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Determinants of Good Corporate Governance, Company Characteristics, and Environmental Performance on Islamic Social Reporting Disclosure

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Abstract

The aim of this research is to analysis the influence of good corporate governance, company characteristics, and enviromental performance on the disclosure of Islamic Social Reporting (ISR). The population of this research is the companies registered in Jakarta Islamic Index (JII) on year period 2015-2019. The sampling technique used was purposive sampling. The number of samples in this study were 45 samples. The data analysis techniques used were multiple linear regression. B The results showed that good corporate governance as measured by board of commissioner size and public ownership have a significant positive effect on ISR disclosure. Company characteristics as measured by age of company had a significant effect while type of industry had not significant effect and enviromental performance had a significant effect. The result also proves that a company that stands in the community could not be separated from the social contract related to the norms that exist in society. The legitimacy of the company is not only limited to financial reporting disclosure but ISR disclosure. It is important for the company to have a good relationship by interacting with the environment and the surrounding social which puts forward Islamic principles for their sustainability. This study also examines the legitimacy and stakeholder theory which is enhanced by Islamic principles by using the ISR index as a complement to the GRI index for information disclosure.

Keywords: Good Corporate Governance, Islamic Social Reporting, Environmental Performance

INTRODUCTION

Financial reporting is a tool used by companies to communicate information to their stakeholders, such as institutional and individual investors, as well as financial analysts. In influencing the decision-making process, this group uses an annual report (Othman & Thani, 2010) in which it does not only contain financial reports, but one of them is the corporate social responsibility (CSR) reporting.

The concept of CSR is currently not only developing in the conventional perspective but has developed in the sharia perspective. The concept of CSR in sharia perspective is very closely related to companies that in carrying out their activities apply aspects of sharia. The concept is known as Islamic Social Reporting (ISR). Gustani (2015) and Kurniawati & Yaya (2017) state that ISR can not only assist Muslim stakeholders in the decision-making process, but can also assist entities in carrying out their obligations to God and all of His creation.

Previous research stated that ISR measurement used the GRI (Global Reporting Initiative Index) index (Haniffa, 2002), but not Islamic principles. The index still uses modern accounting standards. Disclosure of ISR of sharia entities based on Islamic principles. They use the ISR index. The index is a measure of social responsibility disclosure based on the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOFI). Othman & Thani (2010) stated that Islamic companies are required to disclose information on sharia principles in the company's financial statements, as well as benefits for Muslim stakeholders.

Practically, in Indonesia, 30 companies listed on the Jakarta Islamic Index do not comprehensively disclose sharia principles in their annual reports (Indayani et al., 2019). There is also no clear regulation on ISR disclosure from the government because the disclosure is still voluntary (Sari & Helmayunita, 2019). Therefore, it is necessary to study the disclosure of ISR in sharia-based companies in Indonesia related to good corporate governance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The hypothesis was developed that the size of the board of commissioners has a positive effect on ISR. In accordance with the theory of legitimacy, that the presence of the board of commissioners will create management and accountability that can provide good relations with the community, so that the social contract can run well in the community. This is supported by Kurniawati & Yaya (2017); Ersyafdi et al., (2021) which states that the size of the board of commissioners has a positive effect on ISR disclosure. Therefore, the hypothesis proposed is *H1: The size of the board of commissioners has an effect on ISR disclosure*.

The second hypothesis proposed is that public ownership has a positive effect on ISR disclosure. Companies that have higher public ownership will pay more attention to social disclosure. Social actions taken by the company will have an impact on the welfare of the environment and the surrounding community. Public ownership will encourage companies to disclose information on social activities to meet stakeholder needs. The higher the public ownership of the company, the more it will reveal ISR as a moral responsibility to the community. This is in line with Sari & Helmayunita (2019) that public ownership affects the disclosure of Islamic social reporting, so the hypothesis is proposed as follows, *H2: Public ownership has an effect on ISR disclosure*.

The third hypothesis is company age has a positive effect on ISR disclosure. Through the age of the company, it can be seen how far the company can survive, so that the age of the company can be described that the length of time the company has been established and carries out its business activities in order to continue to exist and be able to compete with other companies (Widiyanti & Hasanah, 2018). In stakeholder theory, corporate social disclosure has a role, namely as a medium of corporate communication with stakeholders, so that the longer the company's business can adapt, the more the stakeholders have power. Thus, the longer the company is established, it is expected that the company will be able to know the wishes and be able to meet the needs of its stakeholders by improving the quality of its social disclosures. Hussain et al (2021) and Widiyanti & Hasanah (2018) reveals that company age has an influence on ISR disclosure. Therefore, the hypothesis that can be proposed is as follows, *H3: Company age has an effect on ISR disclosure.*

The *fourth* hypothesis is industry type has a positive effect on ISR disclosure. Indrawati (2009) stated that companies that have a high profile are companies that get more attention from the public because the operational activities carried out have an impact related to broad interests. The public will be more sensitive to the type of industry that is high profile, because if the company is negligent it will cause a big impact on the community such as negligence in the production process and the results of the production. Meanwhile, companies with low-profile types are companies that are not widely considered by the public because sometimes the operational activities carried out experience a process of failure or error in certain aspects, both in the process or in the production results. Nuraeni & Muilah (2019) stated that the type of industry has no significant effect. Therefore, the hypothesis that can be proposed is as follows. *H4: The type of industry has an effect on ISR disclosure.*

The *last* hypothesis is environmental performance has a positive effect on ISR disclosure. Environmental performance is how companies can show the performance that they do have a concern to produce a good environment. If the company has carried out good environmental performance, the company will tend to disclose social responsibility because it can attract investors to invest in the company. Siddi et al., (2019) and Kurniawati & Yaya (2017) state that environmental performance has a significant influence on ISR disclosure, so the hypothesis is proposed as follows, *H5: Environmental performance has an effect on ISR disclosure.*

Based on legitimacy theory and stakeholder theory, this study tries to examine the effect of Good Corporate Governance (GCG), the characteristics of the company, and environmental performance to Islamic Social Reporting Disclosure. GCG is proxied by the size of the board of commissioners and public ownership. Meanwhile, the characteristics of the company are proxied by the age of the company and the type of industry. This study used ISR disclosure in the Jakarta Islamic Index (JII) for the 2015-2019 periode.

METHOD

This study is associative research with a quantitative approach. The population in this study are companies included in the Jakarta Islamic Index. The sampling technique used purposive sampling with the following criteria (1) Companies that have been listed consecutively and have never been delisted in the Jakarta Islamic Index (JII) in 2015-2019, (2) Companies that have participated in PROPER activities during 2015-2019, (3) Companies that publish annual reports from 2015-2019, (4) Companies that publish in full the necessary data related to variables in research during 2015-2019. The sample used was 45 companies. The type of data used in this study is secondary data obtained from annual reports of companies listed on the Jakarta Islamic Index (JII) obtained from the websites of each company during 2015-2019 and from PROPER activities published during 2015-2019 which can be seen through the website www.menlh.go.id.

The measurement of ISR disclosure refers to Haniffa (2002) and Othaman et al (2009). ISR disclosure consists of 6 themes (43 items) covering finance, products and services, human resources, social, environment, and corporate governance. The size of the board of commissioners is measured by the number of members of the board of commissioners in the company (Sembiring, 2006). Public ownership uses Handayani (2017) and Sairin (2018) measurements. Company age using Silvia (2017) measurement.

The type of industry is distinguished by manufacturing and non-manufacturing companies. Environmental performance is measured by the achievement of environmental performance from PROPER (Company Performance Assessment Program in Environmental Management organized by the Ministry of Environment) which is indicated by 5 colors (Cahya, 2016). The predicate score category is 5 for gold (very good), 4 for green (good), 3 for blue (fair), 2 for red (poor), and 1 for black (very bad) (Cahya, 2016). Data analysis used multiple linear regression, F test, t test, and Adjusted R^2 test.

RESULTS AND DISCUSSION

The results showed that the highest ISR disclosure of companies listed in JII was 77%, the lowest was 44% and the average was 62%. The number of members of the board of commissioners is a minimum of 3, a maximum of 10 and an average of 6. Public ownership shows a minimum of 0.32, a maximum of 0.55 and an average of 0.32. The age of the company shows a minimum value of 5 years, a maximum of 37 years and an average of 21.33. The longer the company is established, the disclosure of social information and all forms of corporate responsibility is expected to be properly disclosed. The type of industry shows that most of them are non-manufacturing companies. The environmental performance of public companies listed in JII has a minimum PROPER level of 3, a maximum of 5 and an average of 3.31.

The research regression model has been tested for normality, multicollinearity, heteroscedasticity, and autocorrelation. The normality test used the One-Sample Kolmogorov-Smirnov test for the Asymp value. sign. (2-tailed) shows a value of 0.200 (> 0.05) which means the assumption of normality has been met. Tolerance values > 0.1 and VIF values < 10 on all independent variables indicate that the regression model has met the requirements for being free from multicollinearity. Heteroscedasticity test uses the glejser test with a significant probability value at a measurement level of more than 0.05 or 5%. The autocorrelation test using the Durbin Watson test is 2.034. Based on the results of the classical assumption test, it has been shown that there is no classical assumption problem. The results of multiple regression analysis can be seen that ISR Y = 0.844 + 0.013 UDK - 0.328 KP - 0.002 UP + 0.003 TP - 0.042 KL + e

The statistical F value is 9.016 with a probability of 0.000 (<0.05), it can be concluded that the regression model is fit. Adjusted R square value is 0.477 or 47.7%. So it can be concluded that the independent variables in this study in the form of the size of the board of commissioners, public ownership, company age, type of industry, and environmental performance can only explain the disclosure of sharia social reporting by 47.7% and the remaining 52.3% is explained in other variables outside this research.

Based on the results of statistical tests, it can be seen that the regression coefficient for the size of the board of commissioners has a sign. value of 0.007 (<0.05). The test results prove that H0 is rejected and H1 is accepted. The sign. value of public ownership is 0.000 (<0.05), then the test results prove that H2 is accepted. The sign. value of the regression coefficient of the company's age is 0.011 (<0.05), which concludes that H3 is accepted. While the sign. value of the company type regression coefficient is 0.871 (> 0.05), then H4 is rejected. The sign. value of the environmental performance regression coefficient is 0.006 (<0.05), then H5 is accepted.

The size of the board of commissioners has a positive effect on the disclosure of ISR. The board of commissioners is a mechanism that plays a role in monitoring the policies of the board of directors. The responsibility of the board of commissioners is to oversee the activities of the board of directors and provide advice to the board of directors when necessary. The existence of a board of commissioners is necessary so that the company's management is able to disclose social responsibility posts in accordance with the provisions in the articles of association and the prevailing laws and regulations. The board of commissioners has the highest structure after shareholders. If the company's management does not carry out the company's operational duties, the board of commissioners can dismiss him at the GMS (general meeting of shareholders). This is in line with the legitimacy theory, that the board of commissioners has a very important role because it has responsibility for the company and provides information to stakeholders including information related to corporate social responsibility reports. ISR disclosure will create a harmonious relationship between the company and interested parties. The results of this study are supported by Ersyafdi et al., (2021) and Kurniawati & Yaya (2017). With the increase in the number of commissioners in a company, it is expected that information disclosure in company reports will be more widely disclosed without being covered up and management supervision will be better and can easily control the CEO of the company.

Based on the result, Public Ownership has a significant effect on Islamic social reporting disclosure. Public ownership is the level of the proportion of share ownership in publicly owned companies whose ownership percentage does not exceed 5% of the total outstanding shares. Meanwhile, PT (Company Company) which has ownership in the company in question is not included in the category of public ownership even though the ownership does not exceed 5%. Because there are considerations that are not too influential that will be done to make the disclosure of financial statements widely on management decisions (Rahuyu, 2015 in Sari & Helmayunita, 2019). In legitimacy theory, if a company in public ownership has a higher number, it will pay more attention to its social disclosures because people will think whether the social actions that have been taken by the company concerned will have an impact that can prosper the environment and the people around it or not. Therefore, companies will be encouraged to disclose information on social activities to meet the needs of stakeholders. So it is assumed that the higher the public has share ownership in the company, it is expected that the company concerned will disclose ISR as a moral responsibility to society. The results of this study are contrary to research (Prihatiningsih & Hayati, 2021) and (Santoso et al., 2018) and are in line with research conducted by (Sari & Helmayunita, 2019). So from this research it states that public ownership has an effect on ISR disclosure.

The age of the company has a significant effect on Islamic social reporting disclosure. The age of the company here is defined as the extent to which the company can survive. According to Sufian (2012) in Santoso et al (2018) that the age of the company is how long the company has been listed on the capital market as a public company and also represents the year of operation in the market. So that the length of time a company has been established means that it has had a lot of experience in disclosing what items should be disclosed in the corporate social responsibility report. In line with the stakeholder theory, that the longer the company has been established, it is expected to be able to fulfill the wishes of its stakeholders and can improve the quality of its social disclosures to meet the needs of stakeholders. So that stakeholders will continuously provide feedback to companies that issue social responsibility reports every year. The results of this study are in line with research conducted by (Hussain et al, 2021) and (Widiyanti & Hasanah, 2018) that the age of the company has a significant effect on ISR disclosure.

The type of industry has no significant effect on Islamic social reporting disclosure. In line with research conducted by (Nuraeni & Anik Muilah, 2019) and (Widiyanti & Hasanah, 2018), both of these studies state that the type of industry has no effect on ISR disclosure. This is because, because the disclosure of ISR is based on the initiative and awareness of each company itself, both manufacturing and non-manufacturing companies, there is no strong difference between high-profile (manufacturing) and low-profile (non-manufacturing) companies. manufacturing), so companies will tend to try to provide disclosures of needs that are in accordance with society. This is in line with the theory of legitimacy that the company's business is limited by a social contract, so it is hoped that all social activities carried out by the company will agree to be shown in order to gain acceptance from the community so that the company's survival can be guaranteed. So that the acceptance from the community of the company's social activities in running a sharia business can be seen from how many benefits the community gets in the ISR program.

The environmental performance has a significant effect on Islamic social reporting disclosure. Environmental performance is a mechanism for companies that is carried out voluntarily to pay attention to the environment in its operations and to interact with stakeholders (Siddi et al., 2019). If a company has a high level of environmental performance and the more achievements in environmental programs, the wider the disclosure of ISR and will get a positive image in view, especially to investors and the Muslim community. This is in line with stakeholder theory, which states that companies not only fulfill the company's interests, but also have obligations to stakeholders to provide benefits. According to Cahya (2016), to be able to maintain relationships with company stakeholders, one of the strategies is to take care of the environment. It is hoped that by disclosing the environment the wishes of stakeholders can be fulfilled so that it will be able to produce a harmonious relationship between the company and its stakeholders. If a harmonious relationship has been achieved, then the company can achieve sustainability. Thus, the more active companies are in disclosing information on social responsibility, the better the environmental performance of a company and can be interpreted as good news that the company has to attract investors. So the results of this study are in accordance with research conducted by (Kalbuana et al., 2019) and (Kurniawati & Yaya, 2017), that environmental performance has a significant effect on ISR disclosure.

CONCLUSION

This study examines legitimacy and stakeholder theory that proves that companies have accountability to provides information disclosures to stakeholders related to Corporate Social Responsibility (CSR) reporting by paying more attention to its social disclosures. Good Corporate Governance, Company Characteristic, and Environmental Performance are mechanism for companies to pay attention to the environment in its operations and to interact with stakeholders. It is hoped that it could be made a harmonious relationship among the companies and its stakeholders for corporate sustainability by using Islamic principles in ISR index as a complement to the GRI index for the information disclosure.

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