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Research paper

Corporate Social Responsibility Disclosure: The Comparative Study Between Islamic Banking in Indonesia, Malaysia and Singapore

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Abstract

Background: The concept of Corporate Social Responsibility (CSR), that has closely related with the concept of sustainable development and social economy, has appeared as a trend in Islamic banking sector. Objectives: This research's aim is to compare the CSR Disclosure of Islamic Banks (IBs) in Indonesia, Singapore and Malaysia by using a model of Islamic Social Reporting Index (ISR Index). Method: The methodology of this research is comparing the data by using method of content analysis. This research used 7 Islamic Banks as the sample, which is 3 Indonesian Banks, 1 Singaporean Bank, and 3 Malaysian Banks, which has been chosen purposively based on the criterias that those banks were local banks, have biggest and medium asset value, and performed fit financial reports to research period at 2010-2014. Findings: The ISR index showed that there were increasing implementation of social responsibility for all Islamic Banks in the three countries from year to year for all disclosure theme, but still need to increase their attention on Environment theme which is Endangered Wildlife, Conservation of Environment, Environmental Education, Environmental Pollution, Environmental Audit and Environmental Management System, Environmental Product or Process Related. The theme characteristics of CSR Disclosure from three countries shows that Indonesian Islamic Bank prefers to Employer and Environment Theme, The Singaporean Islamic Bank prefer to Product and Service Theme, meanwhile Malaysian Islamic Bank prefer to finance and investment theme and Society Theme. The further research should be garner the more objective data especially for The Singaporean Islamic Bank since the Islamic Banks used in this research is a joint venture with Commercial Banks as base of data. Keywords: CSR Disclosure, ISR Index, Islamic Bank.

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1. Introduction

The Corporate Social Responsibility (CSR) implementation in most countries in the world were motivated by cognition that company was not only have responsibility that stand on single bottom line, in the form of financial, but also being triple bottom lines, which is a concept of sustainable development at three aspects, that is financial aspect, social aspect and environment aspect, that was known as 3P, which is People, Profit and Planet (Daniri, 2006 and Rachman et al., 2011). It means that company has to contribute for giving benefit for public and protect the environment, beside profit-oriented. There are several standard about CSR reveal. Especially for CSR research, Syariah Institution often use Index Islamic Social Reporting (ISR) model based on AAOIFI (Accounting and Auditing Organization for Islamic Financial Institution) standard that has been developed by other researcher (Haniffa, 2002; Maali, Napier, 2006; Sulaiman, 2005; and Othman et al., 2009). ISR index in particular are expansion from social reporting that include society expectation about company role that was not only for economy but also in spiritual perspective (Haniffa, 2002). The next several research were already used those ISR indexes (Fitria & Dwi, 2010 and Sofyani et al., 2012). The World Business Council for Sustainable Development (WBCSD), international institution that has been established at 1995 and consist of 120 multinational companies from more than 30 countries, define CSR, as

"the continuing commitments by businesses, to behave ethically and contribute to economic development while increasing the life quality of the workforce and their families as well as of the local community and society at large". CSR is perceived as a voluntary business commitment to the practices which "contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (Watts et al., 2011).

This point of view is based on the perspective of the stakeholders and taking responsibility for operations in economic, social and environmental fields, as well as on ethical behavior. It sustains risk to be managed in a more efficient way and strengthens the "capital of trust", that is what the companies particularly need during a slump in the economy (Borkowski, 2008).

Hence when we discussed about CSR we are discussing about a voluntary company contribution that reflecting their commitment for the better society quality of life.

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There are three theories widely used regarding to CSR in Islamic Index which is legitimacy theory (Krasodomska, 2015; Farook, 2011; Bukair and Rahman, 2015; Khurshid et.al., 2014), stakeholder theory (Di Bella and Al-Fayoumi, 2016; Khurshid et.al., 2014) and agency theory (Farook, 2011; Lestari, 2013; Bukair and Rahman, 2015). The Legitimacy Theory, Gray et al. (1987) said that legitimacy is a system-oriented view of organization and society, allows us to focus on the role of information and disclosure in the relationship between organization, the state, individuals and group". When there is a difference between organization (i.e. company) performance and society expectation, than the organization need to evaluate and make adjustment for the society values. (O"Donovan, 2002). According to Deegan and Unerman (2011), "legitimacy theory emphasizes that organisations continually seek to assure that they are perceived as operating within the bounds and norms of their respective societies; which is, they attempt to assure that their activities are perceived by outside parties as being "legitimate".

The Western CSR concept is mainly based on stakeholders theory (Wang, 2015), where the firm examines the benefits of different parties in a society in addition to its stockholders. The perspectives of stakeholders on CSR of Islamic Banks is tested throughout the implementation of a theoretical framework modified according to Accounting and Auditing Organization of Islamic Financial Institutions (Di Bella and Al-Fayoumi, 2016). The Agency Theory firstly introduce by Jensen and Meckling in 1976 and also a research by Fama in 1980 shows that basically it is hard to build a good relationship between owner and manager for conflict of interest.

In Indonesia, in the form of formal legal, since 2007, the function of report about CSR by companies in Indonesia was already changed, from voluntary at the beginning, to mandatory, as it was stated in Constitution Number 04 Year 2007 article 74, and was confirmed by Indonesia Accountant Union (IAI) in Financial Accounting Standard Statement (PSAK) Number. 01 Paragraph nine. Implementation awareness enhancement CSR by companies in Indonesia were shown by more companies that has been revealed CSR issues in their annual financial reports, both companies that has been listed on Jakarta Stock Exchange (Djajadikerta & Terri, 2012 and Djajadikerta, 2014), or in the banking sector, both Islamic Banks (IBs) or conventional bank (Fitria & Dwi, 2010 and Haniffa, 2002). The rapid enhancement of CSR development was also shown in several other countries in ASEAN (Uriarte, 2008a and Uriarte 2008b) and Asia (Williams, 2011). Material explanation that has been provided by Executive Director ASEAN Foundation explain that CSR implementation was already show a significant enhancement. This is generally performed by companies in the ASEAN countries, including Indonesia, Singapore and Malaysia.

In Malaysia, after crisis at 1998, government set up Finance Committee on Corporate Governance (FCCG) to handle transparency, accountability and company CSR. Besides that, support from Malaysia Government to actuate CSR implementation was also manifested in the form of obligation to reveal their SCR practice for companies that were listed in Malaysia exchange, tax incentives for business entity that has been performed CSR program widely, and give large fund as much as 50 million RM to promote SCR activity, as well as since 2007, Prime Minister of Malaysia give CSR awards for companies that has been apply CSR well (Lo and Yap, 2011).

In Singapore, as published at The Global Compact (2015), the continuity concept of banking business was performed by cooperate with society and pay attention to the environment. It also fully supported by Monetary Authority of Singapore (Central Banks in Singapore) as well as Banking Association. Besides that, policy about CSR was not only included in banking constitution, but Corporate Social Responsibility Monitoring Institution, that is The Global Compact Network Singapore was also built. Due to the financial crisis started in 1998 for monetary crises, in 2008 caused by subprime loan crisis, some researches shows that Islamic Financial Product is more stable and less affected by financial crisis (Segaf, 2012), then the society's expectations towards Islamic banks become higher than ever. And in South East Asia, there is three countries that shows development of Islamic banking which is Indonesia that supported by largest moslems numbers in the world, Malaysia for great supporting their government to Islamic banking development and Singapore that supported by their rapid financial development. Hence it is important to compare the CSR Disclosure of Islamic Banks (IBs) in Indonesia, Malaysia and Singapore by using a model of Islamic Social Reporting Index (ISR Index).

2. Methodology

The research methodology is comparative research by using content analysis method. Content analysis method is use as Xu and Dong (2016); when they examine the CSR disclosure practices of the historically unaccountable mining firms in China's current regulatory context, also in Gao (2011) that examine the CSR reports (CSRRs) of listed companies in China, and also in Vourvachis and Woodward, 2015 research that used same method when they review the use of content analysis in social and environmental reporting (SER) research.

This research used 7 Islamic Banks as the sample, which are 3 Indonesia Banks, 1 Singaporean Bank and 3 Malaysia Banks, that has been choosen purposively base on some criterias that those banks were local banks, have biggest and medium asset value, and show fit financial reports at their website at 2010-2014 period. CSR reveal standard that has been used were ISR index that consist of 43 items that was divided into 6 categories, that is Finance and Invesment Theme, Employees Theme, Society Theme, Environment Theme, and Corporate Governance Theme. Scoring will be given with "1" value if those companies report and "0" value if those companies were not report. For data collection we employ research assistances to entry data for each bank. The research assistances were divided into each groups of country for data objectivity purpose.

3. Result

The scoring result of Islamic Banks CSR in the Growth Triangle ASEAN countries as shown at table 1 below:

Table 1: Scoring Result of Islamic Bank CSR Disclosure of 3 countries

Banks	y2010	y2011	y2012	y2013	y2014	Mean
I1	65,12%	76,74%	83,72%	86,05%	90,70%	80,47%
I2	58,14%	74,42%	79,07%	88,37%	93,02%	78,60%
I3	48,84%	53,49%	58,14%	76,74%	86,05%	64,65%
M1	76,74%	79,07%	86,05%	86,05%	88,37%	83,26%
M2	58,14%	60,47%	74,42%	79,07%	88,37%	72,09%
M3	67,44%	72,09%	81,40%	81,40%	88,37%	78,14%
S1	51,16%	51,16%	69,77%	76,74%	81,40%	66,05%

Based on the table above then it is shown in the graph below to further sight of each bank per period:

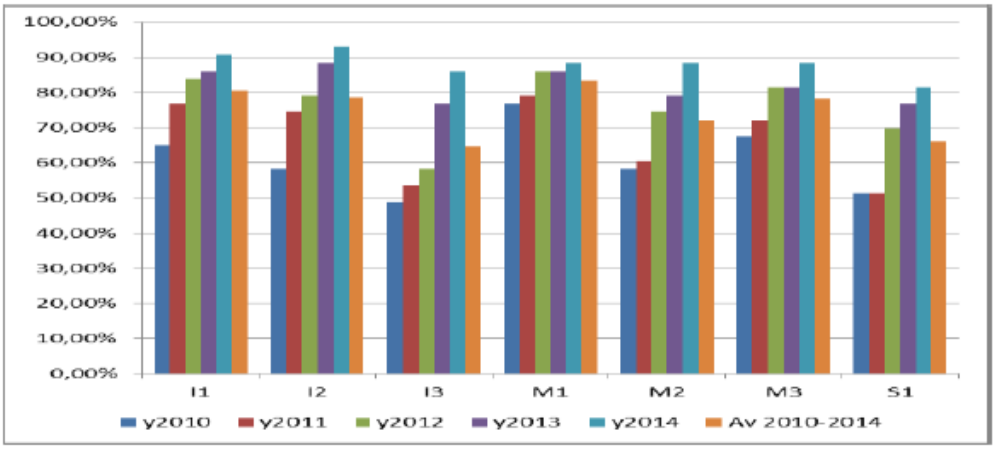


Fig 1: Scoring Result of Islamic Bank CSR Disclosure of 3 countries

The table 1 shows that the highest average for five periods is M1 (Bank 1 of Malaysia) which is 83.26% and the lowest average is I3 (Bank 3 of Indonesia) which is 64,65%. For all banks in Indonesia, Singapore and Malaysia as research sites shows increasing yield from 2010 to 2014. But if the data focus only for the last year of research period then the highest result is I2 (Bank 2 of Indonesia) which is 93,02%. For each average period between 2010 until 2014 then it is necessary to look further for each themes contribution as shown at the table below.

Table 2: Scoring Result of Islamic Bank CSR Disclosure of 3 countries per theme

Themes	I1	I2	I3	M1	M2	M3	S
F&I	53,33%	63,33%	53,33%	66,67%	56,67%	66,67%	56,67%
P&S	75,00%	70,00%	60,00%	80,00%	70,00%	80,00%	80,00%
Emp	86,00%	86,00%	86,00%	94,00%	78,00%	84,00%	64,00%
Soc	94,55%	89,09%	61,82%	96,36%	83,64%	89,09%	83,64%
Env	62,86%	54,29%	25,71%	51,43%	40,00%	45,71%	45,71%
CG	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	60,00%

Based on the table above then it is shown in the graph below to further sight of each bank per theme:

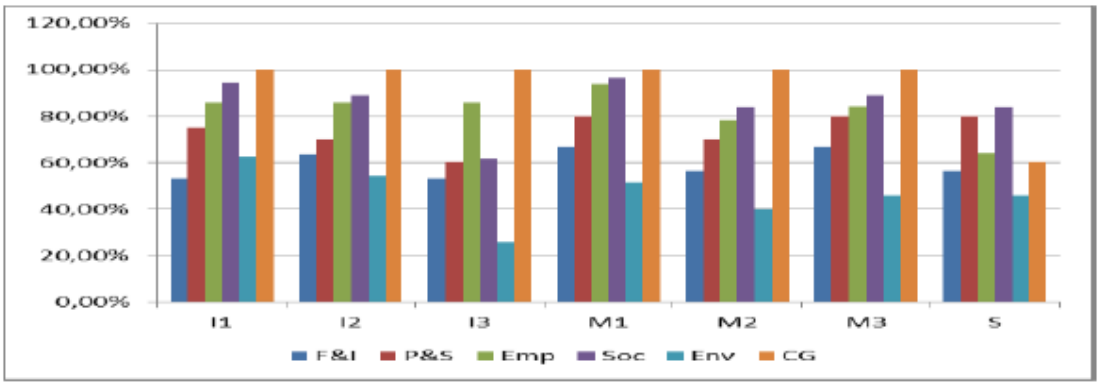


Fig.2:Scoring Result of Islamic Bank CSR Disclosure of 3 countries per theme

The table 2 and figure 2 above shows perfect result (100%) in term of Corporate Governance Theme for all Indonesian and Malaysian Islamic Banks sample, meanwhile and for Singaporean Islamic Bank shows lower result (60%). This is as limitation of the research that Islamic Bank sample from Singapore is a joint venture with one of conventional bank, hence the board of director and ownership structure still with their affiliates.

Another interesting information based on table and figure 2 which is the lowest theme is Environment Theme for almost all Islamic Banks sample, particularly Environment theme for I3 (Indonesian Bank 3). For all countries comparison hence it is need to group the data table into each country, as shown on the table and figure below.

Table 3: Scoring Result of Islamic Bank CSR Disclosure of each countries per theme

Themes	I	M	S
F&I	56,67%	63,33%	56,67%
P&S	68,33%	76,67%	80,00%
Emp	86,00%	85,33%	64,00%
Soc	81,82%	89,70%	83,64%
Env	47,62%	45,71%	45,71%
CG	100,00%	100,00%	60,00%

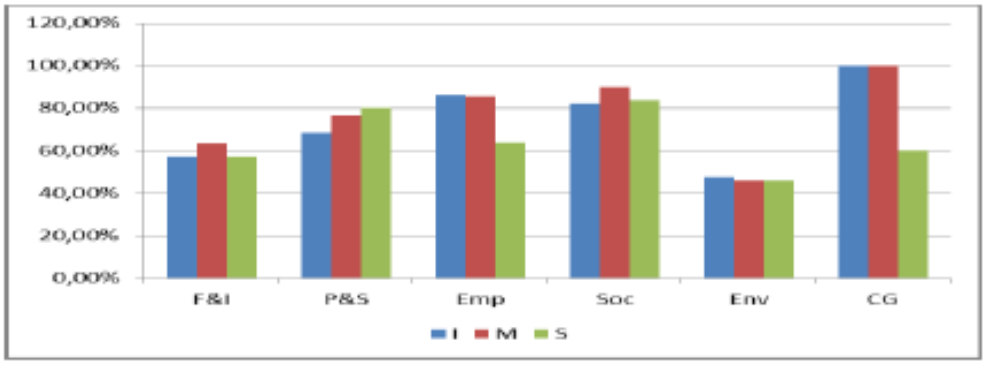


Fig 3: Scoring Result of Islamic Bank CSR Disclosure of each countries per theme

The table and figure 3 above shows that the Malaysian Islamic Banks sample shows the highest result on Finance and Investment theme and Society theme, Indonesian Islamic Bank Sample shows the slightly highest result on Employer Theme and Environment Theme, meanwhile The Singaporean Islamic Banks shows the highest result on Product and Service Theme.

4. Discussion

The Result of Islamic Bank CSR Disclosure of three countries from table 1 and figure 1 that for all Islamic Banks sample in three countries shows the growth of disclosure numbers. Its mean that the social responsibility for all Islamic Banks in the three countries has been better implemented from year to year.

Based on data shows by table and figure 2 means that almost for all sample need to increase their attention on Environment theme which is Conservation of Environment, Endangered Wildlife, Environmental Pollution, Environmental Education, Environmental Product or Process Related, Environmental Audit and Environmental Management System. CSR Disclosure Theme characteristics of three countries shows that Indonesian Islamic Bank prefers to Employer and Environment Theme, Malaysian Islamic Bank prefer to finance and investment theme and Society Theme. Meanwhile The Singaporean Islamic Bank prefer to Product and Service Theme. The further research should be collect the more objective data especially for Islamic Bank in Singapore since the Islamic Banks used in this research is a joint venture with Commercial Banks as base of data.

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