

MEASURING DISCLOSURE ISLAMIC SOCIAL REPORTING AT GAYO ISLAMIC RURAL BANK

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Abstract

The goal of this study is to use the Islamic Social Reporting (ISR) Index to determine social responsibility disclosure at Gayo Islamic Rural Bank (BPRS Gayo). Including items such as investment and financial indicators, products, services, or labor employees, as well as social, environmental, and organizational governance, which is thought to be utilized as a beginning point in Islamic CSR disclosure criteria. Gayo Islamic Rural Bank is the subject of this study, which is based on the annual report for 2020. Content analysis is a method for analyzing data. According to the findings, the Gayo Islamic Rural Bank's social responsibility disclosure level with the ISR Index was 42.6 percent. That means that social responsibility exposure at Gayo Islamic Rural Bank was still limited or could only meet 42 of the maximum score if Gayo Islamic Rural Bank exposure on the ISR Index was completely disclosed.

Keyword :

Islamic Social Reporting,

Islamic Rural Bank

1. INTRODUCTION

CSR (Corporate Social Responsibility) is a hot topic in academia, business, and policy right now. CSR, also known as social and environmental responsibility, refers to a corporation's commitment to participate in sustainable economic development in order to improve the quality of life and the environment in a way that benefits the firm, the local community, and society as a whole. Companies that can continue to grow and expand are environmentally conscious, aligned, and adaptable to community dynamics. CSR is one of the new tools that can assist businesses in being environmentally conscious and adaptable to the lives of its employees (Nejati et al., 2011).

The number of business units disclosing CSR practices in their annual reports and websites has improved in both quantity and quality, as seen by the growing number of business units reporting CSR activities in their annual reports and websites. CSR is practiced not just by traditional financial institutions, but also by corporate organizations or firms that follow the sharia principle in their operations. In Islam, corporate social responsibility (CSR) is highlighted as a kind of human devotion to Allah SWT. The concept of the caliphate is known in Islam thanks to the requirements of sharia. In this scenario, Islam sees the corporation as a charter for shareholders or investors, as well as

society as a whole, to receive Allah SWT's blessings (Rama, 2015).

A sharia bank is one of the financial entities whose operations are guided by sharia principles. In general, Islamic banks' CSR operations in Indonesia result in social activities such as providing social support to orphans, distributing zakat monies, assisting disaster victims, planting tree seeds, offering educational assistance, and providing health care to the community. The desire to make social reporting that is shariah will grow in tandem with the rise of CSR in the framework of Islam. The Islamic Social Reporting (ISR) Index can be used to measure CSR in Islamic banking (Che Azmi et al., 2020); (Iqramuddin et al., 2020); (Riduwan & Mutmainah, 2020); (Jihadi et al., 2021). Haniffa developed the Islamic Social Reporting Index as a response to the constraints of traditional social reporting, as well as an ISR framework for use in the Islamic setting (R. Haniffa, 2002). ISR is a way to show company accountability to God and society (R. Haniffa & Cooke, 2005). The AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) set CSR standard items that are thought to be a beginning point in CSR disclosure standards from an Islamic perspective, and are included in the ISR Index.

The Islamic concept of social duty differs from the Western concept. For those who are able, Islamic beliefs compel them to participate in social activities. For different business stakeholders, it is an ethical responsibility mandated by Islam. The business community can use Islamic theology to preserve relationships with a variety of stakeholders, including the environment, consumers, society, and employees. To meet stakeholder expectations, all of these rules are based on an ethical and rational perspective. As a result, any company working under Shariah principles is deemed to be socially responsible (Maali et al., 2006); (R. Haniffa & Hudaib, 2007).

The ISR Index has been used in Islamic finance by a number of prior academics. According to Fitria and Hartanti's research, social responsibility disclosure at various Islamic banks in Indonesia is still limited, or can only meet 50% of the maximum score if all elements are stated separately. On the ISR Index, you've done a fantastic job. Furthermore, when compared to regular banks, Islamic banks make fewer socially responsible disclosures (Fitria & Hartanti, 2010). Furthermore, Fauziah and Yudho's findings on the

disclosure of Islamic banking social responsibility in Indonesia using the ISR Index demonstrate that Bank Muamalat Indonesia has the highest ISR Index score of 73 percent, while Bank Panin has the lowest score. Sharia law received a score of 41% (Fauziah & J, 2013). The ISR Index has been used in Islamic Commercial Banks in the majority of prior studies. There is yet to research using the ISR Index to Islamic Rural Banks. As a result, this research focuses on the use of the ISR Index at Gayo Islamic Rural Bank located in Takengon, Central Aceh.

The researcher can formulate the fundamental issue in this research as the disclosure of social responsibility in Gayo Islamic Rural Bank using the Islamic Social Reporting Index technique, based on the background of the concerns above and recognizing the relevance of ISR disclosure. The goal of this study is to examine the disclosure of social responsibility at Gayo Islamic Rural Bank using the Islamic Social Reporting Index technique, based on the formulation of the problem that has been presented.

2. LITERATURE REVIEW

Sharia Bank is a bank that gives and enforces rewards based on sharia principles in its activities, both in terms of raising funds and in terms of distributing cash. The following are the functions and roles of Islamic banks as defined by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) accounting standards: (Ali, 2013)

- a. Customers' funds can be managed by investment managers and Islamic banks.
- b. Investors and Islamic banks can invest their own cash as well as funds entrusted to them by customers.
- c. Providers of financial services and payment traffic, such as Islamic banks, can continue to do business as usual.
- d. Social activities: As an intrinsic element of Islamic financial enterprises, Islamic banks should also issue and manage zakat and other social funds (collect, administer, and disburse). Meanwhile, the objectives of Islamic banks are as follows (Ali, 2013):
 - a. Directing people's economic operations to convert to Islam, particularly those related to banking, in order to avoid usury and other types of business/trade that contain components of gharar (deception), which are banned in

addition to being prohibited by law. Islam has also impacted the economics of the people.

- b. To achieve economic fairness by sharing income through investing activities in order to minimize a significant imbalance between capital owners and those in need of finances.
- c. To improve people's quality of life through expanding business opportunities, particularly for the poor, that are geared toward productive business operations and the achievement of business independence.
- d. To address the problem of poverty, which is usually a developing country's principal program. Customer development, which is more like a producer entrepreneur development program, intermediate trader development, consumer development program, working capital development program, and joint business development program, are all examples of Islamic banks' efforts to alleviate poverty.
- e. To keep the economy and the currency stable. Islamic banks will be able to prevent economic warming induced by inflation, as well as unfair rivalry among financial institutions, through their activities.
- f. To alleviate Muslims' reliance on non-sharia-compliant banks.

Sharia Commercial Banks, Sharia Business Units, and Sharia People's Financing Banks (BPRS) are the three types of Islamic banks. Sharia Commercial Banks (BUS) are sharia banks that offer payment-related services. Sharia Business Units (UUS) are work units within a traditional commercial bank's head office that serve as the main office. A Sharia Business Unit is an office or unit that does business in accordance with Islamic principles, or a work unit in a branch office of a foreign bank that conducts traditional business and serves as the main office of a branch office Sharia assistants. In addition, there are sharia units. While Islamic Rural Banks (BPRS) are sharia banks that do not provide payment-related services, their legal form is that of a limited liability business. Only Indonesian people and/or Indonesian legal entities, local governments, or partnerships between Indonesian citizens and/or Indonesian legal entities and local governments are permitted to own Islamic Rural Bank (Soemitra, 2014).

Social responsibility, also known as Corporate Social Responsibility (CSR), is the business world's continual commitment to act

ethically and contribute to the economic development of the local community or society at large, as well as enhancing the standard of life of workers and their families. The corporation, the community, the environment, the state, and other stakeholders all gain from the application of corporate social responsibility. Wibisono outlines the advantages that businesses gain from using CSR, which include (Wibisono, 2007):

- a. For businesses. Companies that engage in CSR will reap four benefits: (1) their existence can grow and be sustainable, and they will have a positive image in the community; (2) they will have easier access to capital (capital); (3) they will be able to maintain quality human resources; and (4) they will be able to improve critical decision making (critical decision making) and risk management.
- b. For the benefit of society. Good CSR initiatives will raise the company's added value in a region since they will absorb labor and promote social quality. Local workers who are enthralled will defend their labor rights. If indigenous peoples or local communities exist, CSR practices will take into account their traditions and cultures.
- c. For the sake of the environment. CSR practices will help to minimize over-exploitation of natural resources, maintain environmental quality through lowering pollution levels, and engage businesses in affecting their surroundings.
- d. For the sake of the country. Good CSR procedures will help to prevent "corporate misconduct," or commercial malpractices like bribery of state officials or law enforcement agencies, which can lead to high levels of corruption. Furthermore, the state will benefit from appropriate tax collections (which are not dodged) from businesses.

Islamic Social Reporting (ISR) is an extension of social reporting that takes into account people's expectations of companies' economic roles as well as their spiritual roles. It refers to 6 (six) themes to examine the disclosure of Islamic Social Reporting, which are an amalgamation and modification of the findings of the research done (R. Haniffa, 2002) as well as a study completed (Othman et al., 2015). The six assessment themes in question consist of:

- a. Finance and Investment
Monotheism, halal, haram, and required are the main concepts in this theme. Operational techniques involving usury, gharar, and zakat

management are some of the details revealed in this theme. Policies on late payment of receivables and customer bankruptcies, as well as current value balance sheets and value-added statements, are also disclosed.

b. Products and Services

Several things that need to be disclosed in this theme are the halal status of the products utilized and services for consumer complaints. The halal quality of new products and services utilized in sharia banking is determined by the opinion presented by the DPS for each new product and service. In addition, service for client complaints is also a priority for Islamic banks to maintain consumer trust.

c. Employees

The ethical ideas of trust and justice underpin everything that has to do with employment. Working hours, vacations, employee perks, and employee education and training are all examples of information connected to employees. Other aspects are the remuneration policy for employees, equal career opportunities for all employees, both male, and female, employee health and safety, employee involvement in several company policies, employees from special groups such as physically disabled or drug victims, adequate places of worship, and time or religious activities for employees.

d. Community/Social

Ummah, amanah, and adl are the three essential notions that underpin this theme. The idea highlights the significance of sharing and easing others' burdens. Disclosure items in the community theme used in this research: sadaqah/donations, waqf, qardul hasan, a volunteer from the employee side, scholarships, job empowerment for students who graduate from school/college in the form of internships or fieldwork practices, development in youth, improving the quality of life of the lower class, caring for children, charity/assistance/other social activities, and sponsoring various activities such as health, entertainment, sports, culture, education, and religion.

e. Environment

Mizan, i'tidal, khilafah, and Akhirah are the concepts of this topic. In terms of environmental protection, the concept emphasizes balance, simplicity, and accountability. Islam encourages its followers to continually look after, maintain, and preserve the earth.

Environmental conservation, not harming the environment, environmental education, environmental prizes, and environmental management systems are among the topics covered in the environmental theme.

f. Corporate Governance

The concept of the caliphate is responsible for the establishment of governance in Islam. The status of sharia compliance, details of names and profiles of directors, DPS, and commissioners, performance reports of commissioners, DPS, and directors, remuneration policies for commissioners, DPS, and directors, income and usage information, and legal case reports are all disclosed in the corporate governance theme. Anti-corruption and money laundering policies, as well as anti-terrorism policies, are all in place. The concepts of GCG in the banking business have been regulated in PBI No. 8 of 2006 concerning the Implementation of Good Corporate Governance by Commercial Banks, including sharia-based banks, in its implementation in Indonesia.

3. RESEARCH METHOD

This study uses a descriptive qualitative approach focused on the disclosure of the Islamic Social Reporting Index (ISR) at the Gayo Sharia People's Financing Bank. Moleong (2004) defines qualitative research as research that intends to understand the phenomena experienced by research subjects such as behavior, perceptions, motivations, actions, etc., holistically and using descriptions in words and language on a topic. Particular contexts that are natural and by utilizing various natural methods. While the method used is the method of content analysis. According to Weber, content analysis is a method that utilizes a set of procedures to draw valid conclusions from a book or document. Furthermore, according to Holsti, the content study is a technique used to illustrate the findings through efforts to find the characteristics of the message. It is carried out objectively and systematically (Satori and Komariah, 2009).

The data used in this study is the 2020 annual report of the Gayo Sharia People's Financing Bank. The data analysis technique uses content analysis with a scoring method based on the Islamic Social Reporting (ISR) Index, consisting of 6 indicators: investment and finance, products and services, labor, social, environmental, and organizational governance, which developed

into 50 statements items. A value of 0 for each item that is not disclosed and a value of 1 for things that are revealed. The calculation of the Islamic Social Reporting (ISR) disclosure index is:

$$ISR = \frac{\text{Number of items disclosed by banking company}}{\text{Number of items expected to be disclosed by banking company}} \times 100\%$$

4. RESULTS AND DISCUSSION

Gayo Islamic Rural Bank has been operating for 11 years in Takengon, Central Aceh. Initially, Gayo Islamic Rural Bank was named PT. Renggali Islamic Rural Bank. On September 29, 2017, the shareholders proposed to change the name of Renggali Islamic Rural Bank to Gayo Islamic Rural Bank. Then at the General Meeting of Shareholders (RPS) held on October 28, 2017, the participants of the RPS have made a decision by way of deliberation for consensus and subsequently decided and legally determined and approved the change of company name from Renggali Islamic Rural Bank to Gayo Islamic Rural Bank.

The results of scoring the disclosure of social responsibility at Gayo Islamic Rural Bank, starting now referred to as Gayo Islamic Rural Bank with the Islamic Social Reporting (ISR) index approach, can be seen in the following table:

Based on the table above, we can be seen that Gayo Islamic Rural Bank has a disclosure level of 42.6%. That means that the disclosure of social responsibility at Gayo Islamic Rural Bank is still limited or can only meet 42.6% of the maximum score if all items are fully disclosed on the ISR Index.

Investment and financial indicators show that Gayo Islamic Rural Bank only discloses activities that contain *riba* but does not reveal how much the contribution of these activities to profit. For the *gharar* item, Gayo Islamic Rural Bank does not disclose it in the annual report. The disclosure of *zakat* in the form of the method used, the source of *zakat*, the amount and recipients of *zakat* was disclosed by Gayo Islamic Rural Bank in its 2020 annual report. Still, the bank did not reveal the opinion of the Sharia Supervisory Board regarding the collection and distribution of *zakat*. For policy items in dealing with late payments by insolvent clients, current value balance sheets, value-added statements are not disclosed by Gayo Islamic Rural Bank in its 2020 annual report.

The product and service indicator is the second indicator in the ISR Index, consisting of *halal* or *sharia* status items in products, product development, and service improvement disclosed by Gayo Islamic Rural Bank in its annual report. Customer complaints or incidents arising from non-compliance with regulations that apply to all items: total consumer complaints, handling of these complaints, fines both monetary and non-pecuniary related to violations of rules, and surveys on customer satisfaction, were not disclosed at all by Gayo Islamic Rural Bank.

The third indicator in the ISR Index is the workforce, including job characteristics disclosed by Gayo Islamic Rural Bank with a score of 0.25 because only the composition of employees based on specific criteria is disclosed. At the same time, the number of hours worked and holidays, remuneration, and salary ratios are not disclosed in the annual report of Gayo Islamic Rural Bank. Gayo Islamic Rural Bank only broadcasts education and training programs for employees on the job education and training items. In contrast, programs and employee career paths, employee retention strategies, and the percentage of employees receiving career development are not disclosed in the 2020 annual report of The Gayo Islamic Rural Bank. The next item, namely equal opportunity, occupational health and safety, work environment, and special recruitment, was not disclosed by The Gayo Islamic Rural Bank in its annual report.

Social is the fourth indicator in the ISR index, including *shadaqah* or donations that Gayo Islamic Rural Bank has disclosed. The next item is *waqf* which Gayo Islamic Rural Bank has not announced. The items *Qard Hassan* and *zakat* or donations from employees or customers that are part of the social indicators have been disclosed in the 2020 annual report. For education items, which include establishing schools and providing financial and non-financial assistance to schools, scholarships have not been announced by The Gayo Islamic Rural Bank.

The Gayo Islamic Rural Bank has not disclosed the item for health assistance, but economic empowerment has been revealed in its report. The next thing concerns orphans, assistance for building or renovating mosques, service for youth activities, assistance for other social activities, and sponsoring health, sports, educational events not disclosed in the 2020 Gayo Islamic Rural Bank annual report.

The fifth indicator in the ISR index is the environment which includes a go green campaign, environmental conservation, protection of wild or endangered flora and fauna, pollution, improvement and construction of public facilities, environmental audits, and environmental management policies. The Gayo Islamic Rural Bank has not disclosed it in its annual report for this ecological indicator.

The sixth indicator in the ISR index is organizational governance. Consists of corporate profile and strategy, organizational structure, implementation of the duties and responsibilities of the Board of Commissioners, implementation of the duties and responsibilities of the Sharia Supervisory Board, implementation of sharia principles in the collection and distribution of funds and services, handling conflicts of interest, implementing bank compliance functions, implementing internal audit functions, implementing external audit functions, transparency of financial and non-financial conditions, as well as corporate ethics. Gayo Islamic Rural Bank has been disclosed this indicator. For this organizational governance indicator, only the items of completeness and implementation of committee duties and the maximum limit for disbursing funds have not been disclosed in the 2020 Gayo Islamic Rural Bank annual report.

5. CONCLUSION

Based on the research results conducted on the 2020 Annual Report of The Gayo Islamic Rural Bank. The Gayo Islamic Rural Bank has a disclosure rate of 42.6%. The disclosure of social responsibility at Gayo BPRS is still limited or can only meet 42.6 % of the maximum score if all items are fully disclosed ISR Index.

The items that have been disclosed are identification of activities that contain usury, zakat methods used, sources of zakat, number and recipients of zakat, halal or sharia status in products, service improvement, employee composition based on specific characteristics, employee education and training programs, shadaqah /donation, *qard hassan*, zakat or donations from employees or customers, economic empowerment, organizational profile and strategy, organizational structure, implementation of the duties and responsibilities of commissioners, implementation of duties and responsibilities of directors, implementation of duties and

responsibilities of Sharia Supervisory Board, implementation of principles sharia in raising funds and distributing funds as well as services, handling conflicts of interest, implementing bank compliance functions, implementing internal audit functions, implementing external audit functions, transparency of financial and non-financial conditions, anti-money laundering policies and other deviant practices, and corporate ethics.

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