



## THE NEW INFLUENCE OF THE LEVEL OF ISLAMIC GOVERNANCE TO THE LEVEL OF TAX AGGRESSIVENESS AND LEVEL OF CORPORATE SOCIAL RESPONSIBILITY

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### Abstract

Research on Islamic governance is still relatively little discussed since most previous studies used conventional governance. One important organ in the mechanism of Islamic governance that distinguishes it from conventional corporate governance is the existence of a Shariah supervisory board. The novelty offered from this study is the use of Islamic governance as a new determinant affecting the level of tax aggressiveness and the level of corporate social responsibility disclosure. This study aims to obtain empirical evidence of the influence of the level of Islamic governance on the level of tax aggressiveness and the level of corporate social responsibility disclosure. The object of research is sharia banks in Indonesia in the period 2010-2016. The finding of this research is to successfully prove empirically the influence of the level of Islamic governance on the level of tax aggressiveness and the level of corporate social responsibility disclosure. The better implementation of Islamic governance run by sharia banks can have an impact on the decreasing level of tax aggressiveness. In addition, better implementation of Islamic governance impacts on the wider disclosure of corporate social responsibility. The findings of this study have successfully confirmed agency theory and legitimacy.

### Introduction

Governance is a management system to improve banking performance, protect stakeholders, improve compliance with applicable laws and ethics (Kholid & Bachtiar, 2015). Compliance with Sharia principles is a characteristic of Islamic governance that distinguishes it from corporate governance in general. One of the most important organs in Islamic governance is the Sharia Supervisory Board (DPS). The Sharia Supervisory Board serves to oversee the management of sharia entities in order to ensure the compliance of Islamic entities to the principles of sharia. With the Sharia Supervisory Board, the management of sharia banks can avoid breach of contract with customers so that sharia banks can operate maximally and improve their performance (Kholid & Bachtiar, 2015).

Based on agency theory, good governance mechanisms can play a role to monitor opportunistic behavior of agents (Chrisman et al., 2007). In the tax context, good governance mechanisms can control the manager's opportunistic behavior in minimizing the income tax burden. Several previous studies have been conducted to examine the effect of governance mechanisms on tax aggressiveness as the Lanis & Richardson study (2011); Cheng et al. (2012); Badertscher et al. (2013); Sartaji & Hassanzadeh (2014); and Hadi & Mangoting (2014). The downside of previous studies is that no studies have specifically examined the effect of Islamic governance on tax aggressiveness. This is the motivation for the current research.

Research on the disclosure of the Islamic entity's social responsibility in most researches still uses a global reporting initiative. Current research uses a more suitable measure to be applied in Islamic entities that are Islamic social reporting. To date, few studies have used Islamic social reporting as an indicator to measure corporate social responsibility disclosure. Islamic social reporting is considered more in line with Islamic



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principles because it contains a compilation of standard items set by the Accounting and Auditing Organization for Islamic Financial Institution (Sunarto 2016). This provides motivation for research in order to test the effect of Islamic governance levels on corporate social responsibility disclosure. The theory of legitimacy explains that firms with better Islamic governance will engage in wider disclosure of social responsibility in order to gain a positive response from society and ultimately the company can maintain its viability.

Problem formulation of this research are: (1) whether the level of Islamic governance affect the level of tax aggressiveness and (2) whether the level of Islamic governance affect the level of corporate social responsibility disclosure. Thus, this study aims to obtain empirical evidence regarding the effect of Islamic governance levels on the level of tax aggressiveness. In addition, this study also aims to obtain empirical evidence on the influence of Islamic governance levels on the level of corporate social responsibility disclosure.

### Literature review

#### Agency Theory

This research uses agency theory as the basic theory. This theory has been widely used in the field of accounting and management. In general, this theory describes the relationship between the principal party (owner) and the agent (manager). This theory states that the agent will behave self-interested and contrary to the interests of the principal (Jensen & Meckling, 1976; Eisenhardt, 1989). Thus, the principal will apply structural mechanisms that can monitor agents in order to control the opportunistic behavior of agents and align with the interests of all parties better (Fama & Jensen, 1983; Eisenhardt, 1989).

Agency theory explains the existence of two options for principals to reduce agency problems in order to control opportunistic behavior of agents (Eisenhardt, 1989). The first way is to create a governance structure that allows monitoring and assessment of the actual behavior of agents (Anderson & Reeb, 2004; Chrisman et al., 2007). This governance structure includes reporting procedures, additional management, and board of directors (Donaldson & Davis, 1991). The second way is to create a governance structure where the contract is based on the actual results of agency behavior (Eisenhardt, 1989). An example of this type is salary in the form of incentives, where salaries are given as incentives for high performing agents (Chrisman et al., 2007). The risk is transferred to the agent and this way can create motivation for the agent to behave in accordance with the principal's interests (Davis et al., 1997; Eisenhardt, 1989). The bottom line of both ways, the principal can make a choice between building a governance structure based on the agent's actual behavior or providing incentives based on the outcome of agent behavior (Eisenhardt, 1989). Both options are generating agency costs that the principal must bear for monitoring and assessing agency behavior.

#### Legitimation Theory

The theory of legitimacy is based on the idea that the company has a social contract with the community, in which the company agrees to take actions desired by the community in order to maintain the sustainability of the company's business. The theory of legitimacy states that the disclosure of the environmental, economic, social, and political aspects that the company undertakes can legitimize the company (Hogner, 1982; Lehman, 1983; Lindblom, 1983). In legitimizing its actions through such disclosure, the company hopes to continue its business presence (Lehman, 1983). Lindblom (1983) adds that the theory of legitimacy shows that the organization aims to generate harmony between the social values inherent in corporate activities and social norms. Thus, the disclosure of corporate social activities can be understood as a reaction of the company to the environment around the company to legitimize the sustainability of the company's business.

#### Research Hypothesis

##### *The Relationship between the Level of Islamic Governance and the Level of Tax Aggressiveness*

The agency theory is used to explain the relationship between Islamic governance and tax aggressiveness. Agency theory suggests that governance structures allow monitoring to control the opportunistic behavior of agents (Eisenhardt, 1989; Anderson & Reeb, 2004; Chrisman et al., 2007). In the context of this study, Islamic banking Islamic governance can serve as an effective way to control opportunistic behavior of the taxpayer. This



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may have an impact on the decreasing tax aggressiveness of the taxpayer as indicated by the increase in income tax payments.

The study on the influence of corporate governance on tax aggressiveness has been done by Khaoula & Ali (2012); Hanum & Zulaikha (2013); Zemzem & Ftouhi (2013); and Richardson, Taylor, & Lanis (2013); and Boussaidi & Hamed (2015). Boussaidi & Hamed (2015) found that (1) gender diversity in councils and managerial ownership positively affected the Effective Tax Rate (ETR); and (2) increased concentration of ownership negatively affect the ETR. Zemzem & Ftouhi (2013) support the findings of the Boussaidi & Hamed study (2015) in which the second study found that the number of board sizes and the percentage of women on the board decreased the degree of tax aggressiveness. In addition, Richardson, Taylor, & Lanis (2013) found that the interaction effects between the composition of the board of directors, the application of risk management systems, and effective internal controls can reduce the degree of tax aggressiveness. Different results are obtained from Hanum & Zulaikha (2013) where they do not find any influence on the three characteristics of governance (independent commissioners, audit committees, and institutional shareholders) on the level of tax aggressiveness. In line with Hanum & Zulaikha (2013), Khaoula & Ali's study (2012) also found no effect of board size and gender diversity on the board of directors against tax aggressiveness.

H<sub>1</sub>: The level of Islamic Governance affects the level of tax aggressiveness

### ***The Relationship between the Level of Islamic Governance and the Level of Corporate Social Responsibility***

Corporate governance plays an important role in controlling the behavior of managers who benefit their own interests. Corporate governance can control the behavior of managers so that managers can take actions that can benefit the owner of the company (investor) or in other words align the interests of management and owners of the company (Gunarsih, 2003: 156). In the context of this study, the theory of legitimacy is used to explain the relationship between corporate governance and corporate social responsibility. In order to gain legitimacy from society, companies need to take action in accordance with norms, values, and belief systems of society. The company's effort to disclose social responsibility information is an action that conforms to the system of norms, values, and public trust. Thus, companies that implement good governance will give greater disclosure of corporate social responsibility (Indrawaty & Wardayati, 2015).

Several previous studies have been conducted to examine governance mechanisms for disclosure of social responsibility performed by Nurkhin (2010); Badjuri (2011); and Wiyuda & Pramono (2017). Nurkhin (2010) found that the composition of independent board of commissioners positively affects the level of corporate social responsibility disclosure. Wiyuda & Pramono (2017) support the Nurkhin (2010) study. Wiyuda & Pramono (2017) found that the board of commissioners positively influences the level of corporate social responsibility disclosure, on the contrary the audit committee negatively affects the level of social responsibility disclosure. In addition, Othman et al. (2009) found that the proportion of Muslim and non-Muslim councils affected the level of corporate social responsibility disclosure. Different results obtained Badjuri (2011) where the study did not find the influence of the board of commissioners and audit committee on the disclosure of social responsibility.

Islamic governance from several studies that have been conducted previously still mostly uses three indicators, namely the number of members of the Board of Directors, members of the Sharia Supervisory Board (SSB), and the number of members of the Audit Committee. Several previous studies that examined the influence of the Sharia Supervisory Board (SSB) on corporate social responsibility disclosure levels were conducted by Farook & Lanis (2005); Sunarto (2016); and Dienes & Velte (2016). Indrawaty & Wardayati (2015) explained that the results of empirical studies on the influence of Sharia Supervisory Board (SSB), Board of Commissioners, and Audit Committee showed inconsistent results. Sunarto (2016) found a positive influence of the number of members of the Board of Directors and the Sharia Supervisory Board (SSB) on corporate social responsibility disclosure, but failed to prove empirically the influence of the number of audit committee members on the disclosure of corporate social responsibility. The results of Sunarto's study (2016) support the results of previous studies conducted by Farook & Lanis (2005). Farook & Lanis (2005) obtained empirical evidence that Islamic governance as measured by the number of Sharia Supervisory Board (SSB) has a positive effect on the level of



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corporate social responsibility disclosure. The more the number of SSB members in overseeing the operations of sharia banks, the increased level of corporate social responsibility disclosure. In contrast, Dienes & Velte (2016) in their study with samples of firms in Germany failed to find a significant effect of the expertise, frequency of meetings, and the size of the Sharia Supervisory Board (SSB) on the level of corporate social responsibility disclosure.

H<sub>2</sub>: The level of Islamic Governance affects the level of corporate social responsibility disclosure

### Methodology

#### Research Design

This study was conducted to test empirically the influence of Islamic governance level on the level of tax aggressiveness. In addition, this study was also conducted to test empirically the influence of Islamic governance levels on the level of corporate social responsibility disclosure. Thus, this study is categorized as quantitative research. Quantitative research is an approach that aims to test the theory through testing the influence of independent variables to the dependent variable. Quantitative approaches rely on collecting and analyzing numerical data (Barete, 2011). In addition, quantitative research aims to examine the nature of relationships, or differences between groups, or independence of variables in certain situations (Sekaran & Bougie, 2010).

#### Population and Sample

The population of this study is the Sharia Commercial Bank in Indonesia. Sharia commercial banks are used in this study because sharia banks have different characteristics than conventional banks. These characteristics include: (1) the existence of an organ of Islamic governance is the Sharia Supervisory Board as mentioned in Bank Indonesia Regulation no. 11/33/2009 on the Implementation of Good Corporate Governance in Sharia Commercial Banks and Sharia Business Units; (2) the purpose of sharia bank not only maximizes profit but also maximizes the performance of maqashid shariah; (3) the level of liabilities and non-halal income ratio of sharia banks is lower than in conventional banks; and (4) there is little research that analyzes the tax aggressiveness of Sharia Banks in Indonesia.

This study uses secondary data collected through the website of Indonesia Stock Exchange, Bank Indonesia, and the website of each Sharia Commercial Bank. Secondary data include financial reports, annual reports, good corporate governance (GCG) reports and corporate social responsibility (CSR) reports. The total number of Sharia Commercial Banks in Indonesia is 11 sharia commercial banks. The research period is 7 years 2010-2016. The study period was selected from 2010 as Bank Indonesia Regulation Number 11/33 / PBI / 2009 on GCG for Sharia Commercial Banks was implemented on January 1, 2010.

#### Research Model

Regression equation used in this research:

$$ETR_t = \alpha_0 + \beta_1 IG_t + e$$

$$ISR_t = \alpha_0 + \beta_1 IG_t + e$$

ETR<sub>t</sub> = Effective Tax Rate in year <sub>t</sub>

IG<sub>t</sub> = the Level of Islamic Governance in year <sub>t</sub>

ISR<sub>t</sub> = the Level of Islamic Social Reporting in year <sub>t</sub>

#### Variable Descriptions and Indicators

1. The level of Islamic Governance is defined as the degree to which the governance of the shari'a entity is in accordance with Islamic sharia. This variable is measured by 11 indicators compiled based on Law Number 21 Year 2008 concerning Sharia Banking and Bank Indonesia Regulation no. 11/33/2009 on the Implementation of Good Corporate Governance at Sharia Commercial Bank and Sharia Business Unit which became effective on January 1, 2010. The eleven indicators include: Implementation of duties and



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responsibilities of the Board of Commissioners (X1.1); Implementation of duties and responsibilities of the Board of Directors (X1.2); Completeness and execution of Committee duties (X1.3); Implementation of duties and responsibilities of the Sharia Supervisory Board (X1.4); Implementation of sharia principles in fund raising activities and channeling of funds and services (X1.5); Handling of conflict of interest (X1.6); Implementation of Bank's compliance function (X1.7); Implementation of internal audit function (X1.8); Implementation of external audit function (X1.9); Maximum Channel of Funds Distribution (X1.10); and Transparency of financial and non financial condition (X1.11). The higher score of Islamic governance levels indicates poor implementation of Islamic governance, while the lower the Islamic governance level score shows better implementation of Islamic governance.

2. Tax aggressiveness is defined as an act aimed at reducing taxable income through tax planning and using methods classified or not classified as tax evasion (Frank et al., 2009). The level of tax aggressiveness in this study is defined as the level of tax aggressiveness actions undertaken by the company. This research uses 5 indicators to measure tax aggressiveness variable including Current Tax Expense (Y1.1), Tax Expense (Y1.2), GAAP effective tax rate (Y1.3), Cash effective tax rate (Y1.4), and Fiscal effective tax rate (Y1.5). Higher tax burdens and effective tax rates indicate low tax aggressiveness.
3. The level of disclosure of social responsibility is defined as the degree to which the company processes the social and environmental disclosure of the economic actions of the company to certain groups. By disclosing the information, the company can gain trust from the community. The company not only focuses on the benefits alone but also considers the impact it has on the environment, nature, and on society as a whole (Gray et al., 1987). The corporate social responsibility disclosure indicator in this study refers to the index of Islamic Social Reporting (ISR) developed by Othman et al. (2009) and Othman & Thani (2010). The Islamic social reporting index consists of 6 themes and 43 items of disclosure. The six themes include: Finance & Investment, Products, Employee, Society, Environment, and Corporate Governance. The higher the score shows the wider disclosure of social responsibility, the lower the score indicates less disclosure level of social responsibility.

### Results and discussion

The subjects of this study are all Sharia Commercial Banks domiciled in Indonesia which include: Bank Mega Syariah, Bank Panin Syariah, Bank Syariah Bukopin, Bank Victoria Syariah, Bank BCA Syariah, Bank BNI Syariah, Bank BRI Syariah, Bank Muamalat Indonesia, Bank Syariah Mandiri, Bank Jabar Banten Syariah, and Bank Maybank Syariah Indonesia. The eleven syariah banks in Indonesia are sampled in this study because Sharia Commercial Banks have issued financial statements, annual reports and corporate governance reports for the period 2010-2016.

### Convergent Validity Test

Summary of convergence validity test results are presented in Table 1. Results show that all indicators meet convergent validity with loading factor scores above 0.4.

*Table 1. Convergent Validity Test Results*

Variable	Indicator	Loading Factor
Level of Islamic Governance (X <sub>1</sub> )	Implementation of duties and responsibilities of the Board of Commissioners (X <sub>1.1</sub> )	0.700
	Implementation of duties and responsibilities of the Board of Directors (X <sub>1.2</sub> )	0.781
	Completeness and execution of the Committee's duties (X <sub>1.3</sub> )	0.612
	Implementation of sharia principles in the activities of fund raising and channeling of funds and services (X <sub>1.5</sub> )	0.622
	Handling of conflict of interest (X <sub>1.6</sub> )	0.586
	Implementation of Bank's compliance function (X <sub>1.7</sub> )	0.811
	Implementation of internal audit function (X <sub>1.8</sub> )	0.603
	Implementation of external audit function (X <sub>1.9</sub> )	0.805



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	Maximum Channel of Funds Distribution ( $X_{1,10}$ )	0.709
	Transparency of financial and non-financial conditions, GCG implementation reports and internal reporting ( $X_{1,11}$ )	0.629
Level of Tax Aggressiveness ( $Y_1$ )	Current Tax Expense ( $Y_{1,1}$ )	0.928
	Tax Expense ( $Y_{1,2}$ )	0.933
	Cash effective tax rate ( $Y_{1,4}$ )	0.460
Level of Corporate Social Responsibility ( $Y_2$ )	Finance & Investment Products ( $Y_{2,2}$ )	0.640
	Employee ( $Y_{2,3}$ )	0.665
	Society ( $Y_{2,4}$ )	0.891
	Environment ( $Y_{2,5}$ )	0.824
	Corporate Governance ( $Y_{2,6}$ )	0.861
		0.725

**Reliability Test**

Reliability testing in this study using cronbach alpha and composite reliability. Cronbach alpha and composite reliability are used to measure the relative model of measurement. The summary of reliability test results is shown in Table 2.. For the reliability test, the rule of thumbs in the study is 0.4. Based on the results of reliability test, the results obtained that all variables have a score of more than 0.40.

**Table 2. Reliability Test Results**

Variables	Cronbach alpha	Composite Reliability
Level of Islamic Governance ( $X_1$ )	0.876	0.900
Level of Tax Aggressiveness ( $Y_1$ )	0.676	0.836
Level of Corporate Social Reporting Disclosure ( $Y_2$ )	0.865	0.898

**Hypothesis Testing**

Hypothesis testing is done by looking at coefficients path value which shows parameter coefficient and p-value value. The research hypothesis is accepted if the probability value (p-value) is less than 0.05. The test results are shown in table 3.

**Table 3. Hypothesis Testing Results**

Influence of independent variable to dependent variable	Hypothesis	Inner Weight	T Statistics	P Values	Results
Level of Islamic Governance ( $X_1$ ) → Level of Tax Aggressiveness ( $Y_1$ )	H <sub>1</sub>	-0.375	4.049	0.000	Significant
Islamic Governance ( $X_1$ ) → Level of Corporate Social Reporting Disclosure ( $Y_2$ )	H <sub>2</sub>	-0.535	9.790	0.000	Significant

1. Table 3 shows that the t value of statistics is 4049 with p value of 0.000 (<0.05). This means that H1 is accepted. The value of inner weight coefficient of -0.375 indicates that the score of Islamic governance level negatively affects the effective tax rate. The results of the table indicate that the higher level of Islamic governance level will result in a lower current tax burden, lower tax burden, and lower effective tax rate which indicates an increasing level of tax aggressiveness. The results of this study found that the lower level of implementation of Islamic governance levels will result in higher levels of tax aggressiveness. On the contrary, the better implementation of Islamic governance will have an impact on the decreasing level of tax aggressiveness by sharia banks.
2. Table 3 shows that the statistical t value is 9.790 with p value of 0.000 (<0.05). This means that H2 is accepted. The value of inner weight coefficient of -0.535 indicates that the score of Islamic governance level negatively affects the level of social responsibility disclosure ( $Y_2$ ). The results of this study indicate



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that the better implementation of Islamic governance, the more disclosure of corporate social responsibility undertaken by sharia banks. Conversely, the worse the implementation of Islamic banking governance, the less disclosure of corporate social responsibility information is done sharia bank.

### **The Influence of the Level of Islamic Governance on the Level of Tax Aggressiveness**

The result of this research proved empirically the influence of Islamic governance level to the level of tax aggressiveness. The results of the current study found that the worse Islamic governance indicated by a high level of Islamic governance would result in higher tax burdens, current tax burdens, and lower effective tax rates. A low effective tax rate indicates a high level of tax aggressiveness. Conversely, the better Islamic governance indicated by low Islamic governance scores will have an impact on the decreasing level of tax aggressiveness by sharia banks.

The results of this study are in line with agency theory which states that governance structures allow monitoring to control opportunistic behavior of agents (Eisenhardt, 1989; Anderson & Reeb, 2004; Chrisman et al., 2007). In the context of this research, Islamic governance run by sharia banks can serve as an effective medium to control the opportunistic behavior of taxpayers so that taxpayers become not aggressive in minimizing the income tax burden.

The results of this study also confirmed the role of the theory of legitimacy in explaining the relationship between the level of Islamic governance and the degree of tax aggressiveness. The theory of legitimacy states that in order for a company to be accepted and approved by society, the company must take action in accordance with the system of norms, values, and public trust (Bitektine, 2011). In the context of this study, companies with good levels of governance seek to pay a greater tax burden to gain legitimacy from society because it is in accordance with socially constructed norms, values, and trust systems. The legitimacy gained in relation to this tax is termed socio-political legitimacy as described by Aldrich & Fiol (1994) and Suchman (1995). The socio-political legitimacy refers to whether the organizational characteristics, attributes and outcomes of their activities to social norms are acceptable or not socially and cause the organization to be sanctioned to change their behavior.

The results of this study are in line with previous studies by Boussaidi & Hamed (2015); Zemzem & Ftouhi (2013); and Richardson, Taylor, & Lanis (2013). Boussaidi & Hamed (2015) found that managerial ownership positively affects effective tax rates on companies listed on the Tunisian Stock Exchange. If Boussaidi & Hamed (2015) use managerial ownership indicators to measure levels of governance, current research uses indicators of Islamic governance. The results of this study also support Zemzem & Ftouhi (2013) who successfully proved empirically that the size of the board can reduce the level of tax aggressiveness.

The results of this study indicate that the better the implementation of the duties and responsibilities of the Sharia Supervisory Board will have an impact on the current tax burden, tax burden, and higher effective tax rate. The larger effective tax rate shows that sharia banks are less aggressive in minimizing income taxes. On the contrary, the worse the implementation of the duties and responsibilities of the Sharia Supervisory Board will result in a lower current tax burden, lower tax burden, and lower effective tax rate, which means that sharia banks are more aggressive in minimizing income taxes. The results of this study support Richardson, Taylor, & Lanis (2013) who have found the influence of the board's characteristics on the degree of tax aggressiveness of companies listed on the Australian Stock Exchange.

The results of this study differ from previous studies that failed to find the effect of governance mechanisms on tax aggressiveness levels such as Hanum & Zulaikha (2013) and Khaoula & Ali (2012). If the research on Hanum & Zulaikha (2013) examines the influence of the three characteristics of governance that include: independent commissioner, audit committee, and institutional shareholder while in this study adds elements of board of directors, syariah supervisory board, and compliance to sharia principles. Similarly, Khaoula & Ali's study (2012) failed to prove empirically the effect of board size and gender diversity on the level of tax aggressiveness.



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### **The Influence of the Level of Islamic Governance on the Level of Corporate Social Responsibility Disclosure**

The effectiveness of Islamic governance is demonstrated by Islamic social reporting (Indrawaty & Wardayati, 2015). Companies that implement good governance will provide corporate social responsibility disclosures at a broader level. The theory of legitimacy explains that in order to gain acceptance and endorsement from society, the company must take action in accordance with the system of norms, values, and beliefs of society. Disclosure of social responsibility information is an action that conforms to the system of norms, values, and beliefs of society. The results of this study successfully confirm the theory of legitimacy. The better implementation of Islamic governance run by sharia banks, the wider the disclosure of corporate social responsibility. Conversely, the worse the implementation of Islamic banking governance, the less information on corporate social responsibility disclosed by sharia banks.

The results of this study support previous studies conducted Nurkhin (2010); and Wiyuda & Pramono (2017). Wiyuda & Pramono (2017) found the influence of the size of the board of commissioners towards the disclosure of corporate social responsibility. The larger number of members of the board of commissioners impacts on the wider disclosure of social responsibility. The current study does not use the size of the board of commissioners, but uses self assessment scores on the duties and responsibilities of the board of commissioners. Nurkhin (2010) found a positive influence of the composition of independent commissioners on the level of corporate social responsibility disclosure. Instead, this study contradicts Badjuri (2011) where Badjuri (2011) found no influence of the board of commissioners on the disclosure of corporate social responsibility.

One of the governance mechanisms in sharia banks that distinguishes them from conventional banks is the existence of sharia supervisory boards. The results of this study are in line with Farook & Lanis (2005) and Sunarto (2016). Farook & Lanis (2005) found a positive influence of the number of Sharia supervisory boards on the level of corporate social responsibility disclosure. Sunarto (2016) found a positive influence of the number of members of the board of directors and the Sharia supervisory board on the disclosure of corporate social responsibility. The more the number of members of the board of directors and the supervisory board of sharia, the wider the disclosure of corporate social responsibility.

The results of this study contradict Dienes & Velte (2016) who found no empirical evidence of the effect of expertise, frequency of meetings, and the size of the Shariah supervisory council on the level of corporate social responsibility disclosure. The research object of the Dienes & Velte (2016) study is a sharia bank in Germany. Instead, the results of this study prove that the implementation of duties and responsibilities of the Sharia Supervisory Board affect the level of disclosure of social responsibility by Islamic banks in Indonesia.

### **Conclusion**

The results of this study proved the effect of Islamic governance level on the level of tax aggressiveness. The better implementation of Islamic governance is run by Islamic banks, the higher the amount of tax burden and the current tax burden to be paid Islamic banks, in other words the lower the level of aggressiveness of taxes that are run sharia banks. Conversely, the worse the implementation of Islamic governance run by sharia banks, the lower the amount of tax burden and the current tax burden to be paid by Islamic banks, in other words the higher the level of tax aggressiveness. The results of this study confirm the role of agency theory which states that good governance is a mechanism to control taxpayer opportunistic behavior.

In addition, the results of this study also proved empirically the influence of the level of Islamic governance on the level of corporate social responsibility disclosure. The results showed that the better implementation of Islamic banking governance Shariah banks have an impact on increasing levels of corporate social responsibility disclosure. Conversely, the worse implementation of Islamic banking governance impacts on the declining level of corporate social responsibility disclosure. This finding has successfully confirmed the role of the theory of legitimacy in explaining the relationship between Islamic governance and the level of corporate social responsibility disclosure.



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Future research is expected to expand the scope of current research on aspects of research objects and research variables. Future research can expand the object on other sharia entities such as sharia business units, sharia cooperatives, baitul maal wat tamlik (BMT), sharia insurance, and sharia pawnshops. In addition, future research can add other variables such as financial performance and maqashid syariah and tested its influence on the level of tax aggressiveness and the level of corporate social responsibility disclosure.

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