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*by* Rimi Gusliana Mais

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# Influence of Industrial Type, Return on Asset, Company Size, and Institutional Ownership of Islamic Social Reporting Disclosure

Rimi Gusliana Mais<sup>1</sup>, Engkur Engkur<sup>2</sup>

<sup>1</sup>Department of Accounting, <sup>2</sup>Department of Management  
Sekolah Tinggi Ilmu Ekonomi Indonesia Jakarta  
Jakarta, Indonesia  
rimigusliana@gmail.com

**Abstract**—This study aims to examine the influence of industry type, return on asset, company size, and institutional ownership of the Islamic Social Reporting (ISR) Empirical Study disclosure to companies listed in Jakarta Islamic Index, Indonesia Stock Exchange 2014-2017. This research is a descriptive research of quantitative approach, as measured by multiple linear regression method with SPSS 23.00. Population of this research is company registered at Jakarta Islamic Index 2014 until 2017. Samples determined by purposive sampling method, with amount of sample counted 19 companies so total observation in this research counted 76 observations. The data used in this research is secondary data. The ISR value is obtained by analyzing each annual report of company based on content analysis method. The results show that industry type and institutional ownership have no effect on ISR. That is, that companies in both high profile and low profile industry groups do the same disclosure of social responsibility in sharia. Likewise, the ownership of both large and small institutional will still do the disclosure of social responsibility. While Return On Asset and the size of the company affect the ISR. That is, when higher profitability and firm size will drive more effective ISR disclosure. This research has an impact in informing and increasing understanding of Muslim investors who own shares in Jakarta Islam index.

**Keywords**—islamic social reporting; industry type; return on asset; company size; institutional ownership

## I. INTRODUCTION

The issue of corporate social responsibility (CSR) has become increasingly important in recent decades as the concept of CSR is at the core of business ethics for every company. Practice and disclosure of CSR in Indonesia began to grow along with the increasing attention of global community to the development of transnational or multinational companies operating in Indonesia according to No.40 of 2007.

Various forms of CSR, from the construction of public facilities, donation of funds for the community around company and for workers, or implementers of activities that support the welfare of the community. CSR is also motivated by social, political, economic pressure to give attention and

contribution to social and environmental impact due to company activity, especially manufacture sector [1, 2].

CSR does not only exist in conventional economics, but also develops in sharia economy. The development of CSR in sharia economy has an impact on the increasing of public attention to the institution-institution or institution of sharia. This is due to the needs of the public against the institution or institution of the greater the sharia from time to time. Associated with the need for disclosure of social responsibility in accordance with sharia, Islamic economics researchers today are using the Islamic Social Reporting (ISR) to measure the CSR of Islamic financial institutions [2, 3].

The ISR index contains standard CSR items defined by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The ISR index is believed to be an early foothold in terms of CSR disclosure standards that are in line with Islamic perspectives. ISR is not only a role in decision-making for the Muslims but also help the company in fulfilling obligations to Allah *Subhanahu wa ta'ala* also the community [3-5].

Various studies on conventional and *syariah* CSR disclosure in companies show mixed results using several factors, including using industry type factors, profitability, institutional ownership and firm size. Research using industry type factors are grouped into two, namely high profile industry and low profile. Companies with high profile industry type are generally companies that get the spotlight from the public because its operations have a potential adverse impact for broad interests, compared to the type of low profile companies very little get the spotlight from the public. The same has been proven by [2,6] industry type having a significant positive effect on the disclosure of social responsibility.

While some researchers found disclose the type of industry does not affect social responsibility [5,7]. Profitability factor that is Return On Assets (ROA) in ISR disclosure have positive effect have been proved [1,5,8]. Profitability does not affect the disclosure of social responsibility [7,9].

Research using firm size in general can be seen as big companies will disclose the answers to information compared

with small companies. Company size has a positive influence on the disclosure of social responsibility by the company proven [6,9]. While Mandika and Salim found that firm size did not affect the disclosure of social responsibility [2]. While Purwanto found that the size of the company does not affect the disclosure of social responsibility [10]. This shows that large-sized companies tend to have higher information disclosure compared to small-sized companies because of the large size of the company, the company's responsibility for the welfare of the community and the surrounding environment will be increasingly considered by the Muslim investors and other Muslim report users [10].

Subsequent research that influences ISR disclosure is institutional ownership. Institutional ownership is a stock of companies owned by other companies both inside and outside the country as well as domestic and overseas government stocks. Constitutional ownership positively affects ISR disclosure [10,11]. Constitutional ownership does not affect the ISR according to [7,12].

## II. THEORETICAL FRAMEWORK

### A. Stakeholders Theory

Fremaan states that stakeholder theory means a collection of policies and direct practices on something related to stakeholders, values, legal compliance, public and environmental awards, and the business world's commitment to contribute to sustainable development [6]. Organizational management based on stakeholder theory, is expected to perform activities that are not only important for the company but also important for stakeholders, and report back on activities that have been done to stakeholders [13,14].

Stakeholder theory is believed to have an influence with CSR [13,14] states that corporate behavior is always supervised to achieve socially responsible behavioral conduct for activities aimed at achieving goals for all stakeholders. Stakeholder theory keeps stakeholders aware of the importance of social reports. Similarly, Muslim stakeholders who may be aware of corporate social responsibility in terms of haram and halal so as to make the company to disclose social information [5].

### B. Theory of Legitimacy

The theory of legitimacy is a theory that depends on the thinking of "social contract" between the company and the society around the company. Social contracts are a way of explaining some of the great expectations of society about the company's operations that should be implemented and also to state that legitimacy can be obtained if there is a match between the congruent company and the existing value system in society and the environment. However, in the event of a mismatch will threaten the legitimacy of the company where the public will revoke the company's contract so that it cannot continue its operation [14,15].

### C. Islamic Social Reporting (ISR)

One of the indices for measuring corporate social responsibility disclosure is Islamic ISR. ISR was first

discovered by Haniffa, then developed by Othman et al specifically in Malaysia. Islamic perspective disclosure consists of two general requirements, namely full disclosure and social accountability, in which the social concept of accountability is related to the principle of full disclosure which has the purpose of serving the public interest in information [4, 5]. People or societies in the Islamic perspective have the right to know the operational effects of an organization on welfare and it is advisable in Shariah requirements to know whether the company remains operational according to sharia and achieves its stated objectives [15,16].

The standards issued by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), which these organizations develop accounting for Islamic financial institutions in the world, cannot serve as a standard of disclosure of social responsibility in sharia. This is because the standard disclosure does not mention all CSR related items in a company. The use of ISR is one of the ways in assessing corporate social responsibility reporting in sharia. ISR was the first idea expressed [4].

ISR is an extension of social reporting including the expectations of community that are not only about the company's role in the economy, but also the role of the company in a spiritual perspective for the Muslims who are users of the report. In addition, the ISR index emphasizes social justice on the environment, minority rights, and employees. ISR has a purpose to show accountability to Allah Ta'ala and society, as well as to enhance the transparency of business activities by presenting relevant information in meeting the spiritual needs of Muslims in decision making [4,5].

## III. METHOD

The type of research used in this study is quantitative research. The sample is part of a number of characteristics possessed by the population used for research [17]. The sampling method used in this study was purposive sampling. Purposive sampling is the technique of determining a sample with certain considerations or criteria [17]. In this study, the sampling criteria were:

- Companies listed in the Jakarta Islamic Index in 2014 to 2017 with the IDX reviewing the Jakarta Islamic Index every 6 months, which is adjusted to the period of issuance of the List of Sharia Securities (DES) by the Financial Services Authority (OJK).
- The company that presents the Annual Report during the period 2014 – 2017.
- Companies that are consistently listed in the Jakarta Islamic Index in 2014 to 2017.
- Companies that use rupiah currency units (Rp) in presenting all of their company reports.
- The company that publishes and presents the company's annual report available in the public space.

The research method used is the content analysis method that aims to know the level of disclosure of the 50 ISR disclosure points. Variables:

A. Industrial Type (X1)

Referring to research Othman et al., Industrial Type is classification according to type of business run, classification type industry based on Indonesia Stock Exchange (IDX) [1]. Industry type in this research is divided to two types, namely high-profile and low-profile industries. Companies included in the high profile industry include oil, mining, chemical, forest, paper, automotive, aviation, agribusiness, tobacco and cigarette companies, media and communications, energy, engineering, health, transportation and tourism.

While companies that are included in the type of low profile industry include companies engaged in building, finance-banking, medical equipment suppliers, food and beverage, property, retailer, textile and textile products, personal products, and household products. Industry type variables are dummy variables, companies belonging to the high profile industry are generally included in the category of manufacturing companies given the value of 1 and vice versa low profile industry included in non-manufacturing companies given the value 0, this free variable is given the symbol TYPE.

B. Return on Asset

The ratio used to measure the ability of the capital invested in the overall assets to generate net profits.

The formula:

$$\text{Return on Asset} = \frac{\text{Net Profit After Tax}}{\text{Total assets}} \quad (1)$$

C. Company Size

The size of a company is the size of a company that is measured by the total assets of the company. The total assets indicate the amount of ownership of the assets owned by the company that is the sum of the current assets with fixed assets, so that the total assets can present the size or size of the company. Therefore, the authors use the proxy of total assets as a measure of company size. This company size variable uses rupiah currency and given the symbol "size".

To equate the total variable of the asset that is processed with another data variable then use the size of the company in logarithm natural (Ln) so formulas are formed:

$$\text{Size} = \text{Ln} (\text{Total Assets}) \quad (2)$$

D. Institutional Ownership

Institutional ownership is shares owned by institutions or institutions such as insurance companies, pension funds or other companies. Institutional ownership is measured by the percentage of the number of shares owned by an institution against the number of shares outstanding in the company with the following formula:

$$\text{Institutional Ownership} = \frac{\text{Shares owned by an institution or company}}{\text{Total Shares Outstanding}} \quad (3)$$

Islamic Social Reporting Index:

$$\text{ISR} = \frac{\text{Number of Score Disclosures Filled}}{\text{Maximum Score Disclosure Score}} \quad (4)$$

IV. RESULTS AND DISCUSSION

TABLE I. PARTIAL SIGNIFICANCE TEST (T-TEST)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.408	.033		12,425	.000
TYPE	.015	.016	.097	.962	.339
ROA	.297	.066	.445	4,494	.000
SIZE	.006	.002	.281	2,841	.006
KI	-.091	.074	-.125	-1,238	.220

Dependent Variable: ISR  
Source: Secondary data processed with SPSS Version 23

$$\text{ISR} = 0,408 + 0,015 \text{ TYPE} + 0,297 \text{ ROA} + 0,006 \text{ LNSIZE} - 0,09 \text{ KI}$$

- Variable Type of Industry has significant value of 0.339 greater than 0.05 means partially that the variables of industry type does not significantly influence the disclosure of Islamic Social Reporting. Thus, H1 concerning "Industrial Type influencing the disclosure of Islamic Social Reporting" is rejected.
- Variable Return on Asset has a significant value of 0.000 lower than 0.05 has a partial meaning that the variable profitability has a significant effect on the disclosure of Islamic Social Reporting. Thus, H2 on "return on assets affecting the disclosure of Islamic Social Reporting" is accepted.
- Variable Size Company has a significant value of 0.006 lower than 0.05 has a partial meaning that the variable size of the Company affects the disclosure of Islamic Social Reporting. Thus, H3 on "The size of companies affecting the disclosure of Islamic Social Reporting" is accepted.
- Variable Institutional Ownership has a significant value of 0.220 greater than 0.05 has a partial meaning that the institutional ownership variable has no effect on the disclosure of Islamic Social Reporting. Thus, H4 on "Institutional Ownership influences the disclosure of Islamic Social Reporting" is rejected.

TABLE II. MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.553 <sup>a</sup>	.306	.267	.06592	1,960

<sup>a</sup> Predictors: (Constant), KI, ROA, SIZE, TYPE

<sup>b</sup> Dependent Variable: ISR

Source: Secondary data processed with SPSS Version 23

In table value adjusted  $R^2$  in this research equal to 0,267 which means that independent variables (industry type, return on asset, company size and institutional ownership) have an effect on dependent variable (disclosure of Islamic Social Reporting) equal to 26,7% while the rest is equal to 73.3% is influenced by other factors outside the variables in the model.

In addition, it can be seen that the value of Standard Error of Estimate (SEE) of 0.065. The smaller the value of SEE will make the regression model more appropriate in predicting the dependent variable.

Industrial types are measured using dummy variables, grouped into manufacturing and non-manufacturing industries with a value of 1 for high profile and 0 for low profile firms. The type of industry does not significantly influence the disclosure of Islamic social responsibility. This means that high profile firms are not likely to disclose the activities or corporate social responsibility higher or higher than low profile firms.

Profitability by using ROA has an effect on ISR. Profitability is a company's ability to use all assets owned to generate profit after tax. The results of this study indicate that in investing investors consider ROA as one of the considerations in taking investment decisions.

The size of the company to see the size of a company, in this study the size of the company affects the ISR. So in this study shows that large companies usually have more activities and complex, have a greater impact on the community, have more stakeholders, and get more attention from the public. Specifically, the larger the size of sharia firms, the more the Muslim stakeholders are affected or influenced by the business activities of the company.

Institutional ownership is a company share owned by other companies both inside and outside the country as well as domestic and overseas government shares. In this study, institutional ownership has no effect on Islamic Social Reporting. This shows that the monitoring activity of disclosure of social responsibility done by investor Belem is fully done so that it cannot force management to disclose social information.

Industrial type is measured using dummy variables, which are grouped into manufacturing and non-manufacturing industries with a value of 1 for high profile companies and 0 for low profiles. Industrial type does not significantly influence the disclosure of Islamic social responsibility. This means that companies that are high profile do not tend to disclose activities or corporate social responsibility higher or more than low profile companies.

3 Profitability by using ROA affects the ISR. Profitability is the company's ability to use all assets owned to generate profit after tax. The results of this study indicate that in investing investors pay attention to ROA as one of the considerations in making investment decisions.

4 The size of the company to see the size of a company, in this study the size of the company affects the ISR. So that in this study shows that large companies usually have more and complex activities, have a greater impact on society, have more stakeholders, and get more attention from the public.

Specifically, the larger the size of Islamic companies, the more Muslim stakeholders also influence or are affected by the company's business activities.

Institutional ownership is the company's shares owned by other companies both inside and outside the country as well as domestic and foreign government shares. In this study, institutional ownership has no effect on Islamic Social Reporting. This shows that monitoring activities for disclosing social responsibility by investors have not been fully carried out so they cannot force management to disclose their social information.

## V. CONCLUSION

Partially, testing using industry type variables does not significantly influence the level of Islamic Social Reporting (ISR) disclosure in the company, so the first hypothesis is rejected. That is, that companies in high profile industry groups tend to disclose social responsibility in a sharia lower than a low profile company.

Partially, the test using profitability variables have a positive effect on the disclosure of Islamic Social Reporting (ISR), so the second hypothesis is accepted. That is, that the higher profitability generated by the company, the more complete the information of social responsibility disclosed by the company.

Partially firm size has significant effect on ISR. That is, that large companies tend to have a higher disclosure of information compared to small companies because of the large size of the company then the responsibility of the company will the welfare of society and the surrounding environment will increasingly be noticed by the muslim investors and users of other Muslim reports, so large companies are considered to be more widespread of ISR disclosures.

Partially institutional ownership has no effect on ISR. That is, institutional ownership cannot affect the company's performance in achieving the company's goal of maximizing the value of the company. The institutions in stock ownership are so low that companies cannot improve the quality of investment in social responsibility.

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