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Islamic Social Reporting Disclosure to Companies Registered in the List of Sharia Securities (DES)

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***Abstract*—The existence of a company must give grace to all parties, which is reflected in the disclosure of ISR. The purpose of this study was to examine the effect of profitability, company size, industry type, environmental performance and institutional ownership on ISR. This research was conducted on companies listed on the 2013-2018 Sharia Securities List using purposive sampling and obtained 20 company samples. The method used is content analysis. The results showed that the profitability variable did not affect the ISR. It is possible that investors' interest in investing is greatly influenced by the level of profits derived by the company compared to ISR disclosures. Firm size variable influences ISR because by having sufficient assets, the company has the opportunity to disclose ISR in more detail. The type of industry variable does not affect the ISR, this is possible the view that the type of high profile industry does not require legitimacy from the public. Environmental performance variable has no effect on ISR, because management has the view that companies do not need to disclose environmental performance because it will not affect the compensation received from the government. Finally the variable institutional ownership affects the ISR, this is because institutional ownership is able to force companies to carry out social and environmental activities.**

Keywords: Islamic social reporting, industry type profitability, company size, environmental performance, institutional share ownership

I. Introduction

The company's goal is generally to increase the value of the company. Company value is one indicator of a company to continue to grow sustainably, called the single bottom line (SBL). The SBL concept was developed by Elkington into a triple bottom-line in which the company not only pursues profit, but also must pay attention to the condition and welfare of the people (people), and preserve the environment (planet) [1]. 3P is called Corporate Social Responsibility (CSR) [2]. CSR reporting is regulated by Act Number 40 of 2007 concerning Limited Liability Companies in 2007 and CSR also develops in companies that operate according to sharia [3].

The concept of CSR in Islam is not something new, because the Qur'an tells humans to protect nature. So the concept of CSR is in line with the Qur'an (*Surah Ar-Rum*: 41-42; *Surah Al-A'raf*: 56-58) [4]. The verse explains that the damage that occurs on earth is due to human hands themselves. In *Surah Al-Ma'idah* verse 2, it is explained that there are recommendations for carrying out social relations or interactions between people [4]. For this reason, companies are required to take part in the process of improving the environment.

Islam views that the existence of companies in conducting their business must be based on Islamic sharia, so that in the end it will provide benefits for all parties. The parties intended in Islam are not only those directly involved with the company, but those who are not directly involved must enjoy the benefits of the existence of the company [5]. Islam is a perfect teaching that regulates human relations with God (*hablunminAllah*) and human relations with humans (*habluminannas*) and both are interrelated and inseparable in living this life. The linkage of *hablunminAllah* and *habluminannas* is reflected in the concept of CSR practiced in sharia companies as a form of piety to Allah SWT.

CSR measurements used by companies based on sharia should ideally use Islamic Social Reporting (ISR). Sharia index was first put forward Haniffa [6] then developed Othman et al. [7] into six disclosure themes namely finance and investment, product and service, employees, society, environment, and corporate governance. ISR disclosures are affected, one of which is influenced by profitability.

Profitability is the company's ability to generate profits from its business activities. The higher the profitability, the higher the profit generated. This will lead to more widespread disclosure of social responsibility by the company. Companies in disclosing social responsibility in their annual reports are strongly influenced by the amount of profitability [8]. The results of previous studies indicate that profitability has a positive effect on the level of disclosure of sharia-based social responsibility [7,9,10]. This is different from the results of the study which obtained the results of profitability did not affect the ISR [2,3].

Company size is the second variable that can affect ISR disclosure. The size of the company is the size of the company that can be measured by total assets [7]. The larger the company will provide disclosures of higher social responsibility. It is obtained that the size of the company has a positive influence on the level of ISR disclosure [3,7,10].

The types of company industries are grouped into two, namely high profile industries as companies that have a high sensitivity to the environment and vice versa low profile industries are companies that have a high level of sensitivity, a level of political risk and a low level of competition so that they do not get the spotlight from the public on their company activities [11]. While research Othman et al. divides industrial types into manufacturing and non-manufacturing industries [7]. The research shows that the type of industry has no influence on the disclosure of ISR.

Next that can affect ISR disclosure is environmental performance. According to Al-Tuwaijri et al., Environmental performance is a mechanism of a company that voluntarily integrates its attention to the environment into company operations and interacts with stakeholders [12]. The measurement of environmental performance can be seen from the company's achievements in participating in the Corporate Performance Rating Program in Environmental Management (PROPER). Companies with good environmental performance will tend to disclose company performance in their social responsibilities related to environmental themes in the ISR index. The results of the study showed a significant influence between environmental performance on CSR disclosure and contrary to the results of the study [12,13].

Finally, what influences the extent of ISR disclosure is institutional ownership. Institutional ownership that is greater than other share ownership means investors have the right to know the state of the company so the company must disclose CSR more broadly because CSR disclosure is information needed by investors in making decisions and becomes an assessment for banks by investors [14]. Research conducted shows the results of institutional ownership affect CSR disclosure [14]. ISR discussion has been widely studied. This research develops previous research conducted by adding variables of environmental performance and institutional ownership [9].

Based on this background, researchers are interested in conducting research by examining the effect of Profitability, Company Size, Industry Type, Environmental Performance, and Institutional Ownership on ISR Disclosure in Companies Listed in the 2013-2018 Sharia Securities List.

The purpose of this study was to determine the effect of Profitability, Company Size, Industry Type, Environmental Performance, and Institutional Ownership on ISR Disclosures in Companies Listed in the 2013-2018 Sharia Securities List.

Profitability is the company's ability to generate corporate profits. A company must be willing to provide full disclosure regardless of whether it is profitable or vice versa [6]. Research conducted by Othman et al [7], Sunarsih and Dahlifah [9], and Lestari [10] proves that profitability has an influence on disclosure of social responsibility. Thus the first hypothesis in this study is:

H1: Profitability has a positive effect on the level of ISR Disclosure.

The size of the company is the level of identification of large or small companies. Large companies have more funding, facilities and human resources. This results in the greater size of the company will have a greater impact on the environment. This makes the company needs to make disclosure of broader social responsibility information. Research conducted by Sunarsih and Cahyani [3], Othman et al. [7], and Lestari [10] proves that company size the applicable criteria that follow. Influences CSR disclosure. Thus the second hypothesis in this study is:

H2: Company size has a positive effect on ISR disclosure.

Industry type is a company characteristic that is related to the business field, business risk, employees owned and the company environment. Industry type is a potential factor that influences corporate social disclosure practices. The types of industries used in this study are divided into two types, namely high-profile and low-profile industries [11]. Companies included in the high-profile industry include oil, mining, chemical, forest, paper, automotive, aviation, energy, engineering, agribusiness, media and communications, health and transportation companies. While companies that are in the low-profile industry type include companies engaged in building, food and beverage, medical equipment suppliers, property, retailers, textiles and textile products, personal products, and household products. Previous research on industry types has proven that the level of social responsibility disclosure is influenced by industry types [15,16]. Thus the third hypothesis in this study is:

H3: Company type has a positive effect on ISR disclosure.

Environmental performance is the mechanism by which a company voluntarily interacts its attention to the environment into its operations and interactions with stakeholders, which exceeds organizational responsibility. Assessment of environmental performance can be measured through the Company Performance Rating Program in Environmental Management (PROPER) from the Ministry of Environment (KLH), namely by detailing the environmental performance results of KLH based on the environmental performance of a company. The results of the study showed a significant influence between environmental performances on CSR disclosure [12]. Thus the first hypothesis in this study is:

H4: Environmental Performance has a positive effect on ISR disclosure.

Institutional ownership is ownership of shares ownership by parties in the form of institutions such as foundations, banks, insurance companies, investment companies, pension funds, companies in the form of limited liability companies, and other institutions. With large resources, the institution can control the majority of shares compared to other shareholders. Large institutional ownership can increase oversight of management performance. This is because institutional investors have the power and experience and are responsible for implementing the principles of good corporate governance. To protect the rights and interests of all shareholders so as to require companies to communicate transparently. With institutional ownership [14]. Research conducted shows the results of institutional ownership affect CSR disclosure [14]. Thus the first hypothesis in this study is:

H5: Institutional ownership has a positive effect on ISR disclosure.

II. Methods

This research is a quantitative study using secondary data from the Financial Services Authority website (www.ojk.co.id). The method in this study uses content analysis. The data used in this study is panel data. The population in this study are companies listed on the Sharia Securities Register during the 2013-2018 period. Sampling with a purposive sampling method with criteria (1) Companies included in the List of Sharia Securities and listed on the Indonesia Stock Exchange (IDX) in the period 2013-2018. (2) Companies that take part in a Performance Rating Program in Environmental Management (PROPER) in a row during the 2013-2018 period. (3) Companies that use the unit of Rupiah. Based on these criteria, 20 companies were obtained.

III. Results and Discussion

Normality test in this test uses the Jarque-Bera test (J-B), with the provisions of the Jarque-Bera (J-B) value $<\chi 2$ table and probability value> 0.05, it can be said that the data is normally distributed. Normality test results show that the results obtained have a Jarque-Bera (J-B) value of 4.8401 <5.9914 and a probability value of 0.088914> 0.05. Thus, it can be concluded that the data are normally distributed. Based on the determination coefficient test results obtained adjusted R2 value of 0.120119 (12.01%). This means that 12.01% variation of ISR disclosure can be influenced by ROA, SIZE, TI, PROPER and IC, while 87.99% of ISR disclosure can be influenced by other factors not included in this study. Based on the regression estimation method between the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM) and the selection of a regression equation estimation model with the chow test, the hausman test and the Lagrange multiplier test, then REM is chosen for the panel regression equation.

The t test aims to determine whether the independent variable partially influences the dependent variable and to further examine which of the independent variables influence the ISR measurement. The results of testing the research hypotheses based on the t test are as follows:

The ROA variable has a probability value of 0.7494 greater than α = 0.05. This shows that the first hypothesis is rejected which means that the ROA variable has no effect on ISR disclosure. The SIZE variable has a probability value of 0,0003 smaller than α = 0.05. This shows that the second hypothesis is accepted which means that the SIZE variable influences the disclosure of ISR. The IT variable has a probability value of 0.6651 greater than α = 0.05. This shows that the third hypothesis is rejected which means that the IT variable has no effect on ISR disclosure. The PROPER variable has a probability value of 0.0951 greater than α = 0.05. This shows that the fourth hypothesis is rejected which means that the PROPER variable has no effect on ISR disclosure. The KI variable has a probability value of 0.0409 smaller than α = 0.05. This shows that the fifth hypothesis is accepted which means that the KI variable influences the disclosure of ISR.

The first hypothesis states that profitability affects the disclosure of ISR. The test results show that the probability value of 0.7494 is greater than α = 0.05. Based on the test results indicate that the first hypothesis stating profitability affects the disclosure of ISR is rejected. Profitability is a ratio used to measure how effective a company is in making a profit. The rejection of this hypothesis is possible because there are still many parties who have a view of profitability from the investor side as well as from the company side. From the investor side, investing is not because of the many social activities carried out, but because of the level of profit generated. While from the company side that social activities will be a reduction in corporate profits. Social disclosure will add costs and cause competitive losses. Conversely, companies with a low level of profitability expect to attract investors by showing company performance through social responsibility reports. The results of this study are in line with research which found that profitability had no effect on ISR disclosure [2,3]. This can be interpreted that the high or low level of profitability does not affect ISR. But contrary to the results of research conducted that profitability has a significant effect on ISR [7,9,10].

The second hypothesis states that firm size has a positive effect on ISR disclosure. The test results show that the value of the company size of 0,0003 is smaller than α = 0.05. Based on the test results show that the second hypothesis which states that the size has a positive effect on the disclosure of ISR is accepted. This study shows that large companies tend to have more and more complex activities, and have the ability to provide more detailed information about these activities, so that items in reporting social responsibility become wider and this will be a positive value for the company in the eyes of Muslim investors. The results of this study are which proves that total assets can influence the disclosure of social responsibility [3,7,10].

The third hypothesis states that industry type has a positive effect on ISR disclosure. The test results show that the probability value of 0.6651 is greater than α = 0.05. Based on the test results show that the third hypothesis which states that the type of industry has a positive effect on the disclosure of ISR is rejected. The results of this study indicate that companies included in the high industry type group assume that the legitimacy of the community through disclosure of ISR in the company's annual report is not too important. This is not in accordance with the theory of legitimacy which states that responsible social disclosure is made with the aim of gaining operational legitimacy and reducing pressure from environmental and social activists. The results of this study are in line with research conducted by Othman et al. [7], Sunarsih and Dahlifah [9] which proves that the type of industry has no effect on ISR disclosure.

The fourth hypothesis states that environmental performance has an effect on ISR disclosure. The test results show that the probability value of 0.0951 is greater than α = 0.05. Based on the test results show that the fourth hypothesis which states that environmental performance affects the disclosure of ISR is rejected. This research proves that the environmental performance of the company does not have a big enough influence to disclose its social responsibility. This is also supported by the argument that management feels there is no need to provide disclosures about the environmental performance it does because it does not affect the position and compensation it receives. The results of this study are in line with research conducted by Basamalah and Johnny which proves environmental performance has no effect on ISR disclosure [13].

The fifth hypothesis states that institutional ownership has a positive effect on ISR disclosure. The test results show that the value of institutional ownership of 0.0409 is smaller than α = 0.05. Based on the test results show that the fifth hypothesis which states that institutional ownership has a positive effect on the disclosure of ISR is accepted. This shows that the existence of institutional investors is able to force companies to carry out social and environmental activities. Institutional investors in Indonesia also have a high awareness of the need for long-term sustainability of the company by making social and environmental activities a major consideration in investing and the possibility of institutional investors are still oriented towards short-term profits such as corporate profits in investment considerations. The results of this study are in line with research conducted by Yong et al. which proves institutional ownership influences the disclosure of ISR [14].

IV. CONCLUSIONS

The results of this study concluded that profitability had no effect on ISR disclosure. This happens because the company has an understanding that a high level of profit will attract investors even though management does not make sufficient disclosures and considers disclosure of social responsibility will increase costs and competitive losses. The company size variable influences the disclosure of company ISR. This is because large companies have more and more complex activities, and have the ability to provide more detailed information about these activities, so that items in reporting social responsibility become wider. Variable type of industry does not affect the disclosure of company ISR. Because people's legitimacy through ISR disclosure in the company's annual report is not very important. This is not in accordance with the theory of legitimacy which states that responsible social disclosure is made with the aim of gaining operational legitimacy and reducing pressure from environmental and social activists. The environmental performance variable has no effect on the company's ISR disclosure. This is because the environmental performance of the company has not provided compensation received by the company. Finally, institutional ownership variables influence the disclosure of ISR. This is because institutional investors are able to encourage companies to carry out social and environmental activities and there is a tendency for institutional investors to choose short-term and long-term profits as a consideration for investing.

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