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Disclosure of Islamic Social Reporting Through Islamic Corporate Governance and Profitability

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Abstract

This research is motivated by the importance of Islamic Social Reporting as a form of corporate concern for the community. This study aims to reveal Islamic Social Reporting through Islamic Corporate Governance and Profitability. This study uses a purposive sampling method from companies listed on the Jakarta Islamic Index in 2015-2019. There are 16 companies as samples in this study. In this study, Islamic Corporate Governance uses indicators of the size of the board of commissioners, the composition of the board of commissioners and the audit committee. While profitability uses the indicator of return on assets (ROA). This study uses multiple linear regression analysis method and the results show that simultaneously Islamic corporate governance and profitability have a significant effect on the disclosure of Islamic social reporting, while partially Islamic corporate governance and profitability have a positive and significant effect on the disclosure of Islamic social reporting. This is because with the high level of profitability and good corporate governance, the company can disclose Islamic social reporting which will also be good.

Keywords: *Disclosure of Islamic Social Reporting, Islamic Corporate Governance, Profitability*

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1. INTRODUCTION

Islamic Social Reporting is a form of corporate social responsibility to both internal and external parties, which includes parties within the company as well as parties outside the company, namely shareholders, managers, employees as well as the community and the environment. The term Islamic Social Reporting or better known by the abbreviation ISR uses sharia principles as its basic basis, where this concept is a standard for reporting corporate social performance that emphasizes social justice in reporting in addition to reporting on the environment, employees, and other interests (Ahzar , 2013).

The concept of ISR was born in 2002 and was initiated by Hannifa and Hudaib in their research with the result of an article entitled "Social Reporting Disclosure: An Islamic Perspective". Then it was developed by further researchers such as Rohana Othman, Azlan Thani, Raditya in 2009 in Malaysia and until now the ISR concept is still being developed. The concept of ISR is not only a decision-making tool for Muslim stakeholders but also to assist companies in carrying out and fulfilling their obligations to Allah Subhanaahu wa Ta'ala and society (Haniffa, 2002).

The ISR conceptual framework that shows the concept of ethics in Islam consists of ten concepts, including faith (faith), piety (piety), amanah (trust), worship (workship), khilafah (vicegerent), ummah (community), Akhirah day of reckoning, adl (justice) and zulm (tyranny), halal (allowable) and haram (forbidden), as well as I‟tidal (moderation) and israf (extravagance). According to the concept of ethics in Islam, accountability is formed in the perspective of Islamic Economics, namely reporting of corporate social responsibility in accordance with sharia principles. ISR is an extension of social reporting which is not only in the form of a great desire from the whole community towards the role of companies in the economy but also relates to a spiritual perspective. ISR places more emphasis on social justice in its reporting in addition to reporting on the environment, minority interests and employees (Harahap, Harmain, Siregar, & Maharani, 2017).

ISR is a standard for reporting the social performance of sharia-based companies. This index was developed on the basis of reporting standards based on AAOIFI which was later developed by each subsequent researcher. In particular, this index is an extension of the social performance reporting standard which includes people's expectations not only about the role of companies in the economy, but also the role of companies in a spiritual perspective. In addition, this index also emphasizes social justice related to the environment, minority rights, and employees. The purpose of ISR is as a form of accountability to Allah SWT and society and to increase the transparency of business activities by presenting relevant information by taking into account the spiritual needs of Muslim investors or sharia compliance in decision making (Wulandari, 2015).

Many factors influence the disclosure of Islamic Social Reporting including Islamic Corporate Governance and Profitability. Islamic Corporate Governance is a system that directs and controls the company to fulfill the company's goals by protecting the interests and rights of all stakeholders by using the basic concept of decision making based on Islamic scientific social epistemology which is based on the monotheism of Allah. According to Najmudin Islamic corporate governance is a system that directs and controls a company to fulfill company goals by protecting the interests and rights of all stakeholders by using the basic concept of decision making based on Islamic socio-scientific epistemology which is based on the monotheism of Allah (Sodiq, 2017).

The main objective of Islamic Corporate Governance is Maqasid Shariah which refers to the welfare of the community. Islamic Corporate Governance aims to anticipate various kinds of risks, both financial and reputational risks. The importance of implementing Islamic Governance correctly and completely in Islamic banks is shown by Hichem Hamza's research that the implementation of good Islamic Corporate Governance has an important role in maintaining the credibility and effectiveness and efficiency of Islamic banks (Endraswati, 2015).

Islamic Corporate Governance is also needed in order to build a healthy, effective, efficient and resilient Islamic banking industry. The implementation of Islamic Governance in its entirety is also one of the efforts to protect the interests of stakeholders and improve compliance with applicable laws and regulations as well as ethical values that apply in general to the Islamic banking industry. According to Abu Tapanjeh, the principles of Corporate Governance in an Islamic perspective are realized through the sharia framework in the implementation of business, justice, and equality for the benefit of Allah SWT as the sole owner and authority in the world. The principles of Corporate Governance in Islam tend to be stakeholder oriented rather than shareholder oriented (Rini, 2018).

Submission of Allah's revelation to his people, the Apostles have been equipped with several mandatory characteristics, namely shiddiq, amanah, tabligh, fathanah and it is an obligatory trait of the apostle to be the leadership trait recommended in Islam. Therefore, the mandatory nature of the apostle is described in the application of Islamic Corporate Governance which is based on the law of the Qur'an and Hadith (Fauzy, 2020).

Furthermore, another factor that also affects the ISR is profitability. Profitability is the ratio of the company's ability to earn profits and to see the effectiveness of a company's management in disclosing its social responsibilities. Profitability is a factor that makes management free and flexible to disclose social responsibility. Companies that are in a favorable position will tend to disclose wider information in their annual reports (Arjanggie, & Zulaikha, 2015). Profitability is used to assess the company's ability to seek profit and to see the effectiveness of a company's management in disclosing its social responsibilities. The higher the profitability means the higher the company's ability to generate profits so that the wider disclosures made by the company (Rahayu, 2019).

Profitability is the most comprehensive ratio of all existing ratios and this ratio describes the bank's ability to survive and be stable in continuing its operations in the future. The definition of profitability ratios is "the profitability ratios are intended to measure how efficiently the firm uses its assets and how efficiently the firm manages its operations". Profitability ratios are intended to assess how efficiently the company uses its assets and how efficiently the company manages its operations. By having high profitability, a company is expected to be able to carry out its responsibilities well to parties inside and outside the company. The purpose of an institution, either a bank or a company, is to achieve profitability. & Takidah, 2014).

Research on Disclosure of Islamic Social Reporting Through Islamic Corporate Governance and Profitability has been widely carried out by previous studies. Raditya's research (2012) states that the age of the company can affect the disclosure of Islamic Social Reporting. The results of research conducted during the period 2009-2010 prove that the age of the company has no significant effect on the level of disclosure of Islamic Social Reporting, while company size and profitability have a positive effect on the level of disclosure of Islamic Social Reporting. However, in the research of Karina and Yuyyeta (2014) profitability has no effect on the disclosure of Islamic Social Reporting. Ali Rama, Determinant Analysis of Islamic Social Reporting Disclosures: Case Study of Islamic Commercial Banks in Indonesia, this study aims to analyze the effect of a number of variables, namely bank size, bank age, profitability and leverage on Islamic Social reporting (ISR) disclosures in Islamic Commercial Banks in Indonesia. from 2010 to 2012. Disclosure of ISR is done by means of content analysis through the scoring method. This study found that only the bank size variable had a significant positive effect on ISR disclosure at Islamic Commercial Banks in Indonesia. The greater the assets owned by Islamic banks, the higher the disclosure of ISR.

Nurlaila Harahap, Etc., Effect of Islamic Social Reporting (ISR), Company Age and Public Share Ownership on Profitability (ROA) in Companies Listed in Jakarta Islamic Index (JII) 2010-2014, observe and analyze the factors that affect Profitability (ROA) in companies managed in the Jakarta Islamic Index (JII) from 2010 to 2014. The factors tested in this study were Islamic Social Reporting (ISR), company age and public share ownership as independent variables, and profitability (ROA) as independent variables. dependent. This sample consists of twenty companies, which are listed on the Jakarta Islamic Index (JII) and have sent their financial reports to Bapepam in the 2010-2014 period. The data used in this study is secondary data and the sampling technique used is purposive sampling method. Analysis of the data used is multiple linear regression analysis. This study uses the F test to determine the simultaneous effect of ISR, company age and ownership of 70 public shares on ROA. This study also uses a T-test to test the partial correlation of each independent variable to the dependent variable. According to the results of the T-test analysis, it shows that all variables have a significant effect on Profitability (ROA).

However, in the research of Suta and Laksito (2012) and Rosiana, Arifin and Hamdani (2015) stated that profitability has no effect on the extent of information on mandatory and voluntary corporate social responsibility disclosures. Rita Rosiana, Bustanul Arifin and Muhammad Hamdani in a study entitled "The Influence of Company Size, Profitability, Leverage and Islamic Governance Score on Disclosure of Islamic Social Reporting", said that the results point to a company size (bank) which has a significant influence on disclosure of social reporting. Islam, while the rest have no effect.

Based on the problems and research gaps that the authors have described above, the related authors conduct research on Disclosure of Islamic Social Reporting Through Islamic Corporate Governance and Profitability. This study aims to Disclosure of Islamic Social Reporting Through Islamic Corporate Governance and Profitability.

2. RESEARCH METHOD

The type of research in this research is quantitative. This study uses a purposive sampling method from companies listed on the Jakarta Islamic Index in 2015-2019. There are 16 companies as samples in this study. The method of data collection in this study is to use a documentation study. In this research, the researcher uses secondary data obtained through the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id or from the websites of their respective companies. In this study, Islamic Corporate Governance uses indicators of the size of the board of commissioners, the composition of the board of commissioners and the audit committee. While the profitability in this study using the ROA indicator. This research uses multiple linear regression analysis method.

3. RESULTS AND DISCUSSION

Results

Multiple Linear Regression Results

Multiple regression analysis was carried out in this study, which was used to test the simultaneous effect of several independent variables on one dependent variable. The hypothesis that will be tested in this study is testing the influence of Islamic

Corporate Governance and Profitability on Islamic Social Reporting. The results obtained from this test can be seen below:

Table 1.

Multiple Linear Regression Results

Variable	*Coefficient*	*Standard Error*
Constant	4,448	1,548
Islamic Corporate Governance (X1)	0,364	0,084
Profitabilitas (X2)	0,566	0,132

Source: Data Processing, 2022

The regression formulation obtained is:

Based on Table 1, the constant value is 4.448, it means that if the ICG and Profitability are zero, then the ISR is 4.339. The ICG variable has a coefficient value of 0.364. That is, when the ICG variable increases by 1%, the ISR variable also increases by 0.364% and vice versa. Profitability variable has a coefficient value of 0.566. That is, when the Profitability variable increases by 1%, the ISR variable also increases by 0.566% and vice versa.

Hypothesis testing

T Uji test

Partial Test (t test) Ghozali (2016) explains that the t statistic test is carried out to see how far the influence of an independent variable in explaining the variation of the dependent variable. A hypothesis is accepted if the value of Sig. < 0.05.

Table 2.

Partial Test Results (t Test)

No	Hypothesis	T	Sig.	Hipotesis
1	*Islamic Corporate Governance Against Islamic Social Reporting*	3,785	0.005*)	H1 received
2	Islamic Social Reporting Profitability	3,428	0.001*)	H2 received
3	*Islamic Corporate Governance and Profitability Against Islamic Social Reporting*	4,106	0,000*)	H3 received

Source: Data Processing, 2022

a. F Test

The F test aims to see whether all the independent variables in the study have a simultaneous influence on the dependent variable, provided that if the f test results < 0.05 then Ha is accepted and vice versa, in this study the F test results have been obtained as shown in the table below:

Tablel 3.

Significance Results (Statistical Test F)

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regresision	42,427	5	8,815	7,587	,000[b]
Residual	28,812	24	1,262		
Total	72,428	29			

Source: Data Processing, 2022

It can be seen in the table above by observing the row, column F and sig. It shows that the F test results obtained an F count of 7.587 with a significant level value of 0.000 which means that the value is smaller than 0.05 (0.000 < 0.05). That is, the ICG Variable (X1) and Profitability Variable (X2), together have a significant effect on ISR (Y), because these values indicate that Ha is accepted and Ho is rejected.

b. Coefficient of Determination (R^2)

The coefficient of determination is a tool that can be used to measure the extent to which a model is able to explain variations in the dependent variable.

Table 4.

Coefficient of Determination Test Results

Adjust R Square	0,746

Source: Data Processing, 2022

Based on 4, the amount of Adjusted R Square is 0.746 or 74.6%. That is, ICG and Profitability in explaining ISR is 74.6%, while the remaining 25.4% is explained by other variables outside this research model.

The Influence of Islamic Corporate Governance on Disclosure of Islamic Social Reporting

Based on the results of data processing, it is found that Islamic Corporate Governance has an effect on the disclosure of Islamic Social Reporting. A company must have good governance in its management, including relations with internal and external parties. With good management, the interests of stakeholders will be guaranteed. The form of good corporate governance can increase the disclosure of responsibilities of both related parties inside and outside the company, such as employees, the community and the environment. Islamic Social Reporting (ISR) is important for Islamic banks to meet the expectations of stakeholders, especially for the Muslim community.

The results of this study are in line with the results of research conducted by Khasanah, & Yulianto (2015); Khoirudin, (2013); Sari & Helmayunita (2019), Kurniawati, & Yaya, (2017); Sutapa, S., & Hanafi, R. (2019); and Akbar (2015).

The Effect of Profitability on Disclosure of Islamic Social Reporting

Based on the results of data processing, it is obtained that profitability has an effect on the disclosure of Islamic Social Reporting. In the concept of fundametal analysis, investors use the information presented in the financial statements to evaluate the company's shares. Investors will react positively to announcements that are good news, such as an increase in profits, which will affect the company's stock price increase. Return on Assets (ROA) is often used as a tool to assess the sustainability of a company's business. The value of the large Return on Assets (ROA) ratio indicates that the profit value generated by the company is also large so that the company can perform Islamic Social Reporting well. Profitability, according to Hannifa and Cooke, a positive relationship between profitability and wider social disclosures can be seen from the more profits a company gets, the more the company can bear higher costs for making wider social report disclosures.

The results of this study are in line with the results of previous studies, namely research conducted by Rosiana, R., Arifin, B., & Hamdani, M. (2015); Astuti, T. (2013); Rostiani, S. S., & Sukanta, T. A. (2018); Eksandy, A., & Hakim, M. Z. (2017); and Sabrina, N. S., & Betri, B. (2018).

4. CONCLUSION

Based on the results of data processing and discussion that the authors describe above, the authors can conclude that:

a. Partially Islamic corporate governance has a positive and significant effect on the disclosure of Islamic social reporting.
b. Partially, profitability has a positive and significant effect on the disclosure of Islamic social reporting.
c. Simultaneously Islamic corporate governance and profitability have a significant effect on the disclosure of Islamic social reporting.

Based on the conclusions that have been described above, the author's recommendations for several parties include:

a. Further researchers should add other variables that have not been studied in this study.
b. For companies, they should really pay attention to the company's ISR as a form of social responsibility to the community.
c. For the government, to help bridge the gap between the company as the party providing ISR and the people who receive the ISR, so that the objectives of the ISR can be achieved properly.

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