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Analysis Of Disclosure Of GCG In Sharia Banking, Zakah, Social Performance, And Financing Risk—Study On Sharia Banking In Indonesia

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Abstract. The development of Islamic banks, particularly in developing countries such as Indonesia opened the door wider investment. The better management of Islamic banking, the greater the stakeholder's interest in Islamic banking. We suspect there are three main factors that influence the GCG disclosure of Islamic banking, zakah performance, social performance, and financing risk. The results of this study are the performance of zakat has a positive effect but not statistically significant, the social performance and the financing risk have a positive effect and statistically significant, all on the level of the disclosure of islamic good corporate governance.

Keywords: Zakah Performance, Social Performance, Financing Risk, Islamic GCG.

1. Introduction

Development of Islamic banks followed by the demands of good corporate governance and disclosure for users of annual reports. Good Corporate Governance (GCG) itself should provide appropriate incentives for management and board in order to achieve the goals in the interests of the company and its shareholders and should facilitate effective monitoring. The disclosure of good corporate governance is a part of the disclosure of information.

2. The Disclosure of Islamic Good Corporate Governance

The Islamic good corporate governance leads to the existence and obedient of the implicit contract with God and explicit contract with humans (Rahmatina Kasri, 2009). The level of disclosures in the GCG implementation is measured by the measuring instrument is used the level of disclosure that Botosan (1997) the disclosure index. The index area of Good Corporate Governance Disclosure of each Islamic bank is calculated by comparing the average number of the company's actual score by the number of maximum score that can be obtained by the company (Haniffa and Hudaib, 2004). Selection of the disclosure items in this study are based on Bank Indonesia Regulation No.11/33/PBI/2009. Disclosure items that are presented by Bank Indonesia, among others, the conclusion of the self-assessment on the implementation of good corporate governance, shareholding members of the Board of Commissioners, Board of Directors shareholdings, financial ties Commissioners, members of the board of directors of financial relationships, family relationships Board of Commissioners, family relations directors, members of the Board of Commissioners office copies, office copies of the Sharia Supervisory Board, Committee structure, membership, and the expertise of the members, a list of consultants, advisors used by BUS, the remuneration policy and other facilities for the Board of Commissioners, Board of Directors, and Board of Trustees Sharia, the ratio of the highest and lowest salaries, the frequency of Board meetings, the frequency of the Sharia Supervisory Board meetings, the number of irregularities that occurred and settlement efforts by the BUS, the number of legal issues and settlement efforts by BUS, conflict of interest transactions, buy back shares/bonds by BUS, disbursement of funds for social activities, and non-halal income and its use.

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One notable thing that distinguishes islamic banks from conventional is a charity performance. *Zakat* should be one of the objectives of Islamic Accounting (Shahul, 2000, and Baydoun & Willet 2000 in Shahul Hameed 2011). Banks is required to provide a statement showing the sources and the uses of the *zakah* fund. The statement should make clear any balance of the *zakah* fund not yet distributed, and the reasons for the delay in distribution, if the amount is material (Bassam Maali, Peter Casson and Christopher Napier, 2006). Banks which are required to pay *Zakah* provide more social disclosures (Bassam Maali, Peter Casson and Christopher Napier, 2006). Islamic bank performance should be based on the *Zakat* paid by the Bank (Shahul Hameed, 2011). So then we propose, the Islamic banking which has a good performance of zakat will more likely reveal information of good corporate governance, to show the public and investors more good signal about that Islamic bank. There is no doubt, one of the things that make investors interested in Islamic bank is due to compliance with the Shariah. Zakah performance is measured as zakah to total assets (Shahul Hameed, 2011).

In exercising its social activities, almost all Islamic banks in Indonesia allocate virtue of the fund (qard hasan) obtained from the activities of banks and non halal of penalties for late repayment obligations by the customer should not be included operating income into the bank. Qard hasan is considered as the *Islamic* banks' accountability to the society. For distribution is usually done in the form virtue loans given to the poor to encourage business carried on to be able to live independently without any yield. Islamic bank with more qardhul hasan and less non-halal income will be more likely to reveal information of islamic good corporate governance.

It is important for Islamic banks to identify how far they have successfully achieved the main objective of their existence, i.e. profit sharing. The type of investment account on the basis of the *Mudaraba* form as a profit-sharing of contract raises issues concerning the contractual relations between the Islamic bank and the holders of such investment accounts from the perspectives of agency theory, i.e. an imbalance information between management and those holders (Racha Ghayad). We mention it as one of the risks of Islamic banks. So banks which are more of profit-sharing contracts will be more likely to reveal information of their safe system of risks control by implementation of good corporate governance.

The Adequacy Capital Ratio (CAR) and ROE are control variables. Accordingly, the authors suspect that the worse the capital adequacy of commercial banks or the smaller Islamic CAR ratio, the Islamic banks will reveal the better GCG. But the more profitable banks will be more likely to reveal the better GCG.

- Disclosure Scores :
  - 0 = not disclosed
  - 1= disclosure of information at a glance
  - 2= detailed disclosure (Figure, tables, diagrams / explanation of quantitative and qualitative)

- Islamic GCG disclosure index = $\frac{\text{The total score expressed by Islamic banks}}{\text{The maximum score that can be obtained}}$
- Zakah Performance

$$\text{zkta} = \frac{Zakat}{Total\ Aset}$$

- Social Performance

$$\text{SOC} = Total\ Qardhul\ Hasan - Non\ Halal\ Income$$

- Financing Risk

$$\text{Risk} = \frac{\text{Total Mudharabah and Musyarakah}}{\text{Total Murabahah, Salam, and Istishna}} \text{ X } 100\%$$

The population were all Islamic Commercial Bank, the Bank Muamalat Indonesia, Bank Syariah Mandiri, Bank Mega Syariah, Bank BNI Syariah, Bank Victoria Sharia, Islamic Panin Bank, Bank Syariah Bukopin, Bank Jabar Sharia, Islamic Bank BCA, BRI Syariah, and Sharia Maybank. Bank criteria that will be sampled this study are as follows: Firms belonging to the islamic banks, implement of Islamic good corporate governance report in accordance with Bank Indonesia regulations and published during 2007, 2008, 2009 and 2010, prepare financial statement, zakah report and Islamic GCG report published during the year 2007.2008, 2009 and 2010.

Table1: The Empirical Results

Model		Standardized Coefficients Beta	Sig.
	ZKT PERF	.031	.884
	SOS PERF	.554*	.041
	FINANCING RISK	.389*	.095
	ROE	-.037	.881
	CAR	-.546*	.035

Model	R	R Square	Adjusted R Square	Sig. F Change
	.704a	.496	.286	.103

The study states that the better of social performance and the higher of risks of investments based on the higher of profit sharing investments of Islamic banks will be the more widespread of GCG disclosure. Unfortunately, zakah performance has no significant affect to level Islamic GCG index.

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We would like to thank previous researchers, whose results we have refer in this study. We expect research on islamic good corporate governance can be continuously developed.

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