

The Analysis of Sharia Legitimacy of Sharia Bank By Using Disclosure Index

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ABSTRACT : The challenge that emerge in sharia banking in increasing market growth and share is to improve operational services to customers, banks should be legitimize their willingness by showing banks have been operating in accordance with Islamic principles, bank performance not only consists of economic performance, but also in accordance with corporate governance standards and maintain adherence to sharia. This research intends to analyze the disclosure of sharia bank performance in showing its legitimacy as a sharia based bank. The objects of this research are Bank Syariah Mandiri (BSM), Bank Muamalat Indonesia (BMI), Bank Negara Indonesia Syariah (BNIS), Bank Rakyat Indonesia Syariah (BRIS), and Bank Mega Syariah (BMS) with the annual data from 2014 to 2018. The results of this research was the average score of quality disclosure of Islamic Banks in Indonesia from the highest to the lowest such as BMI (83%), BSM (82%), BNIS (81%), BMS (79%), and BRIS (78%)). The conclusion in this research is the disclosure of the highest index is Bank Muamalat Indonesia in the 2014-2018 period.

Keywords : Disclosure Index, Islamic Principle, Legitimacy, Sharia Banking, bank performance.

1. INTRODUCTION

The islamic/sharia banking industry currently continues to have growth with varying growth rates following the development of the national economy. The fundamental function of Islamic banking in sustaining the economy makes the institution highly monitored, the Islamic banking industry itself began in Indonesia since 1992. The growth of Islamic banking which is increasingly developing in the public, led the government to issue regulation UU No 21/ 2008 concerning sharia banking which was previously the same as sharia banking regulation with UU No. 7/1992 concerning banking and its implementing regulations. Where the form of implementation includes government regulations, regulations of the finance ministry, the decisions of the director of Bank Indonesia, Bank Indonesia Regulations, and Bank Indonesia circular.

The sharia banking industry has shown positive developments from year to year. In the 2014-2018 period, Islamic banking was able to record a Compounded Annual Growth Rate (CAGR) of 15%, higher than the national banking industry which recorded a CAGR of 10% (Wibowo, 2019). By that positive growth, it is expected to have a positive impact on people's enthusiasm to save the excess funds owned by islamic banks. However, this achievement has not been able to increase the sharia banking market share above 5%, recorded the sharia banking market share in 2018 of 5.96%. Increasing capital from the third source of funds owned by the public and increasing customers is a way to increase the market share of Islamic banking, which is a challenge to Islamic banking in obtaining and maintaining customers.

As the large muslim population is an advantage to the market share of islamic banking in increasing market share of its operational activities, where there are 87.2% or more than 207.000.000 people of Indonesian Muslims who are in Indonesia.

There are four types of potential muslim customers in Indonesia (Yuswohadi, 2014), including; Apathetic, is a type of consumer with insights, knowledge, and a low economic level, so this type of consumer has a low level of compliance with Islamic values and does not pay attention to products that offer Islamic values. Rationalist, is a type of consumer who has insight, global knowledge and an open mindset but has a low level of compliance with Islamic values. Where in making decisions in purchasing, these customers pay more attention to benefits than sharia values of the product. Confirmist, is who devout worship and obedient in carrying out Islamic values. But those customers have limitations on values outside of Islam because they tend not to open up. So to make it easier in making decisions about the consumption of a product, these consumers choose products labeled Islamic. Universalist, is a customers with insight, broad knowledge and a concern for technological development. These customers has a good obedience in carrying out Islamic values and tolerant on accepting differences in non Islamic values.

With the division of these four Muslim customers, there are challenges that emerge in Islamic banking in increasing banking market growth and share. Where in improving services to customers, banks must legitimize operations by taking into account the needs and desires of the customers, on the one hand Islamic banking must also pay attention to Islamic values that are in operation so that it runs in accordance with established rules because Islamic banking is a financial institution which operates with sharia principles. So as an institution that implements Islamic values, Islamic banking must also always pay attention to aspects of the spiritual image to the public. This spiritual image is needed so that the differentiation between Islamic banks and conventional banks can be seen. Because if banks reduce or eliminate the Islamic values, they will affect the reputation of the banking sector which is considered to lack Islamic values in its operational activities which can have an impact on the long-term operational of Islamic banking. Islamic banks have a reputation risk that is heavier than conventional banks. Because people do not only look at operational aspects but also spiritual aspects of Islamic banking, a negative reputation can have a systematic impact on the Islamic financial industry. Therefore, Islamic banks should have good reputation management, where reputation risk can be reduced if Islamic banks apply the principles of Good Corporate Governance. Good Corporate Governance (GCG) principles are the application of fairness, transparency, accountability and responsibility to the company's operations. The implementation of GCG will complement the prudential banking principle. Including the fulfillment of sharia principles oriented to the fatwas of the Majelis Ulama Indonesia (MUI).

2. LITERATURE REVIEW

2.1 Sharia Banking

Based on UU No. 21 of 2008 article 1, sharia banking is something that concerns about sharia banks and sharia business units, including institutions, business activities, as well as ways and processes in carrying out their business activities.

Based on the type consists of Bank Umum Syariah (BUS) and Sharia People Financing Banks/ Bank Pembiayaan Rakyat Syariah (BPRS). Sharia Commercial Bank is a sharia bank that in its activities provides services in the payment traffic, whereas the Sharia Rural Bank is a sharia bank that in its activities does not provide services in the sharia payment traffic.

In addition, there is a Sharia Business Unit which is a work unit of a Conventional Commercial Bank head office that functions as the main office of an office or unit that conducts business activities based on sharia principles, or a work unit in a branch office of a bank domiciled overseas that functions as the parent office of the Sharia sub-branch office and or sharia unit.

2.2. Legitimate

According to Suchman (1995) defines legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper, appropriate within some socially constructed system of norms, values, beliefs, and definitions. Legitimacy is considered important for companies because people's legitimacy to companies is a strategic factor for the company's future development. Organizational legitimacy can be seen as something given by the community to the company and something that is wanted or sought by the company from the community according to O'Donovan (2000). Thus legitimacy has benefits to support the survival of a company. Legitimacy is a company management system that is oriented towards the community (society), individual governments and community groups. (Grey, 1996: 46) in Ahmad and Sulaiman (2004). For this reason, it is a system that prioritizes community alignments or interests.

2.3. Disclosure

Disclosure is defined as information that can be given to parties who need the information and the information must be useful if it is not useful the purpose of the disclosure will not be achieved (Ghozali and Chariri, 2007). There are three concepts of disclosure which are:

1. Adequate,
2. Fair,
3. Complete

The most frequently used of the three disclosures is sufficient which includes minimal disclosures that must be made so that information is not misleading. Fair disclosure is an ethical goal in order to provide the same treatment and is general to all users of financial statements. Complete disclosure is the presentation of all relevant information. Too much information is also not important it will obscure significant information and make the financial statements difficult to understand.

One of the problem of Islamic/sharia banking in Indonesia is the determination in adjusting Islamic banking operations to the legitimacy prevailing in Indonesia. This study aims to develop a method that can be used as a policy reference for legitimizing the suitability of Islamic banking operations.

3. METHOD

3.1 Types and Research Objects

This research is a quantitative non-statistical and qualitative descriptive using the Disclosure Index by Belal and Nizamee (2014). The object of this research is the 2014-2019 Indonesian BUS (Bank Umum Syariah). The data used are secondary data from annual financial statements from the official website of each bank. There are 5 BUS used as the object of this research:

1. Bank Syariah Mandiri (BSM)
2. Bank Muamalat Indonesia (BMI)
3. Bank Negara Indonesia Syariah (BNIS)
4. Bank Rakyat Indonesia Syariah (BRIS)
5. Bank Mega Syariah (BMS)

3.2 Research Variables and Operational Definitions

In this research, the method used is the Disclosure Index as in previous researcher. Based on previous research, the author used the Social / Ethical Disclosure Checklist variable that has been reserach by Belal and Nizamee (2014). Following are the variables of the Social or Ethical Disclosure Checklist based on the research:

1. Islamic Financial Services Board (IFSB) Principles for Corporate Governance
Islamic Financial Services Board (IFSB) is an international institution that aims to formulate Islamic financial infrastructure and Islamic financial instrument standards.
2. Sharia Supervisory Committee

The Sharia Supervisory Committee is tasked with providing advice and advice to the directors as well as overseeing the activities of the bank to comply with sharia principles.

3. Islamic Commitment
Islamic Commitment is a directive to operate in sharia principles / ideals and not to be involved in activities that are not permitted in sharia.
4. Zakat
Accountability of zakat management in the distribution of zakat funds owned by banks.
5. Qordh Hassan
Banking policies in managing benevolent funds through qordh hassan schemes for customers.
6. Sharia Awareness
The appropriateness of banking operations in carrying out operational activities both on products and human resources.
7. Disclosure of IFSB to Promote Transparency and Market Discipline
The scope of disclosure is consistent with risk assessment and management objectives and formal policies that have been disclosed through the approval of the board of directors.
8. Board of Directors
Showing profile, ownership rights and authority in the duties of the board of directors.
9. Management
Showing profile and authority in management tasks.
10. Community Involvement
Development and application of practices in the management of the benevolence funds owned by the involvement of the community economic welfare program.
11. Charity
Benevolent funds management owned in the involvement of community social programs.
12. Sponsor
Management of the benevolent funds owned in the advancement of community education.
13. Complaints
Reporting the number of complaints regarding banking service issues and details about past litigation.
14. Ethics
Conformity of banks to the applicable code of ethics and understanding of resources in implementing a code of ethics policy.

The steps that to be taken to measure the level of legitimacy of Islamic banking through the Disclosure Index method, obtained through the process of collecting data sourced from the annual reports of each Islamic banking during 2014 - 2018. To analyze the annual report, various approaches can be applied to examine the annual report of Islamic banking.

This reasearch used a disclosure index consisting of 124 lists of disclosures in 14 categories which are then divided into two classifications of disclosures including; universal disclosures used to assess operational compliance generally consist of 74 lists that have been recognized by international organizations such as the Organization for Economic Cooperation and Development (OECD) and the Global Reporting Initiative (GRI), then the particular disclosures used to conduct assessments of compliance sharia consists of 50 lists. Valuations on each of these lists use weighting 1 if disclosed and 0 if not disclosed in the financial statements it is used to avoid bias in the valuation as in previous studies by Belal and Nizamee (2014). The annual index is calculated by dividing the number of items disclosed by the total number of items to be disclosed as a percentage (%).

4. RESULTS

4. 1 Disclosure of Sharia Banks in Showing Legitimacy

The quality of sharia bank disclosure in showing its legitimacy from the five sharia banks was analyzed using a checklist of previous studies conducted by Belal et al (2014). The following are the disclosure score results obtained from the fifth annual report of the bank:

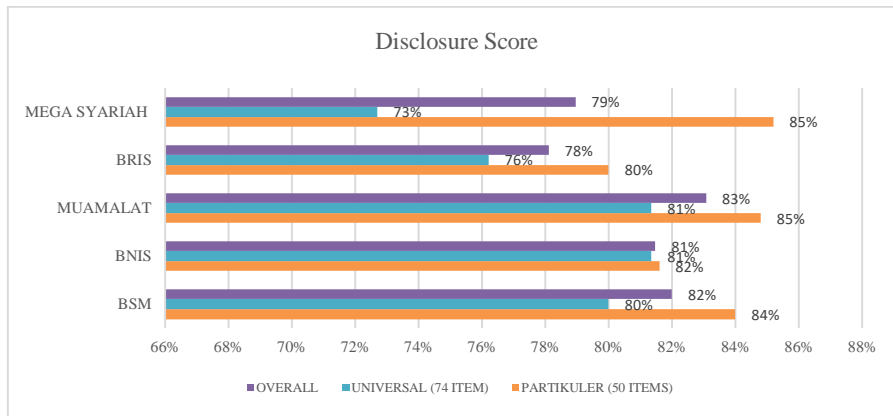


Figure 4.1 Disclosure Score

Based on the Figure 4.1, shows that each bank has a different trend, the average score of the highest quality disclosure by Bank Muamalat is 83%, then the lowest average score is BRIS by 78%, this shows that in the annual report of Bank Muamalat is increasingly open while in BRI Sharia in 2014 and 2015 the annual report tends to hide several aspects that must be informed while in the following year BRIS is increasingly open. The score was further analyzed into Particular disclosures of 50 items and universal as many as 74 items, obtained the highest average particular score obtained by Bank Mega Sharia (BSM) and Bank Muamalat with an average value of 85%, then Bank Syariah Mandiri at 84% , then BNI Syariah Bank by 82%, and finally BRIS by 80%. This shows that the five banks have tried to show legitimacy as a bank in accordance with sharia. Then for the highest universal average value obtained by BNI Sharia (BNIS) and Bank Muamalat by 81%, then BSM by 80%, BRIS by 76%, and Bank Mega Sharia by 73%. To carry out the operation on the fifth banking industry, the Bank can be considered quite good, it is an effort of Islamic banking to increase market share previously achieved so that Islamic banking can compete with conventional banking. Based on the results of the disclosure, it can be seen that Bank Muamalat and Bank Mega Syariah show more legitimacy of identity as the best Islamic bank can be seen from the highest score was 85%.

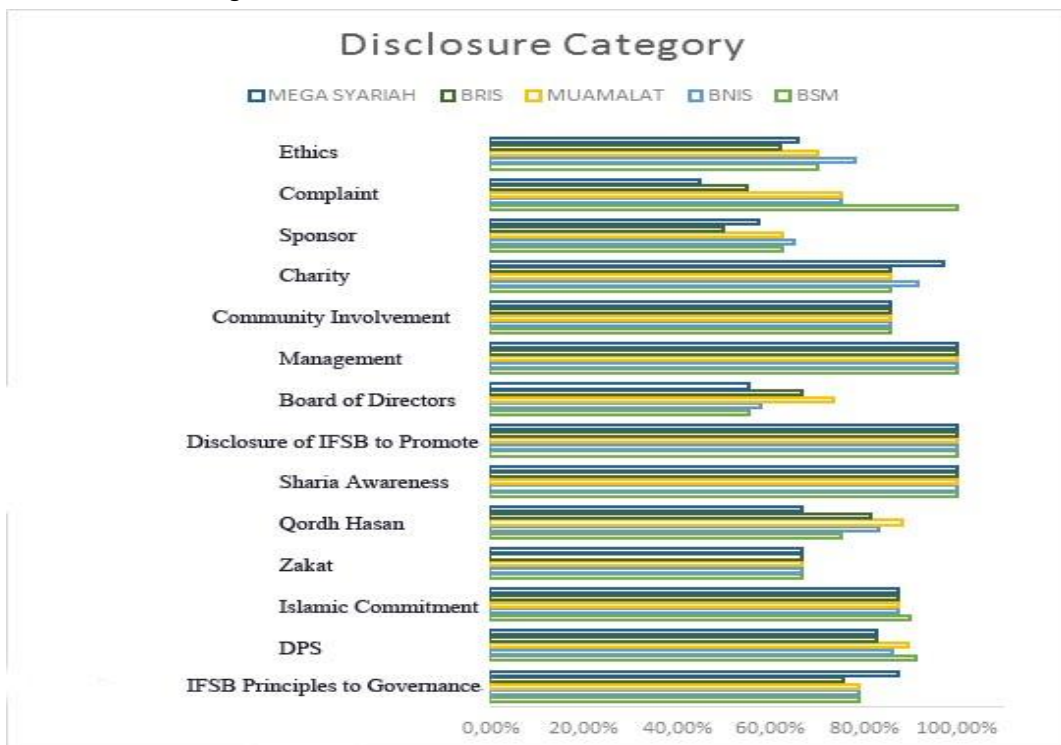


Figure 4.2 Disclosure Category

Based on the Figure 4.2 the disclosure category can be seen that the five banks have the highest disclosure on Management, Sharia awareness and IFSB disclosure to promote transparency and market discipline, then the lowest score can be seen from the aspects of complaints, sponsors and board of directors.

4.2 Sharia Disclosure Index and Universal Disclosure Index

4.2.1. Sharia Disclosure Index

In operational activities, Islamic banking has the obligation to pay attention to sharia values, which is in the context of achieving the Islamic Maqashid which is the goal of an economy based on the Islamic system, in this study, Islamic disclosure consists of 31 items and 4 categories, namely; Islamic commitments, Zakat, Qordh and sharia awareness, The following is of the results of sharia disclosure score calculation:

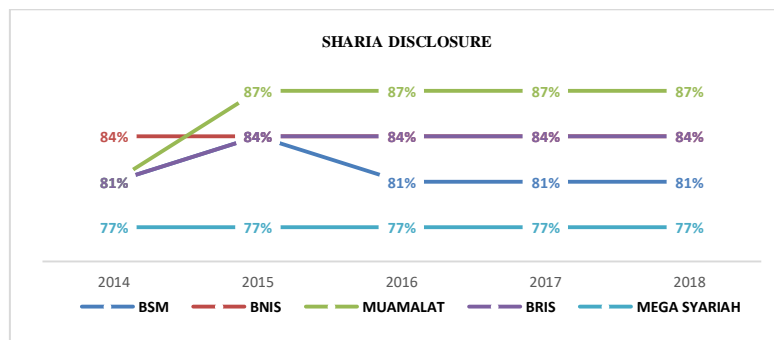


Figure 4.3 Sharia Disclosure

Based on Figure 4.3, it shows the results are considered good with an average achievement above 75%, it indicates that Islamic banking is very committed in conducting business in accordance with Islamic values. Where the Islamic commitment, the five banks show seriousness in carrying out Islamic banking operations by fulfilling the aspects of commitment and long-term direction contained in that category. The five Islamic banks are also always committed to channeling zakat funds and providing qardh funds to the community in order to achieve economic prosperity, without ignoring the amount of qardh that is distributed by Islamic banks not to exceed the amount of financing that has a profit sharing. The existence of the Sharia Supervisory Board in sharia banking operations is considered effective in ensuring and controlling sharia banking in accordance with sharia values. It can be seen in the disclosure of the category of sharia awareness which has positive achievements where the five sharia banks meet the aspects contained in that category.

4.2.2. Universal Disclosure Index

In order to maintain long-term sustainability, Islamic banking is also required to fulfill banking governance in accordance with established guidelines. In this study universal disclosure consists of 63 items and 8 categories such as IFSB principles for governance, IFSB disclosure to promote transparency and market discipline, board of directors, management, community involvement, sponsorships, complaints, and ethics. The following picture is the result of sharia disclosure score calculation:

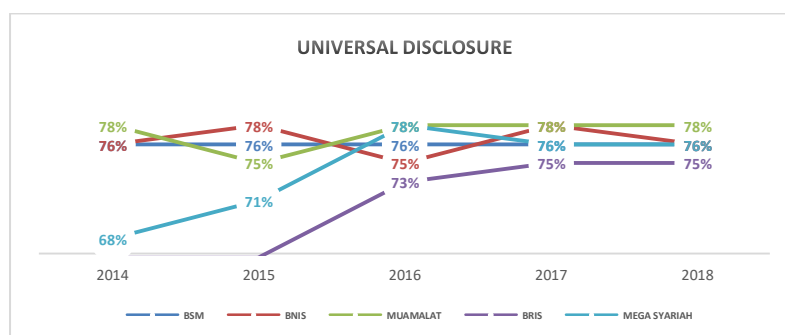


Figure 4.4 Universal Disclosure

Based on the Figure 4.4, the five banks show commitment in carrying out operational activities in accordance with established guidelines. Although the Bank Mega Syariah and BRIS in 2014 and 2015 had achievements below 70%, the second Islamic Sharia banking succeeded in increasing the achievements in the following years where the results of these achievements have always increased. Whereas in the other three Islamic banks, such as Bank Syariah Mandiri, BNI Syariah, and Bank Muamalat, despite having fluctuating achievements, the three Islamic banking consistently have achievements above 70%.

To provide recommendations on Islamic banking in order to be close to the ideal in carrying out Islamic values by considering the quality of disclosure of GCG, CSR, Islamic, and the following picture of the results of the calculation of the five banks:

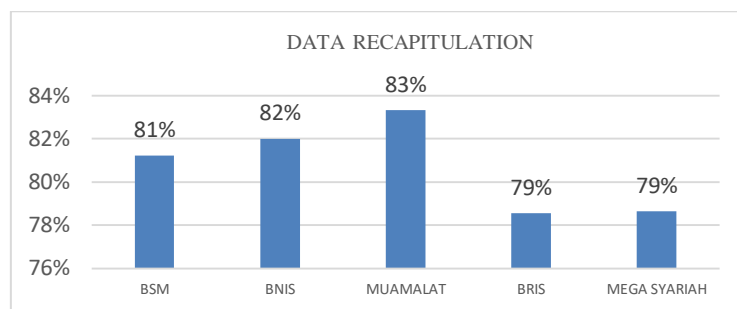


Figure 1.6 Data Recapitulation

Based on the average results obtained for five years, it can be concluded that Muamalat Bank has the highest score seen from the quality of GCG, CSR, Islamic disclosure which is 83%, this indicates that Muamalat Bank always makes maximum efforts in the application of Islamic values. It is inseparable because Muamalat Bank has the status as the first Islamic bank in Indonesia. However, these efforts have not been able to provide positive results on the level of capital adequacy, liquidity and profitability have not been able to place the Muamalat bank as the bank with the best financial ratios among the five banks.

5. CONCLUSION

Based on the results of the research "The Analysis of Sharia Bank Legitimacy using Disclosure Index", it can be concluded:

The quality of sharia bank disclosure in showing its legitimacy that each bank has different trends, the average score of the highest quality disclosure by Muamalat Bank is 83%, then the lowest average score is BRI Sharia by 78%, this show that in the report Bank Muamalat's annual coverage is increasing while in BRIS in 2014 and 2015 its annual report tends to hide several aspects that must be informed while in the following year BRIS is more overt.

Sharia disclosure index shows that are considered good with an average achievement above 75%, it indicates that Islamic banking is very committed in conducting business in accordance with Islamic values. Where the Islamic commitment, the five banks show seriousness in carrying out Islamic banking operations by fulfilling the aspects of commitment and long-term direction contained in that category.

Universal disclosure index shows that the commitment in carrying out operational activities in accordance with established guidelines. Although the Mega Sharia Bank and BRI Sharia in 2014 and 2015 had an achievements below 70%, the second Islamic Sharia banking succeeded in increasing the achievements in the following years where the results of these achievements have always increased. Whereas in the other three Islamic banks, such as Bank of Sharia Mandiri, BNI Sharia, and Muamalat Bank despite having fluctuating achievements, the three Islamic banking industries consistently have achievements above 70%.

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