ANALYSIS OF THE INFLUENCE OF ISLAMIC SOCIAL REPORTING DISCLOSURE OF COMPANIES REGISTERED IN JAKARTA ISLAMIC INDEX 2016-2018

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ABSTRACT

Islamic Social Reporting is an index of social responsibility disclosure whose indicators are more specific to Islamic ethical principles. In this study, the assessment of the level of ISR disclosure was carried out at companies registered in the Jakarta Islamic Index. The purpose of this study was to analyze the profitability, firm size, age of the firm, and environmental performance effect on Islamic Social Reporting disclosure at companies listed on the Jakarta Islamic Index. This type of research is a quantitative study, the research population is companies listed on the Jakarta Islamic Index for the period 2016-2018, totaling 90 companies with a research sample of 63 companies and the sampling technique is purposive sampling. The data analysis technique used multiple linear regression. The results of this study indicate that the profitability and environmental performance have a positive effect on ISR disclosure. The firm size variable has a negative effect on ISR disclosure, while age of the firm no effect on the ISR disclosure in Indonesia.

Key words: Islamic Social Reporting Disclosure, Jakarta Islamic Index, firm size, age of the firm, profitability, and environmental performance

INTRODUCTION

Corporate Social Responsibility (CSR) in Indonesia began to develop since early 2000 until now. This concept was applied on a voluntary basis, then received the attention of the government and the formation of Law No. 40 of 2007 concerning limited liability companies which states that the annual report must contain some information, one of which is a report on the implementation of social and environmental responsibility.

Corporate Social Responsibility in Indonesia, it is developing very well in conventional companies and companies with Islamic principles. CSR in Islamic business institutions is called the Islamic Social Reporting (ISR) index.ISR itself is a measure of the implementation of social performance which contains the standards set by the Accounting and Auditing Organization for Islamic Institutions (AOIFI) and is then developed to suit Islamic entities. (www.idx.co.id).

The concept of CSR has now begun to be developed in an Islamic-based economy following the growing number of sharia concept businesses in Indonesia. According Haniffa (2002), there are still some information that is relevant to be expressed in an Islamic perspective but it is less relevant when using conventional CSR practices. On this basis, an Islamic concept of CSR disclosure emerged, or better known as Islamic Social Reporting (ISR).

Othman, Thani, and Ghani (2009) stated that "the emphasis on the concept of social justice contained in ISR is more than just reporting on the environment, minority interests, and employees, but focuses on every aspect that affects the welfare of society as a whole. Therefore, ISR is more suitable to meet the disclosure needs of sharia business reporting because the initial purpose of ISR is to show accountability to Allah and society and to increase transparency of business activities (Haniffa, 2002).

According to Haniffa, the disclosure of Islamic Social reporting is based on sharia provisions that not only help make decisions but also help companies that comply with sharia regulations. According to Hanifa, the themes in ISR disclosure are finance and investment, products, labor, society and the environment as well as organizational governance (Fauziah and Yudho: 2013).

Mallin and Meliawati (2014) state that the main purpose of sharia social reporting is to show companies compliance with sharia. Another purpose of corporate reporting as it is known in the Western model is to assist decision makers in making economic decisions.

In an Islamic perspective, this is a secondary goal. The implication is that Islamic businesses must disclose all the information necessary to inform the public about their operational activities. In other words, the concept of disclosure is closely related to the concept of accountability. Meanwhile, Islamic banking and the increase in the number of CSR continues to grow and develop. According to Othman and Thani (2010), the development of the Islamic capital market has increased rapidly, making companies included in the list of sharia securities which are expected to present annual report disclosures that are in line with sharia, for example through companies listed on the Jakarta Islamic Index (JII), therefore a guideline is needed to measure the extent to which companies listed on the Jakarta Islamic Index contain annual reports that also present the fulfillment of the Company's obligations in accordance with sharia

Shares selected in the Jakarta Islamic Index (JII) have criteria determined and carried out by the Sharia Supervisory Board of PT. Danareksa Investment Management which takes place in January and July, and will be reviewed every six months by determining the index component each year. Companies that change their business lines to be inconsistent with sharia principles will be excluded from the index. In line with these provisions, the shares of the issues that are issued will be replaced by shares of other issuers that are more suitable. (Kariza, 2015). Based on the previous studies, a research problem can be formulated how the profitability, firm size, age of the firm, and environmental performance effect on the Islamic social reporting disclosure.

LITERATURE REVIEW

a. Profitability

The profitability of a company is measured by the company's success and the ability to use its assets productively. The profitability of a company can be seen by comparing the profits earned during a period with the total assets or amount of capital of the company. Munawir (2012: 33). While according to Rahayu (2019:44) a company profitability is measured by the success of the company and the ability to use its assets productively, thus the profitability of a company can be determined by comparing the profit earned in a period with the amount of assets or the amount of capital of the company. From this description, the following hypothesis can be formulated:

H_1: Profitability has a positive effect on ISR disclosure.

b. Age of the Firm

The age of the firm is a description of how long the firm has been established and carries out its business activities in order to remain able to compete with other firms. Haniffah and Cooke (2002) revealed that companies with older age are likely to make a wider disclosure to demonstrate their compliance with the rules.

According to Wulandari and Hasanah (2017: 248), the longer company has been established, it is expected to know what its stakeholders want and strive to meet the needs of stakeholders by improving the quality of disclosure of social responsibility. A company that has been established for a long time knows more about what information to disclose so that stakeholders can get positive influence from the company.

Research on the effect of age of the firm on ISR disclosure by Hasanah and Wulandari (2017), Septi and Raharja (2012), which shows that the age of the firm has a positive effect on ISR disclosure. Where companies that are in a favorable position will tend to disclose information more broadly. From this description, the following hypothesis can be formulated:

H_2: Age of the firm has a positive effect on ISR disclosure

c. Firm Size

According to Riyanto (2002: 313) firm size is the size of the company seen from the value of equity, value of sales or value of total assets. Meanwhile, according to Suryono (2011), the bigger a company is, the more it will be highlighted by stakeholders. Thus, the company needs a bigger effort to gain stakeholder legitimacy in order to create alignment of social values from its activities with the norms of behavior that exist in society. This proves that as bigger as company will have an impact on the higher the level of ISR disclosure.

Research on the effect of the firm size on Islamic social reporting disclosure was conducted by research conducted by Rifzani and Lubis (2018), Siddi, Widiastuti Chomsatu (2017). Rahayu and Budi (2018) who found a positive relationship between firm size and ISR disclosure, where large firms that are assessed with large asset levels will reveal that the social responsibility carried out by the firm is wider. From this description, the following hypothesis can be formulated:

H_3: Firm size has a positive effect on ISR disclosure

d. Environmental Performance

Environmental performance is a mechanism for a company to voluntarily integrate its concern for the environment into its operations and interactions with stakeholders who exceed organizational responsibilities. (Rahayu and Budi 2018: 114). Environmental performance is measured by Corporate Performance Rating Assessment Program in Environmental Management (PROPER) using colors, ranging from the best gold, green, blue, red, to the worst black then announced regularly to the public so that the public can know the level of arrangement environmental management in the company by only seeing the existing colors. Companies that participate in PROPER and have performed good environmental performance, then the disclosure of their social responsibility will be even greater (Rahayu and Budi 2018: 110).

Research on the effect of environmental performance on ISR disclosure was also carried out by Rahayu and Budi (2018) which proved that environmental performance assessment would provide broader compulsory and voluntary social disclosures for companies which in itself could increase ISR disclosure. From this description, the following hypothesis can be formulated:

H_4: Environmental performance has a positive effect on ISR disclosure

This research model can be described as follows:

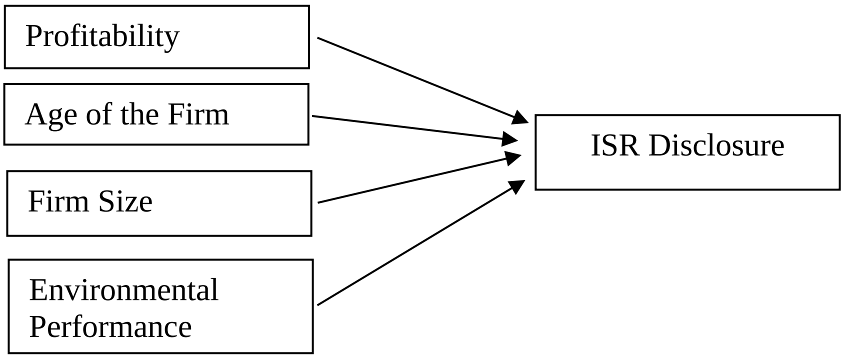

Figure 1: Research Model

METHODOLOGY

Sample Selection and Data Collection

The population in this study are all companies listed in the Jakarta Islamic Index (JII) 2016-2018. The sampling technique in this study was purposive sampling technique, with the following sample selection criteria:

Table 1 Sample Determination

Company Criteria	**Number of Companies**
Companies registered in JII 2016-2018	30
Companies that have never been delisted from the Jakarta Islamic Index (JII) in 2016-2018	21
Number of research samples (21 x 3)	63
Outlier data during processing time	0
Total research sample	**63**

Source: processed data, 2020.

Based on these criteria, the sample obtained is as many as 21 companies for three consecutive years from a total of 30 companies registered in the Jakarta Islamic Index (JII). Quantitative data collection in this study was carried out through observations of companies registered in JII for the 2016-2018 period.

Observation of the company's profitability and size through financial summaries in the company's annual report, company age is observed through company profiles and environmental performance is observed through the Company Performance Rating Assessment Program in Environmental Management (PROPER) using color.

And the ISR disclosure in the company is observed by reading the social responsibility activities carried out by the company which are listed in the company's annual report. Various data, including annual reports and company profiles, are obtained from the official websitewww.idx.co.id.

Operational Definition and Variable Measurement

a. Profitability

Profitability level is a measure of the company's ability to generate profits during a certain period. Rahayu (2019: 44). In this study, researchers used the Return On Assets (ROA) ratio where the ROA ratio can measure the efficiency level of a company in managing its assets to generate profits during a period. The ROA formula is as follows:

$$ROA = \frac{\text{Net Profit x } 100\%}{\text{Total Assets}}$$

b. Age of Firm

Based on research Santioso and Chandra (2012). The age of firm is calculated by using the formula:

Age of the Firm = year of the annual report - year of establishment

c. Firm Size

The firm size variable is measured using the log of total assets, namely the natural logarithm of total assets owned by the firm. The firm size is formulated as follows:

$$SIZE = \text{Ln (total assets)}$$

d. Environmental Performance

Environmental Performance is measured by the Company Performance Rating Assessment Program in Environmental Management (PROPER) using colors, ranging from the best gold, green, blue, red, to the worst black then announced regularly to the public so that the public can know the level of arrangement environmental management in the company by only seeing the existing colors.

e. Islamic Social Reporting Disclosure

The dependent variable measured by the ISR index of each company every year. Based on the ISR model, a scoring method was used, namely a value of 0 for each item that was not disclosed and a value of 1 for each item that was disclosed. After giving the value to the ISR index is complete, the amount of disclosure level can be determined by the following formula:

$$\text{Disclosure Level} = \frac{\text{The number of disclosure scores}}{\text{The maximum score}}$$

The linear regression model used is as follows:

$$ISRD = a + ß_1\, Pr + ß_2\, AF + ß_3\, FS + ß_4\, EP + e$$

ISRD : *Islamic Social Reporting Disclosure*
A : Constants
$ß_1$- $ß_4$ **:** Regression Coefficient
Pr : Profitability
AF : Age of the Firm
FS : Firm Size
EP : Environmental Performance
E : *Error* (Other variables not described in the model)

RESULT AND DISCUSSION

The results of statistical descriptive analysis show the characteristics of the sample used in this study including: minimum value, maximum value and sample average (mean), for each variable. The results of descriptive statistics can be seen in the following taels:

Table 2 Descriptive Statistics Results

	Minimum	Maximum	Mean	Standard Deviation
Profitability	0.003	0.481	0.09762	0.100842
Firm Size	29.212	34.308	31.44371	1.238752
Age of Firm	7	162	54.19	32.120
Environmental Performance	3	5	3.46	0.668
ISR Disclosure	34.884	79.070	61.12962	11.187669

Source: processed data, 2020.

The classical assumption test consists of the normality test, autocorrelation, multicollinearity and heteroscedasticity. The results of the normality test show that the research data has been normally distributed as evidenced by the asymp sig. of 0.200 which is greater than the research significance level of 0.05. Because the research data has been normally distributed, the data can be used as a sample in the study because it has met the normality assumption test.

Based on the results of the multicollinearity test, the VIF value shows that all variables in each variable are smaller than 10. and have a tolerance value greater than 0.1. The results of this test indicate that the regression models used in this study do not occur multicollinearity symptoms.

Based on the results of the autocorrelation test table, it is known that the DW value is 1.912. Compared with the significance table value of 5% (0.05) with a sample size of 63 and the number of independent variables as much as 4 (K = 4) = 4.63 so that the dU results from the table r = 1.729. DW value is greater than the dU limit (1.912) and less than (4-dU) = 4-1.729 = 2.729. So it can be concluded that there is no autocorrelation in this regression model.

In this study, testing for heteroscedasticity using the Park method. Based on the test results, profitability, firm size, age of the firm, and environmental performance have a significance number greater than 0.05, so it can be stated that there are no symptoms of heteroscedasticity in all regression models of this study.

Table 3 Hypothesis Testing Results

Variable		Coefficient	t	Sig.
(Constants)		-21.974	0.656	0.515
Profitability		49.759	3.724	0.000
Firm Size		1.909	1.834	0.072
Age of the Firm		-0.124	-3.162	0.002
Performance Environmental		7.205	4.077	0.000
(R^2)	0.532			
Adjusted R Square	0.499			
F count	8.790		0.000b	

Source: Secondary Data Processed, 2020

This research hypothesis was tested using multiple linear regression analysis to determine the effect of profitability, company size, company age and environmental performance on Islamic Social Reporting disclosure.

Profitability has a positive effect on ISR disclosure. So that the first hypothesis which states that profitability has an effect on ISR disclosure is proven true. This research is also in line with the research of Hasanah and Wulandari (2017), Septi and Raharja (2012), which show that profitability has a positive effect on ISR disclosure. Where companies that are in a favorable position will tend to disclose information more broadly. Profitability is identical to the company's financial performance. However, the results of this study are inversely proportional to research conducted by Siddi, Widiastuti and Chomsatu (2017), Tantri Rahayu and Budi (2018) and Rahayu (2019). Where in their research they found that profitability had no effect on the ISR disclosure.

Firm size has no effect on ISR disclosure in companies listed on the Jakarta Islamic Index for the period 2016-2018. So that the second hypothesis which states that company size has an effect on ISR disclosure is not proven true. This study does not support the research that has been conducted by Siddi, Widiastuti and Chomsatu (2019), Rizfani & Lubis (2018) (which in their research found company size has a positive effect on ISR disclosure). On the other hand, this study supports the research conducted by Rahayu and Budi (2017), where company size has no effect on ISR disclosure.

Age of the firm has a negative effect on ISR disclosure in companies listed on the Jakarta Islamic Index for the period 2016-2018. So, the third hypothesis which states that age of the firm has a positive effect on ISR disclosure is not proven true. The results of these findings are supported by research by Rizfani and Lubis (2018) and Abimayu, Mukhzarudfa and Lubis (2019) where in their research, age of the firm has a negative effect on ISR disclosure. In other words, this study proves that the old and young age of the firm does not affect the low ISR disclosure, but it can increase the ISR disclosure. However, this research does not support the research conducted by Widiyanti and Hasanah (2017) and Hidayah and Wahyu (2017) where in their research they found age of the firm had a positive effect on ISR disclosure.

Environmental performance has a positive effect on ISR disclosure in companies listed on the Jakarta Islamic Index for the period 2016-2018. So, the fourth hypothesis which states that environmental performance has a positive effect on ISR disclosure is proven true. These findings are supported by other research by Rahayu and Budi (2018), but they do not support the research conducted by Siddi, Widiastuti and Chomsatu (2017). In other words, this study proves that environmental performance assessment will provide broader compulsory and voluntary social disclosures to companies which in itself can increase ISR disclosure.

CONCLUSION

Based on the results of hypothesis testing carried out above, it can be concluded that:

Profitability has a positive effect on ISR disclosure in companies listed on the Jakarta Islamic Index (JII) in the 2016-2018 period. So that the first hypothesis is proven correct.

Firm size has no effect on ISR disclosure in companies listed on the Jakarta Islamic Index (JII) in the 2016-2018 period. So that the second hypothesis is not proven correct.

Age of the firm has a significant negative effect on ISR disclosure in companies listed on the Jakarta Islamic Index (JII) in the 2016-2018 period. So that the third hypothesis is not proven correct.

Environmental performance has a positive effect on ISR disclosure in companies listed on the Jakarta Islamic Index (JII) for the period 2016 - 2018. So that the fourth hypothesis is proven correct.

In this study, there are several limitations, including the study which only conducted four variables with a span of only three years. The object under study just includes the companies listed on the Jakarta Islamic Index, whose coverage is more specific than other stock indexes such as the LQ 45 stock index. Different results may be obtained if the next researcher adds other variables and the associated time span.

There are several suggestions that may be considered by several parties, including further research should add variables other than the variables used above so that the results can better describe the conditions of disclosure of Islamic Social Reporting in companies listed on the Jakarta Islamic Index (JII). Expanding the object of research, by adding research samples not only listed in JII, but also using research samples listed on LQ 45 on the Indonesia Stock Exchange. Adding the observed sample years, by selecting a representative sample in explaining the company's ISR disclosure conditions.

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