THE EFFECT OF PROFIT SHARING FINANCING, FIRM SIZE AND FINANCIAL PERFORMANCE OF ISLAMIC SOCIAL REPORTING (ISR) DISCLOSURE IN SHARIA GENERAL BANKS IN INDONESIA IN 2012-2018

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Abstract: This study aims to analyse the effect of profit sharing financing, firm size and financial performance on Islamic Social Reporting (ISR) disclosure in Islamic commercial banks in Indonesia. This type of research in this research is causal comparative. The population of this study is the Islamic banks registered at the Financial Services Authority in 2012-2018. The sample selection method uses a census (saturated sample), so the number of samples used is 13 sample data. The data collection method used is documentation technique. Methods of data analysis using descriptive statistical methods, panel data regression analysis, and using Eviews software tools. The results showed that profit sharing financing had no significant positive effect on Islamic Social Reporting (ISR) Disclosure, firm size had a significant positive effect on Islamic Social Reporting (ISR) Disclosure, and financial performance had a significant negative effect on Islamic Social Reporting (ISR) Disclosure

Keywords: Islamic Social Reporting (ISR) Disclosure, Profit Sharing Financing, Firm Size, Financial Performance

1. INTRODUCTION

Disclosure of corporate social responsibility is now an obligation set by the government as a form of support for the implementation of social responsibility for companies in Indonesia. Based on Law No. 40 of 2007 concerning limited liability companies article 1 paragraph (3), social and environmental responsibility is the commitment of a limited company to participate in sustainable economic development in order to improve the quality of life and the environment that is beneficial, both for the company itself, the local community, and society in general. The law also states that the company's annual report must contain some information, one of which is a report on the implementation of social and environmental responsibility, so that each company is required to implement these regulations as a form of accountability and transparency to various stakeholders such as investors, creditors, employees, customers, suppliers, competitors, government, and society.

The issue of corporate social responsibility (CSR) has become an important spotlight in recent years. More and more companies are aware that the concept of Corporate Social Responsibility (CSR) is the core of the company's business ethics. All this time, measurement of Corporate Social Responsibility (CSR) disclosure in sharia institutions or institutions still refers to the Global Reporting Initiative Index (GRI Index) as measured by conventional institutions. Whereas the practice of disclosing social responsibility according to an Islamic perspective should be different from the conventional perspective. This is because the accountability of Islamic institutions is not only to humans, but also to God, the creator of the universe. Islamic Social Reporting (ISR) is needed by companies that use sharia as a basis for doing business with the aim of displaying accountability to Allah SWT and the community and to increase business transparency by providing information relevant to the religious needs of Muslim investors.

Research on the development of Islamic Social Reporting (ISR) has been widely carried out in the Islamic banking sector. Researchers who used a sample of 11 units of Islamic banks in Indonesia, showed an average yield of ISR disclosures in Islamic banking in Indonesia of 59.42%. Bank Syariah Mandiri has the highest ISR score of 85% and the lowest is Bank Victoria which is only 41%. This shows that there is a significant development of ISR in Indonesia. Some researchers also examined ISR disclosures with the results of their research showing the average ISR disclosure score obtained by Islamic banks in Malaysia was 61.27%, while Islamic banking in Indonesia achieved an average ISR disclosure score of 53.73%.

Based on the background described above and there are many research gaps among researchers, the author tries to conduct research related to the above problems with the title Effect of Profit Sharing Financing, Company Size and Financial Performance on Islamic Social Reporting (ISR) Disclosure at Islamic Commercial Banks in Indonesia.

2. LITERATURE REVIEW

2.1. Profit Sharing Funding (X1)

Funding is funds given by one party to another party to support the planned investment, whether done alone or in an institution. Covenants or principles that form the basis of Islamic bank operations in channelling financing are divided into 4 types, namely the principle of buying and selling (murabahah, salam and istishna), profit sharing principles (mudharabah and musyarakah), rental principles (ijarah and ijarah vomhiyah bittamlik) and complementary contracts (hiwalah, rahn, qardh, wakalah, and kafalah). Based on Bank Indonesia statistics, the main patterns of financing that dominate in Islamic banks are the principle of buying and selling and profit sharing principle, financing is divided into 2, namely:

a. Mudharabah Financing

   Mudharabah financing funds provided to fund managers (mudarib) who have a goal of managing a particular business, with the distribution of the results or income obtained (profit sharing) divided according to the ratio agreed upon by both parties (Usanti & Shomad, 2013). Types of mudharabah financing are:

   1) Mudharabah muqayyadah is cooperation between Shahibul Maal and Mudharib, where mudharib is free to determine the place of business and the type of business being managed.
   2) Mudharabah mutlaqah ie mudharib cannot determine the place and type of business being managed.

b. Musyarakah Financing

Musyarakah financing is a partnership in which two or more entrepreneurs work together as business partners in business. Each party included their capital and participated in managing the business. Profits and losses will be divided based on the percentage of equity investment. Musyarakah is a term that is often used in the context of Islamic finance schemes. This term connotes more limited than the term syirkah which is more commonly used in Islamic jurisprudence, syirkah means “sharing”.

2.2. Firm Size (X2)

Firm size is the level of identification of large or small companies. Based on Law No. 20 of 2008 Article 1 Paragraph 4, large-scale businesses are productive economic ventures carried out by business entities with net assets or annual sales results greater than medium-sized businesses, which include state-owned or private national businesses, joint ventures, and foreign businesses that carry out economic activity in Indonesia. Companies with a large size have a greater opportunity to get funding from various sources, such as investors and other creditors. So as to attract the interests of stakeholders, larger companies are likely to disclose more extensive social responsibility reporting in order to obtain additional capital.

2.3. Financial Performance (X3)

Financial performance is a reflection of the company’s financial condition and results of operations in the form of financial statements. IAI (2007) states that financial performance is the company’s ability to manage and control its resources. To measure a company’s financial performance, a measurement commonly used is financial ratios. Profitability ratio is a ratio that shows how much the company’s ability to make a profit.

2.4. Islamic Social Reporting (ISR) Disclosure (Y)

Islamic Social Reporting is a Corporate Social Reporting that is modified in accordance with sharia principles. This accountability is strongly influenced by the concept of Tawheed. Monotheism is the principal teachings of Islam which emphasizes that all business activities must be accountable to Allah SWT and all business activities must be carried out according to the commands of Allah SWT as contained in the Qur'an and the Sunnah of the Prophet Muhammad. The concept of social justice in the ISR gives broader emphasis to the concept of CSR such as justice to employees, customers and all members of the community in which the company operates. In the concept of ownership, ISR recognizes the existence of individual ownership, but in essence everything belongs to Allah SWT so that the owner of the company must have the responsibility by using the resources they have to become rahmatan lilalamin (a blessing for all nature).

2.5. Research Framework

In this study, researchers will discuss the effect of Financing for Results, Company Size and Financial Performance on Islamic Social Reporting (ISR)

Disclosure at Islamic Commercial Banks. Based on the background and theoretical review described previously, the framework of this study is as follows:

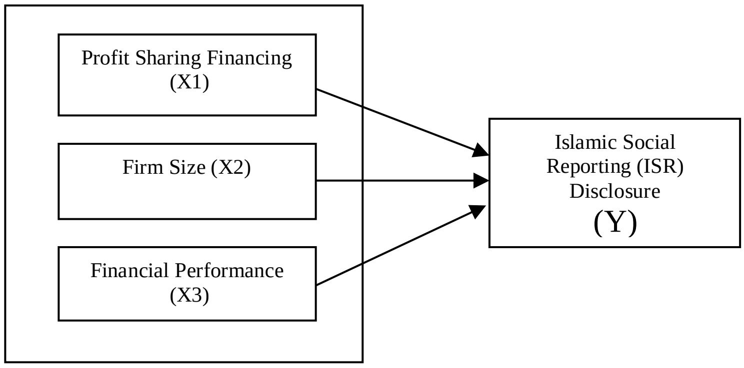

Figure 1. Conceptual Framework

2.6. Hypothesis

Based on the conceptual framework above, the research hypothesis is:
H1: Profit sharing financing affects Islamic Social Reporting Disclosure
H2: Firm size affects the disclosure of Islamic Social Reporting Disclosure
H3: Financial Performance affects Islamic Social Reporting Disclosure

3. RESEARCH METHOD

The research design in this study is a comparative causal research that is research that shows the direction of the relationship between the independent variable and the dependent variable, besides measuring the strength of the relationship. This study will discuss the effect of Profit Sharing Financing, Firm Size and Financial Performance on Islamic Commercial Banks.

The population in this study is a Sharia Commercial Bank registered with OJK in 2012-2018. The population of this study is 13 Islamic Commercial Banks. The sampling technique uses saturated samples (census). The sample in this study amounted to 13 samples with a period of 7 periods so there are 91 units of analysis.

The data analysis method used in this study is multiple linear regression analysis of panel data using the computer program EViews Version 10 and Microsoft Excel 2007

4. RESULTS AND DISCUSSION

RESULT

1. Determination Coefficient Test

In testing hypotheses, the coefficient of determination analysis will be conducted, simultaneous influence testing (F test), and partial effect testing (t test). Statistical values of the coefficient of determination, F test, and t test are presented in the Table below:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.212878	0.061267	3.474601	0.0008
X1?	0.029945	0.034064	0.879078	0.3818

X2?	0.020972	0.002795	7.503619	0.0000
X3?	-0.003879	0.001568	-2.474722	0.0153
Effects Specification				
			S.D.	Rho
Cross-section random			0.148020	0.9095
Idiosyncratic random			0.046706	0.0905
Weighted Statistics				
R-squared	0.409366	Mean dependent var	0.064482	
Adjusted R-squared	0.388999	S.D. dependent var	0.058966	
S.E. of regression	0.046092	Sum squared resid	0.184828	
F-statistic	20.09977	Durbin-Watson stat	1.462116	
Prob(F-statistic)	0.000000			

Based on the table above, it is known the adjusted coefficient (adjusted R-squared) of R^2 = 0.388999. This value can be interpreted that Profit Sharing Financing, Firm Size, and Financial Performance is able to affect / explain Islamic Social Reporting (ISR) simultaneously by 39%, the remaining 61% is influenced by other factors not included in the variables this research.

2. Statistical F Test

The F test aims to test the effect of the independent variables together or simultaneously on the independent variables. Based on the table above, the Prob value is known. (F-statistics), that is 0.000000 <0.05, it can be concluded that all independent variables, namely that Profit Sharing Financing, Firm Size, and Financial Performance simultaneously have a significant effect on the Islamic Social Reporting (ISR) variable.

3. Statistical t Test

Obtained panel data regression equation as follows:

Y = 0.212878+ 0.029945X1 + 0.020972X2 -0.003879X3

Information:
Y: Islamic Social Reporting (ISR).
X1: Profit Sharing Financing
X2: Firm Size
X3: Financial Performance (ROA)

Based on the table above, it is known that the coefficient of the Profit Sharing Financing variable is 0.029945, which is positive, meaning that the coefficient b1 = 0.029945, towards variable X1 (Profit Sharing Financing), will raise Islamic Social Reporting (ISR) (Y) by 2.9945 percent. Judging from the significance value, Profit Sharing Financing is 0.3818. This shows that Profit Sharing Financing has not a significant positive effect on Islamic Social Reporting (ISR) at a significance level of 5%.

Based on the table above, it is known that the coefficient value of the Firm Size variable is 0.020972, which is a positive value meaning the coefficient b2 = 0.020972, to the variable X2 (Company Size), will raise the Islamic Social

Reporting (ISR) (Y) by 2.09 percent. Judging from the significance value, firm size is 0,000. This shows that firm size has a significant positive effect on Islamic Social Reporting (ISR) at a significance level of 5%.

Based on the table above, it is known that the coefficient value of the Financial Performance (ROA) variable is -0.003879, which is a negative value meaning the coefficient b3 = -0.003879, against variable X3 (Financial Performance), will reduce Islamic Social Reporting (ISR) (Y) by 0.3879 percent . Judging from the significance value, Financial Performance (ROA) is 0.0153. This shows that Financial Performance (ROA) has a significant negative effect on Islamic Social Reporting (ISR) (Y) at a significance level of 5%.

DISCUSSION

1. The Effect of Profit Sharing Financing on ISR

The results of partial hypothesis testing (t test) showed that profit sharing financing had a positive and not significant effect on Islamic social reporting (ISR). This means that the higher the ratio of mudharabah and musyarakah financing launched to the public, the higher the disclosure of Islamic social reporting (ISR) in the annual report of Islamic banks. Increasing the amount of mudharabah and musyarakah financing issued by Islamic banks from year to year due to the high ISR disclosure made by Islamic banks, causing an increase in public confidence in the Islamic financial system. This is in line with research Anggraini (2006) concluded that the higher the financing activities in generating profits of a company, the implementation of social programs undertaken by the company is also getting bigger or more, but is inversely proportional to the research praising Rahayu (2017) which concluded that murabaha financing has no effect in disclosing corporate social responsibility.

2. The Effect of Firm Size on ISR

The results of partial hypothesis testing (t test) showed that firm size had a significant positive effect on Islamic social reporting (ISR). This shows that the larger the firm size, the higher the level of ISR disclosure.

Companies with a large size have a greater opportunity to get funding from various sources, such as investors and other creditors. So as to attract the interests of stakeholders, larger companies are likely to disclose more extensive social responsibility reporting in order to obtain additional capital.

This is in line with the research of Rohana Othman, Azlan Md Thani, & Erlene K Ghani (2009) concluding that firm size significantly affects companies to establish Islamic Social Reporting, but contrary to research by Widarto (2017) and Camelia I. Lungu (2011) which states firm size has no significant effect on the disclosure of Islamic Social Reporting.

3. The Effect of Financial Performance (ROA) on ISR

The results of partial hypothesis testing (t test) showed that Financial Performance (ROA) had a significant negative effect on Islamic Social Reporting (ISR). This indicates that the higher the Islamic Social Reporting disclosure in the annual report of the Islamic bank, the lower the financial performance of the Islamic bank. Islamic Social Reporting which is a sharia commercial bank ICSR activity will actually add costs for companies that will become operating expenses of the company so that ultimately it reduces the level of profitability of the company. The awareness of Islamic banks in carrying out more ISR activities will cause greater costs incurred so that it will become a financial burden for the company (Pan et all. 2014),

This is in line with Masruki's research (2009) which shows that profitability has a negative relationship with disclosure of social responsibility reporting, and inversely proportional to Jayanti Purnasiwi's research (2011) in his study entitled the effect of Size, Profitability and leverage on CSR disclosures in listed companies in the Indonesian stock exchange concluded all independent variables (company, profitability and leverage) significantly affect the company's CSR disclosure.

5. CONCLUSIONS AND SUGGESTIONS

5.1. Conclusion

This study aims to examine the effect of Profit Sharing Financing, Firm Size and Financial Performance on Islamic Social Reporting (ISR) Disclosure. The results of this study provide research conclusions, including the following:

a. Profit Sharing Financing has no significant positive effect on Islamic Social Reporting (ISR) Disclosure
b. Firm size has a significant positive effect on Islamic Social Reporting (ISR) disclosure
c. Financial performance has a significant negative effect on Islamic Social Reporting (ISR) disclosure.

5.2. Suggestion

So that this research can be refined by subsequent researchers, the researcher's suggestions include:

a. For further researchers, it is recommended to add financial performance variables such as ROE and other independent variables that may have an influence on Social Reporting (ISR) on Islamic banks. In the next research it is also expected to not only use Islamic Commercial Banks (BUS) but use other Islamic banking industries such as Sharia Business Units (UUS) both in Indonesia or abroad so that the research results are richer.
b. For Sharia Commercial Banks it is recommended that Islamic commercial banks pay more attention to the quality of financial reporting and annual reports that are published on each bank's website. Small files cannot be read when enlarged.

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