

CHAPTER 1

INTRODUCTION

1.1 Background of The Study

Indonesia is a country with diverse religious beliefs, ethnicity, and language the majority of the world's largest Moslem population. So it is not surprised if the culture and surroundings reflect more about Islam. In fact, there are various factions of Islam in Indonesia.

Although it's majority is Islam, an interest in fighting for Sharia law is still low, especially in Islamic banking. From the data, demand market share amounted to 8.24% of Islamic banking and conventional banking amounted to 91.76%¹. Acquisition of data from the Otoritas Jasa Keuangan (OJK) as a national institution supervises and monitors the company's financial performance in Indonesia. It can be concluded that the majority of customers in Indonesia prefers conventional banking although there is already Sharia-based banking.

Even though the development of Islamic banking in Indonesia is very good from year to year, its development is still slow when compared to conventional banking. Comparison to international banking, Indonesia is still inferior to the majority of Muslims in other countries. Where as the majority of them are non-Muslim population as Indonesia with an overview of the data in 2017 as follows²:

Iran	\$ 545 377
Saudi	\$ 472 654
Malaysia	\$ 405 985
UAE	\$ 203 262
Kuwait	\$ 120 204

¹ Laporan Perkembangan Keuangan Syariah Tahun 2017

² Laporan Perbankan Keuangan Syariah Otoritas Jasa Keuangan Tahun 2017

Bahrain	\$ 99 159
Indonesia	\$ 81 839
Qatar	\$ 68 062
Turkey	\$ 49 573
Bangladesh	\$ 30 870

Table 1 Largest Islamic Financial Assets Per Million the US \$

The table above showed the increase in Islamic banking assets in 2017 by occupying assets of the US \$ 81 billion. This development can make motivation in Islamic banking to be better to compete with other countries.

Type of Industry	Year		
	2015	2016	2017
Syariah banking	304	365.65	435.02
Takaful	26.52	33.24	40.52
Islamic financing	22.83	35.74	32.26
Other Non-Islamic Banking Institutions	15.54	18.49	24.14
Corporate Bonds	9.9	11.88	15.74
Islamic mutual funds	11.02	14.91	28,31
Sukuk	296.07	411.37	555.5
Stock Sharia	2600.8	3119.4	3704.5

Table 2 Financial Asset Islamic Banking (Trillion Rp)

The Shariah-based industries increase from year to year. There is an increase not only in Islamic banking but also to other sectors based on sharia. The acquisition of data from the Otoritas Jasa Keuangan (OJK) is as follows :

From the results of the data fluctuation above, excellent Islamic banking development from year to year potentially able to compete with conventional banks. Hence, insight and knowledge on Islamic banking to

the public understanding in Islamic banking is needed to get good support and trust of the community and make Islamic banking in Indonesia as a center of Islamic banking system development in Asia and even the world. It is because Indonesia has great potential in the management of the adherents of the largest Muslim majority as great support to guarantee it happen.

In order for these achievements is successful, it shows the need for Islamic banking and its potential advantages in running financial operations. People can know the benefits and drawbacks of a company by analyzing its financial statements because the financial statements is a report that shows the company's financial condition at this time or a certain period.³,

So, the financial statements basically are results of the financial processes in managing corporate data that can be used as an information, including financial data with parties concerned with the company's financial data⁴. It can be concluded by financial analysis. People can determine the company's financial position at this time to look in depth target has whether been reached or not⁵. Thus, it become the main cornerstone investor to cooperate with the company after seeing potency of the company.

The analytical tool used in general is the analysis Liquidity, Profitability, and Solvability. Analyzing the short-term liquidity to finance the company, profitability to determine the overall profit earned, and solvability to measure the ability of banks to seek funding to finance its activities⁶. Each analysis also contains other criteria to ensure the good suitability in determining financial performance.

The Result of analysis and assessment of these banks reveal its perform once with the social report. As a form of concern for companies in order to achieve the expectations of society are needed, and the role of companies, both technicians and Islamic spiritual perspective. Islamic

³ Kasmir, S.E, M.M. 2016. Analisis Laporan Keuangan, Pt Rajagrafindo, Depok

⁴ Umi Barokah Analisis Laporan Keuangan untuk Menilai Kinerja Air Minum Tirta Binangun Kabupaten Kelon Progo, , Universitas Negeri Yogyakarta, Yogyakarta.

⁵ ibid 1

⁶ ibid 2

Social Reporting (ISR) as the standard of reporting the performance of companies is based on sharia that emphasizes social justice relating to the environment, the rights of minorities and employees⁷

Many Islamic banks only use social reports of the Global Reporting Initiative Index (GRI), a report issued by a company or organization on the impact of economic, environmental and social caused by the daily activities of the company in presenting the organization's values and models of governance, and show relationship between strategy and commitment⁸. The role of GRI has been recognized by the international parties. So, there is no other reason to use this reporting.

The company or organization does not use the proper Sharia guidelines because a company can be recognized as an issue must meet the Sharia Islamic law which is supposed from the disclosure of information and evidence in which it operates according to Islamic law⁹. The roles of Islamic Social Reporting are as a result of thinking AAOFI (Accounting and Auditing Organization for Islamic Financial Institutions), as the international organizations to discuss and examine the systematics of accounting and finance based on Sharia, as a measure of performance implementation of sharia entity that contains a compilation of standardized components based on sharia¹⁰.

The existing concept in the provision of Sharia-based reporting is in accordance with ISR. The goal of ISR as a form of accountability to God and the community, as well as improving the transparency of business activities by providing relevant information with regard to the spiritual needs of Muslim investors in particular or Shariah compliance in

⁷ Prof. Dr. H. Nuruddin Amiur. 2016. *Islamic Social Reporting*, MA, UIKA Press, Bogor.

⁸ Hasnita, 2016. *Analisis Kualitas Sustainability Reporting Berdasarkan Global Reporting Initiative (GRI) Index dan Islamic Social Reporting (ISR) Index*, Universitas Islam Negeri Alaudin, Makassar.

⁹ *ibid* 3

¹⁰ *ibid* 4

decision-making¹¹. The relation between financial performance and value of companies within the disclosure of Islamic Social Reporting is to prove that the operating system of Islamic banking has been managed in accordance with the Islamic law in force. Finally, the researcher wants to examine the results of this background entitled “The Effect Liquidity, Solvability and Profitability Ratios on Disclosure of Islamic Social Reporting In Indonesian Islamic Banking During The Period 2015-2017”

1.2 Formulation of Problems

Based on the background above, it can be formulated issues to be studied as follows:

1. Does the liquidity of financial ratio analysis have a positive influence on the Islamic banking Islamic Social Reporting period 2015-2017?
2. Does the profitability of financial ratio analysis have a positive influence on the Islamic banking Islamic Social Reporting period 2015-2017?
3. Does the solvability ratio analysis have a positive influence on the Islamic banking Islamic Social Reporting period 2015-2017?

1.3 Research Purposes

From the results of the formulation of the purpose, this study aims as follows:

1. To analyze the effect of liquidity ratios whether it has a positive influence on Islamic banking Islamic Social Reporting period 2015-2017.
2. To analyze the effect of Profitability ratios whether it has a positive influence on Islamic banking Islamic Social Reporting period 2015-2017.
3. To analyze the effect of Solvability ratios whether it has a positive

¹¹ Dr. Bayu Tri Cahya, SE, M.Sc. 2018. Islamic Social Reporting (Representation of Corporate Responsibility and Accountability Sharia). UIKA Press. Bogor.

influence on Islamic banking Islamic Social Reporting period 2015-2017.

1.4 Benefits of The Research

The benefits of this study are as follows:

1. For society

The results of the study have as systematic information and knowledge on financial performance and social reporting of Islamic banking. To see more about the state of governance and Islamic banking operations.

2. For academy

The results of the study is activity as references and lessons on financial performance analysis and reporting.

3. For the author

It is as experience in analyzing Islamic banking of the learning outcomes for this lecture and make this study as a benchmark understanding of financial management.

1.5 Limitation of the Problem

This study has limitations on what will be examined in which the objects of this study were the *BUS (Bank Umum Syariah)*. Approach as well as analysis to be used focus only on the liquidity, solvability and profitability to ward Islamic Social Disclosure Reporting (ISR). The acquisition of data was during the period 2015-2017 from each company's annual report published from 2015-2017.