

## **FINANCIAL PERFORMANCE, SHARIA SUPERVISORY BOARD, AND CORPORATE GOVERNANCE AND ITS IMPACT ON SOCIAL RESPONSIBILITY AT INDONESIAN SHARIA BANK**

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### ***Abstract***

*This study aims to find out how much influence the financial performance, sharia supervisory board, and corporate governance on sharia banking responsibilities in Indonesia. The population in this study is all Sharia banks in Indonesia from 2015 to 2019. In contrast, the samples in this study were determined by purposive sampling, so 14 samples were obtained. The type of data used is secondary data obtained from [www.bi.go.id](http://www.bi.go.id). Based on the results of financial performance research, it does not influence social responsibility, the sharia supervisory board does not affect social responsibility, and partially there is a positive and significant influence between corporate governance on Islamic social responsibility in sharia banking in the period 2015-2019.*

*Keywords: Financial performance; sharia supervisory board; corporate governance; social responsibility*

*JEL Classification: F65, G30, G50*

## **INTRODUCTION**

In Indonesia, a bank is an institution involved in national development and the economy (Chasbiandani et al., 2020; Liyas & Primadi, 2017). The bank is a business that collects funds from the public through savings and then distributes them to the community to improve people's standard of living. In Indonesia, banks consist of conventional banks and Islamic banks. What distinguishes the two banks are principles and practices. Islamic banks have principles and applications that are different from traditional banks. One of the main comparisons is the need for overall financial and social performance.

The concept of Corporate Social Responsibility (CSR) in Islam is closely related to industries that carry out business activities according to sharia rules that the industry wants to carry out industrial social responsibility in an Islamic manner (Koloay et al., 2018). However, many Islamic or conventional banks still do not carry out their social duties.

The following are some of the previous studies that became the reference in this study, which distinguishes this research from previous research, namely using the variables of financial performance, sharia supervisory boards, and good corporate governance and using a different number of samples and research years.

Research researched by (Sukanta & Rostiani, 2018), this study reviews the disclosure of Islamic Social Responsibility in Islamic banking. The results of this study found that the sharia supervisory board has a positive and significant effect on the disclosure of Islamic Social Responsibility (ISR), profitability has an insignificant effect on the disclosure of Islamic Social Responsibility (ISR), leverage has a minor impact on the disclosure of Islamic Social Responsibility (ISR).

Research researched by (Mukhibad, 2018), this study discusses the disclosure of Islamic Social Responsibility in Islamic banking. This study found that the Sharia Supervisory Board is the most substantial factor in disclosing Islamic Social Responsibility (ISR). This occurs because the Sharia Supervisory Board has a holistic role in increasing sharia compliance and financial and social performance. In addition, understanding the Sharia Supervisory Board of current economic and financial laws will affect bank performance, both financial and social performance.

Furthermore, research conducted by (Hasanah et al., 2017), this research also discusses the disclosure of Islamic Social Responsibility in Islamic banking. The results found that the size of the audit committee, liquidity, and profitability significantly affect the exposure of Islamic Social Responsibility. Meanwhile, the size of the board of commissioners and leverage does not affect the disclosure of Islamic Social Responsibility.

Finally, research conducted by (Pratiwi, 2016) discusses the financial performance of Islamic banks. The results of this study found that the quality of implementing Good Corporate Governance significantly positively affects the Capital Adequacy Ratio. The quality of the implementation of Good Corporate Governance has a significant positive impact on Non Performing Loans. The quality of Good Corporate Governance performance significantly

negatively affects Return On Assets. The quality of the implementation of Good Corporate Governance significantly negatively affects Return On Equity.

It is considering that the phenomena that occur above are following some deviations from the provisions of sharia principles in Islamic banks and the urgency of implementing Good Corporate Governance and disclosure of Corporate Social Responsibility in Islamic banks, especially in terms of fulfilling sharia principles.

## **LITERATURE REVIEW**

### ***Corporate Social Responsibility***

CSR is a theory regarding the importance of a company establishing a harmonious relationship with the community and other stakeholders. Theoretically, CSR can be interpreted as a company's moral responsibility to its stakeholders, especially the community or the people around the work area and its operations. CSR seeks to distribute regional and social concerns into its operations (Rohyati & Suripto, 2021). Corporate responsibility, which initially only focused on the company's economic performance through financial performance, is now more developed and considers social performance through corporate governance. It is necessary to have a party that supervises corporate rule, especially sharia-based companies. The party authorized to manage the aspects of corporate governance so that the company always complies with the sharia concept is the Sharia Supervisory Board. The Sharia Supervisory Board gives, the better the company's opinion, and the more confidence the stakeholders will feel in the company's performance and trust in all activities that intend to carry out excellent and correct corporate governance (Herawati et al., 2019).

### **Financial Performance**

According to (Koloay et al., 2018), company performance is something that a company obtains in a certain period concerning established standards. Company performance should be results that can be measured and embody the empirical condition of a company from various agreed dimensions. The company, as a form of organization, generally has specific goals to be achieved in business to meet the interests of its members. Success in achieving company goals is management achievement. Assessment of work performance or a company's performance is measured so that it can be used as a basis for decision-making internally and externally. In analyzing financial results, managers need analytical tools to facilitate knowledge about their

companies' financial results. The ratio is the most needed method for a company's financial statement analysis. Ratios help managers analyze a company's financial results. One of them is the factor of its use. Profitability ratios can be calculated using various methods, for example, ROA (Return on Resources) and ROE (Return on Value) (Laili & Dewi, 2019).

### **Sharia Supervisory Board**

According to (Zuliana & Aliamin, 2019), the Sharia Supervisory Board is part of the organizational structure that must exist in banks or non-bank financial institutions that use sharia principles. The national sharia board appoints the national sharia board to the internal Sharia Supervisory Board. (1) Giving or revoking a recommendation for membership in the Sharia Supervisory Board for an Islamic financial institution. (2) Producing a binding fatwa for each Sharia Supervisory Board in each Islamic financial institution and being a related legal level (Mokoginta et al., 2018).

### **Corporate Governance**

Good Corporate Governance is a system (input, process, output) as well as a set of rules that structure relationships between various interested parties (stakeholders), especially in the slight sense of the relationship between shareholders, the board of directors of commissioners, and directors to achieve the goals of a company. Good Corporate Governance includes managing this bond, preventing significant company strategy mistakes, and ensuring that errors can be corrected immediately (Rohyati & Suropto, 2021). From the experts' definitions above, it can be concluded that Good Corporate Governance is a system government companies use to create goodness for all parties.

### **Hypothesis**

1. There is a partial effect of financial performance on social responsibility in Indonesian Islamic banking companies in 2015-2019.
2. There is a partial influence of the sharia supervisory board on social responsibility in Indonesian sharia banking companies in 2015-2019.
3. There is a partial influence of corporate governance on social responsibility in Indonesian Islamic banking companies in 2015-2019.
4. There is an influence of financial performance, sharia supervisory boards and corporate governance jointly on social responsibility in Indonesian sharia banking companies in 2015-2019.

## RESEARCH METHODS

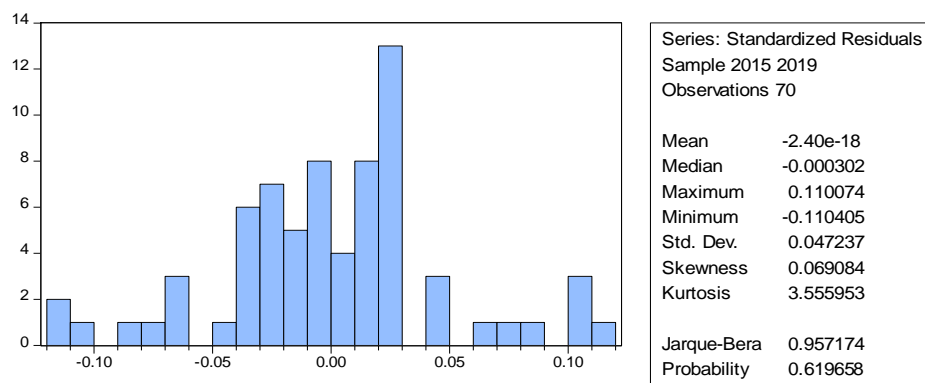
The population in this study is Islamic banking in Indonesia, registered with Bank Indonesia in the 2015-2019 period. Based on the people, samples were taken using the purposive sampling method. Based on these criteria, there are 14 Islamic banks used as samples. This research uses secondary data, which uses financial reports published by each Islamic bank registered with Bank Indonesia for the 2015-2019 period. The analysis technique uses panel data regression analysis.

## RESULTS AND DISCUSSION

### Classic Assumption Test

Based on the classical assumption test, it can be explained as follows:

#### Normality Test



**Figure 1.** Uji Normalitas

The picture above shows that the residual data has been normally distributed where the jarque-bera value is 0.957174 and the probability is 0.619658 or the magnitude of the probability level is 0.05 is considered feasible to carry out a panel regression test.

#### Multicollinearity Test

**Table 1.** Multicollinearity Test

	X1_KINERJAKEU	X2_DPS	X3_CORGOVERNANCE
X1_KINERJAKEU	1.000000	-0.045259	0.013986
X2_DPS	-0.045259	1.000000	-0.118220
X3_CORGOVERNANCE	0.013986	-0.118220	1.000000

From the table above, it can be seen that this model is not affected by multicollinearity problems where the interaction value between the variables in this study, none of which has a value greater than the tolerance limit of 0.8.

#### Heteroscedasticity Test

**Table 2.** Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.034765	0.048444	-0.717641	0.4761
X1_KINERJAKEU	0.000183	0.002726	0.067282	0.9466
X2_DPS	0.033480	0.018700	1.790412	0.0791
X3_CORGOVERNANCE	-0.001776	0.033753	-0.052604	0.9582

In this test, if the prob value is  $> 0.05$ , there are no symptoms of heteroscedasticity. A good model is that there are no symptoms of heteroscedasticity. In table 2, it can be seen that the sig value for the financial performance variable is  $0.9466 > 0.05$ . Sharia supervisory board variable  $0.0791 > 0.05$ . Corporate governance variable  $0.9582 > 0.05$ . So it can be concluded that there are no symptoms of heteroscedasticity in this research model.

### Inductive Analysis

#### Chow Test and Likelihood Test

**Table 3.** Chow Test and Likelihood Test

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	12.114411	(13,53)	0.0000
Cross-section Chi-square	96.539353	13	0.0000

Based on the results of the Chow Test using Eviews 10, a probability of 0.0000 is obtained. Because the probability value is small from the significant level ( $\alpha = 0.05$ ), it can be concluded that the hypothesis is accepted. A better estimate is used in this model, namely the fixed effect model. Because the selected model is a static effect model, the test is continued with the Hausman test.

#### Hausman Test

**Table 4.** Hausman-Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.403852	3	0.7046

Based on the results of the Hausman test using Eviews, a probability of 0.7046 is obtained. The probability value is smaller than the significant level ( $\alpha = 0.05$ ), so the hypothesis for this model is rejected. An excellent model to use is the random effect. Because the chow test chosen

was a common effect, while the Hausman test was chosen was a random effect, the trial was continued with the Lagrange Multiplier Test.

### Lagrange Multiplier Test

**Table 5. Lagrange Multiplier Test**

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Lagrange multiplier (LM) test for panel data

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	60.84476 (0.0000)	1.680141 (0.1949)	62.52490 (0.0000)

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The P-Value is shown by the number below, which is 0.0000 where the value is less than 0.05. So this Lagrange Multiplier Test indicates that H0 is rejected, which means that the best estimation method is Random Effect. If the p-value is less than 0.05 then H1 is accepted, which means that the best estimation method is the Common Effect.

### Panel Regression Analysis

The results of processing panel data regression analysis using eviews 10, are presented as follows:

**Table 6. Panel Regression Random Effect**

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1_KINERJAKEU	0.001837	0.005443	0.337527	0.7368
X2_DPS	-0.006754	0.034098	-0.198082	0.8436
X3_CORGOVERNANCE	0.308662	0.066918	4.612532	0.0000
C	0.759630	0.094543	8.034792	0.0000

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Effects Specification

	S.D.	Rho
Weighted Statistics		
R-squared	0.251718	Mean dependent var
Adjusted R-squared	0.217705	S.D. dependent var
S.E. of regression	0.062611	Sum squared resid
F-statistic	7.400680	Durbin-Watson stat
Prob(F-statistic)	0.000239	

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Based on data processing using Eviews 10 above, the regression equation can be obtained as follows:

$$TJAWABSOSIAL = 0,759630 + 0,001837 ( KINERJAKEU) - 0,006754 (DPS) + 0,308662 (CORGOVERNANCE) + e$$

From the multiple regression equation, it can be concluded that:

- From the results of the multiple regression analysis tests, it can be seen that if the constant value is 0.759630, it means that financial performance (X1), sharia supervisory board (X2), and corporate governance (X3) are zero or fixed, so social responsibility has a value of 0.759630.
- The financial performance variable (X1) has a regression coefficient of 0.001837. This means that if the Financial Performance variable (X1) increases by one weight unit, assuming the sharia supervisory board (X2) and corporate governance (X3) are zero or fixed, the responsibility will increase by 0.001837.
- The sharia supervisory board variable (X2) has a regression coefficient of -0.006754. This means that if the variable of the sharia supervisory board increases by one weight unit with the assumption that financial performance (X1) and corporate governance (X3) are zero or fixed, the responsibility will decrease by 0.006754.
- The corporate governance variable (X3) has a regression coefficient of 0.308662. This means that if the corporate governance variable increases by one weight unit, assuming that financial performance (X1) and the sharia supervisory board (X2) are zero or fixed, social responsibility will increase by 0.308662.

## Hypothesis testing

### Partial Hypothesis Test (t-test)

**Table 7.** Hasil Uji t statistic

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1_KINERJAKEU	0.001837	0.005443	0.337527	0.7368
X2_DPS	-0.006754	0.034098	-0.198082	0.8436
X3_CORGOVERNANCE	0.308662	0.066918	4.612532	0.0000
C	0.759630	0.094543	8.034792	0.0000

Based on table 7 above, it can be concluded as follows:



**a. The effect of Financial Performance on Social Responsibility**

The table above shows that the t statistic of the financial performance variable is 0.337527 with a significant level ( $0.7368 > 0.05$ ), partially not obtaining the effect of financial performance on social responsibility. Thus  $H_0$  is accepted, and  $H_1$  is rejected. In addition, the possible reason underlying the negative relationship between economic performance and social responsibility is the dependence of financial performance on social responsibility performance. This dependence causes financial performance to negatively affect social responsibility (AYUNI, 2022; Hasanah et al., 2017; Laili & Dewi, 2019).

**b. The effect of the Sharia Supervisory Board on Social Responsibility**

From the table above, it is known that the t statistic of the sharia supervisory board variable is -0.198082 with a significant level ( $0.8436 > 0.05$ ), meaning that part there is no influence of the sharia supervisory board on social responsibility. Thus  $H_0$  is accepted, and  $H_2$  is rejected. Partially, the sharia supervisory board (DPS) has a negative and insignificant effect on social responsibility. The study results show a negative direction, which means that every increase in the sharia supervisory board will reduce the social burden in Islamic banks. The total number of sharia supervisory boards in this study proves that a large number of sharia supervisory boards is not only as a fulfillment of the applicable formalities, namely based on Bank Indonesia regulation number 11 of 2009 regarding sharia commercial banks in chapter IV article 36 paragraph 1 which states that the maximum number of sharia supervisory boards a minimum of 2 people or a maximum of 50% of the total members of the board of directors. With the increasing number of sharia supervisory boards, they have not been able to oversee management performance effectively. In this case, the directors are based on sharia principles so that the impact on disclosure of social responsibility increases (Akbar et al., 2021; Mokoginta et al., 2018; Zuliana & Aliamin, 2019).

**c. The effect of Corporate Governance on Social Responsibility**

From the table above, it is known that the t statistic of the corporate governance variable is 4.612532 with a significant level ( $0.0000 < 0.05$ ), meaning that part there is a positive and significant influence between corporate governance on profitability. That way  $H_0$  is rejected, and  $H_3$  is accepted. Corporate governance reflects the mechanism of corporate governance

because the decisions of the directors will consider the opinions of the members of the board of directors. The higher the number of members on the board of directors, the stronger the company's ability to fulfill its social responsibilities (Klaudia et al., 2022; Mayliza & Yusnelly, 2021; Pratiwi, 2016).

### Simultant Hypothesis Test (Test F)

**Table 8.** Simultant Hypothesis Test

F-statistic	7.400680
Prob(F-statistic)	0.000239

Based on the table above, it is found that the sig value is  $0.000239 < 0.05$ , and it also shows F-count 7.400680. Therefore the authors can conclude that the variables Financial Performance (X1), Sharia Supervisory Board (X2), and Corporate Governance (X3) collectively have a positive and significant effect on Social Responsibility (Y). Thus  $H_0$  is rejected  $H_4$  is accepted.

### Determination Coefficient Test ( $R^2$ )

**Table 9.** Determination Coefficient Test ( $R^2$ )

R-squared	0.251718
Adjusted R-squared	0.217705

The estimation results in table 4.11 show that the Adjusted R-squared value obtained is 0.217705 or 21.77%. This indicates that the contribution of the independent variables, namely Financial Performance, Sharia Supervisory Board, and Corporate Governance, to the dependent variable, namely Social Responsibility, is 21.77%, and the remaining 78.23% is determined by other variables not analyzed in the model in this study.

### CONCLUSION

Based on data analysis, interpretation of research results, and discussion of research results that have been submitted previously, several conclusions can be put forward as follows:

1. Partially, there is no influence between financial performance on social responsibility in Indonesian Sharia Banking in 2015-2019.
2. Partially there is no influence between the sharia supervisory board on social responsibility in Indonesian Sharia Banking in 2015-2019.

3. Partially there is a positive and significant influence between corporate governance on social responsibility in Indonesian Sharia Banking in 2015-2019.
4. The variables of Financial Performance, Sharia Supervisory Board, and Corporate Governance together have a positive and significant effect on Social Responsibility in Indonesian Sharia Banking in 2015-2019.

## **SUGGESTION**

Based on the conclusions that have been obtained above, the researcher can put forward the following suggestions:

1. For the Company

It is improving banking financial performance in managing profitability by paying more attention to factors that influence profitability, such as corporate governance on social responsibility in Islamic banks in Indonesia.

2. For the next researcher

- a. It would be nice to add other variables so that the research is more meaningful and detailed regarding the clarity that influences social responsibility.
- b. We are testing other variables such as Financial Performance, Environmental Performance, leverage, and Profitability And adding moderating or intervening variables as research variables.

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