The Influence of Company Size and Profitability on Islamic Social Reporting (ISR) on Islamic Banking in Indonesia

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ABSTRACT

The development of Islamic banking in the last decade is quite significant. Various financial institutions which are conventional financial institutions expand their network by having Islamic units. Therefore, in the aim of maintaining a banking system that continues to advance, it must be able to carry the company's size and profitability. The greater the total assets, the greater the size of the company; the greater the profitability means the bank is able to use these assets effectively. The method used in this research is quantitative research method. The data used in this research are secondary data by using the annual report of Islamic banking in Indonesia on period of 2014 until 2018. The results of this Research find that The Size has a positive and significant effect on ISR. While profitability has no effect on ISR. However, simultaneously or jointly positive effect on ISR.

ABSTRAK

Perkembangan perbankan syariah dalam satu dekade terakhir cukup signifikan. Berbagai lembaga keuangan yang merupakan lembaga keuangan konvensional memperluas jaringannya dengan memiliki unit syariah. Oleh karena itu, dalam tujuan mempertahankan sistem perbankan yang terus maju, maka harus mampu mengusung ukuran dan profitabilitas perusahaan. Semakin besar total aset maka semakin besar pula ukuran perusahaan, semakin besar profitabilitas berarti bank mampu menggunakan aset tersebut secara efektif. Metode yang digunakan dalam penelitian ini adalah metode penelitian kuantitatif. Data yang digunakan dalam penelitian ini adalah data sekunder dengan menggunakan laporan tahunan perbankan syariah di Indonesia periode 2014 sampai dengan 2018. Hasil dari penelitian ini menemukan bahwa Size berpengaruh positif dan signifikan terhadap ISR. Sedangkan profitabilitas tidak berpengaruh terhadap ISR. Namun secara simultan atau bersama-sama berpengaruh positif terhadap ISR.

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INTRODUCTION

The concept of Corporate Social Responsibility (CSR) nowadays is not only used for convensional but also developed in Islamic Ecomony. Corporate Social Responsibility (CSR) is a concept of corporate responsibility towards external and internal parties of a company that focuses on economic, social and environmental aspects. In the 1980s various of research institutes began to conduct research on the benefits of CSR for companies that carry out social responsibility. Islamic banks have different principles and practices from conventional banks (Antonio, Sanrego, & Taufiq, 2012).

The ISR was first stated by Haniffa (2002) who stated that there are limitations to conventional social reporting so that it reveals the conceptual framework of Islamic Social Governance in accordance with islamic provisions which not only helps decision-making for Muslims but also helps internal parties in fulfilling their obligations to Allah SWT and the community. Every large or small scale company that includes in the implementation of its operations must have an impact on the environment around the company. Therefore it is expected that companies are able to disclose CSR futher more.

Rama and Meliawati (2014) stated that the main purpose of Islamic Sosial Governance is to show the companies' compliance with islamic rules (sharia). Another purpose of corporate reporting as it is known in the Western model, is to assist decision makers in making economic decisions. But in an Islamic perspective, this is a secondary goal. The implication is that Islamic business must disclose all information needed to provide information to the public about their operational activities. In other words, the concept of disclosure is closely related to the concept of accountability. While Islamic banking and an increase in the number of CRS continues to grow and develop, Mallin (2014). But, according to research that's conducted by Nobanee and Ellili (2015) from 2003 to 2013 found that the disclosure of ISR in Islamic banking is still far below conventional banking. Within a period of a decade, the disclosure of ISR has not yielded significant results yet.

Many factors that affected the disclosure of Islamic Social Governance. One of them is company size. Company size is a factor in the disclosure of Islamic Social Governance. The greater the total assets, the greater the size of the company, because the more capital that is invested. Suhardjanto and Wardhani (2010) said that company size is a predictor that influences a large socioeconomic level on its environment, so that it becomes more of a stakeholder spotlight. Therefore, companies are required to disclose more information, including the company's social performance.

Furthermore, what affects Islamic Social Reporting disclosure is profitability. The profitability ratio is the final result of a number of policies and decisions made by the company. Return On Assets (ROA) is the company's ability to generate profits from the assets used. Return On Assets is a profitability ratio that is used to measure the effectiveness of a company in generating profits in utilizing its assets, Ditya & Made (2016). Ida & Putu (2016) stated that the higher the value of ROA, the higher the company's profit that the asset management of a

company will be better as well. The higher the value of ROA, the greater the profit earned by the company.

Reflected to the backgound above, it shows that social reporting is needed in islamic rules by the Islamic Banking as the responsibility to Allah community. In the other hand, it also needs a certain explanation that's significantly impacted toward ISR disclosure.

THEORITICAL REVIEWS

The Agency Theory

According to Jensen and Meckling (1976), the interests of management and shareholders are often in conflict, so that conflict can occur between the two. That is because managers put personal interests first. Conversely, shareholders disagree with the manager's personal interests because these expenses will add to the company's costs and cause a decrease in corporate profits and decrease in dividends received. Conflicts of interest between managers and shareholders can be minimized by an oversight that can align these interests. However, the emergence of this monitoring mechanism causes a cost called the agency cost. One point of view of agency theory is the resolution hypothesis conflict which states that company uses CSR activities to reduce the potential for conflict between managers and other parties including stakeholders, which is ultimaltely able to increase company value so that it can reduce agency costs (agency cost reduction).

Disclosure

Purnomosidhi (2006) in his research revealed a framework for the purpose of voluntary disclosure reflected to an information needed by investors based on the Jenkin Report (AICPA, 1994), there are named as financial and non-financial data, analysis of financial and non-financial data, future-oriented information, managers and parties information with an interest in the company, the company's background, and the dimensions of intellectual capital. In line with research conducted by Platonova (2018) shows that CSR disclosure is highly related to future financial performance and it has ones in the long term.

METHOD

Operational Definition

The Operational Definition of a variable is a definition that is given to a certain variable in the form of a term specifically tested or measurement criteria. In this research, the operational definition referred as follows:

Size (X1) Measurement of *Size* in this research is counted by the activa.

Profitability (X2) Measurement of profitability in this research is counted by the Roa.

Islamic Social Reporting (ISR) (Y); Measurement of ISR in this research is counted by the investment of employee product, environtment, community and the governance of company.

The Method of Sampling

This research is conducted on Islamic commercial banks in Indonesia, while the sampling is conducted using purposive sampling method. Data collection by means of

documentation from annual published by Islamic banks that meet the criteria. Based on the established criteria, there are 8 BUS that are used as research samples, with the observation period carried out in the period 2014 to 2018. The analytical method used is multiple linear regression analysis, where previously view assumptions test included: normality test, heteroscedasticity, multicollinearity and autocorrelation.

RESULT AND DISCUSSION

Descriptive Analytical Test

Table 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SIZE	40	1.38	98.34	26.5174	28.40854
ROA	40	.02	4.19	1.0338	.95876
ISR	40	.32	.76	.5055	.12691
Valid N (listwise)	40				

The results of descriptive statistical studies shown in table 1 describes that the ISR average in Islamic Commercial Banks is 0.5055. The maximum value is 0.76. The minimum value is 0.32. While the standard deviation of 0.12691 means that the size of data spread from the ISR variable is 0.12691 from 40 samples. Then the Variable Size at the Islamic Commercial Bank is 26.5174. The maximum value is 98.34. The minimum value is 1.38. While the standard deviation of 28.40854 means that the data distribution size of the ISR variable is 28.40854 from 40 samples. Then the Variable Profitability at the Islamic Commercial Bank is 0.0338. The maximum value is 4.19. The minimum value is 0.02. While the standard deviation of 0.95876 means that the data distribution size of the ISR variable is 0.95876 from 40 samples.

Analyze Classic Test
Normality Test

Table 2
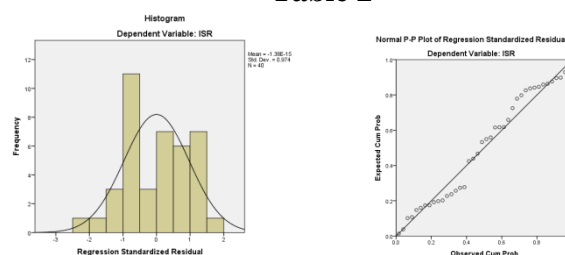
By Reflecting to the display of Histogram graph or Normal p-plot Regression chart, it can be concluded that the histogram graph provides a normal distribution pattern. While on normal plot graphs, it shows diagonal veiled points. Both graphs show that the regression model does not deny the statement of normality. So, it is able to be concluded that the regression model in this study meets the requirements to be a good regression model, because it has a normal distribution or normal handling.

Multicollinearity Test

Table 3

Coefficients^a

		Collinearity Statistics	
Model		Tolerance	VIF
1	SIZE	.968	1.033
	ROA	.968	1.033

Multicollinearity test is used to determine whether there is a linear relationship toward independent variables in the regression model. The model is declared free from multicollinearity disorder if it has a VIF value below 10 or tolerance value is above 0.1. From the test results above, the VIF value is 1,033 < 10 or tolerance 0.968 > 0.1. This means that there is no multicollinearity.
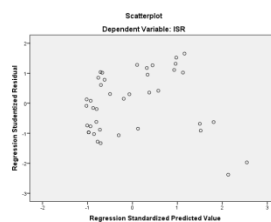
Autocorrelation Test

Table 4

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.437ª	.191	.148	.11717	.761

Based on the above results it is known that the calculated value (Durbin Watson) lies between 0.761 < 2.024. It can be concluded that there is no autocorrelation in this research model.

Heteroscedasticity Test

Table 5

From the graph above it can be seen that the points are scattered randomly and spread both above and below the zero number on the Y axis. So it can be concluded that the model in this study qualifies to be a good model because it is a homoscedasticity model or a variant of the residual value observations from one observer to another remain.

Analysis of Multiple Linear Regression Tests

Table 6

Coefficients^a

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.445	.035		12.761	.000

SIZE	.002	.001	.444	2.957	.005
ROA	.008	.020	.061	.403	.689

Based on table 6 above, regression model of multiple variable size toward Islamic Social Reporting (ISR) as follows:

$$Y= 0.445 + 0.002 + 0,008 + ε$$

The coefficients of the multiple regression equation above can be interpreted as follows:

1. The above constant value of 0.445 gives the sense that if all independent variables are constant or equal to zero (0), the magnitude of the ISR disclosure rate is 0.445 units.
2. The results of the calculation of the multiple regression test above show the Size (X1) variable, obtained a coefficient value of 0.002 with a positive sign which means that if the variable Size increases by 1%, then the Size Size has increased by 0.002.
3. The results of the calculation of the multiple regression test above show the Profitability (X2) variable, obtained a coefficient value of 0.008 with a positive sign which means that if the variable Size increases by 1%, then the Profitability has increased by 0.002.

Hypothesis Test
Partial Test Analysis (t Test)

Table 7

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.445	.035		12.761	.000
	SIZE	.002	.001	.444	2.957	.005
	ROA	.008	.020	.061	.403	.689

Based on the table above shows that the value of t test produced in this study are:

Variable X1 (Size) is 2.965 > 2.024

Variable X2 (Profitability) is 0.403 < 2.024

Thus the conclusion of the t test results above states that Size has a positive and significant effect on Islamic Social Reporting (ISR). And then Profitability can't influence to ISR. Based on the research results and decisions that have been described above, it can be seen from the two independent variables used in this study, the Size variable has a positive influence on the ISR variable.

Simultaneous Test Analysis (f test)

Table 8

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.120	2	.060	4.379	.020^b
	Residual	.508	37	.014		
	Total	.628	39			

From table 8 above, a significant value of 0.020 < 0.05 is obtained so that it can be concluded that the simultaneous fit of goodness model Size and Profitability is in line affects the ISR of Islamic commercial banks in Indonesia.

Determination Coefficient Test

Table 9

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.433[a]	.188	.166	.11587	.773

If based on the value of R square contained in table 08 is 0.188 or 18%, Thus it shows that the effect of X (Size) on Y (ISR) is 18%, then the rest is influenced by others that are not used in this study.

Table 10

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.019[a]	.000	-.026	.12855

If based on the value of R square contained in table 10 is 0.000 or 0%, Thus it shows that the effect of X2 (Profitability) on Y (ISR) is 0%, profitability can't effect to ISR

Effect of Size on Islamic Social Reporting (ISR)

Hypothesis testing variable size on ISR simultaneously has a positive and significant effect. This is known from the value of 0,020 <0.05 so that it can be concluded that the simultaneous fit of goodness model Size together affects the ISR of Islamic commercial banks in Indonesia. In accordance with research conducted by While the Sustainable Study (2013) concluded that the factors that influence ISR, namely company size, profits, company age, and the number of commissioners. The greater the size of the company, the better the impact of ISR disclosure. The advantage of a positive effect on the level of ISR disclosure. While the age of the company does not have a significant effect on ISR disclosure, and the increasing number of commissioners does not have a significant impact on ISR disclosure. Research by Adelopo (2011) and Naser and Hassan (2013) prove that there is a positive relationship between company size and the level of ISR disclosure.

CONCLUSION

Research conducted on Islamic banking in Indonesia, with a sample of 8 banks, shows a significant influence between company size and Islamic Social Governance disclosure. A company that has a large capacity will also get a large profit so that it can disclose ISR properly.

SUGGESTION

Suggestions for further research are; to compare ISR disclosures between Islamic banking with manufacturing companies and also the addition of more Islamic independent variables, so that it will able to illustrate the continuity of factors that are relevant to the disclosure of sharia social responsibility reports.

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