

Disclosure of Islamic Social Reporting (ISR) through leverage, profitability and company size

Rahmawati.S^{a,*}, Andi Sulfati^{b,*}, Asbi Amin^{c,*}

^a [Accounting], [STIEM Bongaya Makassar], [Makassar], [Indonesia]

^b [Accounting], [STIEM Bongaya Makassar], [Makassar], [Indonesia]

^c [Accounting], [STIEM Bongaya Makassar], [Makassar], [Indonesia]

*Corresponding author. E-mail address: rahmawatisinjai25@gmail.com

ARTICLE INFO

A B S T R A C T

Article history:

Received
November
Accepted
December

Keywords

Islamic Social
Reporting (ISR)
Disclosure, Leverage,
Profitability, and
Company Size)

The goal of this research is to find out how Islamic banks that were registered with the Financial Services Authority (OJK) between 2020 and 2023 disclosed their Islamic social reporting (ISR), taking into account factors including leverage, profitability, and company size. Gathering information using a purposive sample method based on secondary sources such as financial and sustainability reports found on each bank's website. There were thirteen observations in the population and thirty-six in the sample, all of which pertain to Islamic banks that were registered with the Financial Services Authority (OJK) in 2020 and 2023. Multiple linear regression and hypothesis testing are the tools of choice for this investigation. This study found that Islamic Social Reporting (ISR) Disclosure is positively affected by leverage, but unaffected by profitability. Another favorable effect of company size on ISR Disclosure was shown to be statistically significant.

1. Introduction

The current global economic situation shows a desire to integrate principles of sustainability and justice in several sectors, including the banking industry. With the increasing importance of ethics and social responsibility, the Islamic economic system based on Islamic principles is beginning to attract more attention. As financial institutions that adhere to Islamic law, Islamic banks have established themselves in several countries, including Indonesia. Islamic banks are also involved in corporate social responsibility through Social reporting in Islam. The goal of ISR is meant to increase openness in business operations by supplying pertinent data while considering the requirements of Muslims spiritual investors. This is one way to express gratitude to Allah SWT and the community. The Islamic Social Reporting Index, or ISR Index, is a tool for creating social reports that follow Sharia law. Organizations that adhere to the Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI) guidelines for Corporate Social Responsibility (CSR) can have their performance measured using the ISR Index. Scholars also utilize it to examine CSR-related topics that Islamic organizations must follow.

1.1 Background

Sharia-based companies employ Islamic Social Reporting, or ISR, as a norm for social reporting. Islamic Social Reporting aims to increase the number of businesses that apply Sharia principles in their operations and have the ability to attract Muslim investors or other Muslim-related businesses that wish to invest and participate in their operations.

The ISR an index is very appropriate for Islamic entities since it covers topics in line with Islamic values, such as transactions based on *riba*, *gharar*, and specialization, transactions involving *zakat*, position of shariah compliance and societal elements such as *qardhul hasan*, *sadaqah*, *waqf*, and worship in the business environment.

Here are some examples of social reporting in Islam phenomena in banks that practice Islam during the time frame 2020–2023:

NO	NAMA BANK	2020	2021	2022	2023
1	PT. Bank Muamalat Indonesia	77%	80%	80%	68%
2	PT. Bank Mega Syariah	64%	66%	66%	80%
3	PT. Bank Panin Dubai Syariah, Tbk	51%	55%	57%	57%
4	PT. BCA Syariah	88%	88%	60%	62%
5	PT. Bank Jabar Banten Syariah	80%	77%	84%	77%
6	PT. Bank Aceh Syariah	73%	82%	77%	77%
7	PT. Bank Victoria Syariah	26%	35%	35%	33%
8	PT. Bank Syariah Bukopin	64%	71%	64%	64%
9	PT. Bank Tabungan Pensiunan Nasional	68%	75%	65%	73%

Source; processed data

It is evident from the preceding table that there are several banks that experience fluctuations in ISR penetration. For example, PT. Bank Jabar Banten experienced an ISR penetration of 80% in 2020, 77% in 2021, 84% in 2022, and 77% in 2023. It can be concluded from this that Islamic banks have not fully implemented ISR.

The first factor that influences ISR disclosure is leverage. One financial ratio called leverage is used to determine how much money some large companies are willing to pay (Affandi & Nursita, 2019) in (Mais & Alawiyah, 2020)

The second factor is profitability. This is because when the amount of profit generated by a business increases, the business can increase disclosure costs so that they can conduct broader Islamic social reporting.

One of the third factors is the size of the company. Greater profits will be realized if the business becomes more extensive in gathering information about corporate social responsibility. (Irbah et al., 2021)

Based on the previously established background, the subsequent conclusion able to be illustrated:

H1: Leverage has a substantial improvement in ISR penetration in Islamic financial institution.

H2: Profitability offers a lot of advantages impact on the penetration of ISR within Islamic banks.

H3: Company performance has a favorable and noteworthy effect on the ISR of Islamic banks.

1.2 Problem Statement

1. Does leverage have an impact on the adoption of Islamic Social Reporting (ISR) in Indonesian Islamic banks in 2020–2023?
2. Will profitability impact the implementation of ISR, or Islamic Social Reporting, in Indonesian Islamic finance institutions in 2020–2023?
3. Does company size impact the implementation of Islamic Social Reporting (ISR) in Indonesian Islamic banks from 2020 to 2023?

1.3 Objectives and Scope

1. To assess the impact of leverage on the adoption of ISR, or Islamic Social Reporting in Indonesian Sharia-compliant banks during the time frame 2020–2023.
2. To assess the impact of profitability on the implementation of Islamic Social Reporting (ISR) in Indonesian Islamic banks during the period 2020–2023.
3. To assess the impact of company size on the implementation of Islamic Social Reporting (ISR) in Indonesian Islamic banks during the period 2020–2023

2. Literature Review

Stakeholder theory

According to stakeholder theory, businesses must prioritize the needs of the general public over their own needs (Freeman et al., 2021). According to (Charolina et al., 2021), one action taken by Islamic banking companies is to uphold Islamic social values to promote a positive culture and enhance public loyalty. This will increase public trust in Sharia banking services, which will result in more Sharia banking products that will contribute to increasingly successful business operations.

Islamic Social Reporting (ISR)

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) developed Islamic Social Reporting (ISR) as a research standard based on Islamic principles. It is a social responsibility index. According to Islamic principles, ISR can be considered the first step in the CSR process (Alfiatun, 2023). After the ISR index has been assessed, the formula to estimate the amount of transparency is:

$$ISR = \frac{\text{Number of disclosure scores met}}{\text{Maximum number of disclosure scores}}$$

Leverage

In business or investment activities, leverage is the use of money as debt or loans (Alfiatun, 2023). Leverage can be calculated the Debt to Equity Ratio (DER) is used.; the DER results are as follows:

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Profitability

Profitability is a business's ability to measure its success or failure in relation to sales, total activities, and its own mode of operation (Alfiatun, 2023). ROA is used in this study to measure profitability. (Asset Return).

$$ROA : \frac{EAT}{\text{Total Assets}}$$

Company Size

The size of any company that might be impacted is known as “company size.”(Alfiatun, 2023). The formula can be compared to Company Size as follows:

$$\text{Size} = \ln(\text{Total Assets})$$

2.1 Related Work

There are some similarities between this research and the research carried out regarding Indonesia's Sharia Commercial Banks, while the difference between the two studies is that the former was conducted between 2020 and 2023, and the variables that are independent This study makes use of company size, profitability, and leverage.

2.2 Research Gap

According to the research conducted by (Zoraya et al., 2022), leverage has a positive and significant impact on ISR. Contrary to The study carried out by (Ginanjari et al., 2022), It asserts that leverage has little to no role in the advancement of ISR.

According to the research by (Manurung, 2020), ISR is positively affected by profitability. This agrees with the findings of the studies performed by (Amri & Sovita, 2024), this demonstrates that ISR is positively and significantly affected by profitability.

According to the research by (Risqi & Septiari, 2021), A company's size is a positive factor in ISR. Starting with the research by (Mais & Ramadhanty, 2021), the findings show that there is a substantial impact between business size and ISR.

3. Methodology

A quantitative technique with a descriptive focus was employed in the research process. This research makes use of the quantitative approach, also known as the inferential approach, to develop conclusions. It does this by statistically evaluating hypotheses utilizing empirical data collected during data collecting. To find out how leverage, profitability, and firm size affect the adoption of Islamic Social Reporting (ISR), this study used a quantitative methodology as the data is numerical and examined statistically.

3.1 Data Collection

This study employs a quantitative method and makes use of time series data. Secondary data collected from 2020–2023 financial and sustainability reports of Islamic banks in Indonesia is utilized. All Indonesian banks that were operational at that time and adhere to Islamic principles make up the population in this research. One way samples are gathered is through the use of purposeful sampling. The banks that were considered for inclusion in this study's sample were those that were mentioned in the Islamic Banking Statistics for the years 2020–2023, as well as those that did not produce annual financial reports or comprehensive sustainability reports for the same years. Using data accumulated over four years of research, a sample of about nine banks, mostly Islamic and qualified, were obtained based on the defined criteria. duration: 2020–2023. Hence, nine banks that fulfilled the requirements provided the data for this study, which consists of thirty-six financial statements and thirty-six sustainability reports.

3.2 Analysis Techniques

Descriptive Statistics Analysis

Data features, including distribution characteristics, or occurrences can be shown graphically by descriptive statistical analysis. Measurements of central tendency, form, dispersion, and frequency are all shown by this statistic. The standard deviation, minimum, and maximum are all measures of central tendency.

Inferential Statistical Analysis

The statistical method known as inferential statistics is employed to examine data from samples and extrapolate findings to the population as a whole. The linear connection between the dependent variable (X1) and two or more independent variables (X2, and X3) is examined in this study using multiple regression models. (Y). The equation for multiple regression is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

information :

Y	= Disclosure of Islamic Social Reporting
a	= Constant
X ₁	= Leverage
X ₂	= Profitability
X ₃	= Company Size
b ₁ , b ₂ , b ₃ ,	= Regression Coefficients

3.3 Validation

The three classical assumptions present in this study are heteroscedasticity, multicollinearity, and normality. In addition, there are two hypotheses: the partial hypothesis (t-test) and the coefficient of determination. (R²).

4. Results and Discussion

Classic Assumption Test

Results of the Kolmogorov-Smirnov Normality Test

		Unstandardized Predicted Value
N		36
Normal	Mean	.6691667
Parameters ^{a,b}	Std.	.08118664
	Deviation	
Most	Absolute	.097
Extreme	Positive	.084
Differences	Negative	-.097
Kolmogorov-Smirnov Z		.582
Asymp. Sig. (2-tailed)		.887

a. Test distribution is Normal.

b. Calculated from data.

A two-sided asymptotic significance score of $0.887 > 0.05$ indicates that the data is dispersed properly, according to the normality test discussed earlier.

Multicollinearity Test Results

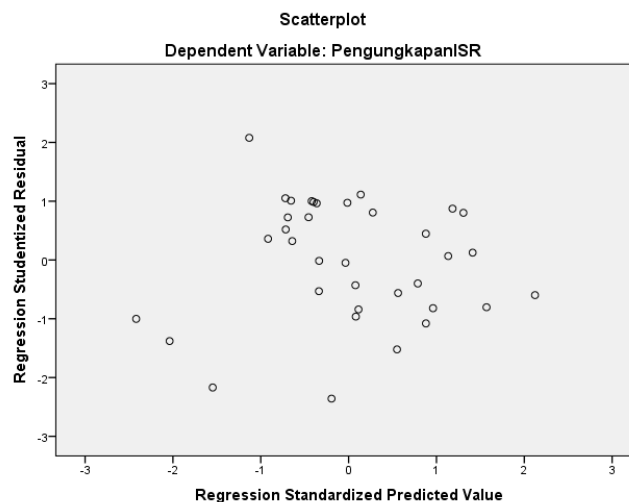
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.915	.587		-1.560	.129		
Leverage	.048	.023	.318	2.071	.046	.963	1.039
Profitabilitas	.134	.069	.299	1.940	.061	.955	1.047
Ukuran Perusahaan	.062	.024	.387	2.555	.016	.989	1.012

a. Dependent Variable: Pengungkapan ISR

The output above indicates that it can be seen that the tolerance values for Leverage (X1), Profitability (X2), and Company Size (X3) are 0.963, 0.955, and 0.989 respectively, all greater than 0.10. Conversely, the VIF values for leverage (X1), profitability (X2), and business growth (X3) are 1.039, 1.047, and 1.012 respectively, all less than 10.000. Therefore, it can be said that multicollinearity does not occur.

Results of the Heteroscedasticity Test



As is visible from the illustration above, there is no curved pattern, indicating that there is no occurrence of heteroscedasticity.

Hypothesis Test

Partial Test Results (Uji t)				
Variabel	B	t count	Sig	Information
Constan	-	-1.560	.129	
	.915			
Leverage(X1)	.048	2.071	.046	H1 Accepted
Profitability (X2)	.134	1.940	.061	H2 Rejected
Company Size (X3)	.062	2.555	.016	H3 Accepted

- The results of the t-test show that the Leverage variable has a positive and significant effect on ISR, as the t-value is 2.071, which is more than the t-table value of 2.028, and the significance threshold is 0.046, which is less than 0.05.
- The t-test results reveal that the Profitability variable's t-value is less than the t-table value ($1.940 < 2.028$) and the significance level is $0.061 > 0.05$. This suggests that the variable does not impact ISR..
- The t-test results above suggest that it can be shown that the Company Size the variable has a t-value $>$ t-table ($2.555 > 2.028$) with importance level of $0.016 < 0.05$, indicating that this variable has a favorable and noteworthy impact on ISR.

The Coefficient of Determination Test's findings (R^2)

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.524 ^a	.275	.207	.13784

a. Predictors: (Constant), Ukuran Perusahaan, Leverage, Profitabilitas

b. Dependent Variable: Pengungkapan ISR

It is evident from the multiple regression analysis's findings that the coefficient of determination (R^2), which can be found in the Adjusted R Square with a value of 0.207, indicates that only 20.7% of the independent ISR variables—Leverage, Profitability, and Company Size can be accounted for by the independent factors, however conversely, the results from This regression model does not contain the following additional variables: $100\% - 20.7\% = 79.3\%$

4.1 Key Findings

The results of the multiple regression analysis show that the R^2 value of 0.207 in the Adjusted R Square indicates a strong correlation, indicates that only 20.7% of the independent ISR variables—Leverage, Profitability, and Company Size can be accounted for by the independent factors, however conversely, the results from This regression model does not contain the following additional variables: $100\% - 20.7\% = 79.3\%$

4.2 Interpretation of Results

Leverage has a noteworthy favorable impact on the implementation of Social Reporting in Islam (ISR); if every change in DER results in an increase in ISR, then ISR will also experience an increase. In other words, if the Debt to Equity Ratio (DER) experiences an increase in positive DER, then the Islamic Social Reporting (ISR) will experience a decrease. This illustrates how the debt used by Islamic banks to support their operational procedures provides a buffer against the extent of the Social Reporting in Islam (ISR) requirements. According to the guidelines of Social Reporting in Islam (ISR), this can provide assurance to stakeholders that the company will not interfere with the previously agreed-upon reports.

The impact of profitability on Islamic Social Reporting (ISR) can be ignored. Stakeholder Theory states, businesses must be completely honest with their customers about their needs. And one form of their responsibility is to conduct ISR. Therefore, even if a company experiences a decline in profitability, they will continue to conduct ISR because it is a component of their accountability. The Islamic Social Report benefits greatly from the company's scale. Theoretically, stakeholders are more likely to pay attention to bigger organizations than to smaller ones. This is due to a broader stakeholder base, which makes the company more comprehensive in providing information that meets the needs of stakeholders.

5. Discussion

The implications of this research indicate that to improve ISR, banks should generally focus on maximizing leverage and size for business and evaluate other factors cooperatively.

5.1 Comparison with Prior Research

The results of this study indicate that leverage has a positive and significant impact on ISR, which contradicts the findings of a study conducted by Wahidah Arsyad in 2024, which showed that leverage does not affect ISR.

The results of this study indicate that the profitability does not have a negative impact on financial operations, which contradicts the findings of the research conducted by Zahra Amria in 2024, which showed that profitability has a positive and significant impact on ISR.

The results of this study indicate that Company Size has a positive and significant impact on ISR, which contradicts the findings of the research conducted by Lulu Amalia Nusron in 2021, which showed that Company Size does not have a negative impact on ISR.

5.2 Limitations

The implications of this research indicate that to improve ISR, banks should generally focus on maximizing leverage and size for business and evaluate other factors cooperatively.

5.3 Future Research

Next, the researchers might include more variables that can affect ISR..

6. Conclusion

During the period from 2020 to 2023, the results of the analysis show that the ISR of Islamic banks is positively affected by leverage, positively affected by company size, and somewhat positively affected by profitability.

7. Recommendation

From 2020 to 2023, this study examines the impact of business size, profitability, and leverage on Islamic banks in Indonesia's ISR. Finding out what drives Islamic financial institutions' ISR is the driving force behind this study. quantitative analysis using secondary data from the bank's annual records. multiple regression analysis and classical assumptions, such as heteroscedasticity, multicollinearity, and normality. The t-test and R2 test are examples of hypothesis tests.

Each variable in this study, including leverage and company performance, has a favorable and noteworthy effect on ISR. On the contrary, profitability does not affect ISR growth. The Adjusted R Square Determination Coefficient is 0.207, indicating that the independent factors being investigated can clarify 20.7% of the variation in ISR. Implications This study shows that to improve ISR, Islamic banks must prioritize efficiency in leverage and business operations while also considering other factors collaboratively. It is recommended to improve ISR through the aforementioned management ratios. Research Contribution

This study provides valuable insights into the factors influencing Indonesia's Islamic banks' expansion, emphasizing the importance of leverage and business growth as significant variables. The findings of this study can be applied in practice and develop plans to enhance the productivity of Islamic banks.

Appendix

Results of Descriptive Statistical Tests.

Descriptive Statistics						Test Results (F)
	N	Minimum	Maximum	Mean	Std. Deviation	
Simultaneous	Leverage	36	.19	3.32	1.6292	1.02887
	Profitabilitas	36	.01	1.73	.1442	.34503
	Ukuran Perusahaan	36	22.00	25.00	23.8611	.96074
	Pengungkapan ISR	36	.26	.88	.6692	.15480
	Valid N (listwise)	36				

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.231	3	.077	4.047	.015 ^b
	Residual	.608	32	.019		
	Total	.839	35			

a. Dependent Variable: PengungkapanISR

b. Predictors: (Constant), UkuranPerusahaan, Leverage, Profitabilitas

Acknowledgement

All this time, I would want to thank my family and friends for their constant encouragement and support. while I was writing about this conference. I would also like to thank the leadership of STIEM Bongaya and the head of the accounting program, Mr. Anwar, S.E., M.Si, as well as express my gratitude to my supervising lecturers, Mrs. Dr. Asbi Amin S.E., M.Ak., and Mr. Dr. H. Andi Sulfati, S.E., Ak., M.M., CA, for their guidance and inspiration in my participation in this conference.

REFERENCES

- [1] Alfiaatun, K. (2023). *PENGARUH UKURAN PERUSAHAAN, PROFITABILITAS, DAN LEVERAGE TERHADAP PENGUNGKAPAN ISLAMIC SOCIAL REPORTING PADA BANK UMUM SYARIAH DI INDONESIA TAHUN 2018-2021*. UIN Prof. KH Saifuddin Zuhri.
- [2] Amri, Z., & Sovita, I. (2024). Analisis Pengaruh Profitabilitas, Likuiditas, Leverage, Dan Tax Avoidance Terhadap Pengungkapan Islamic Social Reporting (ISR)(Studi Kasus Pada Perusahaan Yang Terdaftar Di Jakarta Islamic Index 70 (JII70) Tahun 2018-2022). *Jurnal Akuntansi Keuangan Dan Bisnis*, 1(4), 892–910.
- [3] Charolina, N. M., Aulia, F. U., & Febrianingrum, L. (2021). Good Corporate Governance (GCG) sebagai Faktor Penentu Loyalitas Nasabah Bank Umum Syariah. *Jurnal Akuntansi Integratif*, 7(2), 145–162.
- [4] Freeman, R. E., Dmytriiev, S. D., & Phillips, R. A. (2021). Stakeholder theory and the resource-based view of the firm. *Journal of Management*, 47(7), 1757–1770.
- [5] Ginanjar, H., Junaidi, H., & Hartini, T. (2022). PENGARUH LEVERAGE TERHADAP ISLAMIC SOCIAL REPORTING DENGAN FIRM SIZE SEBAGAI VARIABEL MODERASI PADA BANK UMUM SYARIAH. *Jurnal Darma Agung*, 30(2), 448–456.
- [6] Irbah, A. N., Praptiningsih, P., & Setiawan, A. (2021). Pengaruh Komisaris Independen, Ukuran Perusahaan, dan Umur Perusahaan terhadap Pengungkapan ISR. *Konferensi Riset Nasional Ekonomi Manajemen Dan Akuntansi*, 2(1), 762–775.
- [7] Mais, R. G., & Alawiyah, T. (2020). Pengaruh Profitabilitas, Leverage, Likuiditas, dan Dewan Komisaris Independen Terhadap Pengungkapan Islamic Social Reporting (ISR) Pada Perbankan Syariah Di Indonesia Tahun 2015-2018. *Jurnal STEI Ekonomi*, 29(02), 57–77.
- [8] Mais, R. G., & Ramadhanty, F. (2021). Factors Affecting the Level of Disclosure of Islamic Social Reporting (ISR) at Sharia Commercial Banks in Indonesia. *Journal of Financial and Behavioural Accounting*, 1(2), 12–24.
- [9] Manurung, W. M. R. (2020). *Pengaruh Profitabilitas, Ukuran Perusahaan dan Leverage Terhadap Pengungkapan Islamic Social Reporting pada Perusahaan Industri Barang Konsumsi yang terdaftar di Indeks Saham Syariah Indonesia (ISSI)*. Universitas Islam Negeri Sumatera Utara.
- [10] Risqi, M. I. M., & Septriari, D. F. (2021). Determinan Pengungkapan Islamic Social Reporting (ISR) Oleh Bank Syariah Di Indonesia Dan Malaysia. *Jurnal Ekonomi Syariah Teori Dan Terapan*, 8(4), 413–425.
- [11] Zoraya, I., Fitranita, V., & Wijayanti, I. O. (2022). Pengaruh Profitabilitas, Leverage, dan Kepemilikan Manajerial Terhadap Islamic Social Reporting (ISR) dengan Ukuran Perusahaan (Size) Sebagai Variabel Moderating. *Managament Insight: Jurnal Ilmiah Manajemen*, 17(1), 21–39.