Research Article

GCG Effect and CSR of Sharia Banking in Indonesia

Soliyah Wulandari, Asep Dadan Suganda*

Faculty of Islamic Economics and Business, UIN Sultan Maulana Hasanuddin Banten, Indonesia

Article history:
Submission September 2022
Revised November 2022
Accepted December 2022

*Corresponding author:
E-mail: asep.dadan@uinbanten.ac.id

ABSTRACT

This study aims to prove empirically the effect of good corporate governance on corporate social responsibility, in which good corporate governance refers to the audit committee, board independence, government ownership, and institutional ownership. The object of this research was Islamic Commercial Banks, mostly owned by State-Owned Enterprises (BUMN) or Regional-Owned Enterprises (BUMD). The sample selection was carried out using the purposive sampling method. Based upon the sample criteria applied in this study, there were six Islamic banks with 30 observations. The secondary data was collected from the annual report of the six Islamic banks. The data was processed using a statistical test of multiple regression models. The results of this study indicate that board independence and government ownership affect the corporate social responsibility of Islamic banking in Indonesia. Meanwhile, the audit committee and institutional ownership did not affect the corporate social responsibility of Islamic banking in Indonesia.

Keywords: Audit Committee, Board Independence, Government Ownership, Institutional Ownership.

Introduction

The latest Global Islamic Finance Report (GIFR) in 2018 stated that the growth of the global Islamic finance industry was more than US$2.4 trillion at the end of 2017. The Islamic Finance Country Index (IFCI) places Malaysia at the top of the list of countries that lead the Islamic industry globally. Indonesia managed to seize the sixth position to replace Pakistan which fell one position down. In 2012, the Islamic banking industry in Indonesia and Malaysia experienced an increase in total assets. Although not as large as Islamic banking assets in Malaysia, the increase in Islamic banking assets in Indonesia reached 33.67%, and in Malaysia by 22.47%. The Islamic banking industry shows positive developments from year to year. In the period 2014 to 2018 Islamic banking was able to record a Compounded Annual Growth Rate (CAGR) of 15%, higher than the national banking sector which recorded a CAGR (a business and investment concept that refines the annual growth outlook of a business over several periods) of 10% (Hastuti, 2019).

The growth in the financial sector is certainly followed by the role of Islamic banking in the terms of social responsibility. Thus, the discussion on Corporate Social Responsibility in Islamic banking becomes very interesting, especially in the two countries that have rapid growth in Islamic banking, Indonesia and Malaysia. Corporate Social Responsibility (CSR) is one of the elements that is disclosed or presented in the company's annual report to

How to cite:
inform users of financial statements that the company has social concerns and environmental preservation. Disclosing activities related to social responsibility is common for analysts, investors, and other stakeholders to demand greater transparency about all aspects of the business (Kim et al., 2012).

Stakeholders have placed CSR as very important information. Thornton (2008) stated that CSR is not just the domain of large companies, but becomes a necessity for all businesses. Supporters of CSR point out that companies should be involved in socially responsible activities that provide benefits for many parties. Based on the results of research conducted by Meutia and Febrianti (2017), shows that in disclosing CSR, Islamic banking in Indonesia is superior to Islamic banking in Malaysia in terms of finance and investment, products and services, and society. On the other hand, the CSR disclosure in terms of employees and the Islamic banking environment, in Malaysia is superior to that of Indonesia.

Based on the results of research conducted by Meutia and Febrianti (2017), this study aims to provide a contribution that at the same time shares differences with previous studies, namely to prove empirically what factors influence the disclosure of CSR in Islamic banking in Indonesia. Researchers use Good Corporate Governance (GCG) as a factor that can affect CSR. The purpose of GCG is for the benefit of the general public. The GCG mechanism in this study consists of an audit committee, board independence, government ownership, and institutional ownership. GCG is built to combine ethics, accountability, disclosure, and reporting (Gill, 2008). Therefore, the effective GCG is supposed to affect CSR disclosure. Based on this background, this research objective is to figure out the influence of the audit committee, board independence, government ownership, and institutional ownership on the Corporate Social Responsibility of Islamic Banking in Indonesia.

**Literature Review**

Corporate Social Responsibility (CSR) is one of the elements presented in the company's annual report. The purpose of presenting this information is to inform users that the company has social concerns and environmental conservation (Wulandari, 2016). The audit committee is a member who is selected out of the board commissioners and plays an active role in supervising the running of the company, especially in terms of the company's compliance with the established policies (Karuniasih, 2013). Board independence is a board that does not have business ties or family relationships with shareholders or directors. The word independent in this term means an impartial attitude (neutral) to any party. Thus, board independence has its power and is not regulated by other parties. Meanwhile, government ownership is capital owned by the state or government institutions that have a social orientation. So, the government in this case will influence companies to maintain their social activities along with their activities in generating profits. Institutional ownership, on the other hand, is capital owned by an institution. The existence of institutional ownership can encourage companies to be more transparent, accountable, and maintain a good governance system, which also has the power in forcing companies to provide information about their social activities.

The audit committee must ensure the integrity of the company's financial reports through monitoring and controlling. However, this objective cannot be achieved if the audit committee is not effective. The effectiveness of the audit committee depends on its composition and characteristics. Soliman and Ragab (2014) found that the audit committee had a positive effect on the quality of disclosure. Meanwhile, the results of Habbash's research (2017) showed that there is no influence of the audit committee on CSR. Based on the results of previous studies and logical reasoning above, the hypotheses formulated in this study are as follows:

Hypothesis 1: The Audit Committee affects Corporate Social Responsibility in Islamic Banking in Indonesia.

The results of research conducted by Badjuri (2011), Mutia et al. (2011), Uyar et al. (2013), Sufian and Zahan (2013), Sari and Usman (2014), and Isa and Muhammad (2015) proved that board independence affects CSR disclosure. Meanwhile, the results of Habbash's
research (2017) show that there is no effect of board independence on CSR. Based on the results of previous studies and logical reasoning above, the hypotheses formulated in this study are as follows:

Hypothesis 2: Board Independence Affects Corporate Social Responsibility in Islamic Banking in Indonesia.

As the government has political, economic, and social achievement goals, the government establishes and regularly issues regulations that will protect the public. The government will be a good example to support and comply with the regulation through its ownership of the company. The results of research by Habbash (2016), AbuRaya (2012), Ntim et al. (2013), and Al-Janadi et al. (2013) showed that companies can influence CSR disclosure. Based on the results of previous studies and logical reasoning above, the hypotheses formulated in this study are as follows:

Hypothesis 3: Government Ownership Affects Corporate Social Responsibility in Islamic Banking in Indonesia.

Hypothesis 4: Institutional Ownership Affects Corporate Social Responsibility in Islamic Banking in Indonesia.

Research Method
This research is in the form of causality research which aimed to see the effect of the independent variable on the dependent variable (Sekaran and Bougie 2016). This study aimed to prove the effectiveness of the variables Audit Committee (AUD), Board Independence (IND), Government Ownership (GOV), and Institutional Ownership (INST) on Corporate Social Responsibility (CSR) as the dependent variable.

Research Object
The population of this study was all Islamic banking in Indonesia. Using the purposive sampling method, the company sample was selected based on the sample selection criteria described in the data mining methods section. The following were the criteria of the sample selection: 1) The Islamic banking is part of Islamic Commercial Banks by 2021, 2) The Islamic banking shares are mostly owned by BUMN or BUMD from 2017 to 2021, 3) The Islamic banking publishes financial reports and annual reports publicly from 2017 to 2021, 4) The Islamic Banking discloses Corporate Social Responsibility reports.

Operational Definition of Variables and Measurement

Dependent Variable
The dependent variable in this study was Corporate Social Responsibility (CSR). CSR is a social reporting that not only involves the holistic expectations of the community regarding the role of the company for the community but also from a spiritual perspective (Meutia and Febrianti, 2017). To measure CSR, the formula being used was as follows:

\[ RS = \sum_{i=1}^{n} di \]

Information:
- RS = Reporting Score
- \(di = 1\) if the index item is disclosed and \(0\) if the index item is not disclosed
- \(n = \) number of items that should be disclosed
- \(i = 1, 2, 3 \ldots \) to 43

Independent Variable
Audit Committee
The audit committee is a new component of the company’s control system to supervise the company’s management. The audit

BAARJ | Basic and Applied Accounting Research Journal 39 Volume 2 | Number 2 | December | 2022
Audit committee was measured using the following formula:

\[ \text{Audit committee} = \sum \text{Number of audit committee members in the company} \]

**Board Independence**

Board independence is the party elected to look after the company's activities. Board independence was measured using the following formula:

\[ \text{Board independence} = \frac{\text{Number of board independence}}{\text{Number of boards}} \]

**Government Ownership**

Government ownership is the proportion of share ownership owned by government institutions or agencies. Government ownership was measured using the following formula:

\[ \text{Government ownership} = \frac{\text{Government ownership}}{\text{Outstanding shares}} \]

**Institutional Ownership**

Institutional ownership is the proportion of share ownership owned by institutions such as companies, insurance, pension funds, or other companies. Institutional ownership was measured using the following formula:

\[ \text{Institutional ownership} = \frac{\text{Institutional ownership}}{\text{Outstanding shares}} \]

**Data Collection Technique**

The data used in this study was secondary data, the readily available data so that researchers could use it for the study. The data was in the form of a financial statement and the annual report of Islamic banking in Indonesia from 2017 to 2021.

**Data Analysis Method**

*Descriptive statistics*

Descriptive statistics provided an overview of the characteristics of each variable derived from the sample data in this study. These characteristics explain the number of samples used (N), the minimum (MIN) and maximum (MAX) values, and the mean and standard deviation of each variable. These descriptive statistics helped researchers know, and understand the sample data used in the study.

*Classic assumption test*

Before conducting the data analysis test, the researcher conducted a classical assumption test. The classical assumption test consists of a residual normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. To conclude whether the hypothesis in this study is accepted or not, the researcher used multiple regression. Therefore, before testing the hypothesis, it is necessary to test the classical assumptions which consisted of the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. This section explained the results of the classical assumption test from the data that had been collected.

*Hypothesis Testing*

The data analysis used in this research was multiple regressions. According to Ghozali
Below is the regression equation used in this study.

$$CSR = \alpha_0 + \alpha_1 \text{AUD} + \alpha_2 \text{IND} + \alpha_3 \text{GOV} + \alpha_4 \text{INST} + \varepsilon$$

Information:
- $\alpha_0, \alpha_5$: Constant
- CSR: Corporate Social Responsibility
- AUD: Audit Committee
- IND: Board independence
- GOV: Government ownership
- INST: Institutional ownership
- $\varepsilon$: Error

After the data was tested using classical assumptions, the next step was hypothesis testing. In this section, we will explain the output of multiple regression which consists of:
1) Analysis of the correlation coefficient to see the strength of the influence of the independent variable on the dependent variable,
2) Analysis of the coefficient of determination to see the model's ability to explain the variation of the dependent variable.
3) The results of the F test to see whether the regression model is feasible or not for decision-making in this study.
4) The results of the t-test show how far the influence of each independent variable is on the dependent variable, as well as answer whether the hypothesis is accepted or not.

In addition to explaining the output results of multiple regression, this section also analyzed the direction of the relationship for the independent variables which results influence the dependent variable. Thus, the researcher could provide a logical explanation and consistency with the results of this study with previous studies.

Result and Discussion

Sample Overview

This sample overview contains the number of company samples used in this study, namely Islamic Commercial Banking whose shares are mostly owned by BUMN or BUMD. Meanwhile, the sampling technique used in this study was the purposive sampling method.

<table>
<thead>
<tr>
<th>No.</th>
<th>Sample Criteria</th>
<th>Number of Bank</th>
<th>Number of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Islamic banking is part of Islamic Commercial Banks</td>
<td>14</td>
<td>70</td>
</tr>
<tr>
<td>2.</td>
<td>The Islamic banking shares are mostly owned by BUMN or BUMD</td>
<td>(7)</td>
<td>(35)</td>
</tr>
<tr>
<td>3.</td>
<td>Islamic banking publishes financial reports and annual reports publicly</td>
<td>(1)</td>
<td>(5)</td>
</tr>
<tr>
<td>4.</td>
<td>Islamic Banking discloses Corporate Social Responsibility reports</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Table 1 elaborates the number of Islamic banking which met the sample selection criteria. Based on the table, the number of Islamic banking listed as Islamic Commercial Banking was 14 banks consisting of 70 data. Among them, there were 7 banks with 35 data on Islamic banking that did not meet the criteria of shares ownership of BUMN and BUMD. Meanwhile, the number of Islamic banking that did not meet the criteria of publishing their reports publicly was only a bank with 5 data. Therefore, the sum of the sample in this research was 6 banks with 30 data.

Descriptive Statistics

The sample of the research used in this study was described in the descriptive
statistics. The following table is Table 2 presenting the descriptive statistics from each variable.

Table 2. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee</td>
<td>30</td>
<td>3,00</td>
<td>7</td>
<td>4,70</td>
<td>1,29</td>
</tr>
<tr>
<td>Board Independence</td>
<td>30</td>
<td>0,25</td>
<td>0,5</td>
<td>0,85</td>
<td>1,31</td>
</tr>
<tr>
<td>Government Ownership</td>
<td>30</td>
<td>0,70</td>
<td>1</td>
<td>0,93</td>
<td>0,12</td>
</tr>
<tr>
<td>Institutional ownership</td>
<td>30</td>
<td>0,80</td>
<td>1</td>
<td>0,98</td>
<td>0,05</td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>30</td>
<td>13,00</td>
<td>43</td>
<td>29,90</td>
<td>9,75</td>
</tr>
</tbody>
</table>

Classical Assumptions Test Result

The data in this study were tested for classical assumptions, which consist of a data normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. The data used in this study have met the four classical assumption tests.

Hypothesis Testing Result

a. Correlation Coefficient Analysis (R)

The correlation coefficient test was used to see the strength of the relationship between the independent variable and the dependent variable. Table 4.3 below presents the correlation coefficient test.

Table 3. Correlation Coefficient Analysis Result

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0,733</td>
</tr>
</tbody>
</table>

Source: SPSS data processing ver.25

Based on the analysis of the correlation coefficient (R) in Table 3, shows that the value of the correlation coefficient is 0.733 which is greater than 0.5. This shows that the relationship between audit committees, board independence, government ownership, and institutional ownership of corporate social responsibility was strong.

b. Coefficient of Determination Analysis (Adjusted R Square)

Coefficient of Determination Analysis (Adjusted R Square) was conducted to measure the model’s ability to explain the variation of the dependent variable. The results of the coefficient of determination analysis are as follows:

Table 4. Coefficient of Determination Analysis Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0,464</td>
</tr>
</tbody>
</table>

Source: SPSS data processing ver.25

c. F Test

The F test was conducted to show whether all the independent variables included in the model have a joint effect on the dependent variable. In addition, the F test also aimed to determine whether the regression model was appropriate for decision-makers in this study or not. The results of the F test are as follows:
Table 5. F Test Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: SPSS data processing ver.25

Based on Table 5 above, shows that the significance value is 0.0000 which is less than 0.05. This shows that the regression model used in this study was fit, so the data was suitable for use in decision-making or audit committees, board committee, government ownership, and institutional ownership.

Table 6. T-Test Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Sig.</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUD</td>
<td>1,782</td>
<td>0.098</td>
<td>Ha₁ rejected</td>
</tr>
<tr>
<td>IND</td>
<td>-4,533</td>
<td>0.000</td>
<td>Ha₂ accepted</td>
</tr>
<tr>
<td>GOV</td>
<td>35,820</td>
<td>0.013</td>
<td>Ha₃ accepted</td>
</tr>
<tr>
<td>INST</td>
<td>-9,814</td>
<td>0.766</td>
<td>Ha₄ rejected</td>
</tr>
</tbody>
</table>

The multiple regression equation model in this study obtained from the results of statistical data processing from Table 6 with formula as follows:

\[
AUD = 1,715 + 1,782 (AUD) - 4,533 (IND) + 35,820 (GOV) - 9,814 (INST) + \varepsilon
\]

Based on Table 6 and the multiple regression equation above, it can be described that the audit committee (AUD) variable had a significance value of 0.098 with a coefficient value of 1.782. Because the significance value was greater than 0.05, these results indicated that Hypothesis 1 (HA1) was unacceptable, meaning that the audit committee did not affect corporate social responsibility.

The test results showed that the independent commissioner variable (IND) had a significance of 0.0000 with a coefficient value of -4.533, which means that Hypothesis 2 (HA2) was accepted. This shows that independent commissioners affected corporate social responsibility. The coefficient value shows a negative direction, which means that the higher the proportion of the number of independent commissioners, the lower the amount of corporate social responsibility disclosure.

The test results show that the government ownership variable (GOV) had a significance of 0.0013 with a coefficient value of 35,820, which means that Hypothesis 3 (HA3) was accepted. This shows that government ownership affected corporate social responsibility. The coefficient value indicated a positive direction, which means that the higher the proportion of government ownership, the higher the disclosure of corporate social responsibility.

The test results show that the institutional ownership variable (INST) had a significance of 0.766 with a coefficient value of -9.814. Because the significance value was greater than 0.05, these results indicated that Hypothesis 4 (HA4) was unacceptable. This means that institutional ownership did not affect corporate social responsibility.

Conclusion

Based on the results of statistical tests conducted on 30 Islamic commercial bank data that became the research sample, the following
conclusions were obtained; The audit committee did not affect corporate social responsibility while broad independence affected corporate social responsibility. On the other hand, government ownership affected corporate social responsibility, as well as institutional ownership affected corporate social responsibility.

The following are some suggestions given for further research in overcoming all the limitations that exist in this study. Extend the research period to be longer, so that the research results can reflect the long-term effect better, for example, 10 years. Expanding the object of research by not limited to Islamic Commercial Banks where most of the ownership comes from BUMN or BUMD, so that the research results can be generalized to all Islamic banking in Indonesia. Adding other variables apart from research model that may influence corporate social responsibility, so that it can explain the variation of corporate social responsibility variables better such as managerial ownership.

References
Shubiri, Faris Nasif Al, Abedal fattah Zuhair Al Abedallat, dan Marwan Mohammad Abu Orabi. 2012. Financial...


