DOES ISLAMIC CORPORATE SOCIAL RESPONSIBILITY IMPROVE FINANCIAL PERFORMANCE?

KHAIRIYANI
UIN STS Jambi
E-mail: khairiyani@uinjambi.ac.id

NOVI MUBYARTO
UIN STS Jambi
E-mail: novimubyarto@gmail.com

Abstract

This research aimed to examine the effect of Islamic Corporate Social Responsibility (ICSR) on financial performance. ICSR was measured by finance and investment, product and service, employees, society, environment and corporate governance. Then, financial performance was measured by ROA and ROE. This study used 17 firms as a sample is consistently listed in Jakarta Islamic Index (JII) during 2014-2017. The sample was determined by using purposive sampling. Analysis of data in this study used Structural Equation Modeling-Partial Least Square (SEM-PLS) with SmartPLS 3rd version. The result showed that ICSR had able to improve financial performance.

Keywords: *Financial Performance, Islamic Corporate Social Responsibility, JII*

INTRODUCTION

Every company must try to survive in the business world. The Company is certainly concerned about financial performance. Financial performance becomes very important, because it is related to the firm's survival. The firm's survival is certainly related to one of accounting postulate that is going concern. Going concern was expressed that the objective of the establishment of a company is not to be dispersed, but is expected to continue to be sustainable (Harahap, 2011). Financial performance can be reflected by several indicators, such as: Return On Assets (ROA) and Return On Equity (ROE). The higher two indicators, the higher financial performance. Kasmir (2018) also stated that ROA and ROE becomes a measurement for rentability or profitability. Khairiyani, Rahayu, & Herawaty (2016), Khairiyani & Rahayu (2016) and Khairiyani (2017) have combined the two indicators to reflect financial performance.

The business development with Islamic concept has been very extensive during the last decade in the world. Positive responses in the implementation of sharia in several departement, such as: sharia accounting, sharia economics and sharia banking have implications for the growth of sharia business itself. Widowati, Surjawati, Oktoriza, & Indriana (2016) stated that the difference between the concept of Islamic finance and conventional finance is that the concept of sharia-based uses the concept of profit sharing in obtaining finance. This is certainly different from a non-sharia-based financial system which is more likely to get as much profit as possible.

The importance of sharia aspect is certainly related to sharia company listed on the Indonesian Stock Exchange that is JII (Jakarta Islamic Index). JII is a set of sharia shares totaling 30 companies per evaluation every 6 months and sorted by the largest stock capitalization. Average of JII's financial performance during 2014-2017 is as follows:

Table 1. Mean of Financial Performance of JII Companies during 2014-2017

Indicators	Period			
	2014 (%)	2015 (%)	2016 (%)	2017 (%)
ROA	11.91	8.92	9.58	9.39
(ROE	24.16	19.19	20.17	19.92

Table 1 showed that the average JII's financial performance both in ROA and ROE, has increased over the past 2 years, namely in 2015 and 2017. In 2015, ROA increased by 2.99% from 2014, while ROE increased by 4.97% from 2014. In 2017 ROA decreased by 0.19% from 2016, while ROE decreased by 0.25% from 2016. Based on the table above, we expect that the firm value show increase continuously, but these results showed that there was gap between expectation and reality (phenomena gap).

Basically, a go public company must not only have ambitions to make a profit, but it must provide benefits for society and environmental sustainability. This statement is called by CSR (Hadi, 2016). CSR is a process that links the environment and social activities of the company to stakeholders (Arifin & Wardani, 2016). Initially, CSR was disclosed voluntarily in the annual report. Furthermore, after UU PT No. 40/2007 CSR reporting becomes mandatory disclosure in Article 74 paragraph 1 that is "Companies that carry out their business activities in the fields and/or related to natural resources are required to carry out social and environmental responsibilities".

CSR as a social responsibility reporting is required for conventional companies. However, in line with the existence of sharia-based companies, corporate social responsibility for sharia-based companies is Islamic Corporate Social Responsibility (ICSR). This statement is supported by Othman, Thani, & Ghani (2009) that ICSR is part of the concept of CSR which means that social responsibility is basically not only to the community, but also for Allah SWT.

A company that provide social responsibility, then the public view for the company will be good. This certainly has implications for great motivation for investors to invest. Their princip is ICSR has a greater potential for profit, so the company will try to improve financial performance. The more investors who invest their capital, the financial performance will increase. Arshad, Othman, & Othman (2012), Prasojo & Listyorini (2015) and Wardani (2017) showed that ICSR had effect on financial performance, while Sidik & Reskino (2016) and Thahirah, Nini, Raflis, & Rahmi (2016) showed that ICSR had no effect on financial performance.

This research is different from before that is the researchers had decided that ICSR and financial performance as latent variables, because basically these variables can be measured by more than one variable. The population is JII companies, because there was phenomena gap about financial performance and also previous research has been done on Islamic banking companies. Period 2014-2017. The analysis method used is Structural Equation Modeling (SEM), because this research used latent variables and requires some indicator to measure it.

Some contributions of this research are as the development of insights and research by academics about ICSR and financial performance. Contribution to companies that a analysis in decisions making about ICSR and financial performance. Furthermore, this research is expected to motivate sharia companies both bank and non-bank to give more attention on ICSR in order to inprove financial performance.

LITERATURE REVIEW

Sharia Enterprise Theory

This theory stated that stakeholders in the company are not only limited to humans, but also God. All activities that have been done by humans will be held accountable by God (Triyuwono, 2011). It's mean that the urgency concept of CSR in sharia enterprise theory as a form of human accountability to God. Basically it has been explained in Surah Al Isra': 13-14, which means:

"And for every person we have imposed his fate upon his neck, and We will produce for him in the day of resurrection a record which he will encounter spread open. Read your record, sufficient is yourself against you this day as accountant".

Besides, in Surat Al-Qashash: 77, which means:

"And seek through that which Allah has given you, the home of the hereafter, and don't forget your share of the world. And do good as Allah has done good to you. And desire not corruption in the land. Indeed, Allah doesn't like corrupters".

Signaling Theory

Drever *et. al.*, (2007) in Sidik & Reskino (2016), signaling theory is seen that informative disclosures which is bring companies to the better value. This is a motivation for large companies in expressing ICSR with the hope that the company will receive a good response from stakeholders. So that it can increase their financial performance.

Islamic Corporate Social Responsibility

Othman *et. al.*, (2009) stated that the ISR index is a benchmark for the implementation of Islamic Corporate Social Responsibility that contains a compilation of CSR standard items set by AAOIFI (Accounting and Audit Organization for Islamic Financial Institutions) which is then further developed by Islamic entity.

Hypothesis Development

ICSR indicates that social responsibility is basically not only to the community, but also for Allah SWT. ICSR is increasingly developing in the field of Islamic economics or Islamic stocks. Many companies deliberately set aside their profits to participate in sharia-based activities. The company realizes that by implementing ICSR, not only to attract public attention but will also make people loyal to them. Companies that provide social responsibility, then the public view of the company will be good. This certainly has implications for great motivation for investors to invest. Investors have the principle that ICSR has a greater potential for profit. The more investors invest their capital, the financial performance will increase.

H1. ICSR affect on financial performance.

Research model in this research is as follow:

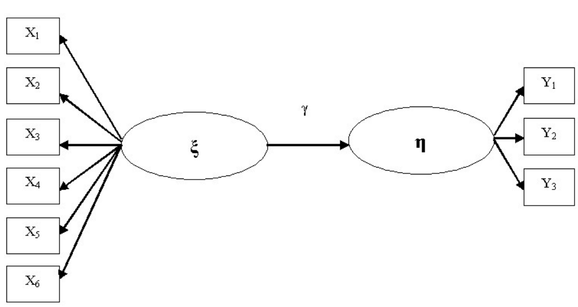

Figure 1. Research Model

Hypothesis development is as follow:

$H_0: \gamma_1 = 0$ = ICSR had no effect on financial performance.

$H_1: \gamma_1 \neq 0$ = ICSR had effect on financial performance.

METHODOLOGY

The population of this research was the company listed on Jakarta Islamic Index (JII).

Table 2. Purposive Sampling Process

No	Purposive sampling	Total
1.	Companies listed consistently in JII during 2014-2016 during 2014-2017	17
2.	Less samples that didn't have	(0)
3.	financial statements completely Less samples had losses	(0)
4.	Total companies	17
5.	Total period	4
6.	Total observation during 2014-2017	68

Source: Indonesian Stock Exchange, 2019

The companies in this research are as follows:

Table 3. List of Sample

No	Code	Company's name
1.	AALI	Astra Agro Lestari Tbk.
2.	ADRO	Adaro Energy Tbk.
3.	AKRA	AKR Corporindo Tbk.
4.	ASII	Astra International Tbk.
5.	BSDE	Bumi Serpong Damai Tbk.
6.	ICBP	Indofood CBP Sukses Makmur Tbk.
7.	INDF	Indofood Sukses Makmur Tbk.
8.	KLBF	Kalbe Farma Tbk.
9.	LPKR	Lippo Karawaci Tbk.
10.	LSIP	PP London Sumatra Indonesia Tbk.
11.	PGAS	Perusahaan Gas Negara (Persero) Tbk.
12.	SMGR	Semen Gresik (Persero) Tbk.
13.	SMRA	Summarecon Agung Tbk.
14.	TLKM	Telekomunikasi Indonesia (Persero) Tbk.
15.	UNTR	United Tractors Tbk.
16.	UNVR	Unilever Indonesia Tbk.
17.	WIKA	Wijaya Karya (Persero) Tbk.

Source: Indonesian Stock Exchange, 2019

This research used secondary data. A list of JII companies was obtained from the www.idx.co.id. ICSR disclosure data as of 31st December was obtained from the company's annual report. Financial performance data as of 31st December was obtained from a summary of the company's financial statement performance. The data collection began with the study of literature by studying books, journals, website and other references related to this research. Furthermore, the researchers collected data on the company's annual report.

The variables in this research are the exogenous and endogenous variable. Ghozali & Latan (2015) stated that the exogenous variable is a variable that affect the dependent variable, while the endogenous variable is a variable that affected or become due for their independent variable. Exogenous latent variable in this research is ICSR, while the endogenous latent variable is financial performance. Both exogenous latent and endogenous latent has indicators, because latent variable is a variable that can't be measured directly. This requires indicator to measure it.

Table 4. Indicators of Exogenous and Endogenous Latent Variables

No.	Laten Variable	Indicators	Measurement
1.	ICSR	1. Finance and Invesment 2. Product and Service 3. Employees 4. Society 5. Environment 6. Corporate Governance	$\frac{\sum \text{Items disclosed}}{\text{Total ICSR items disclosed}}$ x 100% (1)
2.	Financial Performance	1. *Return On Assets* (ROA) 2. *Return On Equity* (ROE)	$\frac{\text{EAT}}{Total\ Assets}$ x 100% (2) $\frac{\text{EAT}}{Total\ Equity}$ x 100% (3)

The analysis method used is Structural Equation Modeling (SEM). Researchers using SEM-PLS to make it easier to analyze and perform statistical calculations, because these analysis methods can be used for the analysis of complex causal-predictive and fixed models can be estimated with a small sample size. Jr, Sarstedt, Hopkins, & Kuppelwieser (2014) and Kumar B (2015) also stated that models can be estimated with a small sample size by SEM-PLS.

In conducting the test, the researchers used SmartPLS software 3rd version. Ghozali (2014), Ghozali & Latan (2015), Jr, Sarstedt, Hopkins, ss& Kuppelwieser (2014), Kumar B (2015) and Khairiyani (2018) stated that evaluation model of PLS by assessing outer and inner models.

Evaluation of outer models aims to assess the validity and reliability of the model. In the first step in this evaluation is convergent validity can be re-estimated, if there is a loading value of an indicator less than 0.5. This step was explained by Ghozali (2014) that the model must be re-estimated by removing invalid indicators. Evaluation of inner models aims to predict the relationship between the variables of latent.

RESULT

Result of Evaluation for Outer Model

Results of evaluation for convergent validity are as follows:

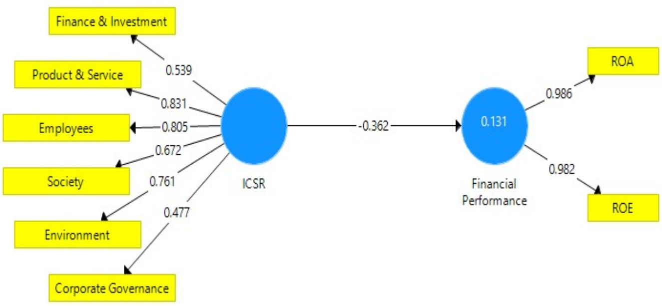

Figure 2. Result of Evaluation for Convergent Validity 1

Figure 2 showed that the ICSR consist of six indicators that is finance and investment, product and service, employees, society, environment and corporate governance with loading value respectively 0.539; 0.831; 0.805; 0.672; 0,761 and 0.477. While finance performance was reflected by ROA and ROE with loading value respectively 0.986 and 0.982. Corporate governance should be excluded from the research model, because it has a loading of less than 0,50. Therefore, it is necessary to calculate the PLS algortihm (running calculate) back.

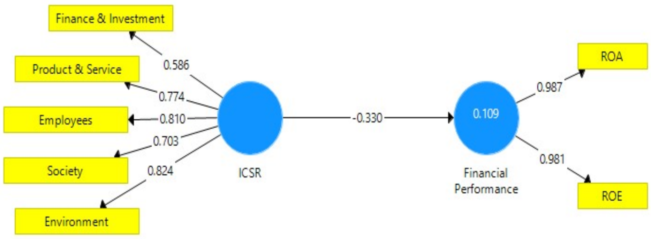

Figure 3. Result of Evaluation for Convergent Validity 2

Figure 3 showed that after removing the invalid indicator, then all of indicators have met the convergent validity test. Results of Evaluation for discriminant validity are as follows:

Table 5. Results of Evaluation for Average Variance Extracted (AVE)

Latent variable	AVE	√AVE
Financial performance	0.968	0.984
ICSR	0.555	0.745

Source: Secondary data was processed, 2019

Table 5 showed that the roots of AVE for ICSR and financial performance are respectively 0.745 and 0.984.

Table 6. Results of Evaluation for Correlation among Latent Variables

Latent variable	Firm value	GCG
Financial performance	1.000	-0.330
ICSR	-0.330	1.000

Source: Secondary data was processed, 2019

Table 5 and 6 showed that the roots of AVE each latent variable is higher than the correlation between the latent variables with each other latent variables, it means that our model had good value in discriminant validity test. Results of evaluation for composite reliability block indicator are as follows:

Table 7. Results of Evaluation for Composite Reliability

Latent variable	Composite reliability
Financial performance	0.984
ICSR	0.860

Source: Secondary data was processed, 2019

Table 7 showed that the value of all the latent variables above 0.70. It means that the latent variables in this research had good reliability.

Results of evaluation for cronbach's alpha are as follows:

Table 8. Results of Evaluation for Cronbach Alpha

Latent variable	Crobanch's alpha
Financial performance	0.967
ICSR	0.805

Source: Secondary data was processed, 2019

Table 8 showed that the value of all the latent variables above 0.70. It means that the latent variables in this research had good reliability too.

Result of Evaluation for Inner Model

Results of R-Square are as follows:

Table 9. Results of R-Square

Latent variable	R-Square
Financial performance	0.109

Source: Secondary data was processed, 2019

Table 9 showed that the variability in financial performance can be explained by ICSR was only 10.9%, while the remaining is explained by other variables outside this research model. Results of hypothesis test are as follows:

Table 10. Hypothesis Test

The effect	Original Sample	Sample Mean	Standard Error	T-stat	P-value
ICSR → Financial performance	-0.330	-0.345	0.065	5.101	0.000

Table 10 showed that the testing of ICSR on financial performance had a p-value of 0.000 (less than 0.05), then this hypothesis is approved. It means that ICSR had effect on financial performance.

CONCLUSION

Table 10 showed that ICSR had effect on financial performance. It is mean that the implementation of ICSR in JII companies during 2014-2017 has been able to improve financial performance. The results of this research are also in accordance with the signal theory which means that informative disclosures can bring companies to a better value.

The implication is in the short term it can increase company's market opportunities. Furthermore, the community will also loyal to the company. It can increase the level of profitability. Companies that implement ICSR well will show a better performance. The results of this research are supported by Arshad et al., (2012), Prasojo & Listyorini (2015) and Wardani (2017) that ICSR had effect on financial performance.

REFERENCES

Arifin, J., & Wardani, E. A. (2016). Islamic Corporate Social Responsibility Disclosure, Reputasi dan Kinerja Keuangan: Studi pada Bank Syariah di Indonesia. *Jurnal Akuntansi & Auditing Indonesia*, *20*(1), 37–46.

Arshad, R., Othman, S., & Othman, R. (2012). Islamic Corporate Social Responsibility, Corporate Reputation and Performance. *International Scholarly and Scientific Research & Innovation*, *6*(4), 643–647.

Ghozali, I, (2014). *Structural Equation Modeling: Metode Alternatif dengan Partial Least Squares.* Semarang: Undip.

Ghozali, I & Latan, H. (2015). *Partial Least Squares: Konsep, Teknik dan Aplikasi Menggunakan Program SmartPLS 3.0 untuk Penelitian Empiris.* Semarang: Undip.

Hadi, A. C. (2016). Corporate Social Responsibility dan Zakat Perusahaan dalam Perspektif Hukum Ekonomi Islam, *16*(2), 229–240.

Harahap, S. S. (2011). *Teori Akuntansi.* Jakarta: Rajawali Pers.

Jr, J. F. H., Sarstedt, M., Hopkins, L., & Kuppelwieser, V. G. (2014). Partial Least Ssquares Structural Equation Modeling (PLS-SEM) An Emerging Tool in Business Research. *Emerald Group Publishing Limited 0955-534X*, *26*(2), 106–121.

Kasmir. (2018). *Analisis Laporan Keuangan.* Jakarta: RajaGrafindo Persada.

Khairiyani. (2017). The Effect of Environmental Performance on Financial Performance and the Implications on Firm Value. In *Proceeding The 18th MIICEMA Conference ASEAN Economic Community 2017: Towards Economic Stability and Sustainability, Economics, Management and Accounting Perspectives October 4-5th 2017,* Bogor: Indonesia.

Khairiyani, K. (2018). Bagaimana Tata Kelola Internal Perusahaan Pertambangan? *Jurnal Akuntansi Multiparadigma*, *9*(2), 365–376.

Khairiyani, & Rahayu, S. (2016). The Effect of Good Corporate Governance (GCG) on Financial Performance and the Implications on Firm Value. In *Proceeding The 17th MIICEMA Conference ASEAN Economic Community 2016: The Strategy For Improving Competitiveness to win the ASEAN Economic Community (AEC) October 24-25th 2016,* Jambi: Indonesia.

Khairiyani, Rahayu, S., & Herawaty, N. (2016). Pengaruh Struktur Kepemilikan dan Struktur Pengelolaan terhadap Kinerja Keuangan Serta Implikasinya terhadap Nilai Perusahaan pada Perusahaan LQ 45 di Bursa Efek Indonesia Tahun 2012-2014. In *Simposium Nasional Akuntansi XIX,* Lampung: Universitas Lampung, 1–27.

Kumar B, R. (2015). Determinants of Value Creation of GCC Firms - An Application of PLS SEM Model. *Asian Journal of Finance & Accounting*, *7*(1), 76–95.

Othman, R., Thani, A. M., & Ghani, E. K. (2009). Determinants of Islamic Social Reporting Among Top Shariah-Approved Companies In Bursa Malaysia. *Research Journal of International Studies*, *12*(12), 4–20.

Prasojo, & Listyorini, I. (2015). The Influence of Corporate Social Responsibility Toward the Financial Performance Company in Jakarta Islamic Index (JII) in Period 2010-2014, *3*(2), 136–151.

Sidik, I., & Reskino. (2016). Zakat and Islamic Corporate Social Responsibility: Do These Effect the Performance of Sharia Banks? *Shirkah Journal of Economics and Business*, *1*(2), 161–184.

Thahirah, K. A., Nini, Raflis, R., & Rahmi, H. (2016). Pengaruh Pengungkapan Islamic Social Responsibility Terhadap Kinerja Perbankan Syariah di Indonesia. *Menara Ilmu*, *10*(73), 71–79.

Triyuwono, I. (2011). Mengangkat Sing Liyan untuk Formulasi Nilai Tambah Syari'ah. *Jurnal Akuntansi Multiparadigma*, *2*(2), 186–200.

Wardani, E. A. (2017). Pengaruh Islamic Corporate Social Responsibility Disclosure Terhadap Reputasi Perusahaan dan Kinerja Keuangan Perusahaan. In *Simposium Nasional Akuntansi XX,* Jember: Universitas Jember, 1–39.

Widowati, A. I., Surjawati, Oktoriza, L. A., & Indriana, T. D. (2016). Praktik Islamic Corporate Social Responsibility Disclosure (Studi Kasus terhadap Perusahaan yang Terdaftar di Jakarta Islamic Indeks). *Jurnal Dinamika Sosial Budaya*, *18*(2), 207–213.