THE EFFECT OF INTELLECTUAL CAPITAL AND ISLAMIC CORPORATE GOVERNANCE ON ISLAMIC SOCIAL REPORTING DISCLOSURE WITH FINANCIAL PERFORMANCE MEDIATION

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ABSTRACT

This research aimed to examine the indirect effect of Islamic Corporate Governance (ICG) disclosure and Intellectual Capital (IC) on Islamic Social Reporting (ISR) disclosure with financial performance as a mediating variable in Islamic Banking in Indonesia. It used secondary data with annual report data sources and financial statements on Islamic banking in Indonesia. They were testing this research using regression analysis with data for the annual reporting period of 2011 through 2014. The result finds that ROE mediates the effect of ICG on ISR disclosure. This shows that good management of Islamic banks will produce high financial performance so that they are able to carry out their social roles well too. The contribution of this research is to develop a new model of the role of financial performance mediating the effect of ICG disclosure on ISR so that it is beneficial for the development of science.

Keywords: *Islamic corporate governance, intellectual capital, Islamic social reporting, financial performance*

INTRODUCTION

The concern of Islamic banks for the social environment has changed the direction of the business and changed the image of the bank. In Indonesia, it is emphasized that Islamic banks, in addition to commercial functions, it must also socially function (Law of Republic of Indonesia Year 2008 Number 21 about Syaria Banking). Corporate Social Responsibility (CSR) is an idea that makes Islamic banks no longer faced with responsibility that rests on a single bottom line, namely corporate value that is reflected in financial conditions, but also must be based on a triple bottom lines that also pay attention to social and environmental responsibility (Elkington & Rowlands, 1999). In terms of reporting social responsibility through the presentation of accounting information, Haniffa and Hudaib (2007) have formulated CSR disclosure standards specifically for Islamic banks. The standard derives from Islamic values and is adjusted to the regulations set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Haniffa (2002) has argued that reporting social responsibility can be seen as a response of the company to meet the expectations of the community, for Islamic institutions such as social responsibility reporting Islamic banking which is expanded by incorporating a spiritual perspective called Islamic Social Reporting (ISR) (Haniffa, 2002).

Regarding the concept of value in ISR, Haniffa (2002) has explained that Islam wants to harmonize economic and spiritual activities in running a business. Islam has three interconnected dimensions, namely seeking the blessing of Allah SWT as the main goal in building socio-economic justice, providing benefits to society, and achieving prosperity together. ISR carried out by Islamic banks is basically a form of responsibility to stakeholders, while the responsibility to stakeholders in accordance with an Islamic perspective is a responsibility that aims to protect the rights and interests of all stakeholders as a whole (Iqbal & Mirakhor, 2004). According to Dusuki (2011), the responsibility to stakeholders within the Islamic framework aims to balance and harmonize the interests of various groups of stakeholders, based on moral principles, ethics, social responsibility, general interests, namely avoidance of damage and poverty and the principle of obedience to God's commands.

The main theories that influence the development of corporate governance are agency theory, which is primarily concerned with the relationship between managers and shareholders, and stakeholder theory that takes into account broader environmental groups of constituents (Mallin, 2007). Here the correlation between corporate governance and the broader group is seen, namely the social environment of the company. It states that Islam encourages good corporate governance in the company because, in Islam, the concept of corporate governance aims to protect the interests of all stakeholders by adhering to sharia principles that are called Islamic Corporate Governance (ICG). As a corporate governance framework, ICG is the most important practice of Islamic finance in building the trust of shareholders with the assurance that all transactions, practices, and activities are in accordance with sharia principles, so that this implementation will color the implementation of corporate social responsibility (Choudhury & Hoque, 2004; Iqbal & Mirakhor, 2004; Musibah & Alfattani, 2014). Islamic banks are considered to have a reliable ICG model with a very high level of accountability in order to protect and safeguard the rights and interests of stakeholders (Sairally, 2013).

ICG values such as responsibility, transparency, independence, justice, discipline, professional, caring are values that have been integrated with Islamic morals and a Muslim in their activities (Dusuki, 2011). These ICG values are highly upheld in Islam; their implementation can be known through disclosure (Abu-Tapanjeh, 2009). Thus in the management of Islamic banks, it is expected to disclose their ICG features to stakeholders, thus enabling stakeholders to assess how banks are managed and investments managed according to sharia (Darmadi, 2013). The existence of ICG disclosure is useful to measure the extent to which conformity to sharia values and the impact resulting from the governance of Islamic banks towards the commitment of social responsibility (Musibah & Alfattani, 2014).

The benefits of the company depend on the knowledge of the company and the best way and effective use of knowledge. Effective use of knowledge is directed at the company's interests in the company's long-term or going concern. This knowledge is one component of the intellectual capital (IC) owned by the company. Strong evidence that companies that focus on increasing IC have got good results for shareholders and competitive advantage (Proctor, Burton, & Pierce, 2006). The use of intellectual capital to build company value will provide benefits to stakeholders, including the embodiment of the social mission that is the obligation of Islamic banks. How far the company is able to utilize intellectual capital for its social mission will be reflected in the disclosure of its social responsibility. According to Kamath (2007), the banking sector is the ideal company for research of intellectual capital because: (1) there is reliable data in the form of financial statements, (2) the nature of the banking sector business is intellectually intensive, and all its employees are more homogeneous than other economic sectors.

This research is conducted based on stakeholder theory, which then developed into stakeholder theory from an Islamic perspective. Freeman (1984) has defined the stakeholder as groups or individuals who may influence, or be influenced by the achievement of organizational goals. Gomes (2006) has argued that the theory of stakeholder is first introduced in management theory as an answer to dissatisfaction over the criteria of financial effectiveness unilaterally. A mainstay of stakeholder theory is that organizational effectiveness that is measured by its ability to satisfy all those with interest in it. Stakeholder theory from a conventional perspective still has deficiencies that are considered fundamental, ie, have not included spiritual elements, that is, the relationship of man with God (Chapra & Ahmed, 2002). Stakeholder in Islam is the party that has the right to the risks of a corporate action either voluntarily or not so that stakeholders, not just the relation explicitly in the contract or transaction, but also implicitly have relevance to the activities of the companies (Iqbal and Mirakhor, 2004). Based on this theory, Islamic banks carry out social responsibility to fulfill their social functions.

Other theories based on resource-based theory, according to this theory, effective and efficient use of human resources will lead to improved financial performance is consistent with most studies that use the VAICTM model as a primary measure of intellectual capital (Kamath, 2007). Based on the resource-based theory, companies rely on heterogeneous sets of resources and perfect capabilities. These resources carry important physical assets such as financial matters, property, factories, company equipment and raw materials, and intangible assets, which include the company's reputation, work environment, and human resources. Nevertheless, as resources and abilities become valuable, rare, and irreplaceable; they can bring a competitive advantage that will create companies that have good financial performance. With good financial performance, the company is able to carry out social responsibility well.

Islamic banks, besides functioning commercially but also have social functions. However, the results of empirical research at home and abroad have found inconsistent results. The results of the research have found that Islamic banks carry out their social functions (Aburaya, 2012; Beltratti, 2005; Adiertanto & Chariri, 2013; Giannarakis, 2014; Habbash, 2016; Khan, 2012; Musibah & Alfattani, 2014; Othman, Thani, & Ghani, 2009). The results of the research have found that Islamic banks do not pay attention to their social functions (Aggarwal & Yousef, 2007; Farook & Lanis, 2007; Hassan & Harahap, 2010; Khoirudin, 2013; Maali, Casson, & Napier, 2006; Othman & Thani, 2010; Raman & Bukair, 2013). This research reaffirms the inconsistency of these results by developing a new model, namely the indirect influence of ICG and IC on ISR, by including financial performance as a mediating variable. The contribution of this research is to develop a new model and to test the model whether financial performance mediates the effect of ICG and IC on ISR so that it is beneficial for the development of science in accounting and stakeholder theory in Islamic concepts.

METHODS

The population of this research is Islamic banking in Indonesia. According to Law about Syaria Banking, the year 2008 number 21, Article 1 Paragraph 1: Islamic banking consists of Islamic banks and sharia business units (Law of the Republic of Indonesia Year 2008 Number 21 about Syaria Banking, 2008). Whereas Article 1 Paragraph 7 states that Islamic banks consist of sharia commercial banks and sharia people's financing banks. According to 2015, Sharia Banking Statistics issued by BI, the number of sharia business units are 22, sharia commercial banks are10, and sharia people's financing banks are 165. From this data, it can be seen that the number of Islamic banks in Indonesia up to 2015 is 199; thus, the population of this research is 199.

The sampling technique in this research is convenience sampling. Convenience sampling is the collection of information from members of the population that are fully available in accordance with the needs of the research (Sekaran & Bougie, 2016). From the existing population, only sharia commercial banks provide complete and easy information to obtain it through their websites, so that the sample of this research is ten banks. The ten banks are; Bank Syariah Mandiri, Bank BNI Syariah, BRI Syariah, Bank Muamalat Indonesia, BCA Syariah, Bank Mega Syariah, Bank Bukopin Syariah, Bank Jabar dan Banten Syariah, Panin Syariah Bank, and Maybank Syariah. The data sources are the annual report, financial reports, and GCG reports issued by each sharia commercial bank in Indonesia from 2011 to 2014. Thus a sample of 40 observations can be obtained, and the data can be obtained on the websites of each bank. Data collection methods used in this research is content analysis. The purpose of content analysis is to identify the characteristics or specific information contained in a document to produce an objective and systematic description (Sekaran & Bougie, 2016).

The dependent variable of this research is the level of ISR disclosure measured using the Islamic Social Reporting (ISR) index compiled by Hassan and Harahap (2010), which consists of 78 disclosure items that are adjusted to AAOIFI guidelines. The ISR index classifies its indicators into eight disclosure themes, namely: (1) ethical behavior, stakeholder engagement, and customer relations, (2) corporate governance - board of directors and top management (CG-BD & TM), (3) sharia-compliant corporate governance - SSB, (4) product, services, and fair dealing with supply chain (PS & FDSC), (5) environment, (6) employees, (7) strategic social development, and (8) research, development, and training. Further assessment is done using scoring where: (a) value 0 if there is no related disclosure of the item. (b) Value 1 if there is a disclosure related to the item, if all items have been disclosed, then the maximum value that can be reached is 78.

The independent variables of this research are Islamic corporate governance and intellectual capital. Islamic corporate governance, based on previous research (Darmadi, 2013), this research uses the ICG index of Islamic banking disclosure in Indonesia. The ICG disclosure index is calculated by the presence of disclosures for each ICG mechanism grouped into seven dimensions, namely: (1) Sharia Supervisory Board (SSB), (2) board of commissioners, (3) board of directors, (4) board of committees, (5) internal control and external auditing, (6) risk management, and (7) reporting on CG implementation. Overall it consists of 72 items of disclosure, and then scoring is done as done on the dependent variable. Intellectual capital is the performance of intellectual capital as measured by the value-added created by Value Added Capital Employee (VACA), Value Added Human Capital (VAHU), and Structural Capital Value Added (STVA). The combination of the three added values is symbolized by the name VAICTM developed by (Pulic, 2000). Value Added (VA) is calculated as the difference between output and input. Value Added Capital Employed (VACA) is an indicator of the value-added created by a unit of physical capital. This ratio shows the contribution of each unit capital employee to the organization’s value-added. Value Added Human Capital (VAHU) shows how much value-added can be generated with funds spent on labor. Structural Capital Value Added (STVA) measures the amount of structural capital needed to produce value-added and is an indication of structural capital’s success in value creation. Value Added Intellectual Capital Coefficient (VAICTM) is the sum of the three previous components, namely: VACA, VAHU, and STVA.

Financial performance: ROA, ROE are a mediating variable to measure bank performance in terms of profitability. Previous researches of this ratio are to analyze the financial performance of banks or other types of companies. ROA is the net profit/amount of assets, while ROE is net profit/amount of equity (Azid, Asutay, & Burki, 2007).

RESULTS AND DISCUSSIONS

The following are the results of descriptive statistics explaining the number of respondents, the minimum and maximum answers, the average value, the deviation value of the respondent’s answer, and the value of the coefficient of variance.

Table 1 Descriptive Statistics Test Results

	N	Min	Max	Mean	Std. Deviation	Variance
ISRDI	40	0,5666	0,8846	0,7536	0,0808	0,007
ICGDI	40	0,7778	0,9723	0,9032	0,0459	0,002
ROA	40	0,0017	0,0381	0,0170	0,0096	0,000
ROE	40	0,0229	0,3313	0,1187	0,0915	0,008
VAIC	40	1,3248	4,6140	2,3717	0,8750	0,766
Valid N (listwise)	40					

Source: Data processed

Table 1 explains that the ISRDI variable with a minimum value of the ISR disclosure index is 0,5666, and a maximum is 0,8846. The average ISR disclosure index is 0,7536, with a standard deviation of 0,0808; this indicates that the ISR disclosure index value does not experience deviations that are far from the average range. This is supported by the variance coefficient value for the ISRD variable of 0,007, which indicates that the variation in the value of the ISR disclosure index in Islamic banking in Indonesia is almost the same. ICGDI variable with a minimum value of ICG disclosure index of 0,7778 and a maximum of 0,9723. The average ICG disclosure index is 0,9032, with a standard deviation of 0,0459 that indicates the ICG disclosure index value does not experience deviations far from the average range. This is supported by the variance coefficient value for the ICGDI variable of 0,002, which indicates that the variation in the ICG disclosure index value for Islamic banking in Indonesia is almost the same. ROE variable with a minimum value is 0,0229 or 2,3% and a maximum is 0,3313 or 33,1%. The average ROE value in Islamic banking in Indonesia is 0,1187, with a standard deviation of 0,0915. This indicates that the ROE value does not experience a deviation that is far from the average range. This is supported by the variance coefficient value for the ROE variable of 0,008, which indicates that the variation in the value of ROA in Islamic banking in Indonesia is almost the same. Variable ROA with a minimum value is 0,0017 or 0,1% and a maximum of 0,0381 or 3,8%. The average ROA value in Islamic banking in Indonesia is 0,0170, with a standard deviation of 0,0096 that indicates the value of ROA does not experience deviations that are far from the average range. This is supported by the variance coefficient value for the ROA variable of 0,000, which indicates that variations in the value of ROA in Islamic banking in Indonesia are the same. VAIC variable with a minimum value is 1,3248 or 13,2% and a maximum is 4,6140 or 46,1%. The average VAIC value in Islamic banking in Indonesia is 2,3717, with a standard deviation of 0,8750, indicating that VAIC values do not experience deviations far from the average range. This is supported by the value of the coefficient of variance for the VAIC variable of 0,776, which indicates that the variation in the value of VAIC in Islamic banking in Indonesia is almost the same.

Table 2 Summary of Testing H_1

	ISRDI= $a_0 + a_1(ICGDI)_{1it} + e_{it}$	
Description	**Result**	**Sign**
Coeff. ICGDI	0,995717	0,0000
t-Stat	6,167683	
Adjusted R^2	0,487114	

Source: Data processed

Table 2 concludes the results that statistically at the significance level of 5% ICG disclosure has an effect on ISR disclosure with a determination coefficient of 0,487114, which means that the independent variable of ICG disclosure is able to explain the dependent variable of ISR disclosure of 48,7% and with a positive coefficient of 0,995717, the result statistically H_1 is accepted.

These results are consistent with previous researches by Adiertanto and Chariri (2013); Giannarakis, 2014; Habbash, 2016; Khan, 2012; Maali, Casson, and Napier (2006); Musibah and Alfattani (2014); Othman, Thani, and Ghani (2009). The large ICG disclosure index illustrates the implementation of good corporate governance principles in each ICG structure in Islamic banking in Indonesia. This means that each ICG structure on Islamic banks consisting of SSB, Board of Commissioners and Board of Directors, Board Committee, Internal Control and External Audit, Risk Management, and Reporting on CG Implementation in operation holds the principles of transparency, accountability, responsibility, independence and fairness, and equality. These principles are also applied by management in carrying out their social functions. Such conditions will color the Islamic bank ISR so that the annual report as a media reporting by Islamic banking in Indonesia to many stakeholders provides reports of social activities that have been carried out in accordance with Islamic regulations and values.

The summary of the results of the hypothesis testing of the influence of Intellectual Capital on the ISR disclosure index can be seen in Table 3.

Table 3 Summary of Testing H_2

	ISRDI= $b_0 + b_1(VAIC^{TM})_{1it} + e_{it}$	
Description	**Result**	**Sign**
Coeff. VAIC^{TM}	-0,038505	0,0074
t-Stat	-2,829006	
Adjusted R^2	0,152234	

Source: Data processed

Table 3 summarizes the results that statistically, at the 5% IC significance level, negatively affect the ISR disclosure index. The results are statistically rejected by H2, which states that there is a positive effect of IC on ISR disclosure. A negative coefficient value, which means the two variables are negatively related. While testing the H2 hypothesis is statistically rejected. This illustrates that Islamic banking in Indonesia shows that the skills and knowledge of human resources to build a competitive advantage for Islamic banks in Indonesia but has not been focused on the sharia bank social program. Another interpretation is to show that the structural capital of Islamic banks in Indonesia, which includes organizational structures, systems, procedures, culture, databases, and others, is focused on corporate social responsibility programs.

The summary of the results of testing the hypothesis of the effect of ICG disclosure on the financial performance of ROA can be seen in Table 4.

Table 4 Summary of Testing H_{3a}

	ROA $= c_0 + c_1(ICGDI)_{1it} + e_{it}$	
Description	**Result**	**Sign**
Coeff. ICGDI	-0,070256	0,0337
t-Stat	-2,203067	
Adjusted R^2	0,089923	

Source: Data processed

Table 4 concludes the results that statistically, at the significance level of 5%, ICG has a negative effect on ROA financial performance. The results are statistically rejected H3, which states that there is a positive effect of ICG on the financial performance of ROA. A negative coefficient value, which means the two variables are negatively related.

The summary of the results of testing the hypothesis of the effect of ICG disclosure on ROE financial performance can be seen in Table 5.

Table 5 concludes the results that statistically, at the significance level of 5%, ICG disclosure has a positive effect on ROE financial performance with a determination coefficient of 0,164763. It means that the independent variable ICG disclosure is able to explain the dependent variable financial performance ROE of 16,47% and positive coefficient 0,861062, results the statistics are H3b accepted.

Table 5 Summary of Testing H_{3b}

	ROE = $d_0 + d_1$ (ICGDI)$_{1it} + e_{it}$	
Description	**Result**	**Sign**
Coeff. ICGDI	0,861062	0,0054
t-Stat	2,948444	
Adjusted R^2	0,164763	

Source: Data processed

Table 6 concludes the results that statistically, at the significance level of 5%, IC has a positive effect on financial performance ROA with a determination coefficient of 0,461955. It means IC independent variables are able to explain the dependent variable financial performance ROA of 46,19%, and with a positive coefficient of 0,007547, the results are statistically H4a is accepted.

Table 6 Summary of Testing H_{4a}

	ROA = $e_0 + e_1$ (VAIC^{TM})$_{1it} + e_{it}$	
Description	**Result**	**Sign**
Coeff. VAIC^{TM}	0,007547	0,0000
t-Stat	5,872360	
Adjusted R^2	0,461955	

Source: Data processed

Table 7 concludes the results that statistically, at the 5% IC significance level does not affect ROE financial performance; the results are statistically H4b rejected. A negative coefficient value which means the two variables are negatively related.

Table 7 Summary of Testing H_{4b}

	ROE = $f_0 + f_1$ (VAIC^{TM})$_{1it} + e_{it}$	
Description	**Result**	**Sign**
Coeff. VAIC^{TM}	-0,008736	0,6084
t-Stat	-0,516655	
Adjusted R^2	-0,019157	

Source: Data processed.

The results of statistical testing of the effect of ICG and IC disclosures on financial performance ROA and ROE show mixed results. For the effect of ICG disclosure on ROA, it gives insignificant results for Islamic banking in Indonesia, even both (ICG and IC) have a negative relationship to ROA. This could be possible because Islamic banking in Indonesia is still in the growth cycle, so the management of the resulting Islamic banks is mostly used for the development or opening of new offices in Indonesia so that asset growth is very high for each year, thus the trend of ROA decreases. While, the effect of ICG disclosure on ROE is significant, which means that the wider disclosure of ICG in Islamic banking in Indonesia will have an impact on the higher ROE. This finding reinforces the results of previous research, namely Faozan (2013), which states that ICG in Islamic banking is a management system designed to improve bank performance, protect stakeholder interests, and improve compliance with legislation and generally applicable ethical values. This result is also in line with other previous studies (Ado, 2016; Al-Baidhani, 2013; Al-Hussain, 2009; Choudhury & Hoque, 2004; Dalwai et al., 2014; Hamza, 2013; Hassan Al-Tamimi, 2012; Quttainah, 2012; Sam'ani, 2008; Rehmans & Mangla, 2010; Yaghoobnezhad, Nikoomaram, & Salteh, 2012). The influence of IC on ROA gives significant results for Islamic banking in Indonesia, which means that IC has a positive effect on ROA. This shows that Islamic banking in Indonesia considers intellectual capital, especially human resources, to be a very important factor. Other interpretations show that Islamic banking in Indonesia can already utilize IC to support the achievement of optimal financial performance ROA. Structural capital includes information systems, knowledge, organizational processes and procedures, trademarks and patents, and other IC can be implemented to improve financial performance.

Table 8 concludes the results that statistically at the 5% significance level of financial performance, ROA has a negative effect on ISR disclosure. The results are statistically H5a rejected, which states that ROA has a positive effect on ISR disclosure. A negative coefficient value which means the two variables are negatively related.

Table 8 Summary of Testing H_{5a}

	ISRDI = $g_0 + g_1(ROA)_{1it} + e_{it}$	
Description	**Result**	**Sign**
Coeff. ROA	-3,944212	0,0024
t-Stat	-3,260105	
Adjusted R^2	0,197998	

Source: Data processed

Table 9 concludes the results that statistically at the 5% significance level of ROE financial performance has a positive effect on ISR disclosure with a determination coefficient of 0,35891. It means that the independent financial performance ROE variable is able to explain the dependent variable ISR disclosure of 35,89%, and with a positive coefficient 0,540716, results statistically H5b is accepted.

Table 9 Summary of Testing H_{5b}

	ISRDI = $h_0 + h_1(ROE)_{1it} + e_{it}$	
Description	**Result**	**Sign**
Coeff. ROE	0,540716	0,0000
t-Stat	4,778521	
Adjusted R^2	0,358914	

Source: Data processed

The results of testing the hypothesis can be stated that there is a positive influence on the performance of Islamic banks (ROE) on the ISR disclosure index, the greater the ROE of Islamic banks in Indonesia, the greater the value of the ISR disclosure index. These results are consistent with previous researches (Anas, Rashid, & Annuar, 2015; Ayadi, 2004; Giannarakis, 2014; Janggu, Joseph, & Madi, 2007; Nawaiseh, Boa, & El-shohnah, 2015; Othman, Thani, & Ghani, 2009; Shazila, 2012; Tagesson et al., 2009; Tagesson, Klugman, & Ekström, 2013; Siregar & Bachtiar, 2010; Yüksel & Özsari, 2017). This finding supports theories that form the basis of the relationship between financial performance and ISR disclosure, as suggested by Inchausti (1997). When viewed from the point of view of the Islamic banking agency theory in Indonesia with the performance of banks, they continue to provide detailed information to support their compensation positions and arrangements. Moreover, from a political process theory, Islamic banks that earn profits will provide more information in disclosure for their profit recognition.

This finding is also consistent with the findings of Siregar and Bachtiar (2010), where companies with more profits will devote more financial resources to social initiatives. Consistency with other research findings, for example, Haniffa and Cooke (2002), have said that companies that make a profit will provide more information about ISR to legitimize their existence. It is further explained that the positive relationship between profitability and the level of ISR disclosure is due to management's freedom and flexibility to publish more ISR initiatives to shareholders. Tagesson et al. (2009) have said that if a company earns a profit, there is a positive relationship with the level of CSR disclosure because the company can pay the cost of CSR disclosure. Likewise, Giannarakis (2014) has said that companies that make profits tend to reveal more information than less profitable companies because management, known as agents, wants to know that they have acted in the best interests of the shareholders. Janggu, Joseph, and Madi (2007) have said that companies with a higher level of profitability tend to reveal more information than companies with low levels of profitability.

Testing the following hypothesis is testing whether financial performance consisting of ROA and ROE, mediates the effect of ICG and IC disclosures on ISR disclosures. The summary of the results of testing the hypothesis of financial performance ROA, which apparently does not mediate the effect of ICG disclosure on ISR disclosures, can be seen in Table 10.

Table 10 Summary of Testing H_{6a}

Desc	**Regression 1**		**Regression 2**		**Regression 3**		**Regression 4**	
	ICGDI on ISRDI		**ICGDI on ROA**		**ROA on ISRDI**		**ICGDI, ROA on ISRDI**	
Coeff.	0,995717	0,0000	-0,07025	0,0337			0,892329	0,0000
Coeff.					-3,944212	0,0024	-0,783283	0,0316
t-Stat	6,167683		-2,20306		-3,260105			
F-stat							23,51197	0,0000
Adjusted R^2	0,487114		0,08992		0,197998		0,535847	

Source: Data processed

Table 10 shows that the conditions for mediation are not fulfilled because the 2, 3, and 4 regression equations are negative, which means there is a negative relationship between the independent and dependent variables. With the statistical results, hypothesis H6a is rejected, which means that the financial performance of ROA does not mediate the effect of ICG disclosure on ISR disclosure. The summary of the results of testing the financial performance hypothesis ROE mediating the effect of ICG disclosure on ISR disclosures can be seen in Table 11.

Table 11 Summary of Testing H_{6b}

Desc	**Regression 1**		**Regression 2**		**Regression 3**		**Regression 4**	
	ICGDI on ISRDI		**ICGDI on ROE**		**ROE on ISRDI**		**ICGDI, ROE on ISRDI**	
Coeff.	0,995717	0,0000	0,861062	0,0054			0,958597	0,0000
Coeff.					0,540716	0,0000	0,333448	0,0019
t-Stat	6,167683		2,948444		4,778521			
F-stat							29,73144	
Adjusted R^2	0,487114		0,164763		0,358914		0,595699	

Source: Data processed

Table 11 shows a summary of the statistical results in the first equation regression analysis. It is found that statistically significant ICG disclosure has a positive effect on ISR disclosure (Sig. <0,05) with a coefficient of 0,9957. Regression analysis in the second equation finds that statistically significant

ICG disclosure has a positive effect on ROE financial performance (Sig. <0,05) with a coefficient of 0,8610; the higher ICG disclosure index would improve ROE financial performance. The third equation regression analysis finds that statistically significant ROE financial performance has a positive effect on ISR disclosure (Sig. <0,05) with a coefficient of 0,5407. The results of the fourth equation regression analysis find that ROE financial performance has a positive effect on ISR disclosure after controlling for the effect of ICG disclosure on ISR disclosure (Sig. <0,05) with a coefficient of 0,9585. The direct effect coefficient between ICG disclosure of ISR disclosures is 0,9957, but after ROE's financial performance controls the relationship, both of them decrease to 0,9585; thus, partial mediation occurs (Ghozali, 2006). From the results of this statistical test hypothesis, H6b is accepted, which means that financial performance ROE mediates partially the effect of ICG disclosure on ISR disclosure.

Testing the following hypothesis is testing whether financial performance consisting of ROA and ROE mediates the effect of IC on ISR disclosure, which turns out that the results of statistical tests are not proven. The summary of the results of testing the financial performance hypothesis ROA, which results do not mediate the effect of ICG disclosure on ISR disclosure can be seen in Table 12.

Table 12 Summary of Testing H_{7a}

Desc	**Regression 1**		**Regression 2**		**Regression 3**		**Regression 4**	
	VAIC™ on ISRDI		**VAIC™ on ROA**		**ROA on ISRDI**		**VAIC™ , ROA on ISRDI**	
Coeff.	-0,038505	0,0074	0,007547	0,0000			-0,01666	0,3690
Coeff.					-3,944212	0,0000	-0,89371	0,0924
t-Stat	-2,829006		5,872360		-3,260105			
F-stat							5,703450	
Adjusted R^2	0,152234		0,461955		0,197998		0,194330	

Source: Data processed

Table 12 shows that the conditions for mediation are not fulfilled because 1, 3, and 4 regression equations are negative, which means there is a negative relationship between the independent and dependent variables. With these statistics, hypothesis H7a is rejected. Table 13 shows a summary of the H7b test where the conditions for mediation are not fulfilled because the 1, 2, and 4 regression equations are negative, which means there is a negative relationship between the independent and dependent variables. With the results of these statistics, the hypothesis H7b is rejected.

Table 13 Summary of Testing H_{7b}

Desc	**Regression 1**		**Regression 2**		**Regression 3**		**Regression 4**	
	VAIC™ on ISRDI		**VAIC™ on ROE**		**ROE on ISRDI**		**VAIC™ , ROE on ISRDI**	
Coeff.	-0,038505	0,0074	-0,00873	0,6084			-0,03401	0,0029
Coeff.					0,540716	0,0000	0,51355	0,0000
t-Stat	-2,829006		-0,51665		4,778521			
F-stat							19,2703	
Adjusted R^2	0,152234		-0,01915		0,358914		0,48372	

Source: Data processed

The results of statistical tests show that the financial performance of ROA does not mediate both the effect of ICG disclosure on ISR disclosure and the influence of Intellectual Capital on ISR disclosure. For financial performance, ROE mediates the effect of ICG disclosure on ISR disclosures but does not mediate the influence of Intellectual Capital on ISR disclosures. ROE's financial performance successfully mediates the effect of ICG disclosure on ISR disclosures. This finding shows that Islamic banking management with high compliance with all sharia regulations and provisions will play a role in increasing social contributions to Islamic banks. This explains that Islamic governance will produce good financial performance so that it is able to carry out social responsibility well too. The fulfillment of this mediation also shows that Islamic banking management in Indonesia has been able to make a fair financial policy for the operational benefits of Islamic banks for the benefit of equity holders and needs such as *zakat*, *qardul hasan*, and other social needs.

The fulfillment of mediation with ROE performance could also be due to higher ROE in Islamic banking in Indonesia compares to ROA. This shows that Islamic banking management is very concerned about the interests of equity holders who are concentrated in certain parties, namely the conventional commercial banks of their affiliation. Almost all Islamic banking in Indonesia are established by conventional bank affiliates that have long been operating.

CONCLUSIONS

There is a positive effect of ICG disclosure on ISR disclosure; the greater the ICG disclosure index, the greater the ISR disclosure index. The large ICG disclosure index illustrates the implementation of good corporate governance principles in each ICG structure in Islamic banking in Indonesia. This means that each ICG structure on Islamic banks holds the principle of transparency, accountability, and responsibility. These principles are also applied by management in carrying out their social functions. Such conditions will color the Islamic bank ISR so that the annual report as a media reporting by Islamic banking in Indonesia to many stakeholders provides reports of social activities that have been carried out in accordance with Islamic regulations and values.

ICG and IC disclosures on financial performance ROA and ROE show mixed results. For the effect of ICG disclosure on ROA, it gives insignificant results for Islamic banking in Indonesia, even both (ICG and IC) have a negative relationship to ROA. While the effect of ICG disclosure on ROE is significant, which means that the wider disclosure of ICG in Islamic banking in Indonesia will have an impact on the higher ROE. The influence of IC on ROA gives significant results for Islamic banking in Indonesia, which means that IC has a positive effect on ROA. This shows that Islamic banking in Indonesia considers intellectual capital, especially human resources to be a very important factor.

ROA does not have a positive effect on ISR disclosure, but there is a positive influence on the performance of Islamic banks (ROE) on the ISR disclosure index; the greater the performance of Islamic banks in Indonesia, the greater the ISR disclosure index value. This illustrates that Islamic banks always carry out these obligations even though their implementation requires large funds, but it is supported by the acquisition of ROE in Islamic banks. Financial performance ROA does not mediate both the effect of ICG disclosure on ISR disclosure and the influence of Intellectual Capital on ISR disclosure. For financial performance, ROE mediates the effect of ICG disclosure on ISR disclosures, but it does not mediate the influence of Intellectual Capital on ISR disclosures. ROE's financial performance successfully mediates the effect of ICG disclosure on ISR disclosures. This explains that Islamic governance will produce good financial performance so that it is able to carry out social responsibility well too.

This research has several limitations and is expected to be improved in future research. The limitations of this research are; (1) it uses the ICG and ISR disclosure variables, but the researchers do not discuss the quality of disclosure. The number of disclosure indicators does not indicate the quality of company information disclosure. (2) This research finds that bank performance is proven to mediate the effect of ICG disclosure on ISR, but only partial mediation. Future researches consider the quality of disclosure, namely completeness, accuracy, and reliability as characteristics of disclosure quality to produce better research findings, and subsequent studies try other variables as mediating the effect of ICG disclosure on ISR to find full mediation. Other further research suggestions are to obtain a strong generalization, and because the number of sharia commercial banks in Indonesia, which is still small, subsequent research may not limit the banking sector only, but also in other sectors such as insurance. It is necessary to try to add other financial performance that might mediate, not only profitability performance but liquidity performance, for example, such as cash ratio, loan to deposit ratio, or loan to asset ratio. Because it is possible to fulfill the liquidity of an Islamic bank, it is free to implement social programs. Finally, mediation testing is carried out for each component of VAICTM because testing each component will produce more detailed research findings.

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