



Indonesia Sharia Bank CSR vs Malaysia Sharia Bank CSR

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

In Indonesia, the government establishes regulations for the disclosure of CSR practises in Law No. 40/2007 and related Bapepam. The purpose of this study is to find out how the implementation of CSR differs in Islamic banking in Indonesia and Malaysia. The population is Islamic Banking in Indonesia and Malaysia with a total of 27, while the sample of this study is 7 Indonesian Islamic Banks and 7 Islamic Banks in Malaysia. The Independent sample t-test with SPSS version 16 was used to analyse the data for this investigation. The study's findings indicate that Malaysian and Indonesian social banking practises are being implemented similarly. The adoption and declaration of the ISR Index of 100% provides some proof that none of all Islamic banks, both in Indonesia and Malaysia, have achieved their full potential (one hundred percent). This is due to the fact that certain sub-items of the ISR index, like green products, environmental audits, and support for political activities, are impossible for the banking sector to complete. As a result, the UK banking system's CSR disclosure is almost identical to that of Malaysian banks in the US.

Keywords: Islamic social reporting index; social performance; Islamic banking.

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1. INTRODUCTION

The development of Islamic banking in Indonesia and Malaysia has experienced quite good growth. In contrast to conventional banking which concerned with profit, Islamic banking applies Islamic principles in its business activities. Maali et al. [1] define Islamic banks as banks who follow Islamic Sharia in their business transactions. Sharia requires transaction becomes legal (halal) and prohibits transactions involving interest and fees speculation.

Governments in Muslim-populated countries such as Malaysia and Indonesia as well as international regulatory institutions such as *Accounting and Auditing Organization for Islamic Financial Institutions* (AAOIFI) continuously voice out and strive existence development and adoption format reporting sort of report CSR for formulated for institution- Islamic financial institutions [2,3]. Therefore, fine Indonesia and Malaysia are trying to standardize the reporting format CSR according to the rules Islam through institution AAOIFI.

In *The World Islamic Banking Competitiveness Report 2012-2013*, Ernst & Young state that with amount population which reach almost 250 million and prospect economy which positive as well as stable, Indonesia has the potential to become the next market growth center for Islamic banking [4-7]. Meanwhile, in *The World Islamic Banking Competitiveness Report 2013-2014*, Ernst & Young explained that many bank sharia foreign interested for invest in Indonesia even though Indonesia has a slow process in regulatory matters and legal considerations. In the report Ernst & Young also stated that there are 6 countries that have great potential in development finance sharia by global [8-11]. Six country the is Qatar, Indonesia, Saudi arabian, Malaysia, UNI Emirates Arab and Turkey which then called QISMUT.

In Indonesia, awareness about CSR can be seen from the increasing number of company which disclose issue CSR in report finance annual. The government also accommodates regulations regarding disclosure of practice CSR this in law no 40/2007 as well as regulation Bapepam related. Including with existence *English Sustainability Reporting Awards* (ISRA awards), where Thing this can be value add for image company [12,13].

Malaysia have asset banking sharia by 22% in the rapidly growing Islamic financial market. Malaysia more superior than Indonesia which only have percentage only 4%. History shows that Islamic banking in Malaysia developed earlier than other countries in Southeast Asia [14,15]. Thing the be marked with establishment Bank Islam Malaysia Berhad (BIMB) which is the first Islamic bank in Southeast Asia. This bank was founded in 1983 with 30 percent belonging to the federal government. Until the end of 1999, BIMB has more than seventy branches spread in almost every country Malaysian states and cities. In this country, beside full fledged Islamic banking, government Malaysia also allow system Islamic window which give service sharia on conventional banks [16-19].

The largest Islamic bank in Indonesia Indonesia is currently only able to record assets of about US\$ 5.4 billion so no one has yet entered the 25 ranks Islamic bank with the largest assets in the world. Meanwhile, the three Malaysian Islamic banks able to enter the list. Thing this show that scale economy bank sharia Indonesia still lost with bank sharia Malaysia which will Becomes competitors main. Not yet achievement scale economy the make operational bank sharia in Indonesia lost efficient, especially most of the Islamic banks in Indonesia still in Step expansion which need cost investment infrastructure which enough significant [20].

In country Malaysia post-crisis year 1998, Malaysia shape Finance Committee on Corporate Governance (FCCG) for handle issues related to corporate transparency, accountability, and CSR. Ruth Yap explained that in 2007, it was mandatory for companies that listed on Bursa Malaysia to disclose CSR activities or practices they. This CSR idea was pushed further as the government introduced incentive tax for business which doing program CSR by large [21-23].

Government also has shape fund as big as RM50 million for promote CSR activities and announce that in the future the inclusion of CSR in state-owned investment funds will be a criterion for future investment. Businesses that apply good CSR practice will get appreciation from government with get appreciation "Prime Minister CSR Awards" at the end of each year starting from 2008. Steps government Malaysia this has facilitate more many companies to adopt CSR as part of their strategy and core values company they.

About practice CSR in institution banking sharia essentially base on philosophy base Al Qur'an and sunnah. So that Thing this make base for the culprit in interact with environment and each other [24,25]. And considering that the philosophical basis is religious, it is believed that existing relationships will be more sustainable than patterns conventional CSR. Dusuki and Dar [26] say that in banking, sharia, not quite enough answer social very relevant for talked about remember a number of factor following; banking sharia based on principle sharia which ask them to operate on a moral, ethical and responsible basis social responsibility [27,28]. In addition, there is a principle of obedience to Allah's commands and the caliph and finally the principle of the public interest, consists of: avoidance from destruction and poverty [29-31].

To use ensure certainty law for stakeholders and at a time give confidence to Public in use product and service.

Sharia Banks, in this Sharia Banking Law, the type of business, provision implementation of sharia, business feasibility, distribution of funds, and prohibitions for Sharia Banks and Sharia Business Units (UUS) which are part of the from Conventional Commercial Banks. Temporary that, to give confidence on Public which still doubt sharia operational Banking So far, sharia has also regulated business activities that do not conflict with Sharia principles include business activities that do not contain elements of usury, maisir, gharar, haram, and unjust [32].

Related with existence needs about disclosure not quite enough social responsibility in Islamic banking, currently Islamic Social Reporting (ISR) is widely discussed in the world. The ISR index is a benchmark for implementation banking social performance sharia which contains a compilation of standard CSR items established by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) which then developed more carry on by para researchers regarding CSR items that should be disclosed by an entity Islam [33]. The ISR index reveals things that are related with principle Islam like zakat, status obedience sharia, and transactions that are free from the elements of usury and gharar as well as social aspects like sodaqoh, waqof, qordul hasan, to the disclosure of worship in Company environment [34,35].

Based on results study previously which conducted by Othman et al. [32] determine

that size company, profitability, and size board directors Muslim by significant influence level disclosure ISR, while the type of industry not an important factor affecting ISR significantly. Other previous research has also been carried out by Raditya (2012) which includes sharia-specific independent variables, namely the issuance of sukuk and the age of the company that is considered to affect the ISR disclosure. Results study which conducted During period time year 2009-2010 prove that the issuance of sukuk, the type of industry and the age of the company do not significant effect to the level of ISR disclosure, while the size of company and profitability have a positive effect on the level of disclosure ISR.

Fitria and Hartanti [36] examined the comparison of disclosure between the global reporting initiative index and the Islamic social reporting index. Results study this show that bank conventional have better disclosure than Islamic banks, the GRI index has a score of which is better than the ISR index, then broadly the ISR . index enough represents index GRI.

Abdullah et al. [37] conducted research on disclosure of social responsibility reporting focused on supervisory board reports sharia and reporting of zakat on Islamic banks in Indonesia and in Malaysia. Results this study shows that there are still limited disclosures made by bank sharia which there is the second country. Based on discussion which displayed in background behind study, so required a study about how performance social banking sharia in Indonesia and Malaysia held, reviewed with use model *Islamic Social Reporting index*, as well as for study difference on performance social which held by industry banking sharia in Indonesia and Malaysia were reviewed using the *Islamic Social model Reporting Index*.

2. METHODS

This type of research is a comparative quantitative research, where the research will focus on the analysis to compare something that is learned by objects between different subjects in the same time period, from 2016 to 2020. The objects of research in this study consist of: seven Indonesian and Malaysian Islamic banks as well as doing business in Indonesia and Malaysia. In addition, the seven Islamic banks reported annual reports for the 2016-2020 period. In addition, it covers all categories of ISR Index in social performance reporting, namely

Bank Muamalat Indonesia (BMI), Bank Syariah Mandiri (BSM), Bank Mega Syariah (BMS), BNI Syariah, BRI Syariah, Syariah Bank Victoria, and Bank Syariah Bukopin. Bank Muamalat Malaysia (BMM), Public Malaysia, RHB Malaysia, Bank Affin Malaysia, Maybank Syariah Malaysia, Bank Islam Malaysia (BIM), and Hong Leong Islamic Bank (HLIB). Data analysis was carried out by placing a checklist on each item that was held during social activities in the financial statements of Islamic banks. If there is one item that is when it will get a score of "1", and if not it will get a score of "0". The marking of the checklist is based on the analysis of the contents contained in the annual report. The content of this analysis refers to Abdolmohammadi in Puspitahati (2011). The ISR Index component consists of 38 items in 6 categories, namely investment and finance, Organizational Governance (Corporate Governance theme), Product and Service (Products and Services theme), Power Work (Employee theme), social (Social) and environmental (Environmental).

3. RESULTS AND DISCUSSION

3.1 The Effect of Finance and Funding on Differences in CSR Performance between Indonesian Islamic Banks and Malaysian Islamic Banks

There is a very big difference between the investment and finance themes on the ISR index and the economic scope theme on the GRI index. In the investment and finance theme of the ISR index, the items that must be disclosed are the conformity of sharia principles with the activities carried out by the company such as the presence or absence of usury and gharar activities, company zakat activities, and company policies to deal with problematic customers. Meanwhile, the theme of the economic scope of the GRI index does not include sharia principles at all. The items contained in the theme of the economic scope of the GRI index are the company's economic performance, market conditions and indirect economic impacts.

The basic concepts on the theme of funding and investment are monotheism, halal, haram and mandatory. Some of the information disclosed on the theme of funding and investment is operational practices that contain usury, gharar, and zakat management activities. One form of usury in the banking world is interest income and expense. Activities that contain gharar are also

forbidden in Islam. Gharar is a situation where there is incomplete information due to uncertainty to both parties. The practice of gharar can occur in four ways, namely quantity, quality, price, and delivery time. An example of a modern transaction that contains usury is a lease and purchase transaction, because of the lack of clarity between the prevailing lease or purchase transaction. Gharar or taghrir means risk or uncertainty. In the sense of fiqh taghrir means doing everything without sufficient knowledge or taking the risk yourself from an act that contains risks without knowing for sure the consequences. Another form of gharar is futures on delivery trading or margin trading. buying and selling foreign exchange is not a commercial transaction (both spot and forward arbitrage, selling in excess of the amount owned or purchased (short selling), conducting pure swap transactions, capital leases, futures, warrants, options, and other derivative transactions. Other aspects related to what must be disclosed by Islamic banks is the practice of paying and managing zakat. Islamic banks are obliged to issue zakat from the profits earned, in contemporary fiqh known as corporate zakat. Based on AAOIFI, the calculation of zakat for Islamic entities can use two methods. The first method, basic calculating company zakat using the net worth method. This means that all company assets, including capital and profits, must be calculated as sources that must be zakated. The second method, the basis for calculating zakat is profit in a year. In addition, Islamic banks are obliged to report reports sources and uses of zakat funds during the period in the financial statements. Even if Islamic banks have not performed the full zakat function, Islamic banks still present zakat reports. The next disclosure is the policy on late payment of receivables and client bankruptcies, current value balance sheets, and value added statements. Related to policies on late payment of receivables and client bankruptcy. To minimize financing risk, Bank Indonesia requires banks to provide allowance for write-offs for productive assets that may have problems, this practice is called allowance for write-offs for bad debts (PPAP). In the DSN MUI fatwa it is stipulated that the reserve must be taken from bank funds (capital/profit). Meanwhile, according to AAOIFI, the reserve is set aside from the profits earned by the bank before being distributed to customers. PPAP provisions for Islamic banks have also been regulated in PBI No. 5 of 2003. Another aspect that needs to be disclosed in the theme of funding and investment

is the type of investment carried out by Islamic banks and the financing projects carried out, this aspect is sufficient to be disclosed in general. Not in line with the research of Hafiez Sofyani, Ilhayul Ulum, et al (2012), finance and funding have no significant effect on differentiating CSR performance between Indonesian and Malaysian Islamic banks.

3.2 The Effect of Products and Services on Differences in CSR Performance between Indonesian Islamic Banks and Malaysian Islamic Banks

In the GRI index, the theme of products and services is part of the theme of the social sphere. Broadly speaking, these two themes emphasize the disclosure of customer complaints and complaints as well as customer satisfaction surveys. However, the indicators contained in the ISR theme are still very limited, while the indicators contained in the GRI theme are more detailed.

Some aspects that need to be disclosed on the theme of products and services are the halal status of the products used and services for consumer complaints. In the context of sharia banking, the halal status of new products and services used is through the opinion submitted by the DPS for each new product and service. The Sharia Supervisory Board (DPS) is a body in Islamic financial institutions in charge of supervising the implementation of the decisions of the National Sharia Council in Islamic financial institutions. DPS is appointed by the general meeting of shareholders on the recommendation of the Indonesian Ulema Council (MUI). DPS must be established by Islamic commercial banks and sharia business units. The products offered by Islamic banks must not deviate from the sharia rules that have been stated in the fatwa. National Sharia Council (DSN). In addition, service for customer complaints must also be a priority for Islamic banks in order to maintain customer trust. Currently, almost all businesses prioritize aspects of service for their consumers or customers because good service will have an impact on the level of customer loyalty. Another thing that must be disclosed by Islamic banks is a glossary or definition of each product and the contract that underlies the product. This is because the contracts in Islamic banks use terms that are still foreign to the public, so information regarding the definition of these contracts is needed to be easily understood by information users. In line with the

research of Hafiez Sofyani, Ilhayul Ulum, et al (2012), products and services have no significant effect on differentiating CSR performance between Indonesian and Malaysian Islamic banks.

3.3 The Influence of Employees on Differences in CSR Performance between Indonesian Islamic Banks and Malaysian Islamic Banks

The third theme in the ISR index is the labor theme. If you look at the GRI index, this theme is in the social sphere theme. In this theme, there are differences between the ISR index indicator items and the GRI index. The difference is the existence of items related to sharia in the ISR index indicator, namely the opportunity to worship for employees in the workplace and the availability of proper places of worship for workers.

In ISR, everything related to employees comes from the ethical concepts of trust and justice. The Muslim community wants to know whether company employees are treated fairly and fairly through the information disclosed. Some information. Labor-related activities include working hours, holidays, benefits for employees, and employee education and training. Several other aspects that were added were 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, as well as times or religious activities for employees. In addition, it also adds several aspects of disclosure in the form of employee welfare and the number of employees employed. In line with the research of Hafiez Sofyani, Ilhayul Ulum, et al (2012), employees have a significant effect on differentiating CSR performance between Indonesian and Malaysian Islamic banks.

3.4 Social Influence on Differences in CSR Performance between Indonesian Islamic Banks and Malaysian Islamic Banks

Social theme is a theme that is closely related to the concept of CSR. There is a very wide difference in coverage between the social themes on the ISR index and the GRI index. The theme of the social scope of the GRI index

includes responsibility for products, labor, human rights and society. Meanwhile, in the ISR index, products and services as well as labor are separate themes and are separate from social themes. The social indicators in the ISR index are mostly focused on disclosures related to Islamic principles such as saddaqa, waqf, qard Hassan, and other charitable activities.

The basic concepts underlying the social theme are monotheism, ummah, amanah, and 'adl. The concept emphasizes the importance of sharing and easing each other's burdens. Islam emphasizes its followers to help each other. The form of sharing and mutual assistance for Islamic banks can be done with alms, waqf, and qard. The amount and the party receiving the assistance must be disclosed in the annual report of the Islamic bank. This is one of the functions of Islamic banks mandated by Sharia and the Law. Some aspects of the disclosure of social themes used in this study are alms, waqf, and benevolent loans. Meanwhile, several other aspects include volunteering from employees, providing educational scholarships, empowering school graduates or students in the form of internships, developing the younger generation, improving the quality of life for the poor, caring for children, charitable or social activities, and support for health, entertainment, sports, cultural, educational and religious activities. Not in line with the research of Hafiez Sofyani, Ilhayul Ulum, et al (2012), social has no significant effect in differentiating CSR performance between Indonesian and Malaysian Islamic banks.

3.5 The Effect of Environment on Differences in CSR Performance between Indonesian Islamic Banks and Malaysian Islamic Banks

There is no big difference between the ISR environmental theme and the GRI environmental theme. The two themes both focus on activities and how much funds the company spends on environmental activities. The difference is only in the number of disclosure items where the number of disclosure items for the ISR environmental theme is 3 while the number of disclosure items for the GRI environmental theme is 1.

The concept underlying this theme is monotheism, khilafah, mizan. I'tidal and the afterlife. These concepts emphasize the principles of balance, simplicity, and responsibility in protecting the environment.

Islam teaches its people to always protect, maintain, and preserve the earth. Allah SWT provides the earth and all its contents, including the environment, for humans to manage without destroying it. But the greedy nature of human nature has damaged this environment. Information disclosed in the environmental theme includes the use of natural resources and environmental conservation. Apart from that, several things are not polluting the environment, education about the environment, and an environmental management system. Then there are also award items in the environmental field. Not in line with the research of Hafiez Sofyani, Ilhayul Ulum, et al (2012), the environment has no significant effect on differentiating CSR performance between Indonesian and Malaysian Islamic banks.

3.6 The Effect of Organizational Governance on the Differences in CSR Performance between Indonesian Islamic Banks and Malaysian Islamic Banks

When viewed in general, the scope of the profile themes and strategies of the GRI index is wider. Like the GRI index items related to stakeholder relations. In the ISR index, these items only cover the structure of share ownership, where the scope of stakeholders is wider than only shareholders. There are not only differences in coverage, but there are several disclosure items for the ISR index that the GRI index does not have and vice versa. The disclosure items are illicit transactions that are not owned by the GRI index and report parameters that are not owned by the ISR index.

The theme of corporate governance in ISR that cannot be separated from the company is to ensure supervision on the sharia aspects of the company. Formally, corporate governance can be defined as an overall system of rights, processes, and controls that are determined internally and externally over the management of a business entity with the aim of protecting the interests of stakeholders. Information disclosed in the corporate governance theme is the status of compliance with sharia, details of names and profiles of directors, DPS and commissioners, performance reports of commissioners, DPS, and directors, remuneration policies of commissioners, DPS, and directors, reports on income and use of non-halal funds, reports legal cases, share ownership structure, anti-corruption and anti-terrorism policies. Not in line with the research of Hafiez Sofyani, Ilhayul Ulum, et al

(2012), governance has a significant effect on differentiating CSR performance between Indonesian and Malaysian Islamic banks.

3.7 Comparison of CSR Performance of Indonesian Islamic Banks and Malaysian Islamic Banks

Based on the results of the analysis on the theme of funding and investment, it can be seen that in 2016 the performance of Indonesian Islamic banks obtained an average score of 7.8% while Malaysian Islamic banks obtained an average of 6.8%. In 2017 Indonesian Islamic banks obtained an average score of 8.2% while Malaysian Islamic banks were 7.2%. In 2018, Indonesian Islamic banks received an average score of 8.1% and Malaysian Islamic banks also received an average score of 8.1%. In 2019 Indonesian Islamic banks obtained an average score of 8.2% while Malaysian Islamic banks obtained an average score of 7.6%. In 2020, Indonesian Islamic banks obtained an average score of 8.3% while Malaysian Islamic banks obtained an average score of 7.3%. Based on the results of this analysis, during the period 2016 to 2020, Indonesian Islamic banks have been able to implement an ISR of 8.1%, while Malaysian Islamic banks have been able to implement 7.4%. This indicates that Indonesian Islamic banks have better CSR performance than Malaysian Islamic banks. But in reality the difference is not too significant because both have tried to implement ISR in their banking companies. Not all ISR items can be implemented in banking companies because some items cannot be used in this company.

Broadly speaking, the indicator items in the ISR index have adequately represented some of the GRI G4 index indicator items. What distinguishes the two is that the GRI index indicators have more detailed and comprehensive details. While the indicators contained in the ISR index are still very simple and have a broad meaning, so it is necessary to have boundaries so that each indicator is more detailed and comprehensive.

The ISR index still needs further development to become a CSR disclosure guideline, especially for Islamic banks. There are still several GRI G4 index indicator items that are not included in the ISR index, such as items related to human rights, anti-corruption and report parameters. For this reason, further research is needed to complete several disclosure indicator items that have not been covered by the ISR index [38,39].

The ISR index can be converged into the GRI G4 index because in general the CSR indicators owned by the ISR index are not much different from those in the GRI index, except for indicators related to sharia aspects. These indicators consist of:

1. Investment and finance: usury activities, gharar, zakat, and policies to deal with insolvent clients
2. Manpower: Opportunities for worship for workers and the availability of proper places of worship.
3. Social scope: Saddaqaqah, waqaf, and qard activities Hassan

This convergence has two benefits. First, convergence is an efficient alternative because it can reduce the additional costs that will arise to make CSR disclosures. The convergence of the ISR index into the GRI G4 index will create a standard of disclosure that includes overall CSR indicators, not only horizontal accountability but also vertical accountability to Allah SWT. With this disclosure standard, Islamic companies, including Islamic banks, do not need to present two different reports based on two different indexes. Second, it will be more effective for the report users (stakeholders) to read one complete report than the stakeholders having to read two different reports but the content is broadly the same.

4. CONCLUSION

Islamic banking in country Indonesia and Malaysia. And from results study this, found a number of proof that in general, Islamic banking in Indonesia has a higher level of social performance higher than Islamic banking in Malaysia. Second, the social performance of banking Sharia law in Indonesia in 2017 experienced a significant increase, which was approx 10% from year previously (2016). Whereas level performance social on banking sharia in Malaysia can be said to be stable because there is no increase or decrease. Third all Islamic banks, both Indonesia and Malaysia, still not one has achieved full number, namely the implementation and disclosure of the ISR Index in 100% (one hundred percent). This is because there are sub-items from the ISR Index which are indeed impossible to fulfill by the banking industry such as *green products*, *environmental audits*, and assistance for activities political.

Further research on the *Islamic Social Reporting Index and corporate social performance (Corporate Social responsibilities)* Becomes something Thing which important for support practice social responsibility and sharia in Indonesia. A number of Thing which is a limitation At the same time ,the suggestion is that the number of banks studied is relatively small, namely only seven banks Indonesian sharia and seven Malaysian Islamic banks. So there are limitations in the generalization of research results. Therefore, the author hopes for further research so that the number of Islamic bank objects from each country can be increased (fulfilling the object quota) so that the results obtained from the study can better describe the actual situation. The second suggestion is to use the ISR index whose items are development result the author allows for indicators that are not developed comprehensively. Therefore, further research should be able to develop items in more detail and comprehensive. The third subjectivity of the author in giving weights and scores on performance appraisal social from sixth bank which Becomes object study based on index ISR.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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