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Firm size as a moderator in determining islamic social reporting practices

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ABSTRACT

Purpose: This study seeks to ascertain the correlation between profitability, leverage, liquidity, and the Sharia Supervisory Board (hereinafter referred to as SSB), in connection to Islamic Social Reporting (hereinafter referred to as ISR), with Firm Size serving as a moderating variable, in Islamic banks in Indonesia from 2016 to 2023.

Methodology/approach: This research adopts a quantitative approach. The population is Islamic banks registered with OJK from 2016 to 2023. The data collection and selection process uses purposive sampling. Data analysis utilizes regression processed by the SPSS program

Findings: This study's findings demonstrate that profitability exerts a significant positive influence on ISR, whereas liquidity has a significant negative impact. Leverage and SSB do not affect ISR. Firm size can moderate the influence of liquidity and profitability on ISR, but it does not moderate the impact of leverage and SSB on ISR.

Practical and Theoretical Contribution/Originality: This study's results can help investors, the public, and stakeholders assess the company's commitment to ISR disclosure based on the factors that influence it.

Research Limitation: One limitation of this study is the unbalanced dataset of annual financial reports. Companies experiencing losses were excluded, and some banks were not listed with the OJK during certain years. This may reduce the completeness of the analysis and limit the representativeness of the findings.

Keywords: Firm Size; Islamic Social Reporting; Leverage; Liquidity; Profitability; Sharia Supervisory Board.



INTRODUCTION



Figure 1. Asset Trend

Currently, Sharia banking has experienced significant development and has been widely accepted. Sharia banking assets in Indonesia continue to rise continuously. Islamic bank assets continue to grow with a positive trend, although the growth seems slow (Diana et al., 2023). The Financial Services Authority (OJK) report shows that the total assets of Sharia banks and Sharia business units reached IDR 811.96 trillion in October 2023. The acquisition of assets in October 2023 also increased by around 11.97% from the previous period of IDR 725.12 trillion in October 2022. Assets in October 2023 were also the highest over the past year (Santika, 2023).

In 2021, three Islamic banks in Indonesia, which included Bank Syariah Mandiri, BRI Syariah, and BNI Syariah, officially merged through a merger process and became Bank Syariah Indonesia (BSI). This merger process had a significant impact on the Islamic banking industry. Based on data from OJK, the total assets in the second quarter of Islamic banking in 2021 after the merger were recorded to have increased by 16.4 percent compared to the previous year's period (Pamungkas et al., 2022).

The growth of Sharia banks in Indonesia has encouraged ethics in social responsibility disclosure (Jati et al., 2020). Islamic banks have greater social responsibility as Sharia entities and are expected to operate by ethical principles, morality, and Sharia provisions (Hussain et al., 2020). The actual level of disclosure using CSR still needs to be improved, especially in Sharia compliance, because Islamic commercial banks aim to uphold high social and ethical standards. This creates a need for ISR as a complement to disclosures not yet covered in CSR (Akbar et al., 2022).

Sharia banks in Indonesia have shown progress in ISR disclosure. The average ISR disclosure rate ranges from 69.77%, with some reputable banks, such as Bank Muamalat Syariah, reaching around 88.37% (Muhson & Aisyiah, 2024). This difference in the level of disclosure is because the disclosure is still voluntary. Because of this, the issuance of ISR by Sharia commercial banks is still diverse and depends on the policies implemented by each bank.

ISR ensures transactions that avoid elements of interest (riba), uncertainty (gharar), and excessive speculation while also emphasizing transparency in the reporting of zakat, adherence to Sharia principles, and contributions to social welfare through infaq, charity, and waqf to illustrate the role of worship in the corporate environment by Islamic principles (Susbiyani & Halim, 2022). The ISR index is a key framework for disclosing social responsibility in alignment with Sharia principles, aiming to enhance corporate transparency and accountability (Wijayanti & Setiawan, 2022).

Several factors have potential in ISR disclosure, including profitability, leverage, liquidity, SSB, and firm size. Higher profitability is positively associated with the extent of a company's social responsibility disclosure (ISR), as increased profitability enhances the company's capacity to allocate resources for such disclosures. (Mais & Ramadhanty, 2022). Companies with higher profits attract investors by increasing social responsibility disclosures (Budiandru, 2021). However, contrary with Mais et al. (2021), most companies are more focused on achieving financial returns and pay less attention to ISR. Profitability is still worth exploring as its impact on ISR disclosure remains unclear, with some studies showing a positive effect and others the opposite (Fachrurrozie et al., 2021).

Besides that, the thing that affects ISR reporting is leverage, Stice & Skousen (2009) state that the financial leverage ratio describes the extent to which companies utilize external funds to purchase assets. Funds obtained through debt are expected to be well managed and allocated for ISR to improve a positive image in the community (Iqramuddin et al., 2020). Companies with high leverage tend to disclose more information about stakeholders' interests to reduce uncertainty and build trust in their expertise (Amalia et al., 2023). This research is different from the findings of Jati et al. (2020), leverage does not affect the level of ISR disclosure because the company has a large or small debt, the company naturally presents its social report.

A company's strong liquidity ratio is closely linked to its level of social responsibility disclosure (Putra et al., 2020). Entities with higher liquidity levels tend to broaden their Islamic Social Reporting as a way to demonstrate financial stability through corporate social responsibility reports (Diansari et al., 2022). But it is contrasted with Setyowati & Kusumawati (2023), companies focus on liquidity to attract investors and creditors, but its level does not necessarily impact ISR disclosure. This study uses company size as a moderating variable because company size is often considered a factor that can influence the relationship between independent variables (such as profitability, liquidity, leverage, and the presence of SSB) to the level of ISR disclosure. Larger companies tend to have more resources and higher pressure from stakeholders to make wider disclosures, including ISR (Amalia et al., 2023). Therefore, company size can strengthen or weaken the influence of these independent variables on the level of ISR disclosure (Haryono, 2022).

The novelty of this research is to add the variable of the SSB as an independent variable from Ulya & Khabib, (2023) that has not been previously researched in the research from Amalia et al., (2023), Dwiningsih, (2023), Rozzi & Bahjatullah, (2020). SSB is another factor that can influence ISR disclosure. This study seeks to provide a deeper understanding of how the combination of these variables affects the level of ISR disclosure by using SSB as an independent variable. SSB assist sharia banks in enhancing sharia compliance in social responsibility disclosures. The objective of sharia compliance is the disclosure of ISR, as ISR is integral to Islamic law following maqasid sharia Avianty et al., (2024), it was observed that the SSB significantly influences the disclosure of ISR.

The difference between this and the previous study is the firm to be researched and the sampling period. Further research is needed to test whether profitability, liquidity, leverage, and the SSB can affect ISR with firm size as a moderation variable. This study utilizes a sample of Sharia banks registered with the Financial Services Authority (OJK).

The purpose of this study was to determine the effect of profitability, leverage, liquidity and SSB, firm size as a moderating variable in this study to see how these independent variables affect ISR disclosure in Indonesian Islamic banks..

Legitimacy theory was first introduced by [Dowling & Pfeffer \(1975\)](#), who emphasized the importance of aligning organizational values with societal norms to maintain legitimacy. The theory of legitimacy indicates that the company has an unwritten contractual relationship with the community in which they operate ([Wang et al., 2022](#)). The theory of legitimacy states that for an organization to operate successfully, it must ensure that its operational activities are by socially acceptable social norms to function effectively, enabling the company to gain, sustain, or regain legitimacy in the perception of stakeholders and ensure its activities are well-received by society ([Ali et al., 2020](#)).

The existence and operations of companies must be aligned with the values and expectations of the public in the environment in which they operate ([Jati et al., 2020](#)). ISR, as a modality of social reporting oriented in Islamic principles, is a tool for companies to strengthen this legitimacy, especially in a society prioritizing sharia values ([Luqyana & Zunaidi, 2021](#)). Legitimacy theory explains that companies with high profitability, liquidity, or leverage ratios tend to provide broader disclosure about social and environmental aspects since their financial strength allows them to focus more on social responsibility, while companies with large debts have limitations to carry out such initiatives ([Amalia et al., 2023](#)).

Stakeholder's theory, the Stanford Research Institute (SRI) in 1984 coined the term "stakeholder" for the first time ([Nariswari et al., 2023](#)). Stakeholder theory was first introduced by R. Edward Freeman, a professor at the University of Virginia, in 1984 ([Dmytriiev et al., 2021](#)). Stakeholder theory emphasizes that companies operate not only for themselves but also have a responsibility to create value for all their stakeholders, such as shareholders, creditors, customers, suppliers, governments, communities, analysts, and others ([Dmytriiev et al., 2021](#)). Creating here means optimizing the results that can be felt by all parties involved in the business ecosystem, not just focusing on financial benefits ([Mu et al., 2024](#)). Stakeholder theory explores the obligations of management towards stakeholders and helps them operate more efficiently in attaining the company's primary objectives ([Rashid et al., 2020](#)).

ROA was utilized to assess profitability in this study. ROA was used to measure profitability in this study because it is favored by analysts, as ROA is seen as an indicator of a company's efficiency in generating profits ([Giannopoulos et al., 2022](#)). Profitability is defined as the ability of a company to generate profit from its operations ([Lim & Rokhim, 2020](#)). According to the legitimacy theory, it is stated that companies with high profitability are more encouraged to disclose ISR in order to maintain a positive image in the public's perception and reduce social pressure ([Susbiyani & Halim, 2022](#)). In addition, the higher the ratio of profitability, the wider the disclosure that the company makes because greater profits allow for better allocation of resources. This statement aligns with research from [Putri & Kusumasari, \(2023\)](#) and [Fachrurrozie et al., \(2021\)](#) by showing that profitability has a significant positive effect on ISR.

H₁: Profitability (X1) has a positive effect on ISR (Y)

Financial leverage reflects the use of external capital by a company to purchase assets in the hope of generating a greater flow of funds or profits in the future (Markonah et al., 2020). This ratio is also used to describe the capital structure of a company and the level of debt default risk (Santosa & Budiasih, 2021). Based on stakeholder theory, companies with high leverage ratios must explain debt payments and loan impacts to stakeholders and be more responsible in disclosing their social responsibilities (Diansari et al., 2022). A higher leverage ratio in a company may lead to an increased ISR disclosure rate as the company wants to improve its public image and demonstrate social responsibility to reassure creditors and investors that it remains stable and committed to Sharia principles despite having high debts. Consistent with Mais et al., (2021) and Diansari et al., (2022), leverage positively and significantly affects the disclosure of ISR.

H₂ : Leverage (X2) has a positive effect on ISR (Y)

Liquidity represents an entity's capacity to meet its obligations and discharge short-term liabilities (Pattiruhu & Paais, 2020). Firms possessing high liquidity tend to have enough cash reserves or current assets to fund social activities without disrupting significant operations. This allows them to be more active in increasing the disclosure of ISR to attract public attention and build legitimacy (Rachman et al., 2023). Companies with high liquidity signal their strength by providing sufficient information through their annual reports to distinguish themselves from other companies (Putra et al., 2020). This aligns with the legitimacy theory, explaining that companies must attract public attention to maintain their support and trust (Iqramuddin et al., 2020). Moreover, companies with robust liquidity typically reveal more information in the ISR to demonstrate their trustworthiness and foster stakeholder confidence. Research from Mais et al., (2021) and Rachman et al., (2023) found that liquidity positively and significantly affects the disclosure of ISR.

H₃ : Liquidity (X3) has a positive effect on ISR (Y)

The Sharia Supervisory Board (SSB) is expected to have a significant positive effect on Islamic Social Reporting (ISR) due to its critical role in ensuring that financial institutions comply with Sharia principles, including the ethical and social dimensions of business practices (Anggriani et al., 2024). By actively monitoring and guiding management, the SSB encourages transparency and accountability, aligning with Islamic law's values. Additionally, the presence of a competent SSB signals the organization's commitment to upholding Sharia principles, thereby motivating companies to disclose more comprehensive ISR as a means to gain public trust. Based on the stakeholder theory, society demands that companies act socially in a beneficial manner and contribute to the economy because companies have responsibilities toward various social groups (Harun et al., 2020). In this context, the SSB in Islamic banks plays a crucial role in guaranteeing adherence to Sharia norms and advancing social activities (Muhammad et al., 2021). The size of the SSB influences its ability to monitor effectively, which can ultimately enhance company performance and encourage ISR disclosure (Dosinta & Yunita, 2024). The SSB has a positive impact on ISR because of its role (Avianty et al., 2024). Research by and Wijayanti & Setiawan (2023), supports that the SSB has a positive and significant effect on ISR.

H₄ : SSB (X4) has a positive effect on ISR (Y)

Company size is used to classify the size of the company. Large companies are companies that have many resources, both in the fields of human resources, finance, and facilities (Lestari & Mochlasin, 2021). Big companies must carefully consider the implementation of policies to be acceptable to the surrounding communities (Amalia et al., 2023). Big companies have more resources, more stakeholders, and the need to meet higher transparency demands,

which drives broader disclosure. When the company has large assets, management can maximize management and create high profits. High profits mean the company has sufficient funds to manage information and present ISR disclosures (Setiyani & Citradewi, 2023). Legitimacy theory asserts that to achieve stakeholder legitimacy the company will disclose social responsibility. Risks that are not managed properly can lead to a loss of support from stakeholders (Tubastuvi et al., 2024). Therefore, firm size is a moderation factor affecting the relationship between profitability and ISR. Companies increase in size by maximizing profits, so company management will voluntarily disclose more ISR information. This statement is in line with research from Amalia et al., (2023), indicating that firm size can moderate the relationship between profitability and ISR.

H₅ : Firm size moderates the effect of profitability on ISR (Y)

Company size is a small or large category of a company. Large companies tend to have a wider range of operations thanks to easier access to resources and networks that support operational activities, such as market expansion, product innovation, or distribution efficiency. (Kyove et al., 2021). One way to fulfill these operational activities is to seek additional capital/resources from creditors or investors. Companies with large debts experience increased pressure from their stakeholders. Based on stakeholder theory, companies with abundant resources tend to provide more complete information to help companies relieve creditor pressure and gain the trust of stakeholders (Setiyani & Citradewi, 2023). In addition, the size of the company indicates a large demand from stakeholders so that the company discloses social and environmental information to legitimize the company's activities (Nurjanah & Bawono, 2021). Research from Ulya & Khabib, (2023) the size of the firm can moderate the impact of leverage on ISR.

H₆ : Firm size moderates the effect of leverage and ISR (Y)

Liquidity as an indicator of a company's ability to meet its short-term obligations (Pattiruhu & Paais, 2020). Company size can moderate the effect of liquidity on Islamic Social Reporting (ISR) disclosure because larger companies generally have more resources and more complex organizational structures. This enables larger companies to more easily meet stakeholder demands, including disclosing more transparent information about their social responsibility (Amalia et al., 2023). It can be a positive signal to stakeholders if accompanied by adequate ISR disclosure. Big companies generally get more attention from the public, investors, and other stakeholders (Xiang et al., 2020). On the other hand, smaller companies, despite having high liquidity, may lack the capacity or resources to provide extensive ISR disclosure. This is due to limitations in access to resources, infrastructure, and external oversight, which make smaller companies less pressured to disclose detailed information. Therefore, company size can either strengthen or weaken the effect of liquidity on ISR disclosure. Based on stakeholder theory, companies with good liquidity tend to have the greater financial capacity to fund ISR as a way to signal to stakeholders that their operational management has been good (Amalia et al., 2023). Research from Rozzi & Bahjatullah, (2020) supports the idea that the firm's size moderates the effect of liquidity ISR.

H₇ : Firm size moderates the effect of liquidity and ISR(Y)

The SSB is tasked with supervising the implementation of Sharia principles and assessing whether banking operations and products are by the fatwa issued by the SSB (Puspawati et al., 2020). Based on Puspawati et al., (2020), larger companies tend to have more supervisory boards as the wider scale of operations and higher complexity of activities require more intensive supervision. According to the theory of legitimacy, Big companies have more activities that require oversight, including the disclosure of ISR in order to follow Sharia

principles, thus increasing public trust. Therefore, the SSB can influence ISR as it ensures compliance with Sharia principles, encouraging management to be more transparent and increasing corporate social responsibility disclosure (Tubastuvi et al., 2024). Research Tubastuvi et al, (2024) supports the statement that firm size moderates the effect of SSB on ISR.

H₈ : Firm size moderates the effect of SSB and ISR (Y)

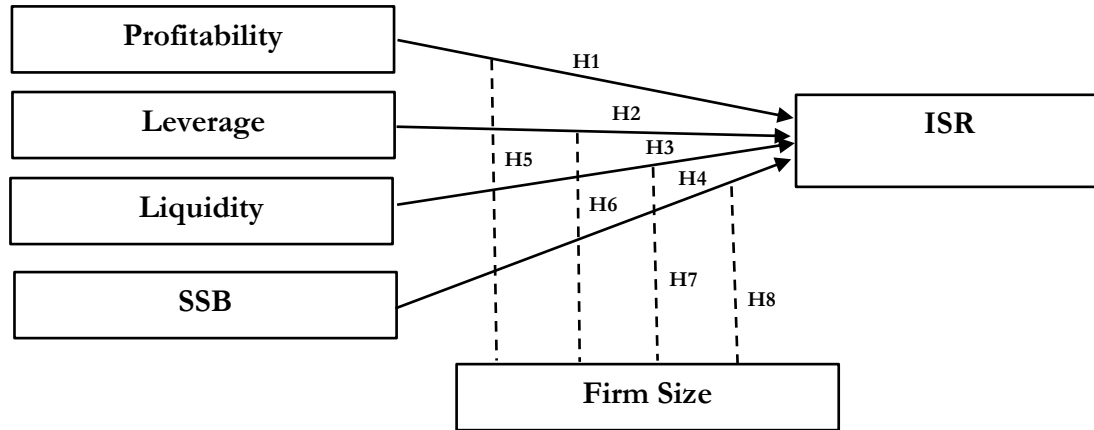


Figure 2.
Conceptual Framework

METHOD

This research utilizes secondary data obtained from the official websites of Islamic banks in Indonesia. This study examines the effect of the interplay among profitability, leverage, liquidity, and the SSB on ISR with firm size as a moderation. The criteria taken by sampling using purposive.

The initial data consists of 128 observations taken from 16 Islamic Commercial Banks in Indonesia in the period 2016-2023. After adjustment, some data were eliminated due to incomplete financial statements or the bank not being registered with the OJK during a certain period. Thus, the final data used in the analysis is 91 unbalanced data. The employed data analysis method is regression analysis utilizing SPSS.

$$Y = \alpha + \beta_1ROA + \beta_2DER + \beta_3CR + \beta_4SSB + e + \beta_5SIZE + \beta_6(ROA*SIZE) + \beta_7(DER*SIZE) + \beta_8(CR*SIZE) + \beta_9(SSB*SIZE) + e$$

Sample Selection Criteria	Number of Data
Total initial data based on observations from 16 Sharia Commercial Banks in Indonesia (2016–2023)	128
Data eliminated due to not meeting the criteria:	
- Annual reports of sharia banks that are not listed with OJK in a certain period	24
- Data from banks with negative profitability	13
- Final data used (unbalanced)	91

Table 1.
Sample Selection

Variable	Definition	Measurement
Profitability	Defined as a company's capacity to earn profit (O'Connell, 2023).	$ROA = \text{Net Income} / \text{Total Assets}$
Leverage	According to Kasmir (2016), this ratio is used to assess the proportion of a company's assets that are funded through debt.. In addition, leverages are used to view and assess the risks associated with dependence on debt (Siswanto & Daniswara, 2022)	$DER = \text{Total Debt} / \text{Total Equity}$
Liquidity	Company's capacity for fulfilling its short-term financial obligations. (Pattiruhu & Paais, 2020)	$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$
Sharia Supervisory Board (SSB)	SSB guarantees all bank activities by Sharia rules for shareholders and stakeholders (Tashkandi, 2023)	Number of members of the SSB
Firm Size	The metric that represents the scale or magnitude of a business. It can be evaluated by, various aspects., such as: Total assets, Total sales, and Number of employees (Hashmi et al., 2020)	$\text{Firm Size} = \ln \times \text{Total Assets}$
Islamic Social Reporting	ISR is a form of corporate social reporting designed to reveal corporate social activities and responsibilities following Islamic principles (Wijayanti & Setiawan, 2022).	$ISR = \text{Total Number of Items Evaluated} / \text{Total Score of Disclosed Items}$

Table 2.
Variable
Explanati-on

Investment And Finance	Social
<ol style="list-style-type: none"> 1. Riba Activities <ul style="list-style-type: none"> - Identify activities that contain riba - % of profit 2. Gharar <ul style="list-style-type: none"> - Identify activities that contain gharar - % of profit 3. Zakat <ul style="list-style-type: none"> - Methods used - Source of Zakat - Amount of Zakat - Zakat Recipients - Opinion of the Sharia Supervisory Board on the collection and distribution of zakat 4. Policy on overcoming late payments by <i>insolvent clients</i> <ul style="list-style-type: none"> - Identify policies to address <i>insolvent clients</i> - The amount of additional fees charged as a consequence of late payment - Sharia Supervisory Board's opinion on the permission regarding additional fees charged as a consequence of late payment by insolvent clients 5. <i>Current Value Balance Sheet</i> 6. <i>Value Added Statements</i> 	<ol style="list-style-type: none"> 17. Shadaqoh/Donation 18. Waqf 19. Qard Hasan 20. Zakat or donations from customer employees 21. Education <ul style="list-style-type: none"> - Establishment of the school - Assistance to schools in financial or non-financial form - Scholarship 22. Health assistance 23. Economic empowerment 24. Caring for orphans 25. Construction or renovation of mosques 26. Youth activities 27. Other social activities (giving) books, going home together, and (others) 28. Sponsorship of health, sports, educational, and other events
Products and Services	Environment
<ol style="list-style-type: none"> 7. Halal or Sharia status in products 8. Product development 9. Improved service 10. Customer complaints/incidents arising from non-compliance with applicable regulations <ul style="list-style-type: none"> - Total consumer complaints - Handling of these complaints 	<ol style="list-style-type: none"> 29. Go green campaign 30. Environmental conservation 31. Protection of wild or endangered flora and fauna 32. Pollution 33. Repair and manufacture of public facilities 34. Environmental audits 35. Environmental management policy

- Fines, both monetary and non-monetary, related to violations of regulations	
- Customer satisfaction surveys	
Workforce	Organizational Governance
11. Characteristics of work	36. Profile and organizational strategy
- Number of hours worked and holidays	37. Organizational Structure
- Remuneration	38. Implementation of duties and responsibilities of the Board of Commissioners
- Salary Ratio	39. Implementation of duties and responsibilities of the Board of Directors
- Employee composition based on certain criteria	40. Completeness and implementation of the Committee's duties
12. Education and training	41. Implementation of duties and responsibilities of the Sharia Supervisory Board
- Education and training programs for employees	42. Implementation of Sharia principles in the collection and distribution of funds and services
- Build employee programs and career paths	43. Handling conflicts of interest
- Employee retention strategy	44. Implementation of the Bank's compliance function
- Percentage of employees who receive career development	45. Implementation of the internal audit function
13. Equal opportunity	46. Implementation of external audit functions
14. Occupational health and safety	47. Maximum limit for disbursement of funds
15. Work environment	48. Transparency of financial and non-financial conditions
16. Custom hiring	49. Anti-money laundering and other perverse practices
	50. Corporate Ethics

Table 3.
Islamic Social
Report-ing
Index

RESULTS AND DISCUSSION

Descriptive analysis serves to explain the distribution of key values. Standard deviation is a statistical function that describes how far the data in a set spreads out from the mean value. Overall, descriptive statistical data can be seen in Table 4.

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	91	0.00001	0.10802	0.0151049	0.02240838
DER	91	0.06232	8.65741	1.4459896	1.17724226
CR	91	1.11066	28.21241	8.2316762	4.59666868
SSB	91	1.00000	4.00000	2.2197802	0.55381902
ROA*SIZE	91	0.00034	2.94865	0.4547801	0.66066948
DER*SIZE	91	1.70148	268.88064	44.7541476	37.12907225
CR*SIZE	91	34.49474	793.85066	248.4352841	133.16699333
SSB*SIZE	91	31.26637	133.99702	67.9369388	19.22715459
ROA	91	27.29642	33.49926	30.4497985	1.18718325
DER	91	0.29870	0.51948	0.4325677	0.05193731

Table 4.
Descriptive
Statistic

Source: Data processed by SPSS, 2024

The findings presented in Table 4 illustrate that there are 91 samples studied from 16 Sharia commercial banks from 2016-2023. ROA has a mean value of 0.0151, which means that the average of the 16 sample banks tested has a profit of 1.51% of their total assets value is low because in the context of the banking industry, higher is often expected. This low ROA value may be influenced by several factors, including the impact of the COVID-19 pandemic which affected the performance of many banks. DER has an average of 1.4459896, meaning that in the sample of Islamic banks, the average total debt of the company is around 144.6% of its total equity. This figure shows that these banks have more debt than equity, but this can be beneficial if managed well and supported by sufficient liquidity. CR has an average of 8.231, which means that the current assets of Islamic banks can cover short-term liabilities by up to 823.1%. This indicates that these banks have excellent liquidity, which means they are able to meet short-term financial obligations without difficulty, the SSB variable has an average of 2, the Firm Size variable has an average of 30.4, the ISR variable has an average of 0.43, showing that the Islamic banks in the sample only reveal about 43% of the expected ISR indicator. This figure shows that there is still room to improve the level of transparency and disclosure regarding social and environmental aspects in accordance with sharia principles.

The Kolmogorov-Smirnov test determines whether the existing data is statistically normally distributed. The data is considered normal if the Asymp value Sig. (2-tailed) on the Kolmogorov-Smirnov test is more than 0.05 (Rashid et al., 2020). Data processed by SPSS indicates that the Asymp. Sig. (2-tailed) value is 0,2, meaning the data studied has been distributed normally.

Variable	Sig.	Standard	Description
ROA	0.528	>0.05	Heteroscedasticity does not exist
DER	0.201	>0.05	Heteroscedasticity does not exist
CR	0.654	>0.05	Heteroscedasticity does not exist
SSB	0.161	>0.05	Heteroscedasticity does not exist
ROA*SIZE	0.579	>0.05	Heteroscedasticity does not exist
DER*SIZE	0.213	>0.05	Heteroscedasticity does not exist
CR*SIZE	0.704	>0.05	Heteroscedasticity does not exist
SSB*SIZE	0.164	>0.05	Heteroscedasticity does not exist

Table 5.
Hetero-
scedasti-city
Test Results

Source: Data processed by SPSS, 2024

Hypothesis	Variable Relations	β	t-stat	sig	Description
H1	ROA \rightarrow ISR	5.514	2.850	.006	Accepted
H2	DER \rightarrow ISR	8.032	1.731	.087	Rejected
H3	CR \rightarrow ISR	-5.148	-2.629	.010	Rejected
H4	SSB \rightarrow ISR	-3.777	-1.939	.056	Rejected
H5	ROA*SIZE \rightarrow ISR	-5.712	-2.971	.004	Accepted
H6	DER*SIZE \rightarrow ISR	-8.009	-1.692	.094	Rejected
H7	CR*SIZE \rightarrow ISR	5.327	2.789	.007	Accepted
H8	SSB*SIZE \rightarrow ISR	4.190	1.970	.052	Rejected

Table 6.
Hypothesis
Test

Source: Data processed by SPSS

In linear regression, heteroscedasticity is seen in the output table "Coefficients" with the Abs_RES variable acting as the dependent variable, according to the results presented in Table 5. The significance value (Sig.) for the Motivation variable (ROA) is 0,528. Meanwhile, the significance value (Sig.) for the Interest variable (DER) was 0.201, (CR) 0.654, (SSB) 0.161, (ROA*SIZE) 0.579, (DER*SIZE) 0.213, (CR*SIZE) 0.704 (SSB*SIZE) 0.164. Given that the significant value of the aforementioned variable exceeds 0.05, according to the decision rule in the glejser test, it can be stated that there are no indications of heteroscedasticity in the regression model.

Data processed by SPSS result show that the Durbin-Watson statistic (d) is 1.000. If the value falls between -2 and +2, it indicates no autocorrelation, meaning the assumption of residual independence is satisfied. So, the data tested indicates no autocorrelation symptoms (Heripson, 2020).

Testing the model with moderation variables does not require multicollinearity testing (Disatnik & Sivan, 2016; Gujarati, 2003; Hayes, 2013; Paul E Jose, 2013). Multicollinearity testing is not mandatory because the high correlation between independent variables, the moderator, and the interaction term is an expected phenomenon.

Data processed by SPSS result show that the coefficient of determination (R^2) value was 0.451., which showed that the independent variable explained 45.1% of the dependent variable, while 54,9% is affected by other variables that were not included in the model

The t-test analysis reveals that the profitability variable has a calculated t-value of 2.850 with a significance level of 0.006, which is below 0.05. This supports the acceptance of H1, suggesting that profitability exerts a significant positive influence on ISR. Meanwhile, the leverage variable exhibits a t-value of 1.731 with a significance level of 0.087, above than 0.05, leading to the rejection of H2 and indicating that leverage does not impact ISR. Meanwhile, the liquidity variable shows a t-value of -2.629 with a significance level of 0.010, which is below 0.05. This result rejects H3 and suggests that liquidity has a significant negative effect on ISR. Then, for the SSB variable, a t-value of -1.939 with a significance of $0.056 > 0.05$ results rejects H4, meaning that the SSB does not affect Islamic ISR.

The variable t-test that the size of the company can moderate are profitability with a calculated t-value of -2,971 sig 0.004 < 0.05 and liquidity with a t-value of 2,789 sig 0.007 < 0.05 , while other variables, such as leverage and the SSB are not able to be moderated by firm size with a sigs value greater than 0.05, namely 0.094 for leverage and 0.052 for the SSB with t value of -1,692 for leverage moderated by Company size and 1,970 for SSB moderated by firm size

Profitability Relationship (X1) to ISR (Y)

According to Table 6, the obtained significance value is 0.006, which is less than 0.05, leading to the acceptance of H1. This indicates that profitability has a significant positive impact on ISR disclosure. This finding is consistent with the legitimacy theory, which posits that firms with higher profitability are more inclined to disclose ISR in order to preserve a favorable public image and reduce social pressures (Susbiyani & Halim, 2022).

When firms experience high profitability, they possess greater resources to allocate toward social responsibility initiatives, including ISR (Rachman et al., 2023). Through ISR reporting, the company shows its adherence to Sharia principles, including fairness, balance, and sustainability, which helps to strengthen its positive image and social legitimacy. In this context, companies use ISR to show that they are not only looking for profit but are also committed to moral and social responsibility, which is expected of Muslim society.

In addition, the increasing profits make Islamic banks feel more obligated to meet stakeholders' expectations by disclosing their social contributions (Putri & Kusumasari, 2023). Their financial success could attract more attention from the public and regulators. This is in line with the view that profitability can encourage companies to be more proactive in meeting the demands of social legitimacy (Fachrurrozie et al., 2021), The results of this study are consistent with those of (Fachrurrozie et al., 2021, Putri & Kusumasari, 2023).

Leverage (X2) Relationship to ISR (Y)

In Table 6, the computed t value of 1.731 with a significance level of 0.087, which is above 0.05, rejects hypothesis [h2], that leverage cannot influence ISR. This signifies that the level of leverage, whether elevated or diminished, does not affect ISR. Although companies with high leverage are more open in their management, companies with low leverage also report on social activities to gain the trust of society (Tubastuvi et al., 2024). This can also be explained through the stakeholder theory that The company will persist in increasing ISR with either a high or low-leverage position due to accountability to creditors, and the company's viability is affected by their perception and support (Jati et al., 2020). Stakeholders prioritize activities aligned with Islamic values and fairness, making Islamic banks responsible

for ensuring ISR accountability regardless of their leverage (Permatasari & Tubastuvi, 2024). Luqyana & Zunaidi, (2021) also stated that creditors are not too demanding on the full disclosure of the ISR because creditors can obtain information not only from the annual report but also through agreements, direct inquiries with the company, company internal reports, or information from other reports. The results of this study are also in line with (Jati et al., 2020; Luqyana & Zunaidi, 2021).

Liquidity Relationship (X3) to ISR (Y)

As indicated in Table 6, the significance value for the liquidity variable is derived from a t-value of -2.629, with a significance level of 0.010, which is less than 0.05. The [H3] hypothesis is rejected, meaning that liquidity significantly negatively affects ISR. Companies with high liquidity tend to reduce their ISR disclosures. This situation arises because companies today tend to prioritize financial performance by directing their funds to meet short-term obligations to maintain the continuity of their operational activities rather than allocating them to social activities and environmental conservation (Muhson & Aisyiah, 2024). Companies with high liquidity tend to feel quite confident with their financial condition, so they do not prioritize increasing transparency through ISR disclosure. This is due to the trust stakeholders have built up over the company's financial stability. This is done so that it appears that the company has a high level of ability to pay debt (Rozzi & Bahjatullah, 2020). This is not in line with the theory of legitimacy, which says that companies with good liquidity tend to disclose more information in the ISR to show their credibility to gain public trust. The results of this study are the same as the research from (Muhson & Aisyiah, 2024; Rozzi & Bahjatullah, 2020).

Relationship of the SSB (X4) to ISR (Y)

SSB has not been able to influence the disclosure of ISR. According to Voronova & Umarov, (2021), Islamic banks' implementation of social responsibility aims to realize the principle of accountability. SSB in Islamic banks functions to maintain Sharia compliance in the implementation of bank operations, including ensuring that Islamic banks continue to carry out their responsibilities to the community and the environment (Fachrurrozie et al., 2021). The (SSB) may not significantly influence Islamic Social Reporting (ISR) disclosure because its primary role tends to focus on ensuring compliance with Sharia principles in banking products and operations, rather than explicitly promoting transparency or corporate social responsibility (Janah & Sundari, 2024). In some cases, the SSB serves as a formality without directly participating in strategic decisions related to ISR, so their existence does not directly encourage increased ISR disclosure. The results of this study are by (Fachrurrozie et al., 2021; Janah & Sundari, 2024; Devi et al., 2022).

Relationship Between Firm Size (Z), Profitability (X1) and ISR (Y)

The significance value obtained is 0.004, less than 0.05, meaning hypothesis 5 is accepted. This indicates that business size can influence the link between profitability and ISR. The firm size weakens the relationship between profitability and ISR. Firm size is expected to weaken the relationship between profitability and Islamic Social Reporting (ISR) due to the varying priorities and complexities associated with larger organizations. While profitable firms generally have the resources to invest in ISR activities, larger companies often face diverse operational challenges and stakeholder demands that may dilute the influence of profitability on ISR disclosure. For instance, large firms may already have established reputations and extensive stakeholder networks, which could reduce the urgency to use profitability as a primary driver for social reporting. Furthermore, in larger firms, decision-making processes related to ISR may involve multiple layers of management and

bureaucracy, potentially lessening the direct impact of profitability on ISR initiatives. That way, profitability is no longer the main factor that determines how much disclosure ISR do because their focus is more on meeting public expectations or stakeholder pressure (Dwiningsih, 2023). This research is in line with Amalia et al, (2023) and Yusuf & Shayida, (2020), that said firm size can moderate the relationship between profitability and ISR.

Relationship Between Firm Size (Z), Leverage (X2) and ISR (Y)

The measurement results from Table 8 have a sig value of 0.354, greater than 0.05. Firm size cannot moderate the effect of leverage on ISR disclosure. In other words, although larger companies tend to have easier access to loans and external financial resources, some may choose to fund their operations through internal capital or private funding (Tubastuvi et al., 2024). Similarly, smaller companies do not necessarily have excellent leverage. Although they may face limitations in accessing external resources, smaller companies tend to be more cautious in taking on debt due to their limited capacity to repay. This can also be because companies can balance capital and loans according to policy without being tied to size or pressure from stakeholders.

The company can fulfill its operational activities through the authorized capital itself. This suggests that a company's size is not always directly linked to its leverage ratio, which is why it may not have a significant impact on ISR disclosure. This is not in accordance with the stakeholder's theory Setiyani & Citradewi (2023), which says that Companies with abundant resources tend to provide more complete information to help companies relieve creditor pressure and gain the trust of stakeholders. The results of this study are in line with (Nurjanah & Bawono, 2021; Tubastuvi et al., 2024).

Relationship Between Firm Size (Z), Liquidity (X3) and ISR (Y)

The measurement results have a sig value of 0.000, less than 0.05. It can be concluded that the firm size can moderated by strengthening the relationship of liquidity influence on ISR reporting. Firm size can strengthen the relationship between liquidity and ISR reporting because larger companies have greater resources, better management access, and face higher public scrutiny. With stable liquidity, larger firms are better equipped to fulfill social responsibilities and ensure high-quality ISR reporting. Additionally, well-structured ISR policies in larger companies support the effective use of liquidity to meet stakeholder expectations (Rozzi & Bahjatullah, 2020). Companies with good liquidity usually have a greater financial capacity to fund ISR. Through ISR, the company sends a positive signal to stakeholders that they are able to manage their operations well. This is done as a form of transparency and social responsibility, which demonstrates the company's commitment to social and ethical interests, thereby increasing trust and reputation in the eyes of stakeholders (Amalia et al., 2023). The findings of this study match with the studies from (Rozzi & Bahjatullah, 2020).

Relationship Between Firm Size (Z) SSB (X4) and ISR (Y)

The measurement findings have a sig value of 0.802, greater than 0.05. This statement means that the firm size cannot moderate the relationship between the SSB and the ISR. In line with research from Ulya & Khabib, (2023), that firm size cannot moderate the relationship between SSB and ISR. Although larger companies generally have more resources, including for establishing an SSB, the number of SSB members is determined more by regulations and the need to ensure compliance with Sharia principles rather than the company's size. In some cases, both large and small Islamic banks may only require a sufficient number of SSB members to effectively perform their Sharia oversight duties as per regulations. Not all SSB

are involved in ISR disclosure because their main task is only to ensure product compliance with Sharia principles, not to make management decisions related to ISR, this can be seen in *PBI No. 11/3/PBI/2009* and *DSN MUI No. Kep-98/MUI/III/2001* (Ulya & Khabib, 2023). This does not align with the theory of legitimacy which suggests that larger companies have more activities that require supervision, including the disclosure of ISR to adhere to Sharia norms. Thus, the role of the SSB would be crucial in enhancing public trust.

CONCLUSION

ISR provides key benefits in increasing corporate transparency, building a positive reputation, and attracting investors by prioritizing Sharia principles and sustainable social responsibility. To ensure the company maintains a robust standing among the public and stakeholders. Many factors can affect ISR, such as profitability, leverage, liquidity and the SSB. This study has resulted in a significant positive influence of profitability on ISR and a negative influence of liquidity on ISR. Leverage and SSB do not influence ISR. Firm size can moderate the relationship between profitability and liquidity on ISR, while the influence of leverage and firm size on ISR cannot be moderated by firm size. In this study, the Adjusted R-Squared value is only 45.1%, indicating that the variables studied can only explain 45.1% of ISR. Other variables influenced the remaining 54.9%.

This study supports the legitimacy theory, which states that companies with better profitability are more likely to increase ISR transparency to maintain or gain legitimacy from society and stakeholders. This suggests that companies seek to meet social expectations and maintain their reputation through reporting in accordance with Sharia and social responsibility principles. In addition, stakeholder theory is also relevant, as ISR reflects a company's efforts to consider the interests of various stakeholder groups, including shareholders, employees, customers, and society at large.

One limitation of this study is the unbalanced dataset of annual financial reports. Companies experiencing losses were excluded, and some banks were not listed with the OJK during certain years. This may reduce the analysis's comprehensiveness and limit the findings' representativeness. Based on this study, future research should aim to incorporate a more complete and balanced dataset. Also, further research should include additional variables to see and prove what factors can affect ISR, like institutional ownership, good corporate governance, cost efficiency, etc.

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