

Good Corporate Governance, Intellectual Capital, and ICSR in Companies in Jakarta Islamic Index

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ABSTRACT

Indonesia's sharia economy and finance is increasingly developing and encouraging the birth of social responsibility based on Islamic norms called Islamic Corporate Social Responsibility (ICSR). The aim of this research is to determine the influence of good corporate governance and intellectual capital on Islamic corporate social responsibility. The GCG components used are the size of the board of directors, audit committee and independent commissioners. The type of approach in this research is quantitative. The companies in the sample are companies listed on the Jakarta Islamic Index (JII) for the 2018-2022 period using purposive sampling technique. The data analysis method used is panel data regression. The results of data testing explain that the size of the board of directors, independent commissioners, and intellectual capital have a significant positive influence on ICSR. Meanwhile, the size of the audit committee does not have a significant influence on ICSR disclosure. Simultaneously, GCG and Intellectual capital have an influence on ICSR disclosure.

ABSTRAK

Ekonomi dan keuangan syariah Indonesia semakin berkembang dan mendorong lahirnya tanggung jawab sosial yang berlandaskan norma Islam yang disebut dengan Islamic Corporate Social Responsibility (ICSR). Tujuan dari penelitian ini adalah untuk mengetahui pengaruh good corporate governance dan modal intelektual terhadap tanggung jawab sosial perusahaan Islam. Komponen GCG yang digunakan adalah ukuran dewan direksi, komite audit dan komisaris independen. Jenis pendekatan dalam penelitian ini adalah kuantitatif. Perusahaan yang menjadi sampel adalah perusahaan yang terdaftar di Jakarta Islamic Index (JII) periode 2018-2022 dengan menggunakan teknik purposive sampling. Metode analisis data yang digunakan adalah regresi data panel. Hasil pengujian data menjelaskan bahwa ukuran dewan direksi, komisaris independen, dan modal intelektual memiliki pengaruh positif signifikan terhadap ICSR. Sementara itu, ukuran komite audit tidak memiliki pengaruh signifikan terhadap pengungkapan ICSR. Secara simultan, GCG dan modal intelektual memiliki pengaruh terhadap pengungkapan ICSR.



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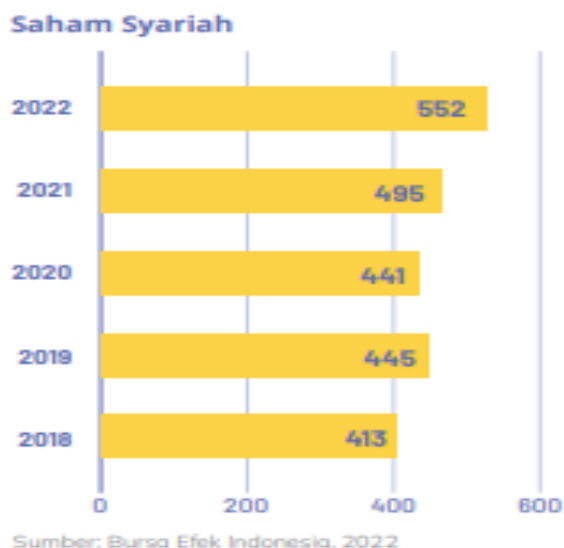
INTRODUCTION

The development of Indonesian sharia economics and finance is currently very rapid and continues to receive appreciation globally. After being impacted by the COVID-19 pandemic, Indonesia's sharia economy and finance, which includes the sharia capital market, sharia banking, sharia insurance, pension funds, financing institutions, as well as other sharia financial services institutions can now take advantage of these conditions by developing strategies to be able to adapt. Sharia financial sector assets were recorded to increase 15.87% in 2022 to IDR 2,375.84 trillion (OJK, 2022). This is of course supported by policies issued by the Financial Services Authority (OJK) and coordination with other regulators.

Indonesia's sharia economy and finance always receive global appreciation. Based on the Islamic Finance Development Indicator (IFDI) published through the Renitiv Islamic Finance Development Report 2022, Indonesia is in 3rd place out of 136 countries, where 1st and 2nd respectively are Malaysia and Saudi Arabia. (IFDI, 2022). Apart from that, in the 2022 Global

Islamic Fintech Index, Indonesia managed to rank 3rd(OJK, 2022). This achievement is used as motivation to make Indonesia's sharia economy and finance more consistent and better in its implementation.

Figure 1 Growth of Indonesian Sharia Shares



Source:(OJK, 2022)

The development of the sharia capital market in 2022 shows positive growth. This can be seen from the graph above which shows the growth in the number of sharia shares. The number of shares entered in DEC 2022 reached 552. The number has increased every year although there was a decrease of 4 shares in 2020. This condition is in line with the national economic recovery due to the impact of COVID-19 where the need for capital has increased through the sharia capital market.

The increase in the number of sharia shares in DES also encourages the presence of social responsibility based on Islamic norms or what is called Islamic Corporate Social Responsibility (ICSR).(Handayani et al., 2020). According toHaryono (2022), the increasing knowledge of the Muslim community regarding sharia economic transactions has led to a need for additional information that will provide different views or assessments in fulfilling spiritual needs. This can then provide added value for the company that provides the information.

Sharia-based social responsibility or ICSR is a development of existing CSR practices. CSR prepared based on the Global Reporting Initiative (GRI) standards is considered to be unable to describe social responsibility that is relevant to an Islamic perspective. Muslim investors demand that businesses provide relevant corporate social responsibility data that can help them in meeting their spiritual demands(Haniffa, 2002). This hope arises because social reporting published by companies regarding Islamic perspectives is often lacking(Othman et al., 2009). As a result, decision makers' satisfaction with investing becomes less and there is doubt in them.Haniffa, (2002)also stated that social responsibility reporting using GRI standards still has limitations in spiritual and moral aspects. Meanwhile, according to sharia principles, companies do not only focus on material aspects. Therefore, ICSR reporting is important to implement.

Good Corporate Governance is a management practice that requires trust, balance and wisdom so that the interests of the owners can be met. This is in accordance with the principles of transparency, independence, accountability, responsibility and justice. According toDjafar et

al., (2023)GCG must be implemented in accordance with company goals effectively, efficiently and economically. The results of GCG implementation are expected to build stakeholder trust so that in practice we must pay attention to the involvement of the parties. Apart from that, the responsibility of directors in publishing annual reports containing ICSR is also important. With a sufficient number of board of directors, the company should be able to share more complete information for investors. The role of the board of directors can be utilized to disclose information that is relevant to Muslim investors in the Islamic capital market.

Currently, a company's business is no longer based on labor but also on the existence of a workforce with knowledge. The existence of Intellectual Capital in the company makes a significant contribution to the company. Human resources provide knowledge to the company and produce ideas and innovations which then provide more value compared to other companies. Innovations produced by human resources need to be managed well so that the company gains excellence through developing resources with the company's motivational capabilities. This is in line with the aim of improving company performance(Darul, 2022). Companies can also use IC to express ICSR that is more relevant to the needs of Muslim investors. Companies that are able to utilize IC in ICSR disclosures will increase the confidence of Muslim investors in making decisions. This is also supported by the growth of new investors, who with complete information can determine the company's investment targets.

Relating to researchOthman et al., (2009)gives results that the composition of the board of directors in GCG has an influence on ICSR disclosure. Domination by Muslim directors allows them to gain more power in expressing ICSR. As well as(Isma, 2021)which states that the more compliant a company is in carrying out and disclosing corporate governance, the higher the ISR disclosure will be. While obeyingYaya & Nurrokhmah, (2019)The size of the board of commissioners does not affect the quality of company information disclosure regarding ICSR. The board of commissioners may prioritize its role in monitoring profit policies where companies tend to carry out activities that will generate greater profits than social activities.

The relationship between Intellectual Capital and ICSR has been researched byIsma, (2021)which states that there is no relationship between the two. This does not prove that companies that manage and utilize Intellectual Capital will improve social performance and disclosure of social performance itself. The same applies to research carried out byWahyuantika et al., (2023)that companies, especially Sharia Banks, have not utilized Intellectual Capital optimally in expressing social responsibility.

Previous research related to Islamic Corporate Social Responsibility (ICSR) used banking as the research object. While currently the sharia stock market is developing in Indonesia, there needs to be development regarding additional obligations for companies that issue sharia shares to fulfill the spiritual hopes of Muslim investors in Indonesia. Fulfilling these expectations is an important reference for companies to attract the attention of Muslim investors to make investment decisions. From good governance and utilization of intellectual capital, the company is expected to be able to reveal social performance. Companies in JII are not companies that are purely based on sharia principles. However, by issuing sharia shares, of course the company is obliged to fulfill the spiritual hopes of investors, especially Muslim investors, through ICSR disclosure. Therefore, researchers are interested in examining the influence of Good Corporate Governance (GCG) and Intellectual Capital (IC) on company performance with Islamic Corporate Social Responsibility (ICSR) as an intervening variable in companies registered with JII for the 2018-2022 period.

RESEARCH METHODS

In this research, quantitative methods were used. Through the use of research instruments, which usually consist of numerical data that can be analyzed using statistical techniques, quantitative research tests ideas by analyzing the relationships between variables (Amruddin et al., 2022). The population studied were companies registered on the Jakarta Islamic Index. Companies registered on JII are companies with the most liquid sharia shares listed on the IDX. To determine the research sample, a purposive sampling technique was used, namely determining the sample using special considerations or criteria (Sujarweni & Endrayanto, 2012). The criteria for determining the sample in this study are:

1. Companies listed on the Jakarta Islamic Index and not delisted during the 2018-2022 period.
2. The company publishes an annual report or sustainability report for the 2018-2022 period.
3. The company uses the rupiah monetary unit in its annual report.
4. Companies that have positive earnings per share values.

The number of companies in JII is 30 issuers. Based on the criteria, 10 issuers were obtained with a total of 5 years of observation. Data collection techniques are obtained through annual reports and/or sustainability reports published on each company website and the IDX website (www.idx.co.id). In this research, the author used techniques to test the data. The analysis method used is the panel data regression method because this research uses data over a five year period and several companies were studied. In accordance with the characteristics of panel data, there are several objects studied over several research periods (Winarno, 2011). The analytical tool used in data processing to support the results and accuracy of the research is Eviews software version 10. The panel regression model for this research is:

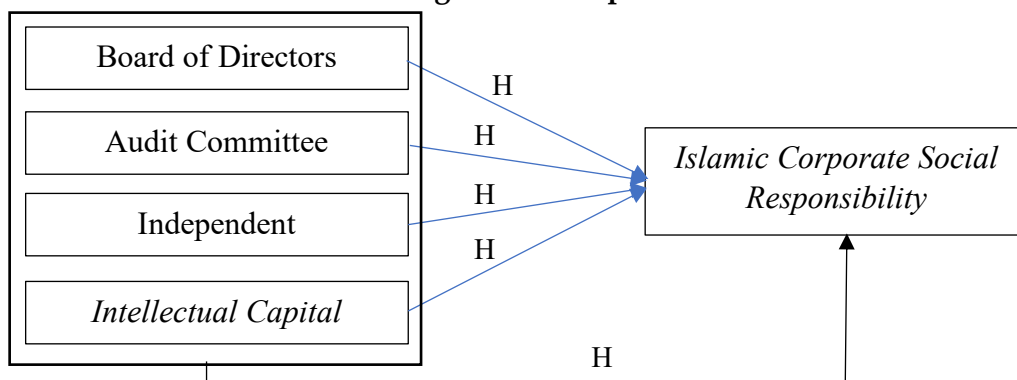
$$Y_{it} = \alpha_0 + \alpha_1.1X_{1.1it} + \alpha_1.2X_{1.2it} + \alpha_1.3X_{1.3it} + \alpha_2X_{2it} + e_2$$

Information :

- Y : *Islamic Corporate Social Responsibility*
 X1.1 : *Good Corporate Governance*(director)
 X1.2 : *Good Corporate Governance*(audit committee)
 X1.3 : *Good Corporate Governance*(independent commissioner)
 X2 : *Intellectual Capital*
 α_0 : constant
 $\alpha_1.1, \alpha_1.2, \alpha_1.3, \alpha_2$: coefficients
 i : time series data
 t : cross section data

The following is the research conceptual framework:

Figure 2 Conceptual Framework



- H1: The size of the board of directors has an influence on Islamic Corporate Social Responsibility
 H2: The size of the audit committee has an influence on Islamic Corporate Social Responsibility
 H3: The size of the independent board of commissioners has an influence on Islamic Corporate Social Responsibility
 H4: Intellectual Capital has an influence on Islamic Corporate Social Responsibility
 H5: Simultaneously good corporate governance and intellectual capital have an influence on Islamic Corporate Social Responsibility

RESULTS AND DISCUSSION

Table 1. Chow Test Results

Redundant Fixed Effects Tests
 Equation: Untitled
 Cross-section fixed effects test

Effects Test	Statistics	df	Prob.
Cross-section F	27.655321	(9.36)	0.0000
Chi-square cross-section	103.430595	9	0.0000

Source: Processed by researchers (2024)

The results of the Chow test explain that the probability value F is $0.0000 < 5\%$ or 0.05 significance level, meaning that the correct model is the Fixed Effect Model (FEM).

Table 2 Hausman Test Results

Correlated Random Effects - Hausman Test
 Equation: Untitled
 Cross-section random effects test

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-section	23.162096	4	0.0001

Source: Processed data (2024)

Table 2 above shows the results that the Chi-Square probability value is $0.0001 < 5\%$ significance level or 0.05 , meaning the correct model is the Fixed Effect Model (FEM). For this model, the Lagrange multiplier test is no longer carried out because the Chow test and Hausman test have produced the Fixed Effect Model (FEM) as the correct model.

Table 3 Multicollinearity Test

Correlation				
	DIR	KOMDIT	KOMIND	VAIC
DIR	1.000000	-0.071977	0.695889	0.735919
KOMDIT	-0.071977	1.000000	0.110326	0.052525
KOMIND	0.695889	0.110326	1.000000	0.646456
VAIC	0.735919	0.052525	0.646456	1.000000

Source: Processed data (2024)

Table 3 shows that if the value of each variable is smaller than 0.90 , there is no multicollinearity in the regression model.

Table 4 Heteroscedasticity Test

Dependent Variable: RESABS
 Method: Panel Least Squares
 Date: 06/10/24 Time: 17:35
 Sample: 2018 2022
 Periods included: 5
 Cross-sections included: 10
 Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.023412	0.025861	-0.905300	0.3713
DIR	0.002280	0.002156	1.057643	0.2973
KOMDIT	-0.005084	0.003556	-1.429599	0.1615
KOMIND	0.011891	0.006477	1.835871	0.0746
VAIC	0.002102	0.002493	0.843344	0.4046

Source: Processed data (2024)

From table 4 it is known that the probability value of the director variable is $0.2973 > 0.05$; audit commissioner variable $0.1615 > 0.05$; the independent commissioner variable is $0.0746 > 0.05$ and the intellectual capital (VAIC) variable is $0.4046 > 0.05$, meaning that in this regression model there are no symptoms of heteroscedasticity.

Table 5 Fixed Effect Regression Model

Dependent Variable: ICSR
 Method: Least Squares Panel
 Date: 06/13/24 Time: 20:08
 Sample: 2018 2022
 Periods included: 5
 Cross-sections included: 10
 Total panel (balanced) observations: 50

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.253811	0.059357	4.275991	0.0001
DIR	0.017590	0.004947	3.555310	0.0011
COMDIT	-0.002395	0.008163	-0.293395	0.7709
COMIND	0.071934	0.014866	4.838958	0.0000
VAIC	0.018321	0.005722	3.201979	0.0029

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.879322	Mean dependent var	0.658483
Adjusted R-squared	0.835743	SD dependent var	0.061171
SE of regression	0.024792	Akaike info criterion	-4.325114
Sum squared resid	0.022127	Schwarz criterion	-3.789748
Log likelihood	122.1278	Hannan-Quinn Criter.	-4.121243
F-statistic	20.17796	Durbin-Watson stat	2.533271
Prob(F-statistic)	0.000000		

Source: Processed by Researchers (2024)

From table 5, model 1 equation, the results are:

$$Y_{it} = 0.253811 + 0.017590DIR - 0.002395COMDIT + 0.071934COMIND + 0.018321VAIC + 0.347387$$

From table 5, it is explained that the probability value obtained by the DIR variable is 0.0011. This value is $< 5\%$ or 0.05 significance level, so partially the number of board of directors has a significant influence on ICSR disclosure. These results are in accordance with

research Othman et al., (2009) which states that the size of the board of directors has an influence on ICSR disclosure. Likewise with research Budi & Rahmawati, (2019) revealed that corporate governance results have a positive influence on ICSR. This means that the greater the number of board of directors in a company, the more complete the information disclosed in ICSR will be. This is in accordance with Sharia Enterprise Theory that companies are also responsible to Allah SWT for what they have managed on earth through Islamic CSR disclosure.

The probability value of the KOMDIT variable is $0.7709 >$ a significance level of 5% or 0.05, so the partial conclusion is that the number of audit committees has no influence on ICSR disclosure. It's the same with research Arsad et al., (2021) that the audit committee has no influence on ICSR disclosure. Not with research Isma, (2021) which states that corporate governance has an influence on ICSR.

For the KOMIND variable probability value $0.0000 <$ significance level 5% or 0.05. This means that partially the number of independent commissioners has an influence on ICSR disclosure. This is in line with research Yuliana & Sartika, (2020) which explains that GCG has an influence on ICSR disclosure where the size of the independent commissioner is one of the components of GCG. Different from research results Yaya & Nurrokhmah, (2019) that the size of the board of commissioners has no influence on ICSR disclosure.

For the VAIC variable, it gets a probability value of $0.0029 <$ 5% significance level or 0.05. The conclusion is that intellectual capital as proxied by VAIC has an influence on ICSR disclosure. The results of this test are in accordance with the research results Nadila & Annisa, (2021) that Intellectual Capital has a significant positive influence on ISR disclosure. Study Budi & Rahmawati, (2019) produces a significant negative relationship. This means that when the VAIC efficiency level decreases, ICSR disclosure becomes more complete. The direction is not in line with the results of this research, where the higher the VAIC value, the more complete the company's ICSR disclosure.

Based on table 5, it is known that the probability value F is $0.0000 <$ 5% significance level. This explains the results that simultaneously the number of board of directors, audit commissioners, independent board of commissioners and intellectual capital have an influence on ICSR disclosure.

CONCLUSION

From the results of testing the data and explanation, the conclusions are: 1) The size of the board of commissioners has a probability value of 0.0011 which is smaller than the significance level of 0.05, so H1 is rejected. This means that good corporate governance as proxied by the size of the board of directors has a significant positive influence on ICSR disclosure. 2) The size of the audit committee has a probability value of $0.7709 >$ significance level of 0.05, so H2 is accepted. This means that good corporate governance as proxied by the size of the audit committee has no influence on ICSR disclosure. 3) The size of the independent board of commissioners has a probability value of 0.0000, which is smaller than 0.05, so H3 is accepted. This means that good corporate governance as proxied by the size of the independent board of commissioners has a significant positive influence on ICSR disclosure. 4) VAIC has a probability value of $0.0029 <$ 0.05, so H4 is accepted. This means that intellectual capital as proxied by VAIC has a significant positive influence on ICSR disclosure. 5) The probability value of F 0.0000 is smaller than 0.05, so H5 is accepted. This means that simultaneously good corporate governance and intellectual capital have a significant influence on ICSR disclosure.

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