies, including green product items, halal status of the product, environmental pollution, and environmental products / process related.
3. From the total score it is seen that the score obtained by the winning company SRA is greater than that of companies registered with JII.

Results:-
The normality test results showed that the significance value was 0.000. This indicates that the data is not normally distributed. Therefore abnormal data is traced by looking for z score to determine which data is outlier (Hair et al., 2017). There are several treatments for outlier data, namely the transformation into absolute values, logarithm, natural logarithm, or deleting data. Because the data is ordinal, the study chose to eliminate outliers (trimming) in order to meet the assumption of normality.

The results after trimming, showed that there were 26 data eliminated with details of 4 JII data and the remaining 22 data from SRA winning data. The final sample was 88. Normality test results after trimming seen as table 3 below:

Table 3:- Tests of Normality.

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Nilai	.091	88	.070	.974	88	.076
a. Lilliefors Significance Correction						

Table 3 shows that the Kolmogorov-Smirnov a test providessignificance value of 0.70. This value is greater than the value of the predetermined significance or 0.70>0.05. Thus, it can be concluded that the data studied is normal distribution. The description of the data after the trimming process is displayed on the followin table:

Tabel 4:- Descriptive Statistics.

	N	Minimum	Maximum	Mean	Std. Deviation
JII	50	22	31	26.54	2.651
SRA	38	25	36	30.84	2.881

Based on table 4 above, it is known that the minimum value for jii listed companies is 22 with a maximum value of 31. While the minimum value for the SRA winning company is 25 and the maximum value is 36. The average disclosure score obtained by jii-listed companies was 26.54 and SRA winners were 30.84. This description shows that in general SRA winning companies have a higher score than JII.

Test of Hypothesis

The normality test shows results on normal distributed voluntary disclosure score data, so the hypothesis test performed on the voluntary disclosure score data is the One-Sample t-test.

Tabel 5:- One-Sample Test.

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Nilai	76.642	87	.000	28.398	27.66	29.13

Based on table 5 on the results of the One Sample t-test obtained a t value of 76,642 and a significant value of 0.00<0.05. From the results of the test data it can be concluded that Ho was rejected and H1 was accepted, so it can be interpreted that there is a difference in the quality of disclosure between companies listed in the Jakarta Islamic Index and companies winning the Sustainability Reporting Award.

Discussion:-

ISR group of SRA companies has a greater mean than ISR JII companies. This is because the CSR Disclosure framework developed by GRI is a comprehensive one. This framework was developed through a long scientific study and has good standard procedures. So as to be able to align with the latest world developments, including the development of the application of Islam in any field of science.

Companies registered with JII can be stated that they have obedience in applying maqâshidsyarî'ah. These results showed that companies registered with JII that were accused as companies that adhered to Islamic principles and carried them out but it turned out that the companies that won the SRA contest had higher ISR implementation scores. This shows that the SRA winner as a representation of the company's adherence to the guidelines developed by GRI proved to be more comprehensive. Thus, although they are not registered in JII, they are shown to have higher scores in the application of maqâshidsyarî'ah.

These results have the implication that guidelines, standards or anything currently used by researchers in Indonesia does not have a solid measurement basis. Other measurements developed by GRI with more adequate methodologies are already widely used. Instead of developing new guidelines with inadequate methodologies, adaptation of existing measurements becomes a wiser choice because both Islamic and Western social responsibility have common humanitarian grounds, and there is a need to find a link between the two concepts (Adnan Khurshid et al., 2014). Clear and consistent guidelines will be beneficial for companies inanaging any information disclosure. Consistent disclosure done with pleasing manner will produce a positive corporate image and over time will produce a positive corporate reputation (Alessandri, 2001).

The interesting finding of this study is that the JII group of companies did not reveal the existence of zakat payments, even the entire company's revenue contained elements of riba. On the contrary, precisely the SRA group of companies revealed the existence of zakat payments. Thus, it is the concern of academics and practitioners in the field of Islamic-based reporting in order to build guidelines that can be used as a handle for companies and shareholders.

Limitation

The study used content analysis, so the results of the suspension depended on how far the company revealed the information in the annual report. While the company only makes disclosures if the information provides good impressions(Alessandri, 2001). Thus companies that consider that forbidden activities are bad impressions then, both companies that do and those that do not have forbidden activities both do not disclose it. As a result, measurements may become biased.

Conclusion:-

The study confirmed the hypothesis that there are differences in social responsibility disclosure based on ISR between the two groups of companies. The ISR disclosure index of SRA awardee companies is outperform the JII group. While, the JII companies claimed as Sharia holding value in running the business. This raise question whether they do not truly implement Sharia principles or whether the ISR index is not reliable measurement?

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