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FIRM SIZE MODERATING PROFITABILITY'S IMPACT ON ISLAMICSOCIAL REPORTING (ISR)

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ABSTRACT

This study aims to determine the effect of a profitability on islamic social reporting with firm size as a moderating variable in Islamic banking: anempirical study of Indonesia. The growth of Islamic banks in Indonesia has led to the emergence of an ethics of disclosing social responsibility. As an Islamic institution, it is incumbent upon Shariah banks to pay attention to the environment as a form of care and responsibility towards society. To measure the extent to which Islamic banks adhere to the principles of Islam in disclosing Islamic Social Responsibility (ISR), this research will assess it based on the Islamic Social Reporting Index (ISR Index) model. The ISR Index consists of several items that serve as benchmarks for evaluating social performance in Islamic banking, comprising a compilation of standard itemsset by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This study uses a quantitative research method. As for the sampling technique, we used purposive sampling. The type of data issecondary data. The samples used in this study were twelve banks registered inthe Financial Services Authority from 2016 to 2020. Data analysis in this studyused a path analysis with the application of the IBM SPSS. The result of this study indicates profitability has effect on islamic social reporting and firm size. While the results of research that has been done also shows a effect between profitability on islamic social reporting with moderation variable is firm size. In Islamic social reporting, high profitability can drive corporate managers to engage in broader and more transparent disclosures. As a company grows larger, managers may face pressure to disclose Islamic social reporting due to demands from external stakeholders. In this regard, the size of the companycan strengthen the relationship between profitability and Islamic social reporting disclosure.

Keywords: Profitability, Firm Size, Islamic Social Responsibility

INTRODUCTION

Every business (corporate) must take social responsibility towards the environment, including economic, social, and environmental factors (triplebottom line). In Indonesia, corporate CSR programs are regulated by laws and regulations such as Law No. 33 of 1945 and Law No. 23 of 1997 on Environmental Management. The implementation of CSR in Indonesian corporations is supported by the government through Government Regulation. No. 40 of 2007, which mandates annual corporate reports to include Social andEnvironmental Responsibility.

CSR in developing countries has seen an increase in both quality and quantity, as evident from the disclosure of social responsibility in corporate reports. The development of CSR in Islamic economics has also increased attention towardsSharia-compliant institutions (Haniffa, 2002). Islamic Social Reporting (ISR)is an important method for corporations to report their business activities based on Sharia principles. The ISR index expands the perspective of corporate social reporting standards, including the corporate role from a spiritual perspective (Cahya & Rohmah, 2019). This index refers to AAOIFI regulations and is considered a starting point for Sharia-based corporations to establish standards for entity disclosure .

Islamic banking differs from conventional banking, requiring better assessment methods encompassing economic, environmental, and social aspects. This approach caters to shareholders and wider stakeholders, including society and the environment via the triple bottom line concept. Haniffa (2002) identified five ISR Index reporting themes, while Othman et al. (2009) added the Corporate Governance theme, each with unique disclosure indicators based on research subjects. (Zoraya et al., 2022). ISR by corporations is voluntary, resulting in varying reports among Sharia-compliant corporations due to the absence of standardized Sharia CSR reporting requirements. Nevertheless, the development of CSR in Islamic economics shows an increase, with manycorporations adopting Sharia principles in their businesses and attempting to report social responsibility in an Islamic manner, (Ersyafdi et al., 2021; Khasanah & Yulianto, 2015).

The method used and applied to estimate the profits or earnings generated by a company within a specific period carefully applies the measurement of profitability. The signal theory supports a positive relationship between the profitability variable and the ISR variable. This signal theory explains that a company is not merely an entity that operates solely for its own interests, but must also actively provide benefits to its stakeholders (Putri and Yuyetta, 2014).

THEORY, LITERATURE REVIEW, AND HYPOTHESIS

A. Theoretical Review

1. Signal Theory
   Signal Theory is important for explaining the corporate environment to investors. Goodwill and intangible assets reports are considered positive as they influence stock prices and corporate value. Islamic social responsibility disclosure (ISR) also impact corporate value. Management endeavors to provide explanations and positive news through financial reports to enhance reputation. The signal theory is also effective in ISR information for investors and corporate stakeholders, influencing corporate market performance (Refani & Dewi, 2020).
2. Shariah Enterprise Theory
   The Shariah Enterprise Theory is an approach in the business world that combines Islamic values with responsibilities towards owners, stakeholders, and God (Jamaluddin, 2021). In this context, Shariah accounting is used as a tool to ensure accountability in line with Shariah ethical principles. The approach encourages the implementation of fair, trustworthy, and honest Islamic accounting, while avoiding tendencies to benefit capitalists and usurers. Humans have a broad responsibility towards each other, the environment, and nature. (Ruddin, 2018).
3. Profitability
   Profitability refers to a company's ability to generate profits from sales, assets, and equity. Higher profitability indicates better financial performance. In CSR, profitability is linked to company profits. Indicators such as profit margin, Return on Assets (ROA), Return on Investment (ROI), Return on Equity (ROE), and Earnings Per Share (EPS) are used to measure it. ROE and ROA evaluate the effectiveness of capital management and net profit generation. Increasing ROE and ROA indicate higher net profit and stock value (Choiriyah et al., 2020).
4. Firm Size.
   Company size (company barometer) is a barometer that measures the size of a company. Actually the barometer of large companies is skilled in measuring indicators (parameters), in fact the company is experiencing

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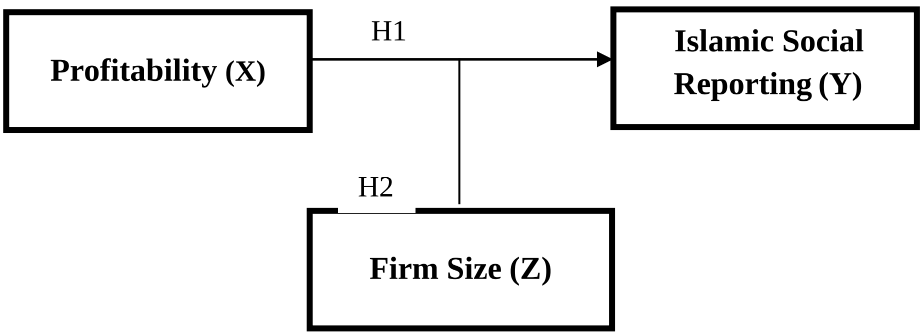
growth and the size of the barometer of the company is activated by the value of total assets recorded on the balance sheet (Sujoko & Ugy Soebiantoro, 2007).

5. Islamic Social Reporting (ISR)
Islamic Social Reporting (ISR) is a framework for socially responsible reporting rooted in Islamic principles. It aids Muslim stakeholders in evaluating a company's societal obligations to Allah SWT and the community. ISR covers economic and spiritual facets, including the environment, minority rights, social justice, and property responsibilities. Islam advocates augmenting CSR reporting with a spiritual dimension consistent with its values, as businesses' social impacts must be addressed in line with their responsibilities. (Haniffa, 2002).

B. Framework
Based on the theoretical foundation, the description of the previous research and the research hypothesis, the authors build a conceptual framework as shown in figure 2.1:



C. Hypothesis

The Effect of Profitability on Islamic Social Reporting (ISR)

Firms with strong investment returns encourage Social Responsibility Principles (ISR) adoption, especially among major shareholders. Corporate social responsibility extends to aligning business practices with Islamic Sharia, surpassing societal and environmental contributions. Using signaling theory, information presented by companies is expected to positively influence financial statement users, enhancing reputation and investor appeal. Displaying Islamic Social Responsibility (ISR) is expected to create a positive response, ultimately enhancing a company's value (Refani & Dewi, 2020). This is in line with research Febry Ramadhani (2016), Jafar (2018) and Setiawan et al., (2019).

H1: The profitability has an influence on Islamic Social Reporting (ISR)

The Effect of Profitability on Islamic Social Reporting (ISR) Moderating by Firm Size

Higher profitability makes it easier to share social information. Companies with strong profits benefit greatly and can thus more readily reveal their social responsibilities. Company size, gauged by total assets, allows management greater flexibility in asset use. Shariah-compliant banks with larger assets disclose broader social responsibilities compared to smaller counterparts. Hence, profitability affects social responsibility, tied to company size. Larger companies possess larger assets and thus experience higher profitability (Zoraya et al., 2022). This is in line with research Aini (2017), Sabrina & Betri (2018) and Umiyati & Baiquni (2018).

H2: The profitability has an influence on Islamic Social Reporting (ISR) moderating by the firm size

RESEARCH METHODS

A. Research Design and Data Analysis

This research is categorized as quantitative research. With this quantitative method, it would be able to show the relationships that occur between the variables contained in this study. Moreover, this study used data in the form of numbers so it was very suitable for research using quantitative methods. As for data analysis and data testing, this research used IBM SPSS.

B. Population and Sample

Reserach Islamic commercial banks in Indonesia was research populations. Meanwhile, purposive sampling was a technique for taking samples. The following are the criteria: (1) BUS recorded at the Financial Services Authority from 2015 to 2020, (2) BUS had published the annual report of BUS Indonesia and there were research variables in the annual report, (3) During the research period, BUS was still recorded and did not experience delisting (unregistered) from the OJK.

RESULTS AND DISCUSSION

A. Classic Assumption Test

Table 1.
Classic Assumption Test

Normality Test (Kolmogorov-Smirnov)	Equation 1	Asymp.Sig			0.200	
	Equation 2	Asymp.Sig			0.200	
Linierity Test	Equation 1	R Square			0.002	
	Equation 2	R Square			0.043	
Multicollinearity Test (Tolerance dan VIF)	Equation 1	X	Tolerance	0.994	VIF	1.006
	Equation 2	X	Tolerance	0.022	VIF	45.743
		Z	Tolerance	0.022	VIF	46.320
Autokoleration Test (Durbin Watson)	Equation 1	DW			0.640	
	Equation 2	DW			0.642	
Heteroscedasticity Test	Equation 1	R Square			0.001	
	Equation 2	R Square			0.001	

Source: SPSS Output, 2023 (data reprocessed)

Based on the table above, there is no custom outlier, so the classicalassumption test is fulfilled.

B. Substructural Analysis

Table 2.
Hypothesis Test

t-Test (Partial)	Substructure I	X	t	2.787	Sig.	0.034
	Substructure II	Z	t	2.966	Sig.	0.004
Coefficient of Determination (R^2)	Equation 1	R^2			0.256%	
	Equation 2	R^2			0.287%	

Source: SPSS Output, 2023 (data reprocessed)

The Effect of the Profitability on Islamic Social Reporting (ISR)

Based on statistical research, the t-count was 2.787 > t table of 1.995, witha significance value of 0.034 < α = 0.05. This means that the profitabiity has significant effect on the islamic social reporting. The higher the level of a company's profitability, the greater its ability to generate profits. This can subsequently influence the extent of disclosure undertaken by the company. Therefore, profitability can affect the disclosure of Islamic Social Responsibility (ISR). High profitability signifies strong company performance, and with increased earnings, the company has sufficient funds to gather, categorize, and process information into more valuable insights, enabling more comprehensive disclosure. Consequently, the higher a company's profitability, the more comprehensive its social responsibility disclosures become in its annual reports (Zoraya et al., 2022). Research results conducted by (Sabrina & Betri, 2018) and (Pratama et al., 2018) have shown that profitability has a positive impact on ISR.

The Effect of Profitability on Islamic Social Reporting (ISR) Moderating by Firm Size

Based on statistical research, the t-count was 2.966 > t table of 1.995, witha significance value of 0.004 < α = 0.05. This means that the profitabiity has significant effect on the islamic social reporting with firm size moderation. The higher the profitability, the easier it is to share social information. Companies with high profitability gain substantial advantages, making it easier to disclose social responsibilities (Aini et al., 2017). Company size, determined by total assets, provides management with greater flexibility in utilizing company assets. Shariah-compliant banks with high total assets tend to disclose broader social responsibilities compared to those with lower total assets (Umiyati & Baiquni, 2019). Therefore, profitability can influence social responsibility, and all of this is intertwined with the size of a company. As company size increases, so do its assets, resulting in higher company profitability. Research conducted by (Sabrina & Betri, 2018) suggests that company size can moderate the relationship between profitability and ISR.

FINDINGS AND CONCLUSION

The result of this study indicates profitability has effect on islamic social reporting and firm size. While the results of research that has been done also shows a effect between profitability on islamic social reporting with moderation variable is firm size. In Islamic social reporting, high profitability can drive corporate managers to engage in broader and more transparent disclosures. As a company grows larger, managers may face pressure to disclose Islamic social reporting due to demands from external stakeholders. In this regard, the size of the company can strengthen the relationship between profitability and Islamic social reporting disclosure.

IMPLICATION, LIMITATIONS AND SUGGESTION

A. Implications

The findings of this research reveal how profitability influences Islamic Social Responsibility (ISR) within companies, particularly when considering the company's size as well. These findings can guide decision-makers in designing more sustainable business strategies.

B. Limitations

However, this research has limitations due to available data and the specific research context. These factors could affect the generalizability of the research findings.

C. Suggestions

For future research, additional factors that influence the relationship can be included, longitudinal analysis can be applied to observe changes over time, and different research methodologies can be considered to deepen the understanding of the complex interaction between profitability, Islamic Social Responsibility, and company size within the context of Sharia principles.

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