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The effect of Islamic social reporting (ISR), leverage and institutional ownership on firm value and profitability

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ABSTRACT

This study focuses on knowing the effect of Islamic social reporting (ISR), leverage and institutional ownership on firm value and profitability with the following issues: 1) whether there is an effect of Islamic social reporting on corporate profitability. 2) is there an effect of Islamic social reporting on firm value. 3) whether there is an effect of leverage on corporate profitability. 4) whether there is an effect of leverage on firm value. 5) whether there is an effect of institutional ownership on corporate profitability. 6) whether there is an effect of institutional ownership on firm value. The research is a quantitative study using a population of Sharia commercial banks in Indonesia. This study uses purposive sampling technique which then gets five Sharia commercial banks. The results showed that Islamic social reporting (ISR) has a positive effect on both profitability and firm value. Meanwhile, both institutional ownership and leverage only affect profitability.

Keywords : Firm Value, Corporate Profitability, Islamic Social Reporting (ISR), Leverage, Institutional Ownership.

INTRODUCTION

The development of Islamic banks that carry out all their activities using sharia principles, although in the sense that Islamic banks do not only have no interest in transactions but also avoid fraud and irregularities in Islamic sharia. In addition, in its application, Islamic banks must stay away from practices that contain ribawi or prohibited elements. The difference between conventional banks and Islamic banks lies in the interest or reward system where Islamic banks have no interest payment system but are based on the principle of profit sharing.

An Islamic bank in Indonesia was first established in 1992, namely Bank Mualamalat Indonesia. Since then, the development of Islamic banks has grown rapidly based on the increasing number of banks, there are 13 Sharia commercial banks (BUS), 21 Sharia business units (UUS) and 167 Islamic financing banks in Indonesia (Muthaher, 2012). The Islamic banking industry in Indonesia experienced rapid growth throughout 2016. As reported by infobanknews.com on January 18 2017, the growth of Islamic banks which reached 19.67% far exceeded conventional banks which were stagnant at below 10%. Sharia banking market share has also increased quite rapidly, there are changes from conventional banks to Islamic banks such as the Regional Development Bank (BPD) in Aceh in September 2016. This conversion resulted in the share of the Islamic banking market reaching 5.3%. This figure is projected to get bigger.

Increasing the number of sharia banks and sharia banking offices also had an impact on increasing the amount of profitability and the growth of temporary syirkah funds. When compared with the banking industry in Indonesia, the average growth of Islamic banks has increased significantly as shown in Table 1 where it is explained that Islamic banking has always experienced positive growth, assets, third-party funds (DPK) and distribution of financing for the last 5 years. The existence of higher DPK growth shows that the funds owned by Islamic banks are getting better. Meanwhile, higher Islamic bank financing indicates that the turnover of loan funds to the community is higher.

Table 1 : Sharia Bank Financial Growth 2013-2017

Information	**Year**								
	2013	**2014**	***Growth***	**2015**	***Growth***	**2016**	***Growth***	**2017**	***Growth***
Asset			(%)		(%)		(%)		(%)
BUS dan UUS (T)	242,2	272,34	12,3	296,26	8,8	35,504	220,2	424,18	19,1
BPRS (B)	5,833	6,573	12,6	7,739	17,7	9,157	18,3	10,840	18,3
DPK									
BUS dan UUS (T)	183,534	217.85	15,6	231.17	6,4	279.33	20,7	334.71	19,7
BPRS (B)	3.666	4.028	9,8	4.801	19,1	5.823	21,2	6.987	19,9
Financing									
BUS dan UUS (T)	184,1	200.17	8,0	213.98	6,5	249.08	16,9	279.36	12,0
BPRS (B)	3.553	4.433	24,7	5.004	12,8	6.662	33,1	7.763	16,5

Source : Outlook for Sharia Bank Indonesia, 2013-2017.

Growth of Islamic banks has made people increasingly believe in the existence of Islamic banks in conducting financial operations. Therefore, Islamic banks must also carry out social responsibility both to the community, consumers, and stakeholders in the operational aspects of the bank.

Corporate social responsibility (CSR) is a social activity for the community that can shape the corporate's image through correct disclosure through cooperation between the corporate and the community. The existence of sustainable growth of the corporate with social responsibility must be in harmony between the corporate and the community. Corporate social responsibility (CSR) has consequences on the social environment of the community which is applied to stakeholders. This is done in the long term so that corporate decisions are based not only on financial gain (Siahaan, 2008: 37).

CSR activities can increase firm value because CSR can give rise to corporate excellence so that firm value will increase. Corporate environmental and social performance of the corporate has a positive effect by investors by increasing the price of the corporate's shares. But if the corporate pays less attention to the environment, it will not have a good effect on investors, because it will create doubts about investors, so that the negative effect of share prices will occur. Tjipto and Juniarti (2016) also Atuti (2016) found that CSR has a significant effect and increases firm value.

Profitability is a measure of the success of management in managing the corporate. High profitability will be used by the corporate as its own capital from retained earnings. It reduces the use of debt. But if the corporate has low profits, external sources of funds are the choice of sources of funds in carrying out corporate operations. Rosdwianti, et al (2016) found that social responsibility (CSR) has an effect on profitability (ROA < ROE and EPS), while Putra (2015) shows that CSR has a negative effect on profitability.

Implementation of CSR in Indonesia is increasing day by day among companies. The concept of CSR is also applied to Islamic economics. Based on this, the concept of CSR is explained in Islamic rules where it is called the concept of sharia. The basis of sharia CSR is to use the philosophy of the Koran and Hadiths. Besides that, the concept is based on faith in Allah SWT and contains Islamic values. As for the Islamic business institution the concept of CSR which is based on Islam is called Islamic social reporting (ISR).

ISR was introduced by Haniffa in 2002 which was later developed in 2009 by Othman, Thani and Ghani. Haniffa (2002) explains that ISR is most appropriate with the application of CSR in Islamic and in accordance with Islamic rules in responsibility for society and especially Allah SWT.

ISR is a Sharia-based corporate social performance reporting standard based on the AAOIFI (Accounting and Auditing Organizations for Islamic Financial Institutions) standards. The organization was founded in 1991 in Bahrain. AAOIFI is a non-profit organization aimed at developing accounting standards for the global financial industry. This index is an extension of the social performance reporting standards regarding the role of companies in an economic and spiritual perspective. This index aims to create social justice regarding the environment, minority rights, and employees.

The concept of ISR is applied in the corporate on six topics, including investment, funding, products and services, society, employees, governance and the environment. ISR is important to disclose because it will increase investor confidence. This will also improve financial performance such as the aspect of liquidity, efficient transaction costs and the same higher overall market quality. The corporate said that the ISR will have a positive impact on firm value. As for the community, the corporate will be more trusted by disclosing ISR. The benchmark of corporate social performance is the responsibility towards stakeholders and society.

Ownership structure in Indonesia has different characteristics from companies in other countries. Most companies in Indonesia have a concentrated tendency so that founders can also sit on the board of directors or commissioners, and besides that agency conflicts can occur between managers and owners as well as between majority and minority shareholders.

Institutional ownership is the percentage of share ownership by institutional investors such as investment companies, banks, insurance companies as well as ownership of other institutions and companies. By improving the supervisory mechanism within the corporate, namely by activating monitoring through institutional investors, it can reduce agency costs. The existence of institutional ownership will encourage an increase in more optimal supervision of management performance.

ISR, which is a measure of the corporate's social performance, is a form of disclosure of corporate information that emphasizes explanation and accountability that shows information related to the corporate through a sharia concept. ISR is a measure in the socioeconomic performance standard in which there are items that the corporate must apply.

Tjipto and Juniarti (2016) analyze the effect of corporate social responsibility on firm value. The result is that social responsibility (CSR) is able to increase firm value. Meanwhile, control variables, including size, market share and debt, have no effect on firm value. Crisostomo et.al (2017) analyze the relationship between CSR and performance through firm value in Brazil's emerging markets. This study shows that CSR is negatively correlated with firm value. Similar research was also conducted by Yanto (2018) with the aim of examining the effect of good corporate CSR and good corporate on firm value with the moderating variable profitability of manufacturing companies listed on the Indonesia Stock Exchange in 2010-2012. This study shows that CSR has a positive effect on firm value and profitability can moderate firm value.

In this study, we investigate the effect of islamic social reporting (ISR), leverage and institutional ownership on firm value. in addition, we also examine the effect of ISR, leverage and institutional ownership on profitability.

To arrive at these ends, the next discussion will be arranged as follows. Section 2 will present the literature review; section 3 will explain the research method; section 4 will be concerned with the results and discussion; and section 5 will summarize all the above discussion to make a conclusion.

LITERATURE REVIEW

Companies that make CSR disclosures have an impact on investor confidence. CSR that is carried out contains information so that it invites reactions from investors and the capital market. Investors have mixed reactions to information. According to Cheng and Christiawan (2011), the existence of information about CSR will provide confidence in the corporate's prospects followed by the stock price.

Zuhroh and Sukmawati (2003) explain that corporate responsibility has an effect on firm value because good news will increase firm value. Dahlia and Siregar (2008) explain that a good corporate's environmental performance will generate trust so that the corporate's value increases as well. But if the corporate has a bad image and does not carry out CSR, investors will lose confidence so that the stock price and firm value decline. Based on this explanation, the proposed hypothesis is:

***H1**: Islamic Social Reporting (ISR) has a positive effect on firm value (PER).*

The corporate has CSR for the environment, stakeholders and society. CSR activities involve companies. Therefore, CSR is an effort to provide a positive signal to the capital market and investors about business continuity. The corporate sends a guarantee for the corporate's survival with CSR disclosure in the form of promotional signals or other information about the corporate's advantages compared to other companies because the corporate cares more about the community, social and economic environment (Cheng and Christiawan, 2011).

Dahlia and Siregar (2008), found that CSR has an effect on performance. This means that CSR has a significant effect on financial performance, for example profitability. If the corporate does CSR, the corporate's profits will increase because there is a long-term influence in the form of profits, thereby increasing financial performance. Anwar et.al (2010) found that the implementation of CSR will affect corporate performance, especially profitability. This is because CSR strengthens the image and reputation of the corporate so that it will gain investor confidence. Based on this, the research proposed hypothesis development is:

***H2**: Islamic Social Reporting ISR has a positive effect on profitability (ROA).*

In signal theory, managers use the capital structure to provide signals related to the corporate's future prospects (Ross, 1997 in Kartasukmana, 2015). According to Brigham & Houston (2006: 39) in signal theory, a very profitable corporate will try to avoid selling shares and prefer to get new capital in other ways, including using debt. Changes in debt composition affect share prices. Companies that announce increased use of debt have a positive effect on share prices.

Companies that increase the proportion of debt use means that increased leverage is considered to provide benefits for capital (Husnan & Pudjiastuti, 2006 in Kartasukmana, 2015), so that increased use of debt affects investors' perceptions of the corporate. Companies that tend to increase debt, share prices rise and vice versa. The share price reflects the valuation that investors give to the corporate. A high level of leverage shows a large debt value, with a large debt, where the debt can be used as capital to turn the corporate's activities into profit which will increase the corporate's value (Rakhimsyah & Gunawan, 2011). The hypothesis proposed is as follows:

***H3**: Leverage has a positive effect on firm value (PER).*

Leverage or debt structure is a reflection of the size or size of the amount of debt used by a corporate that is used to finance its operational activities (Setiadewi and Purbawangsa, 2014). Financial Leverage is considered profitable if the profit earned is greater than the fixed expenses arising from the use of the debt. According to Febria (2013), the use of debt in the form of investment that is used to fund corporate assets is expected to increase corporate profits rather than using only its own capital which is more limited.

If the corporate's assets are managed properly and maximally, the profit will be maximized as well. This is because corporate assets are used by companies for corporate operations which are expected to increase profitability. Previous research that supports this statement is research conducted by Febria (2013) and Saleem et al (2010) and Yoon and Jang (2005) which state that leverage has a positive effect on profitability. However, it is different from research conducted by Martono (2002) and Sari and Abudanti (2014) which state that leverage has a negative effect on profitability. The hypothesis is as follows :

***H4**: Leverage has a positive effect on profitability (ROA).*

Companies that have a high level of debt show that the corporate is also large in scale, so there will be many investors who are interested in investing in the corporate. Brigham and Houston (2011) state that an increase in debt is interpreted by outsiders as the corporate's ability to pay obligations in the future, which will get a positive response from the market. The use of debt can reduce taxable income because the corporate is required to pay loan interest. The tax deduction can increase the corporate's profit which can be used for reinvestment or for dividend distribution to shareholders. Reinvestment and dividend payouts will increase investors' valuation, thereby increasing their interest in buying stocks.

Wahyudi and Pawestri (2006) found that funding decisions have an effect on firm value. Sujoko and Soebiantoro (2007) found that the debt to equity ratio (DER) had a positive and significant effect on price book value (PBV).

Institutional share ownership is another factor that can affect firm value. Institutional ownership can be defined as ownership of corporate shares by certain institutions (Tarjo, 2008). Companies with high institutional ownership indicate the ability to monitor management (Nurrahman, 2013). Institutional ownership can increase firm value, by utilizing information, and can resolve agency conflicts because by increasing institutional ownership, all corporate activities will be supervised by the institution (Wida, 2014).

Several studies have examined the effect of institutional ownership on firm value. Research conducted by Mokhtari and Khosro (2013) found that institutional ownership has a positive and significant effect on firm value. These results are inconsistent with research conducted by Dewata et al. (2012) who found that institutional ownership has a negative and significant relationship with firm value. Therefore we propose the following hypothesis:

***H5**: Institutional ownership has a positive effect on firm value (PER).*

Institutional ownership is a condition in which the institution owns shares in a corporate. These institutions can be in the form of government institutions, private institutions, domestic or foreign (Widarjo, 2010). Institutional ownership of shares can have an influence on the financial performance of a corporate. The involvement of institutional share ownership will motivate managers to improve their performance in managing the corporate and be careful in making decisions that can affect the corporate's profitability.

***H6**: Institutional ownership has a positive effect on profitability (ROA).*

RESEARCH METHOD

Type of Research

This research is a quantitative research that uses numbers as research data. According to Sugiyono (2010: 13). Quantitative research is research based on the philosophy of positivism, in conducting research on samples. The quantitative approach is carried out by random, statistical testing and quantitative analysis.
This research is an explanatory research with hypothesis testing where the research explains the causal relationship and performs hypothesis testing (Sugiyono, 2013). This research was conducted to examine the effect of Islamic Social Reporting (ISR), Leverage, and institutional ownership on firm value and profitability.

Data and Samples

The research data is sourced from Bank Indonesia financial data which includes secondary data. Data collection was carried out by means of corporate financial report documents.

This study population was all of Sharia commercial banks (BUS) in Indonesia. The sample technique uses purposive sampling which aims to get a representative sample based on the specified criteria. According to Arikunto (2010), the sample chosen by this method is quite good because it is in accordance with the considerations and represents the population. The criteria for selecting the sample of this study are:

a. Sharia commercial banks (BUS) that have existed since 2013 to 2017;
b. Sharia commercial bank (BUS) publishes annual reports for the period 2013 to 2017.

Based on the selected criteria, the number of samples with consideration of these criteria is five BUS. The sample of this research is Bank Syariah Mandiri, Bank Central Asia Syariah, Bank Negara Indonesia Syariah, Bank Rakyat Indonesia Syariah and Bank Mega Syariah.

Measurement of Variables and Analysis

a. Dependent Variables

This study uses profitability as measured by return on assets (ROA) and firm value is measured using the price earning ratio (PER) of Islamic banks as the dependent variable. Profitability is obtained from the balance sheet financial statement data and the annual profit and loss profit margin on sales report. Profitability is proxied by using ROA with the following formula :

$$\textit{Profitability (ROA)} = \frac{EAT\ (Earning\ after\ tax)}{Total\ Asset} \quad (1)$$

Firm value is a perception of investors as measured by the price earning ratio (PER) in percentage units during 2013-2017. Price earning ratio (PER) data is obtained from the annual financial statements of Islamic banks which are formulated below :

$$\textit{Firm value (PER)} = \frac{\textit{Market price per share}}{\textit{Income per share}} \times 100\% \quad (2)$$

b. Independent Variables

Islamic social reporting (ISR) is calculated by the company's ISR index every year. ISR index is obtained by content analysis method with analysis techniques in the form of documents and text to provide systematic and iterative qualifications. The ISR index scoring research used content analysis method without weighting. The ISR index has 38 disclosure items with five theme combination items from Haniffa and disclosure items in Othman's research. The value of an item is a value of 1 or 0. A value of 1 if the item on the ISR exists and a value of 0 if it is not in the company data. The values will add up to the largest value 38 for the largest value and 0 for the smallest value.

The formula for calculating the ISR index is as follows :

$$ISR = \frac{\textit{Number of disclosure scores that were met}}{\textit{Number of maximum score}} \quad (3)$$

Leverage is the ability to pay debt with available capital as measured by debt to equity ratio (DER), which is the ratio of debt divided by capital.

According to Apriada (2013) Institutional ownership is the proportion of share ownership by institutional investors. Institutional investors are believed to have the ability to monitor management actions better than individual investors. Institutional ownership is expressed by the number of shareholdings owned by the institution divided by the number of outstanding company shares. According to Apriada (2013) systematically calculating institutional ownership is formulated as follows:

$$INST = \frac{\textit{Number of institutional shareholdings}}{\textit{Number of shares outstanding}} \quad (4)$$

Descriptive Statistics

Descriptive statistical analysis is carried out by providing an overview of the research variables by providing data transformation in the form of tabulations that are understood and explained (Indrantoro, 2002). Descriptive statistical analysis is carried out by measuring what is measured by the average, the standard deviation value, the lowest value and the highest value.

a. Multiple Linear Regression

The data analysis method was carried out by multiple linear regression analysis. Linear regression analysis is known to change the effect that occurred according to the previous time. This study has 5 (five) variables, namely Islamic Social Reporting (ISR) (X1), Leverage (X2), Institutional Ownership (X3), Firm Value (Y1), and Profitability (Y2), then:

$$\hat{Y}1 = a + b1X1 + b2X2 + b3X3 \quad (5)$$

$$\hat{Y}2 = a + b1X1 + b2X2 + b3X3 \quad (6)$$

where :
Y1 = Firm value;
Y2 = Profitability;

X1 = Islamic social reporting (ISR);
X2 = Leverage;
X3 = Institutional ownership;
a = constant if X = 0 or constant;
b1 = ISR regression coefficient;
b2 = Leverage regression coefficient;
b3 = Institutional Ownership regression coefficient.

Results and Discussion

a. Research Data

The research sample is Islamic Banks which report annual reports from 2013 to 2017. The number of Islamic banks in Indonesia from 2013 to 2017 is 15 Islamic banks. There are 12 Islamic banks listed on the IDX between 2013-2017. Based on research on the 12 banks, there were 2 Islamic banks that did not report their finances in a row during 2013-2017. Furthermore, there were 5 Islamic banks that did not make a profit in a row in 2013-2017. Based on the sample selection process, 5 Islamic banks were selected. Table 2 describes the research sample process.

Table 2. Sample Selection Process

No.	Information	Total
1.	Islamic banks were listed in Bank Indonesia during 2013-2017	12
2.	Islamic banks do not publish annual reports during 2013-2017	2
3.	Islamic banks did not profit in a row during 2013-2017	5 -
4	Number of samples	5
	(Total observations from 2013 to 2017 x 5 samples) = 6 × 5 = 30 observations	30 observations

Source : This description was adapted from the respective references

b. Descriptive Statistics Analysis

Descriptive statistics are used to provide an overview of each variable in the study. The descriptive statistics presented consist of the minimum value, maximum value, average value, and standard deviation of each variable are presented in table 3 below :

Table 3. Descriptive Statistics

Variabel	Minimum	Maximum	Mean	Std. Deviation
Islamic Social Reporting (ISR)	0,60	0,80	0,6920	0,07024
Leverage	0,05	64,10	7,6940	16,83728
Institutional Ownership	0,00	1,00	0,4800	0,50990
Firm Value	-0,05	11,05	1,9512	3,46264
Profitability	0,02	0,19	0,0812	0,04352

Source : These result were adapted the data run with SPSS.

Descriptive results are used to see the description of the Islamic social reporting (ISR) variable, leverage, institutional ownership, firm value, and profitability which includes the minimum value, maximum value, average, and standard deviation. Based on the results in table 3 above, it is known that the minimum value of Islamic social reporting (ISR) is 0.60 and the maximum value is 0.80 with an average of 0.69 and a standard deviation of 0.07.

The minimum value of the leverage variable is 0.05 and the maximum value is 64.10 with an average of 7.69 and a standard deviation of 16.84. The institutional ownership variable has a minimum value of 0.00 and a maximum value of 1.00 with an average of 0.48 and a standard deviation of 0.50. Furthermore, the firm value variable has a minimum value of -0.05 and a maximum value of 11.05 with an average of 1.95 and a standard deviation of 3.46. The last variable, namely company value, has a minimum value of 0.02 and a maximum value of 0.195 with an average of 0.08 and a standard deviation of 0.04.

c. Multiple Linear Regression Test

Hypothesis testing in this study using multiple linear regression test. Based on the multiple regression estimation using SPSS, the results are shown in table 4 below :

Table 4. Multiple Linear Regression Result

Variabel	*Unstandardized coefficient* B	t hitung	Sig.
Dependent Variable : PER			
Islamic Social Reporting (ISR)	27,338	2,914	0,008
Leverage	0,033	0,775	0,447
Institutional Ownership	1,430	1,060	0,301
Constant = -16,024			
R Square = 0,322			
F-test = 3,326			
Significance = 0,039			
Dependent Variable : ROA			
Islamic Social Reporting (ISR)	0,245	2,724	0,013
Leverage	0,001	2,245	0,036
Institutional Ownership	0,027	2,118	0,046
Constant = -0,109			
R Square = 0,606			
F-test = 10,770			
Significance = 0,000			

Source : These result were adapted the data run with SPSS.

Based on table 4, the regression equation is obtained as follows:

$$Y1 = -16{,}024 + 27{,}338\ X_1 + 0{,}033\ X_2 + 1{,}430\ X_3 + e \qquad (7)$$

$$Y2 = -0{,}109 + 0{,}245\ X_1 + 0{,}001\ X_2 + 0{,}027\ X_3 + e \qquad (8)$$

where :

Y1 = Firm value
Y2 = Profitability
X1 = Islamic social reporting (ISR)
X2 = Leverage
X3 = Institutional ownership

HYPOTHESIS TEST RESULT

a. Partial t-test (t-test statistics)

Hypothesis 1 (H1) : Islamic Social Reporting (ISR) has a positive effect on the firm value of Islamic banks (PER).

Based on the results of the hypothesis testing conducted, it can be seen that the first hypothesis in this study is supported by the results of empirical research. This is indicated by the t-value of 2.914 which is greater than the t-table (2.060) and the significance value of 0.008 which is smaller than 0.05 and the regression coefficient value of 27.338 in a positive direction. So it can be said that Islamic social reporting (ISR) has a positive effect on firm value (PER).

Hypothesis 2 (H2) : Islamic Social Reporting (ISR) has a positive effect on corporate profitability (ROA).
Based on the results of the hypothesis testing, it can be seen that Islamic Social Reporting (ISR) has a positive effect on profitability. This is indicated by the t-value of 2.724 which is greater than the t-table (2.060) and the significance value of 0.013 which is smaller than 0.05 and the regression coefficient value of 0.245. So it can be said that the second hypothesis in this study is supported by empirical research.

Hypothesis 3 (H3) : Leverage has a positive effect on firm value (PER).
The third hypothesis in this study which states that leverage has an effect on firm value is not supported by empirical research results. This shows that the t-value of 0.775 is smaller than the t-table (2.060) and a significance value of 0.447 which is greater than 0.05. This means that leverage has no effect on firm value.

Hypothesis 4 (H4) : Leverage has a positive effect on corporate profitability (ROA).
Table 4 above shows that the leverage variable has a t-value of 2.245 which is greater than the t-table (2.060) and a significance value of 0.036 which is smaller than 0.05 and a coefficient value of 0.001 in a positive direction. This means that the fourth hypothesis which states that leverage has a positive effect on profitability is supported by the results of empirical research.

Hypothesis 5 (H5) : Institutional ownership has a positive effect on firm value (PER).
The fifth hypothesis in this study which states that institutional ownership has a positive effect on firm value (PER) is not supported by the results of empirical research. This is indicated by the t-value of 1.060 which is smaller than the t-table (2.060) and the significance value of 0.301 which is greater than 0.05.

Hypothesis 6 (H6) : Institutional ownership has a positive effect on corporate profitability (ROA).
Table 4 above shows that the institutional ownership variable has t-value of 2.118 which is greater than t-table (2.060) and a significance value of 0.046 which is smaller than 0.05 and a coefficient value of 0.027 in a positive direction. This means that the sixth hypothesis states that institutional ownership has a positive effect on profitability supported by the results of empirical research.

b. F-statistical Test

The F-test is used to prove and determine the effect of the independent variables together on the dependent variable, which means that Islamic Social Reporting (ISR), leverage and institutional ownership together have an effect on company value and profitability. If the significance value of F is less than 0.05% ($p < 0.05$), then the hypothesis is accepted. The results of the F-test can be seen in table 4.
Based on the results of statistical testing in the first model with the dependent variable being the firm value, the significance of the F-test (probability) is 0.039 ($p < 0.05$) and the calculated F-value is 3.326, meaning that there is a joint influence between Islamic social reporting (ISR) , leverage, and institutional ownership of firm value.
Furthermore, in the second model with the dependent variable profitability, it is known that the calculated F-value is 10.770 and the significance value is 0.000 which is smaller than 0.05. So it can be concluded that Islamic social reporting (ISR), leverage and firm value have an effect on company profitability.

c. Coefficient of Determination Test (R^2)

Based on table 4 above in the first model with the dependent variable Firm value, it can be seen that the coefficient of determination (R Square) multiple regression is 0.322. This shows that Islamic social reporting (ISR), leverage, and institutional ownership jointly affect firm value by 32.2% and the remaining 67.8% of firm value is influenced by other factors not examined in this study.
Furthermore, in the second model with the dependent variable profitability, it is known that the coefficient of determination (R Square) is 0.606. This shows that Islamic Social Reporting (ISR), Leverage, and firm value together affect the company's profitability by 60.6% and the remaining 39.4% of profitability is influenced by other factors not examined in this study.

DISCUSSION

Islamic social reporting (ISR) is a disclosure of Islamic bank activities towards society and the environment. This is one way of sending positive signals to the market and shareholders regarding the sustainability of Islamic banks in the future. The existence of the ISR disclosure has made investors trust in investing. This is a form of concern for the Islamic bank for society and the environment.

Based on the research results, it shows that Islamic social reporting (ISR) has an effect on firm value. This is indicated by the t-value of 2.914 and a significance value of 0.008 which is smaller than 0.05. The results of this study are in accordance with the signal theory expressed by Cheng and Christiawan (2011) where disclosure of social responsibility can increase investor confidence so as to maximize profits. This is because ISR information is not able to break the company's value because there are other considerations from investors such as stock prices and financial performance.

Firm value as reflected by PER is influenced by information content and investor confidence. Creation of trust is carried out by Islamic banks by implementing ISR in Islamic bank activities. ISR which is carried out for the public creates customer trust in the bank as a sharia bank that has a good image. ISR causes capital owners to react if they know the company's ISR information. Information that provides confidence in the prospects for Islamic banks is assessed by the amount of profit received from the shares for the owner of the company.

The test results also show that Islamic Social Reporting (ISR) has a positive and significant effect on ROA. This is indicated by a P value < 0.05. These results indicate that the higher the number of ISR items and the more the company profits will increase so that it can be done with a positive signal from investors.

ISR has a positive effect on Islamic banks and shareholders, including profits in asset management as measured by ROA. There are other considerations for the owners of capital in giving benefits to Islamic Banks in addition to the ISR disclosure items for stakeholders. According to the legitimacy theory, Islamic banks try to carry out activities that support the legitimacy of Islamic banks in public so that profits will be even higher. This will be done to maintain the viability of Islamic banks.

This research is consistent with the opinion of Haniffa (2002) which states that according to Islam, corporate responsibility, especially those based on Sharia, will provide better disclosure even though it gets small or large profits even when losses still carry out ISR. This is because the company already has responsibilities in the company's business activities. The existence of this ISR disclosure can increase the added value and image of the company in the public so that the trust of customers and stakeholders will also be higher and increase the profits obtained from transactions carried out by customers.

This research also agrees with Gray's opinion et.al (1987) which explains that corporate responsibility is carried out if there are changes. But in Islamic rules, social responsibility is explained by rights and obligations for organizations, especially business companies in relation to society and the environment. Ohman, Thani and Ghani (2002) explain that the Islamic-based CSR concept is not just a report but a concrete form of activities towards society and the surrounding environment, including the welfare of society in general.

Leverage has no effect on firm value according the result of this study. This is evidenced by the t-value value of 0.775 and a significance value of 0.447 which is smaller than 0.05. According to the trade-off theory, the optimal use of debt to increase value in this study may not be optimal. This indicates that the value of capital that is greater than debt in a company cannot show the company's ability to optimize the use of debt to increase company value, because in the Indonesian capital market stock price movements and the creation of added value for companies are due to market conditions. Investors do not pay much attention to the size of the debt owed by the company, because investors are more concerned with how the company's management uses these funds effectively and efficiently to achieve added value for company value.

The results of this study are not in line with the research conducted by Gisela Prisilia Rompas (2013) which shows that the debt to equity ratio (DER) has a positive and significant effect on firm value, but these results are consistent with the research of Natalia Ogolmagai (2013) which states that debt to equity ratio (DER) has no effect on firm value.

This study showed that leverage has an effect on profitability. This is evidenced by the t-count value of 2.245 and a significance value of 0.036 which is smaller than 0.05. The size of the company which is called the size of the company is divided into three, namely large, medium and small companies. Debt ratio or leverage is the ratio between debt divided by capital. If the company's assets are managed properly and maximally, the profit will be maximized as well. This is because company assets are used by companies for company operations which are expected to increase profitability.

Previous research that supports this statement is research conducted by Febria (2013) and Saleem et al (2010) and Yoon and Jang (2005) which state that leverage has a positive effect on profitability. However, it is different from research conducted by Martono (2002) and Sari and Abudanti (2014) which state that leverage has a negative effect on profitability.

Institutional ownership variable shows a t-value of 1.060 and a significance value of 0.301 which is greater than 0.05. This means that institutional ownership has no effect on firm value. The results of the path analysis indicate that H5 is rejected, so it can be concluded that institutional ownership has no effect on firm value. The results of this study contradict agency theory (Jensen & Meckling, 1976), which states that institutional ownership can reduce agency costs due to share ownership by institutional investors such as insurance companies, banks, investment companies and ownership by other institutions. The company will encourage increased supervision (monitoring) which is more optimal on management performance so as to increase company value.

The results of this study are not in line with research conducted by Mokhtari and Khosro (2013) which found that institutional ownership has a positive and significant effect on firm value. The institutional ownership of affiliated holding companies in Indonesia is still family companies where the management of the company is still part of the family companies (Sudarma, 2004). Institutional ownership of shares is dominated by parties who are not independent (affiliated to each other) so that the function of institutional ownership as a supervisor for management cannot run properly even though share ownership by institutional parties is high. This condition causes the agency problem to not be suppressed and can have an impact on the decreasing market value of the company.

The results also show that institutional ownership has an effect on profitability. Institutional ownership is a condition in which the institution owns shares in a company. These institutions can be in the form of government institutions, private institutions, domestic or foreign (Widarjo, 2010). Institutional ownership has an important role in minimizing agency conflicts that occur between shareholders and managers. The existence of institutional investors is considered capable of optimizing performance monitoring. management by monitoring every decision made by management as company manager (Jensen and Meckling, 1976).

A high level of institutional ownership will lead to greater supervision efforts by institutional investors so that it can hinder opportunistic manager behavior (Wiranata and Nugrahanti, 2013). Supervision carried out by the institution makes managers have to provide accurate information on company performance. Institutional ownership of shares can have an influence on the financial performance of a company. The involvement of institutional share ownership will motivate managers to improve their performance in managing the company and be careful in making decisions that can affect the company's profitability.

CONCLUSION

Based on the research result, can be showed that Islamic social reporting (ISR) variable has a positive and significant effect on firm value (PER). This is indicated by the t-value of 2.914 which is greater than the t-table (2.060) and the significance value of 0.041 which is smaller than 0.05 and the regression coefficient value of 27.338. Islamic social reporting (ISR) also has a positive and significant effect on profitability (ROA). This is indicated by the t-value of 2.724 which is greater than the t-table (2.060) and the significance value of 0.013 which is smaller than 0.05 and the regression coefficient value of 0.245.

Leverage variable has no effect on firm value (PER). This is indicated by the t-value of 0.775 which is smaller than the t-table (2.060) and a significance value of 0.447 which is greater than 0.05. However, leverage has a positive and significant effect on profitability (ROA). This is evidenced by the t-value of 2.245 which is greater than the t-table (2.060) and the significance value of 0.036 which is smaller than 0.05 and the coefficient value of 0.001 in a positive direction.

Institutional ownership variable has no effect on firm value (PER). This is indicated by the t-value of 1.060 which is smaller than the t-table (2.060) and the significance value of 0.301 which is greater than 0.05. However, institutional ownership has a positive and significant effect on profitability (ROA). This is evidenced by the t-value of 2.118 which is greater than the t-table (2.060) and the significance value of 0.046 which is smaller than 0.05 and the coefficient value of 0.027 in a positive direction.

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