ISSN: 2456-7760

EFFECT OF FINANCIAL PERFORMANCE, SIZE OF ENTITY AND TYPE OF OWNERSHIP OF ISLAMIC BANKING DISCLOSURE TOWARD ISLAMIC SOCIAL REPORTING

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Abstract

Islamic Social Reporting (ISR) is one of the important performance reporting standards for public and corporate management. However, previous studies resulted in inconsistencies regarding the factors that drive the extent of disclosure of ISR. This study aimed to analyze the influence of several factors on the disclosure of ISR. The study adds that ownership type variable managerial ownership, public ownership and institutional ownership on the disclosure of ISR. By using 12 Islamic banking in Indonesia for years 2013 to 2015, the results showed that the size of the company and managerial stock ownership give significant and positive effect on the disclosure of ISR. Meanwhile, the results of data processing, there are three other variables that do not affect the disclosure of ISR which the financial performance, public ownership and institutional ownership.

Keywords: company size, financial performance, Islamic banking, Islamic social reporting, ownership type.

A. Background Research

In conventional economics, social responsibility reporting is known as an extension of the financial reporting system which reflects the broader social expectations with respect to the role of society in economic or business activities. Related to this, Haniffa (2002) argues that corporate social responsibility reporting on conventional systems only focus on the material and moral aspects. She added that the spiritual aspect should also be used as the main focus in the reporting of corporate social responsibility for the decision-makers Muslims have expectations that companies disclose the latest information voluntarily to assist in the fulfillment of their spiritual needs. Therefore, she considers that the need for a special framework for social responsibility reporting in accordance with Islamic principles.

In Indonesia is not only useful framework for decision-makers Muslims, but also useful for companies Islam in fulfilling its accountability towards Subhanaahu wa Allah Ta'ala and society. This framework is known as the Islamic Social Reporting (ISR). Islamic Social Reporting is using Islamic principles as a fundamental point. Sharia principles in the ISR produce material aspects, moral, and spiritual that became the main focus of the company's social reporting. Islamic Social Reporting is also an extension of social reporting which is not only a great desire of the whole society on the role of companies in the economy; it relates to spiritual perspective (Haniffa, 2002). Disclosure of ISR in addition to being a form of social responsibility of the bank

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to the social and environmental activities, ISR is also one form of accountability with the mandate and the fulfillment of obligations towards Allah SWT.

It has been many researches on the factors that affect the disclosure of ISR done in Indonesia. Previous research conducted by Rama and Meliawati. (2014) stated that the size of banks affect the disclosure of ISR. These results are in contrast to studies conducted by Lestari (2013) said that company size and profitability affect the disclosure of ISR, while the life of the company and the board of commission does not affect disclosure ISR.

Based on the background, the purpose of this study is to determine whether the ownership of shares by managerial, financial performance, public ownership, company size, and institutional ownership toward influential ISR in Islamic banking from 2013 to 2015 period.

B. Literature Review

Agency Theory

Agency theory is a concept that describes the contractual relationship between principals and agents. Principals are the party giving the mandate to the other party, namely the agent, to carry out all the activities on behalf of the principals in his capacity as decision makers (Jensen and Smith, 1984).

Principals as capital owners have access to the company's internal information while the agency as an agent in the company's operational practice has information about the operation and performance of the company is real and thorough. The position, function, situation, goals, interests and background of the principal and the agent are different and opposite each other will cause conflicts with each of interests (conflict of interest) and influence each other. Sun Nan, Aly Salama, Khaled Hussainey and Murya Habbash (2010) revealed that in addition to mechanisms corporate governance used to reduce potential conflicts of interest between the principal and the agent, the company can use the method of voluntary disclosure, one of the company's social responsibility disclosures.

Legitimacy Theory

Legitimacy can be considered as the perception or assumption that the actions taken by an entity is a desired action, appropriate or in accordance with the system of norms, values, beliefs and definitions developed social (Suchman, 1995). Legitimacy is considered important for the company due to the company's public legitimacy becomes a strategic factor for the development of future company.

The rationale for this theory is the organization in this research that Islamic banking will continue its existence if the public realized that the organization operates to the value system commensurate with the value system of society itself. The theory of legitimacy encourages companies to ensure that the activity and performance can be accepted by society. The company uses their annual report to describe the impression of environmental responsibility, thus they are accepted by society.

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Islamic Social Reporting (ISR)

ISR is a standard social performance reporting companies based on sharia. This index was developed with a base born of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) standards based reporting which was later developed by each subsequent researcher. In particular, this index is an extension of social performance reporting standards which include expectations of society not only about the company's role in the economy, but also the company's role in the spiritual perspective. Besides this index is also emphasis on social justice related to the environment, the rights of minorities, and employees (Fitria and Hartati, 2010).

During this time of disclosure and reporting of CSR by companies including banks and Islamic financial institutions are still using conventional indexes such as the Global Reporting Initiative Index (GRI Index). It is certainly not appropriate for the GRI index has not described the principles of Islam, for example, can not reveal liberation from elements of riba (usury), gharar, and other transactions that are forbidden by Islam.

Based on the context of Islam, people have the right to know the information about the activities of the organization. This is done to see if the company continues to conduct its activities in accordance sharia and achieve the goals set. According to Othman et al. (2010) with some adjustments, classifying ISR index into six indicators, each of which disclosures contained various items, namely investment and finance, products and services, labor, social, environmental and governance of the organization.

C. Hypothesis Development

Effect Managerial Ownership of the Disclosure ISR

Managerial ownership is a condition that indicates that managers have shares in the company or manager as well as shareholders of the company. The parties are those who sit on the board of commissioners and the board of directors of the company. The existence of company management has a different background, among others: first, they represent institutional shareholders; second, they are professional personnel appointed by shareholders in General Meeting of Shareholders. Third, they sit in the ranks of company management because they share the shares.

Gray et al. (1995) stated that Corporate Social Responsibility Disclosure is a form of report on the implementation of social and environmental responsibility in the company's annual report, with the expectation to report 52 corporate concerns on social and environmental responsibility to stakeholders, and it can be viewed as legitimacy and social contribution company. Along with the possibility of earnings management, it is possible that ownership of management can affect the extent of corporate social disclosure. This is related to the owner of the company which also becomes the company's management (the existence of managerial ownership) wants to divert the attention of the profit management to the disclosure of corporate social and environmental responsibility. When it is associated with the disclosure of social responsibility, managerial ownership in the company then management will be more active to improve its performance because management has responsibility for fulfilling the wishes of shareholders who are none other than him/herself.

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H1: Managerial ownership positively affects towards Islamic social reporting disclosure.

Effect of Financial Performance of the Disclosure ISR

Financial performance is a description of the achievements achieved by the company in its operational activities in terms of financial aspects, marketing aspects, fundraising and fund distribution aspects, technological aspects, as well as aspects of human resources (Jumingan, 2006: 239).

The performance of a publicly-listed company will be indispensable and even required to report its financial performance periodically, including in this case a bank company and an insurance company that has become a public company and listed on the Indonesia Stock Exchange (IDX). Assessment and measurement of performance against a business entity that has gone public is very important for managers, investors or potential investors, government, business community and other related institutions. Management requires measurement and assessment of the performance of its business units, to ensure the success of managers as well as to evaluate the preparation of strategic planning or operational in the future. Investors are very concerned about the results of measurement and performance appraisal of a business entity. The financial performance indicator used in this research is Return on Investment (ROA). The reason for choosing ROA as an independent variable is that ROA is one of profitability ratios. In the analysis of financial statements, this ratio is most often highlighted; because it is able to show the success of the company generate profits. ROA is able to measure the ability of a company to generate profits in the past to then be projected in the future. Assets or assets in question is the overall property of the company, obtained from the capital itself or from foreign capital that has been converted company into the company's assets used for the survival of the company. The greater the ROA shows the better the company performance, because the rate of return (return) is greater. Profitability is a factor that makes management free and flexible to disclose social responsibility to shareholders (Hackston & Milne 1996) so that the higher level of corporate profitability the greater the disclosure of social information. Specifically to the ISR, Othman et al (2009) proves that profitability has a significant positive effect on the level of social responsibility disclosure in accordance with Islamic principles.

H_2: The financial performance has positive influence on the disclosure of Islamic Social Reporting.

Effect of Ownership Public against disclosure ISR

Public shareholding is the proportion of public/public share ownership of shares of a company. The public itself is an individual or institution that has ownership interest below 5% that are outside of management and do not have a special relationship with the company. While the limited-company that owns other company shares is not included in the public category. This consideration is done because it can make the extent of financial statement disclosure does not have much effect on management decisions.

Fama and Jensen (1983) argue that low public ownership will cause conflict of interest between shareholders and management. Therefore, to reduce the potential of agency costs, broader disclosure is required. Wallace and Nasser (1995), argue that the more ownership of the company held by outsiders will make more detailed items of information and increasingly

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comprehensive disclosures made by the company as more and more persons or parties who want to know the problems within the company. Faizal (2004) argues that the ownership of shares by the public generally can act as a party to monitor the company. The greater the public ownership the more efficient the utilization of company assets and is expected to also act as a deterrent to waste made by management. Therefore, public ownership will require a wider disclosure. Based on previous research and the above discussion it can be concluded that companies large portion of public ownership, the more the demands of shareholders on the disclosure of information about the company. Thus high public ownership will also increase corporate social responsibility disclosure.

H_3: Public ownership positively affects on disclosure of Islamic social reporting

The influence of company size on the Disclosure ISR

According Maulida, et al (2014), company size is the level of identification of the size or size of a company. Company size can be measured using several ways. According to Cooke (1992) explained that company size can be measured by share capital, turnover, total shareholder, total assets, current assets, fixed assets, shareholder's fund, and bank borrowing. And more specifically, the related research between company size and ISR was done by Othman et al. (2009). The results of the study IS consistent with most of the previously mentioned studies, i.e. firm size positively affecting the ISR level. Based on previous research by Othman et al (2009), this study suggests that larger companies will tend to disclose ISR more widely.

H_4: The size companies positive effect on the disclosure of Islamic social reporting.

Effect of Institutional Ownership on ISR Disclosure

According to Graves dan Waddock (1994) the risk-averse institutional investors tends to avoid risk and will show a favorable attitude towards the equity investment in the company by engaging in CSR activities because of their belief that CSR performance positive effect on financial performance and reduce risk. Research done by Johnson and Greening (1999), and Lahouel et al. (2014) showed that institutional ownership affects the performance of CSR.

H_5: Institutional Ownership positive effect on the disclosure of Islamic social reporting.

D. Methods The study

Population in this study is an Islamic commercial bank in Indonesia with a span of 3 years, which was in 2013-2015. Islamic banks sampling is using purposive sampling techniques to meet the existing criteria namely Islamic commercial bank that issued the annual report and management report Islamic banks in the period 2013-2015, and an Islamic commercial bank that has complete financial statement information relating to variables used in this study.

Islamic banks sample of this study were 11 Islamic banks and require 33 financial statements. Data on the share price obtained from ICMD (Indonesian Capital Market Directory) or BEI website (www.idx.co.id). Data on corporate social disclosure, Islamic social reporting and managerial ownership is obtained from the annual report published on the website of the Stock Exchange or the company's website.

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The dependent variable in this study is the disclosure of ISR while Independent variables in this study were of managerial ownership, financial performance, public ownership, firm size and institutional ownership.

Islamic Social Reporting (ISR)

ISR disclosure can be identified by using the ISR index. Researchers conducted the overall analysis (content analysis) on the annual reports of each Islamic bank by the scoring method based ISR index comprising 6 theme which are the theme of finance, products, human resources, social, environmental, and corporate governance and developed into a 50 item statement. The methods of assessment (scoring) for each item are as follows:

- The value of 0 for each item that was not disclosed

- Value 1 for each item that is expressed

To calculate the index ISR has completed the identification by dividing the total score that was filled with the amount of the maximum score, or can be formulated as follows:

ISR disclosure = the number of disclosure fulfilled/max score disclosure

Financial Performance

The financial performance in this study was proxy by using one of the profitability ratios Return on Assets (ROA)

ROA = Net Income/Total Asset

Managerial Ownership

Ownership of management in this study was measured by the percentage of the number of shares owned management of the total number of shares outstanding during 2013-2015.

Managerial ownership = shares owned by management/ total shares

Public Ownership

In this study of public ownership portion was calculated from the percentage of shares owned by the public of the company's total shares.

Public ownership of shares = shares owned by public/total shares

Firm Size

Firm size is a proxy of total assets of Islamic banks. This variable is symbolized by SIZE formulated as follows:

SIZE = Ln (Total Asset)

Institutional Ownership

In this research, institutional ownership portion was calculated from the percentage of the number of shares owned by institutional or investors non-individual from the total shares of the company.

Institution ownership = shares owned by institution/total shares

Data Analysis

Classical Assumption Test

Classic assumption test is done to ensure that the data is not disturbed so deserves to be tested. Classic assumption test consists of:

Normality Test

Normality test aims to test whether the regression model or dummy variables have a normal distribution. If this assumption is not met, the statistical test is not valid for small sample quantities.

Statistical normality test that can be used to test the normality of the residuals is a non-parametric statistical test Kolmogorov-Smirnov (KS). KS test is done by making the hypothesis:

H0: The data were normally distributed residual

HA: Data residuals are not normally distributed

Variables in the Kolmogorov-Smirnov test which has Asymp. Sig. (2-tailed) below the significant level of 0.05 means that these variables have not normal distributions, otherwise if the significance value above 0.05 then the data inferred normal distribution.

Test Multicollinearity

Multicollinearity test aims to test whether the regression model found a correlation between independent variables (independent). A good regression model does not occur correlation among independent variables. To detect the presence or absence of multicollinearity in the regression model can be seen from (1) the value of tolerance and its opposite, (2) Variance Inflation Factor (VIF). The two measures indicate each independent variable which explained by the other independent variables.

Thus, a low tolerance value equal to the value of high VIF (for VIF = 1 / Tolerance). Cut-off value which is commonly used to indicate the presence of multicollinearity is a tolerance value ≤ 0.10, or equal to the VIF value ≥ 10.

Heteroskidasticity Test

Test heteroskedasticity test whether the regression model occurred inequality residual variance from one observation to another observation. If the variance of the residuals of the observations to other observations is remain, then called homokedasticity and if different is called heteroscedasticity. A good regression model is that homokedastisitas or not occur heteroscedasticity.

The statistical test that can be used to detect the presence or absence of heteroscedasticity is Glejser test. To regress residual absolute value of the independent variable with the regression equation:

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$Ut = \alpha + \beta Xt + vt$

If statistically significant independent variables affect the dependent variable, then no indication of heteroscedasticity. If the independent variable is not statistically significant affect the dependent variable absolute value Ut (AbsUt) with a significant probability of above 5% confidence level, it can be concluded regression model does not contain any heteroscedasticity.

Autocorrelation test

A good regression model is free from autocorrelation regression. To detect the presence or absence of autocorrelation can be used the Durbin-Watson test (DW test) (Ghozali, 2011).

Durbin-Watson value generated from the statistical data processing with SPSS namely (d) as compared with the value of the Durbin-Watson table with a significance of 5%, the number of samples (n) and the number of independent variables (k). From the observation of the Durbin-Watson table with a number of samples, the number of independent variables and certain significant levels obtained upper limit value (du). Research does not occur when the value of autocorrelation du <d <4-du.

Test Coefficient Determination R2

Coefficient of determination (R2) according to Ghozali (2013) essentially measures how far the model's ability to explain the dependent variable. Coefficient of determination is between zero and one. R2 value small means the ability of independent variables in explaining the variation is very limited dependent variables. A value close to the mean of independent variables provides almost all the information is needed to predict the variation of the dependent variable.

Hypothesis Testing

Hypothesis testing in this study is using T test (T-test). Statistical methods are used with a level of significance level $\alpha = 0.05$ means that the degree of error of 5%.

Test T

T test is performed to determine the influence of the independent variables individually / partial to the dependent variable. Basic decision-making is done by comparing the significant value gained from SPSS treatment with $\alpha = 0.05$.

1. If the significance value less than 0.05, meaning the influence of independent variables on the dependent variable was significant (H0 is rejected, Ha accepted).
2. If the significance value greater than 0.05, it can be concluded that the influence of the independent variable on the dependent variable is not significant (H0, Ha rejected).

E. Discussion and Analysis of Research Objectives

From Table 1 it can be seen that in this study there are only 33 data can be taken as a sample.

Table 1

OBJECT OF RESEARCH

No	Description	2013	2014	2015
1	number of Islamic banking in Indonesia in the study period	12	12	12
2	The Islamic banking, which does not publish financial statements and management report for the period of the study	(1)	(1)	(1)
3	Number of observations	11	11	11
	Total Observations		**33**	

Results Classical assumption test
Data Normality test

Table 2
Normality test Results
One-Sample Kolmogorov-Smirnov test

One-Sample Kolmogorov-Smirnov test

unstandardized Residual		
33	N	
.0000000	Mean	Normal Parameters [a,b]
.05419067	Std. Deviation	
.102	Absolute	Most Extreme Differences
.091	Positive	
-.102	Negative	
.589	Kolmogorov-Smirnov Z	
.879	Asymp. Sig. (2-tailed)	

a. Test distribution is Normal.

b. Calculated from data.

Source: Secondary data is processed 2016

The data show to be a normal distribution if the probability (p) test Smirnoz One-Sample Kolmogorov-Z>0.05. Based on the above it can be seen that the output probability value of 0.916 for a probability value> 0.05 then it can be concluded that the data in this study normal distribution.

Multicollinearity Test

Table 3

Test Results Multicollinearity

Coefficientsa

Coefficients[a]

Collinearity Statistics		Sig.	T	Standardized Coefficients	unstandardized Coefficients		Model	
VIF	Tolerance			Beta	Std. Error	B		
		(Constan t)			.159		.038.241 .812	1
1,156	.070		1,857		.038	.253.07 4 .865	KM	
1,043	.182					.340 .069 .534 .598 .959	ROA	
1,083	.923	.154	1,466	.193	.089	.131	KP	
1,327	.023		4,337		.005	.633.00 0 .754	SIZE	
1.484	.674	.851	-.189	-.029	.052	-.010	KI	

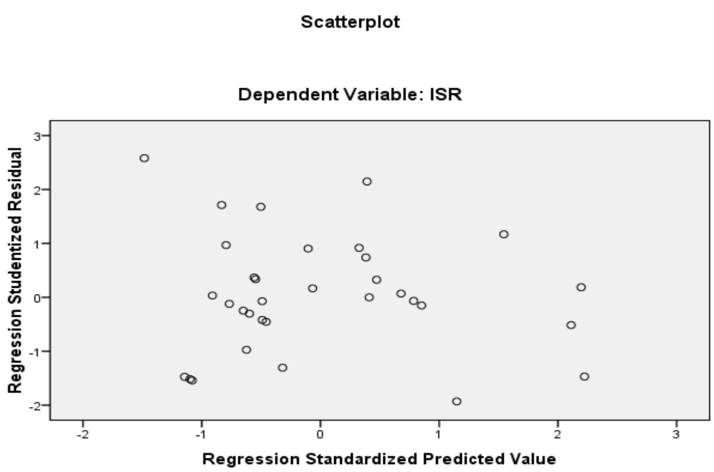
a. Dependent Variable: ISR

Source: Secondary data is processed, 2016

The results in Table 3 show that the tolerance value for each variable is greater than 0.1 and VIF is less than 10, it can be concluded that the independent variables mentioned above do not show the occurrence of multicollinearity.

Heteroskidasticity Test

Test Results Heteroskidasticity



Source: Secondary data is processed, 2016

From the picture above scatterplot result that there is no clear pattern, as well as the points spread above and below the number 0 on the Y axis so that it can be concluded not happen homoscedasticity in regression models. Therefore, a regression model is used to predict the disclosure decent Islamic Social Reporting (ISR) based on input from the independent variable.

Autocorrelation test

Table 4

Model Summary[b]

Durbin-Watson	Std. Error of the Estimate	Adjusted R Square	R Square	R	Model
1,695	.0547280	.524	.616	.785[a]	1

a. Predictors: (Constant), Lag_ISR, ROA, KM, KP, KI, SIZE

b. Dependent Variable: ISR

Secondary data sources is processed, 2016

Based on output above, note the Durbin-Watson value of 1.695. According to the table (DW) with a sample of N = 33 and the number of independent variables (K = 5), the obtained values (dU) of 1,813, then (4-dU) 4-1.813 = 2.187. It can be seen that dU <d <4 -Du so that it can be concluded there is no autocorrelation.

Results of Data Analysis

TestThe coefficient of determination R^2

Table 5

Model Summary[b]

Model Summaryb				
Std. Error of the Estimate	Adjusted R Square	R Square	R	Model
.567		.487 .0589953	.753[A]	1

a. Predictors: (Constant), KI, ROA, KP, KM, SIZE

b. Dependent Variable: ISR

Source: Secondary data is processed, 2016

Based on Table 5 can be seen the value of Adjusted R Square of 0487, or 48.7%. It shows that 48.7% dependent variable is the disclosure of ISR can be explained by the independent variable, while the remainder is equal to 51.3% is explained by other variables not included in this study.

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Hypothesis Test Results

Significant Partial Test (t test)

Table 6

Coefficients[a]

Coefficients[a]

Sig.	t	Coefficients Standardized	Unstandardized Coefficients		Model	
		Beta	Std. Error	B		
(Constant)			.159		.038.241 .812	1
.070	1,857			.038 .253.074	KM	
.182				.340 .069 .534 .598	ROA	
.131	1,466	.193		.089.154	KP	
.000	4,337	.633	.005	.023	SIZE	
.851	-.189	-.029	.052	-.010	KI	

a. Dependent Variable: ISR

Source: Secondary data is processed, 2016

Based on the test results above, the relationship between independent variables and the dependent variable in this study are as follows:

1. For managerial ownership variable (KM) has a value of 0.074 sig smaller than alpha 0,1. It can be concluded that the hypothesis is accepted, meaning that managerial ownership and significant positive effect on the disclosure of Islamic Social Reporting.
2. For financial performance variables (ROA) has a value of 0.594 sig is greater than alpha 0,1. It can be concluded that the hypothesis of two rejected, meaning that financial performance has no effect on the disclosure of Islamic Social Reporting.
3. For variable public shareholding (KP) has a sig value 0,154 is greater than alpha 0,1. It can be concluded that the hypothesis of three rejected, meaning that public ownership does not affect the disclosure of Islamic Social Reporting.
4. For a company the size variable (SIZE) has a value of 0.00 sig smaller than alpha 0,1. It can be concluded that the hypothesis of the four accepted, meaning that the size of the company's positive and significant impact on the disclosure of Islamic Social Reporting.
5. For institutional ownership variable (KI) has a .851 sig value is greater than alpha of 0.05. It can be concluded that the hypothesis is rejected five, meaning that institutional ownership has no effect on the disclosure of Islamic Social Reporting.

DISCUSSION

Influence on Disclosure of Shareholdings Managerial ISR

Statistical analysis shows that managerial ownership and gives significant positive effect on the disclosure of ISR. This means that managers who hold shares of companies certainly will harmonize its importance as a manager to his interests as a shareholder. The larger the managerial ownership in the company, the more productive actions of managers in maximizing the value of the company does. It is also stated by Fama and Jensen (1983) that the higher levels

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of management ownership, the higher the motivation to reveal the company's activities are carried out.

Effect of Financial Performance of the Disclosure ISR

Statistical analysis shows that the profitability does have no effect on the disclosure of ISR. The results shows that the financial performance in this study are projected using ROA is not a factor affecting the Islamic Banks for conduct more extensive disclosures. However, the higher the value profitability of banks, the Islamic banks are likely conduct more extensive disclosures. Ahmed and Courtis (1999) also found that large profits motivate managers to provide more extensive information due to increase investor confidence.

Effect of Public Ownership of the Disclosure ISR

Statistical test results in this study indicate that there is no significant influence on the public ownership of the company in this case Islamic banking in proportion to the ownership of the company or institution. With the least proportion of public ownership of Islamic banking, it is a little too the demand on the disclosure of ISR was not unduly influenced by public ownership. It is also one of the reasons that public ownership does not significantly affect the disclosure of ISR because the banks or family can obtain information from within the company itself without having bank to publish it.

The influence of company size on the disclosure of ISR

Based on these results it can be proven that the large-sized enterprise is likely to have disclosure of information is higher than the companies that are smaller due to the size of a large company is liable for the company will be the welfare of the community and the surrounding environment will be considered by Islamic investors and users of other Muslims.

Effect of Institutional Ownership on ISR Disclosure

Result of this study shows that institutional ownership has no effect on the disclosure of ISR. The results support the research done by Barnae and Rubin (2005). This reflects the institutional ownership in Indonesia have not considered social responsibility as one of the criteria in making investments so that these institutional investors have tended to be putting pressure on banks to disclose ISR in detail in the company's annual report. This means that the higher the level of stock ownership by institutions it will reduce the level of disclosure in the banking system ISR. This is probably because so far only institutional investors aiming to maximize personal gain without regard to corporate responsibility on other stakeholders.

Conclusions

Conclusions of the research test results as follows:

1. Ownership shares by managerial and size of the company and give significant positive effect on the disclosure of Islamic Social Reporting are accepted.

2. Public ownership, financial performance, and institutional ownership have no effect on the disclosure of Islamic Social Reporting.

Recommendation

For further research might add other independent variables that might affect the disclosure of ISR.

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