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MUSLIM CEO AND ISLAMIC SOCIAL REPORTING DISCLOSURE: EVIDENCE FROM INDONESIA

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Abstract

The determinants of Corporate Social Responsibility (CSR) activities remain unclear whereas it has been captivating attention both from practice and academia. Thevicegerency(khalifah) and brotherhood (ukhuwwah) is part of Islamic principles and it seen as closely connected to CSR, called Islamic Social Reporting (ISR). Thereby, our paper aims to examine the presence of Muslim CEOon ISR disclosure. Using regression analysis, this empirical study covers a sample of firms which are listed in the Jakarta Islamic Index (JII) for the year 2016-2018. The result reveals that Muslim CEO has a positive and significant relationship with ISR disclosure. It suggests that the attribute of board (CEO) has an important role to enhance ISR engagement among corporations, especially a religious background of CEOand it was in line with Islamic values.

Keywords: CSR; ISR; Stakeholder Theory; Religion; Muslim CEO; Disclosure; Corporate Governance.

Abstrak

Aktivitas tanggungjawab social perusahaan (Corporate Social Responsibility-CSR) memiliki factor determinan yang beragam sehingga halter sebut menjadi perhatian bagi para akademisi dan praktisi. Sementara itu, prinsip khalifah dan ukhuwah sebagai bagian dari prinsip Islam, erat kaitannya dengan aktivitas CSR. Kedekatan tersebut dapat dilihat pada Pelaporan Sosial berbasis Islam (Islamic Social reporting-ISR). Penelitian ini bertujuan untuk menguji hadirnya CEO, sebagai actor penting dalam perusahaan, yang beragama Islam (Muslim) terhadap pengungkapan ISR. Metode yang digunakan dalam penelitian ini adalah dengan analisis regresi dan menggunakan sampel perusahaan yang terdaftar pada Jakarta Islamic Index (JII) selama periode 2016-2018. Hasil penelitian menunjukkan bahwa kehadiran CEO beragama Islam (seorang Muslim) memiliki pengaruh positif terhadap pengungkapan ISR. Hasil tersebut mengindikasikan bahwa atribut yang melekat pada dewan (CEO) memiliki peran penting untuk meningkatkan komitmennya dengan ISR, khususnya latar belakang agama dari CEO yang erat kaitannya dengan nilai-nilai Islam yang merekabawa.

Kata Kunci: CSR; ISR; Teori Stakeholder; Agama; CEO Muslim; Pengungkapan; Tata Kelola.

JEL Classification: M41

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INTRODUCTION

Corporate Social Responsibility, or called by CSR, carries on how theenvironment, consumers, employees and communities (social) are affected by corporate policies (Alazzani et al., 2019). However, the disclosure of CSR can mitigate a company's information asymmetry and enhance its reputation, image, and competitive advantage (Yang et al., 2017;Omran&Ramdhony, 2015). It is also reflected as a company's crucial decision making. Hence, the information disclosed is essential for the company to be sustained for its long-term development (Pan et al., 2014; Ting & Yin, 2018).CSR disclosures lower the cost of the equity capital of the reporting firms. Therefore, CSR reports should provide a complete picture of the firm's CSR practices, including its strengths and deficiencies.

In several countries, CSR information or sustainability reporting is now part and bundled incompany's annual report, and there is an increasing number of companies' stand-alone sustainability reports. Moreover, KPMG (2017) reports that recently, the CSR disclosure from emerging economies such as Indonesia, India, Malaysia, and South Africa has achieved significant improvement.

The disclosures are not only applied in conventional companies but also sharia-approved companies. Jannah &Asrori (2016) said that companies that conduct sharia-based business activities should carry out their activities in accordance with Islam, which is guided by the Al-Qur'an and Sunnah. However, the level of sharia disclosure was still remaining low. Some of the possible reasons behind it are the absence of pressure from their stakeholders, the secretive culture of the country and the reluctance of company to figure a conclusive image of Islam (Maali et al., 2006; Haniffa&Hudaib, 2007; Azmi et al., 2016).

In perspective of Islam, humans are the caliph of God (khalifah) over the dunya, and it is the responsibility of humans to maintain the metaphysical, social, economic, and environmental balance created by The God, Allah SWT, until the Day of Judgment¹.Hence, in accordance with Islamic views, the purpose of CSR information or sustainability reporting is to exhibit accountability to Allah SWT and the society and to improve the transparency of business activities. It was done by providing relevant information watching the spiritual needs of stakeholders in decision-making (Haniffa, 2002).

CSR disclosure forms were improved in many ways. As to responding to the needs of CSR with Islamic value, academia, such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), set up an Islamic Social Reporting (ISR) Index. In other words, it could be a starting point in terms of CSR disclosure standards in accordance with the Islamic perspective (Fitria&Hartanti, 2010). The ISR index contains CSR standard items and is combined by Islamic value for the company.

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¹ Al-Qur'an surah Al-Baqarah: 30; Al-An'am: 165; Fathir: 39; Yunus:14; An-Naml: 62

Coincided with increased demand for ISR and CSR disclosure by a variety of stakeholders, Corporate Governance (GC) provides rules and procedures for greater transparency and credible disclosure (Albassam, 2014; Alfraih&Almutawa, 2017). Good practice of CG mechanisms is a key feature of CSR (Welford, 2007). In the discussion of corporate governance, the composition of board in a company has been acknowledged as one crucial element affectingthe interests of stakeholders. The effectiveness of corporate governance can be obtained by choosing the proper board composition. Hence, it will consequently improve firm performance and ultimately increase firm value. The integration between these mechanisms and ISR may enhance corporate practice and its social role.

Our papersought to investigate the level of ISR disclosure as accomplished by Indonesian sharia-approved listed companies in their annual reports for 2016-2018. The reason why we used that sample is because they were expected to be more accountable in terms of reporting their activities in conformance with sharia (Islamic laws). To enhance our discussion, this study also tried to analyze whether the presence of Muslim CEO (Chief Executive Officer) is related to the extent of ISR disclosure.

The CEO is the primary person who directs and handles a company. The attributes in CEO, such as character, profile and power, become a trigger to enhance company performance as it was proven by spacious literature in previous study (Adams et al., 2005; Sah&Stiglitz, 1991; Hambrick& Mason, 1984; Jensen &Meckling, 1976). Our study assumes that a Muslim CEO could supply a foundation for why Islamic companies can do it another way. Although previous studies has been identified the bond between Islam and ISR or CSR, limited evidence have been found on the impact of having Muslim CEO in the corporate board on ISR disclosure. Thus the current study may bring some light on the role played by Muslim directors in increasing theirISR engagement.

This study focuses on Indonesia, an outstanding Islamic financial market. We believe that to examinethose issue, Indonesia has the perfect context. According to Indonesian Stock Exchange (IDX) statistics, the numbers of sharia capital market investors are significantly increased. As a result, on October 18, 2019, Indonesia achieved an award from International Global Islamic Finance Awards (GIFA) 2019 for the best Islamic Capital Market (IDX, 2019). It was initially grown since IDX released Jakarta Islamic Index (JII) in July 2000 to foster the trading of public companies according to Sharia business code. Stocks listed under the JII must meet procedural standards as well as performance requirements. Moreover, Islam is a majority religion in Indonesia. Murphy &Smolarski (2017) argue that to assist governments in addressing challenges related to sustainable socioeconomic development and in advancing human rights, companies within Muslim majority countries have the moral obligation more than other.

By showing that the presence of Muslim CEO in the boardroom enriches corporate transparency, this study support the recent trend toward study on finance and religion in some ways. First, we investigate the social performance in company level for the MuslimCEO context. It allows us to contribute some understanding on how Islamic perspective and principles can be demonstrated in a boardroom and corporate governance in a CEO context, instead of just depending on business frame. Second, we also explore whether among sharia-approved companies with a Muslim CEOs in particular. It provides us to identify whether the accomplishment of Sharia-approved

companies can be attributed more to their business frame or the presence of Muslim directors.

LITERATURE REVIEW AND HYPOTHESIS

Stakeholder theory was a common based for CSR issue. Clarkson (1995) suggested the stakeholder theory. The theory used to analyze and evaluate CSR because it entails the role of directors and corporate governance mechanism in effective disclosure. Moreover, for the purpose of establish the association among religiosity and CSR practice, there is an alternative approach directed by stakeholder theory (Platonova et al., 2016). In regard with religiosity and CSR literature, the main thesis of stakeholder theory has debated that managing and protecting the interest of various stakeholders were pivotal constructed by them.

Recently, studies on corporate governance have focused on the proper governance mechanism in executing and encouraging CSR activities (Jain & Jamali, 2016; Su, 2019). Regardless, some literature about improper governance mechanism is also relatively narrow but increased. As for example, religious beliefs, values, practices and cultural orientation which affect business practices including CSR (Norris & O'Dweyer, 2004; Witt & Redding, 2011; Belal et al., 2015; Farooq & AbdelBari, 2015; Li et al., 2019). Furthermore, a latest corporate social responsibility study implies that those informal mechanism take an important role in shaping CSR activities, specifically in developing economies where the proper institutions are unsteady (Jamali et al., 2017).

The CEO as the main part of the boards of directors a leader and charged for making strategic decisions and adjust tactical purposes of the company. In order to improve the management, diverse boards may monitor managers and top level management teams in a better way. In the context of board diversity, boards consist of different members with different characteristics and backgrounds, e.g., gender, majority groups, minority groups, and ethnicity, which can be an advantage for the success of firms. Some previous study found that board diversity increases board independency (Carter et al., 2013). Moreover, Hassan & Marimuthu (2018) said that there is a very significant impact on corporate performance and value creation by the presence of diversified corporate boards.

Recent empirical research shows that religiosity influences company policy and reporting. All major religions address values such as honesty, respect, love for others, compassion, mutual cooperation, and commitment. Arslan (2001) investigates whether religious denomination affects the work ethic of an individual. He did some surveys for 277 managers whose religion is Christian (Protestant), Catholic, and Muslim. It tests the difference between Muslim and other groups and found a significant result. The highest ethical level is Muslims, and then by Christians (Protestants), and afterwards by Catholics. Hilary & Hui (2009) found a significant effect of religion on firms' risk aversion and investment decisions. Then, Grullon et al. (2010) and Kanagaretnam et al. (2015) demonstrate that firms' earning management is affected by religious background of the board.

With reference to financial and social reporting, Dyreng et al. (2012) and McGuire et al. (2012) examined in Christian and found that the likelihood of financial restatement, financial reporting irregularities, and fraudulent accounting is lower when the companies are located in areas of high religiosity. In the same vein, Su (2019)

investigates Buddhism and Taoism as a whole. It shows that managers tend to be less selfish and more concerned with stakeholders when they are located in a religious atmosphere and it is potentially beneficial to their corporate social activities. Then, Li et al. (2019) also found that entrepreneurial firms in India with religious owners engage more in social responsibility, and that more socially responsible entrepreneurial firms have lower cost of debt.

However, Jiang et al. (2015) said that company whose CEO is a Muslim will underperformed compared by other. Guiso et al. (2003) argued that it was happened because not all religions are the same in terms of values and norms, individual religious differences are likely to affect economics attitudes towards cooperation, government, woman, legal rules, thriftiness and market economy. The result also consistent with Hooy& Ali (2017). They found that relatively, Muslim CEO in company does show lower performance. It was happened because the conservativeness of them, tend to avoid competition with their counterpartand hence lowering its performance.

Nowadays, as there is a positive significant in the global equity sharia, the studies that focus on the Islamic religion are also appear, especially in behave on corporate reporting. Considering the first stage in the religion, the relationship between Islamic values, social responsibility and justice has been identified. During the preceding, Mukhazir et al. (2006), Dusuki (2008), Ullah& Harwood, 2014; Mutalib et al. (2017), Zaman et al. (2018), Alazzani et al. (2018), and Ammer&Alsahlawi(2019) investigated the relationship between Islam and corporate social responsibility report.

Mukhazir et al. (2006) describe that social responsibility in Islamic view appeared to start from the *tawhid* (faith) approach, which contains three relationships: to Allah SWT, society, and the environment. It was complemented by Dusuki (2008) who interprets that the Islamic concept of CSR is rooted in the principle of *khalifah* (vicegerency) and *ukhuwah* (brotherhood). Then, Khan & Karim (2010) said that the former related to the condition where besides acting for the benefit of shareholders, some companies are also required to encompass the environmental and social issues, as man is considered to be *khalifah* of Allah SWT on earth and hence a trustee of Allah SWT resources.

As a guidance of Muslim, Al-Qur'an has emphasizes the social responsibility within it. In Surah Al-Ma'un verse 1 to 6, Allah SWT categorizes the people who repulse the orphans, who refuse to feed the poor, who delay their prayers (shalat), who do good deeds only to be seen by others and those who prevent themselves from doing small kindess, as belonging to the group who denies the region, Islam. Specifically, in the society, Saringat et al. (2013) stated that Islam promotes justice and welfare by urging superior ethical conduct. In Sharia or Islamic rules recommends transparency and sufficient disclosure particularly in business transactions to make sure that such transactions do not exploit the interests of people. Thus, the Islamic moral codes of conduct function as to steer clear of exploitative activity/behavior precipitated by individuals/groups/institutions (Ammer&Alsahlawi, 2019).

The disclosure in Islamic perspective consists of two general requirements: full disclosure and social accountability (Baydoun& Willet, 2000; Haniffa, 2002). The concept of social accountability is related to the principle of full disclosure with the objective to encounter the stakeholder interest. Under the Islamic context, the stakeholder has the right to be acquainted with the operational effects of an organization on its well-being and to be advised within the requirements of Sharia of whether the objectives set out has been accomplished (Baydoun& Willet, 1997). One

possibility to provide full disclosure in the context of Islam is by ISR. As it is strengthened by Annuar et al. (2009) who found that companies that follow sharia principles disclose more environmental disclosure than others. This shows that companies claiming to be sharia-compliant do adhere to superior good conduct standards, and as such, they should disclose high quality of their report.

The ISR index in this study is adopted by Zaman et al. (2018) which defined Islamic parameters as for *riba*, *zakah*, and *mafsadah*. In Islam, the main virtue of wealth utilization is prohibition of *riba*. Islamic business principles said that avoiding *riba* is a fundamental part. Hence, not only profit oriented purposes, but also conformity with Islamic business principles should be considered by business managers to conduct their business (Zaman et al., 2018).

Zakah is one of the five pillars of Islam. It refers to the purification of wealth and used toreducing discrimination and the wealth difference between the wealthy and the needy and the poor. Islam does not prohibit the business from making a profit and highly encourages the businessman to gain at a reasonable profit. Mohsin (2013) and Wali (2013) said that it is important to improve the stakeholder's perspective of zakah. That perspective argues that it is vital for the development of the country as zakah contributes to social security and harmony. Moreover, Yusri (2015) states that zakah guarantees a compulsory and permanent redistribution of wealth to those who suffer from poverty.

Zaman et al. (2018) defined *mafsadah*as any destructive activity that set society at risk within the negligence of Islamic principles. Furthermore, Shaharuddin (2010) states that some social activity which provides to encouraging the public interest is treated as *maslahah*, the opposite to *mafsadah*, which involve adverse activities to disobeythem.

In the light of the foregoing, we argue that companies enriched with Islamic values, in particular having a Muslim CEO are predicted to be more engaged in ISR activities and produce sufficient information to their diverse stakeholders. Therefore, the hypothesis stated as follows:

Ha: The presence of Muslim CEO affects the increasing of ISR disclosure.

RESEARCH METHOD

In order to analyze the relationship between Muslim CEO and ISR disclosure, all the companies listed on the JII (Jakarta Islamic Index) for the period of 2016, 2017, and 2018 were taken. Thus, we collect 90 firms-years observations as the sample to meet our purpose. Semiannually, JII announces 30 firms which meet the requirements. The source of our data is the firm's annual report which was collected from Indonesian Stock Exchange website (www.idx.co.id).

Table 1
Sample Selection

Sample Selection		
Year	Sample	
2016	30	
2017	30	
2018	30	
Total	90	

Empirical Model and Variable Operationalization

The following model is used to investigate the effect of Muslim CEO on ISR disclosure:

$$ISR_{it} = \beta_0 + \beta_1 MCEO_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 PROFIT_{it} + \varepsilon_{it}$$

ISR represents the ISR disclosure by the firm and it used as a dependent variable. For this research, the level of ISR disclosure measured by content analysis method. We identify the information disclosed in the annual reports of selective samples. Based on previous study (Ousama& Fatima, 2010), to assess written material contained in annual reports, the most commonly used method was content analysis.

We confide on the disclosure index that has been used by Zaman et al. (2018). The ISR disclosure index encompasses important constructs of the Islamic principle and CSR framework. Based on Islamic principle, the constructs of disclosure index including

- (a) Riba;
- (b) Zakat; and
- (c) Mafsadah.

The constructs for the CSR conventional disclosure index are:

- (a) Customer;
- (b) Environment;
- (c) Shareholder/economic;
- (d) Employee; and
- (e) Society involvement.

The ISR index comprises 24 items overall as shown in Appendix 1. Each item is given a value of 1 and 0. If the item in the ISR index is disclosed, it will be given a value of 1 and value 0 for other. The full score that can be accomplished by a company will be 24. The ISR disclosure index for each sample is derived as the ratio of the score obtained by that company to the highest possible score attainable(24).

MCEO presents the main independent variable, Muslim CEO. It is measured by dummy variable. It scored by 1 if firm has a muslim CEO and scored by 0 for other. The data for Muslim CEO is obtained from the annual reports of the sampled companies and other related media exposure of the CEO.

Besides the main independent and dependent variables, based on previous studies (Katmon et al., 2017; Sunarsih&Ferdiyansyah, 2017; Mutalib et al., 2017; Alazzani et al., 2019; Yaya &Nurrokhmah, 2019),our study involveseveral control variables. SIZE is the log of company's total assets. LEV is the ratio between debt to equity of company. PROFIT is company's profitability which measured by return on assets (ROA).

RESULTS AND DISCUSSION

Descriptive Analysis

Table 2

Descriptive Statistics

Descriptive Statistics					
Variable	n	Minimum	Maximum	Mean	Std. Deviation
ISR	90	.54	.83	.7380	.06351
MCEO	90	0	1	.4111	.49479
SIZE	90	21.03	33.47	28.8284	3.88723
SIZE (in million	90	1,047	36,699,526	7,540,097	8,113,517
Rupiah)					
LEV	90	.17	3.31	1.0380	.71922
PROFIT	90	01	.47	.1022	.09844

Table 2 demonstrated the descriptive statistics of our variables. The ISR disclosure has an average score for 73.80% and it ranges from 54% to 83%. The result maintained the same level as Yaya &Nurrokhmah (2019), which indicates that on average, Indonesian sharia-approved company has a high level of ISR disclosure.

The descriptive statistics also suggests that 41% of the sample companies have a Muslim CEO. As for the control variables, the sample companies have a 28.8284 or Rp 7,540,097 million total assets, 103,8% debt to equity ratio, and ROA of 9,844%, on average.

In table 2, based on descriptive analyses of the ISR disclosure index, we also provide a further analysis. The average voluntary disclosure for Islamic principle items is 33.5%, higher than Al-Shammari (2013) scores in Kuwait (13%) and Othman &Thani (2010) scores in Malaysia (22%). The minimum and maximum disclosure was 0 and 56%, respectively. The average voluntary disclosure for conventional CSR items is 98%, higher than previous study, Al-Shammari (2013) scores in Kuwait (17%), Velte& Dienes (2016) scores in German (75.43%), Su (2019) scores in China (28.12%) and Alazzani et al. (2019) in Malaysia (33%). The minimum score was 80% and 98% for the maximum score.

Table 3
Descriptive Statistics for Individual ISR Constructs

Individual ISR Constructs	Minimum	Maximum	Mean	Std. Deviation
Islamic Principle	0	0.56	0.335	0.128
Riba	0	0.667	0.270	0.243
Zakat	0	0.333	0.037	0.105
Mafsadah	0	1	0.696	0.231
Conventional CSR	0.800	1	0.980	0.044
Customer	0.667	1	0.978	0.083
Environment	0.667	1	0.981	0.076
Shareholder	0.667	1	0.967	0.1
Employee	1	1	1	0
Society	0.333	1	0.974	0.102

Table 3 depicts the analyses of the subsections of the ISR constructs. Based on descriptive analyses above, on average, zakat information was the lowest information

that was disclosed by companies (3.7%). It is followed by riba information (27%) and mafsadah information (69.6%). There was one Islamic item disclosed frequently by all the samples, a statement of activities to support society welfare. On the other hand, the statements of interest-free basis business transactions, zakat payments, through bank, and zakat payments upon maturity are never disclosed by the company. The result is consistent with the study of Al-Shammari (2013).

As for the conventional CSR items, the highest construct disclosed by sharia-approved companies was the information about employee relation (100%). Furthermore, it followed by environment information, customer, society involvement, and shareholder (economic) information, respectively. In brief, Indonesian sharia-approved companies have an outstanding CSR performance as they almost hit the perfect score. It was predictable, because Indonesia already has various regulations about CSR activities².

In conclusion, the results indicate that sharia-approved companies in this study disclose higher conventional items than Islamic items on their annual report. Hence, it is evident that the Islamic perspective of full disclosure and social accountability was not fully complied. The absence of voluntary disclosure by companies could be attributed to the unavailability of assistance and pressure from any stakeholders, the secretive culture of the country and the disinclination of company to depict a definite Islamic image (Maali et al., 2006; Haniffa&Hudaib, 2007; Al-Shammari, 2013; Azmi et al., 2016).

Regression Test

This research uses panel (pooled) data, because there are multiple individual and years. Based on Chow test, Hausman test, and Breusch-Pagan LM, we use ordinary least square (OLS) to decide the acceptance or rejection of our hypothesis.

Classic Assumptions Test

We conduct classic assumption tests to make sure that our regression is BLUE (Best Linear Unbias Estimator). Based on table 4, multicollinearity diagnostics concluded that there is no multicollinearity between independent variables in our model. SIZE has the highest tolerance value for 0.984 and followed by PROFIT (0.879), LEV (0.856) and MCEO (0.780), respectively. The highest variance inflation factor (VIF) was MCEO (1.283) and followed by LEV (1.168), PROFIT (1.137), and for the last was SIZE (1.017). In general, the appropriate tolerance value should be higher than 0,1 and for the VIF value should be lower than 10.

Table 4 Multicollinearity Diagnostics Result

Variables	Tolerance	VIF	
MCEO	.780	1.283	
SIZE	.984	1.017	
LEV	.856	1.168	
PROFIT	.879	1.137	

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 $^{^{2}}$ Law No. 23 year 1997; Law No. 40 year 2007; Law No. 32 year 2009; Government Act No. 47 year 2012

In addition, we used Breusch-Pagan-Godfrey to test this assumption. The probability chi-square on scaled explained SS shows more than alpha (0.05). The results suppose that the regression model is free of heteroskedasticity, so we could continue for the next phase.

Hypothesis Analysis and Discussion

The aim of this study is to exercise whether Muslim CEO has a significant relationship with ISR disclosure. Table 6 presents information about the regression result based on our model. The result shows that the coefficient on MCEO is positive and significant at the 5% level (0.025999 with t = 1.887676 and probability value = 0.0313). It demonstrates that Muslim CEO has a positive and significant effect on ISR disclosure. Thus, it was support our hypothesis that the presence of a Muslim CEOs leads to enhanced ISR disclosure.

The CEO as the main part of the boards of directors is a leader in the company and charged for making strategic decisions and adjust their tactical purposes. Our resultpresents supporting evidence that Muslim CEO plays a vital task in forming company's decisions with the implementation of ISR activities. More precisely, this studyenhance prior studies emphasizing the need of religion in affecting corporate social responsibility disclosure (Othman & Thani, 2010; Mutalib et al., 2017; Alazzani et al., 2019).

The Islamic principles of *khalifah* and *ukhuwah*initiate the question if the Muslim leaders in the corporate board may reinforce the attention and engagement of ISR disclosure. Moreover, with the attention on the concept of sustainable development, investors are examining for socially responsible investments (Mutalib et al., 2017). Additionally, with regard to attract such investments, company should identify factors that may improve ISR engagement and reporting, thus may be able to attract investments from the ethical investors.

Table 5 HypothesisTest Result

Dependent Variable

Variable	Coefficient	t-Statistic	Prob.
MCEO	0.025999	1.887676	0.0313**
SIZE	0.004444	2.847722	0.0028***
LEV	0.019840	2.194517	0.0155**
PROFIT	-0.139234	-2.135926	0.0178**
C	0.592811	12.59638	0.0000***
Adjusted R-squared	0.201211		
Prob (F-statistic)	0.000112		
N	90		
***	Significant at 1%		
**	Significant at 5%		

Referring to SIZE, LEV, and PROFIT as control variables, our findings show that larger company size (SIZE) as therisk (LEV) and profitability (PROFIT) are effected to higher ISR disclosure scoressignificantly. Although size and risk show the predicted positive direction, firm profitability has a negative effect on ISR disclosure, contrary to predictions. According to Velte& Dienes (2016) who studied Germany companies, the argumentation for that disparity from prior analysis has three reasons.

Indonesia has a two-tier corporate mechanism, so it could be the first reason why the result shows negative effects. Indonesian corporate governance mechanism is characterized as being broadly stable, such as, in terms of many regulations, profitable companies are expected to supervise their social responsibility activities and are likely to produce high quality CSR reports. Therefore, ISR could decrease as company profit increases.

As for the second reason, it is declared that companies engage in ISR reporting in consideration of costs and benefits. In regard toprofitable companies, the costs could exceed the benefits, and consequently the issuance of a high-quality ISR report would not be necessary from their perspective. And for the last reason is taken from the perspective of resourced-based theory. It could be the fact that profitable companies previously have access to numerous resources (society or environmental), so for that reason, high-quality ISR reports is unnecessary as it was used to earnparticular access. In these circumstances, when company profits are maximizes, the disclosure of high-quality ISR reports is minimizes.

The results of this study also confirm the concept of social accountability in Islamic perspective as for the Muslim themself. ISR provides the Muslim to elaborate their duty in a company, especially in social responsibility and to meet the stakeholder interest. It also support the statement that companies claiming to be sharia-compliant do adhere to superior good conduct standards, and the disclosure quality of their reporting is quite high.

CONCLUSION, LIMITATION AND SUGGESTION

Conclusion

The concern from practice and academia on a global scale, especially in emerging markets, for instance, Indonesia, has been attracted by ISR. In acknowledge to this phenomena, the study aims to provide and assess the determinants of ISR disclosure empirically from another perspective of corporate governance mechanism-board's religion (Muslim CEO). This study employed a sample of 90 listed firm-year observations in JII for 2016-2018. The study found that the presence of Muslim CEO in company has a high level of ISR disclosurerelatively. This result express that ISR practice is significantly prompted by the governance mechanism and indicates that religion can play an effective role in Indonesian corporate governance.

Limitation

Several limitations were subjected by this research. First, our study only focuses on CEO attributes, while Indonesia has a two-tier corporate governance system. Furthermore, the information disclosed in the annual reports of the company may not seize all features of its ISR affairs.

Suggestion

We suggest for the next research to considering the role of both level, the board of directors and board of commissioners and taking a web-intensive approach to assess the ISR information disclosedmay be the solution for the future research

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APPENDIX 1 ISR DISCLOSURE INDEX

Cons	structs	Items	
Islamic	Riba	Financial transaction through Isalmic Financial Institutes	
Principles		Interest-free basis (riba-prohibited) business transactions	
		Preferred Sharia compliance firms over traditional firms in business dealing	
	Zakat	Payment of zakat (Islamic tax) through banks	
		Consideration of zakat as instrument for equal wealth distribution Zakat payment on due dates	
	Mafsadah	Accountability concept based on responsibility towards religion	
		Activities to supports society welfare	
		Exclude dealings with prohibited activities such as alcohol, pork, or armaments	
Conventional	Customer	Policy for customer safety and confidentiality	
CSR		Effort to understand customer needs	
		Established procedure to comply with customer complaints	
	Environment	Reduction in consumption of natural resources	
		Renewable energy in a productive process	
		Investment and communication of environmental practices	
	Economic	Policies for long-term success and survival of shareholders	
		Shareholder engagement in business operations	
		Cost control policies and procedures	
	Employee	Health and safety policy	
		Training and career development opportunity	
		Fair treatment to employee	
	Society	Concerned with improving the general wellbeing of society	
		Philanthropy, contributing to causes such as art, education and social services	
		Budget allocation to donations and social work favouring the deprived	

Source: Zaman et al. (2018)