MUSLIM CEO AND ISLAMIC SOCIAL REPORTING DISCLOSURE: EVIDENCE FROM INDONESIA

Dian Yuni Anggraeni1*
Rayna Kartika2
Yuskar3
1,2,3Universitas Andalas
*dianyuni@eb.unand.ac.id

Abstract
The determinants of Corporate Social Responsibility (CSR) activities remain unclear whereas it has been captivating attention both from practice and academia. The vicegerency (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 CEO on 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 CEO and 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 komitmenya 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.
INTRODUCTION

Corporate Social Responsibility, or called by CSR, carries on how the environment, 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 in company’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 Judgment. 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.

---

1 Al-Qur’an surah Al-Baqarah: 30; Al-An’am: 165; Fathir: 39; Yunus: 14; An-Naml: 62
Coined 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 affecting the 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 paper sought 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 have 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 their ISR engagement.

This study focuses on Indonesia, an outstanding Islamic financial market. We believe that to examine those 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 Muslim CEO 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’Dwyer, 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 counterpart and 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 *ukhvwah* (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 kindness, 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 mafsadaah. 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 to reducing 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 mafsadaah as any destructive activity that set society at risk within the neglection 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 mafsadaah, 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).

| 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:

\[
\text{ISR}_{it} = \beta_0 + \beta_1 \text{MCEO}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{LEV}_{it} + \beta_4 \text{PROFIT}_{it} + \epsilon_{it}
\]

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 involves several 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

| 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 Rupiah) | 90 | 1,047   | 36,699,526 | 7,540,097 | 8,113,517 |
| 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 activities.

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.

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

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 result presents supporting evidence that Muslim CEO plays a vital task in forming company’s decisions with the implementation of ISR activities. More precisely, this study enhances 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

| Hypothesis Test 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   | -2.315296       | 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 score significantly. 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.
Muslim CEO and Islamic Social Reporting Disclosure: Evidence From Indonesia

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 to profitable 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 resource-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 earn particular 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 disclosure relatively. 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 disclosed may be the solution for the future research.
REFERENCES

Adams, R., Almeida, H. & Ferreira, D. (2005). Powerful CEOs and Their Impact on Corporate Performance. *Review of Finance Study*. 18, 1403–1432.

Alazzani, Abdulsamad, et al. (2019). Muslim CEO, Women on Boards and Corporate Social Reporting: Some Evidence from Malaysia. *Journal of Islamic Accounting and Business Research*, Vol. 10, No. 2.

Albassam, W. (2014). *Corporate Governance, Voluntary Disclosure and Financial Performance: An Empirical Analysis of Saudi Listed Firms Using a Mixed-Methods Research Design*. PhD thesis, University of Glasgow.

Alfraih, M., & Almutawa, A. (2017). Voluntary Disclosure and Corporate Governance: Empirical Evidence from Kuwait. *International Journal of Law and Management*, 59(2), 217-236.

Al-Shammari, Bader (2013). An investigation of voluntary disclosure by Kuwaiti Shariah-compliant companies, *Journal of Economic and Administrative Sciences, Emerald Group Publishing*, vol. 29(1), pages 21-41, May.

Ammer, M.A and A.M. Alsaahlawi. (2019). An Empirical Investigation into the Impact of Shari’ah-Compliant Status and Muslim Directorship on the Accuracy of IPO Management Earnings Forecasts. *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 12, No. 1.

Annuar, H.A., Sulaiman, M. & Nik Ahmad, N.N. (2009). Some Evidence of Environmental Reporting by Shari’ah Compliant Companies in Malaysia. *IIUM Journal of Economics and Management*, Vol. 17 No. 2, pp. 177-208.

Arslan, M. (2001). The Work Ethic Values of Protestant British, Catholic Irish and Muslim Turkish Managers. *Journal of Business Ethics*, Vol. 31 No. 4, pp. 321–339.

Azmi, Anna Che et al. (2016). Sharia Disclosure: An exploratory study from the perspective of Sharia-compliant companies and professional users. *Journals of Islamic Accounting and Business Research*, Vol. 7, No. 3, 237-252.

Baydoun, N. & Willet, R. (2000). Islamic Corporate Reports. *Abacus*, Vol. 36 No. 1, pp. 71-90.

Belal, A.R., Abdelsalame, O. & Nizamee, S.S. (2015). Ethical Reporting in Islamic Bank Bangladesh Limited (1983-2010). *Journal of Business Ethics*, Vol. 129 No. 4, pp. 769-784.

Carter, D. A., Simkins, B. J. & Simpson, W. G. (2003). Corporate Governance, Board Diversity, And Firm Value. *Financial Review*, 38, 33-53.

Clarkson, M.B. (1995). A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance. *Academy of Management Review*, Vol. 20 No. 1, pp. 92-117.

Dusuki, A.W. (2008). What Does Islam Say about Corporate Social Responsibility? *Review of Islamic Economics*, Vol. 12 No. 1, pp. 5-28.

Dyreng, S. D., Mayhew, W. J. & Williams, C. D. (2012). Religious Social Norms and Corporate Financial Reporting. *Journal of Business, Finance, and Accounting*, 39, 845–75.

Farooq, O. & AbdelBari, A. (2015). Earnings Management Behaviour of Shariah-Compliant Firms and Non-Shariah-Compliant Firms: Evidence from the MENA Region. *Journal of Islamic Accounting and Business Research*, Vol. 6 No. 2, pp. 173-188.
Fitria, S. & Hartanti, D. (2010). Islam dan Tanggung Jawab Sosial: Studi Perbandingan Pengungkapan Berdasarkan Global Reporting Initiative Indeks dan Islamic Social Reporting Indeks. in Simposium Nasional Akuntasi XIII, Universitas Jenderal Soedirman, Purwokerto, pp. 1-33.

Grullon, G., Kanatas, G. & Weston, J. (2010) Religion and Corporate (Mis)Behavior, Working paper, Rice University, Houston, Texas.

Guiso, L., Sapienza, P., & Zingales, L. (2003). People's Opium? Religion and Economic Attitudes. *Journal of Monetary Economics*. 50, 225–282.

Hambrick, D.C. & Mason, P.A. (1984). Upper echelons: The Organization as a Reflection of Its Top Managers. *Academic Management Review*. 9 (2), 193–206.

Haniffa, R. (2002). Social Reporting Disclosure— an Islamic Perspective. *Indonesian Management and Accounting Research*, Vol. 1 No. 2, pp. 128-146.

Haniffa, R. and Hudaib, M. (2007). Exploring the Ethical Identity of Islamic Banks Via Communication in Annual Reports. *Journal of Business Ethics*, Vol. 76 No. 1, pp. 97-116.

Hassan, Rohail & Maran Marimuthu. (2018). Bridging and Bonding: Having a Muslim Diversity on Corporate Boards and Firm Performance. *Journal of Islamic Accounting and Business Research*.

Hilary, G. & Hui, K. W. (2009) Does Religion Matter in Corporate Decision Making in America? *Journal of Financial Economics*, 93, 455–73.

Hooy, Chee-Wooi & Ruhani Ali. (2017). Does a Moslem CEO Matter in Shariah Compliant Companies? Evidence from Malaysia. *Pasific Basin Finance Journal*, Vol. 42.

Jain, T. & Jamali, D. (2016). Looking Inside the Black Box: The Effect of Corporate Governance on Corporate Social Responsibility. *Corporate Governance: An International Review*, Vol. 24 No. 3, pp. 253-273.

Jamali, D., Karam, C., Yin, J. & Soundararajan, V. (2017). CSR Logics in Developing Countries: Translation, Adaptation and Stalled Development. *Journal of World Business*, Vol. 52 No. 3, pp. 343-359.

Jannah, A. M. R., and Asrori, A. (2016). Pengaruh GCG, Size, Jenis Produk dan Kepemilikan Saham Publik Terhadap Pengungkapan ISR. *Accounting Analysis Journal*, 5(1).

Jensen, M., Meckling, W. (1976). Theory of the Firm: Managerial Behaviour, Agency Costs, and Ownership Structure. *Journal of Finance and Economics*, 3, 305–360.

Jiang, G. et al. (2015). Family-Firm Risk-Taking: Does Religious Matter? *Journal of Corporate Finance*, 33, 260–278.

Kanagaretnam, K., Lobo, G.J. & Wang, C. (2015). Religiosity and Earnings Management: International Evidence from the Banking Industry. *Journal of Business Ethics*, Vol. 132 No. 2, pp. 277-296.

Katmon, Noorasiah et al. (2017). Comprehensive Board Diversity and Quality of Corporate Social Responsibility Disclosure: Evidence from an Emerging Market. *Journal of Business Ethics*.

Khan, M. & Karim, N. (2010). Corporate Social Responsibility: Contemporary Thought and Islamic Perspectives. Thoughts on Economics.

KPMG. (2017). KPMG Survey of Corporate Responsibility Reporting 2015. The Road Ahead.
Li, Changhong et al. (2019). Religious Beliefs Socially Responsible Investment, and Cost of Debt: Evidence from Entrepreneurial Firms in India. Emerging Markets Review, Vol. 38, 102-114.

Maali, B., Casson, P. & Napier, C. (2006). Social Reporting by Islamic Banks. ABACUS, Vol. 42 No. 2, pp. 266-289.

McGuire, S.T., Omer, T.C. & Sharp, N.Y. (2012). The Impact of Religion on Financial Reporting Irregularities. Accounting Review, Vol. 87 No. 2, pp. 645-673.

Mohsin, M. (2013). Potential of Zakat in Eliminating Riba and Eradicating Poverty in Muslim Countries. European Journal of Business and Management, Vol. 5 No. 11, pp. 114-126.

Mukhazir, M.R.M., Muhamad, R. & Noordin, K. (2006). Corporate Social Responsibility Disclosure: A Tawhidic Approach. JurnalSyariah, Vol. 14, pp. 125-142.

Murphy, Maurice J. & Jan M. Smolarski. (2017). Religion and CSR: An Islamic “Political” Model of Corporate Governance. Business and Society.

Mutalib, HafizahAbd., Nurul Huda Yahya & SakinahTaib. (2017). Muslim Board of Directors and Corporate Social Responsibility Reporting: Evidence from Malaysia. Advanced Journal of Technical and Vocational Education, Vol. 1 (1), 203-213.

Norris, G. & O’Dwyer, B. (2004). Motivating Socially Responsive Decision Making: The Operation of Management Controls in a Socially Responsive Organisation. The British Accounting Review, Vol. 36 No. 2, pp. 173-196.

Omran, M.A. and Ramdhony, D. (2015). Theoretical Perspectives on Corporate Social Responsibility Disclosure: A Critical Review. International Journal of Accounting and Financial Reporting, Vol. 5 No. 2, pp. 38-55.

Othman, Rohana & Azlan Md. Thani. (2010). Islamic Social Reporting of Listed Companies in Malaysia. International Business and Economics Research Journal, Vol 9. No. 4.

Ousama, A. A., & Fatima, A. H. (2010). Voluntary Disclosure by Shariah Approved Companies: An Exploratory Study. Journal of Financial Reporting and Accounting, 8(1), 35–49.

Pan, X., Sha, J., Zhang, H., & Ke, W. (2014). Relationship between Corporate Social Responsibility and Financial Performance in the Mineral Industry: Evidence From Chinese Mineral Firms. Sustainability, 6, 4077–4101.

Platonova, E., Asutay, M., Dixon, R. & Mohammad, S. (2016). The Impact of Corporate Social Responsibility Disclosure on Financial Performance: Evidence from the GCC Islamic Banking Sector. Journal of Business Ethics, pp. 1-21

Sah, R.K. & Stiglitz, J. (1991). The Quality of Managers in Centralized Versus Decentralized Organizations. Quality Journal of Economics. 106, 289–295.

Saringat, S.M., Haron, R. and Tahir, H.H.M. (2013). Income Smoothing and Islam: An Evidence from Malaysian Shariah Compliant Companies. International Journal of Social Science and Humanity, Vol. 3 No. 2.

Shaharuddin, A. (2010). Maslahah-Mafasadah Approach in Assessing the Shari’ah Compliance of Islamic Banking Products. International Journal of Business and Social Science, Vol. 1 No 1.

Su, Kun. (2019). Does Religion Benefit Corporate Social Responsibility (CSR)? Evidence from China. Corporate Social Responsibility and Environmental Management, 1-16.
Sunarsih, Uun & Ferdiyansyah. (2017). Determinants of the Islamic Social Reporting Disclosure. Al-Iqtishod: Journal of Islamic Economics, Vol. 9 (1), 69-80.

Ting, P., & Yin, H. (2018). How Do Corporate Social Responsibility Activities Affect Performance? The Role of Excess Control Right. Corporate Social Responsibility and Environmental Management, 25(6), 1320–1331.

Ullah, S., Jamali, D. & Harwood, I.A. (2014). Socially Responsible Investment: Insights from Shari’a Departments in Islamic Financial Institutions. Business Ethics: A European Review, Vol. 23 No. 2, pp. 218-233.

Velte, Patrick & Dominik Dienes. (2016). The Impact of Supervisory Board Composition on CSR Reporting. Evidence from the German Two-Tier System. Sustainability, Vol. 8, No 63.

Wali, H.N. (2013). Utilization of Zakat and Islamic Endowment Funds for Poverty Reduction: A Case Study of Zakat and Hubsi Commission, Kano State-Nigeria. Journal of Economics and Sustainable Development, Vol. 4 No. 18, pp. 141-147.

Welford, R. (2007). Corporate Governance and Corporate Social Responsibility: Issues for Asia. Corporate Social Responsibility and Environmental Management, 14(1), 42-51.

Witt, M.A. and Redding, G. (2011). The Spirits of Corporate Social Responsibility: Senior Executive Perceptions of the Role of the Firm in Society in Germany, Hong Kong, Japan, South Korea and the USA. Socio-Economic Review, Vol. 10No. 1, pp. 109-134

Yang, S., Ye, H., & Zhu, Q. (2017). Do Peer Firms Affect Firm Corporate Social Responsibility? Sustainability, 9, 1–7.

Yaya, Rizal & Syahda Annisa Nurrokhmah. (2019). Islamic Social Reporting and Factors that Influence its Disclosures Practices among Companies Listed in Indonesia Sharia Stock Index. Advances in Social Science, Education and Humanities Research, Vol 353.

Yusri, A. (2015). The Economic and Social Development in Islam, Youth Foundation University, Alexandria.

Zaman, Bashid, Jamal Rodaki & Muhammad Nadeem. (2018). Religioussity and Corporate Social Responsibility Practices: Evidence from an Emerging Economy. Social Responsibility Journal, Vol. 14, No. 2, 368-395.
## APPENDIX 1 ISR DISCLOSURE INDEX

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

*Source: Zaman et al. (2018)*