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Factors Influencing Islamic Social Reporting in Indonesian Sharia Banking Compliance

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Abstract

The rapid development of Islamic banks certainly urges researchers to reveal secrets, especially those relating to financial performance (FP), governance, and disclosures from companies or institutions, whether they are in accordance with halal standards or vice versa. This research aims to assess the suitability of halal standards. in the sharia banking industry sector, apart from that, in principle, when a bank has a high value of non-halal income, it can be predicted that the bank will still have high interest-based debt, and vice versa, All Syrian Commercial Banks registered with the OJK in 2014-2021 constitute the research population. 96 samples were collected from 12 BUS using purposive sampling. The findings show that the indicator of Halal Life Style, namely Non-Halal Income (X1), has no effect on ISR disclosure, while the Sharia Financial Performance indicator consisting of FDR (X3), CAR (X4), and DER (X5) has no effect on ISR disclosure (Y), while ROA (X2) influences ISR disclosure (Y). The result of this research show that companies in the halal industrial sector, especially Sharia Commercial Banks in Indonesia, are still lacking in paying attention to and minimizing non-halal income as well as other indicators such as FDR, CAR, and DER.

Keywords: Halal Lifestyle; Islamic Corporate Governance; Islamic Social Reporting; Sharia Financial Performance

Abstrak

Berkembangnya bank syariah secara pesat tentu mendesak para peneliti untuk mengungkapkan rahasia, terutama yang berkaitan dengan kinerja keuangan (FP), tata kelola, dan pengungkapan dari perusahaan atau lembaga, apakah sudah sesuai dengan standar halal ataukah sebaliknya, penelitian ini bertujuan untuk menilai kesesuaian standar halal di sektor industri perbankan syariah. Selain itu pada prinsipnya ketika suatu perbankan mempunyai nilai pendapatan non halal yang tinggi maka dapat diprediksi bank tersebut masih memiliki hutang berbasis bunga yang tinggi. Seluruh Bank Umum Syriah (BUS) yang terdaftar di OJK tahun 2014-2021 merupakan populasi penelitian. 96 sampel dikumpulkan dari 12 BUS dengan menggunakan purposive sampling. Temuan menunjukkan bahwa bahwa indikator dari Halal Life Style yaitu Pendapatan Non-Halal (X1) *tidak berpengaruh terhadap pengungkapan ISR sedangkan untuk indikator Sharia Financial Performance yang terdiri dari FDR (X3), CAR (X4), dan DER (X5) tidak berpengaruh terhadap pengungkapan ISR (Y) sementara ROA (X2) mempengaruhi pengungkapan ISR (Y). Hasil dari penelitian ini menunjukkan bahwa perusahaan di sektor industri halal khususnya Bank Umum Syariah di Indonesia masih kurang dalam memperhatikan dan meminimalisir pendapatan non halal sama halnya dengan indikator seperti FDR, CAR, dan DER.*

Kata Kunci: *Gaya Hidup Halal; Tata Kelola Perusahaan Islam; Pelaporan Sosial Islam; Kinerja Keuangan Syariah*

INTRODUCTION

Financing facilities and financial services are undoubtedly needed to help the Halal Industrial Ecosystem (EIH) in Indonesia and also the world which continues to experience development.(Fakhri Nugraha et al., 2014). With the large number of product launches offered by sharia financial services, the bank financing function is very much needed. In terms of authority/institutional regulations, until now there has been no policy or program that specifically welcomes the halal industry to adopt sharia financing or financial services (Fakhri Nugraha et al., 2014).

The requirements for businesses to halal certify their products in accordance with regulations are largely unknown at this time. UU no. 33 of 2014 concerning funding and capital for sharia financial system-based products. On the other hand, the banking industry has not paid enough attention to the significant prospects of the halal industry and the necessary financing needs. As for achieving a halal industrial ecosystem that is always experiencing development, the main step that needs to be taken is to cover these deficiencies.

The halal industry must take into account funding sources other than how it is made (how the industry finances it). Islamic services and finance may be especially important in this situation. For example, Islamic financial funding adheres to the following principles: no interest (riba), no games/uncertainty (*gharar*), no gambling (maysir)(Sukoso, Wiryawan Adam, Kusnadi Joni, 2020).

The concept of Corporate Social Responsibility (CSR) in Islam is closely related to businesses that can carry out social obligations towards the environment in an Islamic manner, in accordance with sharia. These changes certainly have an impact on increasing awareness. Islamic social reporting, also known as Muslim social reporting, is created by Muslims using sharia principles, to fulfill mandatory sharia commitments(Budiandru, 2021).

In particular, financing support, management consultants, and financial services in the integrity phase of the halal process as part of business recovery, as well as monitoring and supervising agreed transactions and contracts, are all ways that Islamic banking can help manage the halal industry both directly and indirectly (Sukoso, Wiryawan Adam, Kusnadi Joni, 2020).

The rapid development of Islamic banks certainly urges researchers to reveal secrets, especially those relating to financial performance (FP), governance and disclosure of their companies or institutions, whether they comply with halal standards or vice versa (Ben Abdallah & Bahloul, 2022). Based on the research results, it has been found that ISR disclosure of Islamic banks is still low, and ISR disclosure by Indonesian Sharia Commercial Banks in 2016 was 31%, and from 2016 to 2020 using a sample of 10 Indonesian Sharia Commercial Banks the average ISR disclosure increased to 43 .18%, with these findings it certainly appears that in Indonesia in terms of ISR disclosure it is still lacking because if you look at the large percentage from 2016-2020 it only increased by 12.18%, of course this is a problem that encourages researchers to disclose secrets, especially those relating to ISR disclosure at Indonesian Sharia Commercial Banks (Rosyidah & Nafif, 2022).

Islamic Social Reporting (ISR) disclosure has been the subject of previous research, some of which is cited as a reference in this article. The first research was conducted by (Jati et al., 2020) with the title "Islamic Social Reporting Disclosure As a From Social Responsibility of Islamic Bank in Indonesia". have found that Islamic Social Reporting is influenced by liquidity and Islamic Governance Score, profitability and leverage have no impact.

Second, a 2020 study by (Mukhibad & Fitri, 2020) entitled "Determinants of Islamic Social Reporting (ISR) Disclosure". Based on research findings, company size and the syirkah fund ratio have a positive and substantial relationship, ISR disclosure is not significantly influenced by the debt ratio or independent sharia supervisory board, but financial expansion has a negative and severe impact. Third, the 2021 study by (Afandy et al., 2021) with the title "Islamic Corporate Governance (ICG) On Sharia Financial Performance with Islamic Social Reporting (ISR) As A Moderating Variable". It should be noted that the Board of Directors, Audit Committee, Board of Commissioners and DPS have a positive and quite large influence on sharia financial performance because their numbers change. However, the influence of the Board of Directors on sharia financial performance cannot be moderated by ISR, even though ISR can increase (moderate) the impact of the number of Audit Committees on sharia financial performance.

Fourth, a 2021 study by(So et al., 2021)entitled "Sustainability Reporting Disclosure in Islamic Corporates: Do Human Governance, Corporate Governance, and IT Usage Matter?". Research results have shown that sustainability reporting disclosure is significantly influenced by human governance and Islamic corporate governance with firm size and leverage. The conclusion from the results found is that human governance is the best predictor for sustainability reporting disclosure.

Fifth, a 2022 study by (Diansari et al., 2022) entitled "Islamic Social Reporting of Islamic Banking in Indonesia". According to research, liquidity and leverage have a greater impact on ISR than profitability and company size.

Sixth, the abomination of 2022 by (Ben Abdallah & Bahloul, 2022) with the title "Further Evidence On The Effect of Financial Performance and Governance On The Islamic Bank's Disclosure". Research results have shown that performance measurement has a weak effect on AAOIFI disclosure, Net Interset Margin (NIM) which has a significant positive impact. Return of Assets (ROA) and Return On Equity (ROE) have a significant negative impact. Furthermore, all Sharia Governance measures have a significant effect. The findings of this research support the positive contribution of governance to disclosure in IB.

However, despite the fact that many researchers used the same variables and research periods in previous studies, the findings were inconsistent. Some of the results of these studies were influenced by factors that varied or were inconsistently identified by different researchers. This was supported by the first researcher (Jati et al., 2020), fourth (So et al., 2021), and fifth (Diansari et al., 2022). Different results were obtained for the leverage variable, the first researcher found that the results had no effect, while the fourth and fifth researchers found that the results had an effect.

Apart from that, for the profitability variable, differences were found in the results of the sixth researcher (Ben Abdallah & Bahloul, 2022) with other researchers who are used as references in this research, which is the researcher (Ben Abdallah & Bahloul, 2022) it was found that the ratio of profitability, namely ROA, had a negative effect, while the research results from the first researcher (Jati et al., 2020), and fifth researcher (Diansari et al., 2022) ISR disclosure is not affected by ROA as a ratio of profitability. With this research gap, researchers are encouraged to re-examine the publication of Islamic Social Reporting (ISR) in assessing the suitability of halal standards in the Indonesian sharia banking industry sector for the 2014-2021 period.

This research contributes to previous studies in several ways. First, researchers integrated a number of variables from previous studies. However, what is different in this research is that an additional variable is used in the form of non-halal income which is used as an independent variable. The researcher did this because the researcher wanted to assess the suitability of halal standards in the sharia banking industry sector. Apart from that, the reason the researcher used non-halal income as an additional independent variable was because In principle, when a bank has a high value of non-halal income, it can be predicted that the bank will still have high interest-based debt, and vice versa.

Second, in this study the additional variable Islamic Corporate Governance (ICG) was used which was used as a moderating variable. This was done by the researcher because the researcher wanted to see whether ICG could strengthen the independent variable or vice versa. Apart from that, using ICG as a moderating variable can certainly contribute to developing new models of financial performance, in this case it can strengthen and also weaken ISR disclosures so that it is beneficial for the development of science. Third, although this analysis starts with samples from the 2014-2021 time period, this analysis adds to the developing literature from previous studies.

This research uses Shariah Enterprise Theory (SET), Signaling Theory, and Legitimacy Theory. The third theory was chosen because previous studies that provided the framework for this investigation used these three ideas. Researchers who use the same type of theory as this research include: (Jati et al., 2020), (Mukhibad & Fitri, 2020), (Ben Abdallah & Bahloul, 2022), and (So et al., 2021).

LITERATURE REVIEW

Sharia Company Theory / Sharia Enterprise Theory

According to Iwan Triyuno's Shariah Enterprise Theory (2006), everything in the universe must be managed as efficiently as possible by humans because it belongs to God, according to Shariah Enterprise Theory every business aspires to provide knowledge, as well as a sense of peace, love and compassion. (salam, Rahman, and Rahman) by promoting the development of theological awareness (Iwan Triyuwono, 2006). Because sharia banking, especially sharia commercial banks in Indonesia, must uphold its social responsibility to society, researchers use the definition of sharia firm in this research, where each social obligation can be evaluated using the Islamic Reporting Index. The previous research both used sharia company theory, namely (Jati et al., 2020) and (Mukhibad & Fitri, 2020).

Signal Theory/Signaling Theory

Ros (1977) proposed signaling theory, which argues that corporate executives will be tempted to provide better information about their company to potential investors in order to increase stock prices (Stephen A. Ross, 1977). According to signal theory, better company performance will reveal more detailed reporting and vice versa (Ben Abdallah & Bahloul, 2022). Researchers use signal theory in this research, because sharia financial performance can be explained using signal theory. Signal theory has previously been used by researchers (Ben Abdallah & Bahloul, 2022).

Stakeholder Theory/Legitimacy Theory

According to the theory of legitimacy proposed by Dowling and Preffer (1975), legitimacy is very important for organizations, boundaries are highlighted by societal norms and values, and responses to boundaries are valuable in studying organizational behavior. This shows the importance of considering the environment when evaluating organizational behavior(John Dowling & Jeffrey Preffer, 1975). This theory explains that if society believes that a company has violated a social agreement, the company's survival will be threatened (Mukhibad & Fitri, 2020). Previous research that used stakeholder theory in its research, namely (Mukhibad & Fitri, 2020), (Jati et al., 2020), (So et al., 2021), and (Ben Abdallah & Bahloul, 2022).

Sharia Financial Performance

The process of implementing a company's financial resources is mainly measured by financial performance, information can be obtained by examining the company's financial performance such as how much the company's management is successful, and provides benefits to society (Ichsan et al., 2021). Profitability (ROA), liquidity (FDR), Capital (CAR) and leverage (DER) are in this research, a number of financial performance indicators are used.

Islamic Social Reporting (ISR)

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) which compiles and determines social disclosure standard items periodically using ISR as a benchmark for implementing social responsibility(AAOIFI, 2015). Related disclosure items were further developed more extensively by researchers. that Islamic institutions must submit(Afandy et al., 2021). The ISR Index consists of six disclosure indicators: (1) Funding and Investment; (2) Products and Services; (3)

Labor; (4) Social; (5) Environment; and (6) Organizational Governance (Riyani & Uswati Dewi, 2018).

Islamic Corporate Governance (ICG)

Corporate governancein Sharia Financial Institutions, especially sharia banking, IFSB 03 explains that corporate governance in LKS is an organizational structure where the LKS management acts in a way that is as consistent as possible with the interests of its stakeholders, providing appropriate incentives to the Board of Directors, DPS and management to pursue the desired goals. benefit stakeholders, encourage LKS to make better use of its resources, and uphold Islamic sharia law and principles (IFSB, 2006).

It has also been explained that the main or core part of the ICG is the sharia board (Atiqah & Rahma, 2018). One of the indicators of Islamic Corporate Governance (ICG) which has a role in influencing management in disclosing corporate social responsibility is the Board of Commissioners (Mustika et al., 2022), one of the parties tasked with ensuring sharia bank compliance is the Sharia Supervisory Board (DPS) (Afandy et al., 2021). Previous research using Islamic Corporate Governance (ICG) in sharia banking is among the first (Jati et al., 2020), second (Mukhibad & Fitri, 2020), and third (Afandy et al., 2021).

The Influence of Halal Life Style on ISR Disclosure

Halal Life Style is assessed using the Non-Halal Income indicator. This ratio is used because in terms of ISR disclosure each company will consider several aspects, and one of these aspects is non-halal income. Found the results from researchers (Budiandru, 2021)that halal lifestyle in the halal industrial sector, debt interest and non-halal income as indicators have a big impact, both simultaneously and partially. In line with the explanation above, the following hypothesis can be put forward:

H1: Halal Life Style has a positive effect on ISR disclosure.

The Influence of Profitability on ISR Disclosure

Return On Assets (ROA) is used to measure profitability, as it is one of several profitability measures that are often sought when evaluating financial accounts. This is because ROA is seen as being able to show the success of a company in creating profits (Jati et al., 2020). Found the results of the sixth researcher (Ben Abdallah & Bahloul, 2022)The ratio of profitability, namely ROA, has a negative effect, while the research results from the first researcher(Jati et al., 2020), and fifth researcher (Diansari et al., 2022) ROA, a measure of profitability, has no effect on ISR disclosure. The following assertions can be made based on the above justification:

H2: Profitability has a positive effect on ISR disclosure.

The Influence of Liquidity on ISR Disclosure

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In this research, the Financing to Debt Ratio (FDR) ratio is used to assess liquidity, because the use of FDR is related to the trade off that arises when measuring liquidity with FDR. When the FDR reaches 100%, the bank is considered to have good liquidity because it is able to channel its financing from the third fund collected. According to Putra (2014) and Kamil and Heusetya (2012), liquidity has little influence on ISR disclosure (Jati et al., 2020). Meanwhile, previous research which was the source of inspiration for this research revealed that liquidity has an impact on ISR disclosure. This research was conducted by the first researcher(Jati et al., 2020)and second researcher (Diansari et al., 2022). From this explanation, the following hypothesis can be put forward:

H3: Liquidity has a positive effect on ISR disclosure.

The Influence of Capital on ISR Disclosure
Capital Adequacy Ratio (CAR) is a proxy measurement in this research. The results of the CAR ratio are a good signal for stakeholders in assessing banking performance. (Wardani & Nurhayati, 2021) revealed that the Capital ratio, namely CAR, had a negative and insignificant effect. From this explanation, it is possible to propose the following hypothesis:

H4: Capital has a negative effect on ISR disclosure.

The Effect of Leverage on ISR Disclosure
Debt to Equity Ratio (DER) is used in this research to evaluate leverage. According to Meek, Roberts, and Gray (1995), businesses with a high level of leverage will make thorough and transparent disclosures, thereby gaining the trust of lenders. Kamil and Herusetya (2012) leverage disclosure has a negative impact on ISR disclosure (Jati et al., 2020). Meanwhile, previous research which is the basis of this research provides different results from one study to another, this can be seen from the findings of research conducted by (Jati et al., 2020) utilizing results has little effect on ISR disclosure, but research by (Diansari et al., 2022)getting leverage results has an impact on ISR disclosure. This justification makes it possible to propose the following theory:

H5: Leverage has a positive effect on ISR disclosure.

The Influence of Islamic Corporate Governance (ICG) as a Moderating Variable on ISR Disclosure
The size of the board of commissioners can influence management decisions to disclose corporate social responsibility, so the ICG variable indication is used (Mustika et al., 2022). Meanwhile, DPS size is used as an indicator of the ICG variable because DPS size is an independent body entrusted with directing, supervising and reviewing LKS activities in accordance with sharia principles (Rismayati et al., 2022). Based on previous research which served as a guide for this research, it is known that ICG, namely the size of the Board of Commissioners and the Sharia Supervisory Board, has a positive impact on the disclosure of Sharia

Financial Performance (Afandy et al., 2021). The size of the Sharia Supervisory Board and Board of Commissioners can be used as moderating variables in this research based on research findings, according to ICG experts. This explanation allows for the development of a hypothesis:
H6: Islamic Corporate Governance (ICG) is able to moderate the independent variable on ISR disclosure.

RESEARCH METHODS

Population and Sample

The secondary data source for this type of quantitative research is annual financial reports. The research population is all Sharia Commercial Banks (BUS) registered with the OJK for the 2014-2021 period. Purposive sampling was used to obtain 96 samples from 12 BUS.

Independent Variable (X)

Non-Halal Income

Income originating from sources that conflict with the principles of muamalah is considered not halal. BUS Indonesia's non-halal income sources are: financial sources originating from fines, interest income, current account services, commissions, fees, or other types of bank partner income which may not be obtained in accordance with management regulations.(Ernawati, 2020). The non-halal income ratio from 12 Indonesian BUS annual reports was used in this research.

Profitability

Profitability is the possibility for an organization to generate profits. This ratio consists of profit margin, ROE, and ROA (Diansari et al., 2022). This research uses ROA with the formula:

$$ROA = \frac{NPM}{Total\ Asset}\ x\ 100\%$$

Liquidity

The liquidity ratio shows that a company's ability to pay its debts increases with its current ratio. In order to have an impact on the number of disclosures made through Islamic Social Reporting (ISR) (Diansari et al., 2022). Liquidity is expressed using the Financing to Deposit Ratio (FDR) formula as follows:

$$FDR = \frac{Total\ Lending}{Total\ Funding}\ x\ 100\%$$

Capital

The minimum capital that a bank must have so that it can be used to offset the risk of loss is called capital or capital components (Wardani & Nurhayati, 2021). Capital Adequacy Ratio (CAR) is used in this research to measure the level of bank capital adequacy. The method is as follows:

$$CAR = \frac{capital}{Assets\ Weighted\ By\ Risk\ (ATMR)}\ x\ 100\%$$

Leverage

The certainty of a business to pay off debts to third parties either directly or in the long term is known as leverage (Rismayati et al., 2022). Leverage is calculated by Debt to Equity (DER) (Diansari et al., 2022). Leverage is expressed by the following formula:

$$DER = \frac{Total\ Liabilities}{Total\ Equity}\ x\ 100\%$$

Dependent Variable (Y)

The dependent variable in this study was evaluated using the Islamic Social Reporting Index, the ISR value was created by applying the content analysis method, which gives a value of 1 for things that are disclosed and 0 for things that are not disclosed. In the annual report ISR is given a symbol with a total of 48 disclosure items. Calculation of the determined ISR value uses the following formula:

$$ISR = \frac{Disclousure}{Total\ Disclousure}\text{x } 100\%$$

Moderating Variable (Z)

Size of the Board of Commissioners

The board of commissioners is given the power to direct and supervise company management. The board of commissioners impacts how management expresses its commitment to ISR. The number of commissioners in a company can be determined by calculating the number of commissioners(Mustika et al., 2022).

$$Dewan\ Komisaris = \sum Jumlah\ Dewan\ Komisaris$$

Size of the Sharia Supervisory Board (DPS)

The phrase “Sharia Supervisory Board” (DPS) in Indonesia refers to internal sharia supervision(Afandy et al., 2021). The number of sharia supervisory boards in a corporation can be determined by counting the number of members of the board(Rosyidah & Nafif, 2022). The following is the formula for calculating the proportion of DPS measured ratio:

$$DPS = \sum Jumlah\ Dewan\ Pengawas\ Syariah$$

Data analysis technique

MRA (Moderated Regression Analysis)

Moderated Regression Analysis (MRA) is the name given to this interaction test. Where the regression equation contains the product of two or more independent (interaction elements)(Sakanko, 2020). This illustration is the influence of Islamic Corporate Governance (ICG) on the relationship between Halal Life Style which consists of Non-Halal Income (X1), and Sharia Financial Performance which consists of Profitability (X2), Liquidity (X3), Capital (X4), and Leverage (X5) towards Islamic Social Reporting (ISR) (Y). The MRA equation is as follows:

Y = α + β1X1 + β2X2 + β3X3 + β4X4 + β5X5 + e

Y = α + β1X1 + β2X2 + β3X3 + β4X4 + β5X5 + β6Z + β1X*1Z + β2X*2Z +...+ e

Information:

Y :Disclosure of Islamic Social Reporting (ISR)

α	:Constant
X1	:Non-Halal Income
X2	:Profitability
X3	:Liquidity
X4	:*Capital*
X5	:*Leverage*
Z	:*Islamic Corporate Governance*(ICG)
β1, β2, β3, β4, β5	:Regression Coefficients
e	: Error

Panel Data Regression Analysis

Cross-time data (time series) and cross-individual data (cross section) are used to create panel data. The research period, namely 8 years (2014-2021), is the basis for the time series data in this research, while the cross section data for this research comes from 12 Sharia Commercial Banks (BUS) that meet the research parameters. thus producing 96 (ninety six) observations. The following panel data regression equation is formed:

$$Y_{it} = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon_{it}$$

Information:

Y	:Disclosure of Islamic Social Reporting (ISR)
α	:Constant
X1	:Non-Halal Income
X2	:Profitability
X3	:Liquidity
X4	:*Capital*
X5	:*Leverage*
β1, β2, β3, β4, β5	:Regression Coefficients
e	: Error
i	: Cross Section
t	: time series

Hypothesis testing

F Test (Simultaneous)

Comparison of the calculated F probability value with the alpha error rate can be used for testing. (0.05). If the significant value is more than 0.05 then it is decided to accept H0 or there is no significant influence of the independent variable on the dependent variable (Tri Basuki, 2016).

t Test (Partial)

The significance value must meet the test criteria <0.05. If the estimated problem value is less than 0.05 then the independent variable has a significant effect on the dependent variable, and vice versa (Tri Basuki, 2016).

Coefficient of Determination (R2)

The extent to which the model can explain variations in the research independent variables is shown by the coefficient of determination (Agus Widarjono, 2013).

RESULTS AND DISCUSSION

Moderated Regression Analysis (MRA) Results

According to the results of the moderated analysis research, the board of commissioners (Z1) and the sharia supervisory board (Z2) as the two moderating variables that the researcher used were each unable to moderate the independent variable on the dependent variable that the researcher used in this research. For this reason, researchers have attached the results in Table 1.

Table 1

Moderated Regression Analysis (MRA) Test Results

MODEL	COEFFICIENT	Adj R-Square (Before Moderation)	Adj R-Square (After Moderation)	PROB	INFORMATION
The Board of Commissioners (Z1) was unable to moderate the Non-Halal Income variable (X1) towards strengthening ISR (Y).	-0.010568	-0.007482	-0.000685	0.1251	Not Moderating
The Board of Commissioners is unable to moderate the ROA (X2) variable towards strengthening ISR (Y)	-0.005309	0.027894	0.008268	0.7323	Not Moderating
The Board of Commissioners (Z1) was unable to moderate the FDR variable (X3) towards strengthening ISR (Y).	-0.028189	-0.010263	-0.016336	0.2926	Not Moderating
The Board of Commissioners (Z1) was unable to moderate the CAR variable (X4) towards strengthening ISR (Y).	-0.063891	0.004619	0.006112	0.1456	Not Moderating
The Board of Commissioners (Z1) was unable to moderate the DER variable (X5) towards strengthening ISR (Y).	0.016730	-0.003152	-0.012648	0.3255	Not Moderating
The Sharia Supervisory Board (Z2) was unable to moderate the Non-	-0.010595	-0.007482	-0.010197	0.1801	Not Moderating

Halal Income variable (X1) towards strengthening ISR (Y).					
The Sharia Supervisory Board (Z2) is unable to moderate the ROA variable (X2) towards strengthening ISR (Y)	0.001114	0.027894	0.008704	0.9515	Not Moderating
The Sharia Supervisory Board (Z2) is unable to moderate the FDR variable (X3) towards strengthening ISR (Y).	-0.093928	-0.010263	-0.020194	0.3337	Not Moderating
The Sharia Supervisory Board (Z2) was unable to moderate the CAR variable (X4) towards strengthening ISR (Y).	-0.068268	0.004619	-0.006895	0.4194	Not Moderating
The Sharia Supervisory Board (Z2) was unable to moderate the DER variable (X5) towards strengthening ISR (Y).	0.017236	-0.003152	-0.019028	0.5645	Not Moderating

Source: processed data, 2024

Panel Data Regression Analysis
Selection of Estimation Model

When selecting the best model, there are three methods to evaluate model estimates: Chow Test, Hausman Test and Lagrange Multiplier (LM) Test. CEM or FEM is appropriate to use for research using the Chow test.

Table 2
Test Chow

Effects Test	Statistics	df	Prob.
Cross-section F	64.627281	(11.78)	0.0000
Chi-square cross-section	222.137363	11	0.0000

Source: processed data, 2024

Table 2. Chow test shows that the Prob Cross-section F value 0.0000 < (0.05) indicates that H0 is rejected, because FEM is a better choice for estimating panel data than CEM. Additionally, when deciding whether to use the REM or FEM approach for panel regression, the Hausman test is applied.

Table 3
Hausman test

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Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-section	3.147035	6	0.7902

Source: processed data, 2024

Table 3 shows that REM is more appropriate than FEM for estimating panel data when the Prob Chi-square value is 0.7902 > (0.05). It can be concluded from the Chow and Hausman test results that REM is more suitable to be applied compared to CEM and FEM. Proceed to the Lagrange Multiplier (LM) test now that REM has been selected.

Table 4
Lagrange Multiplier (LM) Test

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	220.4795	1.022292	221.5018
	(0.0000)	(0.3120)	(0.0000)

Source: processed data, 2024

Table 4 shows that the Both value is 0.0000 < (0.05), indicating that the H0 decision is rejected, and REM is a better choice for estimating panel data than CEM. It can be concluded from the Chow, Hausman, and Lagrange Multiplier (LM) tests that REM is more suitable to be applied than CEM and FEM. Whatever REM or CEM is selected, the testing has been completed, thus REM is used in this research.

Hypothesis testing

F Test (Simultaneous)

The F-statistic probability value for panel data regression using REM is 0.00 < 0.05. These findings prove that the dependent variable Islamic Social Reporting (ISR) is simultaneously influenced by the independent variables, namely Non-Halal Income, ROA, FDR, CAR, and DER.

t Test (Partial)

Table 6
t Test Results

Variables	Coefficient	Probability	Information
PNH (X1)	0.001166	0.4973	H1 Rejected
ROA (X2)	0.008036	0.0471	H2 Accepted
FDR (X3)	0.000154	0.9415	H3 Rejected
CAR (X4)	0.015879	0.2452	H4 Rejected
DER (X5)	-0.002328	0.6643	H5 Rejected

Source: processed data, 2024

Based on the results of panel data regression using the Random Effect Model (REM), the profitability value of the Non-Halal Income variable (X1) increased from 0.05 to 0.4973. Islamic Social Reporting (ISR) can be said to be unaffected by non-halal income variables. Meanwhile, the ROA variable (X2) has a probability value of 0.0471 < 0.05 based on panel data regression results using the Random Effect Model (REM). It can be said that the ROA variable has an impact on Islamic Social Reporting (ISR), while the FDR variable (X3) has a profitability value of 0.9415 > 0.05, which means that Islamic Social Reporting (ISR) can be stated to be unaffected by the FDR variable.

The profitability value of the CAR variable (X4) has been calculated using panel data regression and the Random Effect Model (REM) of 0.2452 > 0.05. Islamic Social Reporting (ISR) can be stated to be unaffected by the CAR variable. Meanwhile, the profitability value of the DER variable (X5) which is calculated using panel data regression and the Random Effect Model (REM) is 0.6643 > 0.05, thus Islamic Social Reporting (ISR) can be declared not affected by the DER variable.

Coefficient of Determination (R2)

The variables Non-Halal Income, ROA, FDR, and DER can explain the ISR variable, according to the results of the Random Effect Model (REM) panel data regression which shows an R2 (Adjusted R Squared) value of 0.15 (15%) and the remaining 85% of the explanation is provided by the variables others not related to the research.

DISCUSSION

The Influence of Non-Halal Income on ISR Disclosure

It is known from the results of data processing obtained with Eviews version 12 that H1 is rejected, because non-halal income does not affect Islamic Social Reporting (ISR) disclosure. It can be proven that companies pay less attention to banking decisions to manage non-halal income in ISR disclosures. The criterion for determining whether an issuer is sharia or not is the arrangement of interest-based transaction payments in financial ratios. Usury-based transactions are absolutely prohibited, in accordance with sharia law contained in the Koran and hadith. If we examine the rules of fiqh, what cannot be done totally should not be abandoned altogether. As a result, settlement of usury-based transactions is possible. However, it is also important to remember that this rule requires the application of sharia as long as the company has non-halal income (Budiandru, 2021). With the test results that have been obtained, it can be said that Sharia Commercial Banks in Indonesia still do not implement sharia aspects in their activities.

This is further supported by one of the researchers' findings (Ernawati, 2020) who explained that Sharia Commercial Banks in Indonesia still use a fine system for late payments, they also offer giro services which are paid as placement fees in conventional interest-based institutions. Even though these funds are recognized not as belonging to the bank concerned but as benevolent funds, they need to continue to be minimized and even need to be avoided.

The Influence of Profitability on ISR Disclosure

H2 is accepted based on test findings from Eviews version 12 because profitability can influence Islamic Social Reporting (ISR). Profitability is a ratio that management can use to express social responsibility to shareholders with limitations and flexibility, the better the company's profitability, the more Islamic-based social information is disclosed. This is in line with legitimacy theory which claims that if an organization works in accordance with social standards, it will grow a positive reputation and have an impact on its financial performance, including profits. The findings of this study are consistent with previous findings from other studies (Budiandru, 2021) and (Addainuri & Haryono, 2022)with the ratio of profitability, namely ROA, which has an influence on ISR disclosure.

The Influence of Liquidity on ISR Disclosure

According to the test results using Eviews version 12, H3 is not approved as a result, it can be claimed that liquidity has no impact on Islamic Social Reporting (ISR) disclosure. This deviates from how the ratio is typically measured using the quick ratio. The level of voluntary disclosure is influenced by the liquidity ratio. The findings of this study are consistent with previous findings from other researchers (Zuhriyanto & Haryono, 2022) with the liquidity ratio, namely FDR, has no influence on ISR disclosure.

The Influence of Capital on ISR Disclosure

Test results using Eviews version 12 show that H4 is rejected, because capital has no impact on how Islamic Social Reporting (ISR) is expressed. The findings of this study are consistent with previous findings from other studies (Wardani & Nurhayati, 2021). ISR disclosure is not affected by CAR. This finding shows that no matter how low the CAR value of a bank is, it will not affect the company value. Usually investors tend to ignore the CAR factor and focus more on other factors that can have an influence on the return they will receive.

The Effect of Leverage on ISR Disclosure

Considering that leverage has no influence on Islamic Social Reporting (ISR) disclosure, the test findings using Eviews version 12 show that H5 is rejected. Research, however, has shown that businesses with high debt ratios demand more information, especially information about corporate social responsibility. Thus it contradicts stakeholder theory. ISR disclosure is a fulfillment of stakeholder demands.

Researchers state that the debt ratio has no effect on ISR disclosure because there is a pattern of fluctuation in debt ratio data and ISR disclosure. Researchers assume that ISR disclosure will fulfill the need for relevant information in financial reports regardless of the size of the debt that must be paid and as a form of accountability for Islamic banks. The findings of this study are consistent with previous findings from other studies(Jati et al., 2020)the findings of this study contradict previous research by showing that the leverage ratio, or DER, has no impact on ISR disclosure (Diansari et al., 2022), this has an impact on ISR disclosure due to leverage.

CONCLUSION

This study provides evidence that the indicators of Halal Life Style, namely Non-Halal Income (X1), have no effect on ISR disclosure, while the sharia financial performance indicators consisting of FDR (X3), CAR (X4), and DER (X5) have no effect on disclosure. ISR (Y) while ROA (X2) influences the disclosure of ISR (Y), the implications of this research show that companies in the halal industrial sector, especially sharia commercial banks, are still lacking in paying attention to and minimizing non-halal income as well as other indicators such as FDR, CAR, and DER. Given the study's findings, banks may want to consider disclosing ISR in accordance with sharia standards, where the level of ISR disclosure of a bank will be high if its interest-based debt and non-halal income are low, as well as its financial ratios must be balanced.

Banks can also improve the quality of their financial performance to increase their disclosure of corporate social responsibility. Apart from that, this research shows that the Board of Commissioners (Z1) and the Sharia Supervisory Board (Z2) which are used as moderating variables in this research are not effective in influencing the response of the independent variable to the dependent variable.

LIMITATIONS AND SUGGESTIONS

There are various limitations in this research, including scoring results that are less than perfect, due to the fact that there are several Islamic Social Reporting (ISR) disclosure items that are not fulfilled by Sharia Commercial Banks because there are no standard provisions regarding Islamic Social Reporting (ISR) collection items. There is an element of subjectivity in determining the Islamic Social Reporting (ISR) disclosure index so that the same Islamic Social Reporting (ISR) disclosure item can produce different numbers from each researcher. Apart from that, this research does not look at how Islamic banking determines fine policies.

Suggestions for future research should include more variables, extend the research period carried out in order to find out any developments in the disclosure of Islamic Social Reporting (ISR) in the following year. Apart from that, it is hoped that future researchers will investigate the shortcomings of this research in more detail.

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