

Relationship between the Application of Good Islamic Business Governance and Voluntary Disclosure on Islamic Bank in Indonesia

Moh Arifin¹, Imron Mawardi², Muhammad Nafik Hadi Ryandono², Sri Iswati³, Bahrina Almas³

¹ Islamic Economic Science, Postgraduate School, Airlangga University, Campus B. Jl. Airlangga No.4-6 Surabaya, Indonesia

²Departement of Islamic Economic, Faculty of Economics and Business, Airlangga University, Campus B. Jl. Airlangga No.4 Surabaya, Indonesia

³Postgraduate School of Universitas Airlangga, Campus B. Jl. Airlangga No.4-6 Surabaya, Indonesia

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Abstract: The development of Islamic bank assets has a relatively significant growth, so that Indonesian banks create good Islamic business governance as a benchmark for Islamic banking governance in accordance with Islamic principles. The position of assets is reaching IDR 429.39 trillion with financing level at IDR 289.99 trillion. This has been a concern for Islamic banking not only to pursue profit but to fight for the welfare of customers and shareholders. The purpose of this study is to obtain empirical evidence on the reciprocal relationship between good Islamic business governance and voluntary disclosure at 7 Islamic banks in Indonesia in the period of 2011-2017. The research methodology used is quantitative descriptive with voluntary disclosure as dependent variable and good Islamic business governance as an independent variable. The results show that voluntary disclosure has a positive relationship with good Islamic business governance. The two variables will be co-integrated in the long run, which is indicated by trace statistic > critical value of 5%. So in the long run the variables will affect each other. The maximum voluntary disclosure is applied then the implementation of Good Islamic Business Governance will be better, so the customer confidence will increase and the growth of Islamic bank will be more optimal.

1 INTRODUCTION

Publicly disclosing information about the company is a form of transparency and accountability to stakeholders. Barako, et. al, (2006) said that companies can use financial statements to convey company information in a qualitative and quantitative way. According to Yuniasih, et. al, (2012) the form and extent of information disclosure is strongly influenced by corporate governance. Meilani (2016), note that one of the information disclosures provided to stakeholders is the voluntary disclosure used by management to increase the company's credibility. Thus, good governance can be achieved and company performance can be improved when transparency and disclosure quality are highly achieved.

Bank Indonesia (2009) states that to encourage the management of Islamic banks in Indonesia

should refer to the principles of good Islamic business governance. So, Bank Indonesia (2009) issued regulation no. 11/33/PBI/2009 dated December 7th, 2009 regarding good Islamic business governance and Circular Letter no. 12/13/DPbS dated 30 April 2010 regarding the implementation of good Islamic business governance for Islamic commercial banks and Islamic business units.

Good corporate governance involves a set of relationships between a company's management as such its board, its shareholders and other stakeholders. According to Jumansyah and Syafe'i (2013), good corporate governance cannot be applied entirely to Islamic business entity mainly Islamic banking, because governance of Islamic bank must conform with Islam.

Along with the increasing awareness of the increasing application of Islamic values in life and business, Bank Indonesia declared the

implementation of good Islamic business governance. According to Shahul (2001) that Islamic bank as a business institution that runs based on Islamic principles should not be directed to generate maximum profit. According to statistical data of Islamic bank (Financial Services Authority, 2018), the position of Islamic bank assets reached IDR 429.36 trillion and financing value is still moving at double-digit level of IDR 289.99 trillion. Growth is inseparable from good governance to maintain welfare and security for customers and shareholders. This study can obtain empirical evidence of the mutual relationship between good Islamic business governance and voluntary disclosure in the annual report of Islamic bank in Indonesia period 2011-2017 using ganger causality.

2 LITERATURE REVIEW

Governance is a new form of new public management regulation. Corporate governance is the alignment between the interests of corporate management with other stakeholders and integrates the goals between management and owners, incentives, monitoring and control (Nofianti and Ardi, 2014). Voluntary disclosure is a phrase that the company provides outside the applicable provisions. Lys, et. al, (2015) said that in theory companies that implement voluntary disclosure indicate good news or good performance by releasing sustainable financial statements to differentiate from competitors.

The relationship between the disclosure of non-financial sustainability and sustainability performance remains controversial when researchers use the theory of voluntary disclosure and legitimacy theory to explain its relationship to sustainability performance (Hummel and Schlick, 2016). Whereas according to Hidayah (2008) said that accurate and detailed disclosure will provide a picture of the actual performance of the company. Large companies are more likely to get big risks, including Islamic bank. According to Darmadi (2013) conventional banks or Islamic banks are also at risk due to the complex nature of their capital structure, where banks present many short-term claims and relative to customer and depositors' trust.

Hypothesis: There is a one-way relationship between good Islamic business governance and voluntary disclosure.

3 RESEARCH METHODOLOGY

3.1 Population

Research approach used in this study is quantitative approach which aims to test hypothesis with measured data and produce generalizable conclusion. The population in this study are the annual financial report of Bank Syariah Mandiri, Bank Muamalat Indonesia, Bank Negara Indonesia, Bank Rakyat Indonesia, Bank Bukopin Indonesia, Bank Mega Syariah Indonesia, and Bank Central Asia Syariah for the period 2011-2017 December, namely 49 financial reports.

The sample in this study is taken by purposive sampling, where the sample is taken if it meets the following criteria: First, the Islamic banks that reported the complete financial period December 2011-2017. Secondly, 7 Islamic banks have the largest assets in December 2017. Thirdly, Islamic banks are still operating in Indonesia during the period of December 2011-2017 (Bank Syariah Mandiri, Bank Muamalat Indonesia, Bank Negara Indonesia, Bank Rakyat Indonesia, Bank Bukopin Indonesia, Bank Mega Syariah Indonesia, Bank Central Asia Syariah).

3.2 Definition Operational of Variables

3.2.1 Dependent Variable

Voluntary disclosure is the delivery of information provided voluntarily by companies beyond the obligated disclosure established by Bank Indonesia (Meilani, 2016). The calculation of the voluntary disclosure index refers to the study (al Bawat, 2015) by providing a score of "1" for the item disclosed and gives a score of "0" for an undisclosed item of 56 indicators.

3.2.2 Independent Variable

Good Islamic business governance is an important element in maintaining the sustainability of business growth (Meilani, 2016). Businesses that run with a good governance concept will survive in the long run. According to the national committee on governance policy (2011) states that the ability to maintain business power is very important for all parties so that good governance for Islamic banks can be illustrated by the consistency of the implementation of good Islamic business governance. According to Jumansyah and Syafei

(2013) that good Islamic business governance consists of 42 indicators with a score of "1" for the indicator disclosed and gives a score of "0" for the undisclosed indicator.

3.2.3 Types and Sources of Data

The type of data used in this study is the annual time series data from 2011-2017 which is sourced from various books, journals and financial reports published by Islamic banks in Indonesia.

3.2.4 Analysis Techniques of Data

Based on the problem formulation and research objectives, the analytical technique used in this study is using the granger causality test analysis tool.

Causality test is a test to determine the cause of effect in Vector Auto Regressive (VAR) system. Granger Causality test is used to know the dependent variable (not independent variable) can be influenced by other variables (independent variable). The model of granger causality can be formulated as follows (Junaidi, 2012):

$$GIBG_t = \sum_{i=1}^M \alpha_i GIBG_{t-i} + \sum_{j=1}^M \beta_j VD_{t-j} + U_{1t} \quad (1)$$

$$VD_t = \sum_{i=1}^M \lambda_i VD_{t-i} + \sum_{j=1}^M \delta_j GIBG_{t-j} + U_{2t} \quad (2)$$

Where:

GIBG = Good Islamic Business Governance

VD = Voluntary Disclosure

Ut = Nuisance Variable

M = Number of lag

4 RESULTS AND DISCUSSION

4.1 Stationary Test (Unit Root Test)

Table 1: Stationary Test Result.

Dickey-fuller test for unit root		T-statistics and Critical Values		
Interpolated dickey-fuller				
	Statistic Test	1% Critical Value	5% Critical Value	10% Critical Value
GIBG	-6.050	-3.594	-2.936	-2.602
VD	-6.221	-3.594	-2.936	-2.602

Table 1 shows the stationary test result on the degree level, where the t-statistical value for the GIBG variable is -6.050 and VD of -6.221. The test results show stationary data at critical values of 1%,

5%, and 10%, all variables have met the stationary criteria because the resulting t-statistic value is more negative than the critical value of 1%, 5%, and 10%.

4.2 Co-integration Test

Table 2 : C0-integration Test Result.

Vecrank GIBG VD, Lag			Johansen tests for co-integrations		
Trent: constant			Lags = 1		
Maximum rank	parms	LL	Eigenvalue	Trace Statistic	5% Critical Value
0	2	-264.63211		71.7072	15.41
1	5	-241.57346	0.61740	25.5899	3.76
2	6	-228.77851	0.41323		

From the results of table 4.3 can be seen in the co-integration test using Johansen Test, obtained results that variable GIBG and VD co-integrated in the long term, which is indicated by trace statistic > critical value 5%. The value of the trace statistic of the trace test is 71.7072 greater than the critical value of

15.41, which means that in the system there is one co-integrated equation. Trace statistic value of 25.5899 is greater than the critical value of 3.76. This indicates that in the two variables (GIBG and VD) in the Islamic bank in Indonesia in the period

2011-2017 there is a long-term or co-integrated relationship.

4.3 Granger Causality-Test

Table 3 : Result of Granger Causality Test.

Equation	Excluded	Chi2	Df	Prob > chi2
GIBG	VD	1.4187	2	0.492
GIBG	ALL	1.4187	2	0.492
VD	GIBG	16.7	2	0.000
VD	ALL	16.7	2	0.000

From the table above, it can be explained that which has a granger causality relationship is a variable with a probability value smaller than α 0.05. The variable of good Islamic business governance (GIBG) does not affect the voluntary disclosure (VD) variable (0.492) and the voluntary disclosure variable (VD) influences the good Islamic business governance (GIBG) variable (0.000). It can be said that there is a one-way relationship that is from $VD \rightarrow GIBG$ that is only the VD variable that statistically affect the variable GIBG and not vice versa.

It can be argued that the implementation of good Islamic business governance is highly dependent on the growth of voluntary disclosure which statistically has a positive relationship to good Islamic business governance as well as good Islamic business governance is not related to voluntary disclosure. This is contrary to Meilani’s research (2016) that good Islamic business governance has a relationship with voluntary disclosure. The study states that the contribution of Good Islamic business governance implementation to the increase of Voluntary Disclosure of Islamic bank in Indonesia is 11.56%, and the rest of 88.44% is influenced by other factors beyond the application of Good Islamic business governance. While in this study good Islamic business governance has no influence on the

voluntary disclosure, otherwise voluntary disclosure effect on good Islamic business governance.

The level of disclosure is strongly influenced by the source of financing, revenue, legal system, economic and political circumstances, level of economic development, education and cultural level. Costs that are needed in the disclosure are the collection of information, management supervision fees, auditor fees and legal counsel, and the cost of disseminating information. The decision of the company to make voluntary disclosure depends on the incentives that will be obtained because there are no rules that regulate it. Voluntary disclosure is undertaken to reduce asymmetric information with the aim of minimizing conflicts of interest between management and shareholders.

If voluntary disclosure is well practiced then good Islamic business governance will be good because voluntary disclosure affects good Islamic governance significantly. Based on a survey by Mcinsey & Company (2002) many investors consider that governance is at least as important as a company's financial indicators. Therefore, voluntary disclosure in Islamic banks must be optimized for better governance so that the management of Islamic banks increases.

business governance (GIBG) variable (0.000). It can be said that there is a one-way relationship that is from $VD \rightarrow GIBG$ that is only the VD variable that statistically affect the variable GIBG and not vice versa.

5 CONCLUSIONS

The result of the measurement, it is concluded that there is one-way relationship between voluntary disclosure and good Islamic business governance and vice versa there is no relation between good Islamic business governance and voluntary disclosure. It can be argued that the higher the voluntary disclosure, the better the Islamic business governance.

The variable of good Islamic business governance (GIBG) does not affect the voluntary disclosure (VD) variable (0.492) and the voluntary disclosure variable (VD) influences the good Islamic

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