



BUDIANDRU DAN REKAN  
Kantor Akuntan Publik  
REGISTERED PUBLIC ACCOUNTANT  
MANAGEMENT & TAX CONSULTANT

# ISLAMIC ECONOMIC FINANCE AND ACCOUNTING

The Research in Indonesia



DR. BUDIANDRU., AK., CA., CPA.,

2021



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Penulis:

**DR. BUDIANDRU., AK., CA., CPA.,**

ISBN : **978-623-98060-2-6**

Editor :

Ghufrani Fatiha

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Cover :

Ghufrani Fatiha

Layout :

Muhammad Dika Pratama

Penerbit :

Kantor Akuntan Publik Budiandru dan Rekan

Alamat :

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Cetakan Pertama, Agustus 2021

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## INRODUCTION

إِنَّ الْحَمْدَ لِلَّهِ , نَحْمَدُهُ وَنَسْتَعِينُ وَنَسْتَغْفِرُهُ , وَنَعُوذُ بِاللَّهِ مِنْ شُرُورِ أَنْفُسِنَا وَ مِنْ سَيِّئَاتِ أَعْمَلِنَا ,  
لَهُ , وَأَشْهَدُ أَنْ مِنْ يَدِهِ اللَّهُ فَلَا مُضِلَّ لَهُ , وَمَنْ يُضِلَّ فَلَا هَادِيَ لَهُ , وَ أَشْهَدُ أَنْ لَا إِلَهَ إِلَّا اللَّهُ وَحْدَهُ لَا شَرِيكَ  
مُحَمَّدًا عَبْدُهُ وَرَسُولُهُ.

Meaning: “All praise is due to Allah, we praise Him, ask Him for help and forgiveness, we seek refuge in Allah from the evil of ourselves and the evil of our deeds. Whoever Allah guides, no one can mislead him, and whoever Allah leads astray, no one can guide him. I testify that there is no deity worthy of worship except Allah alone, He has no partners, and I testify that the Prophet Muhammad sallallahu ‘alayhi wa sallam is His servant and Messenger.

يَا أَيُّهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ حَقَّ تَقَاتِهِ وَلَا تَمُوتُنَّ إِلَّا وَأَنتُمْ مُسْلِمُونَ

Meaning: “O you who believe! Fear Allah by truly fearing Him and do not die except except in a Muslim state. (Surat Ali ‘Imran: 102)

يَا أَيُّهَا النَّاسُ اتَّقُوا رَبَّكُمُ الَّذِي خَلَقَكُمْ مِنْ نَفْسٍ وَاحِدَةٍ وَخَلَقَ مِنْهَا زَوْجَهَا وَبَثَّ مِنْهُمَا رِجَالًا كَثِيرًا  
وَنِسَاءً وَتَقُوا اللَّهَ الَّذِي تَسَاءَلُونَ بِهِ وَالْأَرْحَامَ إِنَّ اللَّهَ كَانَ عَلَيْكُمْ رَقِيبًا

Meaning: “O people! Be fearful of your Lord who has created you from one self (Adam), and Allah has created his partner (Eve) from his (self); and from them Allah multiplied many males and females. Fear Allah in Whose Name you ask one another, and (maintain) kinship. Verily, Allah is always watching over you and watching over you. (Surat an-Nisaa’: 1)

يَا أَيُّهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَفُولُوا قَوْلًا سَدِيدًا يُصْلِحْ لَكُمْ أَعْمَالَكُمْ وَيَغْفِرْ لَكُمْ ذُنُوبَكُمْ وَمَنْ يُطِعِ اللَّهَ وَرَسُولَهُ  
فَقَدْ فَازَ فَوْزًا عَظِيمًا

Meaning: “O you who believe! Fear Allah and speak the truth, Allah will correct your deeds and forgive your sins. And whoever obeys Allah and His Messenger, then indeed he wins with a great victory. (Surat al-Ahzaab, 70-71).

فَإِنَّ أَصْدَقَ الْحَدِيثِ كِتَابُ اللَّهِ وَخَيْرُ الْهُدَى هُدَى مُحَمَّدٍ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ وَشَرُّ الْأُمُورِ مُحَدَّثَاتُهَا وَكُلُّ مُحَدَّثَةٍ بِشُعَةٍ وَكُلُّ بِشُعَةٍ ضَلَالَةٌ وَكُلُّ ضَلَالَةٍ فِي النَّارِ

Meaning: “Verily, the words are the Book of Allah (Al-Qur’an) and the best guidance is the guidance of Muhammad salallahu ‘alahiwasalam (As-Sunnah). The worst of things are things that are fabricated (in religion), everything that is fabricated (in religion) is a heresy, every heresy is a misguidance, and every error has its place in Hell.

Alhamdulillahirobbiralamin, all praise and gratitude is only for the presence of Allah SWT who has given the author His grace and guidance. It is only because of Allah’s grace that the author was given the opportunity to complete these books, entitled “Islamic Economic Finance, and Accounting” Research in Indonesia.”

This book is based on the results of our latest research, related to Islamic Financial Economics and Accounting. Our contribution is to provide scientific learning about economics and muamalah from the latest Islamic perspective to readers, especially academics, practitioners, governments and researchers.

We compiled and rearranged the results of these studies into this books, which we hope can be useful for readers and writers.

Jakarta, 09 Agust 2021

Budiandru

## **Profile Writer**

### **Dr. Budiandru. Ak. CA. CPI.,CPA.,-**

#### **Education**

- Started his undergraduate education at PT Muhammadiyah Jakarta majoring in Accounting Economics (S.E)
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- Education of Certified Professional Investigator (CPI), from the Indonesian Institute of Certified Public Accountants (IAPI) with member of IFAC (International Federation of Accountants)
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## **Economic Turmoil in Islamic Banking Investment**

### **ABSTRACT**

Investment financing is one of the operational activities of Islamic banking to encourage the real sector. This study aims to analyze the effect of economic turmoil on investment financing, analyze the response to investment financing, and analyze each variable's contribution in explaining the diversity of investment financing. This study uses monthly time series data from 2009 to 2020 using the Vector Error Correction Model (VECM) analysis. The results show that the exchange rate, inflation, and interest rates significantly affect Islamic banking investment financing in the long term. The response to investment financing is the fastest to achieve stability when it responds to shocks to the composite stock price index. The most significant contribution to explaining diversity in investment financing comes from inflation. Islamic banking can increase the proportion of funding for investment. Increased investment financing can make customers have a larger business scale to encourage economic growth.

**Keywords:** *investment, Vector Error Correction Model, exchange rates, inflation, interest rates*

JEL Classification: *E22, G11, G24*

### **Introduction**

Banking has an important role in the framework of a country's economic development (Aluko & Ajayi, 2018; Djalilov & Piesse, 2019). This role is related to the bank's function as an intermediary institution that absorbs funds from the public and distributes them to people in need (Trimulato, 2019; Werner, 2016). Economic growth correlates with financial instruments provided by the banking sector (Aali-Bujari, Venegas-Martínez, & Pérez-Lechuga, 2017; Duican & Pop, 2015). To achieve economic growth at the desired level, the operational activities carried out by banks must encourage the business world (Donaldson & Walsh, 2015; Kodongo & Ojah, 2016; Kudrin & Gurvich, 2015).

The presence of Islamic banks is not only to provide an alternative to non-usury banking for the community but also to develop the real sector (Christanti, Wulandari, Narmaditya, & Utomo, 2017; Sofhian, 2015). This is in line with the explanation regarding Islamic banks, which are financial institutions that function to facilitate economic mechanisms in the actual industry through business activities based on sharia principles (Setyowati, Abubakar, & Rodliah, 2017). Sharia banking operational activities to encourage the business world to provide financing (Salman & Nawaz, 2018).

Based on the use and business category, Islamic banking financing is differentiated into investment financing, namely funding for the procurement of production facilities or equipment—working capital financing, namely financing for the supply of raw materials or traded goods. Consumptive financing namely intended funding for the purchase of an item that is used for individual interests.

One form of sharia banking operational activity is providing investment financing *ri* (Trisanty, 2018). Increased investment in the real sector will also encourage and boost economic growth (Nwakoby & Bernard, 2016). Investment financing is useful for people who are doing business to increase their production, for example, raw material supplies, finished material supplies, daily operational costs, and others so that they can run their business normally and smoothly (Fowowe, 2017; Liu, Zhang, Batista, & Rong, 2019; Mazzucato & Semieniuk, 2018).

The increase in investment obtained from Islamic banking will increase its production capacity and then have an impact on improving business expansion, which will create new jobs (Shawtari, Saiti, Abdul Razak, & Ariff, 2015; Tawfiqi & Hamdan, 2018; Wahyudi & Sani, 2014). Another effect is the creation of new jobs that will reduce unemployment (Pohlan, 2019). The growing number of workers will increase per capita income, improve people's purchasing power, and increase national income (Kavya & Shijin, 2020; Leimbach, Kriegler, Roming, & Schwanitz, 2017; Rothenberg et al., 2016).

Research related to economic shocks has been carried out by Pradhan and Bagchi (2013) on economic growth in India, Kuo (2016) on stock prices, Avdoulas, Bekiros, and Boubaker (2016) on capital markets in Europe, Chen, He, and Rudkin (2017) in real estate industry in China, BenSaïda, Litimi, and Abdallah (2018) on the money market, Ibrahim and Ebrahim (2018) on the Islamic capital market, Apergis, Cooray, Khraief, and Apergis, (2019) on the price of gold, Chun, Cho, and Kim (2019) on the amount of oil, and Giordano, Marinucci, and Silvestrini (2019) on the industry housing in Italy.

From the existing research, no one has examined the relation to economic shocks to investment. Therefore, this research was conducted to fill in the gaps in the study that was already done. This research aims to analyze the effect of economic turmoil on Islamic banking investment financing, analyze the response of Islamic banking investment financing to the financial crisis, and analyze the contribution of each variable in explaining the diversity of Islamic banking investment financing. This research contributes first to provide input and consideration in making decisions related to Islamic banking investment financing. Second, this research can give knowledge about the role of Islamic banking in financing investment. Third, this research can be used as a reference for conducting further research.

## **METHODS**

This study's type of data is secondary data in the form of time series data with monthly frequencies from January 2009 to March 2020. The research data comes from various publications at Bank Indonesia, the Financial Services Authority, the Central Bureau of Statistics, and the Indonesian Stock Exchange. The methods of analysis and data processing used in this research are descriptive and quantitative. A descriptive approach is used to describe the data to be used and to facilitate interpretation. The quantitative method is used to analyze the factors affecting the investment financing of Islamic banking using time series analysis. These factors include investment financing (INV), exchange rate (EXC), inflation (INFL), interest rates (RATE), Islamic stock index (JII), and the Composite Stock Price Index (IHSG).

The time-series data model is an econometric model built on existing economic theory. The estimation of this model can provide information to test existing hypotheses. However, often economic theory has not been able to determine the right specifications for the model because the current economic phenomena are too complicated. Vector Autoregressive (VAR) can be used to overcome this in time series data. The analysis tool used in this research is the Vector Autoregression (VAR) method if the data used is stationary, and there is no cointegration.

In contrast, if the data used is stable and there is cointegration, the Vector Error Correction Model (VECM) method is used. Therefore, before conducting an analysis using the VAR / VECM method, several tests are required, including the stationarity test, optimum lag test, stability test, and cointegration test, VECM estimation, Impulse Response Function (IRF), and Forecasting Error Variance

Decomposition (FEVD). The VECM model to be analyzed is a model of Islamic banking investment financing. Where  $c$  is constant,  $\alpha$  coefficient,  $t$  time, and  $n$  lag length.

$$INV_t = c + \alpha_1 EXC_{t-n} + \alpha_2 INFL_{t-n} + \alpha_3 RATE_{t-n} + \alpha_4 JII_{t-n} + \alpha_5 IHSG_{t-n} + \varepsilon_t$$

Vector Error Correction Model (VECM) is a method that functions as an approach to estimate the long-term and short-term relationships of one time-series data against other time-series data, see a shock, and analyze the variability of variables in influencing other variables. The long-term relationship can be analyzed through the cointegration equation on the VECM test results.

## RESULTS AND DISCUSSION

The stationarity test is essential when estimating models for time series data. This test is carried out to avoid spurious regression, which causes the estimation results to be incorrect because of the unit root in the variables used. The stationarity test of this research uses the Augmented-Dickey-Fuller (ADF) test and the Phillips Perron (PP) test with a critical value of 5 percent. The first stationarity test was carried out at the level. If at the level, it is known that there is a unit root in the data, then a stationarity test is carried out for the first difference. The stationarity test for the first difference was carried out by lowering the level data. The data stationarity test results (Table 1) show that all variables are stationary at the data level, except for the exchange rate variable. However, when the data were in the first difference, all variables were stationary.

Table 1  
The results of the data stationarity test

Variable	Augmented Dickey-Fuller Test		Phillips-Perron Test	
	Level	Difference	Level	Difference
EXC	0.8368	0.0128	0.8044	0.0000
INV	0.0014	0.0385	0.0091	0.0000
INFL	0.0020	0.0000	0.0014	0.0000
RATE	0.0229	0.0000	0.0180	0.0000
JII	0.0001	0.0000	0.0002	0.0000
IHSG	0.0000	0.0000	0.0001	0.0000

### Optimal Lag Test

The optimal lag test is an important step that must be done in using the VAR model. The optimal lag is intended to show how long a variable reacts to other variables and to eliminate autocorrelation problems in a VECM system. This test

(Table 2) is available in several types of information, including Akaike Information Criterion (AIC), Schwarz Criterion (SC), and Hannan-Quinn Criterion (HQ). The optimal lag test results for investment financing show that the Akaike Information Criterion (AIC), Schwarz Criterion (SC), and Hannan-Quinn Criterion (HQ) criteria are at lag 1. In this study, the optimum lag criterion used is the Schwarz Criterion (SC), which is at lag 1.

Table 2

Optimal lag test results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	1149.356	NA	4.57e-16	-18.29370	-18.15794	-18.23854
1	2023.885	1651.111	6.82e-22*	-31.71016*	-30.75985*	-31.32410*
2	2046.629	40.75675	8.47e-22	-31.49806	-29.73320	-30.78109
3	2080.307	57.11772*	8.87e-22	-31.46091	-28.88149	-30.41303
4	2098.957	29.84078	1.19e-21	-31.18332	-27.78934	-29.80452
5	2120.809	32.86473	1.54e-21	-30.95694	-26.74841	-29.24724
6	2153.183	45.58253	1.71e-21	-30.89893	-25.87584	-28.85831
7	2189.222	47.28307	1.83e-21	-30.89955	-25.06191	-28.52802
8	2213.759	29.83713	2.40e-21	-30.71614	-24.06395	-28.01371
9	2239.550	28.88603	3.19e-21	-30.55280	-23.08605	-27.51945
10	2277.479	38.83974	3.63e-21	-30.58367	-22.30237	-27.21941

\*indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

## Stability Test

The stability test is needed to obtain valid Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD) results. The modulus value of the investment financing model in this study is in the range of 0.690604-0.991763. Based on the results of the stability test of the VAR model (Table 3), it can be concluded that the VAR system is stable because all its roots are in a unit circle or have a modulus value of less than one, the VAR model is considered stable so that the resulting Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD) are considered valid.

Table 3  
Stability test results

Root	Modulus
0.991763	0.991763
0.989163	0.989163
0.864383 - 0.073770i	0.867525
0.864383 + 0.073770i	0.867525
0.811159	0.811159
0.690604	0.690604

No root lies outside the unit circle.  
VAR satisfies the stability condition.

### COINTEGRATION TEST

The cointegration test is intended to determine the presence or absence of non-stationary variables at the cointegration level. Cointegration testing in this study uses the Johansen cointegration test. Long-term information is obtained by determining the cointegration rank first. This is intended to determine the number of equations that can explain the entire existing system. The cointegration testing criteria in this study were based on the trace statistic value. Suppose the trace statistic value is higher than the critical value of five percent. In that case, the alternative hypothesis states the amount of cointegration is accepted so that the number of co-integrated equations in the system can be seen—the Johansen cointegration test results on investment financing. There are two cointegration relationships, namely when the trace statistic value is higher than the critical value. These results indicate a long-term relationship between variables in the model so that the VAR model can be combined with the Error Correction Model into a Vector Error Correction Model (Table 4).

Table 4  
The results of the cointegration Johansen Test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.354771	169.7958	117.7082	0.0000
At most 1 *	0.328951	115.4652	88.80380	0.0002
At most 2 *	0.195614	65.99998	63.87610	0.0328
At most 3	0.129467	39.00820	42.91525	0.1165
At most 4	0.118486	21.81560	25.87211	0.1474
At most 5	0.048598	6.177468	12.51798	0.4381

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level

\*denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

The exchange rate in the long term has a negative and significant effect on Islamic banking investment financing. This means that an increase in the exchange rate will reduce Islamic banking investment financing. The condition when the Rupiah exchange rate weakens can be used to boost exports as much as possible. Export-oriented business people enjoy increased exports due to low exchange rates (Aluko & Ajayi, 2018). The products they market in the global market are cheaper for products from other countries to increase sales volume (Jussani, Vasconcellos, Wright, & Grisi, 2018). Besides, if the rupiah exchange rate depreciates, the production of goods or services produced by that country will become more expensive. As a result, the demand for products or services will decrease and lead to substitutions that suppress demand. When demand decreases, producers will reduce supply and have a new balance. Reduction in supply is carried out by reducing production, which causes the economy to experience a slowdown (Kudrin & Gurvich, 2015). The need for funds for working capital and investment is reduced, which in the end is that Islamic banks experience difficulties in channeling financing (Tohirin & Husaini, 2019).

In the long run, interest rates have a positive and significant effect on Islamic banking investment financing. This means that the higher the Bank Indonesia interest rate, the higher the investment financing for Islamic banking. The Bank Indonesia interest rate is the reference interest rate for conventional banks because there is no Islamic bank reference regulation for the profit-sharing price. When interest rates rise, it will increase lending rates (Matemilola, Bany-ariffin, & Etudaiye, 2015). The quite aggressive interest rate hike has created a negative sentiment for conventional banks because high-interest rates can erode the bank's net interest margin. However, on the other hand, this condition provides fresh air for Islamic banking (Nasution & Ahmed, 2015). This is because Islamic banks do not depend on reference interest, but rather determine profit sharing based on customer portfolios. Investment financing is long-term financing, so customers prefer sharia banking that uses a profit-sharing rate of funding and has been established at the beginning of the financing agreement so that it is fixed and not floating (Sapuan, 2016; Trisanty, 2018). Increasing the level of financing profit sharing will increase the volume of financing on investment.

Table 5  
VECM estimation results

<b>Short Term</b>		
<b>Variable</b>	<b>Coefficient</b>	<b>[t-statistic]</b>
CointEq1	-0.000255	[-0.05298]
D(INV(-1))	-0.093844	[-1.02211]
D(EXC(-1))	-0.087774	[-1.58831]
D(INFL(-1))	0.181596	[0.79247]
D(RATE(-1))	0.227127	[0.43943]
D(JII(-1))	-0.074999	[-0.52786]
D(IHSG(-1))	0.093589	[0.61726]
C	0.019320	[6.94394]
<b>Long Term</b>		
EXC(-1)	-2.540463	[-2.39877]*
INFL(-1)	-20.49312	[-4.19129]*
RATE(-1)	25.44722	[2.53998]*
JII(-1)	-0.731490	[-0.45692]
IHSG(-1)	1.835033	[1.10180]

\*significant at 5%

Long-term inflation has a significant negative effect on Islamic banking investment financing. This means that the higher the inflation, the lower the Islamic banking investment financing. The negative relationship between inflation and investment financing is following the theory because when the inflation rate increases, the price of goods will increase which results in the input value of producers to swell, exacerbated by decreasing public purchasing power so that the ability of customers to carry out obligations in financing will reduce (Aysan, Disli, & Ozturk, 2018; Coibion, Gorodnichenko, Kumar, & Pedemonte, 2020; Joshi & Rahman, 2015).

Islamic banking will limit the amount of money in circulation, among others, by restricting investment financing (Alam, Akbar, Shahriar, & Elahi, 2017; Wahyudi & Sani, 2014). Inflation can be understood as an increase in the price of goods and services in a sustainable manner from year to year (Bahloul, Mroua, & Naifar, 2017). In the economic concept, the inflation rate has an essential role because it can be used as a reference for estimating the real value of the investment (Naifar, 2016). Besides, the inflation rate is also often used as a reference for calculating and predicting the amount of return required to maintain the investment standard of Islamic banking (Hossain, 2016; Sasmal, 2015).

## **Impulse Response Function (IRF)**

Impulse response function (IRF) analysis is used to see the response of a variable in the event of a shock to an endogenous variable caused by another endogenous variable within one standard deviation. This study uses thirty months to see the response and stability period of Islamic banking investment financing to shocks that occur.

Shocks from the exchange rate (EXC) of one standard deviation in the first month have not been responded to by Islamic banking investment financing. In the following month, Islamic banking investment financing began to react negatively to shocks from the exchange rate of -0.0027 percent. The shock caused a decrease in Islamic banking investment financing by 0.0027 percent, continued to be responded negatively until the end of the observation, and began to stabilize in the 18th month of -0.00181 percent. These results indicate that exchange rate shocks during 30 months caused a decline in Islamic banking investment financing by an average of 0.00182 percent.

The increase in bank interest rates was responded negatively because of concerns over the company's financial liquidity. This is, of course, related to the costs incurred and the possible systemic impact. The use of imported raw materials used by companies in managing investments provided by Islamic banking is one of the causes of the negative response by Islamic banking (Setiawan, 2018). When the price of raw materials increases due to the depreciation of the rupiah, it will reduce the use of imported raw materials so that the investment capitalization value decreases. The high exchange rate movement will raise expectations of business actors, especially those engaged in export-import (Lin, Shi, & Ye, 2018).

The uncertainty of the exchange rate will create anxiety among business actors regarding their business losses (Hossain, 2016).

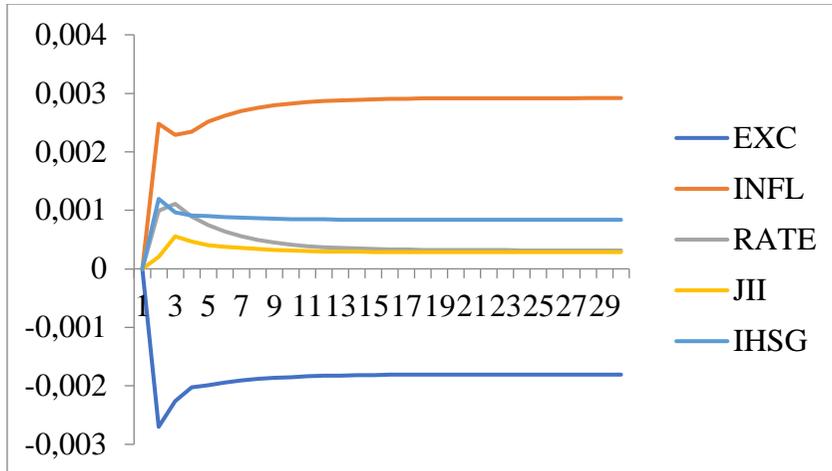


Figure 1  
Impulse response function for investment financing

Shocks from inflation (INFL) of one standard deviation in the first month have not been responded to by Islamic banking investment financing. The following month, Islamic banking investment financing began to react positively to shocks from inflation of 0.00248 percent. This shock caused an increase in Islamic banking investment financing by 0.00248 percent, continued to be responded positively until the end of the observation, and began to stabilize in the 19th month of 0.002912 percent. These results indicate that during the 30 months, the inflation shock caused an increase in Islamic banking investment financing by an average of 0.0027 percent. Inflation is often a threat to the economy. The high rate of inflation can even lead to the collapse of a country's economy (Siami-Namini & Hudson, 2019). The impact of inflation on the economy, in general, tends to be negative (Bahloul et al., 2017). Not only does it decrease the value of money, but it also affects saving and even investment (Godil, Sarwat, Sharif, & Jermisittiparsert, 2020). The hope of getting high returns, inflation risks eroding the return on investment in Islamic banking. Inflation does not always have a negative effect (Trad, Trabelsi, & Goux, 2017). There are also positives. The positive effects of inflation are felt by those who are debtors and entrepreneurs. For debtors, inflation makes money returned has a lower value than when borrowed. Meanwhile, for entrepreneurs, the existence of inflation allows them to obtain higher income than the production costs incurred (Hossain, 2016). Although it has a positive effect, in general, and in a broader scope, the negative impact of inflation tends to be more, even potentially endangering the stability of Islamic banking investment financing (Mertzanis, 2016).

Shocks of interest rates (RATE) of one standard deviation in the first month have not been responded to by Islamic banking investment financing. In the following month, Islamic banking investment financing began to react positively to shocks from the interest rate of 0.000991 percent. The shock caused an increase in Islamic banking investment financing by 0.000991 percent, continued to be responded positively until the end of the observation, and began to stabilize in the 21st month by 0.000319 percent. These results indicate that during 30 months, interest rate shocks led to an increase in Islamic banking investment financing by an average of 0.0004299 percent. The shocks that occur affect the behavior of Islamic banks in channeling their investment financing (Hamza & Saadaoui, 2018). Islamic banking tends to increase its investment financing. When viewed from the characteristics of Islamic banking, which implements a profit-sharing scheme, of course, the shock is not very visible (Abdullah, 2017). However, Islamic banking cannot be separated from interest rate risk (Louhichi & Boujelbene, 2016). This is because the market reached by Islamic banking is not only customers with high loyalty, but also those with low commitment to Islamic banking (Salman & Nawaz, 2018). When the profit-sharing rate for Islamic banking is lower than the interest rate, customers will transfer their funds from Islamic banks to conventional banks (Kabir, Worthington, & Gupta, 2015). This resulted in a reduction in investment financing carried out by Islamic banking.

Shocks from the Islamic stock index (JII) of one standard deviation in the first month have not been responded to by Islamic banking investment financing. In the following month, Islamic banking investment financing began to react positively to shocks from the Islamic stock index of 0.000205 percent. This shock caused an increase in Islamic banking investment financing by 0.000205 percent, continued to be responded positively until the end of the observation, and began to stabilize in the 19th month of 0.000284 percent. These results indicate that during 30 months, the sharia stock index shocks caused an increase in Islamic banking investment financing by an average of 0.0003021 percent. Shocks from the composite stock price index (IHSG) of one standard deviation in the first month have not been responded to by Islamic banking investment financing.

In the following month, Islamic banking investment financing began to react positively to the shock of the composite stock price index of 0.001196 percent. This shock caused an increase in Islamic banking investment financing by 0.001196 percent, continued to be responded positively until the end of the observation, and began to stabilize on the 15th month of 0.000839 percent. These results indicate that during 30 months, the interest rate shock caused an increase in Islamic banking investment financing by an average of 0.0008356 percent. The composite stock price index is an indicator that shows the movement of shares as

a whole in a period (Naifar, 2016). This index functions as an indicator of market trends, meaning that the index's progress describes market conditions at a time whether the market is active or sluggish (Godil et al., 2020).

When the value of the composite stock price index increases to a higher level, it indicates that it is active (Li, 2016). This condition is used by Islamic banking to increase the distribution of investment financing to productive sectors so that it will increase the value of investment capitalization in that sector (Bayraktar, 2014).

### **Forecast Error Variance Decomposition (FEVD)**

Forecast Error Variance Decomposition (FEVD) analysis in this study aims to explain each variable's contribution in explaining the diversity of Islamic banking investment levels. In this study, a period of 30 months was used. The FEVD results show that the most significant contribution in explaining the diversity of levels of Islamic banking investment financing comes from inflation. This indicates that inflation has the most significant contribution in causing investment financing compared to other variables. Besides, there are indications that inflation directly affects the level of Islamic banking investment financing. To a small extent, inflation also has a detrimental effect on assets. Inflation has the same impact on all types of assets, both liquid, and non-liquid. However, liquid assets tend to be more vulnerable to inflation.

If the inflation rate is high, it can cause the value of liquid assets owned by individuals and businesses to decrease, likewise, with investment. Liquid investments include stocks, bonds, and mutual funds (Cai, Zeng, Lee, & Ozkan, 2016). This investment is also influenced by inflation. It's just that these types of investments have sufficient resistance to the onslaught of inflation because they generate returns in the form of higher profit sharing. That is one of the main reasons investors put their money in stocks, bonds, and mutual funds. Investors try to keep their savings safe from the effects of inflation. So that investment is not adversely affected by inflation, the profit-sharing rate must follow and even exceed inflation so that investors can get real returns.

However, for investments with low-profit sharing, it is challenging to avoid inflation. Indeed, this does not happen in all-stock issuing companies. Therefore, Islamic banking must be observant and intelligent in reading and analyzing the company's performance that will be chosen to invest.

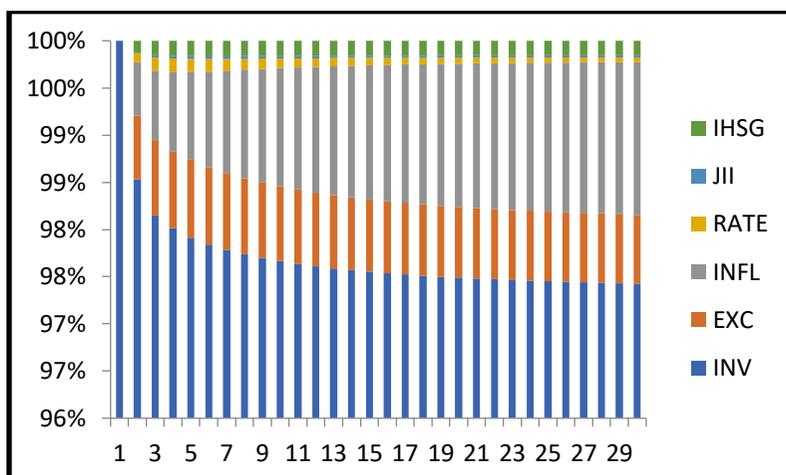


Figure 2  
Forecast error variance decomposition of investment

## CONCLUSION

This study's results indicate that none of them has an influence on investment financing in the short term. However, in the long run, the exchange rate, inflation, and interest rates have a significant impact on Islamic banking investment financing. The response of Islamic banking investment financing to shocks that arise is the fastest to reach stability when responding to shocks to the composite stock price index, exchange rates, inflation, Islamic stock index, and finally, interest rates. The variables that contribute the most to shaping the diversity of Islamic banking investment financing are inflation, exchange rates, composite stock price index, interest rate, and Islamic stock index.

This research result implies that Islamic banking should always pay attention to the movements of the exchange rate, inflation, and interest rates in determining investment financing policies and maintaining financial stability by prioritizing potential sectoral investments. Besides, Islamic banking needs to increase its role in collecting funds from the public and simplifying the procedure for submitting investment financing for consumers. The government is also expected to be careful in setting interest rates, maintain exchange rate stability and inflation, and maintain stock market conditions.

## **Islamic Social Reporting and Halal Business Performance**

### **ABSTRACT**

Islamic social reporting (ISR) is used to assess a company's social performance based on Islamic principles. Islamic social performance reports will influence investors' decisions in investing. This research was conducted to analyze what factors influence the Islamic Corporate Social Responsibility report using 44 companies in the halal industry sector, annual data from 2013-2018, and the random effect model (REM) method. Sharia Screening (SS) uses interest-based debt divided by total assets with a maximum tolerance of 45 percent, Profitability (PRV) uses the company's net profit divided by total assets (ROA), and leverage (LEV) uses total debt divided by equity (DER). The result is that sharia screening, profitability, and leverage affect ISR reporting. Increasing sharia screening and leverage will decrease ISR reporting, while increasing profitability will increase ISR reporting. Thus, the increase and decrease in this variable affects the company's decision to report the ISR. Therefore, companies must improve their financial performance to improve corporate social responsibility disclosure quality, which is very important for stakeholders in investing.

**Keywords:** Islamic Social Reporting, Random Effect Model, Sharia Screening, Profitability, Leverage

### **INTRODUCTION**

In addition to providing information about financial statements, companies are also required to give information on a company's social activities (Chen, Hung, & Wang, 2018; Dagilienė, 2013; Leitonienė & Sapkauskienė, 2015). This is a form of corporate responsibility in voluntarily disclosing its responsibility for the environment (Nazari, Hrazdil, & Mahmoudian, 2017; Zheng & Ren, 2019). Information regarding corporate social responsibility (CSR) is made in a single annual report or separate report. (Wuttichindanon, 2017). The company's annual report reflects social responsibility which includes the field of business activities carried out and the natural resources used so that it is necessary to carry out social responsibility (Boubakary & Moskolai, 2016; Castejón & López, 2016;

Sanclemente-Téllez, 2017). Otherwise, they will be subject to sanctions following statutory provisions. With this, companies are increasingly encouraged to report their CSR activities.

The number of companies that disclose CSR information in financial statements from year to year is increasing. Many companies are starting to realize that the implementation of CSR programs can be used as a business strategy in the company (Gorski, Fuciu, & Croitor, 2014; Šontaitė-Petkevičienė, 2015). Investors from various organizations and officials from each company make CSR an important consideration in making decisions (Frederiksen, 2018; Gras-Gil, Manzano, & Fernández, 2016). CSR activities carried out by the company can show that the company is also concerned with the environment and the welfare of the surrounding community and its employees' wellbeing (Rodriguez-Fernandez, 2016; Sarkis & Daou, 2013). Furthermore, it can improve organizational accountability, corporate image, and provide information to investors where there is a social contract between the organization and the community. (Dyck, Lins, Roth, & Wagner, 2019; Sila & Cek, 2017).

Information about CSR in Islamic economics can increase investor attention to Islamic institutions or institutions (Zain, Darus, & Ramli, 2015). In Indonesia, more and more companies are based on Sharia; this proves that the Islamic Economy is experiencing rapid development. To fulfill sharia-based reporting, Muslims began to develop corporate social responsibility reporting by sharia principles, also known as Islamic Social Reporting (ISR). ISR disclosure is a refinement of CSR disclosure, which adds some items not included in Islamic social reporting disclosures. The development of companies that disclose CSR information also increases public attention towards Islamic institutions or institutions. The capital market as an institution and profession related to securities, in this case, is the Islamic capital market having an essential role in increasing the market share of Islamic securities in companies wishing to participate in the Islamic capital market.

Research using ISR as a benchmark for CSR has been carried out by Khairiyani and Mubyarto (2019), Hadinata (2019), Rizfani and Lubis (2019), Mubarak (2019), Adlan and Mawardi (2018), Pratama, Muchlis, and Wahyuni (2018),

Cahya (2018), Prasetyoningrum (2018), Santoso and Dhiyaul-Haq (2017), Sulistyawati and Yuliani (2017). From previous studies, there is still no specific research in the halal industry sector. So this research to analyze what factors influence CSR in the industrial area. This research contributes, first adding a new perspective on CSR factors in the halal industry sector. Second, decision making in investing for policymakers. Third, enrich the CSR literature.

## **LITERATURE REVIEW**

Islamic Social Reporting (ISR) indicators are adopted from corporate social performance reporting based on Islamic principles. This indicator was developed from the accounting reporting standards issued by the Accounting and Auditing Organization for Islamic financial institutions (AAOIFI). Specifically, this indicator is an extension of the social performance reporting standard which includes public expectations regarding the company's role in the economy and the spiritual (Indrawaty & Wardayati, 2016). In addition, it emphasizes social justice for the environment, minority rights, and employees.

Research related to ISR has been conducted by Khairiyani and Mubyarto (2019). They analyzed the influence of Islamic Corporate Social Responsibility (ICSR) on the company's financial performance on the Jakarta Islamic Index (JII). ICSR is measured using indicators of product, community, service, investment, product, environment, employees, and corporate governance. Financial performance using return on equity and return on assets. The results showed that ICSR was able to improve the business performance of JII companies.

Hadinata (2019) analyzes the effect of ISR on financial performance. Financial performance indicators use the ratio of profit sharing and return on assets. This study used seven Islamic banks during the period 2011-2016 with 42 observations. The results showed that the ISR harms both returns on assets and profit-sharing ratios. Rizfani and Lubis (2019) analyzed the social responsibility disclosure factors of Islamic companies using the company's annual report in the Jakarta Islamic Index from 2012 to 2015. The research results showed that company size has a positive effect while leverage and company age have a negative effect. The profitability and the number of commissioners had no effect.

Mubarok (2019) analyzes the ISR disclosure and its impact on profitability at Indonesian Sharia Commercial Banks. The research results show that Good Corporate Governance (GCG) affects the ISR, financial factors have a positive effect on ISR, GCG is detrimental to profitability, economic factors have a positive effect on profitability, ISR affects profitability, and ISR mediates the relationship between GCG and financial factors with profitability. Adlan and Mawardi (2018) analyze interest-based debt restrictions and non-halal income restrictions on company value in companies in the Jakarta Islamic Index for the 2013-2018 period. The research results show that interest-based debt and non-halal income do not partially or simultaneously affect firm value.

Pratama, Muchlis, and Wahyuni (2018) analyzed the factors that affect the level of social responsibility disclosure using Islamic Social Reporting (ISR) on 11 Islamic commercial banks during 2013-2016. The research results show that leverage, institutional ownership, bank size, and profitability affect the level of ISR disclosure. The moderation test is only institutional ownership, profitability, and leverage, which are moderated by independent commissioners in carrying out ISR disclosures.

Cahya (2018) analyzes the presentation of sharia-based accountability to corporate stakeholders in the concept of Islamic Social Reporting (ISR) as an effort to provide relevant information following the spiritual needs of users of financial statements. The research results provide evidence that accountability is essential to make responsive attitudes towards the entity obtained and realize that there must be an attitude of responsibility that must be done. The application of ISR as a form of accountability is based on principles and philosophy based on the Al Quran and Sunnah as guidelines in carrying out various life activities. Therefore, the implementation of ISR which is based on spiritual and intellectual elements is believed to be able to solve and overcome social problems, both within the company and in the community, especially for the empowerment of the community's economy.

Prasetyoningrum (2018) analyzes the factors that influence the disclosure of CSR reporting in Islamic banking in Indonesia. The results showed that company size, profitability, leverage, and cost efficiency did not affect ISR, while its age factor statistically affected ISR. Santoso and Dhiyaul-Haq (2017) analyzed the

factors that influence ISR in Islamic banking in Indonesia using rewards, profitability, and ownership types. Profitability using return on assets, grants are identified with multiple CSR performance awards over a period of one year. Types of ownership are classified into four, namely family, government, institutional and foreign ownership. The research results show that profitability, rewards, and type of property do not affect the ISR disclosure.

Sulistyawati and Yuliani (2017) analyzed profitability, company size, board of commissioners, and leverage on ISR. The results showed that the board of commissioners had a significant and positive effect on ISR, while leverage and profitability had no effect. Handayani (2017) analyzes the extent to which Islamic Social Reporting (ISR) is practiced by Islamic banks in Malaysia and examines the ISR factors that are most often disclosed in annual reports. This study uses 10 Islamic banks in Malaysia as the research sample. The results showed that the average level of ISR disclosure of Islamic banks in Malaysia was 32.81% and the one with the highest exposure level was the public with 10.77%.

Kurniawati and Yaya (2017) analyzed the effect of the number of audit committees, boards of commissioners, environmental performance, and profitability on Islamic Social Reporting (ISR) during 2011 to 2015 in 31 companies. The research results show that profitability, board size, and environmental performance have a positive effect on ISR disclosure. On the other hand, the audit committee and the board of commissioners have no effect. Widayati and Sukmana (2017) analyzed the differences in the level of disclosure of Islamic Social Reporting (ISR) in Islamic banking in Indonesia and Malaysia based on the ISR indicator. The research results show that the level of ISR exposure of Islamic banking in Indonesia is better than the level of ISR disclosure of Islamic banking in Malaysia. Other results show that there is a significant difference in the level of exposure between Islamic banking in Indonesia and Malaysia.

Darus et al. (2014) analyzed the ISR of Islamic commercial banks in Indonesia from 2007 to 2011. The results showed that only two banks experienced an increase in ISR disclosure continuously. These results also reveal that the highest exposure is the company's vision, the board of directors, and top management. At the same time, the lowest disclosures are product, environment, agreement and

service. Mallin, Farag, and Ow-Yong (2014) analyzed the relationship between corporate social responsibility (CSR) and the financial performance of Islamic banks using the ISR indicator which includes ten dimensions with a sample of 90 Islamic banks in 13 countries. The ISR indicator shows that Islamic banks are involved in various social activities. There is a positive relationship between ISR disclosure and financial performance. Thus, ISR exposure is determined by financial performance. El-Halaby and Hussainey (2015) analyzed the ISR disclosure factors for Islamic banks in 25 countries. The results found a low disclosure rate of 26%. In addition, there is a positive relationship between the ISR level and accounting standards, the type of auditor, the size of the bank, and the existence of the sharia audit department.

## **METHOD**

This study uses annual data from the company's financial statements from 2013 to 2018, consisting of 44 companies engaged in the halal industry sector. This study uses a panel data approach that combines time-series data and crosses sections.

$$ISR_{it} = \alpha_0 + \beta_1 SS_{it} + \beta_2 PRV_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$$

Where  $i$  represents the company, and  $t$  represents time. The data used in this study are Corporate Social Responsibility (CSR) using Islamic Social Reporting (ISR) indicators cover underlying philosophy and values, management profile, interest-free and Islamically acceptable deals, development and social goals, employees, debtors, community, environment, shariah supervisory, wellbeing. Sharia Screening (SS) using interest-based debt compared to total assets with a maximum tolerance limit of 45 percent, Profitability (PRV) using the return on assets (ROA) where the company's net profit is divided by total assets, and leverage (LEV) uses debt to equity ratio (DER) where total debt is divided by equity.

In resolving using panel data, several stages are carried out, starting with the classical assumption testing, including the autocorrelation test, the multicollinearity test data, the data normality test, and the heteroscedasticity test data. A normality test is conducted to test whether the standardized residual values in the regression model are normally distributed or not. The heteroscedasticity test

aims to test whether, in the former model, there is an inequality of variance from the residual regression model. The multicollinearity test seeks to check whether there is a high or perfect correlation between the independent variables in the regression model formed. The autocorrelation test aims to determine whether there is a correlation between members of a series of observational data ordered by time or space. After examination, the conventional assumptions proceed with selecting the best model out of 3 trials, including random effect models, fixed-effect models, and pooled least square models.

## **RESULT AND DISCUSSION**

Before testing the results to answer the study's objectives, examining the classical assumptions, based on the normality test histogram, it can be seen that the probability of Jarque-Bera  $> 0.05$  ( $0.600756 > 0.05$ ) so that the data in this study have been distributed normally.

Table 1  
Data Normality Test Results

Indicator	Result
Mean	-3.77e-16
Median	.032759
Maximum	.421115
Minimum	-.353119
Std. Dev.	.203282
Skewness	.040511
Kurtosis	2.290773
Jarque-Bera	1.019134
Probability	0.600756

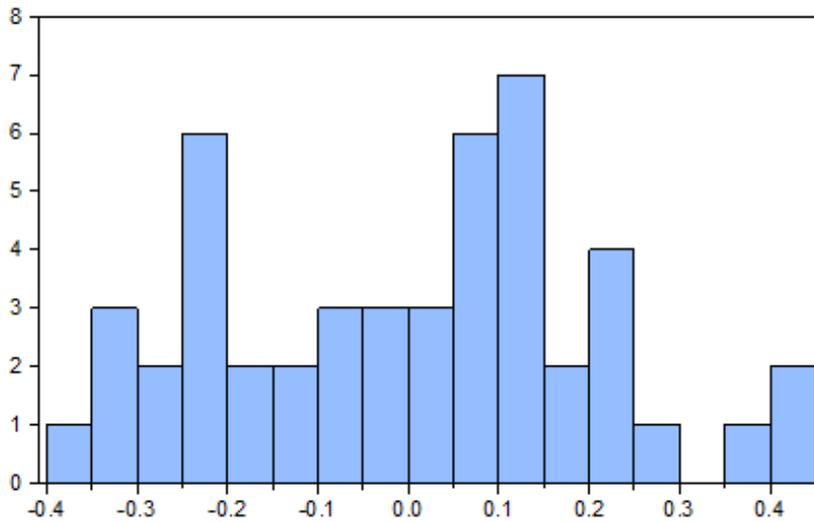


Figure 1  
Data Normality Test Results (Histogram)

The multicollinearity test results use the value of Centered VIF, where the importance of all variables is smaller than the tolerance limit set, i.e., 10. Thus, the data used do not contain symptoms of multicollinearity.

Table 2  
Multicollinearity Test Results

Variable	Coefficient Variance	Centered VIF
CSR	2.546668	1.039800
HLS	2.480050	1.048778
PRV	0.269971	1.064200
LEV	7.800342	1.017449

Heteroscedasticity test results using the Breusch-Pagan-Godfrey test obtained  $Obs \cdot R^2$  value of 17.69433 with a probability of 0.2305. This result shows that the probability > level of significance ( $\alpha = 5\%$ ). This means that residuals have a homogeneous variety. Thus, the variables used do not contain heteroscedasticity.

Table 3  
Heteroscedasticity Test Results

F-statistic	8.563309	Prob. F(3,44)	0.2101
Obs*R-squared	17.69433	Prob. Chi-Square(3)	0.2305
Scaled explained SS	9.595706	Prob. Chi-Square(3)	0.2223

The autocorrelation test using the Lagrange multiplier is obtained from the Obs\*R<sup>2</sup> value of 23.49744 with a probability of 0.5470. This result means the probability is more than the real level used (level  $\alpha = 5\%$ ). Thus, residual observations do not correlate with each other, so the variables do not contain autocorrelation.

Table 4  
Autocorrelation Test Results

F-statistic	20.13856	Prob. F(2,42)	0.6320
Obs*R-squared	23.49744	Prob. Chi-Square(2)	0.5470

After testing the classical assumptions, select the best model by conducting a Hausman test and chow test. The model chosen from the panel data used is the random effect model, evidenced by the probability  $> 0.05$  in the chow test and the Hausman test ( $1,0000 > 0.05$ ).

Table 5  
Selection of the Best Model

Chow Test			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	11.339768	(7,153)	0.1000
Cross-section Chi-square	63.107442	7	0.1000
Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.
Cross-section random	0.000000	2	1.0000

Based on the results of the Random Effect Model, conclusions can be drawn.

$$ISR_{it} = 0.934587 - 0.096629SS_{it} + 2.280007PRV_{it} - 0.001524LEV_{it} + \varepsilon_{it}$$

The regression equation constant is positive at 0.934587, meaning that if the value of the independent variables is 0, then the value of the dependent variable (ISR) is 0.934587. The regression coefficient for the Sharia Screening (SS) variable is -0.096629. This means that one unit's Sharia Screening decrease in the company's Sharia Screening will increase ISR disclosure of 0.096629, assuming the other independent variables are constant. The regression coefficient of the profitability variable (PRV) is 2.280007, meaning that one unit's increase in company profitability will increase ISR disclosure of 2.280007, assuming the other independent variables are constant. The regression coefficient of the leverage variable (LEV) is negative at 0.001524, meaning that one unit's increase in leverage will result in a decrease in ISR disclosure of 0.001524, assuming the other independent variables are constant. The F statistical test is used to predict the regression parameters together. The F statistical test shows whether the sharia screening (SS), leverage (LEV), and profitability (PRV) variables have a simultaneous influence on the Islamic social reporting (ISR) variable. Based on the REM regression model (Table 5), the significance value of 0.000049 is less than 0.05, meaning that the Sharia Screening, profitability, and company leverage variables have a significant effect on ISR disclosure.

The t-test is used to determine whether the independent variable partially affects the dependent variable. The t-count value of Sharia Screening (SS) is -0.272507, with a probability value of 0.0055, which is less than 0.05. This shows that the Sharia Screening has a negative and significant effect on ISR disclosure. The lower the sharia screening ratio will lead to an increase in the value of the company's shares, which will improve the ISR report's quality. This proves that companies' decision to manage interest-based debt is highly considered by companies in ISR disclosure (Adlan & Mawardi, 2018). The regulation on limiting interest-based transactions on financial ratios is the limit point for the issuer to be declared as sharia-compliant or not (Soemitra, 2016). When referring to sharia rules in The Quran and hadith, usury-based transactions should not exist at all. However, if we see to the fiqh rule that what cannot be done thoroughly, do not entirely abandon it. So, limiting the number of usury-based transactions can be done. However, it must also be understood that these rules require the implementation of Sharia to the maximum extent possible. If it is related to the regulation of restrictions on riba-based transactions in the halal industry, the less

interest-based debt and non-halal income levels the company has, it can be said that the company is getting better at applying the Islamic aspect in its activities (Alam, Akbar, Shahriar, & Elahi, 2017; Ayedh, Shaharuddin, & Kamaruddin, 2019; Md. Hashim, Habib, Isaacs, & Gadhoun, 2017). The implementation of the Islamic elements that are getting better by the company will be a positive signal for investors who pay attention to the Islamic aspects of investing to increase company value and disclosure of corporate CSR reporting (Lys, Naughton, & Wang, 2015). This means a negative relationship between the number of interest-based transactions and the disclosure of the company's ISR reporting.

Table 6  
Random Effect Model Results

Variable	Coefficient	Standard Error	t-statistic	Probability
C	0.934587	0.135167	6.914311	0.0000
SS	-0.096629	0.354592	-0.272507	0.0055
PRV	2.280007	4.810005	0.004734	0.0002
LEV	-0.001524	0.004073	-0.374240	0.0000
R-squared	0.963378	Durbin-Watson stat		0.439016
Adjusted R-squared	0.962450	Prob(F-statistic)		0.000049

The t-value of profitability (PRV) is 0.004734, with a probability value of 0.0002 less than 0.05. This shows that profitability has a positive and significant effect on ISR disclosure. Profitability is a factor that makes management free and flexible to disclose social responsibility to shareholders. Companies that are in an advantageous position will tend to disclose more extensive information in the ISR report. The higher the company profitability, the greater the disclosure of Islamic-based social information (ISR). This follows the theory of legitimacy, which explains that if an entity is operating following the prevailing norms in society, it will create a positive image and impact its financial performance, one of which is profit (Mandina, Maravire, & Masere, 2014). This result is in line with Kurniawati and Yaya (2017) research that profitability is closely related to a company's management's effectiveness in determining strategic steps to gain profit. Companies with a higher profit rate will attract investors by providing better information to the public and other stakeholders by increasing social responsibility

disclosure (Nainggolan & Handoyo, 2019; Platonova, Asutay, Dixon, & Mohammad, 2018; Salehi, Tarighi, & Rezanezhad, 2019). This means that the higher the profitability, the more full the ISR disclosure will be (Mukhtaruddin, Saftiana, & Dwikatama, 2018). High profitability means that companies will be more flexible and free in managing profits to disclose social responsibility to stakeholders (Hermawan & Mulyawan, 2014). Hadinata (2019) also stated that the company's social performance would be viewed well by stakeholders to support its operational activities, which will increase its profits.

The t-value of leverage (LEV) is -0.374240, with a probability value of 0.0000, which is less than 0.05. This shows that advantage has a negative and significant effect on the ISR disclosure. Leverage arises because the company, in its operations, uses assets and sources of funds that cause fixed expenses for the company. Thus, the company has high-interest debt, so the management's ability to invest more in the ISR reporting program will decrease. Leverage is a tool to measure how much a company is to creditors in financing company assets (Cheng, Business, Iowa, & Campus, 2014). Companies with a high degree of leverage mean that they are very dependent on external loans to finance their assets (Onofrei, Tudose, Durdureanu, & Anton, 2015). Meanwhile, companies with a low level of force are more likely to finance their assets with their capital (Dyck et al., 2019). Thus, the degree of corporate leverage reflects the company's financial risk (Innocent, Ikechukwu, & Nnagbogu, 2014). Agency theory predicts that companies with higher leverage ratios will disclose more information because firms' agency costs with such capital structures are higher (Riantani & Nurzamzam, 2015). Social responsibility reporting using the Islamic Social Reporting index is a strategy used by Islamic banks to convince and gain legitimacy from creditors regarding company compliance (Pratama et al., 2018). This study's results are in line with research conducted by (Rizfani & Lubis, 2019), which states that a small debt company will influence its decision to improve Sharia's social performance reporting.

## **CONCLUSION**

Based on the research results, it can be concluded that the Sharia Screening, profitability, and leverage in the halal industry sector have a significant effect both simultaneously and partially. That interest-based debt and non-halal income have an impact on firm value, either partially or simultaneously. These results indicate that investors pay more attention to religiousness in choosing investments made in the halal industry sector. Companies in the halal industry sector are also still considering leverage conditions to determine the extent to which ISR disclosures are made. When the level of leverage is high, the company's focus is to show excellent financial performance in the eyes of creditors by generating high profits so that activities that require many costs are tried to be reduced, including the cost of disclosing the ISR.

This research implies that companies making ISR disclosures are influenced by several factors, including sharia screening, profitability, and leverage. This study's results can be used as consideration for companies to make ISR disclosures following sharia principles. The company's ISR disclosure level will be of high value if it has low interest-based debt, has a high profitability level, and has little leverage. Besides, companies can improve their financial performance to improve the quality of corporate social responsibility disclosure. For stakeholders, this study will provide information on the level of corporate social responsibility disclosure that can influence the decision making of Muslim stakeholders. Muslim stakeholders can be encouraged to invest in companies with a high level of ISR disclosure because it indicates that they have carried out and managed the company adequately and following sharia principles.

## **ARCH and GARCH Models on the Indonesian Sharia Stock Index**

### **ABSTRACT**

Investments in Islamic stocks are in demand because of the profit-sharing system so that the company is more stable in facing uncertain global economic conditions. This study aims to analyze the volatility of the Indonesian Sharia Stock Index and the Indonesian Sharia Stock Index's potential in the future. We use daily data from 2012 to 2020 and the Autoregressive Conditionally Heteroscedasticity-Generalized Autoregressive Conditional Heteroskedasticity (ARCH-GARCH) method. The results show that the Indonesian Sharia Stock Index's volatility is influenced by the risk of the two previous periods and the return volatility in the previous period. Potential Indonesian Sharia Stock Index tends to fluctuate in return by an average of 3 percent.

Keywords: Indonesian Sharia Stock Index, ARCH, GARCH, Investment, Forecasting

### **INTRODUCTION**

The development of a country's economy is inseparable from the investment conditions therein (Alfaro & Chauvin, 2017). The more developed a country, the more significant the role of investment (Were, 2015). In developed countries, the capital market's purpose is more significant than banking institutions in channeling funds to the productive sector (Sufian, Kamarudin, & Nassir, 2016; Torres & Zeidan, 2016). Today the development of the capital market continues to follow the existing financial system (De la Torre & Schmukler, 2006). One of the updates is the sharia-based capital market that supports the Islamic finance industry (Syarif, 2019). The Indonesian Sharia Stock Index (ISSI) is one of the stock indexes listed on the Indonesia Stock Exchange in which all companies can be categorized into sharia shares. Sharia shares are developing in line with the allure of the halal lifestyle or sharia lifestyle, which has recently become a global trend; no exception is also in the capital market's realm (Adinugraha & Sartika, 2019; Sukardani, Setianingrum, & Wibisono, 2020).

Islamic stock's business activities are not contrary to Islamic principles, namely gambling, exploitation, and buying and selling that contain elements of uncertainty (gharar) (Md Akhter, 2015). Besides, companies are prohibited from producing, distributing, trading, and providing illicit goods or services, as well as damaging morale (Hashim, 2012). Islamic stocks have an essential role in the national economy, so that the domestic investment climate needs to be maintained so that investors feel safe in investing in Islamic stocks (Chen & Imam, 2013). Currently, the sharia industry is growing and has the potential for shares to be sought after by market participants (Boukhatem & Moussa, 2018). The majority of market participants who buy shares focus on the profit potential, and only a few pay attention to stocks from the Islamic index or not (A. Ng & Ariff, 2019). Islamic stocks index has trading characteristics where market participants can benefit greatly, and this index is predicted to go down or go up with a widespread (Alam et al., 2017).

Research related to Islamic stock indexes has been conducted by Ahmed and Elsayed (2019) on the stock market in Malaysia concluded that the conventional stock market influences one-third of the risk of the Islamic stock index, Mishra et al. (2019) on the Dow Jones Islamic index concluded the influence of global crude oil prices on Islamic stocks Index, Shahzad et al. (2018) on the Islamic Market World Index, Islamic indices of the USA, UK, Japan, and the Islamic Financial sector index concluded that there is an asymmetric risk in the time variation between world oil prices and the Islamic stock index.

Trabelsi and Naifar (2017) in Gulf countries concluded that systemic risk harms the Islamic stock index with the Islamic stock index in Asia considered a useful hedging asset, Abounoori, Mila, and Nademi (2016) on the Islamic stock index in Iran concluded Autoregressive (AR) (2) -Markov Regime Switching ARCH (MRSARCH) model-Generalized Error Distribution (GED) the model outperformed the other models within one day, Naifar (2016) on the Islamic stock index in Saudi Arabia concluded that the yield of sukuk shows a significant dependence on the volatility of the Islamic stock index, and Charles et al. (2015) on the Dow Jones Islamic Indexes concluded the Islamic stock index is riskier than conventional stocks.

This study focuses on the volatility of the Indonesian Sharia Stock Index (ISSI), which contains the Jakarta Islamic Index (JII) and the potential future shares of ISSI. For information, ISSI is an index that contains all Islamic stocks listed on the IDX, namely 451 shares. While JII contains 30 of the most liquid and most capitalized Islamic stocks and JII 70, the number of members is more comprehensive, namely 70 shares. This study aims to determine whether to assess stock returns' level of volatility at ISSI and determine stock returns' characteristics and the model of stock return volatility in the future. This research contributes to knowing the characteristics of ISSI stocks, and investors can know the prediction of ISSI's future movement and add to the literature for academics.

## **LITERATURE REVIEW**

Stock price volatility is the fluctuation of shares, the returns of a security or a portfolio in a certain period (Wang & Ma, 2014). Market volatility can occur due to new information entering the market or stock exchange (Chakraborty & Kakani, 2016). As a result, market players re-evaluate the assets traded by the company. The price level in an efficient market will adjust quickly so that the price formed reflects new information.

Islamic stock investment is growing from time to time. The number of shares categorized as Islamic stocks has continued to increase in recent years. Based on data collected from Exchange Members who provide Shariah Online Trading System services, the number of sharia investors has also increased rapidly. In the last five years, Islamic investors have increased by 1,500%, from 4,908 investors in 2015 to 80,152 investors as of September 2020, with a functional level of 25.2%. Islamic stock investing has several differences from conventional stocks. Islamic stocks are stocks whose principles are not against the principles of sharia in the capital market (Wahyudi & Sani, 2014).

Sharia shares are shares of companies that do not carry out many business activities such as gambling, trading that is not accompanied by the delivery of goods or services, interest-based banking, conventional insurance, producing or selling goods, or haram in substance (Soemitra, 2016). Moreover, for Muslims,

Islamic stocks are considered capable of accommodating their shares following their religious values.

Research related to stock volatility has been conducted by Ng, Chin, & Chong (2020), investigates the transmission of realized volatility between the Malaysian Islamic stock market and various global sectoral Islamic stock markets. The results show that the volatility of the Malaysian Islamic stock market equities depends significantly on its equity in the short, medium, and long term. The study results provide useful insights for understanding the risk of a Sharia-compliant portfolio so that it can make a more informed portfolio allocation.

Ahmed and Elsayed (2019) examined the Islamic and conventional capital markets in Malaysia from 2007 to 2017 by analyzing the dynamic interdependence between conventional stock markets, Islamic stocks market, bonds, and sukuk. The empirical findings show that the total one-third of the total estimate is associated with the impact of spillovers in the four markets, thus suggesting that the conventional stock market and the Islamic stock market are closely related.

Mishra et al. (2019) analyzed the relationship between global crude oil price fluctuations and the Dow Jones Islamic Stock Index using daily data from January 1, 1996, to April 13, 2018. The results showed heterogeneity regarding the positive influence of global crude oil prices on the Islamic Stock Index. Oil price fluctuations positively affect the Islamic stock index in the short term, but oil prices hurt the Islamic stock index to achieve stability.

Shahzad et al. (2018) discuss the relationship between five Islamic stock markets (the World Islamic Market index, the US, UK, Japan Islamic index, and the Islamic Finance sector index) in the oil market. The results underscore the varying dependence on oil and Islamic stock markets. Furthermore, there is an asymmetric risk from the oil market to the Islamic stock market. As a result, this asymmetric risk has a significant effect after the global financial crisis.

Trabelsi and Naifar (2017) assess the exposure of the Islamic stock index to systemic events. The samples used are Islamic and conventional stock indices from various markets of developed and developing countries from September 2005 to March 2015. The results reveal that systemic risk has a moderate

detrimental effect on the Islamic stock index and, to a lesser extent, in the Cooperation Council countries. Bay. Other results also show that the Asian stock index can be a useful hedge asset after the global financial crisis. Furthermore, empirical results reveal that portfolios, including the Islamic stock index, perform better than reference portfolios in periods of turmoil. This finding has several implications for financial decisions, including stability strategies and asset allocation.

Naifar (2016) investigated the dependency structure between yields on Sukuk (Islamic bonds) and the stock market (yields and volatility) in Saudi Arabia. The results show that the yield on Sukuk shows a significant dependence only on stock market volatility. The dependence structure between Sukuk yields and stock market volatility is symmetrical and related to the same intensity.

Charles et al. (2015) analyzed the impact of Islamic filtering criteria on the Dow Jones Islamic index's risk relative to conventional spare parts. The results show that the Islamic and conventional indices are affected by the same extreme events that can bias risk estimates, especially the global financial crisis 2007-2008 and after that, which was characterized by a very high level of volatility. Overall, the Islamic index appears to be riskier than conventional spare parts and shows higher performance (1996-2013). Other results show that both indices have been affected by changes in invariance. Most Islamic indices have a higher level of risk than conventional indexes, regardless of the sub-period.

## **RESEARCH METHOD**

This study uses monthly data from 2012 to 2020. The data used is sourced from financial services authorities by taking the Indonesian Sharia Stock Index data. This study uses the Autoregressive Conditionally Heteroscedasticity-Generalized Autoregressive Conditional Heteroskedasticity (ARCH-GARCH) method to answer the research objectives. ARCH-GARCH is a method of measuring volatility for time series data (Engle, 1982). Time series data usually contain heteroscedasticity where there is the same variant of the residuals for all observations in the linear regression model so that the ARCH-GARCH method serves to solve the same variant problem (Bollerslev, 1986).

The processing process to answer the objectives begins with the model's specification by detecting the ARCH effect of stock data using the autocorrelation test and ARCH test, followed by the average equation's appropriate specification. The next step is estimating the parameters and selecting the best variance model by simulating several variance models based on the Akaike Information Criterion (AIC) value. Furthermore, the variance model diagnostic test with error analysis includes the ARCH test and normality test. The last stage is forecasting where  $ISSI_t$  = daily return,  $\alpha_1 e_{t-1}^2$  = random error,  $h_{t-1}$  = conditional variance using the following model.

$$ISSI_t = \delta + \alpha_1 e_{t-1}^2 + \dots + \beta_1 h_{t-1}$$

## DATA ANALYSIS AND DISCUSSION

Figure 1 shows the monthly price movement (left) and the observed object's daily return movement, the Indonesian Syariah Stock Index (ISSI), from 2012 to 2020. Based on Figure 1, the ISSI return object of observation has a volatile level of high volatility. In general, ISSI stock movements show a large return change followed by a more considerable return change and a small return change followed by a smaller return change in the next period or what is commonly called time-varying volatility. For example, the volatility of ISSI returns in 2015 was more significant than in 2016.

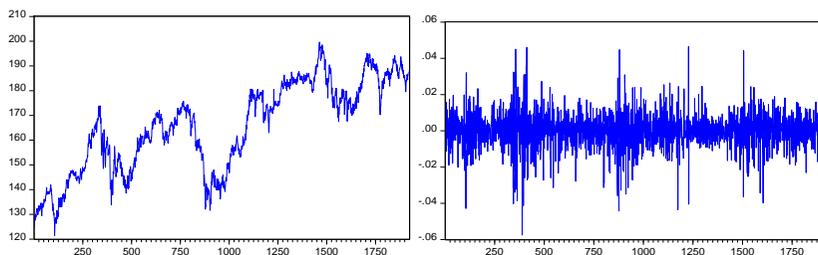


Figure 1  
Daily Data Chart and Daily Return

From Table 1, the descriptive statistic is a measure of data concentration from the data used where the mean is the average of the observation period, the median is the middle value of the observation period, the maximum is the highest value of the observation period, the minimum is the lowest value of the

observation period, and the standard deviation is a variation of data distribution. The period used obtained a mean of 0.02%, a median of 0.07%, a maximum value of 4.6%, a minimum value of -5.8%, and a standard deviation of 0.01.

Table 1  
Descriptive Statistic Table

<b>Indicator</b>	<b>ISSI</b>
Mean	0.000213
Median	0.000707
Maximum	0.046461
Minimum	-0.057538
Std. Dev	0.010010

The stationary test serves to analyze so that the time series data is at the mean and variance. Useful data is stationary data. The stationary test of this study used the Augmented Dickey-Fuller test (ADF-test). The ADF-test results in Table 2 show the probability value is smaller than the critical value ( $0.0000 < 0.05$ ), which means that the data in this study are stationary.

Table 2  
Unit Root Testing using Augmented Dickey-Fuller

<b>Variable</b>	<b>Level</b>	
	<b>Augmented Dickey-Fuller test statistic</b>	<b>Prob*</b>
ISSI	-28.41335	0.0000

To ensure that the data is stationary or not, other tests are carried out, namely the correlogram test using the autocorrelation function (ACF) and the partial autocorrelation function (PACF). The correlogram test in Figure 2 shows the Autocorrelation graph (left) and the Partial Autocorrelation chart (right), forming a similar pattern in the form of a cutoff pattern in the data used. Based on the pattern that has been formed, it can be concluded that the data is stationary so that the residual value is random and has an adequate model. From the results of ACF and PACF, it is also concluded that some models have negative autocorrelation values at the initial lag ( $< 10$ ), which indicates that the data does not need to be differencing again so that the possibility of order  $d$  is 0.

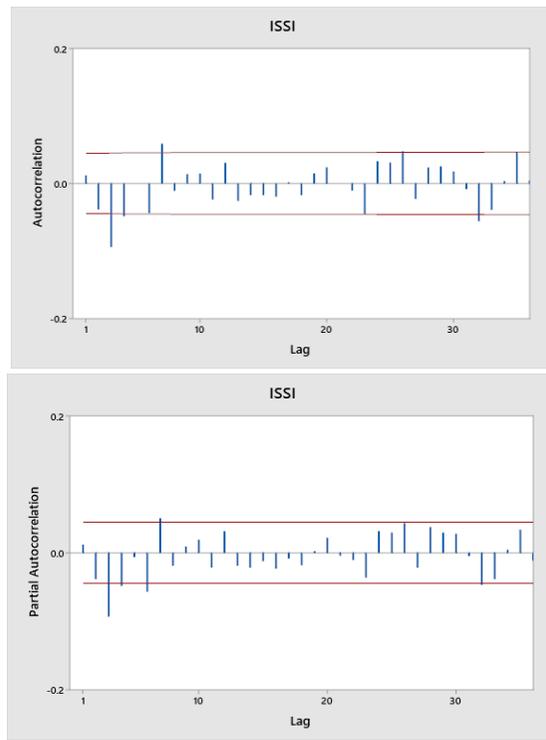


Figure 2  
Autocorrelation Function Graph (Left) and Partial Autocorrelation Function Graph (Right)

After the data is stationary, the next step is to check the data, whether the data contains heteroscedasticity effects or not. In this study, testing the heteroscedasticity effect used the ARCH-LM test. Based on Table 3, the test results found that the data contained a heteroscedasticity effect because the probability value was smaller than the critical value ( $0.0000 < 0.05$ ), so that the data could be continued with the ARCH-GARCH model. The ARCH-GARCH model solves problems in time-series data that have a heteroscedasticity effect of continuing the forecasting process.

Table 3  
ARCH-LM Heteroscedasticity Test

Variable	Prob.
ISSI	0.0000

The next step is to determine the best Integrated Moving Average (ARIMA) Autoregressive Model. Determination of the best model in this study using the smallest Akaike Info Criterion (AIC) value with a significant variable probability value (<0.05). Table 4 shows the results of selecting the best ARIMA model where p is the ARCH value, d is the stationary data position, and q is the GARCH value with the smallest AIC value and a significant probability.

Table 4  
Best ARIMA model (p, d, q)

Variable	ARIMA (p,d,q)	Akaike Info Criterion	Prob.
ISSI	ARIMA (4,0,3)	-6.378587	(0,0)

The next step is selecting the best GARCH model based on the smallest AIC value, and the probability is smaller than the critical value (<0.05). Table 5 is the result of selecting the best GARCH model.

Table 5  
Overfitting Model GARCH (p,q)

(p,q)	C	ARCH (t-1)	ARCH (t-2)	GARCH (t-1)	Prob	AIC
(1,0)	0.0000728	0.273262	-	0	0	-6.448910
(0,1)	0.0000722	0	-	0.270035	0	-6.378336
(1,1)	0.0000015	0.061555	-	0.923148	0	-6.532889
(2,1)	0.0000011	0.153249	-0.108101	0.942861	0	-6.540342

The below model provides information that the ISSI index's risk level is influenced by the amount of the return value of the two previous days and the magnitude of the standard deviation of the return for the last day.

$$ISSIh_t = 1.14E-6 + 0.153249 \varepsilon_{t-1}^2 - 0.108101 \varepsilon_{t-2}^2 + 0.942861h_{t-1}$$

Testing the accuracy of the model for capturing errors was tested with three test equipment, namely the ARCH-LM Test, to examine whether there is still a heteroscedasticity effect on errors. Correlogram Q Statistics test checks whether the data is autocorrelated or not and the Kurtosis test to see the distribution of errors. ARCH-LM test results found that the information does not contain a

heteroscedasticity effect after GARCH modeling. Correlogram Q Statistics test results found that the error was random, or the residual value was random.

Table 6  
Diagnostic Models

Heteroskedastisitas	Autocorrelation
0.5715	0.381

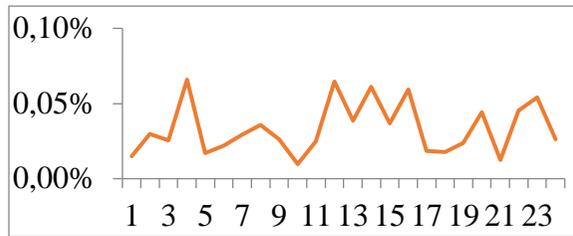


Figure 3  
Forecasting Results using the GARCH model (2,1)

Forecasting results show fluctuating movements. However, the balance sheets of the companies that are members of the Islamic index are generally healthier than other companies. The Jakarta Islamist Index (JII) was recorded up 1.88%, the Indonesia Sharia Stock Index (ISSI) rise 2.03%, and the Jakarta Islamic Index 70 (JII70) rise 2.56%. Meanwhile, the Composite Stock Price Index (IHSG) throughout 2019 only grew by 1.70%. Thus, the growth of Islamic stocks looks better. The company's performance can be maintained due to Islamic stocks' characteristics required to have low-interest debt (Razak, Saiti, & Dinç, 2019). One of the requirements for entering into Islamic stocks is total debt based on interest compared to total assets of not more than 45% (Mahfooz & Ahmed, 2014). With this unstable macroeconomic condition, investors tend to look for defensive stocks with strong balance sheets and low debt levels (Ammer, Claessens, Tabova, & Wroblewski, 2019; Driver, Grosman, & Scaramozzino, 2020).

Sharia-based investment has a large enough market in Indonesia. Given, Indonesia is a country with the largest Muslim population in the world. Indonesia also has quite good Islamic financial literacy because, based on a Bank Indonesia survey, the Indonesian Islamic financial literacy index is classified as well literate, so that Islamic stocks still have a pretty good prospect. The Financial Services

Authority (OJK) noted, in October 2020 the value of Islamic stock market capitalization reached 3,061 trillion rupiahs. This amount is equivalent to 51.4% of Indonesia's total capital market capitalization, which is 5,957 trillion rupiahs.

When viewed from the index, the Islamic index may lose compared to the Composite Stock Price Index (IHSG) because banking stocks mostly support the IHSG with large market capitalization. The increase in the Islamic index was also boosted by the healthy balance sheet conditions of index members. Indeed, the prospect depends on each issuer and the industry. Nevertheless, most shares in the Islamic index have low debt, so they are not too burdened by interest costs and are healthier on their balance sheet.

The Islamic capital market has grown up fast and is increasingly attractive. The Islamic capital market has also become a popular investment choice for Indonesians. It can be seen from the number of Islamic stocks listed on the stock exchange. Based on data on the Indonesia Stock Exchange (IDX), from 2011 to October 2020, the number of Islamic shares increased by 90.3%, from 237 shares to 451 shares. This amount is equivalent to 63.6% of the total shares listed on the IDX. Based on the amount of market capitalization, Islamic stocks account for 51.4% of the total market capitalization. The total market capitalization of Islamic stocks is IDR 3.061.6 trillion, of the total market capitalization of IDR 5,956.7 trillion.

## **CONCLUSION**

This study aims to examine the characteristics of the ISSI Index return volatility during the observation period. During an observation, the ISSI data has an average of 0.02%, with the lowest value of -5.75% and the highest of 4.46%. The estimation results show that the ISSI volatility is influenced by the risk of the previous two days and the return volatility on the previous day. The forecast results show that the ISSI volatility fluctuates with an average of 0.03%, a maximum value of 0.07%, and a minimum value of 0.01%.

The results of this study can be used by investors and securities analysis to assess and predict the ISSI volatility. Investors can also observe Islamic stocks

that tend to print an increase in income and good performance, so they are suitable for investing.

## **Factors Affecting Motivation for Career Selection of Public Accountants**

### **ABSTRACT**

The purpose of this study was to determine the effect of intrinsic value, work environment, and labor market considerations on the motivation to choose a career as a public accountant. This research method uses multiple linear regression analysis with a sample of 210 students of the Faculty of Economics and Business Prof. Dr. Hamka. The results showed that the intrinsic value of work had a positive and significant effect on the motivation to choose a career to become a public accountant, while the work environment and job market considerations did not affect. The research's strength and uniqueness focus on a particular sample, namely students from 2016 to 2018. In that period, students were able to compile financial reports according to general accounting standards in Indonesia and internationally and understand auditing best practices to have the decision to have a career as a public accountant. The research results also contribute to developing insights, references, understanding, and knowledge about the driving factors in choosing a public accountant career. Public accounting firms need to consider workspace and freedom for auditors to complete existing work, providing intellectual challenges with a dynamic work atmosphere.

***Keywords: Motivation; Intrinsic Intrinsic Value; Environment; Job Market; Accountants Public Accountants***

### **INTRODUCTION**

Every student certainly wants to have a good and promising career for his future (Heyneman & Lee, 2016). To obtain this career, students are expected to motivate themselves to get the career they aspire to (Batool & Ghayas, 2020). Career choice is a process or individual activity in business prepare to enter a job-related career through a series of directed and systematic activity processes to choose a career as desired (Kossek & Ollier-Malaterre, 2020; Sullivan & Al Ariss, 2019). In making a career choice, someone was first looking for various alternative professions (Ong & Theseira, 2016). The business world's development must be responded to by the quality of accounting education and ready to use in work (Apostolou, Dorminey, & Hassell, 2020).

Self-motivation aims to improve and develop the quality of work they have to face the world of work that is getting tougher and full of competition (Almıaçık, Almıaçık, Akçın, & Erat, 2012; Raziq & Maulabakhsh, 2015). Accounting is one of the majors in economics, which is in great demand by students today. The average student chooses to major in accounting, driven by their desire to become accounting professionals (Enget, Garcia, & Webinger, 2020). Besides, they are also motivated by assuming that accountants will need accountants by many organizations and companies (Hiebl, 2018; Oboh & Ajibolade, 2017).

Public accounting is much needed and is also seen as having bright prospects for the world of work because this profession provides an invaluable intellectual challenge and learning experience (Catchpowle & Smyth, 2016; Sugahara & Boland, 2014). This profession also provides the opportunity to find a challenging and varied job because it can be assigned in various places and various companies with different characteristics and conditions (Inceoglu, Selenko, McDowall, & Schlachter, 2019; Inegbedion, Inegbedion, Peter, & Harry, 2020).

The public accounting profession can be one of the most expensive professions because the largest income source from public accountants has shifted from audit services to management consulting services (Laksmi & Al Hafis, 2019; Pincus, Stout, Sorensen, Stocks, & Lawson, 2017).

The intrinsic value of the job and financial rewards are essential aspects of the public accounting profession (Adekoya, Oboh, & Oyewumi, 2020). Public accountants are needed to reduce information asymmetry between the principal (owner), the agent (professional manager), and the debtor (Hope, 2013; Xia & Zhu, 2009). The current development of the public accounting profession is in line with the need for a larger number of public accountants; however, the development of public accountants in Indonesia is slower than in other ASEAN countries.

Table 1  
Comparison of the Number of Public Accountants in ASEAN (2019)

Country	Population	Accountant Organization	Number of Public Accountants					
			2014	2015	2016	2017	2018	2019
Brunei	4 Million	BICPA	58	56	122	233	259	284
Cambodia	15 Million	KICPAA	263	291	274	246	254	248
Indonesia	251 Million	IAI	18,507	26,782	28,110	29,982	28,761	27,985
Laos	2 Million	LICPAA	176	101	107	186	217	209
Malaysia	29 Million	MIA	31,454	32,511	33,398	34,549	35,507	36,178
Myanmar	55 Million	MICPA	595	738	998	1,157	1,157	1,351
Philippines	105 Million	PICPA	21,586	19,380	10,528	31,495	39,716	18,866
Singapore	5 Million	ISCA	28,530	29,839	32,153	32,054	32,419	32,643
Thailand	67 Million	TFAC	63,619	68,777	71,128	77,505	79,258	85,258
Vietnam	92 Million	VAA	8,000	9,800	8,000	8,000	8,000	10,000

Source : ASEAN Federation of Accountants, Annual Report (2019)

From table 1, it can be seen that the number of accountants in Indonesia is currently still relatively small compared to the total population of Indonesia, which is 251 million, Indonesia only has 27,985 accountants in 2019. Indonesia lacks a number of public accountants and still needs this profession in large numbers, in anticipation of a growing business sector. This shows the lack of the interest of young people to enter the public accounting profession. Even though the number of companies in Indonesia that need to be audited is increasing, it can be concluded that students' interest in a career as a public accountant is low. This can be influenced by economic motivation, labor market motivation, work environment, social values, and many other factors.

Technology, globalization, new business relationships, and a multidisciplinary economic environment have transformed the accounting profession (Baskerville & Hay, 2010; Hopper, Lassou, & Soobaroyen, 2017). Any of these changes can impact those who choose to major in accounting and factors that influence their choice of jobs in the field (Garkaz, Banimahd, & Esmaili, 2011; Omar, Zakaria, Ismail, Sin, & Selvakumar, 2015). The auditing profession is essential, given the integral and evolving role of internal and external auditors in ensuring an accurate description of its financial position and compliance with applicable regulations (Omolaye & Jacob, 2018; Parker & Johnson, 2017). Indeed, the accounting profession's persistent challenge is recruiting high-quality employees suitable for jobs in the accounting field (Donaldson & Walsh, 2015; Kyriacou, 2016).

Career selection is a process of choosing a position influenced by psychological, sociological, cultural, geographic, educational, physical, economic, and open opportunities that together form one's position (Akosah-Twumasi, Emeto, Lindsay, Tsey, & Malau-Aduli, 2018; Cascio & Montealegre, 2016). This person acquires several beliefs, values of needs, abilities, skills, interests, personality traits, understanding, and knowledge, all of which lead to

behavior patterns aligned with society and culture's expectations (Ertosun & Adiguzel, 2018; Narkabilova, 2020).

Intrinsic work is the satisfaction that individuals receive during or after work (Raza, Akhtar, Husnain, & Akhtar, 2015). These factors include rewards, opportunities for promotion, job responsibilities, intellectual challenges, and training (Osborne & Hammoud, 2017; Yang, Luo, Sun, Lu, & Kang, 2018). The intrinsic factor of work has a relationship with the individual's satisfaction when or after he has done the job. The intrinsic factor is inseparable from the work's nature and provides immediate satisfaction when done.

A work environment is a place where a production process is carried out (creating added value for goods/services), including all the equipment used (hardware), systems, software that support these activities, and other environments that are affected by it and the people who interact in it (Agrawal & Rahman, 2015; Reinartz, Wiegand, & Imschloss, 2019). The nature of the job, the level of competition, and the amount of pressure are factors of the work environment. The work environment is considered in choosing a profession, especially like routine work and work that can be completed quickly.

Labor market considerations are considered by someone in choosing a job because every job has different opportunities and opportunities (Ong & Theseira, 2016). Professions that have a broad job market will be more desirable than professions with a smaller job market. Labor market considerations include job security, availability of employment opportunities, and easy access to job vacancies.

Fajarsari (2020) shows that career motivation and social motivation have a significant positive effect on accounting students' interest in attending accounting profession education. Sapariyah et al. (2020) show that financial rewards, training, professional recognition, and job market considerations significantly influence public accountants' career choices. Murdiawati (2020) revealed that financial rewards, job market considerations, professional training, professional recognition, social values, and work environment significantly affect choosing a career to become a public accountant.

Dewi and Yasa (2020) found that career motivation, self-efficacy, and job market considerations significantly affect accounting students' interest in taking the CPA exam. Dippta et al. (2020) reveal that professional recognition, social values, employment, and work considerations positively affect accounting students' interest to become public accountants. Suharti and Irman (2020) show that financial rewards, professional training, social values, professional

recognition, and work environment significantly affect career choices as public accountants.

Arif et al. (2020) state that the public accounting profession's perception, motivation, and adversity intelligence significantly affect becoming a public accountant. Aditya and Hasibuan (2020). show that student perception variables, gender, and personality type have a positive and significant influence on career choice as a public accountant. Fadrul and Nifia (2019) show that social values, family demands, financial rewards, and the work environment influence the accounting profession's choice. Warsitasari and Astika (2017) state that career motivation, economic motivation, perceptions, and job market considerations positively affect career choice as a public accountant.

- H<sub>1</sub> : *The intrinsic value of work has a positive effect on choosing a career to become a public accountant.*
- H<sub>2</sub> : *The work environment has a positive effect on the motivation to choose a career as a public accountant.*
- H<sub>3</sub> : *Labor market considerations have a positive effect on the motivation to choose a career as a public accountant.*
- H<sub>4</sub> : *The intrinsic value of work, work environment, and market considerations simultaneously positively affect the motivation to choose a career to become a public accountant.*

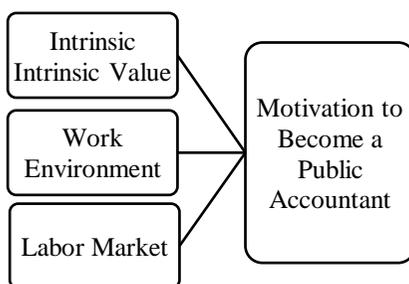


Figure 1  
Research Model

Motivating factors for choosing a career to become a public accountant include job market considerations (Dewi & Yasa, 2020; Murdiawati, 2020; Suharti & Irman, 2020; Warsitasari & Astika, 2017), professional recognition and financial awards (Dippa, Mendra, & Bhagawati, 2020; Murdiawati, 2020; Sapariyah, Putri, & Fujianto, 2020; Suharti & Irman, 2020; Warsitasari & Astika, 2017), work environment (Dippa et al., 2020; Saputra, 2018; Suharti & Irman, 2020), professional training (Murdiawati, 2020; Sapariyah et al., 2020; Suharti & Irman, 2020), social values (Dippa et al., 2020; Fadrul & Nifia, 2019; Murdiawati, 2020;

Suharti & Irman, 2020), work environment (Fadrul & Nifia, 2019; Murdiawati, 2020; Suharti & Irman, 2020), perception (Aditya & Hasibuan, 2020; Fajarsari, 2020; Warsitasari & Astika, 2017), gender (Aditya & Hasibuan, 2020; Dewi & Yasa, 2020; Saputra, 2018), personality types (Aditya & Hasibuan, 2020), and motivation (Arif, Askandar, & Mahsuni, 2020; Dewi & Yasa, 2020; Fajarsari, 2020; Saputra, 2018; Warsitasari & Astika, 2017).

The existence of a phenomenon related to the minimal number of public accounting professions in Indonesia makes researchers interested in reexamining the factors that influence accounting students to become public accountants by considering aspects of the instrument's value, work environment, and market considerations. The difference in this research lies in the case study conducted at the University of Prof. Dr. Hamka Jakarta and the intrinsic value variable. First, this study contributes to providing information about the factors that influence motivation to become a public accountant. Information about the factors that influence becoming a public accountant is essential for accounting firms because accounting firms will recruit graduates. Second, considerations in decision making. Decision making is vital for graduates in choosing careers as public accountants who are thought to be influential in choosing careers. Third, references to support further research on the influence of motivation. The research results will be useful for similar research.

## **RESEARCH METHOD**

This study's population was students of the economics and business faculty, University of Muhammadiyah Prof. Dr. Hamka. The sample in this study were students majoring in accounting, class 2016-2018. The sampling technique used was the purposive sampling method by selecting samples based on predetermined criteria (characteristics), namely accounting students from at least 5 to 8 semesters. The reason for choosing this sample was that students this semester were considered to have sufficient knowledge and are deemed to have already planned to choose the career they want after graduation.

The data used in this study uses primary data obtained directly through a questionnaire with closed questions. Data collection is obtained from questionnaire answers from strongly disagree to agree strongly. The respondents' questionnaire is used to determine the effect of intrinsic value (INV), work environment (WRE), and job market (JBM) considerations on the motivation (MV) to choose a career as a public accountant. After getting the respondent's data, the next step is to test the validity and reliability. Validity and reliability testing aims to test whether the questionnaire distributed to obtain research data is valid and reliable or not. This research uses tools and materials, including the first

questionnaire, which functions to get data from respondents with the help of google form, distributed via online media. Second, after the data was collected, the data was tested using multiple linear regression analysis to answer the research objectives using a Statistical Package tool for the Social Sciences (SPSS).

$$MV = \beta_0 + \beta_1 INV_1 + \beta_2 WRE_2 + \beta_3 JBM_3 + \varepsilon$$

## RESULTS AND DISCUSSION

Data collection was carried out after distributing questionnaires to 270 respondents from each batch of 90 questionnaires. From the results of the distribution of the questionnaires, as many as 210 questionnaires (77.78%) percent could be used, 57 questionnaires did not return (21.11%), and three questionnaires were incomplete (1.11%).

Table 2  
Questionnaire category

Category	Total	Percentage (%)
The questionnaire was not returned	57	21.11
Incomplete questionnaire	3	1.11
Questionnaires that can be used	210	77.78
Total	270	100

The validity test and reliability test results show that the data are valid and reliable, as evidenced by the validity test with the pearson correlation ranging from 0.000 to 0.012, where the value is less than the significance level of 0.05. In comparison, the reliability test with Cronbach's Alpha gets a value of 0.614, where the value is more significant than  $r_{table}$  0.1161.

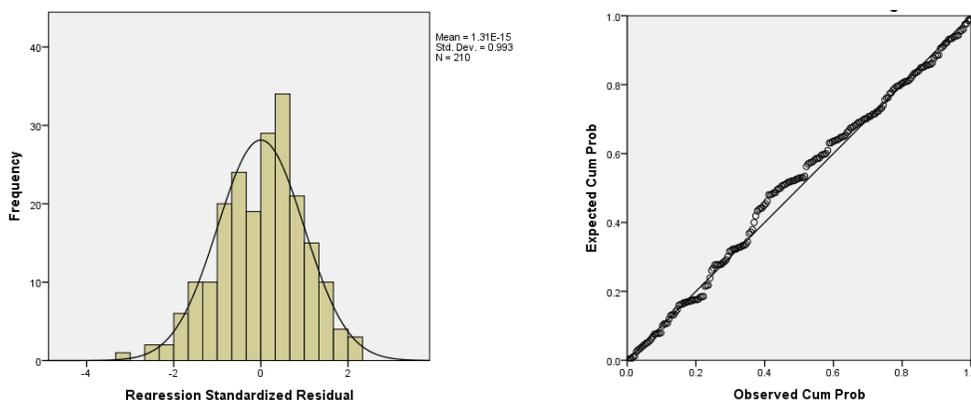


Figure 2

### Histogram Graph and P-Plot

The normality test aims to test whether there is a correlation between confounding errors or not in a linear regression model. Based on the test results using a histogram graph where the histogram graph provides a distribution pattern that deviates to the left, which means that the data is normally distributed. Furthermore, in the P-Plot image, it can be seen that the points spread to follow and approach the diagonal line so that it can be concluded that they meet the assumption of normality. Data normality testing was also carried out using the Kolmogorov-Smirnov, where the Asymp value. Sig. (2-tailed) is greater than the alpha value of 5%, so that it can be concluded that the data is normally distributed.

Table 3  
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		210
Normal Parameters <sup>b</sup>	Mean	0E-7
	Std. Deviation	2.00877636
	Most Extreme Differences	
	Absolute	.071
	Positive	.04
	Negative	-.071
Kolmogorov-Smirnov Z		1.026
Asymp. Sig. (2-tailed)		.243

The multicollinearity test is conducted to determine whether there is a linear relationship deviation between the regression model's independent variables. This multicollinearity test uses tolerance and VIF values. The test results show that the variables of intrinsic value, work environment, and market considerations have a tolerance value of more than 0.10 and a VIF value of less than 0.1 so that all variables are free from multicollinearity problems.

Table 4  
Multicollinearity and Heteroscedasticity Test Results

Model	Collinearity Statistics		Sig.
	Tolerance	VIF	
INV	.862	1.16	.981
WRE	.864	1.157	.252
JBM	.969	1.032	.583

The heteroscedasticity test is used to determine whether there is an inequality of variants of the residuals for all regression models' observations. The glacier test results show that all tested variables are more significant than 5%, so it can be concluded that the data is free from heteroscedasticity problems.

Table 5  
Autocorrelation Test Results

	Unstandardized Residual
Test Value	.14323
Cases < Test Value	105
Cases ≥ Test Value	105
Total Cases	210
Number of Runs	101
Z	-.692
Asymp. Sig. (2-tailed)	.489

The autocorrelation test is carried out to determine whether there is a correlation between the prediction model variables and time changes. Therefore, if the assumption of autocorrelation occurs in a prediction model, the disturbance value is no longer paired independently but is paired in autocorrelation. The runs test results showed that the Asymp Sig (2-tailed) value was more significant than 5%, so it can be concluded that the data is free from autocorrelation problems.

The estimation results of the multiple linear regression equation are obtained:

$$MV = 11.331 + .862INV_1 + .864WRE_2 + .969JBM_3 + \varepsilon$$

A constant value of 11,331 indicates that if the intrinsic value (INV), work environment (WRE), and labor market considerations (JBM) are zero, the motivation for choosing a career as a public accountant (MV) is worth 11.331. The INV variable's regression coefficient is .8621, meaning that if other independent variables are fixed in value and INV increases by 1 unit, the MV will increase by .8621 units. The regression coefficient for the WRE variable is .864, meaning that if other independent variables are fixed in value and WRE has increased by 1 unit, the MV will increase by .864 units. The regression coefficient for the JBM variable is .969, meaning that if the other independent variables have a fixed value and the JBM has increased by 1 unit, the MV will increase by .969 units.

Tabel 6  
Multiple Linear Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	11.331	2.534		4.471	.000
INV	.862	1.16	.241	3.332	.001
WRE	.864	1.157	.042	.584	.560
JBM	.969	1.032	.016	.233	.816

The partial test results (t-test) show that the intrinsic value (INV) has a significant effect on the motivation to choose a career as a public accountant (MV), while the work environment variable (WRE) and job market considerations (JBM) do not affect. While simultaneously, all the variables tested have a significant effect on the motivation to choose a career as a public accountant (MV) ( $F_{\text{count}} 5.010 > F_{\text{table}} 2.729$ ). The F test serves to analyze the effect of all independent variables together on the dependent variable. The F test results will be beneficial for a built model, whether the model is significant or not. If the model is significant, the model can be used to predict or predict future conditions.

The intrinsic value of work is the satisfaction in a person during or after work, which is caused by factors of appreciation, opportunities for promotion, job responsibilities, intellectual challenges, and training (Osborne & Hammoud, 2017; Yang et al., 2018). The intrinsic factor cannot be separated from the work's nature and provides immediate satisfaction when the job is done (Sugahara & Boland, 2014). Job satisfaction is the emotional attitude of someone who is fun and loves his job (Ong & Theseira, 2016). This attitude is reflected in work morale, discipline, and work performance (Nolder & Kadous, 2018). The accountant profession is one of the professions that prioritize factors in the intrinsic value of work (Raza et al., 2015). This is following the Theory of Reasoned Action (TRA) model, where according to this theory, a person's behavior is influenced by one's intention to act, and the intention is determined by attitude and subjective norms (Law, 2010). The intrinsic value is tested as a component that reflects the career choice attitude as a public accountant. So in this study, the intrinsic value variable is considered in line with this theory.

The work environment is also one of the factors that can be considered for someone in determining their career choices, but in this case, the results do not affect. The work environment is the same as the work atmosphere, such as routine, attractive work, and frequent overtime (Murdiawati, 2020; Raziq & Maulabakhsh, 2015). Also, the level of competition among employees and work pressure are factors of the work environment (Fadrul & Nifia, 2019). A career as a public accountant can be categorized as a more attractive and challenging job (Senjari, Hasan, & Sofyan, 2016). Labor market considerations are closely related to jobs that can be accessed in the future (Murdiawati, 2020).

Jobs that have a broader job market will be more desirable than jobs with a small job market (Pincus et al., 2017). Job market considerations can be a reason or a factor for a person in determining his career (Ong & Theseira, 2016). Thus, labor market considerations are a factor that can influence accounting students to determine their career as public accountants, but in this case, the results do not

affect. Students who become respondents still think that the accounting profession is not a flexible job. The accountant profession is not a flexible job, as seen from respondents' low average score for the statement items on the labor market consideration variables.

The public accounting profession has a significant role in supporting the economic development of a country, namely recognizing economic development so that it is more effective and efficient with the power of transparency. Besides, public accountants' role is also to improve the quality and credibility of financial information or financial reports of an entity. Therefore, the Indonesian state must increase transparency and accountability in the financial presentation. Public accountants are needed to reduce information asymmetry between the principal (owner), the agent (professional manager), and the debtor. The agent has more information than the principal or creditor, which results in the agent acting in his favor which is not part of the principal's wishes.

There are many opportunities for the public accountant profession in the future because the only profession is authorized by the Ministry of Finance of the Republic of Indonesia to provide audit services, the enactment of the Limited Liability Company Law, the banking sector which requires its customers to obtain a certain amount of credit facilities and the number of facilities provided to them. Public Accountant to provide professional services. It is no less important than the number of public accountants in Indonesia is not proportional to the number of users of the public accounting profession. A tough challenge facing the public accounting profession in Indonesia than other Association of Southeast Asian Nations (ASEAN) countries is the relatively few college graduates who intend to become public accountants. Of course, it will be a tough challenge to enter foreign public accountants into Indonesia so that the competition will be tighter.

## **CONCLUSION**

Based on the discussion that has been done, this study concludes that based on the partial test (t-test), it shows that the intrinsic value of work affects the motivation to choose a career to become a public accountant, while other variables do not affect. Furthermore, based on the simultaneous test, it shows that the variables of intrinsic value of work, work environment, and labor market considerations significantly affect the motivation to choose a career to become a public accountant.

Students who choose a career as a public accountant agree that intrinsic value provides intellectual challenges, a dynamic work atmosphere, demands creativity and gives freedom to complete essential tasks to be taken into consideration. The

work of public accountants is considered to contain intrinsic value elements, which are expected by students so that they can develop more. Public accounting firms need to consider space and freedom for auditors to complete existing workspace, providing intellectual challenges with a dynamic work atmosphere to avoid boredom to improve skills.

The public accounting profession will face challenges in the future. First, the structure of public accountants in Indonesia who are over 50 years old reaches 67%. Second, the public accounting profession seems to be no longer attractive, indicated by the changing profession of public accountants. Third, it is not the primary choice of accounting students for a career. Fourth, Indonesian public accountants have no readiness to face the global market era, marked by a lack of mastery of foreign languages. Fifth, the development of the public accounting profession in Indonesia is low compared to other ASEAN countries.

This study only focuses on the research scope at one university, so further research can be considered by adding research scope by taking samples of accounting students from several universities, both private and state universities. Further research can also add independent variables that influence motivation to become a public accountant, such as professional recognition, personality, and career flexibility.

## **Default Risk on Islamic Banking in Indonesia**

### **ABSTRACT**

The problem of default by debtors becomes a primary concern for Islamic banking recently. This study analyzes the effect of economic pressure on the risk of default on Islamic banks, both in the short and long term, the risk response of default, and also other variables' contribution in explaining the diversity of risk of default of Islamic banks. This study used monthly data from 2007 to 2020 by using a vector error correction model. The results show that inflation and exchange rates affect the risk of default in the short term, while inflation, exchange rates, and interest rates affect the risk of default in the long run. Non-performing financing quickly stabilized when responding to the interest rates. The Islamic stock index has the most significant contribution in explaining the diversity of default risks. Islamic banks must be aware of the monetary fluctuation and also careful in analyzing the demand for financing by looking at the future economic prospects.

**Keywords:** Islamic Bank, Inflation, Interest Rates, Exchange Rates, Islamic Stock Index

### **INTRODUCTION**

Financial institutions, particularly the banking sector, have a strategic position in bridging working capital needs and investment in the real sector (Hossain, 2016; Ng & Ariff, 2019). Therefore, the banking sector's primary function in macroeconomic policy infrastructure is to make money effective and efficient so that they can increase the economic value (Muttaqin et al., 2016; Rashid et al., 2020; Siami-Namini & Hudson, 2019). Islamic banking is also an intermediary institution between investors who invest their funds in banks, and then they can also distribute their fund to other parties who need it (Naqvi et al., 2018; Trimulato, 2019). Investors who place their funds will get rewards from Islamic banks in profit sharing (Aysan & Disli, 2019; Hossain, 2016). Then, the banks can distribute their fund to other parties who need it, generally in the activities of buying and selling agreements and business cooperation (Alam, Binti Zainuddin, & Rizvi, 2019).

Like other financial institutions and companies, Islamic banks are motivated to obtain returns (Salman & Nawaz, 2018). However, in that practice, Islamic banks always also face risks (Merdad et al., 2015). This risk is known as financing risk (Wasiaturrahma et al., 2020). This risk can cause enormous losses for Islamic banks if they cannot be detect and appropriately manage the risks (Louhichi &

Boujelbene, 2016). Therefore, Islamic banking must be more sensitive in detecting the factors that can increase the financial problems (Kabir et al., 2015).

Financing risk is the risk of possible loss of Islamic banking due to non-repayment of Islamic banking financing to debtors and other counterparties (Lassoued, 2018). The NPF (non-performing financing) ratio in Islamic banks reflects the risk of financing. The sources of Islamic bank risk are both from systemic and non-systemic risks (Trabelsi & Naifar, 2017). One of the negative impacts of the risks faced by Islamic banking is the decline in the quality of financing provided by Islamic banking (Trad et al., 2017). The decline in financing quality can cause banks to lose potential profits from the financing provided while increasing potential losses (Safiullah & Shamsuddin, 2019).

In monetary policy, banks play an essential role in the economy because they manage the entire financial sector in asset ownership, raise funds, and channel funds (Cai et al., 2016; Hamza & Saadaoui, 2018). In macroeconomics, inflation, interest rates, exchange rates, and stock indices also affect the increase or decrease in public savings and financing (Akhtar et al., 2017; Boateng et al., 2014; Hossain, 2016). If the inflation rate is high and uncontrollable, banks' efforts to collect public funds will be difficult so that lending activity becomes stagnant (Aysan, Disli, & Ozturk, 2018; Sinyakov & Yudaeva, 2016).

Research related to Islamic bank credit risk has been conducted by Azmat et al. (2020), Hamza and Saadaoui (2018), Kabir and Worthington (2017), Sorwar et al. (2016) in Muslim countries, Caporale et al. (2020) in Malaysia, Mensi et al. (2020) in the Gulf Cooperation country. Council, Usman et al. (2019) in the United States, United Kingdom, Japan, Malaysia, and Pakistan, Toumi, Viviani, and Chayeh (2019) in Bahrain, Ghenimi, Chaibi, and Omri (2017) in the Middle East and North Africa (MENA), Shahzad et al. (2017) in the US, United Kingdom, and Japan, Louhichi and Boujelbene (2016) in the Organization of Islamic Cooperation (OIC), and Saeed and Izzeldin (2016) in the Gulf Cooperation Council countries.

In this present study, the researcher only covers internal banking performance factors and certain macroeconomic variables, such as gross domestic product. The purpose of this study is to analyze the influence of the economy on problematic financing of Islamic banking both in the short and long term, to analyze the response of problematic financing to economic shocks, and to analyze the contribution of each variable in explaining the diversity of levels of financing problems in Islamic banking. Therefore, the novelty of the research mainly lies in the inclusion of inflation and interest rates in influencing the risk of financing, the impact of the variables studied on the risk of financing, both in the short and long

term, and the response of non-performing financing to shocks from various macroeconomic variables.

## **THEORETICAL FRAMEWORK AND HYPOTHESES**

The grand theory, which is the basis of this research, is monetary theory and macro indicators in Indonesia. The monetary theory's core is an analysis of the factors that affect the demand for money and the factors that affect the money supply. The demand and supply of money on the money market determine the price level. There are two types of monetary theory concepts: the focus of attention, namely the interest rate and the general price level. Besides that, monetary theory discussion is also inseparable from other economic variables such as inflation, national income, and the exchange rate. The transmission mechanism emphasizes monetary policy on output and prices through bank financing, in which, there are two transmission channels through the financing channel. First, the bank lending channel emphasizes monetary policy on financing because of its financial condition, especially the asset side. Second, the company's balance sheet path emphasizes the effect of monetary policy on its financial condition, such as cash flow and leverage, and this affects its assets to get financing.

To measure the quality of financing provided by Islamic banking, a non-performing financing (NPF) ratio can be used, namely the percentage of loans with substandard, doubtful, and impaired quality to total bank financing. The exchange rate in a country is significant where the exchange rate can determine the cost of a country's products for foreign buyers and will affect exports from that country and imports (Dahir et al., 2018; Prasad & Suprabha, 2015; Zeev, 2019). The development of the exchange rate significantly affects economic activity, where the higher the amount of local currency that must be issued to obtain foreign currency will increase the potential for higher non-performing financing ratios (Akbar, 2016; Mahapatra & Bhaduri, 2019).

When the value of the domestic currency depreciates, it can lead to a flight of public capital out of the country because when compared to other country's currencies, the local exchange rate is too low (El Alaoui et al., 2019; Kodongo & Ojah, 2016). The increase in foreign currency will increase the demand for foreign currency. Large bank debtors whose business activities are in dire need of foreign currency will experience pressure by depreciating the exchange rate, which will increase the risk of bad credit (Lin et al., 2018; Sugiharti et al., 2020).

Another cause affecting non-performing financing from banks and borrowers' outer side is inflation, representing a macroeconomic condition (Bahloul et al.,

2017). Inflation is a threat to every country because it occurs almost every country in the world (Galadima & Aminu, 2019; Önder & Özyıldırım, 2019). Activities to suppress the inflation rate are economic policies, often known as price stability (Aluko & Ajayi, 2018; Trad et al., 2017). The effect of inflation on banking, namely, when inflation increases at a high level, the price of goods will increase (Aysan et al., 2018). When prices increase, public expenditure will be more significant than expected. Therefore, the increased amount of expenditure is inversely proportional to the customer's ability to pay their obligations, impacting the increase in bad credit (Sarkis & Daou, 2013; Zeev, 2019).

Monetary policy plays an essential role in a country's economy (Cai et al., 2016). One of the monetary policies that often get paid attention by the policymakers, entrepreneurs, and investors is interest rate (Caporale et al., 2020; El Alaoui et al., 2019). Changes in interest rates will be responded by differently by entrepreneurs and investors (Ammer et al., 2019). The increase in interest rates helps investors benefit from savings and time deposits (Alam, Akbar, Shahriar, & Elahi, 2017b; Matemilola, Bany-Arifin, & Etudaiye, 2015). For those who get business capital from bank loans, an increase in interest rates is terrible because high-interest rates can increase fees to the bank (Hamza & Saadaoui, 2018; Hossain, 2016). High-interest rates can affect the ability to pay debts to the bank. A decrease in debt repayment capacity due to an unhealthy economy can increase non-performing loans in banks (Cai et al., 2016; Magud & Vesperoni, 2015).

Islamic banking does not apply an exciting system in operation, but changes in interest rates can affect Islamic banking (Mushtaq & Siddiqui, 2017). The increase in interest rates is, of course, followed by an increase in loan interest rates to divert conventional bank customers to borrow funds from Islamic banking (Hossain, 2016). High demand for financing in Islamic banking without being accompanied by a good analysis can affect Islamic banking problem financing (Hassan et al., 2019). Islamic banking is said to have high non-performing financing if the amount of non-performing financing is greater than that of credit extended to debtors. If an Islamic bank has high problematic financing, it will increase the cost of reserves for productive assets, thereby affecting stock prices.

Research related to credit risk or financing risk has been carried out by Azmat et al. (2020), who analyzed the macroeconomic influence on Islamic banking risk in 20 Muslim-majority countries. The results show that macroeconomic risk has a significant and positive effect on conventional bank deposits, while the impact on Islamic bank deposits is significant and gloomy. Yet, the effect is lower than conventional banks. Caporale et al. (2020) discuss bank lending channels from monetary transmission in Malaysia with dual banking systems. The result showed that Islamic bank credit is less responsive than conventional credit in responding

to interest rate shocks at both high and low growth. Besides, the shocks to Islamic bank credit encourage output growth when growth is low and favorable.

Shahzad et al. (2017) examined returns and volatility in global Islamic stock markets (United States, United Kingdom, and Japan) and several macroeconomic influences with financial variables. The empirical analysis shows a strong interaction between the Islamic stock market, the conventional stock market, and a pool of risk factors. Another finding is that the Islamic stock market is not a viable alternative for investors who want to hedge their investments. Louhichi and Boujelbene (2016) explore credit risk factors in the banking system by analyzing the relationship between credit risk and macroeconomics in 10 Organization of Islamic Cooperation (OIC) countries. Islamic banks and conventional banks have different responses to various shocks. The relationship between efficiency and risk indicates that an increase in lousy credit begins with decreased efficiency costs. Another result is that shocks to GDP growth, capitalization, and profitability improve the quality of the credit portfolio and reduce credit risk. On the other hand, higher inflation rates impact the credit portfolio's quality in the long term.

The relationship between the Islamic stock index and non-performing loans is not directly but through the role of financing. The stock index reflects market conditions, whether market conditions are busy, sluggish, or stable (Coşkun et al., 2017). The growth in banking sector shares is inseparable from the prospect of improving performance. The increase in share prices occurred due to corporate actions to raise capital and planning a rights issue. The relationship between the Islamic stock index and financing occurs because of an increase in share prices in line with an increase in the distribution of financing (Naifar, 2016). One positive boost for banking stocks is the ratio of non-performing financing (NPF) starting to improve. The potential for bad loans will decrease as the economy and financing improve.

H<sub>1</sub>: The exchange rate affects non-performing financing

H<sub>2</sub>: Inflation affects non-performing financing

H<sub>3</sub>: Interest rates affect non-performing financing

H<sub>4</sub>: Islamic stock index affects non-performing financing

## **RESEARCH METHOD**

This study used monthly time series data from 2007 to 2020. The data consist of Islamic banking problem financing or non-performing financing (NPF), inflation (IFL), exchange rate (EXR), interest rate (BRTI), and Islamic stock index (JII). Research objects consist of 14 Islamic Commercial Banks and 20 Islamic Business Units in Indonesia in the 2020 financial period. The monthly

time series data in this study from the economic theory so that the estimation of this model can provide numerical information and data to test existing theories.

This research used the Vector Autoregressive (VAR) method to solve time series data because the VAR model uses an approach that minimizes theory to capture existing phenomena. If the data used is not stationarity and co integrated, the Vector Error Correction Model (VECM) method is used. Therefore, before conducting an analysis using the VAR / VECM method, several tests are needed, including the stationarity test, the optimum lag test, the VAR stability test, and the co-integration test.

Next, the VECM estimation, Impulse Response Function (IRF), and Forecast Error Variance Decomposition (FEVD) were estimated. The model built in this study used the Vector Error Correction Model (VECM) equation for the long term and the Error Correction Model (ECM) for the short term.

$$NPF_t = \beta_0 + \beta_1 IFL_t + \beta_2 EXR_t + \beta_3 BRTI_t + \beta_4 JII_t + \varepsilon_t$$

(1)

$$\Delta NPF_t = \beta_0 + \beta_1 \Delta IFL_t + \beta_2 \Delta EXR_t + \beta_3 \Delta BRTI_t + \beta_4 \Delta JII_t + \beta_5 ECT_t + \varepsilon_t$$

(2)

Where  $NPF_t$  is non-performing financing in period  $t$ ,  $IFL_t$  is inflation in period  $t$ ,  $EXR_t$  is the exchange rate in period  $t$ ,  $BRTI_t$  is the interest rate in period  $t$ ,  $JII_t$  is the Islamic stock index in period  $t$ ,  $\beta_0$  is the intercept,  $\beta_1$  to  $\beta_4$  is the coefficient of each variable,  $ECT_t$  is the error correction term,  $\varepsilon_t$  is the error in period  $t$ ,  $\Delta$  is the change in the value of the current period minus the previous period.

## **DATA ANALYSIS AND DISCUSSION**

### **Data Stationarity Test**

The essential first step to take on time series data is stationarity testing. Stationarity data show significant calculation results, while non-stationarity data show spurious calculation results. If forced in the calculation, it means that there is a sub-substantive correlation in the formation of variables between the dependent variable and the independent variable so that it forms non-stationarity regression. Data can be stationarity if the data has a constant overtime pattern or does not have a trend. This study uses the probability of Augmented Dickey-Fuller (ADF) and Phillips-Peron (PP) in testing the stationarity of the data using the 5 percent actual level.

The unit root test results at the level either used the ADF test or the PP test, none of which are stationarity (probability value > 0.05). However, the different

levels show that all the variables studied are stationarity (probability value <0.05). These results indicate that long-term information will be lost when using data at the different levels so that the VAR method will be combined with an error correction model into VECM to analyze long-term information by utilizing data at the level.

Table 1  
Stationarity Test Results

Variable	Augmented Dickey-Fuller (ADF)		Phillips-Peron (PP)	
	Level	Difference	Level	Difference
NPF	0.1496	0.0000	0.0876	0.0000
IFL	0.1015	0.0000	0.0616	0.0000
EXR	0.6219	0.0000	0.6293	0.0000
BRTI	0.2864	0.0000	0.2585	0.0000
JII	0.1477	0.0000	0.1596	0.0000

### Co-integration Test

The second step is the co=integration test. The co-integration test functions to determine the presence or absence of non-stationarity variables at the co-integration level. Co integration testing uses the Johansen Co integration test method. In VECM estimation, there is a co-integration of dependent and independent variables. If there is no co-integration, then the VECM model cannot be used but must use the VAR (Vector Autoregression) model. The criterion for co-integration between variables is to look at the trace statistic value. If the trace statistic value is greater than the critical value, it indicates co-integration between variables. The test results show co-integration between variables to combine the VAR model with ECM into VECM.

Table 2  
Co-integration Test Results

Hypothesized No. of CE(s)	Eigen value	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.207671	96.49702	88.80380	0.0124
At most 1	0.128766	59.01974	63.87610	0.1197
At most 2	0.123890	36.82681	42.91525	0.1777
At most 3	0.067570	15.53232	25.87211	0.5305
At most 4	0.026164	4.268543	12.51798	0.7030

Trace test indicates 1 co-integrating eqn(s) at the 0.05 level

\*denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

### **Optimal lag test**

The third step is the optimal lag test. This optimal lag test is an essential step in using the VAR model. It shows how long a variable reacts to other variables and eliminates autocorrelation problems in a VECM system. This test is available in several types of information, including Akaike Information Criterion (AIC), Schwarz Information Criterion (SIC), Likelihood Ratio (LR), Final Prediction Error (FPE), and Hannan Quin Information Criterion (HQ). The optimal lag test results show that LR, FPE, and AIC are in the second lag while SC and HQ are in the 1st lag. In this study, SC uses in determining the optimal lag.

Table 3  
Optimal Lag Test Results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	1483.095	NA	3.59e-15	-19.07220	-18.97402	-19.03232
1	2267.243	1507.588	2.00e-19	-28.86766	-	-
2	2296.009	53.44861*	1.91e-19*	-	28.27861*	28.62840*
				28.91625*	-27.83632	-28.47761
3	2308.704	22.76898	2.24e-19	-28.75747	-27.18667	-28.11945
4	2322.929	24.59573	2.58e-19	-28.61844	-26.55677	-27.78104
5	2338.802	26.42105	2.93e-19	-28.50068	-25.94813	-27.46389
6	2357.043	29.18545	3.23e-19	-28.41346	-25.37004	-27.17729
7	2374.189	26.32681	3.64e-19	-28.31211	-24.77781	-26.87656
8	2379.836	8.306370	4.77e-19	-28.06240	-24.03722	-26.42746

\*indicates lag order selected by the criterion

### **Estimated Vector Error Correction Model (VECM)**

Vector Error Correction Model (VECM) is a valuable VAR model for seeing the long-run equilibrium relationship of co-integrated equations. If the variables are co-integrated, there is a long-term balance of these variables, and wherein there is an imbalance in the short term. Based on the VECM estimation results, to see which variables have significant value or not, a t-table is needed to compare it with the obtained t-statistical value. If the t-statistic value < t-table, it shows no effect, but if the t-statistic value > t-table, the estimation result significantly affects the dependent variable's. The t-table value with a significant level of 5 percent is 1,977.

From the VECM estimation results in the short term, it shows that the inflation variable (IFL) and the exchange rate (EXR) affect Islamic banking problem financing (NPF) while the interest rate (BRTI) and the Islamic stock index (JII) do not affect. As for the long term, it shows that inflation (IFL), the exchange rate (EXR), and interest rates (BRTI) have a significant effect on Islamic banking

problem financing (NPF), while the Islamic stock index (JII) does not have any effect.

In the short term, interest rate (BRTI) does not affect problematic financing, while in the long term; they have a significant and negative effect on problematic financing. Although Islamic banking in its operational activities does not recognize the interest system, changes in interest rate can affect Islamic banking (Hamza & Saadaoui, 2018). The increase in interest rates at Bank Indonesia is, of course, followed by an increase in loan interest rate charged by conventional banks to divert these bank customers to borrow funds from Islamic banks.

Table 4  
VECM Estimation Results

Variable	Coefficient	t-statistic
Short Term		
CointEq1	0.002264	0.17329
D(IFL(-1))	-0.117997	3.28649*
D(EXR(-1))	0.016517	2.04576*
D(BRTI(-1))	0.047770	0.62198
D(JII(-1))	-0.005054	0.96268
C	-0.000219	0.69840
Long Term		
C	1.277216	-
IFL(-1)	1.722252	6.46012*
EXR(-1)	-0.135676	2.29022*
BRTI(-1)	-1.248654	2.02762*
JII(-1)	-0.022527	0.93436

Fluctuation in interest rate for conventional banking can affect customer decisions to save funds or get the loans and financing in banking (Aysan et al., 2018). When interest rate increases, conventional banking in maintaining profits will also raise interest rate (Akhtar et al., 2017). The increase in conventional banking interest rate causes customers to switch to Islamic banking for financing because the profit-sharing ratio is lower than the loan interest ( Akhtar et al., 2017, Rashid & Jabeen, 2016, Šeho et al., 2020). When interest rate rises, the Islamic banking profit-sharing ratio will compete with rising conventional banking loan interest rates so that Islamic financing products will be more competitive (Meslier et al., 2017). With many creditors applying for financing to Islamic banking, this group of banks can better select qualified debtors who can better pay the loans the banks provide for them. In the long term, this will lead to more minor financing problems.

Inflation (IFL) affects financing problems, both in the short and long term. Inflation indicates that the debtor can still pay financing installments before inflation rises (Akbar, 2016). However, after inflation, there is a reasonably high price increase. And, the debtor's income does not increase, causing a weak debtor's ability to pay installments because most of the income has to meet household needs as a result of the price increase (Coibion et al., 2020; Siami-Namini & Hudson, 2019). This condition will cause debtors not to pay financing installments to increase problematic Financing of Islamic banking.

The difficulty faced by Islamic banking can determine precisely how financing risk changes along with changes in the macroeconomic situation, especially the inflation problem to which banks respond (Trad et al., 2017). Another reason is that the debtors feel responsible or committed to fulfilling their obligations in repaying their loans to banks so that even though inflation has increased, problematic financing in Islamic banking has not increased (Hossain, 2016). Besides, a contract underlies the financing agreement between capital owners and managers, which is binding, and therefore, eventhough the macroeconomic condition decreases and inflation increases, the debtor is still obliged to repay the loan.

The negative relationship in the short term and positive in the long term is due to changes in people's purchasing power that causes a decrease or increase in sales. A decrease in sales will reduce the return of the company. The decline in company returns will affect the company's ability to pay credit installments and vice versa. Inflation is one of the macroeconomic indicators that affect the social economy of society. Modern economists define inflation as the overall increase in the amount of money paid for goods or commodities. A high inflation rate can slow down the economy, which ultimately affects the risk of the real sector business world and affects the financial sector, both the capital market and banking. One of the increased risks facing the banking industry is the increased risk of financing in increased financing problems. In the long run, however, inflation could encourage companies to produce more, thereby increasing job opportunities. This increases the company's profits and employee income, thereby increasing their ability to repay loans and ultimately lowering non-performing loans. Thus, inflation in the long run lowers the level of non-performing loans.

The exchange rate (EXR) in the short and long term affects problem financing. When the rupiah exchange rate against the dollar increases, it means that the rupiah exchange rate depreciates. The price of foreign currency will be much higher so that the demand for financing will decrease and the probability of non-performing financing will decrease. Following the theory of purchasing power parity, the exchange rate will decrease in the same proportion as the rate of the

price increase (Adinugraha & Sartika, 2019). Essentially, purchasing power parity emphasizes the relative long-run relationship between exchange rate and commodity prices. This indicates that the increase in the rupiah's exchange rate against the dollar makes domestic products more competitive because the prices of domestic goods and services are lower than the prices of goods from other countries (Chien et al., 2019; Rajan, 2012).

The relatively low prices of domestic goods and services will increase foreign demand for domestic goods and services. Thus, the domestic sales will increase, and the public's financial condition will improve. Consequently, the increase in the exchange rate will assist Islamic banking customers in returning their financing. In the long term, however, the weakening of the rupiah exchange rate may cause the price of imported inputs to increase, thereby eroding the company's profits which reduce the company's ability to pay its loans. The impact is that the weakening of the rupiah exchange rate encourages an increase in non-performing loans.

### **Non-performing financing response to exchange rate shocks**

Non-performing Financing (NPF) responds positively to the shocks from exchange rates. The NPF had not responded to exchange rate shocks in the first period because it needed time to respond to the shocks. While entering the second period, the NPF began to respond to exchange rate shocks of 0.000512, then decreased in the third period to 0.000204 and rose again to 0.000236 in the fourth period. NPF began to stabilize when it entered the 17th period until the end of the observation period. This evidence indicates that when there is a shock to the exchange rate variable in the sense that the rupiah depreciates, the NPF of Islamic banking has decreased.

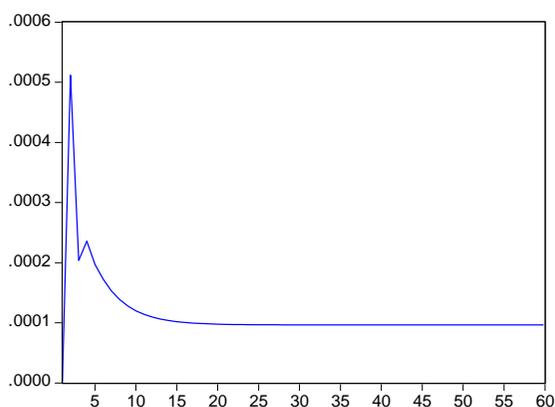


Figure 1.

Non-performing financing response to exchange rate shocks

The increase in the rupiah exchange rate against the dollar makes domestic products more competitive because domestic goods and services are lower than those in other countries. Relatively low domestic goods and services will increase domestic goods and services (Byström, 2014). Domestic sales will increase, and people's and firms' financial conditions will improve either (Sinyakov & Yudaeva, 2016). Therefore, the increase in the exchange rate can help customers in Islamic banking to return their financing. Besides, exporters will benefit significantly from the appreciation of the exchange rate. If the rupiah exchange rate against the dollar depreciates, it will cause customers to find it easier to repay their financing. Therefore, the NPF level of Islamic banking will decrease.

### **Non-performing financing response to inflation shocks**

Inflation can shock and respond negatively to the beginning of the period, then increase to positive in the next period. The NPF of Islamic banking responded negatively in the second period of -0.000915, and then it increased in the third period to -0.000442 and the fourth period of -0.000248. It started to be positive when entering the sixth period of 0.0000878 and so on until the observation period. The NPF of Islamic banking began to stabilize when it responded to inflation shocks in the eighteenth period.

When inflation experiences shock that is when it increases, the NPF of Islamic banking will increase in the long run. People's purchasing power will decrease because the money's value continues to be reduced by inflation. The decrease in people's purchasing power causes a decline in sales, and the business condition is weakening (Mora, 2015). This condition causes Islamic banking customers, both individuals and firms, to experience difficulties in returning their financing. This can increase the NPF in Islamic banking. Following the generally accepted theory, if inflation causes an increase in production costs and ultimately harms the producers, the producers are reluctant to continue production (Chadwick, 2018). In this case, manufacturers can stop their production temporarily. If they cannot keep up with the inflation rate, the producers' business may go bankrupt, this can occur usually for small entrepreneurs (Boateng et al., 2014).

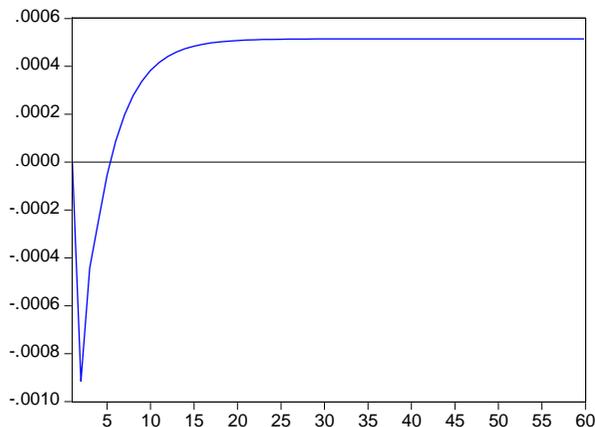


Figure 2

**Non-performing financing response to inflation shocks**

However, when there is inflation, the yield value decreases, which will cause Islamic banking to reduce the rate of return on its financing so that the demand for financing increases. Financing for consumption with a low margin will increase Islamic banking customers' purchasing power to buy the goods and services into the economy, and then the sales increase (Trad et al., 2017). A low margin makes it easy for Islamic banking customers to return their financing to decrease the NPF in Islamic banking (Duican & Pop, 2015). In terms of the corporate debtors, if the income earned is higher than the increase in production costs, then it is easier for them to return their financing (Aluko & Ajayi, 2018).

**Non-performing financing response to interest rate shocks**

Interest rate shocks respond negatively to the beginning of the period, then positive and negative until the observation. In the second period, the NPF responded negatively to the interest rate shock of -0.0000355 then increased to a positive amount of 0.0000534 in the third period. Furthermore, entering the fourth period, it decreased again by 0.0000182, and then it started to stabilize when entering the 11th period until the observation period.

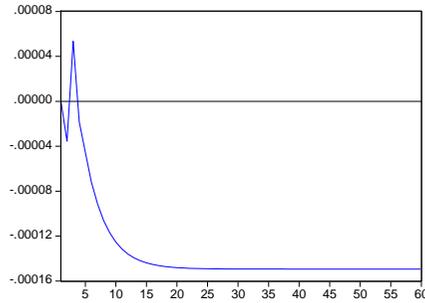


Figure 3

**Non-performing financing response to interest rate shocks**

Interest rate is not a reference for Islamic banking customers in conducting financing. The central bank's monetary policy through interest rate will not interfere with the financing of Islamic banking problems. Interest rate is not either the reason for an increase in the ratio of problem financing, as has been anticipated by Islamic banking management to improve the quality of fund distribution (Hamza & Saadaoui, 2018). Islamic banking can choose customers eligible for financing so that the size of the central bank's loan interest rate will not interfere with customers' power to fulfill their obligations (Akhtar et al., 2017). Indirectly impacts interest rates that will determine customer attitudes towards Islamic bank financing (El Alaoui et al., 2019). Financing is proof that Islamic bankings' profit-sharing concept has successfully responded to the public (Toumi et al., 2019).

An increase in interest rate will increase installment returns on financing owned by customers in banks. It also increases the banks' NPF due to customers' low ability to pay installments. Conventional bank loan interest rates that will increase can benefit Islamic banks because Islamic banks' margins and profit-sharing will increasingly compete with conventional banking interest rates (Hossain, 2016). The increase of the distribution of Islamic banking financing can increase the risk of problematic financing more competitive the margins and profit-sharing of Islamic banking can increase the distribution of Islamic banking financing (Trisanty, 2018).

**Non-performing financing response to Islamic stock index**

Islamic stock index (JII) variable shocks responded negatively to the beginning of the observation period. In the second period, the NPF responded to the JII shock of -0.000307, then increased in the third period by -0.000237 and decreased in the fourth period by -0.000286. JII shock began to stabilize when it entered the thirteenth period until the end of the observation.

The developing Islamic stock index market condition positively impacts Islamic bankings' performance if these two are complementary. However, if the Islamic stock index and Islamic banking are two sides that replace each other, then the Islamic stock index's development on Islamic banking is negative (Alam et al., 2017; Mensi et al., 2020). Banking indeed still dominates financing for both individuals and companies. A new investment usually gets funding from several sources, including internal financing, banking, or even through the capital market, one of which is by printing new shares (Driver et al., 2020; Mertzanis, 2016). However, the printing of new shares is not the primary source of financing. In addition, companies as bank creditors participate in the stock market. When the stock market is bullish, there is a potential for transferring company funds in the bank into stock investment instruments, which can harm banking performance (Godil et al., 2020).

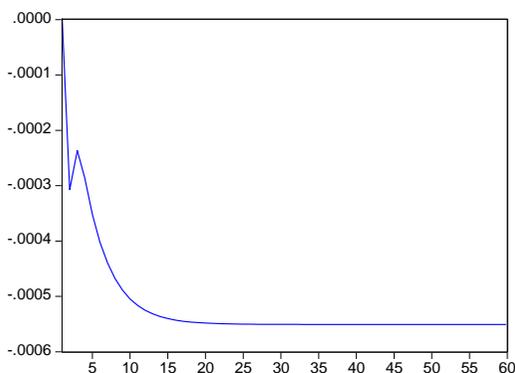


Figure 4

Non-performing financing response to Islamic stock index

### **Forecast Error Variance Decomposition**

After analyzing dynamic behavior through impulse response analysis, the model characteristics are created through forecast error variance decomposition (FEVD). This analysis predicts each variable's contribution to the variable financing problem in Islamic banking. The most significant contribution in influencing the diversity of non-performing financing variables (NPF) is the non-performing financing variable (NPF) itself, with an average of 95.7 percent throughout the observation period. Furthermore, the Islamic stock index (JII) variable is 1.96 percent, the inflation variable (IFL) is 1.92 percent, the exchange rate variable (EXR) is 0.29 percent, and the interest rate variable (BRTI) is 0.125 percent.

Inflation is a process of increasing the prevailing prices in an economy and it can describe changes in the prevailing price from one year to another (Siami-Namini & Hudson, 2019). High inflation will decrease the community's real income so that the community's standard of living also decreases before inflation occurs. A debtor still manages to pay his loan installments. However, after inflation occurs, the prices increase relatively high while the debtor's income does not increase. Then finally, the debtor's ability to pay his installments is low because most or even all of his income has to meet household needs as a result of increased prices (Aysan et al., 2018; Güler & Tepecik, 2019; Naifar, 2016).

The benchmark interest rate is announced by the central bank periodically for a certain period serves as a monetary policy signal (Hamza & Saadaoui, 2018). If the interest rate increases, Islamic banking will also adjust the profit-sharing rate, because indirectly, the increase in interest rates is used as a reference by Islamic banking in determining the profit-sharing margin. Therefore, the Islamic banking is becoming increasingly competitive (Alam et al., 2017; Lassoued, 2018; Louhichi & Boujelbene, 2016). The increase in profit sharing margin will trigger problematic financing because the customers' burden is getting bigger (Aysan & Disli, 2019; Toumi et al., 2019).

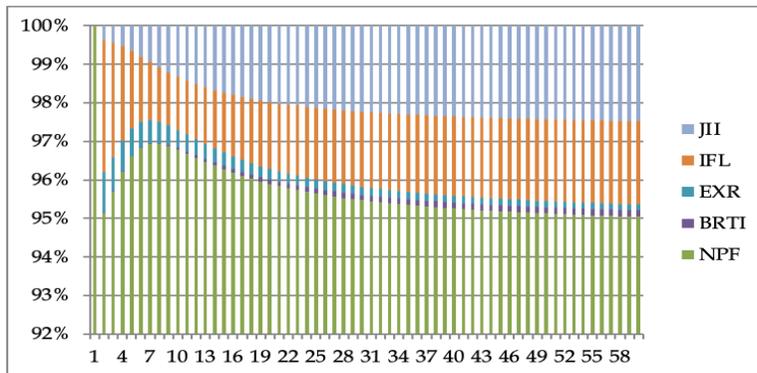


Figure 5  
Forecast Error Variance Decomposition

The exchange rate shows the country's currency's price or value that is expressed in another country's currency (Ghosh, 2017; Sasmal, 2015). Exchange rate fluctuation, significantly when depreciation, increases production costs and import financing, resulting in decreased income, especially for the companies engaged in export and import and raw materials they obtained from abroad (Byström, 2014; Zeev, 2019). The decrease in income will cause the company to have difficulty in paying its obligations to their banks. On the contrary, Islamic banking in distributing funds through financing tend to avoid foreign exchange risks. However, in Islamic banking operations, they are directly related to the risk

of exchange rate fluctuation in treasury activities. In this condition, meeting the banks' liquidity needs is inevitable (El Alaoui et al., 2019; Hossain, 2016; Wahyudi & Sani, 2014).

## **CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS**

Based on the analysis, in the short term, problematic financing is negatively influenced by inflation and positively influenced by the exchange rate. In contrast, in the long term, problematic financing is positively influenced by inflation and negatively influenced by exchange rate and interest rate. Non-performing financing is the fastest to achieve the stability when responding to interest rates, the Islamic stock index, exchange rates, and inflation. The contribution of variables in explaining the diversity of problematic financing is mainly influenced by the Islamic stock index, inflation, exchange rates, and interest rates.

Islamic banks must be aware of the inflation rate that occurs and they should remain careful in analyzing the application for financing by looking at the future economic prospects whether economic conditions will progress or decline. Islamic banks also need to supervise the business from the distribution of financing they have carried out, whether the business's income can cover various expenses, including loan installment payments to the bank. Besides, Islamic banks should pay attention to the business prospects that will be carried out by its customers before distributing their financing and they also have to ensure that potential borrowers have the potential to repay their loans on time. Of course, Islamic banks must also pay attention to the trend of exchange rate in determining financing policies. Usually, the vulnerable effect of changes in the exchange rate is for the export-import sector or companies because they use raw materials purchased from abroad. Islamic banks need to pay attention, consider, and evaluate their financing to avoid non-performing financing opportunities. This is useful to overcome as early as possible the impact of non-performing financing.

## **Factors Affecting the Audit Quality of Pandemic Era Public Accountants**

### **ABSTRACT**

Audit quality is how likely the auditor finds errors in the company's financial statements to be reported. Good audit quality will make customers give a solid trust to become an added value for auditors. The purpose of this study is to analyze the effect of due professional care, accountability, and reputation of public accounting firms on audit quality during a pandemic. Data were collected using a questionnaire and processed using multiple linear regression with a sample of auditors and students who have worked in public accounting firms in Jakarta. The processing results show that due professional care, accountability, and office reputation significantly affect audit quality during a pandemic. The accounting firm can maintain and improve audit quality by providing education and training to auditors and providing incentives according to performance achievements.

Keywords: due professional care, accountability, reputation, audit quality

### **INTRODUCTION**

Competition in the business world is getting tighter, affecting various fields, including public accounting services. Public accounting firms are now making various efforts to compete with other public accounting firms (Cao et al., 2015). Public Accountant is a professional accounting profession that provides tax consultants, management, preparation of financial reports, and preparation of accounting systems to the public, mainly focusing on auditing financial statements that have been prepared by clients (Aburous, 2019; DeFond & Zhang, 2014; Xiao et al., 2020). Public accounting services are used by external parties to assess company performance with supporting tools, namely the financial statements. This financial report will provide an overview and information on the company's performance, which is needed and used by internal and external parties as a basis for decision making.

The audit is a process to reduce information misalignment between shareholders and company managers (Ali & Lesage, 2013; Nazir & Afza, 2018). Clients must be critical in choosing a Public Accounting Firm (KAP) and KAP in auditing financial statements (Hardiningsih et al., 2019; Ocak et al., 2020). Of course, they must have principles and ethics following applicable regulations. The Public Accountant Professional Standards (SPAP) states that the auditor's audit

can be of quality if it meets the applicable auditing requirements or standards (Rahmina & Agoes, 2014). Auditing standards include professional quality with sufficient expertise as an independent auditor and the considerations used to conduct audits and prepare the auditor's report carefully and carefully (DeFond & Zhang, 2014; Xiao et al., 2020).

Audit quality is how likely the auditor can find intentional/unintentional errors from the company's financial statements reported and included in the audit opinion (Fukukawa & Mock, 2012; X. Wang & Wu, 2011). The formulation of opinions carried out by accountants is undoubtedly supported by complete, competent audit evidence so that in providing opinions, accountants must have the correct audit expertise and quality (St Ramlah et al., 2018; Yan & Xie, 2016). The focus made on improving audit quality is an important thing that public accounting firms must consider. Good audit quality will give clients strong trust to become an added value for auditors and the Public Accounting Firm (KAP) itself. A good audit quality depends on how the auditors' quality maintains their mental attitude and the auditors' technical abilities, represented in the auditors' professional education or experience (Barrainkua & Espinosa-Pike, 2018; Sarwoko & Agoes, 2014).

Accountant service users expect a trusted auditor to provide the correct opinion, but in practice, there are still things that often occur in giving an accountant's audit opinion not following the applicable rules set out in SPAP. Professional care can influence auditor quality because the skills an accountant possesses include accuracy, thoroughness, and thoroughness in carrying out work (Darmawan et al., 2017; Sulistyowati & Supriyati, 2016). Auditors must be critical and evaluate audit evidence to minimize errors in the audit process, and the audit quality will increase and become better (Aizsila & Ikaunieks, 2014; DeFond & Zhang, 2014).

Due professional care is a professional skill that accountants must possess to think critically, carefully, and thoroughly in evaluating audit evidence (Ibrani et al., 2020; Rahardjo, 2017). With that, the public accounting profession is essential with integrity and objectivity for the sake of public trust and confidence. Not only that, but the quality of auditors can also be affected by accountability. Laksita and Sukirno (2019) explain that accountability is a form of psychological encouragement that makes a person responsible for all actions and decisions. The higher the auditor's accountability, the better the quality of the resulting audit (Sarwoko & Agoes, 2014). Accountability is whether the auditor is responsible for the audit process and the complexity of the work to be faced (Heyrani et al., 2016). Auditor quality is grouped into the quality and accountable audit quality, unqualified audit quality.

The number of scandals that have occurred at the Public Accounting Firm (KAP) recently has resulted in KAP's reputation decreasing due to the decrease in client confidence and trust in KAP, and of course, the scandal that occurred violates applicable rules and is not under SPAP (Puspitasari et al., 2019). With a large, reputable KAP, it will be easier to overcome various audit risks and find it easier to find the required audit evidence so that clients can give greater confidence in the KAP reputation. With high human resource capabilities, the KAP reputation will be even higher, so that problem solving makes it easier for auditors to work faster than the reputation of a smaller KAP. Moreover, during the COVID-19 pandemic, the large-scale social restrictions (PSBB) were implemented by the government and resulted in a limited number of Public Accounting Firms (KAP) carrying out activities within their offices.

Based on the phenomenon that occurs, the public accounting firm is trying harder to strengthen clients' and the public's trust during this pandemic by maintaining audit quality and obtaining sufficient audit evidence. Auditors' focus must be more careful and critical of the client management conditions resulting from this pandemic so that various problems can be resolved and auditors' quality does not decline. This study analyzes the effect of due professional care, accountability, and KAP reputation on audit quality during the COVID-19 pandemic. This study contributes, first, to the results of this study as a reference. Second, the research results can provide a conceptual basis for similar research. Third, this study's results can be helpful as input and evaluation for leaders of public accounting firms and auditors in maintaining and improving audit quality.

### ***Effect of due professional care on audit quality***

Audit quality is the auditor's ability to carry out audits following applicable regulations to disclose and report an error or violation (Novranggi & Sunardi, 2019). Audit quality is essential in the auditing process and must be maintained by the auditor (Xiao et al., 2020). Auditors who have many clients in the same environment will understand that requires more skill development than auditors in general (Ali & Lesage, 2013; DeFond & Zhang, 2014).

Pritama, Supriana, and Torong (2018) stated that professional care with audit quality has a positive relationship. Good due professional care makes audit quality better and vice versa. The results of this study are also in line with research by Faturachman and Nugraha (2015), Ratha and Ramantha (2015), Wiratama and Budiarta (2015), and Ardianingsih, Ilmiani, and Umam (2020), where they stated that due to professional care had a positive effect on audit quality. A public accountant needs to have adequate accuracy in carrying out work to produce good

audit quality to avoid material misstatements in the financial statements for internal and external users.

H<sub>1</sub>: Due to professional care has a significant effect on audit quality.

### ***Effect of accountability on audit quality***

Accountability is a condition to be held accountable. The main prerequisite for realizing accountability is to be in a situation, and environmental conditions prioritize openness (transparency) as a basis for accountability and a democratic environment in expressing opinions, suggestions, criticisms, and arguments for improving performance conditions or activities better more directed (Belal et al., 2015; B. Lee & Cassell, 2017; Woro & Supriyanto, 2013). Accountability for the audit work performed and time pressures increase concerns over loss of reputation and lead to concealing evidence, which conflicts with decisions that were based on earlier findings (Zahmatkesh & Rezazadeh, 2017). According to Janros (2017), the function of accountability is not just obedience to the applicable laws but also pays attention to the effective and efficient use of resources. The main objective of accountability is to convey financial accountability in delivering financial reports properly.

Sakila (2020) states that accountability affects audit quality. The results showed that a public accountant's motivation could increase the audit quality for the better. This study's results are also in line with Ratha and Ramantha (2015) state that the better the public accountant's accountability value, the better the resulting audit quality. With the accountability that is owned, the auditor can be accountable for every job done well to improve audit quality.

H<sub>2</sub>: Accountability has a significant effect on audit quality.

### ***Effect of KAP reputation on audit quality***

Nadia (2015) states that the Public Accounting Firm (KAP) can be seen by the Public Accounting Firm affiliated with a large public accounting firm. The Public Accounting Firm's reputation can increase the independence of the auditors, where a good reputation of the Public Accounting Firm will make it easier for clients to build trust in choosing a Public Accounting Firm (DeFond & Zhang, 2014; Dunne et al., 2020; Ocak et al., 2020). A large public accounting firm is synonymous with a highly reputable public accounting firm or an international public accounting firm (Wang & Dou, 2015).

The reputation of the public accounting firm can be represented by how many auditors are hired by the manager (Suwarno et al., 2020). The more often auditors are hired, the higher the Public Accounting Firm's reputation (Darya &

Puspitasari, 2017). Investors assume that a public accounting firm affiliated with an international public accounting firm will produce auditors with high-quality audits with international training and recognition, thereby affecting the quality of earnings earned by a company. Clients tend to choose a public accounting firm with a high reputation to produce quality audit results and improve the company's image (Rizki & Sudarno, 2020).

Research conducted by Nadia (2015) states that large public accounting firms are more likely to have better abilities in conducting audits because sizeable public accounting firms have more knowledge from experience. If fraud is found to cover the company's financial statements by the auditor, the auditor's reputation will be tarnished, as will the Public Accounting Firm's reputation. The results of this study are also in line with research conducted by Prasetia and Rozali (2016), Purwanda and Harahap (2015), Wardhani and Astika (2018), and Wiratama and Budiarta (2015), which stated that the reputation of the Public Accounting Firm (KAP) has a positive effect on audit quality.

H<sub>3</sub>: The Public Accounting Firm's reputation (KAP) has a significant effect on audit quality.

## **METHOD**

This study uses the audit quality variable (QUA) as the dependent variable while the variable due professional care (DPC), accountability (AKN), and reputation of the public accounting firm (REP) are independent variables. This research sample consisted of all auditors and students currently or who have worked as auditors at the Public Accounting Firm (KAP) in Jakarta who are willing to accept requests for filling out this research questionnaire.

The use of a questionnaire contains closed questions on a Likert scale from 1 to 4. This scale presents a series of questions asked of respondents where the respondent can choose one of the answers that best represents his opinion and is ordered according to each question's nature. Score 1 means disagree; score 2 means less agree, score 3 means agree, and score 4 strongly agrees.

This study uses multiple linear regression analysis to answer the objectives and hypotheses of this study. Multiple linear regression in this study connects one dependent variable with several independent variables in a model. The multiple linear regression equation consisting of QUA is audit quality, DPC is due professional care, AKN is accountability, REP is the reputation of a public accounting firm,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  are variable coefficients, and  $e$  is an error.

$$QUA = \beta_0 + \beta_1DPC_1 + \beta_2AKN_2 + \beta_3REP_3 + e$$

This study uses multiple linear regression analyses to answer the research objectives. Several assumptions need to be considered before carrying out the regression process; first, the data must be normally distributed by testing the histogram, p-plot, and Kolmogorov-Smirnov charts. Second, the data must be free from multicollinearity problems by conducting tolerance and variance inflation factor (VIF) tests. Third, the data must be free from heteroscedasticity problems by performing the Glejser test. Fourth, the data must be free from autocorrelation problems by performing a run test. After all the assumptions are met, then estimate the multiple linear regression analysis. From these estimates, test each variable partially and simultaneously, all variables to the dependent variable.

## **RESULTS AND DISCUSSION**

This research uses primary data in the form of a questionnaire as the data source to be used. Therefore, the questionnaire was used in this study to collect the required data and then disseminate it to the respondents, namely auditors or students who were/have worked at a public accounting firm in Jakarta. Of the 200 questionnaires distributed, 58 questionnaires did not return, so only 142 questionnaires whose data could be processed. Based on 142 processable questionnaires, information is obtained about the respondents' demographics, used to reference the respondents' characteristics for the research sample—the demographics in this study in Table 1. Based on the demographic table of respondents, it can be concluded that the respondent's profession has various percentages with the percentage of respondents as junior auditors amounting to 55%, senior auditors amounting to 32.4%, and students totaling 12.6%, and the education level of respondents on average at S1 level with a percentage of 49.3%.

Table 1  
Demographics of Respondents

Information	Number of people	Percentage (%)
Profession		
Senior Auditor	23	32.4
Junior Auditor	39	55
Student	9	12.6
Education		
Doctor	3	4.2
Masters	14	19.7
Bachelor	35	49.3
Diploma	17	24
High school	2	2.8

### Normality Test

The normality test whether, in a regression model, an independent variable and the dependent variable or both have a standard or abnormal distribution. This study used the Kolmogorov Smirnov one-sample test to test the data's normality with a significance level of 5 percent. The test results using the One-Sample Kolmogorov-Smirnov Test concluded the Asymp. Sig. (2-tailed) is greater than 5 percent so that the data is normally distributed.

Table 2  
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
Normal Parameters <sup>a,b</sup>	Mean	0E-7
	Std. Deviation	2.21604343
Most Extreme Differences	Absolute	.147
	Positive	.147
	Negative	-.112
Kolmogorov-Smirnov Z		1.239
Asymp. Sig. (2-tailed)		.093

a. Test distribution is Normal.

b. Calculated from data.

### Multicollinearity Test

The multicollinearity test aims to determine whether the regression model found a correlation between the independent variables or not. The effect of multicollinearity can cause a high standard error of the variables in the sample. This study uses the variance inflation factor (VIF) value and tolerance value to find whether or not multicollinearity is present in the regression model. The multicollinearity test results in Table 3 show that the VIF value and tolerance for all variables have a value less than ten, so it can be concluded that the data is free from multicollinearity problems.

Table 3  
Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
DPC	.314	3.180
AKN	.299	3.346
REP	.851	1.176

a. Dependent Variable: QUA

### Heteroscedasticity test

The heteroscedasticity test aims to test whether there is an inconsistency of variants from the residuals in one observation to another in a regression model. This study used spearman’s test to test for the presence or absence of heteroscedasticity. Heteroscedasticity test results Table 4 shows the Sig value. (2-tailed) in the Unstandardized Residual column, all variables have a value of more than 0.05 so that it can be concluded that the data is free from heteroscedasticity problems.

Table 4  
Heteroscedasticity Test Results

		Unstandardized Residual	DPC	AKN	REP
Unstandardized Residual	Correlation Coefficient	1.000	.053	.023	-.040
	Sig. (2-tailed)	.	.659	.850	.742
DPC	Correlation Coefficient	.053	1.000	.763**	-.381**
	Sig. (2-tailed)	.659	.	.000	.001
AKN	Correlation Coefficient	.023	.763**	1.000	-.341**
	Sig. (2-tailed)	.850	.000	.	.004
REP	Correlation Coefficient	-.040	-.381**	-.341**	1.000
	Sig. (2-tailed)	.742	.001	.004	.

\*\* . Correlation is significant at the 0.01 level (2-tailed).

### Autocorrelation test

Autocorrelation tests can arise because consecutive observations over time are related to one another. In time-series data, usually, the residuals are not independent of one observation to another. This study uses a run test to detect the presence or absence of autocorrelation in the regression model. The results of the autocorrelation test in Table 5 using the Durbin Watson test show a DU value of 1.7041 and a value (4-DU) of 2.2959, which comes from the Durbin Watson table so that it can be concluded that the value of 1.996 is between 1.7041 and 2.2959 ( $1.7041 < 1.996 < 2.2959$ ) which means that the data does not have autocorrelation

Table 4  
Autocorrelation Test Results

Std. Error of the Estimate	Durbin-Watson
2.265	1.996

The multiple linear regression equation in this study is mathematical as follows:

$$QUA = 15.337 + 1.839DPC_1 + 2.194AKN_2 + 1.026REP_3 + e$$

If other variables are constant, the QUA value will change by 15.337, and the QUA value will change by 1.839 per one DPC unit, 2.194 per one AKN unit, and 1.026 per one REP unit.

Tabel 6  
Multiple Linear Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
(Constant)	15.337	7.137		.035
DPC	1.839	.484	-.563	.000
AKN	2.194	.301	1.108	.000
REP	1.026	.171	.539	.000

a. Dependent Variable: QUA

The results of the multiple linear regression test of all variables, including due professional care (DPC), accountability (AKN), and the reputation of the public accounting firm (REP), have a significant effect on audit quality where all the values of each variable are in the sig column has a value less than 0.05.

Due Professional Care (DPC) has a significant effect on audit quality. Increasing due professional care will improve audit quality. Due professional care means accurate and precise professional skills (Akbar & Suraida, 2017). Accuracy and accuracy in using professional skills require auditors to exercise professional skepticism. The attitude of auditors who think critically about audit evidence is to question and evaluate audit evidence constantly. The careful use of professional skills enables the auditor to obtain confidence that the financial statements are free from errors or error or fraud. Auditors must use their professional skills carefully and carefully in every engagement—applying prudence by conducting critical studies at every audit implementation level (Glover & Douglas, 2013; Lee et al., 2016). Due professional care is an important thing that must be applied to every public accountant in carrying out his professional duties in order to achieve adequate audit quality (Asmara, 2019; Rahardjo, 2017). Thus, due professional care is related to audit quality so that the higher the quality of the audit can reduce the fear of financial scandals, which can reduce the public's sense of confidence in the financial statements that a public accountant has audited (Choudhary, 2018; Quick, 2020).

Accountability (AKN) has a significant effect on audit quality. The greater the accountability of an auditor, the higher the quality of the audit. Accountability is the agent's obligation to provide accountability, present, report, and disclose all activities and activities that are the employer's responsibility (Dalnial et al., 2014; Hopper et al., 2017; Laksita & Sukirno, 2019). Each auditor must have professional responsibilities with the highest possible integrity.

An auditor's accountability can improve the auditor's cognitive process in making decisions that can affect audit quality (DeFond & Zhang, 2014). Audit quality is closely related to accountability, and accountability is related to the obligation of the organization obligation to report their account to the client or other higher parties (Ardelean, 2013; Nolder & Kadous, 2018). To ensure the information's reliability in the accountability report, an independent party must provide this information by conducting an audit. Several indicators to measure accountability include motivation and efforts to complete work. Information obtained by a public accountant during his work may not be disclosed to third parties, except with his client's permission. However, if the law or the state requires a public accountant to disclose information obtained during his assignment, the public accountant is obliged to disclose that information without obtaining his client's consent (Law, 2010; Paisey & Paisey, 2020; Sulistyowati & Supriyati, 2016). Every public accountant must account for the quality of other work simultaneously, which can cause objectivity deviations or inconsistencies in their work.

The reputation of the public accounting firm will motivate to improve audit quality. The existence of a reputation makes a public accounting firm must provide high-quality audit services because it is to protect and maintain the good name of the public accounting firm (Aronmwan et al., 2013; Suseno & Nofianti, 2018). Customers usually perceive auditors to come from public accounting firms with a considerable reputation to have better audit quality because auditors have characteristics related to quality, such as training, international recognition, and peer reviews (Chen et al., 2020; DeFond & Zhang, 2014). Other public accounting firms conduct peer reviews to determine and report whether the public accounting firm under review has adequate policies and procedures for quality control, including independence, integrity, objectivity, performance, and supervision (Hardiningsih et al., 2019; Zahmatkesh & Rezazadeh, 2017; Zheng & Ren, 2019). Usually, public accounting firms with a considerable reputation have better audit quality because the auditors of extensive public accounting firms have more experience in managing audits in public companies. Thus, a reputable public accounting firm will have more excellent expertise in detecting customer financial reports' material problems. The larger reputable public accounting firms are more likely to issue more accurate financial reports.

## **CONCLUSIONS**

This study analyzes the effect of due professional care, accountability, and public accounting firms' reputation on audit quality during a pandemic. The results showed all variables that have a significant effect on audit quality during a pandemic. Public accounting firms need to maintain and improve audit quality by presenting audit reports on time, providing auditing training, increasing their sense of responsibility in completing audit reports to produce audit reports that do not contain fraud and being professional in working impartially that fraud does not occur the results of the opinions issued.

## **Paytren in sharia accounting perspective**

### **ABSTRACT**

This study aims to determine how the implementation of accounting (transaction) sharia for PayTren products, and how to measure ushul fiqh against PayTren product.

The method used in this research is descriptive research using documentation study approach, *Data collection techniques used* is the results of the research literature, social media, including on the Internet articles and television broadcasts.

The implementation of Islamic sharia accounting, paytren has done recording commissions, cashback, and also the recording of gifts are reasonable, because the recording is done based on the efforts being made.

However, if seen based on the science of Usul Fiqh, the paytren in the first transaction contains RIBA fadh'al, Then the second existence of inequity in the partners position, and there are elements of gharar (speculation) in the transaction activity.

### **1. INTRODUCTION**

#### **1.1 Background**

In this modern era, the convenience of making transactions paid already in the hands of community life that is inseparable from the Smartphone of making transactions paid already in the hands of community life that is inseparable from the *Smartphone*. This caused the smartphone has many functions, as well as a communication tool can also be used to conduct business. One of the latest platform-related businesses in the online and offline payment transactions can be covered only with a smartphone by Yusuf Mansur called PayTren, the product of PT Veritra International Sentosa, which is one of the business ideas where people were directed to allocate routine expenditure such as mobile credit, electrical credit, train tickets, plane tickets, TV cable and Game vouchers become an obligatory expenditure that can also benefit.

Chairman of the Indonesian Ulema Council (MUI) KH. Ma'ruf Amin has provide a halal certificate for this paltform from a review of Islamic law on a system that is run by a selection process. However, there are doubts that arise from some scholars who argue that PayTren deviating from the provisions provided

contains a direct selling system (Multi Level Marketing) in fact this system is far from the conformity of the fatwa of the Sharia National Council earlier, However, However, it is weakened by the DSN-MUI Fatwa No. 75 of 2009 regarding direct selling/MLM Sharia which allow the existence of practices of MLM and certainly there are provisions that must be met by the applicant, including: The real object traded transactions of goods or services products. And the goods or services traded products is not something that is forbidden and or used for anything unlawful. Transactions in trade should not contain gharar or obscurity, maysir or gambling, usury, dzulm, and immoral. The absence of excessive mark-ups that increase in price / cost excessive, thus, harming the consumer because it is not worth quality/benefits.

According to Ustadz Yusuf Masyur as co-founder of PayTren admitted application sharia payment / Fintech PayTren Shariah is the first in Indonesia or maybe this is the first in the world Form business with the system network marketing by selling "license" Applications / software / technology (Paytren) with 2 working system that is *online* and *offline*. To be work online (Network Marketing) VSI got the web to each websupport where enthusiasts signed up, and with the web enthusiasts can search for member / downline. And to be work offline can be used to open counter for online payment mobile credit, electrical credit, train tickets, plane tickets, TV cable and Game vouchers. The advantage of the offline work will get a cashback of transactions running users and user will get a cashback of downline transactions. In principle, this PayTren agreement that there is only one buyer to sell the temporary license purchase partner, PT. VSI will provide bonuses if the user managed to sell licenses Paytren to the partners, if not successful then the user did not receive the bonus. All depends on the efforts of users in conducting business through PayTren platform.

However, how it was deemed contrary to Islamic law? whether MUI really has selected products from PT. VSI strictly? because many argue that product away from the suitability Fatwa has defined DSN-MUI. Does the MUI have its own views on this business? On the halal certificate issued by MUI, mention this product is multifunctional payment / multipurpose payment product. But that is actually happens, sold is none other than applications / software and licenses like which has been described previously. It still causing pros and cons about this PayTren product

## **1.2 Formulation of Problem**

Based on the background described above that the principal problem in this research the pros and cons of the product Paytren by PT.Veritra International Sentosa, which is still considered far from conformity fatwa DSN-MUI No. 75 in 2009 by scholars.

Of the formulation, the following made several research questions are:

1. How Implementation of Accounting (Transactions) Sharia against PayTren product?
2. How the measurement of the *ushul fiqh* against PayTren product?

## **2. LITERATURE REVIEW**

### **2.1 Multi Level Marketing (MLM)**

*Multi Level Marketing* is more known as MLM is "A direct sales system, which is marketed by consumer goods direct from producers. The consumers as well as marketing rewarded with bonus items. The bonus is taken from the profit of each buyer introduced by first buyer under the conditions set ". (Dr. Husein Syahrani, in Dr. Erwandi Tarmizi)

### **2.2 Regulatory Provisions on Multi Level Marketing**

1. Regulation of the Trade Minister of the Republic Indonesia

Terms of Direct Sales under the Regulation of the Trade Minister of Republic Indonesia No: 32/M-Dag /Per/ 8/2008.

2. According to the regulations DSN-MUI Fatwa Indonesia Provisions DSN MUI Fatwa No. 75 of 2009 on Direct Sales Tiered Sharia.

### **2.3 Transaction Characteristics of Sharia Accounting Perspective**

Indonesian Sharia Financial Accounting Standards (PSAK Syariah) 100 on the basic framework and guidelines for the preparation of sharia financial statements also defines the characteristics of Islamic transactions. Implementation of the transaction in accordance with the paradigm and the principles of Islamic transactions must meet the characteristics and requirements as follows:

1. The transaction is only based on the principle of mutual understanding and mutual good pleasure (*ridha*);
2. The principle of freedom of trade is recognized throughout the object is lawful and good (*Thayib*);
3. Money only serves as a medium of exchange and unit of measure of value, not as a commodity;

4. Does not contain elements of usury (*riba*);
5. Does not contain elements of injustice (*zalim*);
6. Does not contain elements *masyir*;
7. Does not contain *gharar*;
8. Does not contain elements of unlawful (*haram*);
9. Does not adhere to the principle of the time value of money because the profits in the business activities associated with the inherent risks of the business activities in accordance with the principle of *al-ghunmu bil ghurmi* (no gain without accompanying risk);
10. The transaction is based on an agreement that is clear and true as well for the benefit of all parties without harming the other party that is not allowed typically uses a double standard price for a contract and do not use two concurrent transactions related (ta'alluq.) In the contract;
11. No distortion of prices through faked demand (*najasy*), or through faked proposals (*ihthikar*); and
12. Does not contain elements of collusion with bribes (*risywah*).

Sharia transactions can be either commercial or business activities non-commercial social activities. Commercial Islamic transactions carried out such as: investment to get the results; selling goods at a profit; or the provision of services in exchange for compensation. Non-commercial Islamic transactions carried out such as: the provision of a loan or bailout fund (*qardh*); collection and distribution of social funds such as zakat, donation, charity, endowments and grants.

#### **2.4 The concept of Sale and Purchase in a Sharia Perspective**

According to Sayyid Sabiq, the meaning of buying and selling is the exchange of property on the basis of the same willingness, or mutual transfer of property with a justifiable replacement in Islam. If *uqud* exchanges in trade has taken place, with the fulfillment of the terms and rukun, then the consequences will move goods seller to buyer. then the seller's consequences will move the goods to the buyer, according to the price agreed upon by both parties, so that they can take advantage of goods their belongings according governed by Islam.

The legal basis of buying and selling in the Qur'an, among others, the word of Allah SWT in surah Al-Baqarah (2) verse 275: "*Those who consume usury cannot stand (on the Day of Resurrection) except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to (dealing in interest or usury) - those are the companions of the Fire; they will abide eternally therein. "*

### 3. METHOD OF RESEARCH

The study used in this research is documentation study method. Data was collected through library research, social media, including on the articles and television broadcasts. The data analysis method used is descriptive analysis. Descriptive research is a study that aims to create a picture or description of the facts. And qualitative research is aimed at generating descriptive data in the form of words spoken or from people and observed behavior. In this case the research studied is PayTren viewed from the perspective of sharia which is conveyed by some scholars.

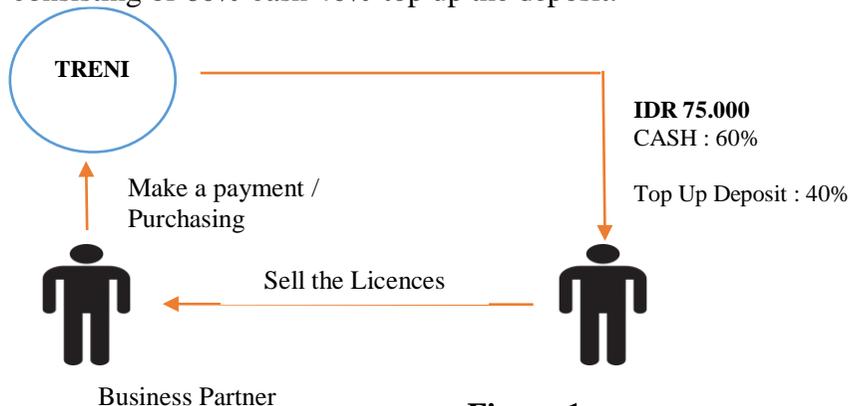
### 4. THE FINDINGS

#### 4.1 Implementation of Sharia Accounting (Transactions) againts PayTren products.

The description of business activity can be viewed in the marketing plan designed by PayTren, the explanation is described as follows:

1. Businessman benefits in the form of commission or bonus
  - 1) Direct Sales Commissions

PT VSI as the company will provide direct sales commissions to the businessman who sold the full license in the amount of Rp. 75.000, - consisting of 60% cash 40% top up the deposit.



**Figure 1**

#### **Scheme of Direct Sales Commissions**

Source: Marketing Plan/www.treni.co.id

Direct sales commission of IDR. 75,000 - is given to businesses when selling the license directly, the commission can be obtained up to 10 generations down the left and right side.



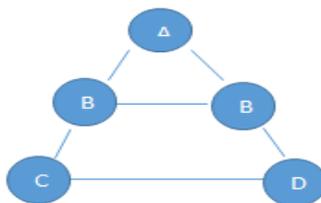
From the picture above, A selling to B and C, then A is have a right direct sales commission IDR 75,000.- from sale to B and C. (and so on up to 10 generations down).

2) Leadership Commission

The company will provide leadership commission of IDR 25,000. - \*) (consisting of 60% cash and 40% top up the deposit) for each growth of 1 (one) new businesses in each group (maximum of 2 (two) groups). The Commission earned only if business partner had committed liabilities coaching and guidance based on the automatic scoring system at the Company's system.

\*) Calculated based on the index to maintain a maximum payout of 40% according the Trade Minister Regulation no. 32 of 2008. Maximum growth calculation for the growth each group are 12 new business partners a day.

Commission Leadership IDR 25,000.- is given to businesses for every new business partner for increasing 1 (one) new business partner and partner forms of right and left sides.



From the picture above, A successfully set up a pair of B and C and D and E, so A is entitled to get a commission of leadership IDR 25,000.- of both pairs.

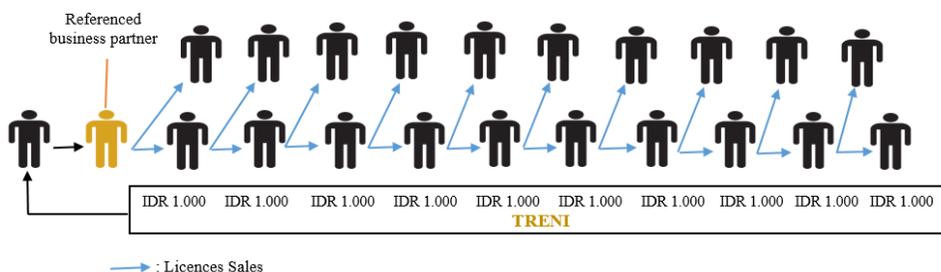
3) Direct Sales Development Commission

The company will give the sales development commission in the amount of IDR 2,000.- a license, if the referenced business partners successfully sells the full license package (maximum 10 generation). The Commission is earned only if Business Partners had committed

liabilities coaching and guidance obligations based on the automatic scoring system at the Company's system.

4) Community Development Commission

The Company provides community development commission of Rp. 1,000, - if the referenced business partners (up to 10 generation) earned a leadership commission. The Commission obtained only if business partners had committed



liabilities coaching and guidance based on the automatic scoring system at the Company's system.

Figure 3

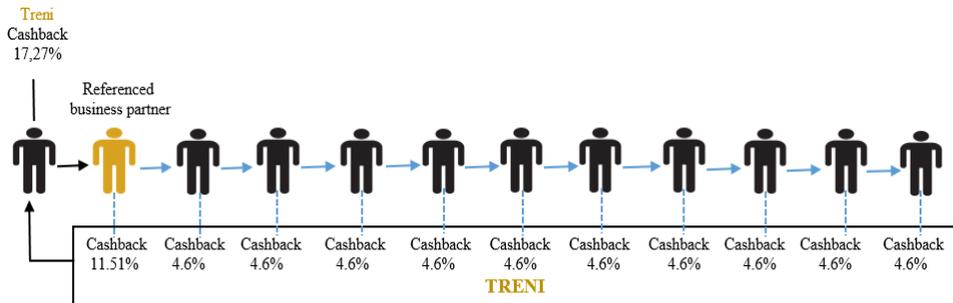
**Scheme of Community Development Commission**

Source: Marketing Plan / [www.treni.co.id](http://www.treni.co.id)

5) Cashback

The Company distributed percentage of profits in the form of cashback obtained from each private transaction (performed by users and business partners) and group transactions. This *cashback* can be obtained if the user or business partner is doing personal transaction of at least once a month. Cashback is obtained only Business Partner had committed liabilities coaching and guidance based on the automatic scoring system at the Company's system, except for personal cashback. Cashback is calculated a day from the 1st (first) until the end of the month and paid the 15th of the following month. The details of a cashback percentage calculation can be found at [www.treni.co.id](http://www.treni.co.id),

Description: Referred to as a group here is a business partner which is referred to a maximum of 10 generation with pass up/compress systems (foe example: if any 3rd generation does not perform the transaction, then the 4th generation will be counted as the 3rd generation, and so on up to a maximum of 10 generation).



**Figure 4**  
**Scheme of Cashback**

Source: Marketing Plan/[www.treni.co.id](http://www.treni.co.id)

6) Reward 2017

This promo is available to business partners in which two (2) business group formed each reach targets specified turnover of the company and reward can be changed at any time with the company policy in appropriate.

**4.2 Measurement of Usul Fiqh Truth against PayTren Products**

According to Dr. Erwandi Tarmizi, who poured into his book titled "*Harta Haram Muamalat Kontemporer*", explains the opinion of scholars who have differences of opinion, as follows:

1) **The first opinion**, MLM is *mubah* (allowed)

(1) According to fatwa of Egypt's Al-Azhar Institute, found MLM *mubah* (allowed) because it is considered same as *samsarah* (intermediary between sellers and buyers / brokers). The question is whether the bonus rewards is allowed for marketing the goods and training new buyers ? After reviewing the questions submitted then the board decides, "The effort is: as an intermediary between producers and consumers to market goods. This effort included *samsarah*. And *samsarah* as described by jurists: that if there is no fraud, injustice, or explaining the goods are incompatible with essentially at the time of marketing the goods / services then the money from the business as a halal intermediary and

there is absolutely no doubt. " This fatwa responded by many Islamic economic researchers.

- (2) According to Dr. Husain Syahrani in his dissertation submitted to the Faculty of Sharia, Islamic University of al-Imam Saud, Riyad, Saudi Arabia titled "*al-Taswiq wa al-tijari Ahkamuhu fi al-Fiqh al-Islami*" Dr. Erwandi Tarmizi, that this fatwa does not mean absolute allow MLM system, due to several things:
  - a. The fatwa is based on the description submitted questioner directly without reviewing the system used by the company concerned, as explained in the prologue fatwa. In fact, if the questioner to explain things that can affect the MLM laws the fatality of his fatwa says differently, such that the purchase of products is a requirement to be able to market their products and achieve a bonus, and the main purpose of people buy products to join MLM is earned bonus as promised, comparison bonuses as promised very far to be compared to the price of the product and the effort to market its goods.
  - b. This fatwa doesn't allow absolutely but related to there is no fraud, and injustice in marketing the product. This requirement is not fulfilled in MLM practice. Because, in fact, at the time of marketing the product and at the same time recruiting the downline is always filled with cheating, deception, and injustice, where upline promises a huge bonus to prospective buyers, whereas those who get the bonus is only 6% of all members. This is called a high-level speculation (gambling), with the promise that buyers are willing to buy products that cost much more than the actual price.
  - c. Fatwa considers Fatwa who thinks MLM is the same as samsarah (brokers) is not right, because there is a fundamental difference between MLM and samsarah.

## 2) **Second opinion**, MLM is *haram* (not allowed)

This is the opinion of the majority of contemporary scholars, as well as the Council's fatwa The Royal Muslim cleric of Saudi Arabia, the decision of the Islamic Jurisprudence Institute in Sudan, and the fatwa Al-Imam al-Albani Center for Research and Research of Jordan.

- (1) According to Dr. Sami al-Suwailim (Director of Development of Islamic Finance in the Islamic Development Bank, Jeddah and former member of the Shariah Board of Bank Al-Rajhi, Riyad) in a study says that MLM is an extension of Pyramid Scheme / Letter Chain (remittances chain) from America. When the local authorities banned this practice because it is considered as a fraud then the system is developed to include elements of the goods / products in order to get the legality of the government. Very

ironic, if any State which adopts a liberal in his economic-justifies *riba* and gambling have banned this practice, why Islamic scholars still hesitate dropping the practice of law. Pyramid Scheme Law clearly unlawful because it contains elements of *Riba Ba'i*, such as : exchange the same money in a way not cash and not the same nominal, it also contains elements of *gharar*, that is: when someone joins a Pyramid Scheme system he did not know whether the money already being paid will go back certainly with a bonus because he is on the top level, or money and bonuses lost because of his status are at the bottom levels. Someone who wants to join a MLM there are three types:

- a. A purely individual aims to be an intermediary between producers and consumers (agents) with MLM systems. Intermediaries can not sell products as appropriate intermediaries in regular marketing system, that the goods be taken first on faith then he earns a percentage of the proceeds. However, he was required to first purchase one of these products. This process is clearly forbidden in Islam because there are two *akad* (contract) within a *akad* (contract).
- b. Someone who aims to purchase the product without taking care about the bonuses as MLM company promised, because they already fit with its products. So this consumer has actually been deceived because of the price sales that have been set by the company more than 60% budgeted for bonuses. It was agreed by all MLM companies. So buyers who only buy the goods they have deceived because they have to pay 60% of the price of goods for the bonus people in the system, even though they bought the product first hand. Contrastly to the price that reached through regular marketing system though including agency fees and advertising, if it is cutting off an intermediate line then they can get a discount. Percentage over 60 for bonuses and less than 40 for a fee production of goods is clear that the status of goods is just as a cover for legalize the Pyramid Scheme, where the desired is money and not the products.
- c. Someone who joined in MLM with a bonus purpose. Because the promised bonus for the first year is huge and far compared to the price of marketed goods to the two people who as well as its downline. and this goal is the main purpose of the majority of people who join MLM, the bonuses of tens of millions of rupiah. And they are not ignore the product being sold and bought. In this case it is clear that the goods are as a front to legalize Pyramid Scheme.

From explanation above is very clear that MLM system is no different between the law with the Pyramid Scheme, even if goods / products supplied because of the status of goods is only a cover.

- (2) According to the Council for Fatwa Kingdom of Saudi Arabia, with the fatwa no. 22 936, date: 14-3-1425 H, based on the explanation of the nature of this marketing system is *haram* according to the following postulates:
- a. MLM systems contain elements of *riba fadl* and *nasi'ah*.  
Each member handed over the money in small amounts to get the money in larger amounts. This means money in exchange for money with a nominal unequal and not cash. This is the forbidden *riba* based on the text of the Qur'an and Hadith, and Ijmak. Meanwhile, the status of goods / products sold by the company to the consumer is only a cover, because the goods are not the purpose of the person who participated in the system. Therefore, the existence of goods does not affect the law (*to be halal*).
  - b. MLM system containing *gharar* (speculation) that are forbidden sharia. Because, everyone who participated in this system, he did not know whether it will succeed to recruit members (referrals) in the desired amount or not. Meanwhile, even this network continues operate, at some point it will stop; then in this moment join into the system they don't know, whether they are on level up so that they will be lucky or will they are on level down so they will loss. And in fact, And in fact, mostly members of the system is the essence of the *gharar*. Its existence between profit and loss, with a greater loss ratio. Prophet Muhammad prohibit *gharar*, as narrated by Muslim in his Sahih.
  - c. MLM system contains elements of consuming human treasures by the way in bathil (vanity). Because, who would benefit from this system only MLM company and a small number of members in order to trick people to join.
  - d. MLM system contains elements of fraud, hide defects and public deception. In terms of the inclusion of goods / products in the system, as if this is the sale of a product, but in fact is happening is not the case. And in terms of promising a huge bonus, but rarely obtained every member. And its deception that is forbidden Shari'a,

## **5. CONCLUSIONS AND SUGGESTIONS**

### **5.1 Conclusion**

Based on the above description, it can be concluded as follows:

1. The implementation of Islamic sharia accounting, paytren has done recording commissions, cashback, and also the recording of gifts are reasonable, because the recording is done based on the efforts being made.

2. However, judging by the science of *Ushul Fiqh*, the first transaction contained paytren *riba fadh'al*, that the lure of prize cash or other prizes such as cars, luxury homes and others whose value is greater than the money we have deposited, so that the main goal is to get the prize. Then the second is injustice in position, because your downline will not become the highest upline, so that the highest upline will earn commissions or prizes more continuously. And there contains *gharar* (speculation) in the transaction activity.

## **5.2 Suggestions**

Based on the above conclusions, the authors provide suggestions as follows:

1. At the time of partner recruitment, should not be in the lure of prizes that can change the purpose of partners in joining, because it contains *gharar*.
2. *Downline* should certainly be able to feel the position as a leader in the next future.

## **Factors affecting disclosure of social responsibility (csr-disclosure) in industrial annual reports based on tawhidi epistemology approach**

### **ABSTRACT**

This study aims to look for factors that influence the disclosure of social responsibility information (CSR-Disclosure) in the annual report on industries in Indonesia based on the Tawhidi Epistemology Approach. Among the various factors that are thought to influence in improving the performance of annual financial statements (PER), Good Corporate Governance (GCG), Audit, Halal Lifestyle (HLS) on the Index of Responsibility.

This research was conducted by purposive stratified sampling by sampling the entire population of annual reports on the Indonesia Stock Exchange and publishing annual reports for the period 2012 to 2016. The method of analysis and hypothesis testing using statistical structural analysis model (SEM) in the Lisrel 8.8 program with Tawhidi String Relations based on the approach of the Qur'an and Assunnah.

The results of this research resulted in an interesting discovery and strengthen Tauhid (Tawhid String Relation) in disclosing social responsibility information (CSR Disclosure) in the annual financial report of the company's Halal industrial in Indonesia with the Tawhidi Epistemology Approach has had a strong influence of halal lifestyle and company performance by experiencing improved learning process of stakeholder trust and social community in the disclosure of social information presentation in the report the annual financial halal industry. But there is no significant influence of Performance of Financial Reporting on Corporate Society Responsibility.

This research to help management improve company performance, based on the research findings, the authors want to provide input and hopefully can be useful for the performance of halal industrial companies in the future.

**Keywords:** Industrial Companies, CSR-Disclosure, Financial Statement Performance, Good Corporate Government, Audit, and Tawhidi String Relations.

## **INTRODUCTION**

Take a look at the Indonesian Prosperity Index (IKI) data in 2016 which is better than 2015, we should give a positive appreciation. Based on research by the Legatum Institute, UK, the IKI ranking has risen from 69 to 61 from 149 countries in the world. However, there are still things that need to be improved, especially related to economic quality, education and health services in the context of equitable and sustainable social development.

As for explaining that the population below the Indonesian national poverty line with other Southeast Asian Countries by 10.9% is still far from the State of Malaysia by 0.6. In accordance with the triple helix theory of social development is mentioned that the government and the company played a key role in efforts to encourage a more inclusive social development. In this context, Corporate Social Responsibility (CSR) is a platform that presents strategic opportunities in terms of strengthening government and private synergies to achieve inclusive development.

The development of the business industry also in the last 20 years both in business development, business volume and market is quite fast so that the accounting treatment needs to be adjusted quickly and agreed upon by the establishment of various financial accounting standards that can be accepted and applied. The challenge for the development of social accounting theory or Islamic Social Responsibility Accounting (Harahap, 2008).

The Company's activities on a large scale much a positive impact, but also a lot of negative impact, both internally and externally of environmental companies. The internal environment such as the workplace and the employee while the external environment such as investors, creditors and society as well as nature. Information about the activities of companies that positively impact can easily be obtained at the company's annual report, and often a source of pride for the company's voluntary disclosure published. As for information that has a negative impact on the company's external and internal environment, it is often not published and even tends to be covered up. Though it is the company's obligation to make disclosures in a balanced manner. All information about company activities that are material and needed by the public should be disclosed in the company's annual report, both mandatory and voluntary disclosure information. However, the disclosure of these activities is often not done, especially activities that can have a negative impact on the internal and external environment (Joe, 2006).

For companies that are only oriented to the principle of capitalism, this obligation is often ignored because it is considered to have no direct contribution to the survival of the company. This is due to the company's relationship with the environment is non-reciprocal, that is, the transaction between the two does not lead to reciprocal achievements (Sembiring, 2005).

In the mainstream of Islamic Accounting, responsibility is not only given to capital owners and creditors but to all parties who have direct or indirect rights and even accountability to God. Implications from this perspective Chowdury (1992, 2000) developed an Islamic methodology called Tawhidy String Relations (TSR) which can be applied in various economic and social studies. The application of this methodology has been well applied by MAriyanti (2011) in her dissertation research on socio-economic factors that influence poverty reduction in Indonesia in an Islamic perspective. If the philosophical thinking of TSR theory can be applied companies in CSR activities, it is hoped that efforts to save the natural environment (social save environment) and social environment, especially human development or human development, can be carried out even better because of the awareness of God's integrated presence with the existence of the universe and the axis of human function as khalifaullah dil ardi will be created in the nuances (circumstance) of Islam as a General System, (HArachap 1997 and Chapra, 1982).

Identification of Problems this Study as Follows :

1. Malaysia, Korea, Asustralia, Philippines and Indonesia are very prevalent in the products and mechanisms of the halal system, both at the campus, the business world, until the digital system and others today.
2. Take a look at from Enron in the US has led to companies with on issues relating to reputation, risk management and competitive advantage as the weakness of the financial system or the Performance of Financial Reporting, so the company went out the conditions set by the regulator.
3. The lack of understanding of the board of commissioners, Managerial and Foreign Ownership and the Audit Committee of the Halal Lifestyle so will affect the Performance of Financial Reporting and implementation of Corporate Social Responsibility.
4. Indonesian Financial Accounting Standards do not require companies to disclose social information, the consequences of which occur in corporate practice is only voluntary disclosure.
5. There is no research that uses the Tawhidi String Realtions model in testing the influence between variables, namely Performace of Financing Reporting, Good Corporate Governance, Hala Life Style and Audit.

## **2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Social Responsibility Accounting**

Corporate Social Responsibility (CSR) is Gray, Owen and Adams (1996) defines Corporate Social Disclosure (CSD) as the process of communicating the social and environmental influences of an organization, economic actions for groups that have an interest in a society and for the community extensively.

Corporate Social Responsibility is disclosed in the report Sustainability Reporting. This report is a report on economic, environmental and social policies, the influence and performance of an organization and its products in the influence and performance of an organization and its products in the context of sustainable development. Sustainability reporting includes reporting on economic, environmental, and social effects on organizational performance. Sustainability report must be a high level strategic document because it places the issue of challenges and opportunities for Sustainability Development to bring it to the core business and the industrial sector.

(Darwin, 2004 in Darmadji, 2002) said that corporate sustainability reporting is divided into 3 (three) categories, namely economic performance, environmental performance and social performance. Zhegal & Ahmed (1990) in Anggraeni (2006) identified matters relating to corporate social reporting which consisted of five things namely environment, energy, reasonable business practices, human resources and product. Gray et.al (1995) says that the nature and volume of reporting on corporate social responsibility varies across time and between countries.

Freedman (1989) in Yuningsih (2001) termed Social Responsibility Accounting as Social Accounting. Social Accounting does not only reveal, measure, and analyze social and economic influences or consequences of BElkaoui's behavior or activities, (2000) in Komar (2004). In a narrow sense, Social Responsibility Accounting is defined only to include assessing, measuring and reporting the company's operational impact on society, without including social programs conducted by the company.

## ***Good Corporate Governance***

GCG in Islam (Muqorobin (2011:4) states that Good Corporate Governance in Islam must refer to principles including monotheism, piety and pleasure, balance and justice and benefit.

Good Corporate Governance is carried out not only as a form of management's accountability to the owners of capital, but rather to the basic needs of every Muslim to carry out Islamic law in full and perfect way. On the basis of belief in God, Good Corporate Governance will motivate honest, fair and accountable business transactions. The Corporate Governance mechanism that was raised in this study and became a number of research variables were: the size of the board of commissioners, the size of the audit committee, foreign ownership and managerial shares.

## **Halal Life Style**

Meaning of halal is intended as something that can be done, used or consumed according to Islamic law. While thoyyib means good, which includes safety, environmental health justice and natural balance. The term halal is actually only owned by Islamic teachings. The word halal has a broad meaning, covering everything related to human life. In short, the meaning of halal is a lifestyle can be translated with a halal lifestyle. The halal lifestyle reflects the whole person who interacts with the environment. While the scope of halal can be expanded not only in terms of food and drink but also beyond even reflecting all aspects of life (Dr. H. Khairudin Tahmid, M.H, Chair of MUI-Lampung, 2017).

Halal According to MUI, Chair of the Indonesian Ulema Council (MUI) Dr. KH. Ma'ruf Amin said that for Muslims, halal is part of the lifestyle that must be done.

Based on the Indonesian Ministry of Finance BAPEPAM and LK No. KEP-208/BL/2012. Concerning Securities List, the evaluation criteria will be examined both those in sharia listings and those that have not been sharia listings. As follows :

1. No. 2 poin (a) no.2 Not conducting business activities including :
  - a. Gambling and games are classified as gambling;
  - b. Shariah-prohibited trades include : Trade that is not accompanied by the delivery of goods and services and trade with fake offers/requests;
  - c. Ribawi financial services, among others: Interest-based banks and interest-based financing companies;

- d. Buying and selling risks that contain elements of uncertainty/gharar and/or gambling (maysr);
  - e. Producing, distributing, trading, and/or providing illicit goods or services of the substance and illicit goods/services not because of the substance, and goods/services are morally damaging and/or harmless as stipulated by DSN-MUI;
  - f. Conduct transactions that contain elements of bribery (risywah).
2. Meets the financial ratios between them :
    - a. Total interest-based debt compared to total assets is not more than 45%;
    - b. Total interest income and other non-halal income compared to total operating income and other income is not more than 10%.
  3. The Publisher requirements List Sharia Effect as Follows :
    - a. Applicants provide a list of competent human resources in the realm of Shariah and a history of living;
    - b. In terms of competent human resources in the field of sharia comes from outside company, it must be accompanied by a letter of appointment from the directors of the applicant.

Companies that are not yet listed on the halal industry's Syariah Stock Exchange, then research on their business activities that produce halal goods and services.

### ***Audit***

Auditing is the collection and evaluation of evidence of information to determine and report the level of conformity of the information with established criteria. Auditing must be carried out by someone who is competent and independent, who has been determined and convey the results to users who have an interest (Arens, Elder, Beasley, 2006).

(Restu & Nastia PP; 2013) Audit is a process to reduce the misalignment of information that exists between managers and shareholders. For this reason, a third party (Public Accountant) is needed that can provide confidence to inventors and creditors that the financial statements presented by management can be trusted.

### ***CSR Index Disclosure***

In order for CSR practices to be known by its stakeholder, companies must disclose their CSR practices. Disclosure of CSR practices carried out by companies causes the need to include social elements in corporate responsibility into accounting. This encourages the birth of a concept called Social Accounting, Socio Economic Accounting or Social Responsibility Accounting (Indira and

Dini, 2005).

Consideration of the social aspects into accounting has been carried out by the Trueblood Committee. The Trueblood Committee in Zeff (1999) stated that the company's social goals are no less important than economic objectives, the Trueblood Committee Report states;

*An objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment.*

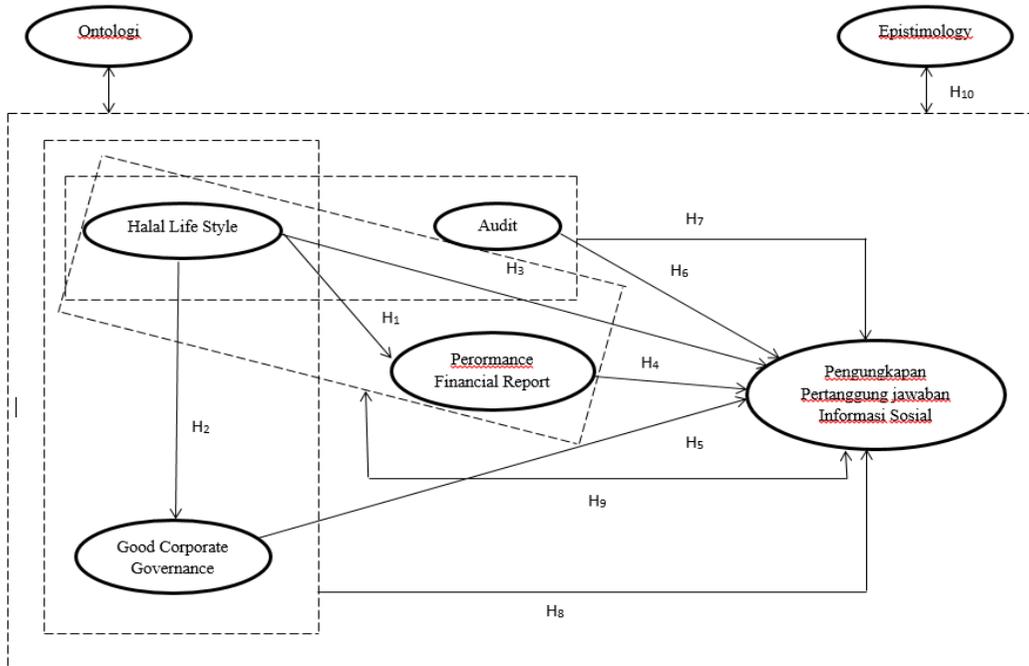
From these statements it can be seen that Corporate Social Responsibility (CSR) is part of the purpose of financial statements, Gray et. al. (1994) defines Social and environmental accounting as: ... *the process of communicating the social and environmental effects of organization's economic actions to particular interest groups within society and to society at large.* From the definition above, social responsibility accounting is a process of communicating the social and environmental impact of the organization's economic activities on specific groups of stakeholders and society as a whole. Until now there are still differences of opinion regarding the content of CSR disclosure itself (Chariri and Ghozali, 2007). In a survey conducted by Ernst and Ernst, 1998 (in Chariri and Ghozali, 2007) found that disclosure was said to be related to social (and environmental) issue if the disclosure contained information.

In general, the purpose of disclosure is to present information that is needed to achieve the objectives of financial reporting and serve various parties who have different interests (Suwardjono, 2005). In the United States, the Securities Exchange Committee (SEC) demands more disclosure because financial reporting has social and public aspects (public interest). Therefore, disclosure is demanded to be more than just financial reporting, but also includes the delivery of qualitative and quantitative information, both mandatory and voluntary disclosure (Chrisnawati, 2007).

### ***A Conceptual Framework***

Chowdury (1992,2000) developed an Islamic methodology called Tawhid String Relations (TSR) which can be applied in various studies in the economic and social fields. If the philosophical thinking of the TSR theory can be applied by companies in CSR activities in relation to the GCG mechanism, an integrated Islamic system will be created so that the objectives of Islamic economics can be achieved by maintaining fairness and truth both in conducting every commercial transaction or business activity as well as in daily life activities.

In this picture 1 explains that sharia research recognizes and makes the Koran and Hadith as a source of knowledge and basic research. The approach used considers aspects of past research, theoretical approaches, conventional research and Islamic research using the Masudulent model.



**Figure 1**  
**Framework for Thinking**

Source : Processed by The Author

**Research Hypothesis Development**

Based on the theory and previous research as explained above, this research will try to test effect of Performance of Financial Reporting, Good Corporate Governance, Halal Lifestyle and Audit on CSR disclosure. After knowing the relationship of each of the four variables with CSR disclosure, the next hypothesis is the effect of the whole variable together with the disclosure of CSR index, then analysis of circular causation which will present improved institutional relations, integration, cooperation, and science, for absorb new innovations to be able to drive the value of the Polity Market Interaction coefficient to have greater value. With this process each variable is subject to Circular Causation CC1, CC2, CC3. They have the principle of complying interconnection between them.

Through learning processes in the form of interconnection, intergration and evolution, they are interrelated, develop strong and grow simultaneously. There are no sectors and institutions left, no institutions are exhausted or eliminated. They go back and forwards to one another, synergistic, moving and dynamic (Chudhury, 2010).

Hypothesis Formulation 1 - Halal Lifestyle positive influence on Performance of Financial Reporting (Mulawarman;2007, Hervita & Fitriisia 2017).

Hypothesis Formulation 2 - Halal Lifestyle (HLS) has a positive effect on Good Corporate Governance (GCG) (sayekti;2015, Hameed et al. 2004; Jumansyah,Syafei (2013).

Hypothesis Formulation 3 - Halal Lifestyle (HLS) on CSR Disclosure (Santoso, 2011, Mai, 2017, Ma'ruf, 2017).

Hypoyhesis Formulation 4 Performance of Financial Reporting has a positive effect on CSR information disclosure Belkaoui & Krapik (1989); Cowen., et. al (1987); Sembiring (2005); dan Anggraeni (2005).

Hypothesis Formulation 5 Good Corporate Government (GCG) formulation has positive effect on CSR information disclosure Haniffa dkk (2004) ; Sembiring (2005); Anggraini (2006); Sayekti dan Wondabio, (2007). Farook & Lanis (2005).

Hypothesis Formulation 6 Audit positively influences CSR information disclosure (Lemus ; 2016, Digabriele; 2014).

Hypothesis Formulation 7 Halal Lifestyle, Audit has a positive effect on CSR information disclosure (Lemus ; 2016, Digabriele; 2014).

Hypothesis Formulation 8 Halal Lifesytyle, Good Corporate Government (GCG) has a positive effect on CSR information disclosure Haniffa dkk (2004) ; Sembiring (2005); Anggraini (2006); Sayekti dan Wondabio, (2007). Farook & Lanis (2005). (Lemus ; 2016, Digabriele; 2014).

Hypothesis Formulation 9 of Halal Lifesytyle, Performance of Financial Reporting has a positive effect on CSR information disclosure Belkaoui & Krapik (1989); Cowen., et. al (1987); Sembiring (2005); dan Anggraeni (2005).

Hypothesis Formulation 10 Complementary impacts on Halal Lifestyle circular causation, Performance of Financial Reporting, Good Corporate Governance (GCG) and Audit by TSR testing in CSR information disclosure.

Because this research is a research with an Islamic perspective or Twahidi Epistemology Approach, then in the model there is no distinction between dependent and independent variables, where this model, the observed variables will be interconnected influential (Choudhury, 1995;95) of the model will appear IIE namely there is interaction and evolution of the variables studied, where IIE is a process derived from specific combinations of knowledge from the model presented by uniting realistic conditions.

***The hypotheses built in this study are :***

***First,*** If disclosure of social informations is proportionally applied to halal industrial companies and disclosed in annual financial reports, then Performance of Financial Reporting, Good Corporate Governance and Audit in Halal, then halal industrial companies will be good.

***Second,*** If the Performance of Financial Reporting, Good Corporate Governance and Audit is Halal and is well developed, then the disclosure of social information will also be good.

***Third,*** If the disclosure of social information becomes good, then the growth of the halal industry companies will be good.

***Fourth,*** If the growth of the halal industry companies is good, the welfare of stakeholders, managerial employees and the community will be good, increasing their income.

***Fifth,*** If the welfare of stakeholders, managerial, employees, the community, and the Indonesian economy and welfare are expected for the Indonesian people.

***Sixth,*** If the Indonesian economy and welfare are expected for the Indonesian people, then the peace of life and inner life, personal, family, and community will be achieved which aspire to live safely and happily in the afterlife, *baladun toyibatun wa robbun ghofur*

### **3. RESEARCH METHODS**

#### ***Research Design***

According to Sekaran (2003 : 117-118) some important aspects of research include the nature of the study, the level of intervention, the unit of analysis and the time horizon, which can be described as follows :

Judging from the nature of the study, this study used a causal descriptive/quantitative method of research using the SEM (Structural Equation Modeling) statistical model. The data comes from secondary data and this research data processing is supported by using SPSS software for Windows R. 10.05 assisted with Microsoft Excel software for graphic and table design. This method according to Sugiono (2008) aims to analyze the relationship between one variable with another variable, variables affecting other variables. Where is the independent variable, namely; PER variable with indicators of Company Size, Profitability, and Leverage, GCG variable with indicators of Board of Commissioners Size, Audit Committee Size, Foreign Ownership, Managerial Ownership, and Audit variables, while the dependent variables are; Disclosure of social information responsibilities (CSR), as well as Halal Lifestyle are variable mediators.

#### ***Population and Sample***

The Population and sample of this study are all annual reports of Halal industry companies both listed in Islamic stocks or not listed in Islamic stocks. The selected sample is the Halal industry published a complete annual report from 2012 to 2016.

#### ***Research and Measurement Variables***

Based on quantitative research approaches and hypotheses built, then there are several variables used. This can be seen in table 1 below.

**Table 1**  
**Research and Measurement Variable**

No.	Variable Name	Variable Type	Measurement Dimension	Proxy	Measurement Scale
1	ISR Index	Dependent	<ol style="list-style-type: none"> <li>1. Underlying philosophy and values,</li> <li>2. Interest-free instruments, ghatat, maysis, and Dhulm,</li> <li>3. Social and community development,</li> <li>4. Work environment and nature,</li> <li>5. Management Profile and Nature,</li> <li>6. Employee &amp; Borrowing Dimensions,</li> <li>7. Dimensions “wellbieng”/falah and welfare</li> </ol>	99 items with a score of 0 without disclosure of information, score 1 exists but are incomplete, score 2 with complete disclosure with the highest total 198 or 100%/1	Ratio
2	Board of Commissioner’s size	Independent of GCG	Structure and Mechanism of GCG form Non- Financial factors.	Number of Members	Nominal
3	Size of the Audit Committee	Independent of GCG	Structure and Mechanism of GCG form Non- Financial factors.	Number of Members	Nominal
4	Foreign Ownership	Independent of GCG	Structure and Mechanism of GCG form Non- Financial factors.	The number of foreign shares compared to the total outstanding shares	Ratio
5	Managerial Ownership	Independent of GCG	Structure and Mechanism of GCG form Non- Financial factors.	The number of shares of directors, commissioners and employees compared to the total outstanding shares	Ratio
6	Halal lifestyle	Independent Moderating	BSS listing category and not BSS listing	Dummy variable; 1 for BSS and 0 for non BSS	Ratio

7	Company Size	Independent of PER	Financial Dimension	Total Assets	Ratio
8	Profitability	Independent of PER	Financial Dimension	ROE/ROA	Ratio
9	Leverage	Independent of PER	Financial Dimension	DER	Ratio
10	Audit	Independent of Audit	Katagori KAP Big 5, KAP Big 10, KAP Big 21 and KAP >21	1 for Big 5 2 for Big 10 3 for Big 21 4 for > 21	Nominal

### ***Data Analysis Method***

This study uses a causal descriptive / quantitative research method using the SEM statistical model. The data comes from secondary data and this research data processing is supported by using SPSS software for Windows R. 10.05 and LISREL 8.8 assisted with Microsoft Excel software for graphic and table design. This method according to Sugiono (2008) aims to analyze the relationship between variable one with other variable affect other variable.

In this study, the stages that must be passed in data processing with Lisrel, namely the normality test, the validity and reliability test, Confirmatory Factor Analysis (CFA), so that the observed variables can be directly measured endogenous latent variables, namely perceived value, satisfaction, involvement, and behavioral intentions will be observable variables of latent variable exogenous service quality.

Normality is a form of a data distribution on a single metric variable in producing a normal distribution (Hair, 2006). Researchers will use the z statistical value for Skewness and Kurtosis in testing whether or not the assumption of normality is violated. If the z value is significant (less than 0.05 at the 5% level it can be said that the data distribution is not normal. Conversely, if the z value is not significant (greater than 0.05), then the data distribution is normal.

The estimation method that will be used in this research is Maximum Likelihood. Maximum Likelihood has several important characteristics and these characteristics are asymptotic so that it applies to large samples (Bollen, 1989 in Wijayanto, 2008). First, even though the estimator might be biased for a small sample, the Maximum Likelihood Estimator is consistent. Third, the Maximum Likelihood is asymptotic variance. And the distribution of the estimator, no one

has smaller asymptotic variance. And the distribution of the estimator approaches the normal distribution when the sample size increases.

The Maximum Likelihood Estimator will produce efficient, valid, and reliable parameter estimates if the data used are multivariate normality and will be robust (not affected / strong) against moderate multivariate normality deviation. But the estimation on Likelihood will be biased if the violation of multivariate normality is very large (Ghozali, 2008).

Bentler dan Chou (1987) in Wijanto (2008) suggest that the lowest ratio of 5 respondents per observed variable will be sufficient for a normal distribution when a latent variable will be sufficient for a normal distribution when a latent variable has several indicators (observable variables). Based on this, then as a rule of thumb, the sample size required for the estimation of Maximum Likelihood is a minimum of 5 respondents for each observed variable in the model.

The Maximum Likelihood Estimator will provide valid result with a sample size of 50, but this small sample size is not recommended. Although there is no standard sample size, the recommended sample size and generally accepted to get result that are consistent with the use of Maximum Likelihood is 100-200 samples (Hair, 2006).

Validity test is used to measure whether the indicators used can explain latent variables. According to Sitinjak and Sugiarto (2006), validity is related to whether a measure what should be measured. In this study, validity states the degree of accuracy of the measuring instrument of the study of the content or the actual meaning measured. A research instrument is considered valid if the information on each indicator is closely correlated with the information from these indicators as a whole.

Validity test of the measurement model is done by checking whether (a) the *t*-value of the standardized loading factors of the observed variables in the model meets good requirements, which is greater than the critical value ( $> 1.96$ ) and (b) the standardized loading factors of the observed variables in the model has fulfilled good requirements, which is  $> 0.70$ . igbaria et.al (1977) states that standardized loading factors  $> 0.50$  are very significant but  $> 0.30$  than related variables can be considered can be considered not removed. Standardized loading can be obtained directly from the LISREL program output is the measurement error for each indicator or variable observed. (Fornel and Larker, 1981 in Wijanto, 2008).

Hair (2006) states that although the requirement for a good Construct Reliability (CR) value is  $> 0.70$ , but if the CR value is in the range of 0.60 and 0.70, then reliability is still included in the good category. Hair also states that a VE value  $> 0.50$  is a good measure of a measuring reliability. But this VE is usually optional (research). So, may or may not be used in research not be used in research. But it would be better if included.

### **Overall Fit Measurement Model (Fitted Test)**

In this study, researchers used Structural Equation Modeling (SEM) contained in the Lisrel program where this method tested together a model consisting of independent variables and dependent variables (Wijayanto, 2008). After passing the validity and reliability testing with the CFA model, the next step is to analyze the suitability of the data with the model as a whole or in Lisrel called Goodness of Fit (GOF). This test will evaluate whether the resulting model is a fit model or not. From the output generated from the estimation of structural model measurements in the Lisrel program, an analysis of the suitability of the whole model can be seen from statistics.

The application of SEM in research requires a different orientation than the application of statistics. The procedure in SEM emphasizes covariant use more than individual cases. If in ordinary statistical analysis, the minimized function is the difference between the observed and predicted values, then the SEM that is minimized is the difference between the covariance of the sample and the covariance. SEM describes the interaction between theory and reality and also shows that the theory is used to explain reality (Waluyo, 2011 : 25).

Can be explained as follows :

#### **1. Absolute Fit Measures, CMIN/DF**

The minimum sample discrepancy function (CMIN) divided by the degrees of freedom (DF) will produce a CMIN/DF index, which is generally reported by researchers as one indicator to measure the fit level of a model. CMIN/DF is nothing but a chi-square statistic,  $\chi^2$  divided by DF so that it is called relative  $\chi^2$ . And the relative  $\chi^2$  value  $< 2.0$  is an indication of an acceptable fit between the model and the data.

## **2. Goodness-Fit-Index (GFI)**

Goodness-Fit-Index (GFI) is a measure of the accuracy of the model in producing an observed covariance matrix. Value ranges from (poor fit) to 1 (perfect fit). A high GFI value indicates better fit. The recommended value is  $\geq 0.90$  which indicates good fit, while  $0.80 \leq \text{GFI} < 0.90$  is often referred to as marginal fit.

## **3. The Root Mean Square Error of Approximation (RMSEA)**

RMSEA is a measure that tries to improve the tendency of chi-square statistics to reject models with a large sample size. RMSEA values between 0.05 – 0.08 indicate good fit and RMSEA values  $< 0.05$  indicate close fit. The RMSEA empirical test results are suitable for testing confirmatory models or competing models with large sample sizes.

## **4. Incremental Fit Measures – Adjusted Goodness-of-Fit (AGFI)**

Adjusted Goodness-of-Fit is an analog of  $R^2$  in multiple regression. This index fit can be adjusted to the degree of freedom available to test whether or not the model is accepted. AGFI is a criterion that takes into account the weighted proportion of the variance in a sample covariance matrix. A value  $> 0.90$  can be interpreted as a good level (good overall model fit), while a value  $> 80$ , indicates a sufficient level (marginal fit).

## **5 Expected Cross Validation Index (ECVI)**

The ECVI value can be said to have the best-fit if the ECVI value approaches the ECVI Saturated Model Value. The ECVI saturated model has the best-fit and ECVI independence models represent the Worst-fit. In the test results, the ECVI value is 1.50. the ECVI value for the saturated model is 0.666 and the ECVI value for the independence model is 9.48. Thus the ECVI in this study is reckless with the saturated model.

## **6 . Incremental Fit Index (IFI)**

IFI have values ranging from 0 to 1. IFI values greater than or equal to 0.90 are good fit. While the IFI value is greater or equal to 0.80 and smaller than 0.90 is called marginal fit.

## **7. Comparative Fit Index (CFI)**

The index is in the range of values from 0-1. Getting closer to 1 indicates the highest level of fit (a very good fit). CFI value  $\geq 0.90$  indicates marginal fit. The advantage of this index is that it is not affected by the sample size, because it is very good for measuring the level of acceptance of a model. In assessing the model, the TLI and CFI indices are strongly recommended for use because this index is relatively insensitive to sample size and is less influenced by the complexity of the model.

## **8. Parsimonious Fit Measures-Parsimonious Normal Fit Index (PNFI).**

Parsimonious Normal Fit Index includes the number of degrees of freedom used to reach the fit level. High parsimonious Normal Fit Index values indicate better compatibility, but this is only used in comparing alternative models. In comparing models, a difference of 0.60-0.09 shows a very large difference from the model.

## **9. Parsimonious Goodness-of-Fit Index (PGFI)**

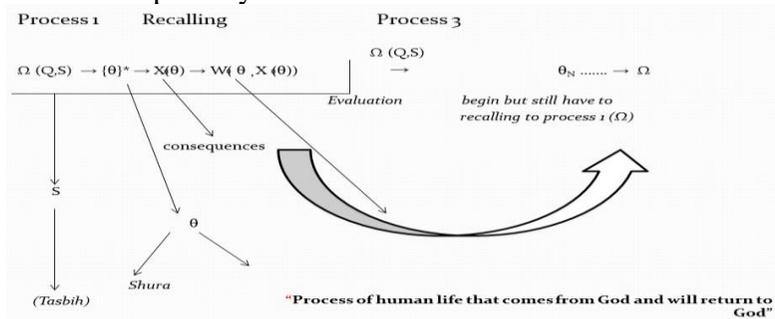
The Parsimonious Goodness-of-Fit Index modifies the GFI on the basis of the estimated parsimony model. PGFI values range from 0 to 1. CFI value  $\geq 0.90$  indicates good fit and a CFI value of 0.80 to 0.90 indicates marginal fit.

## **Analysis Data**

In analyzing the implementation of Halal Lifestyle in the relationship between GCG, PER, and Audit with disclosure of social information responsibilities, the data analysis method will be used, as follow :

1. Analyzing halal lifestyle on performance of financial reporting, using descriptive statistical analysis.
2. Analyzing halal lifestyle on good corporate governance, using descriptive statistical analysis.
3. Analyzing halal lifestyle on social information disclosure, using descriptive statistical analysis.
4. Analyzing the performance of financial reporting on the disclosure of social information, using descriptive analysis.
5. Analyze good corporate governance on the disclosure of social indromation, using descriptive statistical analysis.

6. Analyze audits on the disclosure of social information, using descriptive statistical analysis.
7. Analyzing the influence of halal lifestyle, auditing on the disclosure of social information, among others, using analytical methods; multiple regression analysis, and structural equation modeling.
8. Analyzing the influence of halal lifestyle, good corporate governance on the disclosure of social information, among others, using analytical methods; multiple regression analysis, and structural equation modeling.
9. Analyzing the effect of halal lifestyle, performance of financial reporting on the disclosure of social information, among others, using the method of analysis; multiple regression analysis, and structural equation modeling.
10. Analyzing halal lifestyle, good corporate governance, performance of financial reporting, and auditing using the Tawhidi String Relations and Circular Concept analysis method.



**Figure 2**  
**Tawhidi String Relation, Circular Causation Concept and its Application to Economic Field**

Source : Mariyanti (2011; 116)

**Information :**

The implementation of the IIE process in the disclosure of responsible social information is as follow :

In process I is a process where  $\Omega$  is a symbol of knowledge that comes from the Qur'an and HAdith in the next process of knowledge and humans meet through a process of deliberation (shuratic process). And symbolize  $X(\theta)$ .

With this understanding of human relations and society creates a world order based on the Qur'an and Sunnah and the knowledge they have. Therefore through interaction and integration between, through the process of slowly developing the Social wellbeing Function appears, this is represented by  $W(\theta, X(\theta))$ . While the implementation of halal lifestyle in the disclosure of scial information in the

annual financial statements, for  $W(\theta, X(\theta))$ , is  $W(\theta)$ , namely : performance of financial reporting, good corporate governance, audit and halal lifestyle ( $\theta$ ) with functions whether the variables included in the model are variables that can affect the disclosure of social information in the annual financial statements through the Shariah process. And the end of process 1 and the beginning of process 2, is the process of evolution of TSR greetings until the end of time, where we must return to the source of knowledge that is the Qur'an and Sunnah (omega). In formulating a new theta ( $\theta_N$ ), and it must be recalled the previous process so that we as humans can remain in the correct process in accordance with the Qur'an and Sunnah. In process 2 to build the quality of teamwork on the basis of the knowledge they have must go back to the previous process whereby all matters concerning poverty alleviation must be based on the principle of all matters handed over or returned to Allah SWT.

#### **4. RESULT AND DISCUSSION**

##### ***Analysis with SEM*** **Estimation Method**

The estimation method used in this study is Maximum Likelihood, where a minimum of 5 (five) respondents per observed variable will be sufficient for a normal distribution (wijayanto, 2008). According to Hair (2006), the recommended sample size and generally accepted to get results that are consistent with the use of Maximum Likelihood is 100-200 samples. In this study, researchers conducted a study of 200 respondents.

##### **Confirmatory Factor Analysis (CFA)**

Confirmatory Factor Analysis is a form of measurement model that models the relationship between latent variables and observable variables. The purpose of the measurement model is to describe how well these indicators can be used as instruments for measuring latent variables.

In SEM, the relationship between latent variables and observed variables is reflective, where the observed variables are a reflection of latent variables. The relationship is also con-generic, where one observed variables only measure or reflect a latent variables.

### ***Offending Estimate Analysis***

This analysis must be carried out to ensure there are no offending estimates (value that exceed the acceptable limit) of the CFA estimation results. The analysis criteria are as follows :

- Offending estimates, especially the existence of negative error variances (known as heywod cases). If there is a negative error variant, then the error variant needs to be set to 0,005 or 0,01.
- Standardized loading factor  $> 1$ .
- Standard errors related to the estimated coefficients have a large value.

After checking carefully, the researcher did not find more than one negative error variance and standardized loading factors. In addition there is no standard error of great value. With these results, then all variables have met goog requirements in the absence of offending estimates. Thus, further testing can be done.

### **Test Validity and Reliability of Observable Variables**

Test the validity and reliability in the SEM model on the Lisrel program can be done using a measurement model Confirmatory Factor Analysis (CFA) which will provide results in the form of a path diagram.

The validity analysis of the measurement model is done by checking whether the a t-value of the observed variables in the model meets good requirements, which is greater than the critical value, that is  $> 1.96$ , and (b) standardized loading factors of the observed variables in the model meet good conditions, which is  $> 0.70$ . Igbaria et.al. (1997) states that standardized loading factors  $> 0.50$  are very significant but  $> 0.30$  then the related variables can be considered not to be deleted and can be accepte (Kadir ; 2016).

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**Latent Variable GCG**

**Table 2**  
**Standardized Loading Factors (SLF) values for GCG**

Component Matrixa	
Component	
1	
x4	0,772
x1	0,687
x3	0,639
x2	0,410

Observed variables that have passed the GCG validity and reliability test (see table 2) will be declared eligible as gauges for their latent variables. Whereas observable variable that do not pass the validity test will be deleted because their presence does not have any effect. In this study, the first statement of SLF value of 0.687 has passed the validity test because it has fulfilled the requirements. Likewise, the second statement with SLF = 0.41.

**Table 3**  
**Test the Validity of GCG Latent Variables**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.550
Bartlett's Test of Sphericity	Approx. Chi-Square	83.049
	df	6
	Sig.	.000

Testing table 3 above is the validity test results showed above 0.5, which means the measuring instrument is valid.

**Latent Variable PER**

**Table 4**  
**Standardized Loading Factors (SLF) values in PER**

Component Matrixa	
Component	
1	
x7	.708
x6	.653
x8	-.347

Observed variables that have passed the validity and reliability test of PER (see table 4) will be declared eligible as gauges for their latent variables. Whereas

observable variables that do not pass the validity test will be deleted because their presence does not have any effect. In this study, the first statement of SLF value of 0.653 has passed the validity test because it has fulfilled the requirements. Likewise, the second statement with SLF = 0,708.

**Table 5**  
**Test Validity of Latent Variables PER**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.502
Bartlett's Test of Sphericity	Approx. Chi-Square	.459
	df	3
	Sig.	.928

Testing Table 5 above is the validity of the test results showed above 0.5 which means that the instrument are valid.

**Contribution of Variable Indicators to Research Variables**

The measurement results of the research model for the two exogenous variables namely Good Corporate Governance (GCG) with 4 indicators and Performance of Financial Reporting (PER) with 3 indicators, are paying attention to the contribution of each indicator see table 6 below.

**Table 6**  
**Testing the validity of latent variables**

<b>Variable</b>	<b>Indicator</b>	<b>Coefficient</b>	<b>t-value</b>	<b>R<sup>2</sup></b>	<b>Decision</b>
Good Corporate Government (GCG)	UDK	0.261	0,687	0.000	Significant
	UKA	0.034	0,41	0.055	Significant
	KM	0.029	0,639	0.128	Significant
	KA	0.029	0,772	0.150	Significant
Performance of Financial Reporting (PER)	UP	0.018	0.653	0.321	Significant
	Profit	-0.015	0.708	0.366	Significant
	Lav	-0.002	-0.347	0.934	Significant

Note : Significant loading factor values  $\alpha \geq 0,30$

### Model Fit Test

In this study, researchers used Structural Equation Modeling (SEM) contained in the Lisrel program where this method tested together a model consisting of independent variables and dependent variables.

After passing the validity and reliability testing with the CFA model, the next step is to analyze the suitability of the data with the model as a whole or in Lisrel called Goodness of Fit (GOF).

This test will evaluate whether the resulting model is a fit model or not. From the outputs generated by the estimation of structural model measurements in the Lisrel program, the overall model compatibility analysis can be seen from the statistical figures (Table 7) as follows, namely :

**Table 7 Results of the Goodness of Fit Model**

<b>Goodness of Fit Measurement</b>	<b>Acceptance Limit Suggested</b>	<b>Score</b>	<b>Decision</b>
Chi-Square $X^2 / df$	<i>The smaller the value of <math>X^2</math> the better – approaches good</i>	0.005	<i>Not Acceptable Fit</i>
RMSEA	<1	0,086	<i>Acceptable Fit</i>
ECVI	< 2,64	0,56	<i>Acceptable Fit</i>
GFI	0,80 or approaching 1	0,95	<i>Acceptable Fit</i>
CFI	>0,90	0,92	<i>Acceptable Fit</i>
AGFI	>0,70 or approaching 1	0,88	<i>Acceptable Fit</i>
IFI	IFI>0,90	0,93	<i>Acceptable Fit</i>

1. Chi-square value is 13.094 with a value of  $P = 0.0005 < 0.05$ . these results indicate that the suitability of the theoretical model meets the criteria of  $P < 0.05$ , based on the values obtained, the suitability of the model obtained is close to good.
2. While the RMSEA value, which is equal to 0.086, indicates a good model's fit, the model is said to be good (good fit) if the RMSEA value is  $< 0.08$ .
3. Next is the analysis of ECVI values, namely by comparing the values of ECVI with the ECVI saturated model and the ECVI independent model. The lower the ECVI value, the better the model fit. The output fit indicated an ECVI

value of 0.56; ECVI saturated model of 0.5; and ECVI independent models of 2.64. It can be concluded that the value of  $ECVI < ECVI_{sat.mod}$  and  $ECVI < ECVI_{independent}$  is  $0.563 > 0.56$  but  $0.56 < 2.64$  which means that the suitability of the model suitability based on ECVI values is good (good fit).

4. The GFI value is 0.95 which indicates that the model matches well. Likewise, the AGFI value of 0.88 indicates a good match value. The model is said to have a good match if the value of GFI or AGFI is 0.90.
5. Next is the CFI criteria. The result of output fit indicated shows a CFI value of 0.92, which shows a good fit of the model because the CFI value meets the criteria, namely  $CFI > 0.90$ .
6. Then for the IFI value of 0.93 which indicates that the model matches well, because it meets the CFI criteria  $> 0.9$ . It will be easier then the conclusions will be shown in (Appendix Table 4.7).

The results of the Goodness of Fit Model (Table 7) have good data suitability compared to the recommended conditions. Data analysis using the Lisrel version 8.8 program in the formation of the Confirmatory Factor Analysis (CFA) used was demonstrated by the correlation-regression technique to test the measurement of the model in a conceptual framework that shows the testing of the influence of social responsibility information in the annual Halal industry report.

## **Discussion and Results of Hypothesis Testing**

Data analysis is done by testing the hypothesis, which is to find out whether there is a significant influence between variables. Hypothesis testing is done using the Lisrel analysis method with the help of SPSS for Windows R. 10.05 software.

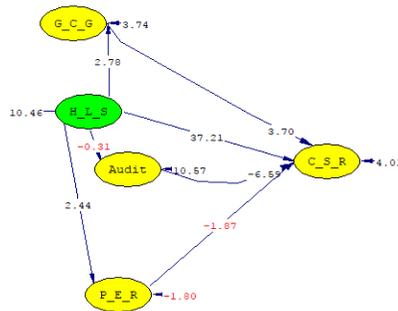
After testing the suitability of the whole model, the next step is to test the research hypothesis on the structural model. Model testing is done to find out how the relationship between HLS, Audit, GCG, PER and CSR variables. With this test it will be known whether the research model hypothesis is accepted or rejected.

All variables in this study were measured using 9 observable indicators/variables in the form of statements, namely each latent variable consists of : HLS namely 1 indicator, Audit 1 indicator, GCG which is 4 indicators, PER 3 indicators and CSR consists of 1 indicator. But in this structural model, each observed variable is only represented by one statement. This is done by selecting the statement that has the highest loading factor value, as previously explained.

Hypothesis test results can be seen from the printed output of the syntax process in the researchers processed equation formula and it is also found in the path

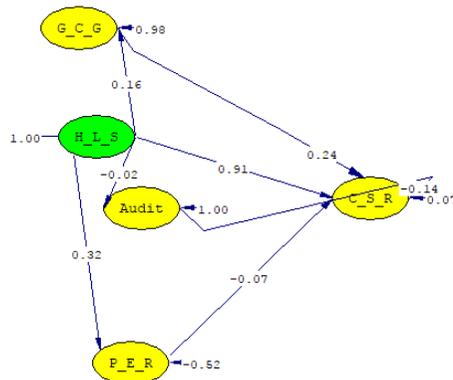
diagram. Significant relationship will be marked with a black t-value on the path diagram with a value  $\geq 1.96$ . While the insignificant relationship is indicated by the red t-value in the path diagram with a value below 1.96. the path diagram shown in (see Figures 2a and 2b) provides an overview of the relationship between HLS, Audit, GCG, PER and CSR latent variables.

**Figure 2a**  
**Uji-t**



Chi-Square=57.13, df=26, P-value=0.00040, RMSEA=0.074

**Figure 2b**



Chi-Square=57.13, df=26, P-value=0.00040, RMSEA=0.074

**Standardized** In the validity and reliability test before testing the model, all variables in the study have been tested for validity and reliability because they meet the requirements with a value of  $\geq 1.96$ . Following below is the path diagram of the results of the hypothesis test model (see table 8 and figure 2a and 2b).

**Table 8 – Conclusion of Hypothesis Test Between Variables**

<b>Hypothesis</b>	<b>Path</b>	<b>t-value</b>	<b>Estimate</b>	<b>Results</b>
H1	HLS - PER	2,44	0,32	Accepted
H2	HLS – GCG	2,78	0,16	Accepted
H3	HLS – CSR	37,21	0,91	Accepted
H4	PER – CSR	-1,87	-0,07	Ignored
H5	GCG – CSR	3,7	0,24	Accepted
H6	Audit – CSR	-6,59	-0,14	Accepted
H7	HLS – Audit-CSR	2,04	0,002	Accepted
H8	HLS - GCG – CSR	10,28	0,03	Accepted
H9	HLS - PER – CSR	-4,56	0,02	Accepted

Can be seen from the path diagram 2a and 2b above, the result of the model test show that the relationship between HLS and GCG, PER and CSR has a t-value with a black number, which means the value of t-value  $\geq 1.96$  so that it shows that the relationship between HLS with significant GCG and PER. The relationship between Audit and CSR has a t-value with black number, which means the t-value  $\geq 1.96$ , thus indicating that the relationship between Audit and CSR is significant Likewise, the relationship between Audit and CSR has a t-value with a black number, which means that the t-value  $\geq 1.96$ , thus indicating that the relationship between GCG and CSR is significant .

Futhermore, the exogenous PER variable towards CSR shows a t-value of -1.87. this also shows that this relationship does not meet the criteria because the absolute value of t-value  $< 1.96$  in red. So it can be interpreted that there is no effect of PER on CSR. Likewise, the relationship between HLS and Audit has a t-value with a red number, which means the absolute value of t-value  $< 1.96$ , thus indicating that the relationship between HLS and Audit is not significant..

Structural model compability test result in this study showed positive result. This gives the meaning that the variables in this study are related. Namely the HLS relationship affects GCG and CSR. The following is an in-depth explanation of the analysisi of the overall variables found in Table 8 and figures 2a and 2b.

## **5. CONCLUSIONS AND SUGGESTION**

### **CONCLUSIONS**

Based on the result of the research discussed in Chapter IV above, the authors can draw the following conclusions :

1. The analysis of Halal Life Style (HLS) has a positive effect on Performance of Financial Reporting (PER) in the company’s halal industry. Partially, HLS has a significant effect on PER and it is suspected that HLS has a dominant positive effect on PER.

2. The analysis of Halal Life Style (HLS) has a positive effect on Good Corporate Governance (GCG). HLS partially has a significant effect on GCG.
3. The analysis of the Halal Life Style (HLS) has a positive effect on Corporate Social Responsibility (CSR). HLS partially has a significant effect on CSR.
4. The result of the analysis of Performance of Financial Reporting (PER) have a negative effect on Corporate Social Responsibility (CSR), partially PER has no significant effect on CSR.
5. The result of the analysis of Good Corporate Governance (GCG) have a positive effect on Corporate Social Responsibility (CSR). Partially, GCG has a significant effect on CSR.
6. The result of the Independent Audit analysis have a positive effect on Corporate Social Responsibility (CSR). Partially, Audit has significant effect on CSR.
7. The analysis of Halal Life Style (HLS) and Independent Audit influences the Corporate Social Responsibility (CSR). Simultaneously HLS and Audit have significant / positive effect on CSR.
8. The analysis of Halal Life Style (HLS) and Good Corporate Governance (GCG) affects the Corporate Social Responsibility (CSR). Simultaneously HLS and GCG have a significant / positive effect on CSR..
9. The analysis of Halal Life Style (HLS) and Performance of Financial Reporting (PER) affects the Corporate Social Responsibility (CSR). Simultaneously HLS and PER had a significant / positive effect on CSR.
10. Hypothesis testing based on this TRS shows that Good Corporate Governance (GCG), Performance of Financial Reporting (PER), Halal Lifestyle (HLS), and Independent Audit simultaneously influence the Disclosure of Social Information Liability in the annual financial statements in the annual forming Social Information Liability Disclosure in the halal industry, which impact the substitution competition effect in forming Social Information Liability Disclosure in the annual financial statements in the annual financial statements in the halal industry. Of course, through a continuous learning process in forming Social Information Responsibility Disclosure in the annual financial statements in the halal industry. Proven based on the IIE concept that Good Corporate Governance (GCG), Performance of Financial Reporting (PER), Halal Life Style (HLS), and Independent Audit simultaneously have a positive and Independent Audit simultaneously have a positive and significant effect on Social Information Responsibility Disclosure in annual financial statements in the halal industry.

And if Halal Lifestyle is Carried out well, then the learning process will have a GLOBAL impact (overall Micro and Macro) in the form of a growing Indonesian economy, investors are more trustworthy / secure, employees and the people will feel prosperity, so that peace and life and physical life and inner life,

family and society which aspire to live happily in the world and the hereafter will be reached , *baldatun taoyyibatun wa rabbun ghofur*.

## **SUGGESTION**

Suggestion for futher research by perfection the deficiencies or limitations that exist in this study, it is hoped that further researchers should conduct research on halal industrial entities including other halal of financial / non financial industry entities with a wider number of halal industries and respondents, both status good corporate governance as the dependent variable, company performance as the dependent variable and independent audit.

Suggestion for futher researcher are that the Islamic Economic and Fiance Study Program which uses the Tawhidi String Relationship methodology with simultaneously equation and wellbeing finitions, and includes the values intended by the Tawhidi String Relationship (TSR) methodology, and also for the comparative studies of Islaic research. As a refinement to the concept: TSR (Tawhidi String Relation) and IIE (Interactive Integrate Evaluation), so that the impact of Complementary Effect in circular Causation, GCG, Performance of Financial Reporting (PER), Halal Lifestyle (HLS) and Independent Audit in Forming / presenting disclosure of social information responsibilities (CSR Disclosure) in the annual financial statements in other Islamic-based halal industries and is a value added in research baased on Islamic concepts .

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The content of this book contain views and thought taken by experts. Not just one, but the opinions of several experts are summarized in it. This book provides more detailed information on how to understand the concepts of islamic economics finance and accounting.

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