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INVESTIGATION OF INTELLECTUAL CAPITAL IMPACT AND FIRM SIZE TO ISLAMIC SOCIAL REPORTING WITH PROFITABILITY AS MEDIATION ON SHARIA BANKS IN INDONESIA

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One form of compliance of Islamic banks against Islamic principles is to disclose and report social responsibility or commonly called Corporate Social Responsibility (CSR). International Regulatory Institutions such as AAOIFI (Accounting and Auditing of Islamic Financial Institutions) have established standards in the disclosure of social responsibility of sharia banking. Assessment of CSR in Islamic banking is used index of Islamic Social Reporting. This ISR index is a benchmark for the implementation of social responsibility of sharia banking which contains compilation of standard items of Corporate Social Responsibility (CSR) which set by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) which then further developed by the researcher on the item- Items of CSR disclosed by an Islamic entity. The variables used in this study are Intellectual Capital, Firm Size, Profitability and Islamic Social Reporting. This research uses quantitative method with secondary data. The population in this study is the Sharia Commercial Bank registered in the Financial Services Authority period 2011 to 2014. In this study, the sample obtained by purposive sampling method. The test is done by path analysis and processed using SPSS. The result of research shows that Intellectual Capital has positive effect on Profitability, Firm Size has no effect on Profitability, Firm Size has positive effect on Islamic Social Reporting, Intellectual Capital and Profitability has no effect on Islamic Social Reporting and Profitability only mediate Intellectual Capital influence on Islamic Social Reporting.

***Keywords*:** Intellectual Capital, Firm Size, Profitability and Islamic Social Reporting

1. INTRODUCTION

The development of sharia banking in Indonesia has experienced quite good growth as stated by Ernst & Young in The World Islamic Banking Competitiveness Report 2013-2014. Ernst & Young stated that Indonesia and Malaysia are two of the 6 countries that have great potential in sharia financial development globally.

Maali *et al.* (2003) defines a sharia bank as a bank following Islamic sharia in their business transactions. According to Islamic law, business transactions can not be separated from the moral goals of society. This is done to build a good relationship between the company with the community and the environment that has been involved in the implementation of business activities. One way to build good relationships between companies and communities is to do Corporate Social Responsibility (CSR). Maali *et al.* (2003) in his research results stated that there is a wide range in voluntary social reporting of Islamic banks, with some banks

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reporting 35 percent of expected social disclosure while others hardly disclose any social information. Several previous studies have shown that there are various factors affecting CSR disclosure. However, the results obtained from the study vary (see eg Belkaoui *et al.*, 1989; Anggraini 2006; Farooq *et al.* 2011; Rizkiningsih 2012) so further research is needed to determine the consistency of findings when applied to different environmental conditions.

CSR is done because the existence of the company in the environment influential directly or not to external environment. The existence of a company can change society, both toward positive and negative. Companies must prevent negative things from happening because they can trigger claims (legitimacy) from society (Hadi, 2011). Kavitha and Anita (2011) said that pressure or claims from the community encourage companies to actively participate in social welfare activities. The existence of claims from the public as well as government arrangements, make the company will reduce the negative impacts resulting from the operational activities of the company. Current CSR covers almost all issues, such as corporate culture, brand image, work inequality, and reputation.

In Islam, the concept of CSR itself has long been introduced by Prophet Muhammad SAW. Prophet Muhammad SAW has given an example that every buying and selling activity must be accompanied by a sense of responsibility. The growing CSR in Islamic economics is different from the long-established CSR in conventional economics. Conventional CSR only focuses on accountability horizontally. That is only for the banking environment, society and nature. While the CSR used sharia-based banking focuses on accountability horizontally and vertically. Where, accountability vertically means that the company has a direct responsibility to Allah SWT to participate in the welfare of the surrounding community and maintain the company environment.

In sharia banking, disclosure of CSR must provide complete information based on Islamic values. Islamic values are things that must be shown to the stakeholder of sharia banking. So that Islamic banking can be trusted and used as a solution to the principles of banking that are contrary to the principles of sharia. In addition, decision making in sharia banking is supported by management and shareholders. Yet, which has an important role in sharia banking is the customers. Because customers who deposit money to the banking. But customers do not take part in decision making. So that the accountability of sharia banking to customers is expected to be greater to make customers believe in sharia banking.

Customer confidence in sharia banking is an absolute must for customers to invest their money. For that Shariah banking must provide accountability to customers in order to prove that Islamic banking can be trusted. As well as customers can be given better service by presenting useful information for customers in the CSR report. Sharia banking is expected to provide many sharia-based products. And also give credit facilities to small entrepreneurs. Because in conventional banking, lending to small entrepreneurs is very rare and limited (Aggarwal and Youssef, 2000).

Based on research conducted by Maali et al (2003) concluded that the disclosure made by sharia banking is still far from what should be disclosed. Research conducted by Haniffa and Hudaib (2007) also stated the same thing, that sharia banking is indicated not fully implement their social function in accordance with the perception of Islam (Haniffa, R. & Hudaib, M, 2007). In previous research conducted by Farooq et al (2011) stated that the disclosure of CSR in sharia banking is still far from expected. They develop a research framework of their own, based on Islamic values that occur in the environment of sharia banking. The study used variables that matched the level of political pressure, the number of Muslim population, the observation of the sharia council and the IAH (Investors Account Holder) or the customer. The study used a sample of 47 Islamic banks in 14 countries (Farooq *et al,* 2011).

International Regulatory Institutions such as AAOIFI (Accounting and Auditing of Islamic Financial Institutions) have established standards in the disclosure of social responsibility of sharia banking. Assessment of CSR in Islamic banking is used index of Islamic Social Reporting. The use of this index has been adjusted to the AAOIFI standard which was then developed by some researchers such as Haniffa (2007), Othman (2009) and Rizkiningsih (2012).

Knowledge Intellectual Capital is one of intagible assets that are very important for the company. Businesses are beginning to realize not to depend on fixed assets, but rather to develop knowledge assets that are perceived to be able to obtain and maintain competitive advantage for the company (Herdyanto, 2013).

To assess the social disclosure of companies in accordance with Islamic shari'ah, known an index called Islamic Social Reporting (ISR). The ISR index is an index that measures the level of social disclosure that the sharia principles conform to the company's annual report. This ISR index is a benchmark for the implementation of social responsibility of sharia banking which contains compilation of standard items of Corporate Social Responsibility (CSR) which set by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) which then further developed by the researcher on the item- Items of CSR disclosed by an Islamic entity.

Corresponding ISR index for Islamic entities as it discloses matters relating to Islamic principles such as transactions that have been liberated from the elements of usury, speculation and gharar, and revealed zakat, the status of Shari'ah compliance and social aspects such as sodaqoh, waqof, qordul hasan, With the disclosure of worship in the corporate environment. ISR index based on six categories; Funding and Investment, Products and Services, Employees, Society, Environment, and Corporate Governance. Othman *et al.* (2009), developed a disclosure index that is relevant to the foregoing matters in the Islamic Social

Reporting (ISR) Index. ISR was first described by Haniffa (2002), then developed more extensively by Othman *et al.* (2009), in Malaysia. Haniffa (2002), reveals that there are limitations in conventional social reporting so that he proposes a conceptual framework of ISR based on sharia provisions that not only help decision-making for the Muslims but also to assist companies in fulfilling social obligations to society as well as providing spiritual satisfaction to their investors Othman et al, 2009).

Intellectual capital can reflect the extent to which wealth of knowledge owned by the management that can affect profitability. Intellectual capital has components that are Capital Employed Efficiency (CCE), Human Capital Efficiency (HCE), and Structural Capital Efficiency (SCE). One method to measure Intellectual capital is Value Added Intellectual Coefficiency (VAIC) (Kolintama, 2014).

According to Kartika and Hatane (2013), the main components of VAIC are from Human Capital (VAHU - Value Added Human Capital), Structural Capital (STVA), and Physical Capital (VACA) - Value Added Capital Eemployed). The main purpose of this component is to create added value for the company to know the size of Physical Capital (corporate funds) and the potential Intellectual (value attached to the employees for the capabilities generated for the company).

According to Rachmawati (2012) Intellectual capital has a positive effect on profitability. Profitability of a company can be realized if the higher the Intellectual Capital of a banking company then the Return On Asset (ROA) of a financial company is increasing. Meanwhile, according to Wahyuni (2015) not all components of Intellectual Capital affect profitability like VACA, STVA have a positive effect, while VAHU negatively affect profitability.

Intellectual capital performance has influence to company size, company size is big picture of company. The size of the company can be viewed from the field of business on the run. The determination of large-scale company size can be determined based on total sales, total assets, average sales (Seftianne, 2011). The size of a large company is a resource company that can be used for value capital for the company so as to improve the performance of Intellectual capital in the company (Irawan, 2013).

Large companies have large sizes to have sources of funding from multiple sources, so getting a loan from creditors will be easier because large companies have a greater probability of competing or staying in the industry. The size of a typical company is measured using total assets, long size, stock market value and others (Putri, 2015).

According to (Rifai, *et al,* 2015) there is a significant influence between firm size on profitability partially. The existence of this significant and positive influence identifies that the greater the size of the firm can explain and predict the increase in profitability. Conversely, the lower the value of the company can then explain and predict the decline in profitability. Profitability is a capability in one period.

The basis of valuation is the financial statements that comprise the balance sheet and profit and loss statements of the company. Profitability of a company shows the comparison between profits with assets or capital that generate profits.

Dwipayani (2014), Intellectual capital influence on profitability and market performance. Aims to analyze the influence of Intellectual Capital on profitability and market performance. The results show that Intellectual Capital (IC), Structural Capital Efficiency (SCE), and Capital Employed Efficiency (CEE) have a significant positive effect on Return On Assets (ROA), but the Human Capital Efficiency (HCE) is not significant to Return On Asset (ROA).

Rambe (2012) Intellectual capital influence on ROA at Bank Negara Indonesia and Bank Muamalat. Intellectual Capital's proven analytical has no significant effect on Retun On Assets (ROA). Kusumowati (2013) Intellectual capital influence on company performance. The results of this study indicate that not all components of Intellectual capital significantly influence the performance of the company. The capital of innovation has a positive effect on customer's capital and human capital. While the process capital has a negative effect on customer's capital.

Rambe (2011) Intellectual capital influence on Return On Equity (ROE) at Bank Negara Indonesia and Bank Muamalat. Test whether the influence of Intellectual Capital to ROE at Bank Negara Indonesia and Bank Muamalat. This study was conducted in the period 2008 - 2011. From the results of data analysis has been done proved that the independent variable Intellectual capital has no significant effect on Return On Equity.

Kolintama (2014) examined the effect of Intellectual Capital component on Return On Equity at Sharia Commercial Bank in Indonesia 2010-2013 period. The results of this study indicate that all components of Intellectual Capital are Capital Employed Efficiency (CEE), Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), together affect the ROE. However, the partial HCE variable has no significant effect on ROE, while the CEE and SCE variables significantly influence the ROE. But the shape of the influence is different where the CEE component contributes positively to the ROE while the SCE component actually gives a negative effect on ROE. Big influence of Intellectual Capital component to ROE reach 70, 27% while the rest equal to 29,72% influenced by other variable.

Rachmawati influence Intellectual Capital to Return On Assets (ROA) of banking registered at Bank Indonesia period 2006 - 2009 with sample counted 68 company. The results showed that there is a positive influence between Intellectual Capital to Return On Assets (ROA). This is evidenced by the regression coefficient of 0.009 and the count is greater than t table (9,650> 1,960) with significant value (p) smaller than the significance level of 0.05 (0.000 <0.05). Big influence given Intellectual Capital to Return On Assets (ROA) of 25.6%.

Faza and Hidayah (2014) the influence of Intellectual capital on profitability, productivity, and value of companies in banking companies listed on Indonesia

Stock Exchange (BEI) 2010 - 2012. Show that intellectual capital have positive effect on profitability (ROA and ROE), but no effect Significant to company productivity and value. The possibility of firms in Indonesia as large still using conventional approaches, is not based on high technology intensive knowledge companies and lack of attention to human capital, structural capital, and customer capital.

Fathi (2013) Impact of Intellectual Capital on Financial Performance. The results showed that there was a significant positive correlation between intellectual capital and the added value efficiency of the structural component with three measures of financial performance (ROE, ROA, GR). In addition, the results show that there is a significant positive relationship between the efficiency of added value of the capital used, and the value-added efficiency of human resources with two independent variables (ROE, ROA) and no significant relationship between the added value efficiency of the capital used, And the value adds the edition of human capital to the Grow Revenue of managerial ownership having a negative and significant impact on earnings management. Managerial ownership structure has no significant effect on dividend policy. While earnings management have positive and significant effect to company value.

The study by Chen *et al.* (2005) using data from listing companies in Taiwan, proved that intellectual capital has a positive effect on company performance, and can be used as an indicator of future financial performance. While research conducted by Ulum (2008) examined the influence of intellectual capital on the financial performance of banking companies and also tested the effect of intellectual capital growth (Rate Of Growth Of Intellectual Capital-ROGIC) on the company's financial performance in the future. Comparable to the results of research Chen *et al.* (2005), the results of research by Ulum (2008) proves that intellectual capital affects the performance of banking companies and performance in the future.

Hasibuan (2001) shows the result that variable size significantly influences CSR disclosure. Gray *et al* (2001) and Sembiring (2003) showed that size influenced CSR disclosure. Robert (1992) and Davey (1982) in his research showed different results in which size had no significant effect on CSR disclosure.

Research conducted by previous researchers shows that there are differences in the relationship of profit to CSR disclosure. Gray et al (2001) states that profit has a significant effect on CSR disclosure. Contrary to that, Patten (1991), Hackston and Milne (1996), Sembiring (2003) stated that profit is insignificant to CSR disclosure. Research on the effect of profitability on CSR disclosure has been done a lot before such as Waddock and Graves (1997); Tsoutsoura (2004); Anggraini (2006); Hossain *et al.* (2006); Branco and Rodriguez (2008); Reverte (2008); Luciana *et al.* (2011); Lungu and Dascalu (2011); Mulyadi and Anwar (2012); Ebiring *et al.* (2013); Vintila and Duca (2013); Kurniawansyah (2013);

And Alikhani and Maranjory (2013). According to empirical research conducted by Waddock and Graves (1997); Tsoutsoura (2004), Hossain *et al.* (2006); Mulyadi and Anwar (2012); And Vintila and Duca (2013) show the results that the profitability tested by using ratios such as ROA, ROE, and NPM have a positive effect on corporate CSR disclosure. While different results are shown by empirical research conducted by Anggraini (2006); Branco and Rodriguez (2008); Reverte (2008); Lungu and Dascalu (2011); Kurniawansyah (2013); And Alikhani and Maranjory (2013) using the same ratios show that profitability has no effect on CSR disclosure of a company.

As an institution that moves based on Sharia principles, Islamic banks certainly have different characteristics from other companies in the orientation of their performance. Hameed *et al.* (2004) presents an alternative performance measurement for Islamic Bank, through an index called Islamicity Indices, which consists of the Islamicity Disclosure Index and the Islamicity Performance Index. This index aims to help the stakeholders in assessing the performance of Islamic banks. This index is then used in assessing the performance of Islamic financial institutions. Referring to the research of Hameed *et al.* (2004) financial performance of sharia bank is measured by Islamicity Financial Performance Index consisting of: profit sharing ratio, zakat performance ratio, equitable distribution ratio, and islamic income vs non islamic income.

Based on the above description, researchers want to conduct research related to Intellectual Capital, Firm Size, Profitability and Islamic Social Reporting because first, Islamic Social Reporting is the ability of companies in managing effective resources so that will create competitive advantage compared to other competitors. Second, the researcher wants to know whether Intellectual Capital, Firm Size, Profitability influence on Islamic Social Reporting. Thirdly, until the completion stage of this research, researchers have not found a study that specifically examines the influence of Intellectual Capital and Firm Size on Islamic Social Reporting with Profitability as a mediation variable.

2. LITERATURE AND HYPOTHESIS DEVELOPMENT

Resource - Based Theory

Based on Resource - Based Theory the company is able to manage the resources effectively so that it will create a competitive advantage compared to other competitors. Resources owned by the company include: adequate natural resources, attractive promotions, and employees and managers who can work professionally. Companies can take advantage of resources that are owned well and maximally, then the company will have a competitive advantage and ability to compete with its competitors (Prasetya and Mutmainah, 2011). Wernerfelt (1984) in Wahyuni (2015) explains that according to RBT's view the company gains competitive advantage and good financial performance by owning, mastering and utilizing important strategic assets, including tangible assets as well as intangible assets.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a concept that is expected to be an alternative in empowering the surrounding community. As well as an accountability to the stakeholders of the activities of the company. According to Untung (2008) corporate social responsibility (CSR) is "a company's commitment to contribute directly to the environment and ensure the sustainability of companies that focus on the economy, social and environment". The company has a direct responsibility to the surrounding community to maintain the company's sustainability and provide assistance to the community. CSR is also an event to give a positive image of the company to the public.

Corporate social responsibility (CSR) is the commitment of the company or business world to contribute to sustainable economic development by taking into account corporate social responsibility and focusing on the balance between attention to economic, social and environmental aspects (Untung, 2009: 1). According to the World Business Council for Sustainable Development, Corporate Social Responsibility (CSR) is a continuing commitment by businesses to contribute to economic development while improving the quality of life of workers and their families and communities and society at large.

Based on these definitions, it can be deduced that CSR is a commitment from the company to improve the quality of its stakeholders that will have a positive impact on the company. CSR reporting is one of the indicators in corporate integrity to the community. Understanding of CSR is much improved from before. CSR is not only seen as a corporate social charity course. But far from that is to be the accountability of the company in the form of physical and non physical. Physical form can be a program of direct assistance, education funds, health assistance. Non-physical form is the disclosure of adequate information to the stakeholders in the financial statements. In the implementation of CSR many factors that influence it. These factors are very influential on the success of CSR. According to Untung (2008) there are 5 important things that affect the implementation of CSR, namely:

1. Human capital or human empowerment
2. Environments that talk about the environment
3. Good Corporate Governance
4. Social cohesion means that in carrying out CSR do not cause social jealousy.
5. Economic strength or empower the environment to independence in the economic field

If the 5 aspects can be run together well then the implementation of CSR will be better. Experts and scientists have not agreed on the true definition of Corporate

Social Responsibility (CSR), the only one is Islamic Social Reporting (ISR) (published by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions.

Islamic Social Reporting (ISR)

The Islamic Social Reporting (ISR) Index is an index comprising a standard CSR item specified by the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) which is further developed by researchers on CSR items that should be disclosed by an Islamic entity (Firia & Hartati, 2010). The ISR Index is expected to be an early foothold in terms of CSR disclosure in accordance with Islamic perspectives.

Islamic Governance Score

According to Bank Indonesia Regulation No.11 / 33 / PBI / 2009, Sharia Supervisory Board (DPS) is a board in charge of giving advice and advice to the Directorate and overseeing bank activities in accordance with sharia principles. Number of Sharia Supervisory Board members according to GCG provisions stipulated by Law no. 40 year 2007 about limited liability company which is at least as many as two people. The fundamental difference between a conventional bank and a sharia bank is the presence of a Shariah supervisory board. The existence of Sharia Supervisory Board is an effort to improve Corporate Governance in sharia institutions. The good thing is that the Shariah supervisory board is made up of scholars who understand Islamic law, but in practice the syariah supervisory board also consists of people who are experts in Islamic economics. The main function of syariah supervisory board is to direct, review and supervise the activities of sharia banks and must ensure that Islamic banks have been running in accordance with Islamic law.

Firm Size

The size of the firm is to describe the size of the company and also one of the factors considered in a capital structure decision. Large companies have large funding needs to finance their company's activities. One of the alternative fulfillment needs is to use debt (Kurniawan, 2013). Larger firms tend to have more diversified sources of capital. This minimizes the possibility of bankruptcy and is better able to fulfill its obligations, so large companies tend to have larger debts than small companies. A similar opinion is expressed by Titman and Wessels (1988) in Kurniawan (2013) where small firms tend to pay their own capital costs and long-term cost of debt that is more expensive than large companies. According to Putri, (2015) the size of the company is calculated from the log of total assets of the company:

$$\text{Company size (Size)} = \text{Ln (total assets)}$$

Intellectual capital

Intellectual capital is all the intangible assets of a company organization that includes the capacity of innovation, financial and human resources in a system to create Value added. Intellectual Capital is intellectual material that has been formalized, captured, to create wealth, by producing a high value asset Ulum (2009) in Widiatmoko (2015). According to Widiatmoko (2015) Intellectual Capital is recognized to increase corporate profits whose profits are influenced by innovation and knowledge-intensive service.

According to Pulic in Widiatmoko (2015), the main goal in a knowledge-based economy is to create value added. While to be able to create value added required the right size of physical capital and intellectual potential. Physical capital is financial funds, while intellectual potential is represented by employees with all the potential and capabilities attached to them. Pulic states that intellectual ability shows how both resources have been efficiently exploited by the company. Since then, the Value Added Intellectual Coefficient (VAIC) method is used to measure the efficiency of the added value generated by the company's intellectual capabilities.

Intellectual Capital Calculation Stages

Calculation phase Intellectual capital or intangible assets of the company is done by using the VAIC method, in other words the performance of Intellectual capital of a company can be measured by this method. Based on the VAIC method there are three components of the calculation phase is as follows Ulum (2009) in Widiatmoko (2015):

VAIC = VACA+VAHU+STVA

VAIC = *Value Added Intellectual Capital*
VACA = *Value Added Capital Employed*
VAHU = *Value Added Human Capital*
STVA = *Stuctural Capital Value Added*

A. First Stage: Calculating Value Added (VA)

VA = OUT - IN

Information:

VA = Value Added
OUT = Output (total sales and other opinions)
IN = Input (sales expenses and other costs-other than personnel expenses).

B. Second Stage: Calculating Value Added Capital Employed

VACA is a VA indicator created by a unit of physical capital. This ratio shows the contribution made by each unit of CE to the value added organization.

VACA = VA / CE

Information:

VACA = Value Added Capital Employed (ratio of VA to CE)

VA = Value Added

CE = Capital Employed (equity & net income)

C. Third stage: Calculating Value Added Human Capital (VAHU)

VAHU shows how much VA can be generated with funds spent on labor. This ratio shows the contribution made by each dollar invested in HC to the value added of the organization.

VAHU = VA / HC

Information:

VAHU = Value added Human Capital (ratio of VA to HC)

VA = Value added

HC = Human Capital (employee salary amount)

D. Step Four: Calculating Structural Capital Value Added

This ratio measures the amount of SC (Structural Capital) needed to generate 1 rupiah of VA and is an indication of how SC's success in value creation is.

STVA = SC / VA

Information:

STVA = Structural Capital Value Added (ratio of SC to VA)

SC = Structural Capital (VA - HC)

VA = Value added

Profitability

According to Harahap, (2015) profitability is the ability of the company to earn profit through all capabilities, and existing sources such as sales activities, cash, capital, number of employees, number of branches, and part. Profitability ratios that use is Return On Asset because this ratio describes the asset turnover as measured from sales volume, if the greater the ratio then the company the better. This means that the data asset rotates faster and reaches profit or commonly called profit (Harahap, 2015 p.305). Where this ratio represents a return value of an asset held by the company (Cashmere, 2011)

Islamic Social Reporting Index

The existence of the concept of social responsibility in Islam hence also increase the desire to make reporting or social disclosure that is sharia. It's just that until now there is no standard reporting of social responsibility in sharia that can be used as standard benchmarks internationally. AAOIFI (Accounting and Auditing

Organization for Islamic Financial Reporting) as an organization that develops accounting and auditing for sharia financial institutions at sharia financial level, but the AAOIFI standard can not be used as a standard for disclosure of social responsibility in sharia because it does not mention all items - related reporting of social responsibility that should be disclosed by the company.

One way to assess the reporting of corporate social responsibility by sharia is by using the index of Islamic Social Reporting (ISR). According to Haniffa (2002), ISR is an extension of social reporting that includes not only the board's expectations of the public's view of the company's role in the economy, but also fulfilling the spiritual perspectives for Muslim reporting users. ISR aims to demonstrate accountability to Allah SWT and community. ISR also aims to improve the transparency of business activities by providing relevant information in meeting the spiritual needs of users of Muslim enterprise reports. In addition, the ISR index also emphasizes social justice regarding environmental reporting, minority interests, and employees. ISR is actually a collection of social responsibility reporting indices set forth by AAOFII in accordance with sharia and then developed by each of the following researchers (Haniffa, 2002; Maali *et al.*, 2006; Ousama and Fatima, 2006; and Othman *et al.*, 2009). The ISR index designed by Othman *et al.* (2009) is the development of an index adapted from Haniffa (2002).

Haniffa developed an Islamic report based on six criteria: Funding and Investment, Products and Services, Employees, Society, Environment, and Corporate Governance. In this study, the authors used the ISR index designed by Othman *et al.* (2009), the authors will do little settlement of these indexes by adjusting the indices that can not be applied in Indonesia, similar to that done by previous research that is Ayu (2010) and Raditya (2012). Here are six disclosure criteria within the ISR index framework used in this study:

1. Funding and Investment

   A. Riba (interest-free)

      Riba comes from Arabic which means addition (Al-Ziyadah), evolved (An-Nuwuw), increased (Al-Irtifa'), and enlarged (Al-'uluw). According to Widiawaty and Raharja (2012) on the subject of usury as any additions taken without the existence of a counterpart or substitute ('iwad) justified sharia.

   B. Gharar (uncertainty)

      Occurs when there is incomplete information between the two parties that transact in terms of quantity, quality, price, delivery time and contract. One example of a transaction containing gharar is a lease and purchase transaction due to the uncertainty in the contract pledged between the two parties.

   C. Zakat

Zakat is an obligation for all Muslims on their possessions when they have reached nisab. Zakat is not the same as donations, donations, and shadaqah. Zakat has clear rules about zakah, zakat property, how to calculate it, and who can accept the treasure of zakat according to what has been arranged by Allah SWT.

D. Liability for late payment of receivables and write-off of bad debts

Suspension or write-off of debt must be done with a prior investigation to the debtor regarding the inability to pay the receivables. Suspension or debt cancellation is a form of helpful-a helpful attitude in Islam.

E. Current Value Balance Sheet

Othman *et al.* (2009), there is one other disclosure index that is current value balance sheet but in this research the researcher did not include it in index of ISR. In accordance with the opinion of Ayu (2010), the classification of current value balance sheets becomes irrelevant as disclosure criteria since PSAK still implies the historical value of the values on the balance sheet. In fact, companies in Indonesia are guided by PSAK and many companies still impose historical value on the balance sheet values, so in this study the current value balance sheet is not included in the index.

F. Value Added Statement

Value added (value added) as the value created from the results of company activities and employees, while the value added statement is a statement that reports the calculation of added value and application among the company's stakeholders. The term value added statement is defined as a value added report. In Indonesia, the value-added report has not developed like this in developed countries. Therefore, in this research value added statement refers to the statement of added value in the company's annual report.

2. Products and Services

A. Eco-friendly products (green product)

Every company in the world is expected to produce environmentally friendly products or services as a form of participation in maintaining and maintaining an increasingly damaged environment.

B. The halal status of the product

The importance of the halal status of a product is an obligation that must be disclosed by the company in its annual report to all Muslim consumers. The halal status of a product is known after obtaining halal product certificate from Majelis Ulama Indonesia (MUI).

C. Quality and safety of a product

Once the product is declared halal, it is also important for the company to disclose the product is about the quality and safety of the product. A quality and safe product will increase consumer confidence and loyalty to a company. The quality and safety of a company's products is expressed in the presence of ISO 9000: 2000 which is a quality management certificate.

D. Consumer complaints / indicators that are not met in the rules and voluntary code (if any)

The next item of disclosure is about customer complaints or customer service. A company is expected not only to focus on product-oriented product but to provide consumer-oriented service by providing consumer complaints service center after buying and selling process.

3. Employees

According to Othman and Thani (2010), Islamic societies want to know whether the company's employees have been treated fairly and fairly through disclosed information, such as wages, job characteristics, working hours per day, annual holidays, health and welfare benefits, Policies related to timing and proper worship, education and training, equality of rights, and work environment.

4. Society

The items of disclosure in the community criteria used in this study are sodaqah / donations, endowments, qard hassan, employee volunteers, scholarships, job empowerment for students who graduate from college or in the form of internships or fieldwork, youth development, Improving the quality of life of lower class people, caring for children, charitable / charitable activities / other social activities, and sponsoring various activities such as health, entertainment, sports, culture, education and religion.

5. Environment

For all living creatures to protect the surrounding environment, the concept that underlies environmental themes in this research is mizan, I'tidal, khilafah, and akhirah. The concept emphasizes the principle of balance, simplicity, and responsibility in protecting the environment. Therefore, information relating to the use of resources and programs used to protect the environment should be disclosed in the company's annual report (Othman and Thani, 2010).

6. Corporate Governance

Othman and Thani (2010), the company must disclose all illicit activities such as monopoly practices, price manipulation, gambling, and stockpiling of needed goods and other unlawful activities. Other disclosures that fall within the Corporate Governance criteria are Sharia status statements. Ayu (2010), stated that the disclosure on the company's mission statement must include:

A. A statement stating that the company's operations have been based on sharia principles.
B. The statement that the main purpose of the company is to reach barakah (blessing) and al-falah (success in the world and in the Hereafter), emphasizing that the importance of halal profit. If the company has disclosed both statements it can be said that the company has been in accordance with the principles of sharia.

Previous Research

This research is a development of research conducted by Belkaoui (1989), Robert (1992), Gray et al (1995), Maali *et al.* (2003), Sembiring (2006), Anggraini (2006), Ratanajongkol (2006), Haniffa (2007), Othman et al (2009), Farook et al (2011), Rambe (2012), Alipour (2012), Irawan (2013), Fathi, et al (2013), Kusumowati (2013), Kartika and Hatane (2013), Ulum (2013), Rifai, et al (2013) and Maisaroh (2015).

Framework

Corporate CSR is influenced by several factors, according to Resource-Based Theory. The company is able to manage the effective resources so that it will create competitive advantage compared to other competitors when viewed from Intellectual Capital, Firm Size and Profitability.

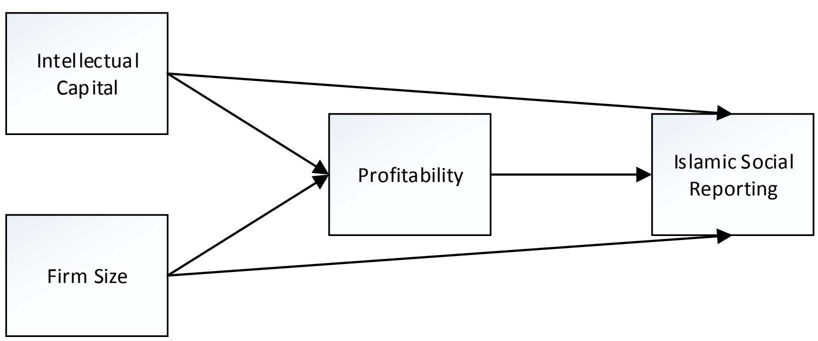

Figure 1: Framework

The effect Intellectual Capital on Profitability

Based on Resorce Based-Theory the company manages the effective resources it will create a competitive advantage over the other competitors. Resources owned by the company include: adequate natural resources, attractive promotions, and employees and managers who can work professionally (Prasetya and Mutmainah, 2011).

According to Rachmawati (2012) Intellectual capital has a positive effect on profitability. Profitability of a company can be realized if the higher the Intellectual Capital of a banking company then the Return On Asset (ROA) of a financial company is increasing. Therefore, if the company can manage and develop its intellectual capital well, then the company efficiently manage the company's assets so that the company's net profit will increase and generate competitive advantage for the company (Dwipayani, 2014).

H1: Intellectual capital has a positive influence on profitability at Sharia Commercial Bank in Indonesia

The Effect Firm Size on Profitability

The size of the firm is a measure of the amount of assets owned by a company. Munawir (2007) in Ambarwati *et al* (2015) mentions that firms that have larger sizes have a strong impetus to test higher levels of profitability than larger companies studied and viewed With more critical by investors.

According to (Sumatri, 2012) have a positive and significant effect between company size on Return On Assets (ROA). The existence of this significant and positive influence identifies that the greater the size of the firm can explain and predict the increase in profitability. Conversely, the lower the value of the company can then explain and predict the decline in profitability. Profitability is a capability in one period. The basis of valuation is the financial statements that comprise the balance sheet and profit and loss statements of the company. Profitability of a company shows the comparison between profits with assets or capital that generate profits (Rifai, 2015).

H2: Firm size has a positive effect on profitability at Sharia Commercial Bank in Indonesia

The Effect Intellectual Capital on Islamic Social Reporting

Intellectual Capital is intellectual material that has been formalized, captured, to create wealth, by producing a high value asset Ulum (2009) in Widiatmoko (2015). According to Widiatmoko (2015) Intellectual Capital is recognized to increase corporate profits whose profits are influenced by innovation and knowledge-intensive services.

In Indonesia, Intellectual Capital began to grow after the emergence of PSAK No.19 on intangible assets. According to PSAK No. 19, intangible assets are non-monetary assets that are identifiable and have no physical form and are held for use in the production or delivery of goods or services, leased to others, or for administrative purposes (IAI, 2002). With the measurement and reporting on Intellectual Capital the company can know the intellectual ability and can take decisions that can improve the quality of Intellectual Capital company and the improvement of company performance.

If IC is a measurable resource for increasing competitive advantages, Intellectual Capital will contribute to the company's financial performance (Chen *et al.*, 2005). Intellectual Capital is also believed to play an important role in improving corporate value and performance. Firer and Williams (2003), Chen *et al.* (2005) and Tan *et al.* (2007) has proven that Intellectual Capital (VAIC) has a positive influence on company performance. Therefore, if the company can manage and develop its intellectual capital well, it will increase the performance.

Based on the concept of Resource-based theory, if a company is able to manage resources effectively it can create a competitive advantage over its competitors. Highly skilled and competent human resources are a competitive advantage for the company. If the company can utilize and manage the potential of the employee well, then this will be able to improve employee productivity. If employee productivity increases, then the company's performance will increase.

H3: Intellectual Capital has a positive influence on Islamic Social Reporting at Sharia Commercial Bank in Indonesia

The Effect of Firm Size on Islamic Social Reporting

Firm size is a scale that serves to classify the size of business entities. The scale of firm size can affect the extent of disclosure of information in their financial statements. Large companies tend to reveal more information than smaller companies. This is because big companies will face greater political risk than small companies. Theoretically, big companies will not get out of political pressure, that is pressure to do social responsibility. So large companies tend to incur costs to disclose larger social information compared to smaller companies (Watt & Zimmerman: 1990 in Scott: 1997). Greater social disclosure is a reduction of the political costs for the company. By expressing concern for the environment through financial reporting, the company in the long term can avoid the huge cost resulting from the demands of society. Size of the company can be based on total assets (fixed assets, intangible and others), the amount of labor, sales volume and market capitalization (Purnahanwi, 2011). Firm size measured by total assets will be transformed in logarithm of natural to equate with other variables because the total assets of the firm are relatively large relative to other variables (ln of total assets) (Son, 2011). According to Belkaoui, (1989) in Hackston and Milne, (1996) several empirical studies have provided evidence of the relationship between firm size and disclosure corporate social. Gray at al (2001) and Sembiring (2005) showed that size influenced disclosure CSR.

H4: Firm size has a positive influence on Islamic Social Reporting at Syariah Commercial Bank in Indonesia

The Effect of Profitability on Islamic Social Reporting

Assessment of financial performance, among others, can be seen from the ability of companies to generate profits (profit) (Anggraini, 2006) revealed that the profitability ratio shows the company's success in generating profits. Companies that have strong financial conditions, will also get more pressure from external parties to better disclose their social responsibility widely. The higher the level of corporate profitability the greater the disclosure of social information (Hackston and Milne 1996; in Sembiring, 2005). Gray *et al* (2001) stated that profit has significant effect on CSR disclosure. Profitability is a factor that makes management free and flexible to disclose CSR to shareholders (Heinze: 1976; Gray, *et al.*: 1995; in Sembiring, 2006), so it can be explained that profitability is the ability of the entity to generate profit in order to increase the value of the holder stock. The relationship between corporate profitability and corporate social responsibility disclosure has become a basic assumption to reflect the view that social reactions require a managerial style. Therefore, the higher the level of corporate profitability the greater the disclosure of social information (Hackston and Milne 1996; in Sembiring, 2005).

Horne & Wachowichz (2013) states that Return on Assets (ROA) is the ratio used to measure total assets owned by the company by comparing net income before tax with all assets owned. The higher the value of ROA then the company has a great opportunity also to increase its growth. The more profits a company earns then the company can bear a higher cost to make disclosure of wider social reports. The theory is supported by the results of research from Rouf (2011), Lestari (2013) and Ramdhaningsih & Utama (2013) which states that Profitability positively affect the disclosure of CSR.Based on the above analysis and previous research can be formulated hypothesis as follows:

H5: Profitability has an influence on Islamic Social Reporting at Sharia Commercial Bank in Indonesia

Based on the theory and previous research of H1-H5, So that can be prepared research hypothesis as follows:

H6: Profitability mediates the influence of Intellectual Capital on Islamic Social Reporting at Sharia Commercial Bank in Indonesia

H7: Profitability mediates the influence of Firm size on Islamic Social Reporting on Sharia Commercial Bank in Indonesia

3. RESEARCH METHODOLOGY

Research Approach

This research is an explanatory research, with hypothetico-deductive approach that aims to obtain the clarity of phenomena that occur in the world empirically and trying to get answers (verification) with the aim to explain the influence between variables in order to test the hypothesis.

Population and sample

The population in this study is the Sharia Commercial Bank registered in the Financial Services Authority period 2011 to 2014. In this study, the sample obtained by purposive sampling method is selecting samples with certain criteria. The selected samples are 10 Sharia Commercial Banks registered in the Financial Services Authority during 2011 to 2014 and that meet the criteria determined by the author to serve as a sample of the study.

Data type

In this study, the source data used is the source of secondary data, where the data obtained from Sharia Public Banks registered in the Financial Services Authority of 2011 to 2014.

Data collection technique

Data collection techniques conducted for this study is documentation study, documentation study in this study is intended to obtain data by way of documentation, which is to study documents relating to all data required in research. In carrying out the method of documentation, researchers investigate written objects such as corporate financial statements as well as other documents within the company relevant to the research interests.

Operational definition

The variables in this study include:

1. Independent Variable

   The independent variables in this research are: X1 is VAIC, X2 is firm Size.
2. Dependent Variable

   In this study the dependent variable is Islamic Social Reporting Indexs (Y)
3. Intervening Variables

   In this case intervening variable used is ROA (M)

Here are the details of the formula for the dependent variable and the independent variable.

No	*Variable*	*Measurement*
1	*VAIC*	VAIC = VACA+VAHU+STVA
2	*Size*	*Size* = Ln (Total Asset)
3	*ROA*	
4	*Islamic Social Reporting*	$Disclosure\,of\;CSR\,Index = \frac{Actual\,number\,of\;scores\,gained}{Maximum\,score}$

Data analysis method

This research will use path analysis technique.

ROA = βVAIC + βSize + e_1 (Structural Equation 1)
ISR = βVAIC + βSize + βROA + e_1 (Structural Equation 2)

M : Profitability
VAIC : *Intellectual Capital*
Size : *Firm size*
ROA : Profitability
ISR : *Islamic Social Reporting*

4. ANALYSIS

This research performs several test that is classic assumption test (normality test, multicolonierity, autocorrelation, heteroskedasticity and linearity) (can be seen in appendix) and hypothesis test (coefficient of determination test, F test and t test), then discussed about hypothesis test result Presented in table 1

Substructure Analysis

ROA = βVAIC + βSize + e_1 (Structural Equation 1)
ISR = βVAIC + βSize + βROA + e_1 (Structural Equation 2)

TABLE 1: HYPOTHESIS TEST RESULTS

Adjusted R Square		Equation 1	0,262		
		Equation 2	0,330		
F Test	Equation 1	F	6,557		
		Sig	0,004		
	Equation 2	F	5,904		
		Sig	0,002		
T Test	Equation 1	Sig.VAIC	0,002	beta	0,227
		Sig.Size	0,120	beta	-0,098
	Equation 2	Sig.VAIC	0,557	beta	0,007
		Sig.Size	0,002	beta	0,032
		Sig.ROA	0,133	beta	-0,038

Based on Table 1 the magnitude of Intellectual Capital and Firm Size influence simultaneously to Profitability is 26.2%. The amount of influence of Intellectual Capital, Firm Size and Profitability simultaneously to Islamic Social Reporting is 33%.

The result of F test in table 1 can be F value of 6,557 with Sig. 0.004 (Equation 1) and 5.904 with Sig. 0.002 (Equation 2), since the probability value of significance is much smaller than 0.05 indicating that the regression model is feasible and correct.

The result of statistic test t in table 1, for equation 1, Intellectual Capital is significant because it has a significance value that is below 0.05 that is 0.002. So it can be concluded from the two independent variables in the regression model in equation 1 there is one independent variable that is Intellectual Capital which affect the dependent variable that is Profitability.

Equation 2, Firm Size is significant because it has a significance value that is below 0.05 is 0.002. So it can be concluded from the three independent variables in the regression model in equation 2 there is one independent variable that is Firm Size which affects the dependent variable is Islamic Social Reporting.

Testing of Mediation Variables

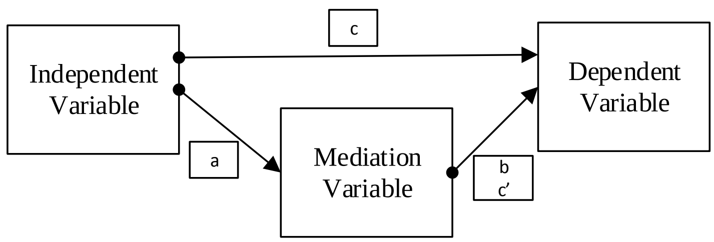

Figure 2: Causal Step Strategy

Significant coefficients a and b are sufficient to indicate the presence of mediation. If c is significant then there is partial mediation, but if c is not significant then there is full mediation (Preacher and Hayes, 2004).

TABLE 2: TEST RESULT CAUSAL STEP

Variabel	*a*	*b*	*c*	*c'*
Sig. VAIC With mediation ROA	0,0028	0,0351	0,9866	0,3281
Sig. Size With mediation ROA	0,2088	0,1526	0,0004	0,0010

Based on Table 2 it can be concluded that Profitability mediates the influence of Intellectual Capital on Islamic Social Reporting.

DISCUSSION

The Effect of Intellectual Capital on Profitability

Intellectual Capital positively affects Profitability. This is in accordance with the results of research conducted by Firer and Williams (2003), Chen *et al.* (2005) and Tan *et al.* (2007) stating that Intellectual Capital (VAIC) has a positive influence on company performance. The findings of this study are in accordance with the concept of Resource-based theory, if the company is able to manage resources effectively it will be able to create a competitive advantage over its competitors. Highly skilled and competent human resources are a competitive advantage for the company. If the company can utilize and manage the potential of the employee well, then this will be able to improve employee productivity. If employee productivity increases, then the company's performance will increase.

The Effect of Firm Size on Profitability

Firm Size has no effect on Profitability. This shows that firm size is not a guarantee that the company will have a good performance as reflected by the profit. In addition Khaira Amalia (2011) also found that firm size has no effect on profitability. This is because the market is less reacting to the amount of information available to large companies and at the time of earnings announcements. In addition, companies may not maximize existing assets to achieve the desired profit. So it can be concluded the size of the company can not be used as one benchmark to determine the company's ability to generate profits. Because large companies are not necessarily able to generate large profits than small companies.

The Effect of Intellectual Capital on Islamic Social Reporting

Intellectual Capital has no effect on Islamic Social Reporting. This is contrary to Resource-based theory, if the company is able to manage resources effectively it will create a competitive advantage over its competitors. Highly skilled and competent human resources are a competitive advantage for the company. If the company can utilize and manage the potential of the employee well, then this will be able to improve employee productivity. If employee productivity increases, then the company's performance will increase. This can be attributed to the fact that sharia banks in Indonesia have not managed resources effectively which can create a competitive advantage over their competitors.

The Effect of Firm Size on Islamic Social Reporting

Firm Size has a positive effect on Islamic Social Reporting. Firm size is a scale that serves to classify the size of business entities. The scale of firm size can affect the extent of disclosure of information in their financial statements. Large companies tend to reveal more information than smaller companies. This is because big companies will face greater political risk than small companies. Theoretically, big companies will not get out of political pressure, that is pressure to do social responsibility. So large companies tend to incur costs to disclose larger social information compared to smaller companies (Watt & Zimmerman: 1990 in Scott: 1997). Greater social disclosure is a reduction of the political costs for the company. By expressing concern for the environment through financial reporting, the company in the long term can avoid the huge cost resulting from the demands of society. The results of this study are in line with the research that has been done by Gray at al (2001) and Sembiring (2005) shows that firm size affect the disclosure of Islamic Social Reporting.

The Effect of Profitability on Islamic Social Reporting

Profitability has no effect on Islamic Social Reporting. This is because more banking companies with high profits tend to do less Islamic Social Reporting, because the social responsibility is used by banks only to attract the public or investors to invest in banks either in the form of savings or loans if the bank already has Large profit means that the bank has had a lot of customers / investors. So if the banking has a large profit then it can reflect that the level of trust of customers or investors have existed and large enough to the performance of the banking so that banks do not need to do a lot of Islamic Social Reporting to gain trust from customers / investors. In this period of study also there is an economic crisis in Indonesia so that banks do not do too much Islamic Social Reporting and prefer to save the profit they get. The results of this study are in line with research conducted by Intan Gestari (2014), which states that Profitability has no effect on Islamic Social Responsibility.

The Role of Profitability Mediation

Based on the causal step test it can be concluded that Profitability only mediates the influence of Intellectual Capital on Islamic Social Reporting.

5. CONCLUSION

Based on the results of the analysis, hypothesis testing, discussion and research that has been done then can be put forward several conclusions research as follows: 1) Intellectual Capital positive effect on Profitability, 2) Firm Size positively influence on Islamic Social Reporting, 3) Profitability mediate influence Intellectual Capital against Islamic Social Reporting.

Implications

Implications of this research as a consideration of the company to be able to manage the resources effectively so as to create a competitive advantage compared to other competitors. Resources owned by the company include: adequate natural resources, attractive promotions, and employees and managers who can work professionally. Companies can take advantage of resources that are owned properly and maximally, then the company will have a competitive advantage and ability to compete with its competitors.

Limitations

The limitations of this study that can be considered for further research are:

1. The number of samples in this study is very limited namely the Sharia Commercial Bank registered in the Financial Services Authority period 2011-2014.
2. There is an element of subjectiveity in determining the index of Intellectual Capital disclosure developed by Firer and William in Gan *et al.*, (2008)

and the disclosure of Islamic Social Reporting with Brammer *et al.* (2006). This is caused by differences in perception in assessing the criteria of measurement. Thus, in the determination of the index as an indicator in the same category may vary by researcher.

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