Volume 1 Number 1, 2022

Research Trend in Management and Technology

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How to cite this article: Dewi.,M.,A., Putri.,C.,M., Gurendrawati., E. (2022). Critical Factor of The Disclosure of ISR in Manufacturing Company. *Research Trend in Management and Technology*, *1*(1) 57-67

Received: 05 September 2022
Accepted: 10 October 2022
Publishing Online: 17 October 2022

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Critical Factor of The Disclosure of Islamic Social Reporting (ISR) in Manufacturing Company

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Abstract

The objective of this study is to test, demonstrate experimentally, and determine if the size of the board of commissioners, firm size, profitability, and liquidity have a link with ISR (ISR) disclosure to companies on the Sharia Securities list (DES). The manufacturing enterprises that were listed on DES and that had published successive annual reports between 2011 and 2017 made up the population for this research. In all, there were 273 samples taken for this research. This research makes use of the sampling approach known as purposive. Analysis techniques are carried out using multiple regression methods and classical assumption tests. The results of the study indicate that corporate size and profitability have a beneficial influence on ISR disclosure. Even though neither the size of the board of commissioners nor liquidity have any role in ISR disclosure.

Keywords: The size of the board of commissioners, Company size, Profitability, Liquidity, list of Sharia securities, and ISR

1. Introduction

One of the company's responsibilities is social responsibility to stakeholders. Corporate Social Responsibility (CSR) disclosure implementation plays a vital role for the firm because the corporation is a part of the society, and its actions have social and environmental repercussions. To avoid social and environmental conflicts, the company carries out the disclosure of social responsibility which is one of the managerial tools that have been established (Mulia, 2009). Basically, CSR practices are oriented from the inside out, which means that the company must be managed properly so that it does not cause negative impacts on its environment (Solihin, 2011). So, companies must implement good corporate governance to realize good CSR.

Haniffa (2002) stated that the development of CSR is also found in the Islamic economy, not only in the conventional economy. In the world of work or research, CSR disclosures in Islamic banking continue to be measured using the Global Reporting Initiative Index (GRI).

Currently, Islamic economic researchers use the ISR Index (ISR) to measure the CSR of Islamic financial institutions. According to Haniffa (2002) ISR is more appropriate in the disclosure of CSR reporting of Muslims, because the initial purpose underlying the existence of ISR is accountability to Allah SWT and the community and increasing business transparency. In the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) the components of the CSR standard have been established to measure the ISR index.

According to Fitria and Hartanti (2010) in a previous study stated that to reveal CSR that is in accordance with Islamic teachings is to use the ISR index. ISR reporting is currently still voluntary because there are no standards from the government (Jannah and Asrori, 2016). The existence of the ISR concept is because when reporting conventional social responsibility, limitations are found, so that the conceptual framework of ISR that appears is said to be in accordance with the concept of sharia. The concept of ISR is not only focused on helping the decision-making process for Muslims but has the function of assisting companies to carry out obligations to the creator and all his creations (Gustani, 2015).

Judging from previous studies, ISR is very important for Sharia companies in order to meet the expectations of stakeholders, especially for the Muslim community. Therefore, researchers are trying to identify what can affect the disclosure of ISR by Sharia manufacturing companies in Indonesia in the annual report for the 2011-2017 period. Some of the components that are believed to influence Sharia companies in disclosing ISR are the size of the board of commissioners and profitability (Yaya et al, 2017), the size of the company (Rosiana et al, 2015), and liquidity (Widiyanti et al, 2017).

2. Literature Review

2.1 Legitimacy Theory

Legitimacy is one of the important things for companies to be able to understand about the boundaries in the company which include rules and norms as well as social values regarding reactions that will encourage organizations to behave according to social values and rules that apply in the company environment (Yaya et al, 2017). The theory of legitimacy assumes that the existence of a business enterprise to consider the rights of all parties and not only focused on the parties in the company (Zubek and Mashat, 2015). The implication of using legitimacy theory in this study is the hope of obtaining positive values and legitimacy from the community with the disclosure of the responsibility of the company sosial. If a company gains legitimacy from the community, the company can survive and develop during the community environment, so that the company will benefit in the future (Khoirudin, 2013).

2.2 Stakeholder Theory

In the theory of stakeholders, it is revealed that the company is not an entity that runs its business only for the benefit of the company itself but must be able to provide benefits for shareholders, the public and other parties (Nurrokhman, 2017). According to Nurrokhman (2017), a stakeholder in a company is obligated to make decisions in accordance with Islamic law and is expected to carry out social responsibility in accordance with sharia principles and demonstrate that the company conducts its business activities in accordance with Islamic law. Therefore, sharia enterprises must conduct their business in conformity with Islamic law (Kariza, 2014).

2.3 Sharia Enterprise Theory (Set)

Sharia Enterprise Theory (SET) is a theory that states that the center of all things is Allah Almighty. Man as His representative has the consequence of being obliged to obey the laws of Allah Almighty (Maulida et al, 2014). Sharia Enterprise Theory in this study implies that the highest stakeholder is Allah SWT as the center and becomes the center for the return of man and the universe is Allah SWT. Therefore, man in the world is only as khalitullah fil ardh who has the consequence of obeying all the laws of Allah Almighty (Hafida, 2012). The relationship between the disclosure of sharia-based social responsibility carried out by the company is a mandate and obligation as a creature of Allah SWT which is inseparable from the purpose of Islamic teachings.

2.4 Board of Commissioners Size and ISR (ISR)

The more board of commissioners in the company, the higher the level of supervision within the company, so the level of supervision will be better. With good supervision by the board of commissioners in the company, it is hoped that it will be able to motivate and encourage the level of ISR disclosure, as a form of social responsibility to stakeholders and shareholders. Research by Yaya, et al (2017) and Sulistyawati, et al (2017) and Khoirudin (2013) stated that the Size of the Board of Commissioners had a positive effect on isr disclosure. So that the first hypothesis is formulated as follows:

H1: The size of the Board of Commissioners has a positive effect on the disclosure of ISR in Sharia Manufacturing Companies.

2.5 Company Size and ISR

The larger the size of the company, the more parties will be involved with the company so that more parties will supervise either directly or indirectly, so that the more information that will be needed will be more. ISR disclosure will be one of the important things that must be carried out by the company, because how broadly the disclosure is made will affect the perception of stakeholders and shareholders to the company. In Rosiana's research, et al (2015)

stated that the size of the company affects the disclosure of ISR, but it is different from the research of Sulistyawati, et al (2017) and Maulida, et al (2014) which stated that the size of the company has no effect on isr disclosure. So that the second hypothesis is formulated as follows:
H2: Company size has a positive effect on the disclosure of ISR in Sharia Manufacturing Companies.

2.6 Profitability and ISR

A company that can generate high profits will be a concern for many parties including the government, this is related to the taxes that will be paid. In addition, employees will also give full attention to the company because it is related to the welfare of those who have worked there. And the last one is the community, the public's attention to companies that have high profits is caused because the community wants to know how much the company contributes to realizing welfare in the environment (Wati, 2017).

Companies with high profitability levels will tend to increase their ISR disclosures, so that the expectations of stakeholders and shareholders can be met. Several previous studies have found a positive influence of profitability on the capture of ISR such as research conducted by Yaya, et al (2017), Widiyanti, et al (2017) and Maulida, et al (2014). From the explanation above, a third hypothesis can be formulated, namely:
H3: Profitability positively affects the disclosure of ISR on Sharia Manufacturing Companies.

2.7 Liquidity and ISR (ISR)

One of the factors that are often used as a benchmark for investors in assessing the company's performance is to look at its liquidity. In research by Widiyanti, et al (2017) stated that liquidity has a significant positive effect on ISR disclosure. Companies that obtain high liquidity will have greater motivation to increase ISR disclosure, because by increasing ISR disclosure, the company will gain the trust of stakeholders and other companies. In contrast to research conducted by Asyhari (2016) found that liquidity has no effect on ISR disclosure. From the above, the fourth hypothesis can be formulated as follows:
H4: Liquidity has a positive effect on the disclosure of ISR on Sharia Manufacturing Company.

3. Material and Method

This section describes the research methods used. research methods must have clear procedures in order to reduce biased research results. In this study, a sample of manufacturing companies that have been registered in the Sharia Securities Register (DES) in 2011-2017. In sampling using *purposive sampling* technique, which is taking with several criteria that have been set, including: Manufacturing companies that publish annual reports and financial statements successively from 2011 – 2017. ISR is the voluntary disclosure of a company's social responsibility in line with Islamic standards. The ISR disclosure rate is determined by the ISR index score. The ISR index utilized in this study was adapted by Othman et al. (2009) from the ISR index developed by Yaya et al. (2017).

$$\text{Disclosure level} = \frac{\text{Number of disclosures met}}{\text{maximum number of scores}}$$

According to Nurrokhmah (2017) board commissioner be somebody that Served deep do supervision in a common and special appropriate with budget basis and give advice to council management. At research .ini Measured with manner count Many members council commissioner that exist at company that Listed deep report finance annual company. Measurement .ini Taken from research previously by Khoirudin (2013).

$$\text{Board of Commissioners Size} = \sum \text{board of commissioners}$$

Maulida et al, (2014) explain that Size company be Levels big or small company that can Measured with some method. Size company deep research .ini Measured with Total assets company. Size company that increasingly big, so information that Given to investor deep take decision that Associated with investment that exist at deep company inclined increasingly many. Variable size company .ini Calculated appropriate gnashing research previously by Maulida, et al (2014) with use formula next:

Profitability often Used by investors to judge level success company deep run Business, so that Profitability be factor important that used by investors deep do Consideration before take decision to Invest at a company (Wati, 2017). Variable Profitability .ini will Calculated appropriate with research previously by Yaya, et al (2017) with use formula:

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

According to Kamil (2012) Liquidity get show how big ability one Entity to pay debt compass short at moment fall time with utilize asset fluent that already available. Deep research .ini Measurement Liquidity will Calculated appropriate with research previously by Widiyanti, et al (2017) use formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Curent Liabilities}}$$

4. Result and Discussion

Based on *the purposive sampling* method, 39 manufacturing companies were obtained that met the criteria.

Descriptive Statistics

The variable size of the board of commissioners has an average of 4.27. The maximum value is 12 and the minimum value is 1 and the standard deviation is 2.118. The company's size has an average of 21 billion, which means that manufacturing companies in Indonesia have quite high assets. The maximum value is 26 billion, the minimum value is 12 billion and the standard deviation of the company's size is 1.84%. The profitability of manufacturing companies in Indonesia has an average of 4.56. The maximum value is 26.62 and the minimum value is -18.17 and the standard deviation is 6.79.

The liquidity of manufacturing companies in Indonesia has an average of 5,019. The maximum value is 464.98 and the minimum value is 0.00 and the standard deviation is 31.71. The ISR disclosure of manufacturing companies in Indonesia has an average of 0.56 or 56%. The maximum value is 0.74 and the minimum value is 0.28 and the standard deviation is 0.098. Judging from the average, it shows that the Disclosure of ISR of manufacturing companies in Indonesia is quite good.

Classical Assumptions

Testing of classical assumptions is normality testing, multicollinearity test, autocorrelation test and heteroskedasticity test. Based on the results of the normality test, it shows a signification value of 0.200 so that the data is normally distributed. The test results also showed that the data did not contain the multicollinearity indicated by the variance inflation factor (VIF) value below the value of 10. Similarly, the test results did not have autocorrelation and heteroskedasticity. This suggests that the data can be used for hypothesis testing (Ghozali, 2006).

Research Results

Table 1. Multiple Regression Model

	t	Sig.	Information
(Constant)	2,321	0,021	
UDK	1,889	0,060	Rejected
SIZE	4,426	0,000	Accepted
PROFIT	2,958	0,003	Accepted
LDK	0,720	0,472	Rejected

Based on the table above, a multiple liniear regression equation is obtained as follows:
ISR = -0.023 + 0.003 UDK + 0.026 SIZE + 0.004 PROFIT – 0.007 LDK + e

The findings of the first test demonstrated that the size of the board of commissioners had no impact on the dissemination of ISR. The test findings indicate that the size of the board of directors has no impact on the quality of information disclosure inside the organization. The reason why the size of the board of commissioners does not affect the disclosure of ISR is likely because the board of commissioners carries out greater responsibilities in the corporate governance section only, so that the board of commissioners cannot guarantee the implementation of supervision of management in carrying out social responsibility can be carried out effectively (Nurrokhmah, 2017).

The findings of the second test demonstrate that the size of the firm influences the disclosure of ISR positively. This shows that the size of the company will affect the level of disclosure of ISR. The results of this test prove that large companies will have a lot of activities so that they carry out many activities in the social field as well. Outside parties will put more pressure on the company to report accountability for the social activities carried out, this is because the company is the center of attention among the community. The results of this study corroborate the findings of Rosiana et al. (2015), who found that the size of the firm influences the disclosure of ISR. The findings of the third test demonstrate that profitability has a favorable influence on ISR disclosure. Investors will be attracted to businesses with significant earnings. so the company will strive to provide better information to potential investors and the public by increasing the disclosure of their social responsibility.

The results of this study support the theory of legitimacy which states that profitability as a value system that will be the company's achievement in increasing its profits is in line with the social system carried out by the company in expressing its social responsibility islamically. As well as supporting *the shariah enterprise theory* which states Allah SWT as the center, that profitability is the center of attention of company stakeholders in motivating to increase the disclosure of Islamic social responsibility carried out by the company as a form of compliance with the mandate that has been given by Allah SWT. The results of this study are in accordance with research conducted by Maulida, et al (2014) and Yaya, et al (2017) which stated that profitability has a positive effect on the disclosure of ISR.

The results of the fourth test proved that liquidity had no effect on the disclosure of *ISR*. This result is in accordance with Lestari's research (2006) which states that liquidity has no effect on ISR disclosure, likely due to the company's lack of understanding of the level of liquidity quality within the company, so that the level of liquidity is not material for company evaluation which is considered to have an influence on social responsibility disclosure. This has an impact on creditors who do not judge the company from the existence of ISR disclosures. According to research undertaken by Asyhari (2016), liquidity has no influence on the disclosure of ISR. These findings are consistent with this finding.

5. Conclusion, Implication, and Recommendation

This study attempts to test, experimentally demonstrate, and understand the link between the size of the board of directors, the size of the firm, profitability, and liquidity, and the disclosure of ISR. The size of the board of commissioners has no bearing on the publication of ISR. The firm size variable has a favorable influence on ISR. Profitability determinants have a beneficial impact on ISR. There is no influence of liquidity factors on ISR disclosures.

The suggestion in this study is to reduce the level of subjectivity, it is recommended that the next researcher involve others in assessing the score on the ISR disclosure index and is expected to be able to add variables or use other variables that are considered to affect the level of ISR disclosure such as profit management. There are several limitations, namely this study only uses 4 variables, namely the size of the board of commissioners, the size of the company, profitability, and liquidity. So that the results in this study have not been able to be described in general. In providing an ISR disclosure score, it is still subjectivity, because there is no standard for measurement in measuring an ISR index.

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