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Role Profit Growth Moderates Environmental Costsregarding ISR Disclosures (Comparative Study between Islamic and Conventional Banks for the 2016-2020 Period)

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Abstract

This study aims to analyze the effect of profit growth moderating environmental costs on ISR, Good Corporate Governance (audit committee, Board of Directors and Sharia Supervisory Board) and Leverage on Islamic Social Reporting moderated by Environmental Costs and to compare these variables between Conventional Banks and Islamic Banks. Data used in this study is secondary data in the form of financial reports of Islamic banks and conventional banks listed on the IDX during the 2016-2020 period. The number of banks during the study period was 11 Islamic Banks and 10 Conventional Banks with a total of 103 samples. The analysis used in this study is a multiple regression analysis model. The findings from the research results show that the Sharia Supervisory Board variable has no effect on Islamic Social Reporting.

Keywords
the role of profit growth; CSR/ISR; profitability; gcg, leverage of environmental costs

I. Introduction

The growth and development of Islamic Financial Institutions (LKS) in recent years has developed rapidly. Many conventional banks have opened sharia business units or some have even separated themselves from their parent companies (spin off). Apart from banking, the number of other Islamic financial institutions has also increased, such as Islamic Pawnshops, Islamic insurance, and various zakat institutions besides Baznas. At the end of 2013 Islamic banking in Indonesia has become *the biggest retail islamic banking*in this world.(Mardliyah, 2020). The concept of Corporate Social Responsibility that develops in the Islamic economy is marked by the many companies or institutions that apply sharia principles in their business activities. However, the phenomenon of the rise of Islamic financial institutions has not been followed by the level of the ISR index significant.

Corporate social responsibility is one of several corporate responsibilities to stakeholders. According to IAEI (Association of Islamic Economics Experts) Transparency and Accountability are basic things for a company in implementing ISR. The success or failure of ISR towards Islamic banking is influenced by Transparency and Accountability because it is a framework in increasing and being accountable for corporate value to shareholders, the government, creditors, employees, and the wider community (Exandy, 2017). This Disclosure of Islamic Social Reporting was developed on the basis of reporting standards based on AAOIFI (Accounting and Auditing Organization for Islamic Financial

Institutions) which is an international organization authorized to set sharia accounting, auditing, governance and ethical standards for sharia financial institutions in the world. set Islamic Social Reporting items which were further developed by researchers(Mais, 2020). The CSR index practice has not fully disclosed social responsibility including sharia themes. Therefore, it is very necessary to have a separate index that adopts sharia principles. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) created the ISR index which is used as a reference for sharia banking social responsibility.

Good corporate governance mechanisms that indirectly also have a role in overseeing Islamic banking compliance with Islamic sharia are the board of commissioners and the audit committee. According to Bank Indonesia Regulation No.11/33/PBI/2009 concerning the implementation of good corporate governance in sharia commercial banks and sharia business units, the board of commissioners and the audit committee have the authority to evaluate the follow-up implementation of the directors of sharia banks against the findings of the sharia supervisory board.

The Sharia Supervisory Board (DPS) has an important role in disclosing Islamic Social Reporting (ISR). This is because DPS has a holistic role, namely increasing sharia compliance (Mukhibad, 2018). DPS must ensure that the company carries out its operational activities according to sharia principles, especially regarding ISR disclosure. The DPS variable is measured by the number of DPS members owned by the company. The greater the number of DPS members, the more effective it is expected to be in supervising sharia principles and ISR disclosure. Based on research conducted by Utami (2020) and Mukhibad (2018), it is revealed that the Sharia Supervisory Board variable has a positive effect on disclosure of Islamic Social Reporting. In addition, the board of directors also influences the disclosure of Islamic Social Reporting

The sharia supervisory board and the board of directors have a vital position in implementing corporate governance efficiently (Fazrin, 2021). Board of directors variable is measured based on the number of directors owned by the company. It is hoped that the greater the number of boards of directors will provide better oversight of ISR disclosure. whereas research conducted by Utami (2020) shows that the board of directors also has a positive effect on Islamic Social Reporting. However, according to Syafei and Milenia (2021) and Lestari (2018) it shows that the variable of the board of directors has no significant effect on Islamic Social Reporting.

As previously disclosed above, the audit committee can affect ISR disclosure. The audit committee has the responsibility to support the oversight function of the financial reporting process. The larger the size of the audit committee will provide more effective oversight and will affect the extent of ISR disclosure, (Helmayunita, 2019).Based on research conducted by Hasanah and Sudarno (2018), it shows that the Audit Committee has a positive effect on disclosure of Islamic Social Reporting. Meanwhile, according to research conducted by Kurniawati and Yaya (2017), it shows that the audit committee has no effect on disclosure of Islamic Social Reporting.

Profitability and leverage are the control variables in this study. In this regard, there are several studies that explain the effect of both on ISR.

The profitability of a company will affect the company's ability to generate profits Hanafi (2018). This means that the higher the level of profitability means the higher the profit generated by the company so that it will affect the level of disclosure made by the company to attract investors. The research that has been done shows the difference. As the research done by Kusuma (2019), Nusron and Diansari (2021), show that profitability has no positive effect on to the Islamic Social Reporting index. Meanwhile, research conducted by Suhendro and Wijayanti (2018), Dewi and Putri (2018) shows that Profitability has a positive effect on Islamic Social Reporting.

The company in carrying out its operations requires funding from its own capital and loans (debt). The ratio that describes the extent to which a company uses funding through debt is called leverage. Regarding the relationship between the leverage ratio and ISR, it has been suggested by Rimi Gusliana and Tuty Alawiyah (2020). The results of his research show that leverage has a positive effect on ISR disclosure. whereas research conducted by Yusuf and Shayida (2020), and Eksandy (2017), shows that the leverage variable has a negative effect on disclosure of Islamic Social Reporting. Meanwhile, according to research conducted by Nusron and Diansari (2021), it reveals that leverage has an influence on Islamic Social Reporting.

Furthermore, the environmental cost variable which is part of the components of corporate social responsibility activities. The environmental cost variable shows the real costs of inputs and business processes and ensures cost efficiency and is applied to measure quality and service costs Setiawan (2018). According to Zainab (2020), environmental costs are divided into four groups, namely environmental prevention costs, environmental detection costs, environmental internal failure costs, and environmental external failure costs. Not all companies have environmental costs. Companies that have environmental costs will disclose them in their annual reports. According to research conducted by Setiawan and Prananditya (2018), it shows that the environmental cost variable has a positive and insignificant effect on CSR.

The difference between this research and previous research is that it combines the variables Number of Sharia Supervisory Boards (Mukhibad, 2018), Number of Audit Committees (Sari, 2019), Number of Board of Directors (Utami, 2020) and Environmental Costs (Setiawan and Prananditya, 2018). By adding variables moderating Profit Growth (Hartini, 2018). Then add variable leverage control (Yusuf and Shayida, 2020) and Profitability (Yudhantika, 2020).

Based on the description above, the researcher is interested in examining the role of profit growth in moderating environmental costs on Islamic Social Reporting disclosure with leverage and profitability control variables. Islamic banking is used as an object because Islamic banking has a large market share, especially in Indonesia, which is the majority Muslim, thus the researcher wishes to conduct further research.

II. Review of Literature

2.1 Legitimacy Theory

Legitimacy theory states that companies have contracts with the community (Fatoni, 2016). In legitimacy theory, the company is trying to follow the state of the regulations that apply in society so that they can be accepted in the external environment because in the theory of legitimacy states that an organization can only survive if society around feel that the organization operates based on a value system that is commensurate with the value system owned by the community. Legitimacy theory explains that this theory implies that corporate social responsibility is carried out with the hope of gaining recognition (Legitimacy) from society. Reporting or disclosure of social and environmental responsibility (ISR) is reported in the annual report to give the impression of social responsibility so that they can be accepted by society. Legitimacy theory is one of the theories that underlies the disclosure of Islamic Social Reporting. According to Kurniawati and Yaya (2017), legitimacy is one of the important things for companies to be able to understand the boundaries within the company which includes rules and norms as well as social values regarding reactions that will encourage the organization to behave in accordance with social values and rules that apply in the company environment. Meanwhile, Legitimacy Theory has the notion that activity in the form of social responsibility towards the company is a business related to pressure from the surrounding environment, such as social, economic and political.

2.2 Stakeholder Theory

The company is not only an entity that operates for its own sake but also must provide benefits to its stakeholders such as shareholders, consumers, creditors and so on. Stakeholder theory is a theory that describes which party the company is responsible for (Freeman, 1984). Saraswati and Febriyanti, (2020), in their research said that companies must maintain relationships with their stakeholders by accommodating the wishes and needs of their stakeholders, especially stakeholders who have power over the availability of resources used for company operational activities, workforce, market for company products and others. Stakeholder theory is one of the theories that explains the disclosure of Good Corporate Governance.

2.3 Profitability

Profitability Ratio is a ratio to assess a company's ability to seek profit or profit in a certain period. According to Arefa (2017), profitability has an important meaning in an effort to maintain the viability of the company in the long term, because profitability shows whether a business entity has good prospects in the future. This ratio also provides a measure of the effectiveness of a company's management as indicated by the profit generated from sales or investment income.

2.4 Leverage

The leverage ratio is the ratio used to measure the relationship between the debt owned by a company and the equity deposited by the owner. The higher the leverage ratio, the more the company's activities are financed by debt compared to the capital of the owner. According to Eksandy's research (2017), leverage is a factor that is considered to influence ISR disclosure. Leverage arises because the company in its operating system uses assets and sources of funds that cause a fixed burden for the company. The use of assets that can cause fixed expenses is called operating leverage, while the use of funds with fixed costs is called financial leverage, (Rizfani and Lubis, 2018). According to Yusuf and Shayida (2020) Leverage is measuring how much a company is financed with debt.

2.5 Islamic Social Reporting

Islamic Social Reporting is a form of corporate responsibility for the environment for social care and environmental responsibility by not ignoring the capabilities of companies that are in accordance with Islamic principles. One way to assess sharia corporate social responsibility reporting is by using the Islamic Social Reporting index. According to Haniffa (2002), Islamic Social Reporting (ISR) is an extension of social reporting which includes not only the expectations of the governing board's view of society on the role of feelings in the economy but also the fulfillment of a spiritual perspective for Muslim report users.

III. Research Method

3.1 Population, Sample and Research Sampling

The population used in this study is all Islamic and conventional banking in Indonesia. In this study the sample selection method that researchers used was a purposive sampling technique. Purposive sampling technique is a sampling technique with certain considerations or criteria, namely Islamic banks and conventional banks that have environmental costs and for 5 years and have not experienced any loss in their annual reports. The samples obtained in this study were 11 Islamic banks and 10 conventional banks that had UUS (Sharia Business Units) with a research year of 5 years so that there were 105. However, in processing research data there were outliers so that the number of samples became 103 observational data.

3.2 Data collection technique

In this study, the data source used is secondary data. Secondary data is data obtained indirectly but through intermediaries or obtained from third parties. This type of research uses quantitative data types. Quantitative data in research These are the 2016 and 2020 Annual Reports. Data collection in this study was carried out using the documentation method, namely by collecting these data which can be accessed via the websiteiwww.idx.co.id.

3.3 Data Analysis Method

a. Descriptive Statistics

The number of companies used as samples in this study was 103 samples consisting of 21 banks, namely 11 Islamic banks and 10 conventional banks for 5 years, namely 2016 to 2020. Statistical description analysis in table 1 shows the minimum and maximum values of each value variable mean is the average value of each variable. The standard deviation is data distribution used to reflect the data is homogeneous or heterogeneous.

Table 1. Description of Statistics

	N	Minimum	Maximum	Mean/Mode	Std. Deviation
ISR	103	,72917	,95833	,8719952	,08310133
DPS	103	0	3	2	,914
KOMAUD	103	1	9	3	1,364
D. DIR	103	2	12	4	3,199
bl	103	-,01860	6.31208	, 1159022	,63682007
PL	103	-50.58042	5.61421	-,5356936	6.09217888
ROA	103	-,12176	6.15423	,0783387	,60377940
DER	103	,00000	16.07858	4.6318970	3.25056749
Valid N (listwise)	103				

Source: results though data 2021

Based on the table above, there are research variables (ISR, DSP, KOMAUD, D.DIR, BL, PL, ROA, and DER). The following is an explanation of the statistical description above

1. ISR (Islamic Social Reporting)
   Statistical testing shows that the average ISR disclosure is 0.8719952 out of 48 ISR index items. Where is the minimum ISR disclosure of 0.7291 and a maximum of 0.953. This minimum value belongs to Bank BTN and the maximum value belongs to almost all Islamic banks, especially in 2020. The bank has an ISR disclosure below 0.8719, meaning that less than 42 items out of 48 items have fulfilled the ISR indicator. The standard deviation of 0.083 is smaller than the mean data, meaning that the distribution of the data is quite close. This indicates that both Islamic banks and conventional banks have a fairly high ISR disclosure index, namely the ISR disclosure index is very informative (81-100).
2. DPS (Supervisory Board sharia)
   For the total DPS, the minimum value is 0 and the maximum is 3 and mode 2. The minimum value belongs to Bank BRI, BNI and BCA and the maximum value belongs to Bank Muamalat, Bank Mandiri Syariah, Bank BJB Syariah. The standard deviation of 0.914 is smaller than the mode value, which is 2. This shows that almost all Islamic banks have DPS and the majority of DPS are 2 people. The size of DPS according to OJK regulation number 24 of 2018 concerning the implementation of governance for sharia people's financing banks, is at least 2 (two) people and a maximum of 3 (three) people. Meanwhile, according to the DSN MUI/X/2017 regulation concerning DPS, it is stated that Islamic Financial Institutions (LKS) must have at least 3 (three) members of the DPS and one of them is designated as chairman.
3. KOMAUD (Audit Committee)
   The audit committee has a minimum score of 1 and a maximum score of 9. The minimum score is owned by Bank OCBC NISP and the maximum score is owned by Bank CIMB Niaga. The standard deviation of 1.364 is smaller than the mode value, which is 3. This means that the majority of banks have an audit committee of 3 people, so that in accordance with the 2016 OJK Regulations article 29 paragraph 2 states that regarding governance, "Audit Committee consists of at least 3 (three) members from independent commissioners and/or parties from outside the securities company"
4. D.DIR (Board of Directors)
   From the test results, the minimum D.DIR score is 2 and the maximum value is 12 with a mode value of 4, so that the majority of the board of directors is 4 people. The fewest board of directors is BRI Syariah in 2020. Meanwhile, BRI and Bank Mandiri have the highest number of directors, namely 12. The Standard Deviation value is 3.12 which is smaller than the mean value, which is 4. This means that the data distribution is homogeneous or it can be said that Islamic and conventional banks have an even number of boards of directors.
5. Environmental Costs
   Environmental costs have a minimum value of -0.0186 and a maximum value of 6.312 with an average value of 0.1159. The minimum value is owned by Bank Maybank Syariah in 2017, while the maximum value is owned by Bank BTPN Syariah in 2020. The standard deviation of 0.64 is greater than the mean value of 0.116. This means that the distribution of data is heterogeneous or it can be said that not all banks have environmental costs.
6. ROA
   The minimum value of ROA is -0.12176, while the maximum value is 6.15423 with an average value of 0.0783387 The smallest ROA belongs to Bank Maybank Syariah in 2016 and the largest ROA is Bank Mandiri Syariah in 2018. ROA is the first control

variable with a standard deviation of 0.637 greater than the mean value of 0.0783. This means that the data distribution is heterogeneous.

7. DER
The minimum value of DER is 0.000 and the maximum value is 16.07858 with an average of 4.6318970. The minimum value belongs to BJB Banten Syariah and the maximum value belongs to Bank BTN in 2020. The standard deviation is 3.251 which is smaller than the mean value which is 4.632. This means that the data is homogeneous and shows that almost all banks have DER of equal size.
8. PL (Profit Growth)
Profit growth has a minimum value of -50.58 and a maximum value of 5.6 14 with an average value of 0.5357. The lowest profit growth was at Bank Panin Dubai Syariah in 2016 and the maximum value was at Bank Maybank Syariah in 2018. The standard deviation of 6.09 is greater than the mean value of 0.5357, meaning the data is heterogeneous.

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3.4. Classic assumption test

Testi classical assumption is made to ensure that the data is not disturbed so that it is feasiblekuntuk tested. This classic assumption test consists of:

a. Test Normality

Basic statistical test decision making with Kolmogorov Smirnov Z (1-KS sample) menmassageGhozali (2011) are:

a) Jika Asymp value. Sig. (2-tailed) less than 0.05 then H0 is rejected. This means that the residual data is not normally distributed.
b) IfAsymp value. Sig. (2-tailed) is more than 0.05 then H0 is accepted. This means that the residual data is normally distributed.

Table 2. Kolmogorov- Smirnov

One-Sample Kolmogorov-Smirnov Test

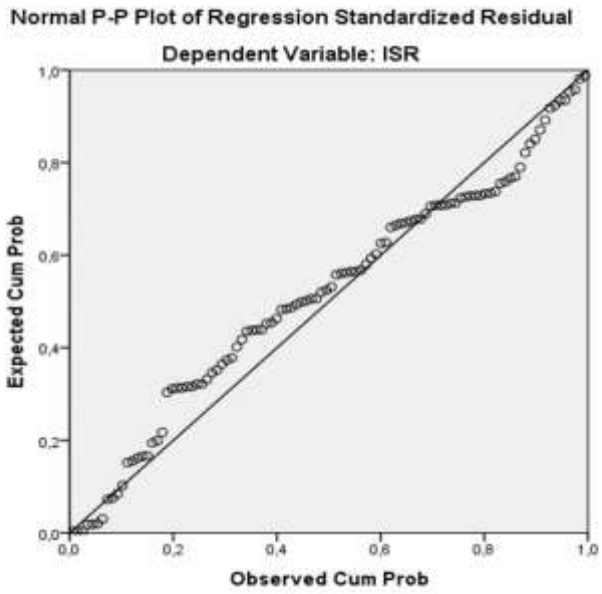
		Unstandardized Residual
N		104
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	,03746284
Most Extreme Differences	Absolute	,114
	Positive	,086
	Negative	-,114
Kolmogorov-Smirnov Z		1,158
Asymp. Sig. (2-tailed)		,137

The results of the normality test using the standardized residual above obtained the Kolmogorov Smirnov significance value, namelyuof 0.137. This value is higher than the significance level of 5% (0.05) or sig > 0.05. That matter gives an idea that the data both variables are normally distributed.

The normality test according to Gazali (2011) aims to test whether in the regression model, the variables used have a normal distribution or not. The basis for decision making is as follows:

- If the data spreads around the diagonal line and follows the direction of the diagonal line, then the regression model satisfies the assumption of normality.
- If the data spreads away from the diagonal line and does not follow the direction of the diagonal line, then the regression model does not meet the normality assumption.

From the results of the normality test in this study, it can be seen in the following figure:



From the chart*normal PP plots*above, shows that the spread of dotted image data tends to approach and follow the diagonal line. Thus it can be concluded that the regression model meets the assumption of normality.

b. Multicollinearity Test

Aims to test whether the regression model found a correlation between the independent variables (independent). A low tolerance value is the same as a high VIF value (because VIF = 1/Tolerance). The cut off value that is commonly used to indicate the presence of multicollinearity is a tolerance value ≤ 0.10 or the same as a VIF value ≥ 10.

Based on table 3 Multicollinearity Test below there is no significant multicollinearity of each independent variable in the regression model because the tolerance value is > 0.10 and the VIF value is < 10

Table 3. Multicollinearity Test

Model		Collinearity Statistics	
		tolerance	VIF
1	(Constant)		
	DPS	,796	1.257
	KOMAUD	,948	1.055
	D. DIR	,382	2,620
	bl	,860	1.163
	PL	,930	1.075
	LN_BL. PL	,451	2,216
	ROA	,953	1,050
	DER	,683	1,464

c. Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from one residual observation to another. If the variance from the residual of one observation to another observation remains, then it is called homoscedasticity and if it is different it is called heteroscedasticity.

Based on table 4 of the Heteroscedasticity Test, all independent variables show a residual value of > 0.05 so that it can be said that the residual variance of the regression model is homogeneous or free from heteroscedasticity.

Table 4. Heteroscedasticity Test

Model	t	Sig.
(Constant)	-,128	,898
DSP	,612	**,542**
KOMAUD	1,480	**,142**
D. DIR	1,678	**,097**
bl	,820	**,415**
PL	,629	**,531**
LN_BL. PL	-,886	**,378**
ROA	-,762	**,448**
DER	,827	**,410**

d. Autocorrelation Test

The autocorrelation test aims to test whether the linear regression model has a correlation between the confounding errors at t and the confounding errors in the t-1 period (previous period). A good regression model is a regression free from autocorrelation. To detect whether there is autocorrelation using the Durbin-Watson test (DW test) (Ghozali, 2011).

Table 5. Durbin - Watson

Model Summaryb

Model	R	R Square	adjusted R Square	std. Error of the Estimates	Durbin-Watson
1	,918a	,842	,826	,03449252	2,028

It is said that there is no autocorrelation if the DW value is between the du value and 4 –du (the du value can be obtained from the Durbin Watson table). The test results produce a DW value of 2.2028, du for n = 103 and k = 8 is 1.8477. 4 – du = 4 - 1.8477 = 2.1525, because du < DW < 4 – du or 1.8477 < 2.1525, then no autocorrelation occurs.

e. F Test (Simultaneous)

Based on the test in the table above, it can be seen that the F count is equal to3.061468and a significant level of 0.000 <0.05. This means that the variables studied simultaneously have a significant effect on the ISR index. (see table 6 on page 17).

Meanwhile, adjusted R Square =0.136870means the influence of variable X (DPS, Committee Aaudit, Board of Directors)to Y of 13.68%, the remaining 86.32% is influenced by other variables outside of this research.

f. Hypothesis testing

After the research data passes the classical assumption test, then do a regression analysis test linear doubled, then the result of the equation of the analysis multiple linear regression in this study as following:

$$ISR = 1.055-0.007DPS + 0.001KOMAUD - 0.016D.DIR - 0.006BL + 0.000PL - 0.001ROA- 0.003DER – 0.136BLxPL$$

g. t test (Partial)

Menaccording to Pardede and Manurung (2014), the calculated t value is used to test the partial influence of governance company and environmental costs to the ISR index. Does variable X affect variable Y or not with an error rate of 5% or 0.05. This test was carried out by looking at the significant column on each independent variable with a significant level <0.05.

IV. Result and Discussion

Based on the researcher's statistical tests, the first hypothesis proposed (Ha1) is that the Sharia Supervisory Board does not have an effect on the disclosure of Islamic social reporting (ISR), because it has a significant value of 0.096 greater than 0.05 with a B value of -0.007 so that the DPS measure does not influence on ISR disclosure. These results are in accordance with research conducted by Khasanah and Mais (2020), but not in accordance with Mukhibad's research (2018), namely the Sharia Supervisory Board (DPS) has a strong influence on ISR disclosure.

The second hypothesis (Ha2), namely the size of the audit committee has no effect on ISR disclosure. The result is a B value of 0.001 with a significance value of 0.296 > 0.05. So the hypothesis is rejected. These results contradict research by Hasanah et.al (2020) where audit committees have an effect on ISR and are in line with research by Pramesari, Saraswati, and Sari (2019).

The third hypothesis (Ha3), namely the size of the Board of Directors influences the disclosure of ISR. The Board of Directors has a significance value of 0.000 <0.05. The result of the B value is -0.016, so the hypothesis is rejected because there is a negative effect. These results are in line with Lestari's research (2018) and Milenia and Syafei's research (2021).

The 4th hypothesis (Ha4) is the environmental cost variable. Environmental costs have a significance value of 0.165 > 0.05. The result is a value of B -0.006 so that H04 is accepted and Ha4 is rejected so it has no effect. This means that the environmental cost variable has no effect on the ISR. This result is in line with the research by Rahandhika Ivan and Baniady Gennody (2021) which shows that environmental costs have no effect on the disclosure of environmental information.

The fifth hypothesis of profit growth strengthens the positive effect of environmental costs on ISR. From table 6 it can be seen that the significance is 0.000 <0.005. This means having a significant influence. Results the value of B is -0.136, it is said that profit growth is not strengthening. So it can be concluded that profit growth only interacts with environmental costs on ISR.

Table 6. T - Test

Group Statistics

	BANK	N	Means	std.Deviation	std. Error Means
bl	Sharia	55	,2148209	,86735241	,11695378
	conventional	49	,0048711	,00929953	,00132850

Table 7. Independent Sample Test

Independent Samples Test

		Levene's Test for Equality of Variances	
		F	Sig.
BL	Equal variances assumed	7,602	,007
	Equal variances not assumed		

Information:

- On Levene's test, the value of sig = 0.007 <0.05, then what was chosen was "Equal variances not assumed"
- Sig. Value (2-tailed) on "Equal variances not assumed" = 0.007 oruless than 0.05
- So it can be concluded that there are differences in Environmental Costs between Islamic Banks and Conventional Banks.

The 6th hypothesis is that there are differences in environmental costs in Islamic and conventional banks. Based on the statistical tests conducted, it was found that there was no difference. Environmental costs to ISR between Islamic banks and conventional banks. This is supported by research conducted by Burhany, Dahtiah and Syarief (2020)

V. Conclusion

Based on the results of research on the effect of GCG and environmental costs on ISR disclosure and profit growth as a moderating variable, it can be concluded that the independent variables consisting of the sharia supervisory board, audit committee, board of directors and environmental costs have no effect on ISR disclosure. The control variables, namely profitability and leverage, are not control variables. While profit growth as a moderating variable results do not strengthen the effect of ISR disclosure.

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