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Impact of Firm Value on Islamic Reporting: Analysis of Sharia Firms in Jakarta Index

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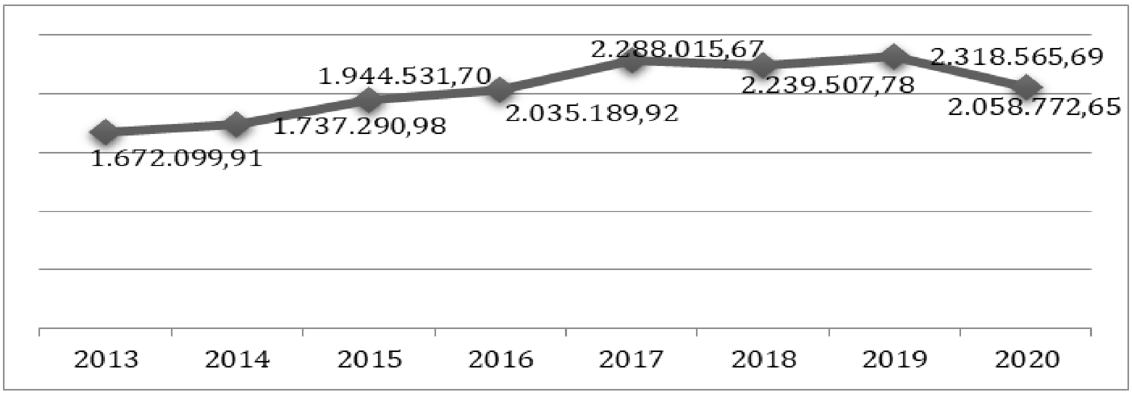
ABSTRAK

This study evaluates the firm's performance in Islamic social reporting. In this study, the independent variable is Islamic Social Reporting. The control variable used in this study is the company's nilai, which is derived from Tobin's Q. In this study, Islamic Social Reporting is treated as a dependent variable. The study's population is based on Syariah companies listed in the Jakarta Islamic Index between 2016 and 2020. The study used purposive sampling to identify 13 out of 30 companies, and data collection was done twice a year. Data evaluation is done using Berganda line regression analysis. It is all stated to indicate that a company's value has a negative impact on Islamic Social Reporting.Peningkatan kinerja keuangan sesuai dengan prinsip syariah di Indonesia is recommended by the Bank Umum Syariah. The study's methodology uses the Proxy Variable ISR, which is a buffer for the ISR index of a few researchers with a total of 48 items for Islamic Social Reporting, and the Proxy Variable Nilai Perusahaan, which uses Tobin's Q, a key indicator in historical accounting.

INTRODUCTION

The G20 has a crucial role in ensuring future prosperity and expansion of the world economy. The government must acknowledge how social advancement, environmental sustainability, and economic growth are intertwined (Harto et al., 2022). This connection is frequently referred to as the "green economy." One of the main obstacles to industrial growth and development is the requirement for a planned strategy in saving, organizing, legislation, and steps to reduce inequality and promote engagement with society, being environmentally conscious, and creating prosperity.

The public's perception of a company's success is reflected in its share price, which measures its performance and is based on supply and demand in the capital market (Aras et al., 2017). A metric for assessing a company's worth is the Jakarta Islamic Index (JII) market capitalization value from 2013 to 2020. As depicted in Figure 1, the Jakarta Islamic Index (JII) market capitalisation, consisting of 30 Sharia-compliant issuers introduced by the IDX, shows a consistent upward trend over time. Despite a decrease in JII's market capitalization value between 2018 and 2020, the market capitalization's overall worth shows that the Islamic businesses in JII are operating profitably. Micro-factors, also called "basic factors," are numerous factors that could influence a firm's worth (Harto et al., 2022). The primary determinants of this organization are variables under its control. Fundamental aspects can be analyzed using analytical methods such as financial statements, social responsibility reports, annual statements, and business regulatory reports. These reports should address Islamic social reporting because investors may consider that when selecting investments (Othman & Thani, 2010). As a result, company value can potentially impact the company's obligations for sharia-compliant ISR reports.



Source: Data compiled by Researchers (2022)

Figure 1.
Market Capitalization of the Jakarta Islamic Index

The trend in Figure 1 shows that the market capitalization of the JII experienced fluctuations, with a significant decline in 2019. This trend highlights the importance of considering market capitalization alongside other factors such as profitability when evaluating investment opportunities (Rachmatullah et al., 2021). The data was collected from the annual reports of the companies and the Indonesia Stock Exchange website, covering the years 2016 to 2020. During this period, there were notable fluctuations in market capitalization. From 2016 to 2018, there was a consistent increase in market capitalization, reflecting investor confidence and strong performance of Sharia-compliant companies.

However, from 2019 to 2020, the market capitalization declined, likely due to unstable global economic conditions and the impact of the COVID-19 pandemic, which also affected global stock markets (Moudud-Ul-Huq, 2019; Sreenu & Pradhan, 2022). Market capitalization, representing the total value of a company's outstanding shares, is a crucial indicator of a company's size and performance in the stock market (Ningrum & Putra, 2023). Investors are often attracted to companies with substantial market capitalization due to the perceived stability and growth potential of such firms.

The development and advancement of the industry produces corporate governance, which ensures that a firm is feasible, transparent, and committed to the community (Pogge & Sengupta, 2015). These changes raise some significant concerns regarding the industry's perspective on social responsibility and sustainability (Singh et al., 2018). Sustainability and corporate social and environmental responsibility programs are closely related. To increase company value and apply social responsibility, businesses that use disclosure must consider investors' worth, responses, and requirements (Setiawan et al., 2019).

The prospective commercial potential exists between the Muslim population and Sharia norms, as demonstrated by the global presence of Islamic capitalism, including in Indonesia. Most of Indonesia's population adheres to Islam, shaping their lives according to Islamic principles derived from Islamic law (Wahyudi & Puspita, 2022). Disseminating information compliant with Sharia law could encourage investment among Indonesians, who predominantly follow Islamic beliefs.

Addressing the gap in understanding the relationship between firm value and Islamic Social Reporting (ISR) within the context of Sharia-compliant companies listed on the Jakarta Islamic Index (JII) is essential. Previous studies have shown mixed results regarding this relationship. Jihadi et al. (2021), Nohong et al. (2019), Setiawan et al. (2019) demonstrated a positive impact of firm value on ISR disclosure, suggesting that higher firm value encourages more comprehensive ISR practices. In contrast, Wahyuni et al. (2019) found no significant influence of firm value on ISR disclosure, indicating a need for further investigation to reconcile these conflicting findings.

This study introduces a novel perspective by integrating the impact of global economic conditions and the COVID-19 pandemic on market capitalization trends, specifically within the Jakarta Islamic Index. This comprehensive analysis provides valuable insights into the dynamics of financial markets, emphasizing the role of market capitalization as a crucial indicator of company performance and stability (Ningrum & Putra, 2023). For instance, the Jakarta Islamic Index witnessed fluctuating and downward-trending market capitalization in 2019, underscoring the importance of considering market capitalization alongside factors like profitability when evaluating investment opportunities (Rachmatullah et al., 2021).

Additionally, this research explores the implications of rational bubbles in financial markets of emerging economies, such as those in the SAARC countries. Understanding market capitalization dynamics in these regions is essential for evaluating investment opportunities and market efficiency (Nazir et al., 2019). The inclusion of China's A-shares in the MSCI index, for instance, has implications for the information content of listed firms and offers insights into capital market trends in emerging economies (Wu, 2022).

Furthermore, the study examines the resilience and adaptability of capital markets in response to external shocks, such as the COVID-19 pandemic, by analyzing the impact on stock markets like the DS30 Index in Bangladesh (Faruq, 2021). This analysis is complemented by an investigation into the relationship between share transactions and market indices, such as the NEPSE Index in Nepal, offering valuable insights into capital market operations and the significance of market capitalization in attracting investors and fostering economic growth (Chalise, 2020).

By addressing these gaps and incorporating the latest trends and challenges in global financial markets, this research provides a comprehensive understanding of the factors influencing ISR disclosure and market capitalization dynamics. This novel approach not only enhances the existing literature but also offers practical implications for investors, policymakers, and academics in navigating the complexities of global financial markets and making informed investment decisions.

This study fills the gaps identified in previous research by providing a detailed analysis of the relationship between firm value and ISR, while also highlighting the impact of global economic conditions and the COVID-19 pandemic on market capitalization trends. This comprehensive approach underscores the novelty of this research and its contribution to the broader understanding of financial market dynamics and ISR practices.

Justifying every variable and the disparities among some of the previously described study results need this issue. Therefore, this research aims to see how company values influence these aspects. Firms listed as Sharia firms in the Jakarta Islamic index should make an effort as part of their strategy to reduce disputes resulting from information asymmetry, particularly in social aspects. This will help to enhance the value of the company. Investors can use this research to verify that the firm they are investing in complies with Islamic principles and to determine how Islamic reporting of society affects the company's worth.

Investors require comprehensive and relevant knowledge of the state of the business, but this information is not available to them even if it is used to make financial decisions (Orazalin & Mahmood, 2020). As a result, what is known and owned by the principal and the agent exists differently, a situation known as "information asymmetry." The company must disclose information widely to reduce information asymmetry by carrying out accurate, timely, and comprehensive reporting (Esa & Ghazali, 2012). Furthermore, according to agency theory, information asymmetry encourages agents to commit fraudulent behaviours, which impacts company value. This can be avoided by providing an accessible, credible, liable, and thorough presentation of data (Zambon et al., 2019).

Increasing shareholders' wealth is a company's primary goal (Nohong et al., 2019). For investors to understand the degree of welfare they would receive, data and statistics relevant to the firm value are essential (Pogge & Sengupta, 2015). Goal continuity and balancing interests between management and shareholders are necessary to produce optimal company value (Wahyudi & Puspita, 2022). This aligns with agency theory's focus on effectively identifying management-shareholder contracts (Ibrahim & Muthohar, 2019). Persistent information asymmetry and agency conflicts continuously hinder endeavours from enhancing corporate value. According to Wahyuni et al. (2019), financial statements that give shareholders all the information they need to make an informed decision about the firm's performance could thus serve as a media manager by holding companies accountable for their performance. In this study, business value is ascertained using the Tobin-Q ratio, among the ratios that can offer the most insightful data. According to Nohong et al. (2019), the Tobin-Q ratio can represent the company's assets, sentiment in the market, and intangible assets, such as intellectual models, with more excellent value in the company than its actual assets.

A corporation seeks to enhance shareholder wealth by distributing dividends and augmenting firm value, evidenced by share prices. A rise in stock prices can result in greater returns for investors. This phenomenon occurs when investors positively respond to the company's equity, elevating stock prices (Kte’pi, 2012). Thus, to optimize firm value and effectively operate in the future, companies must remain attuned to events, investor expectations, reactions, and value dynamics (Rizfani & Lubis, 2019). Social reporting is one way to increase the sharing of company information while reducing conflicts. The public and investors react more favorably to the company's responsibility report to interested parties (Aras et al., 2017). According to Høgevold et al. (2015), a positive reputation that the company cultivates through its reporting will also increase consumer loyalty to its products and pique the interest of investors, ultimately expanding the organization's value. After all, one of the main things that might raise a company's value is social reporting, a form of firm accountability reporting.

By Law Number 40 of 2007, companies must include a social accountability report, known as corporate social responsibility (CSR), in their annual reports. Today, CSR has emerged as a mechanism for companies to address environmental, social, and community concerns, as illustrated by the Indonesian government's requirement that businesses allocate up to 2% of their net profit for charitable purposes. However, despite claims of fulfilling CSR obligations, some companies may still struggle to tackle associated issues effectively. From an Islamic perspective, corporate social reporting is called Islamic social reporting (ISR). In this context, Rahma and Bukair (2015) define accountability as the relationship between an individual, an organization, and God. Since conventional social reporting does not apply to Sharia-compliant firms, ISR is the standard for documenting their social performance. Recognizing the limitations of traditional social reporting, there is a need to develop a conceptual framework for social reporting, particularly ISR based on Sharia (Haniffa & Cooke, 2005).

ISR is perceived as an expression of devotion in adhering to "Muamalah" towards Allah Ta'ala, reflecting a servant's sincerity in upholding faith both vertically and horizontally and providing stakeholders with assurance regarding the application of Islamic values in business activities, thereby influencing their religious and economic decision-making (Al-Musali & Ku Ismail, 2016). The ISR disclosure index employed in this study, formulated by Haniffa and Cooke (2002), incorporates corporate governance aspects from the index devised by Othman and Thani (2010). Within Islamic Social Reporting, 48 disclosure items are categorized into six themes: 1) Investment and Finance, 2) Products and Activities, 3) Employees, 4) Community, 5) Natural Resources, and 6) Corporate Law.

Hypothesis Development

Businesses may be able to maximize value with the help of ISR disclosure. The wealthiest stockholders are those with more excellent stock prices. This occurrence arises when investors react positively to the company's stocks, increasing the stock price. Suppose the corporation aims to enhance firm value consistently. In that case, it must consider various social and environmental considerations when formulating policies, which could subsequently affect firm value growth (Farooq & de Villiers, 2019). With optimistic perceptions of the company's prospects, investors may interpret ISR disclosure favourably.

This positive signal will impact the stock price and increase the corporate value.The research results of Jihadi et al. (2021), Nohong et al. (2019), and Setiawan et al. (2019) support the previous assumption by showing that company value influences ISR disclosure. Wahyuni et al. (2019) findings indicate that company value does not influence ISR disclosure. Thus, the research hypothesis derived from the description mentioned earlier is as follows:

H: Firm value positively impacts Islamic social reporting.

RESEARCH METHODS

The research methodology employed in this study is associative research. The population consists of publicly listed companies registered with the Jakarta Islamic Index (JII) between 2016 and 2020, totalling thirty issuers. These issuers comprise Sharia-compliant equities on the Indonesia Stock Exchange (IDX) with the highest trading volumes. Purposive sampling was employed to select companies as research samples, with Table 1 outlining the criteria utilized for sample selection.

Table 1.
Criteria for Sample Selection

No	Criteria for Sample Selection	Number of Companies
1	Firms enlisted in JII between 2016 and 2020.	30
2	Entities approved by IDX in May and November within the 2016-2020 timeframe.	(15)
3	Corporations with accessible annual reports from 2016 to 2020.	(2)
4	Entities reporting financial statements in Indonesian rupiah	13

Source: Data compiled by Researchers (2024)

Secondary data for this study were sourced from the corporation's annual reports, which exceeded the specified requirements. A comprehensive content analysis of the annual reports of each Sharia-compliant firm registered with the JII was conducted by examining the respective firm's websites and www.idx.co.id to acquire the necessary Islamic social reporting (ISR) data.

In this research, Islamic Social Reporting (ISR) functioned as an independent and dependent variable, quantified by an index developed by Othman & Thani (2010). The ISR index comprises 48 disclosure items categorized into six themes: corporate governance, community, environment, finance and investment, products and services, and personnel. Each item disclosed by the corporation is assigned a score of 1, while undisclosed items receive a score of 0, calculated through a checklist.

Content analysis is employed to identify items within the ISR index, and the ISR disclosure rate (ISRD) is calculated using the formula:

$$\mathrm{ISRD} = \frac{\text{(Count of disclosed items)}}{\text{(Total index items)}} \text{ X } 100\%$$

The independent variable in this study is firm value, assessed using Tobin's Q. A result between 0 and 1 suggests that the stock's market value is lower than the cost of replacing the asset, indicating a lower perceived worth by the market. Conversely, a result exceeding one indicates that the stock's market value surpasses the firm's asset valuation, implying a favorable market reaction. Nohong et al. (2019) provided an illustrative measurement of firm value:

$$\text{FV} = \frac{(Closing\ price\ per\ share\ \times\ Number\ of\ shares\ issued)\ +\ Debt\ book\ value}{\text{Total assets book value}}$$

As previously mentioned, measuring required variables in this study involves crafting operational definitions. Standard assumption tests and descriptive statistics were employed for data analysis. While kurtosis, skewness, mean, standard deviation, variance, maximum, minimum, total, and range provide a descriptive overview of the data, they do not aim to make population generalizations. The traditional assumption tests in this study encompass heteroscedasticity, autocorrelation, normality, and goodness-of-fit tests. The goodness-of-fit test for a statistical model assesses whether the regression function accurately predicts actual values given the expected frequency from the proposed distribution. The statistical t-value and coefficient of determination are utilized to evaluate this test. Linear regression analysis aims to ascertain the presence or absence of correlation between independent and dependent variables and determine the direction and strength of their relationship. The regression analysis methodology utilized in this study is outlined below:

$$\text{ISR} = \alpha + \beta \text{FV} + \varepsilon$$

Note:
FV : Firm Value
ISR : Islamic Social Reporting
α : Constant
β : Parameters to estimate
ε : Residual

RESULTS AND DISCUSSION

A research investigation focused on companies listed on the Jakarta Islamic Index (JII). Of the Sharia-compliant stocks listed on the Indonesia Stock Exchange (IDX), only thirty are included in the JII. These thirty Sharia stocks undergo examination biannually by the financial services regulator. Purposive sampling was employed to select samples from businesses registered with the JII between 2016 and 2020. A total of sixty-five data points were collected from thirteen sampled organizations that met the criteria and were monitored over five years. This elucidates the utilization of SPSS version 26 software for data analysis, content analysis and secondary data from independent and dependent variables.

Descriptive Statistical Analysis

Descriptive statistical analysis provides an overview or interpretation of data by examining each variable's mean, standard deviation, variance, maximum, minimum, total, and range. The study focused on two factors: Islamic social reporting (ISR) and firm value (FV).

Table 2.
Results of Descriptive Statistical Analysis

Variable	N	Mean	SD	Max	Min
FV	65	3,03	4,68	23,29	0,31
ISR	65	73,65	6,08	85,42	58,33

Source: Data compiled by Researchers (2024)

Table 2 presents the descriptive statistics for the variables employed in this study. Within a dataset, the maximum denotes the highest attainable value, while the minimum signifies the smallest. Standard deviation can be computed by dividing the available data quantity by the square root of the variance between the data points and the mean. The personnel issue is disclosed somewhat after finances and investments since the corporation withholds information regarding whether Muslim employees are entitled to facilities for performing acts of worship and other Islamic rituals. Last but not least, there are facets of corporate governance—specifically, the makeup, efficacy, and reorganization of the Sharia Advisory Council—that Sharia corporations have never disclosed. The deficiency of a monitoring board to check that JII's Sharia firms' daily activities comply with Islamic law is the cause. The firm value variable indicates that PT Indofood CBP Sukses Tbk had the lowest value in 2019, while PT Unilever Indonesia Tbk recorded the highest value in 2017. With an average business value variable of 3.03, investors assign these companies a triple value. The company's standard deviation of the firm value variable stands at 4.68.

Regarding the ISR variable, PT Bumi Serpong Damai Tbk had the lowest value of 58.33 in 2020, whereas PT Unilever Indonesia recorded the highest value of 85.42 in 2017. The ISR variable exhibits a standard deviation 6.08 and an average value of 73.65. Given that the mean value exceeds the standard deviation, the ISR variable is considered to have a modest standard error, indicating relatively valid data for the variable.

Classical Assumption Tests

Ensuring that the regression equation consistently yields dependable and unbiased estimates devoid of errors is the objective of the classical assumption tests (best linear unbiased estimator). The results of the classical assumption tests are as follows:

1. Normality Test: The significance probability indicated by normality is 0.42. Since the Sig (2-tailed) value for variables exceeds 0.05 or 5%, it can be inferred that all variables exhibit a normal distribution.

2. Multicollinearity Test: Evidence of multicollinearity suggests the absence of multicollinearity among the variables being examined, as indicated by tolerance values exceeding 0.10 and VIF values less than 10.00. The variable has tolerance values of 1.017 for ISR respectively, where tolerance values are less than 10.00 and VIF values are greater than 0.10. This means that the study model is not multicollinear.
3. Heteroscedasticity Test: The ISR variable has a significance value of 0.787%. It is possible to argue that heteroscedasticity does not exist because variables have greater significance than 0.05.
4. Autocorrelation Test: The du table value of 1.7631 exceeds the dw value of 1.852, which is less than 2.338 (4-du). Consequently, it can be concluded that the regression data used in this study did not exhibit either positive or negative autocorrelations.

Table 3.
Estimation Result

Variables	ISR		
PV	-3.276	-1.675	0.003
Prob. F (Statistic)	0.000		
R	0.478		
R Square	0.242		
AdjustedR Square	0.201		

Source: Data compiled by Researchers (2024)

Regression Analysis

To further explore the relationship between firm value (FV) and Islamic Social Reporting (ISR), a multiple linear regression analysis was conducted. This analysis aims to quantify the extent to which firm value influences ISR disclosure and to determine the significance of this relationship. The following section details the results of the regression analysis, providing insights into the impact of firm value on ISR.

Table 3 illustrates the regression analysis portraying the correlation between company value and the Islamic social reporting (ISR) variable. The t-value estimation for the company value variable registers at 3.276, accompanied by a significance level of 0.003. This implies a favorable impact of firm value on ISR, as corroborated by a significance level below 0.05 (0.002 < 0.05), surpassing the critical t-value of 1.66980 (3.270 > 1.66980). Hence, it can be inferred that ISR significantly and positively influences company value. The adjusted R-square value for the model is 0.201, indicating that ISR accounts for 20.1% of the variation in company value. This indicates that although other variables have a 79.9% influence on the ISR, the FV variable has a 20.1% influence. This study hypothesizes that FV increases ISR disclosure.

The results here imply that an organization's market value influences ISR disclosures in its annual reports. Furthermore, it allows creditors, investors, and other stakeholders to monitor business operations to ensure that the business complies with community law and sharia, creating accountability and transparency in ISR disclosures (Esa & Ghazali, 2012). This shows that companies can disclose comprehensive ISR by attracting investors. When Muslim stakeholders and investors get company information that complies with Sharia guidelines and invest their money without hesitation, there will be an urgent need for shares, high share prices, and high company value (Abubakar, 2016).

Moreover, these findings support agency theory, which posits that providing transparent, accountable, responsible, and comprehensive information can mitigate information asymmetry, thereby minimizing managerial fraud and enhancing company value (Indrawaty & Wardayati, 2016). Islamic Social Reporting (ISR), characterized by its Sharia-compliant, transparent, accountable, responsible, and comprehensive information disclosure, is susceptible to information asymmetry. Addressing this issue can augment ISR disclosure by garnering a positive response from stakeholders and investors.

Furthermore, our analysis revealed that among Islamic businesses listed on the JII, the theme of shariah was the least prevalent throughout the observation period. The corporation consistently reports on profit, as evident from the company's financial accounts reflecting interest income and expenses. But, the corporation never reported any zakat products throughout the reporting period. During the observation period, the most discussed topics were socioeconomic and environmental. This indicates the business's dedication focus to social responsibility.

The results of this investigation are in line with previous research conducted by Jihadi et al. (2021), Nohong et al. (2019), Setiawan et al. (2019). Conclusion Wahyuni et al. (2019) show that FV does not affect ISR disclosure. The negative signal is caused by two investor assumptions, according to Jihadi et al. (2021). Managing a massive company with many assets will have more freedom to handle those assets, proportionating to investors' worries about opportunistic management practices.

CONCLUSION

This study aims to figure out how Islamic social reporting, or ISR, affects the market value of companies included in the Jakarta Islamic Index. The study's sample comprised 65 firm-year reports from 13 firms throughout a five-year observation period from 2016 to 2020. Data testing shows that social reporting from an Islamic perspective significantly improves corporate values. As a result, the hypothesis of the study was confirmed. The increased availability of information based on Sharia principles, or the firm's ISR, will increase the company's value. This situation occurs when stakeholders and investors show a favorable response by investing in the business, which raises the stock price and, in turn, increases the firm value.

The following recommendations can help to broaden this research and serve as a roadmap for other studies in the future: 1) It is advised that authorities set up a Sharia supervisory board, like in the case of Islamic banks and financial institutions, to supervise business operations and set rules for Indonesian Islamic businesses to ensure that they follow Sharia principles; 2) Using more research samples is advised for further investigations. Companies on the Sharia Securities List and those listed on the Jakarta Islamic Index may be utilized as examples (DES). Given that only a small number of firms, typically two to three, are present in each industry, it is not feasible to consider the Sharia-compliant companies listed on the Jakarta Islamic Index (JII) as comprehensive representatives of Indonesia's entire Sharia industrial sector. To gain a more comprehensive understanding of the state of Sharia-compliant companies in Indonesia, it is imperative to either refrain from subjective interpretation of Islamic Social Reporting (ISR) items or broaden the research sample and meticulously develop ISR disclosure items while considering the specific attributes of Sharia-compliant companies in Indonesia.

RESEARCH IMPLICATION

The findings of this study have significant implications for businesses that engage in Islamic social reporting. By comparing their performance to Islamic social reporting, businesses can assess how these practices affect their company value, as shown by Tobin's Q value. Organizations can also benefit from this implication while making strategic decisions about adopting Islamic social reporting standards to increase their business value and satisfy stakeholders.

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