The Effect of Company Size, Profitability and Leverage on Islamic Social Reporting of Islamic Banking Registered with OJK for the 2017-2022 Period

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Abstract. This study aims to ascertain the size, profitability, and leverage of Islamic banking firms registered with the Financial Services Authority (OJK) about Islamic social reporting. The six-year research period that was employed is from 2017 to 2022. Using eViews 12, a purposive sampling strategy was employed in the sampling process. They obtained eight firms based on preset criteria. Secondary data from the Financial Services Authority's Annual Report website was the type of data used. Panel data regression analysis is the analytical technique applied. The study's findings indicate that while profitability and leverage have little bearing on Islamic social reporting, company size significantly impacts it. Leverage, profitability, and company size all impact Islamic social reporting.

Keywords: Company Size, Profitability, Leverage, Islamic Social Reporting

1 Introduction

The ISR Index is a disclosure benchmark for Islamic Social Reporting (ISR), also known as the Corporate Social Responsibility (CSR) disclosure standard. AAOIFI formulated the Islamic Social Reporting (ISR) index disclosure standard, and the disclosure project is now being refined by accomplished researchers to align with Sharia law [1]. Islamic Social Reporting (ISR) is highly beneficial for Sharia-compliant companies as it discloses information about Islamic principles. This includes transactions that are devoid of usury, speculation, and gharar, as well as the disclosure of transactions involving zakat, sharia compliance status, and social aspects such as sadaqah, waqf, qodrul hasan, and the disclosure of worship within the company environment. Islamic Social Reporting (ISR) aims to be accountable to Allah SWT and society by considering employment as a form of prayer. To effectively disclose the Islamic Social Reporting (ISR) index, it is essential to include thorough and comprehensive items. The ISR index indications are somewhat rudimentary, with each indicator having a wide-ranging significance. Therefore, it is imperative to establish consistent bounds to assess each indicator accurately.

Islamic social reporting (ISR) is a corporate responsibility approach that emphasizes social concern and environmental responsibility while also considering the capabilities of firms that

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adhere to Islamic standards. Sharia banking is founded on the principles of Islamic sharia. These principles dictate how banks should engage with their environment. In addition, Islamic banks must function based on principles of ethics, morals, and social responsibility. In addition, Islam adheres to the global principle of rahmatan lil'alamin, which emphasizes the avoidance of damage and poverty [2].

Several factors impact Islamic social reporting (ISR), including corporate size, which is determined by the quantity of assets owned by the company. Company size is determined by evaluating total assets and sales levels, indicating the company's status. Larger organizations benefit from the financial resources they utilize to fund investments and earn profits.

Profitability is the second aspect to consider when evaluating a firm. It may be measured by comparing the company's profits, assets, or capital. Prospective investors will thoroughly assess a company's operational efficiency and capacity to generate profits (Profitability) since they anticipate receiving dividends and witnessing an increase in the market value of shares. The quality of a firm can be determined by its level of profitability, as a higher level of profitability corresponds to a larger amount of profit that the company will generate. Increased profitability correlates with greater transparency from the company, which encompasses details regarding Islamic social responsibility [3].

The third component is leverage, which refers to the ratio utilized to determine the extent to which a corporation is financed by debt. Islamic Social Reporting (ISR) disclosure aims to offer stakeholders information and instill confidence in the company's ability to meet its financial obligations and gain their trust.

Based on the findings of [4], company size has a favorable impact on ISR (Integrated Sustainability Reporting) [5] concluded that company size does not influence ISR disclosure. The larger the corporation, the more significant its social duty towards the environment and society in terms of Islamic Social Reporting (ISR) disclosure.

The profitability has a favorable and significant impact on ISR disclosure. [6] profitability does not significantly impact the disclosure of Islamic Social Reporting (ISR). [7] conducted a study that suggests leverage has no impact on ISR disclosure.

Literature Review

Signaling Theory

Signaling theory is employed to elucidate how a corporation utilizes information to convey favorable or unfavorable indications to recipients of said information. Signaling theory posits that firm leaders with superior and more comprehensive information are motivated to disclose this information to potential investors. By transmitting signals through annual reports, companies can enhance their worth through effective communication and reporting.

Legitimacy Theory

Legitimacy theory posits that a company's significance lies in its role as a determinant of the company's future strategy. This organizational method involves the community giving social norms to the company. The company must monitor good management performance and be open with information to preserve public trust.

Financial management

[8] defines financial management as the integration of scientific and artistic principles that involve the study, investigation, and analysis of how financial managers utilize corporate resources to acquire, administer, and distribute cash with the objective of maximizing shareholder profits. Ensured success and maintained business operations without interruption for the corporation.

Bank

[9] expressed their opinion about banking, saying that banks are business entities that collect funds from the public in the form of savings and distribute them to the public through credit or other services to improve the standard of living of many people. This financial institution provides facilities for less fortunate parties, makes payment transactions more accessible, and makes profits.

Islamic Social Reporting

Islamic Social Reporting is an expanded kind of social reporting encompassing community administrators' perspectives on the involvement of firms in the economy [10].

Company Size

[11], company size is a metric that may be determined by various factors such as total assets, sales volume, and share value. Company size can be determined by assessing the total assets of the company. As the scale of a firm increases, the range of available sources of company information expands, making it more convenient for the public to obtain.

Profitability

The profitability ratio is a metric used to assess the financial success of a corporation. According to [12] a corporation's profitability indicates its capacity to make profits within a given time frame, considering the level of sales, assets, and share capital.

Leverage

[13] defines the leverage ratio as the proportion of a company's assets financed by its liabilities. This might be construed as the ratio of the company's debt to its assets. Based on this ratio, it is evident that the company will have sufficient funds to settle both its short-term and long-term obligations in the event of liquidation.

2. Method

This study employs quantitative research methodology and focuses on a sample population of 11 Sharia banking organizations registered with the OJK for 2017-2022. The research sample consisted of 8 Sharia banking companies selected from the population of enterprises regulated by the OJK between 2017 and 2022. The research employed a purposive sampling methodology due to some samples' absence of predetermined criteria. This research used secondary data as its primary source, specifically audited business financial reports publicly available on the official website of the Financial Services Authority, www.ojk.go.id. Additionally, books and prior research publications are also utilized as supplementary sources.

3. Results and Discussion

3.1 Results

3.1.1 Descriptive Statistical Analisys

Descriptive statistical analysis offers a comprehensive summary or portrayal of the research variables, including their average value (mean), standard deviation, minimum value, and maximum value. The variables employed encompass Company Size, Profitability, and Leverage of Islamic Social Reporting. The outcomes of the descriptive statistical analysis of the research variables, which have been processed using Eviews Version 12, are as follows:

Table 1. Descriptive Statistical Result

	ISR	SIZE	ROA	DAR
Mean	0.873188	24.87330	0.027817	3.832187
Median	0.891304	23.50173	0.009797	0.160801
Maximum	0.978261	30.99025	0.722529	165.2163
Minimum	0.695652	16.30368	-0.112275	0.014948
Std. Dev.	0.078872	4.793729	0.106965	23.79719
Skewness	-0.821922	-0.225423	5.838464	6.702968
Kurtosis	2.739665	1.895042	38.74374	45.96114
Jarque-Bera	5.539994	2.848389	2827.932	4050.757
Probability	0.062662	0.240702	0.000000	0.000000
Sum	41.91304	1193.918	1.335231	183.9450
Sum Sq. Dev.	0.292376	1080.052	0.537750	26616.39
Observations	48	48	48	48

Source: Eviews 12.0 processed data, 2023

According to the table of descriptive statistical test results provided, it is evident that the study consisted of 48 samples. The sample was obtained from 8 Sharia Banking institutions regulated by the OJK for six years, specifically from 2017 to 2022.

The mean value of the ISR (Y) variable ranges from 0.695652 to 0.978261 for the Bank BTPN Syariah firm. The mean value of the ISR (Y) variable is 0.873188, with a standard deviation of 0.078872.

The SIZE (X1) variable from the Bank Muamalat Indonesia Syariah company has an average value of 24.87330, ranging from a minimum of 16.30368 to a maximum of 30.99025. The standard deviation of the SIZE (X1) variable is 4.793729.

The variable data for ROA (X2) ranges from a low value of -0.112275, seen in the Bank BTPN Syariah firm, to a maximum value of 0.722529. The mean value of the ROA variable is 0.027817, with a standard deviation of 0.106965.

The DAR (X3) variable ranges from a minimum value of 0.014948 to a maximum value of 165.2163, as the Panin Dubai Syariah Bank company reported. The average DAR (X3) value is 4.412818, with a standard deviation 26.08226.

3.1.2 Hypothesis Test

Table 2. Hypothesis Result

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.670579	0.061723	10.86435	0.0000
SIZE	0.007884	0.002373	3.321911	0.0018
ROA	0.329714	0.358230	0.920396	0.3624
DAR	-0.000696	0.001576	-0.441812	0.6608

Source: Eviews 12.0 processed data, 2023

Based on the partial test table, it is evident that the independent variable has a partial influence on the dependent variable in the following manner:

According to the t-test table, the t-statistic (3.321911) for the Company Size variable is greater than the critical t-value of 2.81, indicating statistical significance at a significance level of 0.0018, less than the predetermined significance level of 0.05. This demonstrates that a corporation's scale substantially impacts the disclosure of information about its socially responsible practices. Therefore, hypothesis H1 is confirmed.

According to the t-test table, the Profitability Variable has a t-statistic of 0.920396, more significant than the critical t-value of 2.81, and a p-value of 0.3624, more significant than the significance level of 0.05. This indicates that the level of profitability does not substantially impact the disclosure of ISR (Integrated Sustainability Reporting), hence leading to the rejection of hypothesis H2.

According to the t-test table, the Leverage variable has a t statistic of -0.441812, more significant than the critical value of 2.81 at a significance level of 0.05. The p-value of 0.6508 is also more important than the significance level of 0.05. This indicates that the use of leverage does not substantially impact the disclosure of Integrated Sustainability Reporting (ISR), hence leading to the rejection of hypothesis H3.

3.1.3 F Test

Table 3. F Test Result

MSE Root	0.069329	R-squared	0.210910
Mean dependent var	0.873188	Adjusted R-squared	0.157109
SD dependent var	0.078872	SE of regression	0.072411
Akaike info criterion	-2.333249	Sum squared resid	0.230711
Schwarz criterion	-2.177315	Log likelihood	59.99797
Hannan-Quinn Criter.	-2.274321	F-statistic	3.920149
Durbin-Watson stat	0.681525	Prob(F-statistic)	0.014509

Source: Eviews 12.0 processed data, 2023

The output data indicate that the F-statistic value is 3.920149. Comparing this to the F table with a significance level of $\alpha = 5\%$, degrees of freedom (df1) = 3 and (df2) = 45, the F table value is 2.81. The F-statistic value of 3.920149 is greater than the critical F table value of 2.81, indicating statistical significance. Additionally, the probability value associated with the F-statistic is 0.014509, which is less than the significance level of 0.05.

Therefore, it can be inferred that the null hypothesis (H0) has been rejected, and the alternative hypothesis (H1) has been accepted. The independent factors in this research are Company Size (SIZE), Profitability (ROA), and Leverage (DAR). These variables collectively impact Islamic Social Reporting (ISR).

3.1.4 R Test Result

The R2 test results table indicates that the Adjusted R-squared value is 0.157109 or 15.7%. This means that Company Size, Profitability, and Leverage can explain 15.7% of the variations in changes in ISR up and down. The remaining 84.3% is attributed to other variables not examined in this study.

3.2 Discussion

The variable representing the firm's size notably impacts the disclosure of Islamic Social Reporting (ISR). The t-statistic (3.321911) for the company size variable is greater than the critical value of 2.81 at a significance level of 0.05, with a p-value of 0.0018. This demonstrates that a company's size substantially impacts the disclosure of information about its socially responsible investment practices. Therefore, hypothesis 1 is confirmed.

The company's scale enables it to engage in environmental and community initiatives actively, hence enhancing the dissemination of information regarding its corporate social responsibility (CSR) efforts. Companies that fully disclose their Integrated Sustainability Reporting (ISR) will send a favorable indication to investors. The findings of this study are corroborated by prior research conducted by [14], [15], [16], and [17], which assert that the size of a corporation has a substantial impact and exhibits a favorable correlation concerning ISR disclosure.

The Profitability variable does not exhibit a statistically significant impact on Islamic Social Reporting (ISR) disclosure. This is evidenced by the t-statistic (0.920396) of the profitability variable, which is more substantial than the critical value of 2.81 at a significance level of 0.05. The p-value of 0.3624 is also more significant than the significance threshold 0.05. This indicates that the level of profitability does not substantially impact the disclosure of ISR (Integrated Sustainability Reporting), so hypothesis H2 is not supported.

If a corporation experiences a financial gain or loss, it is already required to report its Income Statement Report (ISR). Regardless of whether the company is experiencing a loss or profit and whether the Return on Assets (ROA) level is increasing or low, the corporation nevertheless discloses its Income Statement Report (ISR).

The Leverage variable does not significantly impact Islamic Social Reporting (ISR) disclosure. The Leverage variable has a t statistic of -0.441812, smaller than the critical value of 2.81 at a significance level of 0.05. Additionally, the p-value of 0.6508 is more significant than the significance level of 0.05. This indicates that leverage does not substantially impact ISR disclosure, so H3 is refuted.

4. Conclusion

The t-statistic (3.111718) for the Company Size variable is greater than the critical t-value of 2.86 at a significance level of 0.05, indicating a significant relationship. The p-value for this relationship is 0.0036. This demonstrates that a firm's size substantially impacts the publication of information about its socially responsible investment practices.

The profitability variable has a t-statistic of 0.920396, which is more significant than the critical value of 2.81 from the t-table, indicating statistical significance. The p-value associated with this t-statistic is 0.3624, more important than the significance level of 0.05. This suggests that the profitability level does not substantially impact the disclosure of information on corporate social responsibility (ISR). The variable of Leverage does not have a statistically significant impact on the disclosure of ISR (Integrated Sustainability Reporting). The t statistic (-0.441812) is greater than the critical value of 2.81 from the t table, indicating a non-significant result with a p-value of 0.6508, higher than the significance level of 0.05. Consequently, whether a firm has a substantial or minimal amount of debt, the company has to reveal its obligations, and this will not hinder the company from declaring its ISR.

This research is intended to serve as a valuable reference and provide new insights for future academics working on the same issue. It incorporated many additional independent variables that could impact Islamic Social Reporting. This study aims to identify additional variables that impact Islamic Social Reporting in banking institutions.

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