DOES ISLAMIC CORPORATE SOCIAL RESPONSIBILITY IMPROVE FINANCIAL PERFORMANCE?

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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

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2014 (%)</th>
<th>2015 (%)</th>
<th>2016 (%)</th>
<th>2017 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>11.91</td>
<td>8.92</td>
<td>9.58</td>
<td>9.39</td>
</tr>
<tr>
<td>(ROE)</td>
<td>24.16</td>
<td>19.19</td>
<td>20.17</td>
<td>19.92</td>
</tr>
</tbody>
</table>

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 improve 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

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:

![Research Model Diagram]

Hypothesis development is as follow:

H0: \( \gamma_1 = 0 \) = ICSR had no effect on financial performance.

H1: \( \gamma_1 \neq 0 \) = 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

<table>
<thead>
<tr>
<th>No</th>
<th>Purposive sampling</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Companies listed consistently in JII during 2014-2016 during 2014-2017</td>
<td>17</td>
</tr>
<tr>
<td>2</td>
<td>Less samples that didn’t have financial statements completely</td>
<td>(0)</td>
</tr>
<tr>
<td>3</td>
<td>Less samples had losses</td>
<td>(0)</td>
</tr>
<tr>
<td>4</td>
<td>Total companies</td>
<td>17</td>
</tr>
<tr>
<td>5</td>
<td>Total period</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>Total observation during 2014-2017</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Indonesian Stock Exchange, 2019

The companies in this research are as follows:

Table 3. List of Sample

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

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>
<thead>
<tr>
<th>No</th>
<th>Latent Variable</th>
<th>Indicators</th>
<th>Measurement</th>
</tr>
</thead>
</table>
| 1  | ICSR            | 1. Finance and Investment  
2. Product and Service  
3. Employees  
4. Society  
5. Environment  
6. Corporate Governance | $\sum$Items disclosed  
Total ICSR items disclosed x 100% (1) |
| 2  | Financial Performance | 1. Return On Assets (ROA)  
2. Return On Equity (ROE) | $\frac{EAT}{Total Assets}$  
$\frac{EAT}{Total Equity}$ x 100% (2)  
(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.

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 algorithm (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)

<table>
<thead>
<tr>
<th>Latent variable</th>
<th>AVE</th>
<th>√AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>0.968</td>
<td>0.984</td>
</tr>
<tr>
<td>ICSR</td>
<td>0.555</td>
<td>0.745</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Latent variable</th>
<th>Firm value</th>
<th>GCG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>1.000</td>
<td>-0.330</td>
</tr>
<tr>
<td>ICSR</td>
<td>-0.330</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: Secondary data was processed, 2019

Table 5 and 6 showed that the roots of AVE for 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

<table>
<thead>
<tr>
<th>Latent variable</th>
<th>Composite reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>0.984</td>
</tr>
<tr>
<td>ICSR</td>
<td>0.860</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Latent variable</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>0.967</td>
</tr>
<tr>
<td>ICSR</td>
<td>0.805</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Latent variable</th>
<th>R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>0.109</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>The effect</th>
<th>Original Sample</th>
<th>Sample Mean</th>
<th>Standard Error</th>
<th>T-stat</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICSR → Financial performance</td>
<td>-0.330</td>
<td>-0.345</td>
<td>0.065</td>
<td>5.101</td>
<td>0.000</td>
</tr>
</tbody>
</table>

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


