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Disclose the Impact: How Bank-Specific and Macroeconomic Factors Affect Islamic Social Reporting

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Abstract. This study examines the influence of bank-specific factors and macroeconomic factors on Islamic Social Reporting at Islamic banks in Indonesia. Using quantitative methods and data from 41 observations, this study evaluates the effect of firm size (SIZE), growth (Growth), Return on Assets (ROA), firm age (AGE), gross domestic product (RGDPG), and inflation rate (INFLATION) on Islamic Social Reporting as measured by the Islamic Social Reporting (ISR) index. The findings show that growth (Growth), company age (AGE), and gross domestic product (RGDPG) have no significant impact on Islamic Social Reporting. In contrast, company size (SIZE) and Return on Assets (ROA) have a positive effect on Islamic Social Reporting. While the inflation rate (INFLATION) has a negative effect on Islamic Social Reporting. These results indicate that the growth and age of the company do not guarantee the implementation of good Islamic Social Reporting, as well as the level of gross domestic product that does not affect the disclosure of Islamic Social Reporting. This study considers high levels of profitability and size in better Islamic Social Reporting disclosure and keeps the inflation rate more stable. This study provides valuable insights for policy makers and bank management in the Islamic financial sector in Indonesia and highlights the need for further exploration of bank-specific factors along with macroeconomic factors and their impact on Islamic Social Reporting.

Keywords: Islamic Social Reporting; Bank-Specific Factors; Macroeconomic

INTRODUCTION

The growth of Islamic banking assets is also evident in Indonesia, where Islamic commercial banks now hold the biggest market share, with 66.30% of total assets, ahead of Sharia Business Units (UUS) and Islamic People's Financing Banks (BPRS) (OJK, 2022). It is evident that the total assets of Indonesia's Islamic commercial banks were Rp 288.03 trillion in 2017, and they grew steadily until 2022, when they reached Rp 513.86 trillion.

A company's need to disclose its social and commercial duties increases with its asset value. The financial accounts must provide information pertaining to social and commercial responsibilities. Stakeholders utilize the data in the financial accounts to inform their decisions. Muslims are becoming increasingly conscious of the need of conducting business in line with sharia law, which makes them want to learn more about how Islamic banks participate in environmental and social initiatives known as corporate social responsibility, or CSR. (Ibrahim et al. 2004) claimed that the idea of corporate social responsibility (CSR) demonstrates how well a business balances its social and financial performance, demonstrating that its operations do not negatively affect society.

The primary goal of the International Institute of Islamic Thought (IIIT), a center of excellence in Islamic thought and education research, is to carry out evidence-based research to improve education in Muslim societies and to disseminate this research through teaching, policy recommendations, publishing, and strategic engagement. Islamic banks do not fully fulfill their societal duty in accordance with Islamic standards, according to research

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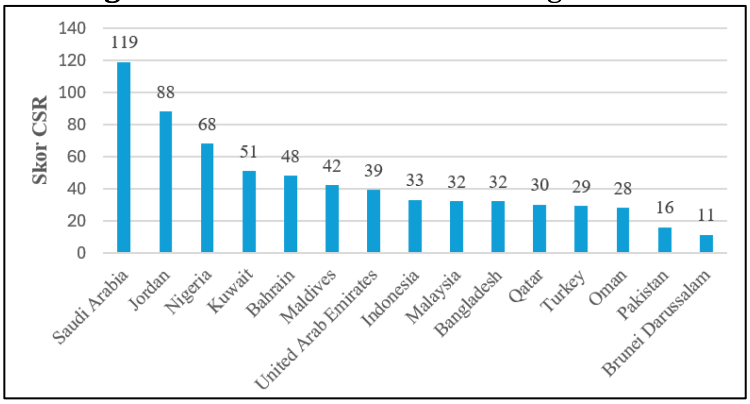
done in 1996 by the International Institute of Islamic Thought (IIIT). When assessing investment prospects, 32 Islamic institutions worldwide give precedence to economic goals over social considerations (Maali, Casson, and Napier 2006). According to (Maali et al. 2006) In order to raise the economic standing of middle-class entrepreneurs, Islamic banks are thought to be inadequate in their support of SMEs. (Lestari, Roziq, and Miqdad 2023) contend that financial incentives have a greater influence on the construction of Islamic banking than the religious standards that ought to serve as its foundation.

Research conducted by (Maali et al. 2006) It employed 29 Islamic banks from Muslim nations as an example. According to the findings, only eleven Islamic banks (38%) reported their social responsibility in compliance with the AAOIFI guidelines. According to the study's findings, 62% of Islamic banks fail to report their social responsibility as required.

(Othman, Thani, and Ghani 2009) found that the majority of Islamic companies registered on the Malaysian stock exchange are still in the conceptual stage of their CSR reporting processes. This is due to the fact that there isn't a standard that businesses can employ while implementing Islamic CSR. According to experts using the Islamic Social Reporting Index, Islamic banks in Malaysia and Indonesia have yet to achieve the highest possible score. Compared to Islamic countries listed in IFDI, like Saudi Arabia, Jordan, Nigeria, Kuwait, Bahrain, Maldives, and the United Arab Emirates, which have reported their social responsibility practices based on the ISR index for Islamic companies, Indonesia and Malaysia have yet to make significant progress in their corporate ISR disclosure. According to the Islamic Financial Development Indicator (IFDI), the following is the 2021 Global Ranking of Corporate Social Reporting (CSR):

Figure 1: Global CSR Score Ranking in 2021



According to Figure 4: World Ranking of Corporate Social Responsibility (CSR) 2021, out of 15 major Islamic countries, including Saudi Arabia, Jordan, Nigeria, Kuwait, Bahrain, Maldives, the United Arab Emirates, Bangladesh, Qatar, Turkey, Oman, Pakistan, and Brunei Darussalam, the CSR value derived from the Islamic Financial Development Indicator (IFDI) in 2021 shows that Indonesia's CSR is in eighth place, while Malaysia's is in ninth place. This suggests that social disclosure in Indonesia and Malaysia is still below that of seven other countries, including Saudi Arabia, Jordan, Nigeria, Kuwait, Bahrain, Maldives, the United Arab Emirates, and Bangladesh.

As of right now, banks that engage in social responsibility disclosure continue to use the Global Initiative Index (GRI), which is conventional in theory and so less suitable as a standard for social responsibility disclosure in Islamic banking (Haniffa 2002). This is because the western-developed idea of corporate social responsibility (CSR) is heavily impacted by western culture and ethical norms, necessitating the development of a unique concept that reveals CSR in Islamic institutions. Article 74 of Law No. 40 of 2007 on limited liability firms governs ISR disclosure in Indonesia, whereas the Company Act of 2016 (Act 777) governs it in Malaysia. ISR's disclosure requirements are not governed by either rule.

Based on this statement, (Haniffa 2002) created the Islamic Social Reporting concept. In Islamic banking circles, the disclosure of Islamic Social Reporting (ISR) is a hot topic as proof of social responsibility disclosure. (Nani 2019) implies that Islamic Social Reporting is an extension of the normal CSR (Corporate Social Responsibility) elements that Islamic organizations are required to disclose, as established by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The advantages of revealing Islamic Social Reporting include transparency in providing pertinent information for Muslim investors or sharia compliance in decision making, as well as a way to hold society and Allah SWT accountable (Alamsyah 2012).

Funding and investment, goods and services, workers, society, and the environment are the five themes that make up ISR disclosure. Later, the concept of corporate governance was introduced by (Othman et al. 2009). The five themes cover topics related to Islamic principles, including usury-free transactions, speculative activity, gharar, and zakat disclosure; the degree of sharia compliance; and social aspects, including alms, infaq, and waqf, as well as the disclosure of forms of worship within the company's boundaries (Fakhruddin, Surya, and Pramono 2022). Therefore, it can be said that the ISR index is better and more appropriate for use as a tool to gauge the company's success (Fakhruddin et al. 2022). Therefore, the ISR index is thought to be better and more appropriate for use as a tool to measure and evaluate social responsibility reporting in line with sharia principles (Sunarsih and Ferdiansyah 2016).

It is vital to investigate the reasons behind Indonesia's low disclosure of social issues. Prior research has looked at the variables that affect Islamic Social Reporting (ISR) disclosure. (Rostiani and Sukanta 2018) Declare that the liquidity ratio is the element that influences the ISR disclosure. (Widiawati and Raharja 2012) cite industry type, bank type, and profitability as the determinants of ISR disclosure. (Khoirudin 2013) explains that the size of the board of commissioners has an impact on ISR disclosure. (Ningrum, Fachrurrozie, and Jayanto 2013) cite institutional ownership and the size of the sharia supervisory board as the two main determinants of ISR disclosure. (Astuti 2014) claims that firm size and leverage are the main determinants of ISR disclosure. (Susanti and Nurhayati 2018) Declare that sharia securities are the elements that affect ISR disclosure. (Nugraheni and Khasanah 2019) cite sharia compliance and investment account holders as the two main determinants of ISR disclosure. (Maâ and Asrori 2016) cite the product type as the determinant of ISR disclosure. (Novrizal and Fitri 2016) cite environmental performance as the determinant of ISR disclosure. (Nugraheni and Yuliani 2017) cite the number of nomination and compensation committees as the determining criteria for ISR disclosure. (Setiawan 2020) claims that bank size has an impact on ISR disclosure.

The authors are interested in doing research by increasing a number of variables, including company size, age, growth, return on assets, gross domestic product, and inflation, based on the explanation of the phenomena and research gap that has been stated. The title of this study is **“Disclose the Impact: How Bank-Specific and Macroeconomic Factors Affect Islamic Social Reporting”.**

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METHOD

This study tested the impact of multiple independent variables on the dependent variable using the quantitative method using an associative approach. Secondary data from Islamic Commercial Banks' sustainability reports and financial statements is used in this study. The entire bank serves as the research population, and purposive sampling is the method employed, with the criterion that the bank publish sustainability and annual reports during the study period. The information was taken from the Islamic Commercial Bank's (BUS) annual report, which is available on the Financial Services Authority's (OJK) official website at https://www.ojk.go.id. With 14 Islamic commercial banks in the sample and an observation period spanning from 2017 to 2022, 41 observations were gathered overall.

In this work, the ISR index is measured using the content analysis method (Wijayanti and Setiawan 2022). The content analysis approach, according to (Liu 2022), is a strategy that uses nominal, ordinal, and scale coding techniques to categorize content variables, which may include elements pertaining to design or learning. Every signal disclosed in the annual report is given a score of "1," and if not, it is given a score of "0." The total disclosure score is then divided by the total number of ISR disclosure items to determine the ISR index. (Othman et al. 2009) developed the forty-three indicator items that comprise the ISR index utilized in this research. Investment and finance, goods and services, workers, society, the environment, and government are the six themes into which these indicators are separated. The following formula is used:

$$\text{ISR} = \frac{\text{Number of index items used}}{Total\ number\ of\ index\ items}\ x\ 100\%$$

The independent variables used in this study and their proxies are detailed in table 1 below:

Variable	**Notation**	**Proxy**
Firm Size	SIZE	Total Assets Of The Company
Growth	GROWTH	Log Function Of Total Assets
Return On Assets	ROA	Ratio Of Company Profit Divided By Total Assets
Firm Age	AGE	Age Of Company Establishment
Gross Domestic Product	RGDPG	Percentage Increase Or Decrease In The Level Of Gross Domestic Product
Inflation Rate	INFLASI	The Percentage Of Inflation Rate In a Given Year

The equation model for this study is set as follows:

$$ISR = \alpha 0 + \beta 1SIZE1i,t + \beta 2GROWTH2i,t + \beta 3ROA\ 3i,t + B4AGE\ 4i,t + B5RGDPG\ 5i,t + B6INFLASI\ 6i,t + \gamma Controlit + \varepsilon it$$

Inferential statistics were used in the data analysis process. Stata was utilized in the inferential data analysis step to test the proposed correlations between the independent and dependent variables.

RESULTS AND DISCUSSION

Testing the Relationship Between Variables

The relationships between the independent and dependent variables.

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Relationship path	Coefficient	P-Value	Result
SIZE → Islamic Social Reporting	0,079	0,001	Significant
GROWTH → Islamic Social Reporting	0,045	0,451	Insignificant
ROA → Islamic Social Reporting	0,008	0,025	Significant
AGE → Islamic Social Reporting	0,001	0,594	Insignificant
RGDPG → Islamic Social Reporting	-0,000	0,968	Insignificant
INFLASI → Islamic Social Reporting	-0,024	0,010	Significant

Various patterns emerge from the examination of the interaction between macroeconomic and bank-specific factors and Islamic social reporting. A p-value of 0.001 and a coefficient of 0.079 demonstrate a strong positive relationship between bank size (SIZE) and Islamic social reporting. Return on Asset (ROA), which has a p-value of 0.025 and a coefficient of 0.008, likewise demonstrates a noteworthy beneficial impact. On the other hand, a coefficient of -0.024 and a p-value of 0.010 show that inflation (INFLATION) significantly impairs Islamic social reporting. Furthermore, growth (GROWTH) has a p-value of 0.451 and a coefficient of 0.045, indicating a positive but negligible influence. Similarly, with a p-value of 0.594 and a coefficient of 0.001, firm age (AGE) is found to have a positive but negligible effect. On the other hand, a coefficient of -0.000 and a p-value of 0.968 suggest that the Gross Domestic Product (RGDPG) has a negligible detrimental effect on Islamic social reporting. This study maintains a more steady inflation rate while taking into account high levels of profitability and size in order to improve Islamic Social Reporting disclosure. In addition to highlighting the need for more research on bank-specific and macroeconomic factors and their effects on Islamic Social Reporting, this study offers insightful information to policymakers and bank management in Indonesia's Islamic financial sector.

DISCUSSION

With an emphasis on Islamic banks in Indonesia, the study's conclusions offer important new information about how several macroeconomic and bank-specific factors affect Islamic social reporting. The findings indicate that Islamic social reporting is not significantly impacted by growth (GROWTH), company age (AGE), or gross domestic product (RGDPG).

However, it has been discovered that Islamic Social Reporting is significantly positively impacted by business size (SIZE) and return on assets (ROA). Firm size (SIZE) on Islamic social reporting is the most notable finding. Better disclosure of Islamic social reporting is linked to higher firm size, according to the positive coefficient of 0.079 with a p-value of 0.001. A excellent reputation for undertaking more activities and a high danger of being held accountable for the actions taken within a corporation can be the reason of this. The likelihood that investors will invest in a company increases with its size. A corporation should be able to give shareholders more information because the number of shareholders suggests that the company likely to have a stronger demand for corporate reporting information (Meliana, Jeandry, and Taher 2022).

Return on Asset on Islamic Social Reporting is another result that has a favorable impact. This positive correlation means that the more money a business makes, the more it can afford to pay for disclosures, allowing it to reveal Islamic Social Reporting to a wider audience. High-profit businesses will provide Islamic Social Reporting to capital owners as a way to be transparent and accountable for the money they have invested (Meliana et al. 2022).

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Furthermore, the inflation rate (INFLATION) was found to have a negative and significant impact on Islamic social reporting. According to these findings, a country's consumption will rise in response to inflation, which may alter the savings and public financing patterns. As the amount of money collected from the general population declines, the bank's profit will likewise decline. As a result, it will also lower the degree of Islamic social reporting transparency.

This study demonstrates that the disclosure of Islamic Social Reporting in Islamic commercial banks is significantly and favorably impacted by the size of the organization. The ISR disclosure will be more thorough and in-depth the larger the Islamic bank is. This is consistent with the idea that big businesses have more funding for social programs, more public pressure, stronger implementation skills, and more thorough reporting systems.

As a result, ISR disclosure is not influenced by growth rate. In a similar vein, the age of the firm has no discernible impact on ISR disclosure, demonstrating that operational expertise is not the primary determinant and that young businesses can be just as successful at ISR disclosure. Additionally, social commitment is independent of a company's age.

GDP growth has little effect on ISR disclosure, indicating that social initiatives persist regardless of economic conditions and that social commitment is constant, demonstrating that macroeconomic conditions are not the primary determinant. Furthermore, inflation has a detrimental and substantial impact. The ISR disclosure decreases as inflation increases. This demonstrates how resource allocation is impacted by inflationary pressures, how cost management and social programs are traded off, and how program planning takes inflation into account.

All things considered, this study emphasizes how management should concentrate on efficiently controlling the size of the company, how crucial it is to sustain profitability in order to fund social programs, how measures to cope with the effects of inflation are required, and how social program planning needs to be more flexible. For a variety of stakeholders, this offers valuable insights for maximizing ISR disclosures and creating more potent plans for executing Islamic banking social programs.

CONCLUSION

The findings demonstrated that company size, profitability (ROA), and inflation all had a substantial impact on Islamic Social Reporting disclosure. Age, GDP growth, and firm expansion are examples of factors that do not appear to have a substantial impact. All things considered, this study emphasizes how management should concentrate on efficiently controlling the size of the company, how crucial it is to sustain profitability in order to fund social programs, how measures to cope with the effects of inflation are required, and how social program planning needs to be more flexible. For a variety of stakeholders, this offers valuable insights for maximizing ISR disclosures and creating more potent plans for executing Islamic banking social programs. Future studies must take into account a number of factors that this study has not addressed in order to get a more thorough knowledge of ISR disclosures. Methodological development, sample extension, and the investigation of novel variables require particular attention.

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Page : 480-487
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Vol. 3 No. 2 (2024)
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