

IMPROVING FINANCIAL PERFORMANCE THROUGH ISLAMIC CORPORATE SOCIAL RESPONSIBILITY AND ISLAMIC CORPORATE GOVERNANCE

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ABSTRAK

Penelitian ini bertujuan untuk menganalisis dan menguji secara empiris *Islamic corporate social responsibility* dan *Islamic corporate governance* dalam meningkatkan kinerja keuangan Bank Umum Syariah. Populasi penelitian ini adalah seluruh Bank Umum Syariah yang terdaftar di Bank Indonesia tahun 2013-2018 yang berjumlah sebanyak 72 Bank Umum Syariah. Sampel penelitian yang digunakan dalam penelitian ini berdasarkan teknik purposive sampling sebanyak 60 Bank Umum Syariah. Semua data dalam variabel ini akan di analisis menggunakan analisis regresi linier berganda dengan bantuan SPSS versi 22. Hasil penelitian menunjukkan bahwa *Islamic corporate social responsibility* dan *Islamic corporate governance* berpengaruh positif dan signifikan terhadap peningkatan kinerja keuangan Bank Umum Syariah. Artinya, seluruh Bank Umum Syariah telah mengimplementasikan *Islamic corporate social responsibility* dan *Islamic corporate governance* dengan baik dan konsisten. Secara teoritis, hasil penelitian ini mendukung teori agensi dan teori *sharia enterprise* sehingga dapat dijadikan sebagai salah satu referensi untuk penelitian yang akan datang. Secara praktis, hasil penelitian ini dapat memicu Bank Umum Syariah untuk selalu mengembangkan praktik *Islamic corporate social responsibility* dan *Islamic corporate governance*, sehingga mampu meningkatkan minat masyarakat untuk selalu bertransaksi di Bank Umum Syariah.

Keyword : Kinerja Keuangan, Islamic, Corporate Social Responsibility, Corporate Governance

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Introduction

Financial performance is an organization's ability to manage and direct its resources (IAI, 2018). The financial performance of Islamic banks gradually increased significantly. Recorded in the period of six years (2010-2015), the number of assets in Islamic banks has increased by 134,236 billion rupiah. In addition, in 2014-2018, Islamic banking was able to record a Compounded Annual Growth Rate (CAGR) of 15%, higher than the national banking industry in which the CAGR was recorded for 10%. It indicates that the performance of islamic is better than the national banking.

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Unfortunately, the development of Islamic Banks performance is not followed by a large number of Islamic banking customers. This condition confirms that the interest of Indonesian people to have an account at Islamic Bank is still low. It is also reflected through the market share percentage which is around 5.44% or around 17 million of the total population in Indonesia (www.ojk.go.id). This is due to the low general public insight on Islamic banking, therefore a strategy is needed to boost financial performance in order to be able to compete with conventional banks. Some aspects that can improve financial performance are the disclosure of Islamic corporate social responsibility and Islamic corporate governance.

Islamic Corporate Social Responsibility (ICSR) is believed to be an appropriate benchmark for CSR disclosure. According to Sofyani et al., (2012) a body that applies sharia-based business is essentially rooted in the philosophy of the Qur'an and Sunnah, so that it becomes the basis for executors when dealing with the environment and society. Al-Qur'an Surah Al-Qashash verse 77:

“And look for what Allah has bestowed upon you (happiness) of the afterlife, and do not forget your happiness from worldly (enjoyment), and do good (to others) as Allah has done good to you, and do not do anything damage on earth. Surely Allah does not like those who do mischief”.

Triyuwonyono (2015) said that sharia enterprise theory illustrates theoretical plans that are able to convey the principles of accounting basics and methods. This theory results accountability understanding and facts that are needed by stakeholders in sharia business.. Allah is the Only and absolute owner, meanwhile stakeholders are trust from Allah who have obligation to utilize mission which is determined by Allah.

Darmawati (2014) tolds that Islam holds accountability which is comparable in all arrangements and fields, between soul and body, between individual and family, between individuals and social, and between a community with another society. Social responsibility states about obligations industry in order to protect and convey participation to society where the industry is located. Hadi (2016) argued a good company is a company that does not only focus on profit only, but also has interest on environmental sustainability and community peace. Islamic Bank is demanded not only to have high profitability, but also to have concern for the environment and society. CSR disclosure has become mandatory since the issuance of Law No. 40 year 2007 article 74 paragraph 1 which contains the implementation of social and environmental responsibility.

The ICSR disclosure plays a very significant condition for Islamic banking performance. Islamic banks that disclose ICSR reports can be seen as companies that are able to strengthen the trust of Muslim community in managing and distributing budgets. The ICSR idea can be used as a business policy by companies against selective business competition.

The research of Sidik and Reskino (2016) shows that ICSR has a positive effect on Islamic banking financial performance. This result is supported by Indrayani and Risna (2018) which indicated that ICSR has a positive but not

significant effect on Islamic banking financial performance. Research by Dewi and Widagdo (2012) also reveals that CSR affects company performance. However, this is in contrast with the research of Arifin and Wardani (2016), that ICSR has a negative effect on Islamic banking financial performance with ROA as the indicator.

Islamic corporate governance is a set of institute policy whereby Islamic financial institutions are able to validate an independent philosophy of sharia compliance beyond the method of publication of an appropriate sharia law, distribution of data information and internal review of sharia compliance (FASB, 2009). The implementation of Corporate Governance in Islamic commercial banks differs from the principles of Corporate Governance in conventional banks. Bhatti (2009) argues that businesses that have roots in Islam should develop a conducive and sustainable business climate with the realization of market discipline that comes from customary Islamic business governance.

Regarding with agency theory, the members of sharia supervisory board become parties who supervise banks as management that can be trusted to manage organizations without individuals interest. The members of sharia supervisory board must often meet and ensure that the company is already in accordance with sharia principles in conducting the banks' activities. The more frequent of sharia supervisory board conduct meetings then the more often the members give their views for Islamic Bank progress.

Hartono (2018) stated Islamic corporate governance has a significant positive impact on financial performance. Puspasari (2017) stated that Islamic corporate governance seen from the number of sharia supervisory board meetings has a positive impact on performance. In contrast, the results of Indrayani and Risna's research (2018) stated that Islamic corporate governance has a negative and significant effect on financial performance. Asrori (2014) and Kholid and Bachtiar (2015) argued that the sharia supervisory board had a negative insignificant effect on financial performance.

This study aims to analyze and test empirically about Islamic corporate social responsibility and Islamic corporate governance in improving the financial performance of Islamic banks. The novelty of this study is the measurement of sharia financial performance variables using Sharia Conformity and Profitability (SCnP) It chooses the Islamic aspects of Islamic Income. The SCnP method is a method of measuring financial performance that has been adapted to sharia scheme in order to evaluate the socio-economic commitments of Islamic banks.

Sharia Conformity and Profitability (SCnP) model is one of the measurement models for financial performance in banks, especially in Islamic banking. SCnP combines its orientation on profitability indicators to assess conventional financial performance through the orientation index in conformity with sharia system (Kuppusamy et al., 2010). It aims to assess the socio-economic obligations of Islamic banks. The strengths of the SCnP model are: First, the measurement of Sharia Conformity and Profitability (SCnP) method is more complex because it combines two valuation orientations that are inseparable, namely the bank's sharia aspects and bank's financial aspect. Second, by combining the two socio-economic orientations on Sharia Conformity and

