Exploring the Social Reporting Disclosure using Maqashid Sharia Perspectives

Case Studies to Companies that Listed at Jakarta Islamic Index

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Abstract: Up to May 2011, Indonesia has 30 companies listed in Jakarta Islamic Index. The initial purpose of establishment of Islamic stock is to achieve and the welfare of the people, in this world and in the hereafter. To achieve this goal, every Islamic financial institution, including Jakarta Islamic Index, in every single of aspect of product development and in terms of operation should be based on maqashid sharia. To see whether the companies grounded in maqashid sharia, the performance measurement must base on the principle of maqashid sharia. Islamic stock performance measurement is not only focusing on profit or other financial measures but put other values of Islamic stock companies reflect the contribution in environment using social reporting.

1 INTRODUCTION

CSR in Indonesia continues to grow in the implementation and disclosure because of the growing public attention to the company's operations. So, the company realizes that the survival of the company depends on the relationship with the communities and environment in which it operates. With the Law No. 40 of 2007, which explains that the company running its business activities relating to natural resources required to implement social and environmental responsibility, if it is breached it will be sanctioned in accordance with the provisions of the legislation in force.

As the development of conventional economics, Islamic economic also experience growth. It is marked by the increasing number of companies that carry out business activities based on Islamic principles. Therefore, the concept of CSR began to flourish in Islamic economic.

For companies that run their business based on the Islamic principles, including companies belonging to the Islamic capital market are expected to provide a disclosure of the religious dimension in the annual report so as to be useful to stakeholders (Othman and Thani, 2010). Islamic Social Reporting (ISR) was first proposed by Haniffa (2002) entitled "Social Reporting Disclosure: An Islamic Perspective". ISR then further developed more extensively by Rohana Othman, Azlan Md Thani, and Ertane K Ghani in 2009 in Malaysia. Islamic Social Reporting not only helps provide information to stakeholders Muslims to take decisions, but also helps management to meet obligations to God, society, and the environment (Othman and Thani, 2010).

Implementation of Islamic Social Reporting is still being debated. Given the rating of the company's performance in environmental management in 2013-2014, better known by the rating PROPER show the result that many companies are not responsible for the environment. Companies that received red ratings amounted to 516 enterprises, and companies that were rated black numbered 21 companies (menlh.go.id). Where as many as 239 companies that received red ratings and 11 companies were ranked the black from the manufacturing sector.

Cases on CSR that still occur in Indonesia, such as the disposal of various hazardous chemicals by the industry to the CRB making polluted Citarum River and holds the title as the most polluted river in the world by National Geographic in 2010 (csrindonesia.com), industrial waste PT Wings Surya expressed sewage exceeded the quality standards so that damaged about 18 hectares of rice...
belonging to village residents Driyorejo, District Driyorejo, Gresik (nasional.kompas.com), pollution of wood processing plants and furniture, PT Pinako Rotary Permai in which hundreds of students and nearby residents breathing problems (regional.kompas.com). In addition, the problem of counterfeit halal label happened in Riau Islands became disturbing residents. Halalness of what is consumed is a very sensitive issue and can be fatal to themselves as well as companies, including world and the hereafter (www.halalmui.org).

From some explanations and examples of cases that occurred in Indonesia, show that companies do not carry out social responsibilities well. This is not in accordance with Sharia Enterprise Theory, which explains that God as the center of everything and be the center point of the return of the man and the universe (Amanda and Agung, 2016). Therefore, people here just as His representative (Khalifa fil ard) that has a consequence to comply with all the laws of God in bringing the mission of creating and distributing well-being for humans and nature. Given Sharia

Sharia Enterprise Theory refers to the responsibility towards Allah SWT is certainly a company registered in Sharia Stock Index must undertake responsibility for its performance. One form of corporate liability for the mandate given by Allah SWT is by making one disclosure ISR disclosure in the annual report of the company. Islamic Social Reporting CSR is a concept developed in Islamic economy. Research Hong and Andersen (2011) stated more companies disclose CSR, the higher the quality of the accrual and reduced earnings management activities.

2 LITERATURE REVIEW

Increasing number of companies registered in Jakarta Islamic Index but will steal more concern to many people as well as how the company convince them with the information that companies are reported in the form of financial statements and annual reports. According to Sofyan (2009), the financial statements are the end result of the accounting process. Where the accounting process will not be separated from the accounting policies chosen by the company. The company's annual report that reveals social responsibility cannot be separated from management policy. So, it could be an opportunity for the management to fulfill their own desires.

For companies listed in JII which means the company has been running its operations based on Islamic principles, but in living humans as subjects of economic life is considered not everyone is good. This is consistent with agency theory proposed by Eisenhardt (1989), which uses three assumptions of human nature, namely, human beings are generally selfish (self-interest), human beings have the power of thought limited on the perceptions of the future (bounded rationality), and humans always avoid risk (risk averse). The theory also mentions the existence of different interests between principal and agent that will cause opportunistic nature so that the agent (management) are driven to perform earnings management solely to optimize the well-being of himself and no longer works to maximize the benefit and welfare of shareholders. In the end, if indicated the company is doing earnings management, the market response will be negative reflecting the company's earnings quality is low.

Every company financial statements that reflect management success can be seen from the profits earned by the company. However, from some previous explanations can lead to gains that are not qualified.

Corporate Social Responsibility is a commitment of the company or the business world to contribute to the economic development in a sustainable corporate social responsibility, which focuses on the balance between attention to economic, social and environmental (Hans et al., 2015). CSR can be said that in addition to having economic and legal obligations to shareholders, the company is also expected to have attention to stakeholders (Rulfah and Nur, 2008). Stakeholders are intended not only businesses and shareholders of the company, but also the surrounding communities and the communities involved, consumers, employees, communities and the environment in all aspects of company operations.

According to Junaidi (2015), there is a fundamental difference between the concept of CSR in conventional and Islamic perspectives. CSR in the concept of Islam must be in accordance with the Qur'an and Sunnah. While CSR in western concept sometimes cannot be separated from the interests of the company itself so that the implementation of CSR be biased.

The concept of CSR is not only growing in conventional economics, but in an Islamic economy is also experiencing growth. CSR concept in Islam is closely related to the companies that run business activities in accordance with this concept so hopefully the company can undertake corporate
social responsibility islamically. Haniffa (2002) revealed that the limitations of conventional social reporting so that he put forward the conceptual framework of Islamic Social Reporting (ISR). The purpose of the ISR is to demonstrate accountability to God and the community and to increase the transparency of business activities by providing relevant information tailored to the needs of decision makers Muslim spiritual (Haniffa, 2002).

With the development of the Islamic capital market, the companies included into the List of Islamic Securities is expected to give a religious dimension in the annual report for the benefit of stakeholders Muslims (Othman and Thani, 2010). Therefore, it takes a reference (guideline) to measure the extent of the companies contained in Sharia Securities List making social responsibility report that also presents aspects of religion in the annual report (Septi and Surya, 2012).

The annual report is one of the media direct communication between companies and investors (Rulfah and Nur, 2008). Islamic Social Reporting which is additional information in the annual report of the company, which in Islamic economics accountability needed to produce a true and fair disclosure and transparency. So that disclosure of financial and non-financial facts should contain information that is correct, accurate and available free to users (Junaidi, 2015). Therefore, the company revealed the Islamic Social Reporting is expected to make the information in the financial statements more relevant, it indicates that the high quality of financial reporting.

Based on the linkages with financial goals in life cycle explicitly that the company's long-term goals are investors and improve company performance (Kaplan and Norton, 1996). Age company is considered the investor in making an investment, a company's age reflects the company survive and be evidence that the company is able to compete and be able to take business opportunities that exist in the economy.

3 METHODOLOGIES

This study was taken in 2016, the researchers used a year to explore the Social Reporting Disclosure in Companies listed at Jakarta Islamic Index. The level of disclosure in this study using the ISR Index, which consists of six themes with 43 items that have been put forward by Othman and Thani (2010). Measurement ISR using a scoring index with a value of 0 and 1. Score 0 not to disclose and score 1 for the express ISR at the company's annual report. Here's the formula for calculating the amount of disclosure level after scoring on the index ISR: Disclosure Level = (Required Score Disclosure)/(Maximum Score Disclosure).

The form should be completed and signed by one author on behalf of all the other authors.

4 RESULTS AND DISCUSSION

Data necessary to perform the disclosure of social reporting came from annual reports for 2016. The table is shown in Appendix B. Adequate disclosure of social reporting will make it accessible, which will have an impact on improving the company’s image. This will ultimately improve the financial performance of companies, which would impact the increase in profits and variety of social activities. So, in the end, it will create a shared value between companies and mutual societies. Shared value is also in line with the concept of “Falah” Today, social reporting is not only growing in the conventional companies, but also in Islamic Financial Institutions. Jakarta Islamic Index is a place for the companies to implement Sharia rules in accordance with the teaching of Islam.

5 CONCLUSIONS

CSR in Indonesia continues to grow in the implementation and disclosure because of the growing public attention to the company’s operations. As the development of conventional economics, Islamic economic also experience growth. It is marked by the increasing number of companies that carry out business activities based on Islamic principles. The table is shown in Appendix B. Adequate disclosure of social reporting will make it accessible, which will have an impact on improving the company’s image. This will ultimately improve the financial performance of companies, which would impact the increase in profits and variety of social activities. So, in the end, it will create a shared value between companies and mutual societies.

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