

Analysis of The Effect of Environmental Performance, Company Size, Institutional Ownership and Profitability on Islamic Social Reporting Disclosures

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Abstract:

This study aims to obtain empirical evidence of the effect of environmental performance, company size, profitability and institutional ownership on the disclosure of Islamic Social Reporting (ISR). Islamic social reporting (ISR) is still voluntary because there is no standard standard from the government. In contrast to CSR which is mandatory (mandatory). The populations in this study are manufacturing companies in the basic industrial sector and chemicals listed in the Indonesian Sharia Stock Index (ISSI) for the period 2012 - 2015. The next stage is sampling using purposive sampling with sample criteria. The data used is secondary data from the company's financial statements. The design of this research is a causal research with analysis method using multiple linear regressions. The results showed that environmental performance, company size, profitability and institutional ownership had no effect on the disclosure of Islamic Social Reporting (ISR).

Introduction

The concept of CSR in Islam is not something new. Islam commands its people to care for nature (QS. Al-Araf: 56) (Sunarsih, 2017) and recommends having a generous nature to people in need through the door of alms (Surah AT-Taqabun: 16)

Islam regulates human life not only in relation to the relationship between humans and their God (QS. Adz-Dzariat: 56) but also regulates the relationship between humans (QS. Al-Hujurat: 10-13), the relationship between humans and other living things (QS. An-Nahl: 5 and 81) and the relationship between humans and nature (QS. Shad: 27) so that every action and activity will have an impact and cannot be separated in human life because they will be held accountable to ALLAH SWT (QS. Al-Mudatsir: 38 and QS. Yaasin: 12)

Currently, there are many companies that apply sharia principles in their business activities which are expected to be able to carry out Islamic corporate social responsibility. Nowadays, many companies apply sharia principles in every business activity that the company is expected to be able to perform corporate social responsibility islamically. (Widiawati & Raharja, 2012)

Decision makers, especially Muslims, expect these companies to disclose more information that will help them fulfill their spiritual needs. This is because companies currently implementing social reporting initiatives, even though they meet the needs of a wider audience, do not have the most relevant items from an Islamic perspective. This can interfere with the decisions of Muslim decision makers and negatively affect their spirituality. (Haniffa, 2002) Moreover, Muslim business owners need to prove that they are operating under Islamic law. Haniffa and Hudaib (2002) argue that full disclosure in annual reports that provide relevant and reliable information will help Muslim stakeholders to make economic and religious decisions,

Haniffa (2002) argues that Islamic Social Reporting (ISR) is needed by companies or institutions or institutions - based on sharia and Muslim communities with the aim of showing accountability to ALLAH SWT

and society and to increase transparency of business activities by providing relevant information according to the spiritual needs of decision makers.

Sharia social reporting or Islamic Social Reporting (ISR) is still voluntary (voluntary) because there is no standard standard from the government. Unlike CSR which is mandatory with the issuance of Law Number 40 of 2007 concerning Limited Liability Companies, the annual report must contain some information, one of which is a report on the implementation of social and environmental responsibility. Meanwhile, the ISR reporting which is still voluntary (voluntary) causes the reporting of each sharia entity to be different. (Jannah and Asrori, 2016)

Hanifa (2002) states that, today the measurement of CSR still refers to Global Reporting Initiative Index(GRI Index). This measurement is of course inaccurate because companies that are recognized as sharia issuers and are declared to comply with Islamic law should disclose information that proves the company operates in accordance with Islamic law. Where using the GRI index does not describe Islamic principles such as not disclosing freedom from the elements of usury, gharar, and transactions that are prohibited by Islam.

ISR is actually a collection of social responsibility reporting indexes that have been established by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) in accordance with sharia and then developed by each of the following researchers (Haniffa, 2002; Othman, Thani, & Ghani, 2009; Ousama & AH, 2006). The ISR index designed by (Othman et al., 2009) is an index development adapted from Haniffa (2002). ISR was first suggested by Haniffa (2002) by revealing 5 themes, then developed by Othman et al. (2009) who added 1 theme in ISR disclosure. Haniffa (2002) reveals that there are limitations in conventional social reporting so that he proposes a conceptual framework for ISR based on sharia provisions that can help companies fulfill their obligations to Allah SWT and society. Haniffa develops Islamic reports based on six criteria: Funding and Investment, Products and Services. (Othman & Mara, 2010).

Measurement of social responsibility in Islamic entities using the ISR index reveals matters related to Islamic principles such as transactions that are free from the elements of usury, speculation and gharar, as well as disclosing zakat, sharia compliance status and social aspects such as sodaqoh, waqof. , qordul hasan, to disclosures of worship within the company.

This study researchers wanted to see whether environmental performance, company size, profitability, and institutional ownership had an effect on the disclosure of Islamic Social Reporting. The object of this research will use the Basic Industry and Chemical Sector Companies that are listed in the Indonesian Sharia Stock Index for the 2013 - 2015 period. Based on the background descriptions that have been stated, the problem formulations in this study are:

1. Does environmental performance affect the disclosure of Islamic Social Reporting?
2. Does company size have a significant effect on Islamic Social Reporting disclosure?
3. Does profitability have a significant effect on Islamic Social Reporting disclosure?
4. Does institutional ownership have a significant effect on Islamic Social Reporting disclosures?

Literature Reviews

Regulatory Theory

Regulatory theory is a special regulation issued by the government to support the establishment of a harmonious, balanced relationship, in accordance with the environment, values, norms and culture of the local community, to achieve sustainable economic development in order to improve the quality of life and the environment. (Wikipedia.org)

Regulatory theory was first proposed by Stigler (1971) who said that activities around regulation depict the brotherhood between political forces of interest groups (executive / industry) as the demand / demand side and the legislature as supply. This theory argues that accounting rules or regulations are needed (Republik Indonesia, 2007). The role of the government is needed by the government to regulate the provisions on what companies must do to determine information, especially relating to the disclosure of sharia-based social responsibility or known as Islamic Social Reporting, especially in companies based on sharia principles. Provisions are needed so that all users and presenters get the same and balanced information (Rosiana, Arifin, & Hamdani, 2015).

Stakeholder Theory

Stakeholder theory states that stakeholders as Muslim decision makers expect companies to express their sharia-based social responsibility, thereby proving that the company operates according to Islamic law. The stronger the position of the stakeholders, the greater the tendency of the company to adapt itself to the wishes of its stakeholders.

Stakeholder theory states that a company is not an entity that only operates for its own interests, but must provide benefits for stakeholders (shareholders, creditors, consumers, suppliers, government, society, analysts and other parties). Thus the existence of a company is strongly influenced by the support provided by stakeholders to the company (Ghozali, 2013).

Disclosure

Disclosure according to Haniffa (2002) is making something known or revealing something, for the parties outside management, financial statements are a window of information that allows them to see the condition of the company. The extent of information that can be obtained will depend on the level of disclosure of the company's financial statements.

Islamic social reporting (ISR)

ISR is a collection of social responsibility reporting indexes that have been set by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) which are in accordance with sharia and then developed by each of the subsequent researchers. Islamic Social Reporting Index designed by Othman et al., (2009) is an index development adapted from (Haniffa, 2002). Haniffa develops Islamic reports based on five themes: Funding and Investment, Products, Employees, Society and Environment. Meanwhile, (Othman et al., (2009) developed ISR into six themes, namely: Funding and Investment, Products and Services, Employees, Society, Environment, and Corporate Governance.

Environmental performance

Environmental performance is the performance of a company that cares about the surrounding environment. Environmental performance can be assessed through an environmental management system which is based on environmental policies, environmental goals and environmental targets. (Novrizal & Fitri, 2016)

Population and sample research

The populations in this study were manufacturing companies in the basic industrial sector and chemicals listed in the Indonesian Sharia Stock Index (ISSI) for the period 2012 - 2015. The next stage was purposive sampling with sample criteria, among others: companies using the Rupiah currency published the company's annual report in 2012-2015, did not experience a loss during the study period, and had complete data related to the variables used in the study. There were 9 (nine) companies sampled in accordance with the sample criteria.

Hypotheses and Method

Referring to the framework of thought and empirical studies related to this research, the hypotheses proposed in this study are:

- H1 *Environmental performance affects the disclosure of Islamic Social Reporting (ISR)*
- H2 *Company size affects the disclosure of Islamic Social Reporting (ISR)*
- H3 *Profitability affects the disclosure of Islamic Social Reporting (ISR)*
- H4 *Institutional ownership affects the disclosure of Islamic Social Reporting (ISR)*

Definition and operationalization variable

Table 1: Operational Variables

No.	Variable	Dimensions	Scale
Dependent Variable			
1	Islamic Social Reporting (ISR)	$Disclosure\ Level = \frac{Number\ of\ disclosure\ scores\ met}{Maximum\ number\ of\ scores}$	Ratio
Independent Variable			
2	Performance Environment	Proper rating Gold = 5, Green = 4, Blue = 3, Red = 2, Black = 1	Interval
3	Profitability	$ROE = \frac{EAT}{Total\ Equity} \times 100\%$	Ratio
4	Company Size	Company size (Size) = Ln (total assets)	Ratio
5	Institutional Ownership	$= \frac{Number\ of\ management\ share}{Total\ shares\ outstanding}$	Ratio

Data collection technique

The data collection method used in this research is the documentation study method (Ghozali, 2013), using the names of the companies contained in the Indonesian Sharia Stock Index (ISSI) for four periods or during the period 2012 - 2015. The Indonesian Sharia Stock Index (ISSI) is obtained from the website. Financial

Services Authority (www.ojk.go.id). The next step is to collect company data in the form of an annual report on the IDX website (www.idx.go.id). The company data is then used to fill in the Islamic Social Reporting index. Other supporting data, namely environmental performance data (proper numbers) obtained from the official website of the Ministry of Environment (www.menlh.go.id).

Research design

This study uses a causal research method, which analyzes the effect of environmental performance, company size, profitability and institutional ownership on the disclosure of Islamic Social Reporting (ISR).

Results and Discussion

This research data has passed all the stages of testing the classical assumptions which consist of normality test, multicollinearity test, autocorrelation test and heteroscedastic test. Based on the results of hypothesis testing, it can be summarized in table 1 as follows:

Table 2: T test

Coefficients ^a						
Model	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Beta			
	(Constant)	-.609	.567		-1.074	.291
1	PROPER	.045	.031	.269	1.427	.164
	SIZE	.031	.020	.316	1.545	.132
	PROFIT	.339	.288	.187	1.179	.247
	RIOWN	.087	.170	.085	.512	.612

a. Dependent Variable: ISR

The first hypothesis is to state that environmental performance (proper) affects ISR disclosure has been rejected because the research results obtained a significance value of 0.164, which means more than 0.05, it means that environmental performance has no effect on ISR disclosure.

The second hypothesis is to state that the size of the company (size) affects the ISR disclosure is rejected because the significance value is 0.132, this number is greater than 0.05, it means that company size has no effect on ISR disclosure.

The third hypothesis states that the company's profitability (profit) affects the ISR disclosure is rejected because the research results obtained a significance value of 0.247, this number is greater than the significance value of 0.05, it means that the company's profitability has no effect on the ISR disclosure.

The fourth hypothesis or the last hypothesis states that institutional ownership (riown) affects ISR disclosure is also rejected, this can be seen in table 1 that the significance value of 0.612 exceeds the significance value of 0.05, it means that institutional ownership has no effect on ISR disclosure.

Conclusion

Based on the results of hypothesis testing and previous discussion, it is concluded from this study that environmental performance, company size, profitability and institutional ownership do not affect the disclosure of Islamic Social Reporting (ISR). This shows that the company does not consider aspects of environmental performance, company size, profitability and institutional ownership in disclosing Islamic Social Reporting (ISR) or even as a discussion on the phenomenon that because the nature of ISR disclosure has not become mandatory for the company, the company has not focused on making ISR disclosures.

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