

**THE INFLUENCE OF THE RESPONSIBILITY SHARIA SUPERVISORY BOARD,  
SHARIA COMPLIANCE, ISSUANCE OF SHARIA SECURITIES, AND THE SIZE  
OF THE BOARD OF COMMISSIONERS ON THE LEVEL OF DISCLOSURE  
OF ISLAMIC SOCIAL REPORTING ISLAMIC BANK IN INDONESIA**

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Submitted: 2021-08-28

Revised: 2021-10-21

Publish: 2022-01-21

DOI: [10.29040/ijebar.v6i2.4491](https://doi.org/10.29040/ijebar.v6i2.4491)

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**Abstract:** *This research aims to test the effect of the responsibilities of the Sharia Supervisory Board, Sharia Compliance, issuance of Sharia securities, and the size of the Board of Commissioners on the level of disclosure of Islamic Social Reporting at Islamic Banks in Indonesia. This study used descriptive and correlational quantitative methods. The method of data collection is to use secondary data sources, and in terms of the way the data collection method in this study uses data collection techniques with documents in the form of annual financial statements and GCG reports. The data analysis method in this study uses descriptive statistics and classical assumption tests consisting of normality tests, multicollinearity tests, and heteroplasticity tests. The population in this study is Sharia Commercial Bank in Indonesia for the period 2016-2020 which amounted to 14 Islamic Banks. The sample determination technique was carried out using purposive sampling techniques with criteria: Sharia Commercial Bank which publishes annual reports and GCG reports and lists the results of GCG Self Assessment in 2016-2020, from these criteria, a sample of 13 Islamic Banks was obtained. The results of this study showed that partially the variables of the Responsibilities of the Sharia Supervisory Board, Sharia Compliance variables, and the Board of Commissioners Size variables had no effect on the ISR Disclosure Rate at Islamic Banks in Indonesia for the period 2016-2020, it can be concluded that H1, H2, and H4 were rejected. While on the variable issuance of Islamic securities shows that partially the Issuance of Sharia Securities affects the Level of ISR Disclosure at Islamic Banks in Indonesia for the period 2016-2020, it can be concluded that H3 is accepted. Simultaneously the variables of the Responsibilities of the Sharia Supervisory Board, Sharia Compliance, Issuance of Sharia Securities, and the Size of the Board of Commissioners have a significant effect on the Level of ISR Disclosure on Islamic Banks in Indonesia for the period 2016-2020, it can be concluded that H5 is accepted.*

**Keywords:** *Islamic Social Reporting, Responsibilities of the Sharia Supervisory Board, Sharia Compliance, The Size of the Board of Commissioners.*

## **1. Introduction**

The concept of ISR was first proposed by Haniffa & Hudaib in 2002. They put this concept into their research entitled "Social Reporting Disclosure: An Islamic Perspective". So far, the measurement of social responsibility disclosure in Islamic banking still refers to the GRI (Global Reporting Initiative Index), even though there is currently a new measurement standard that is in accordance with sharia principles, namely Islamic Social Reporting. The ISR index is believed to be a benchmark in the disclosure of social responsibility that is in accordance with the Islamic perspective and suitable to be applied to Islamic banking. Dewi Rachmania (2018) Islamic Social Reporting (ISR) is an extension of social reporting that has embedded Islamic values in it.

The development of Islamic banks will certainly encourage Islamic banks to report their social responsibilities in accordance with Islamic sharia principles. Along with the increasing implementation of CSR in the context of Islam, the desire to make social reporting that is sharia (Islamic Social Reporting) is also increasing. Hadinata (2019)

Islamic commercial banks have a board that plays an important role in overseeing the course of their operational activities known as the Sharia Supervisory Board. The main task of the Sharia Supervisory Board is to supervise the business activities of sharia financial institutions in order to comply with sharia provisions and principles that have been decreed by the National Sharia Council. The responsibility of DPS is suspected to affect the level of ISR disclosure in Islamic Commercial Banks because DPS is an important part of Islamic Corporate Governance which oversees the operations of the bank. Sharia compliance in a sharia bank is reflected in the application of sharia principles in fundraising activities and distribution of funds and services. Islamic banks whose activities are in accordance with sharia law and principles,

In a company or Islamic bank there is a sharia securities which includes several securities including sharia shares, sukuk, and mutual funds that are used to fund the company's activities. Sharia securities are one source of funding, extensive information regarding the source of funds and the use of these funds must be clearly disclosed. Disclosure of this information must be disclosed not only when the securities will be issued, but also as long as the securities are still a source of company funds. Therefore, the existence of voluntary disclosure is expected to be able to eliminate the doubts of potential investors, creditors, and consumers in making a decision. Tria Karina Putri (2014)

According to Law no.40 of 2007, the Board of Commissioners is an organization that is responsible for general or special supervision and provides advice to the board of directors in accordance with the company's articles of association. The composition of the Board of Commissioners must be able to make decisions effectively, accurately, and quickly, and be able to act independently, because there are no interests that can interfere with its ability to carry out its duties independently. With its authority, the Board of Commissioners can pressure management to disclose social responsibility in its annual report. Andi Nuraeni And Rini Rini (2019) So it can be said that the size of the board of commissioners affects the level of disclosure of Islamic Social Reporting in Islamic banks.

## **2. Literature Review**

### **2.1. Sharia Enterprise Theory**

*Sharia Enterprise Theory* is a theory that places God as the center of everything, and humans only serve as His representatives (Khalifatul fil ardh) who must obey the provisions set by God in his mission to provide welfare for mankind and nature. Sharia Enterprise Theory (SET) views that stakeholders (stakeholders) are divided into three parts, namely God, humans, and nature. God is the highest party who is the goal of human life. By placing God as the highest stakeholder, sharia accounting still aims to increase public awareness about divinity. In addition, sunatullah is used as a basis in sharia accounting, so sharia accounting is only based on Islamic law and principles. Khumaerotun Nissa and Asrori (2017)

### **2.2. Sharia Supervisory Board**

The Sharia Supervisory Board (DPS) is an institution that must be owned by Islamic institutions (including Sharia Banks). Every Islamic bank has a DPS to ensure that all transactions and products issued by the bank are in accordance with sharia principles. This role is very important because it will give public confidence in the halal level of Islamic banks. The requirements for DPS in a sharia company and sharia finance are regulated in Law No.40 of 2007 concerning Limited Liability Companies and Law No.21 of 2008 concerning Islamic Banking. The two laws are the juridical basis for the existence of DPS to ensure the implementation of sharia compliance in banking institutions, and more generally in Islamic financial institutions. Darsono et al (2017)

Based on the banking law, DPS is positioned as part of the Islamic Bank which is responsible for supervising the implementation of sharia principles based on the fatwa issued by the National Sharia Council (DSN)-MUI. The existence of DPS as an institutional structure is the main aspect that distinguishes Islamic banks from conventional banks. Darsono et al (2017)

### **2.3. Sharia Compliance**

Sharia compliance is an absolute requirement that must be met by a financial institution that runs its business activities based on sharia principles. Sharia compliance is the use of sharia principles in all activities carried out as a form of the characteristics of the institution. The function of sharia compliance is as a preventive measure to ensure policies, provisions, systems and procedures, as well as business activities carried out by a sharia bank. Sharia compliance is part of institutional governance and is part of the implementation of the risk management framework based on the standards set by the Islamic Financial Service Board (IFSB). Luqman Nurhisam (2017)

In this study, sharia compliance is measured by using a rating or predicate in the implementation of sharia principles in fundraising activities, distributing funds, and providing services. The rating or predicate can be seen in the Self Assessment report in the sharia banking annual report. The predicate scale in the Islamic banking Self Assessment report is as follows Nissa and Asrori (2016):

**Table 1.**  
**Composite Value Predicate**

Rating	Weight	Mark (Rank x Weight)	Composite Predicate
1	5%	0.05	Very good
2	5%	0.10	Good
3	5%	0.15	Pretty good
4	5%	0.20	Not good
5	5%	0.25	Not good

Source: SEBI No.12/13/DpbS

#### **2.4. Issuance of Sharia Securities**

Sharia securities are sharia products in the form of securities that do not conflict with sharia principles. Islamic banks that issue Islamic securities will have different levels of social disclosure compared to Islamic banks that do not issue Islamic securities. Oktaviana et.al. (2020) Sukuk formally represent ownership of an asset that is proportional to a certain period of time when the risks and returns associated with cash flows generated by the underlying asset (asset that will be the object of the agreement) in a pool of capital are handed over to the sukuk holder (investor). ).

#### **2.5. Board of Commissioners Size**

Based on Law No. 40 of 2007 concerning Limited Liability Companies, the Board of Commissioners consists of one or more people. The Board of Commissioners consisting of more than one person is an assembly and each member of the Board of Commissioners cannot act independently, but must be based on the decision of the Board of Commissioners. Companies that carry out business activities related to the collection and management of public funds, companies that issue debt acknowledgments to the public or public companies must have at least two members of the Board of Commissioners. Each member of the Board of Commissioners must act in good faith, be careful, and be responsible in carrying out supervisory duties, as well as granting Based on Law No. 40 of 2007 concerning Limited Liability Companies, the Board of Commissioners consists of one or more people. The Board of Commissioners consisting of more than one person is an assembly and each member of the Board of Commissioners cannot act independently, but must be based on the decision of the Board of Commissioners. Companies that carry out business activities related to the collection and management of public funds, companies that issue debt acknowledgments to the public or public companies must have at least two members of the Board of Commissioners. Each member of the Board of Commissioners must in good faith, be careful, and be responsible in carrying out supervisory duties, as well as providing advice to the Board of Directors for the benefit of the Company, so that it can benefit the company and in accordance with the aims and objectives of the company. but must be based on the decision of the Board of Commissioners. Companies that carry out business activities related to the collection and management of public funds, companies that issue debt acknowledgments to the public or public companies must have at least two members of the Board of Commissioners. Each

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Legitimacy Theory explains the public's desire for the existence of the company. Society has the power to overpower various forms of corporate power. Therefore, community legitimacy for the company's existence becomes an important thing to avoid unwanted events. To avoid this, the company can make an effort, namely by carrying out supervision that can be carried out by the Board of Commissioners. Savira (2020) In this case the size of the Board of Commissioners has an effect on the level of disclosure of Islamic Social Reporting because greater pressure on management will encourage management to better disclose Islamic Social Reporting.

## **2.6. Islamic Social Reporting**

*Islamic Social Reporting*(ISR) is reporting on social responsibility based on Islamic values and principles and is a reporting benchmark that contains a collection of standard CSR items set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) which was later redeveloped by researchers . The initiator of research on Islamic Social Reporting is Roszaini Haniffa in 2002 with a research entitled "Social Reporting Disclosure: An Islamic Perspective". Nuraeni And Rini (2020) From the beginning, the concept of ISR was expected to be able to give birth to accounting concepts and practices in accordance with Islamic law so that they could contribute to economic progress and more honest and fair business and trade practices. Therefore, by compiling the concept of social accountability related to the principle of disclosure will meet the public's need for information disclosure based on sharia law. This study uses the ISR index by Haniffa (2002) and Othman et.al (2009)

which has been modified and consists of 48 items. The ISR index indicators used are grouped into six disclosure themes, as follows:

- 1) Funding and Investment (Finance and Investment Theme)
- 2) Products and Services (Product and Service Theme)
- 3) Labor (Employee Theme)
- 4) Social/Society (Society Theme)
- 5) Environment (Environment Theme)
- 6) Good Corporate Governance (Corporate Governance Theme)

### **3. Research Methodology**

This research uses a quantitative approach. Quantitative approach is an approach in which research proposals, processes, hypotheses, go down to the field, analyze data and write them using aspects of measurement, calculation, formulas, and certainty of numerical data. Lukas S Musianto (2002) Data sources are divided into two types, namely primary data and secondary data. Sources of data used in this study is secondary data. Secondary data is data obtained indirectly from research subjects. Secondary data has been collected and presented by other parties for both commercial and non-commercial purposes. Suliyanto (2017), Population is a field that includes: objects/subjects that have certain qualities and characteristics, these objects/subjects are determined by researchers to be studied, then draw conclusions. Sugiono (2017) The population in this study were all Islamic Commercial Banks in Indonesia for the 2016-2020 period, which amounted to 14 bank units. The selection of the population is determined by a period of 5 years due to the fact that the population does not expand and focuses more on that year. The sample in this study was 65 research data containing GCG reports from 2016-2020 contained in 13 Islamic commercial banks.

### **4. Results and Discussion**

#### **4.1. Responsibility of the Sharia Supervisory Board on the Disclosure Level of Islamic Social Reporting**

Based on hypothesis testing, it can be concluded that H1 is rejected, which means that the responsibility of the DPS has no partial effect on the level of ISR disclosure in Islamic banks in Indonesia. The results of this study are not in accordance with the legitimacy theory which states that as the executor of the company's operations to disclose ISR, the Sharia Supervisory Board plays a role in overseeing whether the function of Islamic banks to participate in promoting economic welfare for the community has been carried out properly. The company can get positive value and legitimacy from the community thanks to the disclosure of its social responsibility to the community and the surrounding environment so that the company can survive and thrive in the community and get benefits in the future.

#### **4.2. The Effect of Sharia Compliance on the Level of Disclosure of Islamic Social Reporting**

Based on hypothesis testing, it can be concluded that H2 is rejected, which means that sharia compliance does not partially affect the level of ISR disclosure in Islamic banks in Indonesia. The results of this study are inconsistent with the legitimacy theory which states that the form of Islamic bank compliance with sharia principles is to implement corporate social responsibility disclosure in its annual report, in the hope of obtaining positive values and legitimacy from the community, so that the Islamic banking industry can continue to grow. endure.

#### **4.3. The Effect of Issuance of Sharia Securities on the Level of Disclosure of Islamic Social Reporting**

Based on hypothesis testing, it can be concluded that H3 is accepted, which means that the issuance of Islamic securities has a partial effect on the level of ISR disclosure in Islamic banks in Indonesia. Stakeholder theory states that the company is not an entity that operates only for its own interests, but must also provide benefits to its stakeholders. Therefore, every company activity is to seek the support of its stakeholders.

A Muslim investor certainly wants to know whether the money they invest is really being used for things or activities that do not conflict with Islamic sharia. Extensive information related to the issuance of Islamic securities is not only disclosed when the securities will be issued, but also when the securities are still a source of company funds, besides that additional information is needed to dispel the doubts of securities holders about their rights.

#### **4.4. The Influence of the Size of the Board of Commissioners on the Level of Disclosure of Islamic Social Reporting**

Based on hypothesis testing, it can be concluded that H4 is rejected, which means that the size of the Board of Commissioners does not partially affect the level of ISR disclosure in Islamic banks in Indonesia. The results of this test are not in accordance with the Legitimacy Theory which explains the public's desire for the existence of the company. Society has the power to overpower various forms of corporate power. Therefore, community legitimacy for the company's existence becomes an important thing to avoid unwanted events.

### **5. Conclusion**

Based on the results of the research and discussion that have been described previously, the following conclusions can be drawn:

- 1) Based on the calculations that have been carried out, it can be concluded that partially the Responsibility of the Sharia Supervisory Board does not affect the Disclosure Level of Islamic Social Reporting at Islamic Banks in Indonesia, DPS has the main function, namely to ensure that operational activities and products issued by Islamic banks have been in accordance with sharia principles, so that the DPS focus on ISR disclosure is still considered lacking.
- 2) The sharia compliance variable partially has no effect on the Level of Disclosure of Islamic Social Reporting at Islamic Banks in Indonesia because if sharia compliance in a sharia bank

has been carried out properly in accordance with existing regulations, Islamic banks must still strive to increase the disclosure of Islamic Social Reporting as a management effort in gaining the trust of both the public and stakeholders.

- 3) The variable of Issuance of Sharia Securities has an effect on the Level of Disclosure of Islamic Social Reporting in Islamic Banks. Sharia Securities are one of the additional information needed by stakeholders or shareholders in monitoring a sharia bank, therefore sharia banks that have sharia securities in various types and large quantities will also provide a lot of information to shareholders. it will affect the level of disclosure of Islamic Social Reporting.
- 4) The results of this study indicate that the variable size of the Board of Commissioners has no effect on the level of Islamic Social Reporting Disclosure in Islamic Banks in Indonesia. This is because the Board of Commissioners as a representative of stakeholders, in making a policy using company profits, the Board of Commissioners considers it more for profit-generating activities than for social activities.

### **Research Limitations**

This research still has limitations such as the results that are not in accordance with the results of previous studies, but with different results making the novelty of this research, the research is expected to contribute to the world of education or decision making for companies and investors.

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