The Influence of Firm Performance to Corporate Social Responsibility Disclosure

Case Study of Sharia Banks in Indonesia

Ria Yanuari Pramono
Faculty of Economics and Business, Airlangga University Surabaya, Indonesia
riayanuaripramono@gmail.com

Keywords: Capital Adequacy Ratio, Asset Growth, FDR, CSR Disclosure, Shariah Enterprise Theory.

Abstract: The development of CSR disclosure has a positive impact on Islamic economy which is characterized by the concept of Shariah Enterprise Theory. Profitability of the company shows the company succeeded in obtaining profit as measured by Capital Adequacy Ratio (CAR), Asset Growth and Financing Deposit to Ratio (FDR). This research is an explanation research in which the researcher explains the relationship between the variables through hypothesis testing. The research variables include three independent variables is CAR, Asset Growth, FDR and then CSR Disclosure as a dependent variable. The population of the study was all Sharia Banks operate in Indonesia and have published annual financial reports during the period 2012-2014. The data source is secondary data. The study used multiple regression analysis and processed using SPSS. The result of the study concluded that there are significant influences between firm performance and Islamic Corporate Social Responsibility Disclosure. This research gives a suggestion for further research to use other measure variables of financial performance to get a more comprehensive model.

1 INTRODUCTION

Market participants consider that companies that have a sustainable social concern have a good reputation and better opportunities than other companies that do not have it. The strengthening of the principles of Environmental Management Accounting, Good Corporate Governance such as fairness, transparency, accountability, and responsibility has encouraged broader accounting concepts using accounting tools and practices to support internal corporate management decision-making on environmental issues and their impact on corporate performance (Doorasamy 2015).

Corporate social responsibility (Corporate Social Responsibility) is one of the several corporate responsibilities to stakeholders. Stakeholders, in this case, are people or groups who can influence or be influenced by various decisions, policies, and operations of the company, Inoue, Funk, and McDonald (2017). The tendency of globalization and increased demand from stakeholders for companies to carry out the role of social responsibility and disclosure encourages the involvement of companies in practice EMA. Sees the practice of EMA emerged CSR as evidence of activity from EMA. According to Lopatta, Reemda and Chen (2017) CSR is a general statement which indicates the company's obligation to utilize its economic resources in operations to provide and contribute to internal and external stakeholders.

Profitability of the company is often highlighted because it shows the success of the company in obtaining profit, to measure the extent to which the company gains profit can be seen from capital measured by Capital Adequacy Ratio (CAR) ratio. According to Li, Chen, Chien, Lee, and Hsu (2016). CAR ratios are able to show how far all bank assets that contain risks (credit, investments, securities, bills with other banks) participate in financing from the bank's own capital funds in addition to obtaining funds from sources outside the bank, such as funds from the community, and loan.

Aset is an asset used for corporate operational activities. The large operating results generated by the company, the increase in assets followed by increased operating results will further increase the confidence of outsiders of the company.

While the company's liquidity reflects the condition of the company in carrying out its operational activities and the appropriate measure of corporate liquidity in this research is the ratio of Financing Deposit to Ratio (FDR) because this ratio shows the finance of sharia banking companies,

Pramono, R.
The Influence of Firm Performance to Corporate Social Responsibility Disclosure - Case Study of Sharia Banks in Indonesia.
In *Proceedings of the 1st International Conference on Islamic Economics, Business, and Philanthropy (ICIEBP 2017) - Transforming Islamic Economy and Societies*, pages 152-156
ISBN: 978-989-758-315-5

especially related to the liquidity aspect which shows the customer deposit funds and used in meet the loan request (loan request) of its customers. Companies with high profits, growth and liquidity levels will get a lot of attention especially from the public and investors so that the spotlight has more value in the eyes of the public and investors, the company tends to disclose Social Responsibility (CSR Disclosure). In Indonesia the development and disclosure activities of CSR received government support, it was proven after the House of Representatives passed the Act on social and environmental responsibility or CSR as a Limited Liability Company in Article 74 of Law No.40 of 2007 on Limited Liability Company (UUPT) on July 2007. It is mentioned that a limited liability company that carries on business in the field or concerned with natural resources is obliged to carry out social and environmental responsibility (Article 74 paragraph 1). According to Pramono (2015), the reason companies, especially in the field of banking, do social reporting is due to a change of responsibility paradigm, from management to shareholders to management to all stakeholders.

In addition, according to Isnanisa 2016, the challenge to maintain a corporate image in the community is the reason why a bank in Indonesia conducts social reporting. One type of bank that plays an important role in the disclosure of social responsibility is sharia bank. According to Meutia (2010), Islamic banks should have more spiritual dimension. This spiritual dimension not only requires non-usury business but also able to provide welfare for the wider community, especially for the weak economic community. According to Yusuf (2010), the position of sharia banks as financial institutions that already exist at the national and international level should be a pilot financial institution in moving the CSR program. Implementation of Islamic bank CSR program is not only to fulfill the mandate of the law, but furthermore that the social responsibility of Islamic banks is built on the basis of the philosophy and tasawwur (picture) of Islam is strong to become one of the financial institutions that can prosper the community. Looking at the above demands, public companies in Indonesia that make CSR reporting separately have increased by 60% by 2014 compared to 2012. In addition, the rapid development of Indonesia's sharia banking industry makes research on social responsibility at banks sharia is required. The statistics of the development of sharia banking up to December 2016 shows that sharia banking services are increasingly widespread throughout the archipelago with 12 Sharia (BUS), 37 Sharia Business Unit (UUS) and 154 BPRS. Total assets of sharia banking have reached 130.5 trillion rupiahs or grew 47.5% year on year (yoy). The high growth of sharia banks is able to increase its share to 3.7% of total national banking assets.

The development of EMA practice not only has a positive impact on the development of the conventional economy, but also the Islamic economy. It is characterized by the emergence of CSR with the concept of Shariah Enterprise Theory.Shariah Enterprise Theory is an Enterprise Theory that has been internalized with Islamic values to produce transcendental and more humanist (Triyuwono, 2007). According to Meutia (2010), the most appropriate theory to express corporate social responsibility is Shariah Enterprise Theory (SET). This is because in the Shariah Enterprise Theory God is the source of the main mandate. While the resources possessed by the Stakeholders are the mandate of Allah in which it attaches a responsibility to use in the manner and purpose set by the Giving of the Trust.

CSR reporting is a practice established on the basis of norms in the community. In the sharia banking sector, the values of norms used are Islamic religious values, or also called the values of sharia. This research intends to explain how the reporting of Corporate Social Responsibility (CSR) is based on Sharia values.

Research that examines the influence of CSR has been done. Susilowati (2013) examines the effect of profitability, growth and firm size on the disclosure of corporate social responsibility information from manufacturing companies listed in Indonesia Capital Market Directory, using partial least square against an inner model of ERC direct influence, firm size and growth on CSR showing influence not significant (significant). While inner model test for direct influence of profitability to CSR showed significant result. Isnanisa, Kartika and Suryan (2016), analyzed the effect of profitability and growth on disclosure of social responsibility according to Shariah Enterprise Theory at Syariah Commercial Bank in Indonesia. The result of research by using multiple linear regression shows that profitability variable measured by ROE have positive effect to CSR Disclosure and growth variable have negative effect to CSR Disclosure.

Based on the results of previous research, several independent variables affecting Corporate Social Responsibility research Kusumawardhany (2014) and Isnanisa, Kartika and Suryan (2016) have differences where the results of this study are contradictory where profitability negatively affect the disclosure of social responsibility in the mining industry, while profitability have a positive effect on disclosure of social responsibility in Sharia banks industry both previous research equally use ROE to measure profitability so that research this time using CAR. According to Li, et.al (2016) the CAR ratio shows how much the total assets of banks that contain risks that come funded from their own capital in addition to obtaining funds from sources outside the bank so that the increase in profitability positively affect the disclosure of social responsibility (CSR Disclosure).

In addition to the research of Isnanisa, Kartika and Suryan (2016) by taking 7 research samples indicated that growth by using Assets Growth had negative effect on the disclosure of social responsibility, this study investigated whether growth positively influences CSR Disclosure by researching the entire population of Sharia Commercial Banks registered in Islamic Banking Statistics. None of the previous research has used liquidity to measure the financial performance of sharia banks in Indonesia by using Shariah Enterprise Theory. Seen from the results of previous research the researchers used three basic theories (agency theory, the theory of legitimacy and stakeholder theory) which has been frequently used in research with the theme of CSR.Previous research using profitability variables with ROA and ROE proxy as a measuring tool to see the performance corporate finance as well as variable growth and company size to assess the company's financial performance. There is little research using CAR (Capital Adequacy Ratio) proxy to measure the profitability of a company, growth by using Assets Growth proxy and liquidity by using FDR (Financing to Deposit Ratio) proxy as variable to measure company's financial performance. In addition, the practice of CSR disclosure is more often seen from the CSD index or GRI index, whereas still not much explored by researchers is how the practice of CSR disclosure is seen from the CSRI index according to Shariah Enterprise Theory.Therefore this study was conducted on the annual report all sharia banks registered in Islamic Banking Statistics due to the use of CSRI index according to Shariah Enterprise Theory as appropriate to see how far the disclosure of social responsibility of Sharia Commercial Banks in Indonesia.

2 LITERATURE REVIEW

2.1 Shariah Enterprise Theory

Shariah Enterprise Theory is an Enterprise Theory that has been internalized with Islamic values to produce a transcendental and more humanist theory. Enterprise Theory according to Triyuwono (2007), is a theory that recognizes the existence of responsibility not only to the owners of the company but to the broader stakeholder group. Enterprise Theory is able to accommodate the plurality of society (stakeholders), things that can not be done by proprietary theory and entity theory. This is because the concept of enterprise theory shows that economic power is no longer in one hand (shareholders), but is in many hands, that is stakeholders.

2.2 Relationship Profitability to Corporate Social Responsibility Disclosure (CSR Disclosure) on Sharia Bank

Profitability in this study is measured by Capital Adequacy Ratio (CAR) which is a capital indicator used as a variable affecting CSR Disclosure based on the level of bank risk. This capital adequacy ratio is an indicator of the ability of sharia banks to cover the decline in their assets as a result of sharia bank losses caused by risky assets Dendrawijaya (2003). So with the increased capital itself, the bank's health-related with the capital ratio (CAR) is increasing and with large capital, the company is very flexible to perform the disclosure corporate social responsibility in social media.

2.3 Relationship Growth to Corporate Social Responsibility disclosure (CSR Disclosure) on Sharia Bank

Company growth can show improvement of company's financial performance. Maria Ulfa (2009) states that growth is a company's growth rate as measured by the company's sales growth. The growth of the company is one of the considerations of investors in investing. Companies with high growth opportunities are expected to provide high profitability in the future, expected earnings more persistent, so investors will be interested to invest in the company. Companies with high growth will get a lot of spotlights so that predicted companies that have a higher growth opportunity tend to do more disclosure of corporate social responsibility (CSR Disclosure). Growth in this study was measured by Asset Growth which is a growth indicator used as a variable affecting CSR Disclosure based on the level of productivity and sustainability of sharia banks.

2.4 Relationship Liquidity to Corporate Social Responsibility disclosure (CSR Disclosure) on Sharia Bank.

The Financing Deposit to Ratio (FDR) measures the extent to which a bank can meet its short-term liabilities, such as repaying its depositors' funds at the time of billing and sufficient credit requests. The amount of credit disbursed will determine the bank's profit. If the bank is not able to disburse credit while the funds that collected a lot will cause the bank loss. The higher the FDR, the liquidity of the company is increasing with the assumption that the bank is able to channel credit effectively, so a number of bad loans will be small so that the positive effect on the disclosure of social responsibility (CSR Disclosure).

3 METHODS

In this research, there are four observation variables related to three of them as the independent variable that is profitability measured by Capital Adequacy Ratio (CAR), growth measured by Asset Growth and liquidity as measured by Financing Deposit to Ratio (FDR) and a dependent variable that is CSR Disclosure. The dependent variable in this research is CSR Disclosure in company's annual report measured by corporate social responsibility index (CSRI). The CSRI measurement instrument to be used in this study is based on Shariah Enterprise Theory, which classifies CSR disclosures into five categories, God (2 items), Customer (17 items), Employees (10 items), Communities (9 items), and Nature (9 items).

The population in this study is the Sharia Commercial Bank according to the Islamic Banking Statisticsin Indonesia (11 Islamic Banking Statistics), which are listed on Sharia Banking Statistics and have published the annual financial statements for the period 2012-2014.

Table 1: Name of Sharia Banks in Indonesia.

Name of Sharia Banks
PT. BNI Syariah
PT. Bank Muamalat Indonesia
PT. Bank Syariah Mandiri
PT. Bank Syariah Mega Indonesia
PT. BCA Syariah
PT. BRI Syariah
PT. Bank Jabar Banten Syariah
PT. Bank Panin Syariah
PT. Bank Syariah Bukopin
PT. Bank Victoria Syariah
PT. Bank Maybank Syariah Indonesia

4 RESULTS AND DISCUSSION

Table 2: Results of Multiple Linear Regression Analysis.

Dependent Variable	**Independent Variable**	**ß**
CSR Disclosure (Y)	Konstanta	0,567
	CAR (X1)	-0,004
	Asset Growth (X2)	0,002
	FDR (X3)	0,000
R	= 0,557	
Adjusted R²	= 0,239	

Obtained by regression model of variable relation ratio of sharia public bank consisting of sub-variable of CAR, Asset Growth, and LDR to CSR Disclosure as follows:

$$\mathbf{Y = 0{,}567 + -0{,}004X_1 + 0{,}002X_2 + 0{,}000X_3} \quad \mathbf{(1)}$$

Where:
X_1 : CAR
X_2 : *Asset Growth*
X_3 : FDR

The interpretation of the regression model is as follows:

- b_0 = 0,567 means if the variables X_1, X_2, dan X_3 are zero, then the variable Y will be worth 0.567 units.
- b_1 = -0.004 means if CAR (X_1) increases by unit and variable other constant, then variable Y will decrease by 0,004 unit.
- b_2 = 0.002 means if Asset Growth (X_2) increases by unit and other variables are constant, then variable Y will increase of 0.002 units.
- b_3 = 0,000 means if FDR (X_2) increases by unit and variable other constant, then the variable Y will increase by 0.000 unit.

The coefficient of determination (Adjusted R²) is a measure of the suitability of the regression line. In addition Adjusted R² can also be used to measure the proportion of total diversity that can be explained by the regression line.

KD = Adjusted R² x 100%
= 0.239 x 100%
= 23.9%

Thus, the value of Determination Coefficient of 23.9% indicates meaning that if CAR (X_1), Asset Growth (X_2), and FDR (X_3) gives a simultaneous effect of 23.9% toward CSR Disclosure (Y). While the rest equal to 76.1% influenced by other factors that are not observed.

Table 3: The Test Results on Hypothesis.

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	.567	.060	
	CAR	-.004	.002	-.368
	Asset_Growth	.002	.001	.338
	FDR	.000	.000	.089

a. Dependent Variable: CSRi

This study is a population study so that partial test t is not required to test the hypothesis, hypothesis test on population research seen from the coefficient value ß. The interpretation results from Table 4.2 are as follows:

1. The negative CAR coefficient of (-0.004) shows that CAR negatively affect CSR Disclosure.
2. The result of positive Asset Growth coefficient of 0.002 indicates that Asset Growth has a positive effect on CSR Disclosure.
3. The coefficient of FDR of 0,000 has the meaning that the FDR is not effect on CSR Disclosure.

5 CONCLUSION

By considering the analysis relating to the formulation of the problem in this study, it can be concluded that Capital Adequacy Ratio (CAR) has a negative effect on corporate social responsibility disclosure (CSR Disclosure) of sharia banks in Indonesia. This indicates that if the CAR value increases then the company tends to decrease the disclosure of corporate social responsibility because, with high profitability, the funds are allocated to the capital adequacy of the company used to bear the risk of financing by the company.

Asset Growth has a positive effect on corporate social responsibility disclosure (CSR Disclosure) of sharia banks in Indonesia. This indicates that if the value of Asset Growth increases then the company increases CSR Disclosure because the existence of the company can grow and sustain by conducting disclosure of social responsibility.

Loan to Deposit Ratio (LDR) does not affect the disclosure of corporate social responsibility (CSR Disclosure) of sharia banks in Indonesia. This indicates that if a high or low LDR will not affect corporate social responsibility disclosure, CSR Disclosure is not affected by liquidity seen from LDR ratio and quality in CSR disclosure is not easy to measure.

REFERENCES

Doorasamy, Mishelle. 2015. Theoretical Developments In Environmental Management Accounting And The Role And Importance Of MFCA. *Foundations of Management* 7.1: 37-52.

Isnanisa, Clara Hagya, Kartika Dewi Sri Susilowati, and Suryan Widati. 2016. Factors affecting csr disclosure according to shariah enterprise theory. *Journal of Management Accounting Students 2.3.*

Inoue, Yuhei, Daniel C. Funk, and Heath McDonald. 2017. Predicting behavioral loyalty through corporate social responsibility: The mediating role of involvement and commitment. *Journal of Business Research* 75: 46-56.

Kusumawardhany, Sayekti Indah. 2014. *The Effect of Profitability and Leverage on Disclosure of Corporate Social Responsibility of Mining Registered at Indonesia Stock Exchange 2010-2012.* Unpublished.

Li Y, Chen YK, Chien FS, Lee WC, Hsu YC. 2016. Study of optimal capital adequacy ratios. *Journal of Productivity Analysis.* 2016 Jun 1;45(3):261-74.

Lopatta, Kerstin, Reemda Jaeschke, and Chen Chen. 2017. Stakeholder Engagement and Corporate Social Responsibility (CSR) Performance: International Evidence. *Corporate Social Responsibility and Environmental Management* 24.3 (2017): 199-209.

Maria Ulfa. 2009. *The Influence of Corporate Characteristics on Social Responsibility*. Unpublished.

Meutia, Inten. 2010. *Menata Pengungkapan CSR di Bank Islam (Suatu Pendekatan Kritis).* Jakarta: Citra Pustaka Indonesia.

Meutia, Inten. 2010. *Shari'ah Enterprise Theory sebagai Dasar Pengungkapan Tanggungjawab Sosial Bank Syariah. 2010*. Unpublished.

Pramono, R. Y. 2015. *Pengaruh Profitabilitas, Pertumbuhan dan Likuiditas terhadap Pengungkapan Tanggung Jawab Sosial (CSR Disclosure) Menurut Shariah Enterprise Theory (Studi Kasus pada Bank Syariah di Indonesia). 2015.* Unpublished.

Susilowati, Kartika Dewi Sri. 2013. *Kemitraan Strategis dalam Implementasi CSR (Studi Kasus Pada Produk 'Kecap Bango' PT Unilever Indonesia, Tbk.* Unpublished.

Triyuwono, Iwan. *Mengangkat "sing liyan " untuk Formulasi Nilai Tambah Syari'ah. Simposium Nasional Akuntansi X Unhas, 26-28 Juli 2007.* 1-21.

Yusuf, yasir. 2010. Aplikasi CSR pada Bank Syariah: Suatu Pendekatan Maslahah dan Maqasid Syariah. *EKSIBISI,* Vol 4, No 2, juni 2010.98-115.