

Factors Affecting the Disclosure of Islamic Social Reporting

Uun Sunarsih, Dahlifah Dahlifah

Department of Accounting
Sekolah Tinggi Ilmu Ekonomi Indonesia Jakarta
Jakarta, Indonesia
uun.sunarsih@yahoo.co.id

Abstract—Social responsibility measurement used Islamic issuers should ideally use Islamic Social Reporting (ISR) that in accordance with the rules of Sharia. The purpose of this study was to examine the effect of industry type, profitability and public share ownership on ISR disclosures on companies listed in the List of Sharia Securities (DES) for the 2013-2016 period and obtained thirty company samples. The method used is content analysis, namely by giving value to each item during the disclosure contained in each annual report the company recorded in the DES. Given a value of 1 if the company is listed on the DES do disclosure annual reports on each of the ISR and the value 0 is given if the company does not conduct disclosure of ISR annual reports on each. The results showed that industry type variable has no effect against the disclosure of ISR. This is possible because the company has the view that the types of industries that fall into the category of high profile does not require legitimacy from the community. The variable profitability effect on disclosure of ISR. This is in accordance with Signaling hypothesis that companies that have high profit will give the signal to investors by revealing his social information. Variable stock ownership has no effect against public disclosure of ISR. This is because the company's share ownership in Asia dominated the stock family, so that public ownership is not capable of pressing companies in expressing social accountability in the sharia.

Keywords—islamic social reporting; the type of industry; profitability; share ownership of the public

I. INTRODUCTION

Corporate Social Responsibility (CSR) is a social responsibility of the company where the company no longer faced with a responsibility that have only the orientation of the value of the company, but the responsibility to the community and the environment. The concept of the single bottom line was developed into a triple-bottom-line known as economic prosperity, environmental quality, and social justice [1]. Previous CSR reporting was only voluntary, but now it is mandatory with the issuance of Law No. 40 of 2007 concerning Limited Liability Companies and Law No. 25 of 2007 concerning Investment.

The concept of CSR is not only thriving on the companies that run their operations based on a conventional system, but also thrive on companies based on sharia principles [2]. Therefore, the existence of the company in Islam should

provide greater benefit for all parties. The parties referred to in Islam are the parties directly involved and interested parties who are not directly involved with the company shall enjoy the benefit from the existence of the company [3]. The concept of CSR in Islam is not something new, because Islam is the teaching that govern human relations not only with his Lord, but human relationship with man, man with the universe. This is described in the Qur'an *surah Al-A'raaf* verse 56 who sent men to maintain and nurture the nature [4].

During this measurement of CSR used Islamic issuers still refer to the Global Reporting Initiative (GRI Index) Index. The measurements used less precisely because not yet reflect a company that is run in accordance with the rules of Sharia. CSR measurement should be used by issuers of Sharia is the Islamic Sharia compliance, namely that revealed information that these companies operate according Islamic law [5]. GRI index has yet to describe the principles of Islam as yet revealed free of usury, *gharar*, and those transactions prohibited by Islam. Other case with the ISR that is the development of social responsibility disclosure has been adjusted with the values of Islam i.e. the Qur'an and Sunnah as the guidelines and rules set by the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI). Sharia index was first created by Haniffa were developed by Othman et al., which consists of six theme disclosure namely finance and investment, product and service, employee, society, environment, and corporate governance [2,5].

Ideally companies that operate based on the Sharia in the discharge of its social responsibility to use the ISR. In fact, companies that still use Sharia based on the CSR which refers to GRI. Research on the ISR is still quite a bit and more done on Islamic banking. Therefore, researchers will conduct research in the ISR companies listed on DES. This research develops research Othman et al., with the differences in the measurement of industrial type [5]. The research was measuring the type industry by using high profile and low profile [6].

Based on the background of this research, the questions are (1) what type of industry influence on disclosure of ISR on the company recorded in DES 2013-2016 period? (2) what is the effect on profitability during the disclosure on company recorded in DES 2013-2016 period? (3) If a public shareholder

influence on disclosure of ISR on the company recorded in DES 2013-2016 period?

The purpose of this research is to know the influence of the type of industry, profitability and share ownership of the public against the disclosure of ISR in the annual report the company recorded in DES 2013-2016 period.

Every industry company has a profile of each company. Industry profile is a view about the characteristics of the companies related to the field of business, business risk, employee owned and environment of an enterprise. Type of industry is a potential factor that affect the practice of social disclosure company [7]. Industrial type used in this study is divided into two, namely the industry's high-profile and low-profile. The company is included in the industry's high profile among other petroleum companies, mining, chemical, forest, paper, automotive, aviation, energy, engineering, agro business, media and communications, healthcare, and transportation. While the company is included in the type of low profile among other industrial company engaged in building, food and beverage, medical equipment suppliers, retailers, property, textile and textile products, personal products, and household products [6] the previous research on the type of industry has already proven that social responsibility disclosure rate is influenced by the type of industries [8,9] based on these studies, the hypothesis in this study was:

H1: type the company a positive effect against disclosure of ISR.

Profitability shows how big the financial performance of the company in generating profits. The higher the level of profitability of the company, then the greater disclosure of corporate social responsibility which is done. Corporate social responsibility in the conduct of disclosure in the year report was heavily influenced by the magnitude of profitability [10]. Islam looked at that a company should be willing to give full disclosure regardless of whether it makes a profit or otherwise [2]. The results of the research that's been done before proving that a positive effect against the profitability level of social responsibility disclosure principled Sharia [5,9,11] based on these studies, the hypothesis in this study was:

H2: influential positive profitability against the level of disclosure of ISR

Stock ownership has an important role in a company, especially in decisions to execute the CSR. Ownership of the shares of the company one is share ownership of the public. Ownership of public shares is the company's shares owned by the public, namely individuals or institutions that have shares of less than five percent that are outside management and do not have a special relationship with the company [12]. All companies that went public is a company that has the proportion of share ownership by the public, which means that all the activity and the circumstances of the company must be reported and known by the public as one of the part of shareholders. To encourage the public's willingness to invest in a company, the company must display excellence owned primarily social activities. Based on these studies, the hypothesis in this study was

H3: share ownership of the public a positive effect against the level of disclosure of ISR.

II. METHOD

This research is quantitative research using secondary data. This research is quantitative research using secondary data. The research method used is content analysis, namely by giving numbers 1, if the company performs its annual reports on the disclosure of ISR and zero if the company did not reveal the ISR. The data used in the study is the panel data, namely the annual report the company recorded in DES 2013-2016 period that can be accessed through the website of the financial services authority (www.ojk.co.id). The population in this research is the whole company recorded in DES 2013-2016 during the year. The sample in this study were selected by the method of purposive sampling criteria (1) Companies entered in the list of effects of sharia and listed in Indonesia stock exchange (BEI) in the years 2013-2016. (2) The company that publishes the annual report in full during the period of observation that is 2013-2016 years. (3) A company that uses the currency rupiah. Based on these criteria, acquired 30 companies.

III. RESULTS AND DISCUSSION

Test of normality in this testing using test Jarque-Bera (J-B), provided the value of the $(J-B) < \chi^2$ the table and the value of the probability $> 0,05$ then it can be said that data Gaussian normally. Normality test results demonstrated that the results obtained have a value (J-B) is $4,4917 < 5,9914$ and the value of the probability of $0,1058 > 0,05$. Thus, it can be concluded that the Gaussian data normally. Further multicollinearity test between the variables can be identified using the value of the correlation between independent variables if the value of the correlation $< 0,80$ then there is no problem of multicollinearity. The test results indicate that multicollinearity value correlation between independent variables are less than 0,80 then it can be concluded that there is no problem of multicollinearity between the independent variables in the regression model. The next test is performed using the autocorrelation DW-Test. Based on the results of the test autocorrelation retrieved the value of the DW-test is 1,5735 while the value of 1.6513 dl and the value of the upper limit (du) of 1.7536. Thus obtained the value of DW are among the values of the dl and du ($dl \leq du$ DW). Based on those results, the conclusion can be drawn that there is no autocorrelation in regression models. Next is done test heteroscedasticity test is carried out by glejser. Based on the test results glajser that their significance probability values above 5% level of confidence. So it can be inferred that the regression model is independent of the presence of heteroscedasticity.

Based on the result of data processing, the adjusted R square value is 0.9072. This means that 90.72% disclosure of ISR can be influenced by the type of industry, profitability and ownership public whereas 9.28% disclosure of ISR can be affected by other factors that are not included in this study. Based on the method of estimation of the regression between the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect models (REM) and the regression equation estimation model selection by performing chow test, Hausman

test, and lagrange-multiplier test, then elected to FEM a regression equation to be used as panels in this research.

T test aims to find out whether the variable independent variable effect on partially dependent and to examine further where among the influential independent variables against revealed of ISR. The results of testing against the research hypotheses based on t-test as follows:

The first hypothesis states that the influential industry type positive against disclosure of ISR. Based on test results show that the probability of a value greater than $0.3238 \alpha = 0.05$. The results showed that the first hypothesis states that the influential industry type positive against disclosure of ISR was rejected. The results of this research shows that companies that have a high profile categories are important regardless of the legitimacy of society through disclosure of ISR in the company's annual report. This is not in accordance with the theory of legitimacy to the effect that disclosure of responsible social made with the purpose to get the legitimacy of operations and reducing pressure from environmental and social activists. The results of this research in contrast to Haniffa et al., Adams et al., and Patten has been proved empirically that type of industry influence on corporate social responsibility disclosure [8-10].

The second hypothesis states that the profitability of a positive effect against disclosure of ISR. Based on the test results show that the value of 0.0011 probability is smaller than $\alpha = 0.05$. The results show that the second hypothesis stated that the profitability of a positive effect against disclosure of ISR accepted. The results of this study indicate that the profitability of the firm is very decisive in express their ISR of an enterprise. The results of this study in accordance with signaling hypothesis that a superior company and have a good profit will reveal the social information. This is done to assure investors the company manager of the Muslims and the users of the company's other Muslim reports about profitability of companies that have been acquired. The results of this research supports research that is already done by [5,11] which has an impact on the profitability of the disclosure of ISR.

The third hypothesis mentioned that the positive effect of public shareholdings against the disclosure of ISR. Based on the test results show that the probability that the value of 0.5033 greater than $\alpha = 0.05$. The results show that the third hypothesis which states that share ownership of the public a positive effect against disclosure of ISR was rejected. The results of this study suggest that public ownership is low is not capable of doing a claim against disclosure of ISR in a company. Hypothesis rejected. It is also possible that the owner shares of the company in Asia tend to be more family-owned shares, so a small public stock ownership is not capable of pressing companies in corporate social responsibility, express them. The results of this research are consistent with research conducted by Ghazali that ownership by the community does not have an impact on disclosure of ISR [12]. This suggests that the lack of public ownership of company stock over the also low demands of society towards disclosure of ISR, because the low level of scrutiny and pressure from society in

order to make the company do disclosure of social accountability in the sharia.

IV. CONCLUSION

The results of this study concluded that industry types have no effect against the disclosure of ISR. The results of this research show that the disclosure of the ISR for the type of industry that fall into the category of high profile do not consider important towards the legitimacy of the community by conducting disclosure of ISR on its annual report each. While profitability has disclosure effect on the ISR. This is in accordance with signaling hypothesis that a winning company and have a good profit will reveal the social information in any its annual report. While the public share ownership variables have no effect against the disclosure of ISR. These results suggest that public ownership is low is not capable of doing a claim against disclosure of ISR in a company. In addition, because of the owner shares of the company in Asia tend to be dominated by family stock, so that public ownership is not capable of pressing companies in corporate social responsibility.

REFERENCES

- [1] J. Elkington, "Partnerships from cannibals with forks : the triple bottom line of 21st century business," *Environmental Quality Management*, vol 8 (1), pp.37–51, 1998.
- [2] R. Haniffa, "Social reporting disclosure: an islamic perspective," *Indonesia Management & Accounting Research*, vol. 1(2), pp.128–146, 2002.
- [3] I. Triyuwono, "Akuntansi syariah perspektif, metodologi, dan teori," Ed. Kedua, Jakarta: Rajawali Press, 2012.
- [4] "Al-Qur'an dan Terjemahannya," Bandung: PT Sygma Examedia Arkanleema, 2010.
- [5] R. Othman, A. Md. Thani, and E.K. Ghani, "Determinants of islamic social reporting among top shariah-approved companies in bursa malaysia," *Research Journal of International Studies*, vol. 12(12), pp. 4–20, 2009.
- [6] R. Roberts, "Determinants of corporate social responsibility disclosure: an application of stakeholder theory," *Accounting, Organizations and Society*, vol.17(6), pp.595–612, 1992.
- [7] D. Hackston and M. J. Milne, "Some determinants of social and environmental disclosures in new zealand companies," *Accounting, Auditing, & Accountability*, vol 9 (1), pp.77-108, 1996.
- [8] R. M. Haniffa, and T. E. Cooke, "The impact of culture and governance on corporate social reporting" *Journal of Accounting and Public Policy*, vol. 24(5), pp. 391-430, 2005.
- [9] C. A. Adams, W. Hill, and C. B. Robert, "Corporate social reporting practices in western europe: legitimating corporate behaviour," *The British Accounting Review*, vol 30(1), pp.1–21, 1998.
- [10] D. M. Patten, "Exposure, legitimacy, and social disclosure," *Journal of Accounting and Public Policy*, vol. 10 (4), pp. 297-308, 1991.
- [11] Lestari, P., "Determinants Of Islamic Social Reporting In Syariah Banks : Case Of Indonesia," *International Journal of Business and Management Invention*, Vol.. 2(10), pp.28–34, 2013.
- [12] N. A. M. Ghazali, "Ownership structure and corporate social responsibility disclosure: some malaysia evidence," *The International Journal of Business in society*, vol.7(3), pp.251–266, 2007.