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Determinants of Islamic Social Reporting: Analysis of the Characteristics of Energy Companies in Indonesia

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ABSTRACT

This study examines the determinants of Islamic Social Responsibility (ISR) disclosure in energy companies listed on the Indonesian Sharia Stock Index during 2019–2023. Using purposive sampling, 20 firms were analyzed through fixed-effects panel regression. The findings reveal that environmental performance, profitability, firm size, and good corporate governance significantly enhance ISR disclosure, while leverage, firm age, and the COVID-19 pandemic show no significant effect. These results support legitimacy theory, suggesting that ISR disclosure is used to maintain societal approval, and align with sharia enterprise theory, emphasizing accountability to God, society, and the environment. Furthermore, the study reinforces stakeholder theory, highlighting firms' responsiveness to increasing demands for transparency and social responsibility. This research contributes to the Islamic accounting literature by providing empirical evidence on ISR disclosure practices within the energy sector of an emerging Islamic capital market.

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Penelitian ini bertujuan menganalisis faktor-faktor yang memengaruhi pengungkapan *Islamic Social Responsibility* (ISR) pada perusahaan sektor energi yang terdaftar di Indeks Saham Syariah Indonesia periode 2019–2023. Sampel penelitian terdiri atas 20 perusahaan yang dipilih menggunakan teknik *purposive sampling* dan dianalisis dengan regresi data panel pendekatan *fixed effects*. Hasil penelitian menunjukkan bahwa kinerja lingkungan, profitabilitas, ukuran perusahaan, dan mekanisme *good corporate governance* berpengaruh signifikan terhadap pengungkapan ISR, sedangkan leverage, usia perusahaan, dan pandemi COVID-19 tidak berpengaruh signifikan. Temuan ini mendukung teori legitimasi, teori *sharia enterprise*, dan teori pemangku kepentingan yang menekankan pentingnya transparansi dan akuntabilitas sosial dalam praktik bisnis syariah, khususnya pada sektor energi di pasar modal syariah negara berkembang.

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1. Introduciton

Corporate Social Responsibility is a concept that organizations, particularly companies, have various forms of responsibility towards all stakeholders, including consumers, employees, shareholders, communities, and the environment in all aspects of company operations. The main idea of CSR explains that companies are faced with the concept of the triple bottom line, where corporate responsibility is not limited to achieving profits for shareholders, but also includes responsibility for social and environmental issues demonstrated to stakeholders. Furthermore, the triple bottom line concept directs the implementation of CSR to contribute to sustainable development, which is in line with global action plans to address issues in all countries related to economic, social, and environmental aspects.

In Indonesia, the concept of CSR continues to develop in a more positive direction. This is inseparable from the support of the government, which has issued several regulations related to CSR, which apply specifically to companies related to natural resources, public companies, oil and gas companies, and state-owned enterprises. Among these is Law No. 40 of 2007 on Limited Liability Companies, which states that companies engaged in natural resource businesses or companies related to natural resources are required to fulfill their social responsibilities. In addition, Government Regulation No. 47 of 2010 concerning social responsibility and limited liability companies states that every annual report prepared must contain certain data, one of which is a report on the implementation of social and environmental obligations.

In its development, the concept of CSR is not only found in the conventional economic sector, but has also developed in the Islamic economic sector. This is accompanied by an increasing number of companies applying Sharia principles in their business activities. The growing practice of business based on Sharia principles has an impact on the form of social responsibility that must also be carried out based on Sharia principles. The large number of companies applying Sharia principles indicates that the Islamic economy is experiencing rapid growth and that the community's need for Sharia institutions is increasing over time. Thus, there is a need for the Sharia capital market to support the increase in market share of Sharia-based companies (Yuliani, 2017).

Othman et al., (2009) said that the rapid development of the Islamic capital market means that companies listed on the Sharia Securities List are expected to include a religious dimension in their annual reports. Therefore, guidelines are needed to measure the extent to which companies listed on the Islamic capital market prepare social responsibility reports based on Sharia principles. Othman et al., (2009) developed a disclosure index based on sharia principles, commonly referred to as Islamic Social Reporting (ISR). ISR was first proposed by Haniffa (2002) and later developed specifically by (Othman et al., 2009). Haniffa (2002) said that there are limitations in conventional accountability disclosure, so there needs to be a special framework for social accountability reporting that is in line with Sharia principles. This framework can help stakeholders, especially Muslim stakeholders, in making decisions. It can also help companies fulfill their obligations to Allah SWT.

Maali et al., (2006) said that the purpose of ISR is to assess the compliance of company activities with sharia principles and to assess whether company activities can provide welfare for the community. Islamic Social Reporting is needed to demonstrate accountability to Allah SWT and the community and to increase the transparency of business activities by providing relevant information, including paying attention to the spiritual needs of Muslim investors. Furthermore, ISR is a measure of social performance for companies that have a sharia effect in carrying out their social obligations to stakeholders. ISR was developed based on a compilation of standard items set by AAOIFI.

Compared to other Islamic countries, the development of the ISR index in Indonesia is still relatively slow (Khasanah & Yulianto, 2015). There are several factors that can influence the level of ISR disclosure. Lu & Wang (2021) dan Kurniawati & Yaya (2017) conveyed that there is a positive relationship between CSR disclosure and environmental performance. The higher a company's environmental performance, the greater the likelihood that the company will disclose information related to Islamic Social Responsibility (ISR) as a form of spiritual, social, and ecological accountability. This is different from Rahayu (2018) and Hartawati et al (2017) who stated that environmental performance does not affect ISR disclosure.

Othman et al., (2009); Mallin et al., (2014) dan Hussain et al., (2021) also revealed that profitability ratios have an influence on the level of ISR disclosure. Management in companies with high profitability will usually be motivated to expand the scope of ISR disclosure, with the aim of meeting shareholder demands and enhancing the company's reputation and legitimacy in the eyes of the public. Meanwhile Jati et al., (2020) stated that profitability has no effect on ISR disclosure. This is because companies with high profitability levels do not necessarily engage in high levels of ISR disclosure. This is because companies focus on maximizing profits, resulting in less attention being paid to ISR disclosure activities.

Furthermore, leverage arises because companies use debt to finance their operations. Wahyuni (2018) dan (Anggraini & Wulan, 2015) found a significant influence between debt ratio and ISR. The reason is that companies with high leverage may face pressure from creditors to prioritize financial obligations over allocating funds for social activities. This can result in low ISR disclosure. Conversely, companies with low leverage have smaller debt burdens, allowing them to allocate their resources to fulfill their social responsibilities. A different opinion was expressed by Murdiansyah, (2021), who stated that the level of debt held by a company has no impact on the extent of ISR disclosure. This opinion aligns with research by (Jati et al., 2020), (Affandi et al., 2019), and (Umiyati & Danis Baiquni, 2018).

Furthermore Hussain et al., (2021) stated that company size is the main determinant of social reporting, which has been extensively researched in previous studies. Larger companies tend to disclose more information to investors. However Affandi et al., (2019) stated that the size of the company does not affect the level of ISR disclosure.

In addition, good corporate governance is also thought to have an influence on CSR disclosure. Lu & Wang (2021) said that the implementation of GCG can improve the quality and breadth of information disclosure related to the Company's social responsibility. This is because GCG regulates ethical, transparent, and responsible governance in accordance with sharia values. A different thing was conveyed by (Jannah & Asrori, 2016) who said that GCG did not have a positive effect on ISR disclosure.

This study seeks to obtain empirical evidence in the form of factors that can influence ISR disclosure, including environmental performance, profitability ratio proxied by ROA, leverage ratio proxied by DER, and company size measured by total assets owned by the company, as well as corporate governance mechanisms measured using the Board of Commissioners and Board of Directors with control variables of company size and the COVID-19 pandemic.

By identifying factors influencing ISR disclosure, this study helps explain why companies exhibit varying levels of reporting, despite operating within the same sharia framework. Given the growing growth of sharia-compliant industries, the need for consistent and easily understood reporting standards is increasingly important. However, the level of ISR disclosure across companies still varies widely, which may be influenced by differences in internal company characteristics. Therefore, examining how company characteristics influence ISR disclosure is relevant.

The novelty of this research is reflected in the development of an analytical model that incorporates more company characteristic variables as determinants of Islamic Social Reporting. This approach provides a new perspective on how a company's internal attributes simultaneously influence the level of ISR disclosure. Furthermore, this research focuses on companies in the energy sector, which have higher levels of environmental and social exposure than other sectors. Therefore, this research can provide a new perspective on how company characteristics in industries sensitive to sustainability issues influence the level of Islamic Social Reporting disclosure.

2. Literature Review

Stakeholder Theory

According to stakeholder theory, companies must operate based on best practices to satisfy stakeholders (Sukma Embuningtiyas et al., 2020). Freeman (1984) defines stakeholders as individuals or groups affected by the actions of a company or individuals or groups that have the ability to support the company in achieving its goals. The survival of a company depends on the support of its stakeholders thus companies must carry out activities that can increase stakeholder trust. Social disclosure is considered part of the dialogue between companies and their stakeholders, where it becomes a means to gain trust and support from stakeholders.

Legitimacy Theory

Legitimacy theory explains that companies try to convince the public that they operate in accordance with and respect the norms of the surrounding community. Legitimacy is very important for companies because their existence in the environment or social community must be able to interact with the community in the company's environment by conducting business in accordance with social norms, the community, and stakeholders. Thus, organizations have a desire to obtain the right to continue to exist because they have carried out activities that do not conflict with the expectations of the community (Sukma Embuningtiyas et al., 2020). Legitimacy theory explains that an organization will deliberately report on its every action if this is what is generally expected and to ensure that the organization's tasks are within the appropriate limits and standards based on public opinion.

Sharia Enterprise Theory

Sharia enterprise theory according to Triwuyono (2012) explains that the most important axiom that must underlie every concept established in an organization is Allah as the Creator and Sole Owner of all existing resources. Meanwhile, the resources owned by stakeholders are, in principle, a trust from Allah SWT, which carries with it the responsibility to be used in the manner and for the purposes determined by the Giver of the Trust. Thus, every company is expected not to place profit above all else in its performance and to be accountable to both stakeholders and Allah SWT, among other things, by fulfilling its social responsibilities and disclosing ISR.

Environmental Performance and ISR

Based on the perspective of Islamic Social Responsibility, corporate responsibility is not limited to the owners of the company, society, and the environment, but companies also have a responsibility to Allah as the owner of all resources. Companies that preserve the environment demonstrate their moral and spiritual responsibility, which is done with the aim of protecting the earth and avoiding prohibitions such as causing damage. Therefore, companies with good environmental performance not only comply with formal regulations but also adhere to ethical and sharia principles. Furthermore, companies with good environmental awareness are reflected in the way they maintain ecological balance, reduce pollution, and carry out sustainable business activities. Therefore, the company's commitment not only impacts its reputation but also encourages it to improve its disclosure of Sharia-based social responsibility. Lu & Wang (2021) and Kurniawati & Yaya (2017) also stated that companies with better environmental and CSR performance tend to disclose CSR information more widely. This is supported by legitimacy theory, which explains that companies seek to obtain, maintain, and restore legitimacy from the community. Good environmental performance encourages companies to disclose social responsibility information to demonstrate the alignment between their operational activities and the values and norms that apply in the community.

H1: Environmental performance has a positive effect on Islamic social reporting disclosure.

Profitability and ISR

Haniffa (2002) stated that, from an Islamic perspective, companies must be willing to provide full disclosure regardless of whether they generate profits or losses. This is in accordance with Sharia enterprise theory, which states that companies must be fair, truthful, and responsible for the trust given to them by stakeholders and Allah SWT. Kurniawati & Yaya (2017) believes that companies with high profitability will tend to disclose more information than companies with lower profitability. The same opinion was also expressed by (Othman et al., 2009b) which reveals that companies with high profitability and a good reputation will be encouraged to make disclosures. This is also supported by Mallin et al., (2014) who state that profitable organizations will follow ISR and implement disclosure practices with the aim of gaining the trust of stakeholders. This is in line with stakeholder theory, whereby companies must operate based on their best practices in order to satisfy their stakeholders.

H2: Profitability has a positive effect on Islamic social reporting disclosure

Leverage and ISR

Luqyana & Zunaidi (2021) state that companies with high leverage ratios tend to be more transparent and strive to disclose more information. The information disclosed by companies is not only financial information but also non-financial information, such as information on their accountability to the community and to Allah SWT, which is presented in the ISR. The existence of the ISR will encourage positive assessments from stakeholders because the ISR is important for the spiritual needs of stakeholders. This is supported by the results of research by (Wahyuni, 2018) dan (Anggraini & Wulan, 2015) who found a significant influence between the debt ratio and the ISR.

H3: Liquidity has a positive effect on Islamic social reporting disclosure

Firm Size and ISR

Othman et al., (2009) states that large companies tend to disclose more information to investors. This is because larger companies have complex resources and engage in many activities that require them to disclose information to stakeholders. In addition, larger companies have serious agency problems, which can be overcome by using more social disclosure practices Watts & Zimmerman (1983) in (Hussain et al., 2021a). Furthermore, Khasharmeh and Desoky (2013) stated that company size is an important predictor of corporate disclosure and ISR. This supports the findings of (Jannah & Asrori, 2016), (Hussain et al., 2021), dan (Luqyana & Zunaidi, 2021) who found a significant relationship between company size and ISR.

H4: Firm size has a positive effect on Islamic social reporting disclosure

Board of Commissioners and ISR

Based on Financial Services Authority Regulation No. 33/POJK.03/2014, the Board of Commissioners is part of the company that has the task of conducting general or specific supervision in accordance with the articles of association, and has the task of advising the Board of Directors (Luqyana & Zunaidi, 2021). One of the roles of the board of commissioners is to oversee the performance of the board of directors so that the performance of the board of directors is in line with the interests of stockholders. Indrawaty & Wardayati (2016) states that the most important aspect of a board of commissioner is its independence in carrying out its duties, whereby the board of commissioner can act as a mediator between management and shareholders. Furthermore (Susbiyani et al., 2023) states that the existence of a board of commissioners is considered to represent the interests of investors in increasing the value of the company. This is in line with stakeholder theory, whereby companies are required to operate based on best practices so as to satisfy their stakeholders. This is done by encouraging management to disclose all positive information related to the company's activities, including the form of social responsibility undertaken by the company. In addition to social responsibility to the community, companies are also encouraged to convey their responsibility to Allah in Islamic social reporting. Thus, stakeholders can find out how companies have fulfilled their obligations to Allah SWT and the community. Based on this explanation, the following hypothesis can be concluded:

H5: Board of commissioners has a positive effect on Islamic social reporting disclosure

Board of Directors and ISR

The board of directors is the corporate body that has full authority to carry out day-to-day operational management and set strategic policies, including policies related to social responsibility. The effectiveness of the board of directors in integrating sharia values and sustainability principles into the company's strategy greatly influences the implementation and disclosure of Islamic Social Responsibility (ISR). The more competent and committed the board of directors is, the more likely the company is to disclose ISR widely to meet stakeholder expectations and gain legitimacy from the community. This is in line with (Lu & Wang, 2021) who stated that a well-managed board of directors provides companies with more capabilities and incentives to monitor and reduce self-serving behavior by managers, increase transparency in the disclosure of CSR activities and environmental performance, enhance the moral legitimacy of the company, and attract stakeholders who consider ESG issues in their decision-making process.

H6: Board of Directors has a positive effect on Islamic social reporting disclosure

3. Research Method

This study uses a quantitative approach with a population of energy companies. The sample size in this study was determined using purposive sampling with the following criteria: energy sector companies included in the Sharia Securities List and listed on the Indonesia Stock Exchange (IDX) and energy sector companies that include PROPER in their annual reports, respectively. The research sample was obtained by 20 companies, resulting in a total of 100 observational data. The study period is 5 years, namely from 2019 to 2023. The data obtained is secondary data taken from the Indonesia Stock Exchange (IDX) and each company's website. Furthermore, this study uses panel data regression with EViews. Based on the modeling results, the Fixed Effect Model (FEM) was chosen because it is the model that best fits the characteristics of the data. This model is also able to control for fixed differences between companies, resulting in more accurate estimates.

Operational Definition of Variables

<u>Dependent Variable</u>:

Islamic Social Reporting (ISR)

ISR is a conceptual framework for social accountability reporting that is in accordance with Islamic principles. ISR can assist Muslim stakeholders in evaluating organizations in relation to their social responsibility, and can help organizations fulfill their obligations to Allah SWT and society. The approach used in assessing the level of disclosure in Islamic social reporting uses a disclosure score that will be classified into 6 categories based on research (Othman et al., 2009b), (Indrawaty & Wardayati, 2016a), dan (Retma Sawitri et al., 2017) ISR variables can be obtained using the following formula:

$$\text{ISR} = \frac{\text{Number of Items Fulfilled}}{\text{Maximum Number of Items}} \text{ x } 100\%$$

<u>Independent Variable</u>:

Environmental Performance

The assessment of a company's environmental performance is carried out using the PROPER program developed by the Ministry of Environment and Forestry (KLHK). The PROPER program is an instrument for assessing companies' commitment and actions in maintaining environmental quality. PROPER is regulated in Regulation of the Minister of Environment No. 6 of 2013. Environmental performance measurement refers to a color-based assessment system established in the Environmental and Forestry Performance Rating Program (PROPER). PROPER establishes 5 color categories as indicators, namely gold with a value of 5, green with a value of 4, blue with a value of 3, red with a value of 2, and black with a value of 1 (Suaidah & Kartini, 2020).

Profitability

Profitability is an indicator of management performance in managing company assets, as demonstrated by the profits generated by the company. In this study, the profitability ratio is measured using ROA, with reference to the study (Mallin et al., 2014) and (Hussain et al., 2021).

$$\text{ROA} = \frac{\text{Earning After Tax}}{\text{Total Asset}} \text{ X } 100\%$$

Leverage

The leverage ratio is a ratio that measures how much a company is financed with debt. Referring to (Wahyuni, 2018) this study uses the DER ratio to measure leverage.

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

Firm size

Firm size reflects the total assets owned by the company. In the study (Hussain et al., 2021a) firm size was calculated using the following formula:

Firm size = Logaritma Natural (Total Asset)

Board of Commissioners (BOC)

The board of commissioners is a part of the company that acts independently in carrying out general and specific supervision, ensuring the effective implementation of GCG, and has the duty to advise the board of directors. The board of commissioners is measured using the frequency of board of commissioner meetings, referring to research (Indrawaty & Wardayati, 2016).

Board of Directors (BOD)

The board of directors has full authority to manage day-to-day operations and establish strategic policies, including those related to social responsibility. In this study, the board of directors is measured using the number of board meetings held by the company (Lin and Wang, 2021).

<u>Control Variable</u>

Firm Age

Company age indicates its presence and competitiveness in the market. The older a company is, the more experience it has in financial reporting and the better it understands stakeholders' information needs, particularly regarding corporate social responsibility. According to research (Hussain et al., 2021a) company age is calculated based on the length of time the company has been listed on the IDX.

Pandemic Covid-19

The Covid-19 pandemic is an outbreak of infectious disease caused by the SARS-CoV-2 virus and was officially declared a pandemic by the WHO on March 11, 2020. The pandemic has impacted companies' operational activities, financial performance, and Corporate Social Responsibility policies, including ISR disclosure. This study uses a pandemic year dummy variable, which has a value of 1 if the company's reporting year is 2020 or later, and a value of 0 if the company's reporting year is before 2020.

Data Analysis Techniques

The data processing techniques used were descriptive analysis and panel data regression analysis using Eviews computer software. The equation model used in this study was:

$$ISRit = \alpha + \beta KLit + \beta ROAit + \beta DERit + \beta Sizeit + \beta BOCit + \beta BOD + \beta\ Ageit + \beta\ CVDit + e$$

4. Result and Discussion

<u>Result</u>

Descriptive Statistics

Based on the data collection results, 100 observations that met the research criteria were obtained. Table 1 explains the descriptive statistics details of this study.

Table 1. Descriptive Statistics

	N	Mean	Min	Max	Std.dev
ISR Disclosure	100	0,43	0,08	0,90	0,21
Environmental Disclosure	100	3,93	3,00	5,00	0,76
ROA	100	13,10	-32,62	76,27	16,58
DER	100	1,02	0,06	5,39	0,95
Firm size	100	29,96	18,88	32,76	1,97
BOC	100	8,94	1,00	49,00	7,90
BOD	100	21,07	1,00	75,00	17,26
Firm Age	100	32,39	3,00	63,00	14,48
Covid 19	100	0,80	0,00	1,00	0,40

Hypothesis Testing Results

Coefficient of Determination Test

The coefficient of determination value from this study is 74%. This explains that the variation in the ISR disclosure level variable as the dependent variable can be explained by the independent variables, namely environmental performance, profitability, leverage, firm size, BOC and BOD, firm age, and the COVID-19 pandemic, by 74%, with the remaining 26% explained by other variables outside the research model.

F Test

Based on the F test results in Table 2, a significance value of 0.000 (<0.05) was obtained, indicating that the independent variables simultaneously influence the level of ISR disclosure.

T Test

The results of the hypothesis testing using the t test are shown in Table 2.

Table 2. Results of Multiple Linear Regression Analysis

	Koefisien	Std.Error	t	Sig.
ISR Disclosure	0,189	0,049	3,859	0,000
Environmental Disclosure	0,009	0,002	5,934	0,000
ROA	0,004	0,002	2,237	0,028
DER	0,055	0,140	0,391	0,697
Firm size	0,003	0,001	4,792	0,000
BOC	0,003	0,000	6,182	0,000
BOD	0,001	0,001	2,825	0,006
Age	0,007	0,006	1,207	0,231
Covid 19	0,000	0,002	0,182	0,856
Adjusted R-squared				74%
Sig.				0,000

Discussions

Environmental performance and ISR

The results of testing Hypothesis 1 demonstrate that environmental performance influences ISR disclosure. This study's findings are consistent with Enterprise Sharia Theory, which emphasizes that companies are obligated to maintain environmental balance as part of their mandate. Companies with good environmental performance demonstrate compliance with Sharia values, particularly the responsibility to preserve the environment as part of their worship and accountability to Allah, humanity, and environment. This commitment encourages companies to disclose their environmental activities and performance more broadly through ISR. This is supported by (Lu & Wang, 2021) and (Kurniawati & Yaya, 2017) who state that companies with good environmental performance will disclose more information. The reason is that this is good news for the company that can attract investors. In addition, companies with good environmental performance tend to have higher CSR disclosure scores. Thus, the better a company's environmental performance, the more extensive its disclosure of social responsibility information.

Profitability and ISR

The results of hypothesis 2 testing prove that profitability influences ISR disclosure. These results support stakeholder theory, which explains that companies with good financial performance will be more capable and motivated to meet the expectations of stakeholders, both economically and socially, and demonstrate their accountability in accordance with sharia values. This shows that companies with higher profit levels strive to improve their social responsibility disclosure in order to attract investors by providing more extensive and informative information (Kurniawati & Yaya, 2017). In addition, highly profitable companies often use ISR disclosure as a positive signal to investors and the public that they are not only financially superior, but also socially and spiritually responsible. This is supported by the results of research by (Othman et al., 2009); (Mallin et al., 2014); (Anggraini & Wulan, 2015.) and (Kurniawati & Yaya, 2017) (Hussain et al., 2021) which states that companies with a high level of profitability can influence the disclosure of corporate social responsibility.

Leverage and ISR

The results of hypothesis 3 testing show that leverage has no effect on ISR disclosure. This reflects that a company's debt level is not a primary consideration in ISR practices. This is because financing relationships are more oriented towards financial risk analysis, so relevant information for creditors is generally quantitative, such as cash flow, liquidity, and debt repayment capacity, rather than non-financial information such as ISR. Therefore, companies have no incentive to increase ISR disclosure. Therefore, leverage does not significantly impact the level of ISR disclosure. ISR is also mandatory and is more oriented towards Sharia values, which emphasize trust, fairness, and social responsibility, rather than the economic interests of creditors. Furthermore, Luqyana & Saezana Zunaidi (2021) explain that sharia principles teach that social values contribute significantly to ensuring good interpersonal relationships. Thus, regardless of whether a company is profitable or not, has large or small debts, it naturally presents its social report (Jati et al., 2020). This is done so that the company continues to gain trust and legitimacy from the community. These findings are in line with Affandi and (Affandi et al., 2019); (Luqyana & Saezana Zunaidi, 2021);(Jati et al., 2020) who stated that leverage has no proven effect on corporate social responsibility disclosure.

Firm size and ISR

The results of hypothesis 4 testing prove that firm size influences ISR disclosure. Luqyana & Saezana Zunaidi (2021) state that company size affects ISR because larger companies generally engage in more activities, which have a greater impact on the environment. Furthermore, larger companies typically have a larger and more diverse number of shareholders, and these shareholders generally pay attention to the company's social activities. Therefore, large companies tend to disclose more social information in their financial reports as an efficient means of communicating with stakeholders. This is supported by legitimacy theory, which explains that there is a social contract between companies and society, in which companies strive to convince the public that they operate in accordance with and respect the norms of the surrounding community. Therefore, the larger the company, the broader and greater the company's social responsibility in conveying information to stakeholders. This will influence the disclosure of social responsibility activities outlined in the ISR. This argument is supported by the findings of (Othman et al., 2009); (Hussain et al., 2021), and (Luqyana & Saezana Zunaidi, 2021).

Board of Commissioners and ISR

The results of hypothesis 5 testing prove that the board of commissioners influences ISR disclosure. The BOC is part of the company that is tasked with supervising and advising the Board of Directors. A board that is strong in oversight and oriented towards ethical values tends to encourage companies to disclose ISR. This is because disclosing ISR demonstrates part of the company's obligation to comply with the principles of sustainability, sharia principles, and social responsibility. In addition, in carrying out its role as a supervisory board, the BOC also carries out many activities, one of which is holding meetings to discuss various important issues concerning the company. Indrawaty & Wardayati, (2016) stated that meetings with quality topics will have a positive impact on the company. This includes discussing topics related to sustainability and focusing the meeting on the company's accountability to stakeholders as outlined in the sustainability report. Thus, in board meetings, the board of commissioners continues to encourage management to improve ISR disclosure. This is in line with the results of research by (Indrawaty & Wardayati, 2016); (Susbiyani et al., 2023); and (Murdiansyah, 2021) which show that the board of commissioners has an influence on ISR disclosure.

Board of Directors and ISR

The results of testing Hypothesis 6 demonstrate that the board of directors influences ISR disclosure. These results support legitimacy theory and enterprise sharia theory, which explain that the board of directors plays a key role in shaping a company's image and reputation. This is because the board of directors plays a key role in determining the company's strategic direction, policies, and values. Furthermore, the board of directors is responsible for the company's response to sensitive issues or reputational risks, so the quality of their leadership and integrity significantly determine the strength of the company's image in the eyes of the public. Therefore, the level of ISR disclosure reflects the extent to which the board of directors directs the company towards transparency and maintaining public trust. This is in line with (Mukhibad et al., 2022) which states that a well-managed board of directors provides companies with more capabilities and incentives to monitor and reduce self-serving managerial behavior, increase transparency in the disclosure of CSR activities and environmental performance, enhance the moral legitimacy of the company, and attract the attention of stakeholders.

5. Conlusions

This study provides an understanding that the level of Islamic Social Reporting (ISR) disclosure in energy companies is not only dependent on reporting obligations, but is also influenced by the company's internal characteristics that shape their commitment and capacity to implement sharia sustainability principles. In sectors with high environmental impacts, environmental performance has proven to be an important driver of ISR disclosure because it reflects the company's compliance with sharia principles in maintaining the balance of nature and meeting the demands of public legitimacy. Profitability also contributes positively, indicating that financial capacity allows companies to increase transparency in disclosing social responsibility based on sharia principles, as a form of corporate accountability to Allah and society.

In contrast, leverage had no effect, indicating that creditor pressure was not sufficiently relevant in shaping ISR reporting practices, as ISR disclosure was more influenced by values, ethics, and sustainability orientation than financial pressure. Company size also influenced ISR disclosure because larger companies have higher public exposure and a greater incentive to maintain legitimacy through ISR. Good Corporate Governance aspects also played a role in encouraging broader disclosure, reflecting how good governance strengthens corporate accountability, not only financially but also morally, in accordance with a Sharia perspective. The control variables firm age and the COVID-19 pandemic dummy also showed insignificant results. These findings imply that the level of ISR disclosure is not determined by the company's length of operation or changes in external conditions during the pandemic, but rather by the company's internal characteristics. Thus, ISR in energy companies is not merely a reporting instrument, but a strategy for legitimacy, Sharia compliance, and strengthening a reputation for sustainability.

The results of this study imply that regulators need to tighten ISR disclosure regulations in sectors with high environmental risks, so that reports are presented more consistently and accurately reflect those risks. Meanwhile, for energy sector companies, ISR needs to be optimized as a strategy to increase accountability and strengthen governance in line with Sharia principles and sustainability demands. Furthermore, future research could consider the use of moderating or mediating variables, as well as expanding the comparison sectors or countries to obtain a richer picture of the dynamics of ISR disclosure.

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