THE EFFECT OF ISLAMIC SOCIAL REPORTING DISCLOSURE AND GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE WITH FIRM SIZE AS MODERATING VARIABLE IN SHARIA BANKING IN INDONESIA 2016-2020

Script by:

Irhamna Rahmadanti

01031381823125

ACCOUNTING

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LEMBAR PERSETUJUAN UJIAN KOMPREHENSIF

THE EFFECT OF ISLAMIC SOCIAL REPORTING DISCLOSURE AND GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE WITH FIRM SIZE AS MODERATING VARIABLES IN SHARIA BANKING IN INDONESIA 2016-2020

Disusun oleh:

Nama	: Irhamna Rahmadanti
NIM	: 01031381823125
Fakultas	: Ekonomi
Jurusan	: Akuntansi
Bidang Kajian/Konsentrasi	: Akuntansi Syariah

Disetujui untuk digunakan dalam ujian Komprehensif

Tanggal Persetujuan	Dosen Pembimbing
Tanggal : 28 Desember 2021	Ketua Dr. Tertiarto Wahyudi, S.E., MAFIS., Ak., CPA. NIP. 196310041990031002
Tanggal : 24 Desember 2021	Anggota Muhammad Farhan, S.E., M. Si NIP.198312152015041002

LEMBAR PERSETUJUAN SKRIPSI

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Disusun Oleh:

Nama	: Irhamna Rahmadanti
NIM	: 01031381823125
Fakultas	: Ekonomi
Jurusan	: Akuntansi
Bidang Kajian/Konsentrasi	: Akuntansi Syariah

Telah diuji dalam ujian komprehensif pada tanggal **11 Januari 2022** dan telah **memenuhi** syarat **untuk diterima.**

Panitia Ujian **Komprehensif**

Palembang, 11 Januari 2022

Ketua	Anggota	Anggota
Dr. Tertiarto Wahyudi, S.E., MAFIS., Ak., CPA	Muhammad Farhan, S.E., M.Si.	Achmad Soediro, S.E., M.Com., Ak.
NIP. 196310041990031002	NIP. 198312152015041002	NIP. 197902212003121002

Mengetahui,

Ketua Jurusan Akuntansi,

ASLI

JURUSAN AKUTANSI 25/01 2022

FAKULTAS EKONOMI UNSRI

Arista Hakiki, S.E., M.Acc.,Ak., CA

NIP. 1973031[illegible]

STATEMENT OF RESEARCH INTEGRITY

Yang bertanda tangan dibawah ini :

Nama	: Irhamna Rahmadanti
NIM	: 01031381823125
Fakultas	: Ekonomi
Jurusan	: Akuntansi
Bidang Kajian	: Akuntansi Syariah

Menyatakan dengan sesungguhnya, bahwa skripsi yang berjudul :

"*The Effect of Islamic Social Reporting Disclosure and Good Corporate Governance on Financial Performance with Firm Size as a Moderating Variable in Sharia Banking in Indonesia 2016-2020*"

Pembimbing	:
Ketua	: Dr. Tertiarto Wahyudi, S.E., MAFIS., Ak., CPA.
Anggota	: Muhammad Farhan, S.E., M.Si.
Tanggal Ujian	: 11 Januari 2022

Adalah benar hasil karya saya sendiri. Dalam skripsi ini tidak ada kutipan hasil karya orang lain yang tidak saya sebutkan sumbernya.

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Palembang, 11 Januari 2022

METERAI TEMPEL

D5364AJX664743838

Irhamna Rahmadanti
01031381823125

MOTTO

“Results will not betray the process”

“Because the real hardship comes ease”

(QS. Al-Insyirah : 6)

"The best revenge is to make yourself better."

(Ali bin Abi Thalib)

"The wind does not blow to shake the trees, but tests the strength of their roots."

(Ali bin Abi Thalib)

PREFACE

All praise and thanks be to Allah Subhanahu wa Ta‟ala, who has given His mercy, guidance and grace to the writer so that the writer can complete this Final Project entitled “The Effect of Islamic Social Reporting Disclosure and Good Corporate Governance on Financial Performance With Firm Size as Moderating Variables in Sharia Banking in Indonesia 2016-2020" " was prepared as one of the requirements in completing education from the Faculty of Economics, Sriwijaya University. Shalawat and greetings of the author honor the Prophet Muhammad sallallaahu 'alaihi wa sallam who always provides uninterrupted intercession to all Muslims.

This script discusses about the effect of ISR disclosure, GCG on Financial Performance with firm zise as a moderating variable. The data used in this research is secondary data.

Palembang, 24 Januari 2022

Author,

Irhamna Rahmadanti

NIM. O1031381823125

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Palembang, 22 Januari 2022

Author,

<u>Irhamna Rahmadanti</u>

01031381823125

SURAT PERNYATAAN

Kami dosen pembimbing skripsi menyatakan bahwa abstrak skripsi dalam bahasa Inggris dari mahasiswa :

Nama	: Irhamna Rahmadanti
NIM	: 01031381823125
Fakultas	: Ekonomi
Jurusan	: Akuntansi
Bidang Kajian	: Akuntansi Syariah
Judul Skripsi	: The Effect of Islamic Social Reporting Disclosure and Good Corporate Governance on Financial Performance with Firm Size as a Moderating Variable in Sharia Banking in Indonesia 2016-2020

Telah kami periksa cara penulisan, *grammar*, maupun susunan *tenses* nya dan kami setuju untuk ditempatkan pada lembar abstrak.

Palembang, 24 Januari 2022

Ketua,	Anggota,
Dr. Tertiarto Wahyudi, S.E., MAFIS., Ak., CPA.	Muhammad Farhan, S.E., M.Si.
NIP. 196310041990031002	NIP. 198312152015041002

Mengetahui,
Ketua Jurusan Akuntansi,

Arista Hakiki, S.E., M.Acc.,Ak., CA
NIP. 197303171997031001

ABSTRACT

THE EFFECT OF ISLAMIC SOCIAL REPORTING DISCLOSURE AND GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE WITH FIRM SIZE AS A MODERATING VARIABLE IN SHARIA BANKING IN INDONESIA 2016-2020

By :
IRHAMNA RAHMADANTI

This study aims to determine how the effect of ISR disclosure GCG on financial performance, how the effect of ISR disclosure on financial performance with firm size as a moderating variable, and how the effect of GCG on financial performance with firm size as a moderating variable. The population used in this study were 14 BUS in Indonesia in a period of 5 consecutive years in the 2016-2020 period. While The sample in this study was 11 BUS in Indonesia for the period 2016-2020. While this type of research is included in quantitative research. The data used in this study is data obtained from the annual reports of Syariah banks in Indonesia for 2016-2020 through the OJK. This study uses time series data for 2016-2020 and cross section data consisting of 11 BUS. The results of this study indicate that the ISR disclosure variable has a positive and insignificant effect on Financial Performance which is measured using ROA, the GCG variable has a significant and negative effect on financial performance, firm size as a moderating variable on the relationship between ISR disclosure and financial performance has a significant and positive effect, firm size as a moderating variable on the relationship between GCG disclosure and financial performance has no significant and negative effect.
Keywords : Islamic Social Reporting, Good Corporate Governance, Financial Performance, Moderating, Firm Size

Advisor,	*Vice Advisor,*
Dr. Tertiarto Wahyudi, S.E., MAFIS., Ak., CPA.	Muhammad Farhan, S.E., M.Si.
NIP. 196310041990031002	NIP. 198312152015041002

Acknowledge,
Head of Accounting Program

Arista Hakiki, S.E., M.Acc.,Ak., CA
NIP. 19730317199703100

ABSTRAK

THE EFFECT OF ISLAMIC SOCIAL REPORTING DISCLOSURE AND GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE WITH FIRM SIZE AS A MODERATING VARIABLE IN SHARIA BANKING IN INDONESIA 2016-2020

Oleh :
IRHAMNA RAHMADANTI

Penelitian ini bertujuan untuk mengetahui bagaimana pengaruh pengungkapan ISR, GCG terhadap kinerja keuangan dengan ukuran perusahaan sebagai variabel moderasi. Populasi yang digunakan dalam penelitian ini adalah 14 BUS di Indonesia dalam kurun waktu 5 tahun berturut-turut pada periode 2016-2020. Sedangkan Sampel dalam penelitian ini adalah 11 BUS di Indonesia untuk periode 2016-2020. Jenis penelitian ini termasuk dalam penelitian kuantitatif. Data yang digunakan dalam penelitian ini adalah data yang diperoleh dari laporan tahunan bank syariah di Indonesia tahun 2016-2020 melalui OJK dan website resmi BUS tersebut. Penelitian ini menggunakan data time series tahun 2016-2020 dan data cross section yang terdiri dari 11 BUS. Hasil penelitian ini menunjukkan bahwa variabel pengungkapan ISR berpengaruh positif dan tidak signifikan terhadap Kinerja Keuangan yang diukur dengan ROA, variabel GCG berpengaruh signifikan dan negatif terhadap kinerja keuangan, ukuran perusahaan sebagai variabel pemoderasi terhadap hubungan antara ISR pengungkapan dan kinerja keuangan berpengaruh signifikan dan positif, ukuran perusahaan sebagai variabel pemoderasi terhadap hubungan pengungkapan GCG dengan kinerja keuangan tidak berpengaruh signifikan dan negatif.

Kata Kunci : Pengungkapan *Islamic Social Reporting*, Tata Kelola Perusahaan yang Baik, Kinerja Keuangan, Moderasi, Ukuran Perusahaan

Ketua	Anggota
Dr. Tertiarto Wahyudi, S.E., MAFIS., Ak., CPA.	Muhammad Farhan, S.E., M.Si.
NIP. 196310041990031002	**NIP. 198312152015041002**

Mengetahui,
Ketua Jurusan Akuntansi

Arista Hakiki, S.E., M.Acc.,Ak., CA
NIP. 19730317199703100

RESEARCH RESUME

Name	: Irhamna Rahmadanti
Gender	: Female
Place, Date of Birth	: Palembang, 01 October 2000
Religion	: Islam
Adress	: Jl. KH. Wahid Hasyim, Lr. Tajur, No. 851, RT. 23, RW.06, Palembang.
Email Adress	: Irhamna11000@gmail.com

Formal Eduaction

1. Academic Year 2004 : TK YP Nurfauzan
2. Academic Year 2005-2011 : SD YP Nurfauzan
3. Academic Year 2011-2014 : SMP Negeri 15 Palembang
4. Academic Year 2014-2017 : MAN 1 Palembang
5. Academic Year 2018-2022 : Accounting Department, Faculty of Economics, Sriwijaya University.

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CHAPTER 1

INTRODUCING

1.1 Background

The development of Islamic-based economics and business is well developed in Indonesia which is marked by the existence of various Islamic financial entities and institutions. Companies that apply sharia principles are likely to attract many Muslim investors and other Muslim interested parties who want to invest and be involved in these business activities. Therefore, companies should make reports that are in accordance with sharia principles and must disclose social responsibility, known as Corporate Social Responsibility (CSR). Disclosure of CSR both conventionally and sharia cannot be separated from Corporate Governance. Fundamentally, Corporate Governance is a multi-stakeholder relationship between a company that wants to protect the interests of shareholders. Now the concept of CSR is not only developing in the conventional economy, but also developing in the Islamic economy. The concept of CSR in Islam is closely related to companies that carry out business activities in accordance with the sharia concept and it is hoped that these companies can carry out CSR Islamically. (Asrori, 2016)

Standard guidelines related to sharia entities on CSR disclosure do not yet exist, because of that some researchers have tried to develop a framework for CSR disclosure guidelines called the Islamic Social Reporting (ISR) index. The ISR contains standard CSR items set by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) which researchers have further developed regarding CSR items that must be disclosed by an Islamic entity (Sintia, 2016). The development of CSR in Indonesia has increased both in quantity and quality compared to previous years. Where reporting on CSR which was originally voluntary has become mandatory with the existence of Law Number 40 of 2007 concerning Limited Liability Companies Article 74 that the annual report must contain several information, one of which is a report on the implementation of social responsibility and environment. While sharia social reporting, ISR is still voluntary, so that the CSR reporting of each sharia company is not the same. The unequal reporting is due to the absence of a sharia standard regarding sharia CSR reporting (Sulistyawati & Indah, 2017). And because it is still voluntary, not many small scale companies disclose ISR, most of the ISR disclosures are carried out by large scale companies, that is why Firm Size in showing the scale of a company is needed in this study as a moderating variable. In principle, CSR is an ongoing commitment from the company to be responsible economically, socially, and environmentally or ecologically to the community, the environment, and stakeholders.

Meanwhile, the development of Islamic financial institutions in the world has become a very surprising phenomenon in the last two decades. Besides Iran, Pakistan and Sudan, which have turned all their banks into Islamic banks, in other places such as Asia and Europe, Islamic banks are growing very rapidly. In the Qur'an, the discussion about social responsibility is often mentioned. The Qur'an always relates the success of business and economic growth, which is strongly influenced by the morale of entrepreneurs in running a business (Surah Al-Israa', 17:35). Likewise for the natural surroundings, the Qur'an gives very serious attention to business or non-business to always ensure the preservation of nature (Surah Al-Baqarah, 2:205) which means "And if he turns away (from you), he walks on earth to do mischief in it, destroy crops and livestock, Allah does not like destruction."

In the aspect of virtue, Islam strongly recommends helping people who need and are less able to do business through sadaqah and benevolent loans (Qard hasan). Related to the disclosure of social responsibility of a sharia entity, recently there is a lot of discussion about ISR. ISR is a sharia-based corporate social performance reporting system. ISR is a special framework for reporting social responsibility in accordance with Islamic principles. The purpose of ISR itself is as a form of corporate accountability to Allah SWT and society and also to increase the transparency of business activities by presenting relevant information by taking into account the spiritual needs of Muslim investors or sharia compliance in decision making.

In implementing corporate governance practices in the world of Islamic finance, institutions that use sharia-based financial models in Indonesia are Sharia Commercial Banks (BUS). The existence of BUS in the world of Islamic finance is undergoing a development stage to overcome obstacles and challenges in the Indonesian banking industry. The existence of BUS and other sharia institutions in the Indonesian financial industry is a new breath to support the growth of this industry in order to realize a better Indonesian economy.

The implementation of Good Corporate Governance (GCG) is very important for the banking world because banking institutions have a very important function for the economy in Indonesia. GCG is one of the non-financial components which is currently an important issue and needs to be considered by companies in an effort to increase profits and company financial performance. GCG is corporate governance that applies the principles of transparency, accountability, responsibility, independence, and fairness. GCG can also be interpreted as the company's internal control to manage significant risks by encouraging the formation of clean and transparent company management. The main purpose of implementing GCG is to protect stakeholders from unclean and non-transparent management behavior. The implementation of GCG is also one of the efforts to increase public trust in banking. The implementation of GCG is considered to be able to improve the image of banks and will create a healthy business climate and encourage increased banking financial performance (Bank Indonesia Regulation, 2013 in Setyawan, 2019)

Financial performance describes the financial condition of a company or banking using financial analysis tools, so that it can be known about the good and bad financial conditions of the company that reflect work performance in a certain period. This is very important so that resources are used optimally and effectively in dealing with environmental changes. Financial statements are one source of information in order to get an overview of a company or banking at a certain time (usually shown in the accounting period or cycle), which shows the financial condition that achieved by a company in a certain period. The activities of the company are reflected in the financial statements of the company.

In addition, Firm size is also an indicator that can show a condition or characteristic of a company or company where there are several parameters that can be used to determine the size (big/small) of a company, such as the number of employees used in the company to carry out the company's operational activities, the number of assets owned or used in the company, the number of sales achieved by the company in a period, and the number of shares outstanding.According to Zeptian and Rohman (2013) in Setyawan (2019) large companies usually have a wider stakeholder role. Large companies get more people's attention and are reported more carefully, allowing them to provide better information for investment purposes. Large companies also have a great responsibility. The policies of large companies have a greater impact on the public interest than small and medium-sized companies. As a result, large companies are undoubtedly cautious about preparing financial statements for their managers, which can affect the company's performance.According to (Mahdaleta, 2016) The size of the company can be seen from the total assets of the company. The size of the company is one of the things that investors pay attention to. Large companies usually have better management in terms of fund management. Large companies usually have long-term plans about the company's finances and how to carry out those plans. The larger the company, the more likely investors will trust the company. In addition, large companies usually have good financial performance. Thus, investors will prefer large companies over small companies. The presence of company size as a moderating variable can show whether a large firm size can strengthen the effect of a company's ISR and GCG disclosures on financial performance where as we know large companies will carry out corporate social activities and disclose ISR and attract investors to invest. the company which will also affect the financial performance because investors will usually be more interested in large companies. That is why firm size was chosen as the moderating variable in this study.

This study uses the 2016-2020 time period so that the results of this study describe a more recent situation. The reason the researchers took the object of banking is because banking is often highlighted by the government and the public because banking is also able to improve the national economy and is able to move the wheels of the economy.Based on previous studies, it still shows inconsistencies in some research results or there are still research gaps. Some researchers say that the implementation of ISR has a positive impact on financial performance. Several other researchers have found a negative link between ISR and financial performance. There are no Moderating variables in other surveys, but in this research the size of the company was added as an Moderating variable.This finding will become a research gap in this study, so it will be more interesting and further research needs to be done regarding the research gap. For this reason, the author takes the title "THE EFFECT OF ISLAMIC SOCIAL REPORTING DISCLOSURE AND GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE WITH FIRM SIZE AS MODERATING VARIABLES IN SHARIA BANKING IN INDONESIA 2016-2020".

1.2 Formulation of the Problem

Based on the description above, the formulation of the problem to be studied in this study are:

a. Does the disclosure of ISR have a significant effect on the financial performance of Islamic banking in Indonesia?

b. Does GCG have a significant effect on financial performance in Islamic Banking in Indonesia?

c. Does the disclosure of ISR have a significant effect on the financial performance of Islamic banking in Indonesia with Firm Size as a moderating variable?

d. Does the disclosure of GCG have a significant effect on the financial performance of Islamic banking in Indonesia with Firm Size as a Moderating Variable?

1.3 Resources Purpose

Based on the background and formulation of the problem above, the Researches Purpose of this study are:

a. To find out whether ISR has a significant effect on the financial performance of Islamic Banking in Indonesia in 2016-2020.

b. To find out whether GCG has a significant effect on financial performance in Islamic Banking in Indonesia in 2016-2020.

c. To find out whether ISR has a significant effect on financial performance in Islamic Banking in Indonesia in 2016-2020 with Firm Size as a moderating variable.

d. To find out whether GCG has a significant effect on financial performance in Islamic Banking in Indonesia in 2016-2020 with Firm Size as a Moderating Variable.

1.4 Benefits of Research

The author hopes that the results of this study can provide benefits both Theoretically and practically as follows:

1.4.1 Theoretical Benefits.

Theoretically, the results of this study are expected to be useful as follows:

a. Develop scientific insight and can be useful for Islamic economics in the field of ISR.

b. As a basis for further research in the field of ISR, particularly regarding the effect of disclosure of ISR and GCG on the financial performance of Islamic banks in Indonesia with Firm Size as a Moderating Variable.

1.4.2 Practical Benefits.

Practically this research can be useful as follows:

a. The results of this study, the authors hope can be used as material for consideration to become a customer/investor in the banking sector.

b. In this study, it is expected to provide thesis reference material for future students.

c. For the author, this research is useful to increase and expand the author's scientific knowledge and understanding regarding the influence of ISRx and GCG on financial performance in Islamic banking in Indonesia with Firm Size as a Moderating Variable.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical basis

2.1.1 Legitimacy theory

Legitimacy theory is a theoretical perspective within the framework of political economy theory because the influence of the wider community can determine the allocation of financial resources and other economic resources, companies tend to use environmental performance and disclosure of environmental information to justify or legitimize the company's activities in the eyes of society (Gray et al., 1995 in Badjuri, 2011).The legitimacy theory explains that the disclosure of social responsibility is carried out by the company in an effort to gain legitimacy where the company is located (Pratiwi and Chariri, 2013 in Sari & Helmayunita, 2019)Legitimacy can provide a powerful mechanism in understanding voluntary environmental and social disclosures made by companies, and this understanding will later lead to critical public debate, furthermorexlegitimacy theory showsxresearchers and the wider community the way to be more sensitive to the content of disclosure company. (Villing, 2004 in Basuki, 2019)

In Legitimacy theory, it is explained that the company will carry out social responsibility due to social, political and economic pressures from outside the company, so that the company will balance these demands by doing what the community wants and what is required by the regulations (Deegan, 2002 in Z. Khasanah & Yulianto, 2015)

The legitimacy theory implies that activities in the form of corporate social responsibility are a business that is related to pressure from the surrounding environment, for example political, social or economic pressures. Legitimacy theory is based on the notion of the social contract implied between social institutions and society (Ahmad & Sulaiman in Widiati, 2012). Legitimacy is a potential benefit or resource for the company to survive (going concern).

An organization may apply four legitimacy strategies when faced with various legitimacy threats. Therefore, to deal with company performance failures such as serious accidents or financial scandals, organizational efforts that can be made are trying to educate stakeholders about the organization's goals to improve performance, trying to change stakeholder perceptions of an event (but not changing the actual performance of the organization), distract by concentrating on a few positive activities that are not associated with failure, and try to change external expectations about performance.

Legitimacy theory in its general form provides an important insight into the practice of corporate social disclosure. Most major corporate social disclosure initiatives can be traced to one or more legitimacy strategies. For example, there is a general tendency for corporate social disclosures to emphasize positive points for organizational behavior rather than negative elements.

The efforts that need to be made by the company in order to manage legitimacy to be effective (Pattern in Hadi, 2011), namely by:

1) Identify and communicate dialogue with the public.

2) Communicating dialogue about social value issues.
3) Implement legitimacy and disclosure strategies, especially related to social responsibility issues.

Financial reports are a form of corporate responsibility to stakeholders including the environment and society. A company's financial performance can also be seen in its financial statements. Disclosure of information in financial statements is the company's duty to explain to the public about the activities carried out by the company. In relation to this theory, company recognition or legitimacy is a factor that companies really want to get through the disclosure of information in financial statements.

This study uses legitimacy theory because it wants to know what kind of environmental information disclosure is in accordance with the values in society. By knowing whether the values of society have matched with Islamic banking activities, it can be seen the level of acceptance of Islamic banking in society. So that Islamic banking can find out how the image of sharia banking is in the surrounding community.

Legitimacy theory focuses on the interaction between companies and society. Dowling and Preference (1975) in Rinaldy (2011) provides a logical reason for the legitimacy of the organization as follows: "Organizations try to create harmony between the social values inherent in their activities with the norms of behavior that exist in the social system of society where the organization is part of the system. As long as the two value systems are aligned, we can see this as legitimizing the company. When actual and potential misalignment occurs between the two systems, there is a threat to the company's legitimacy. Organizational legitimacy can be seen as something that companies want or seek from society. So legitimacy can be said as a benefit or potential source for the company to survive. When there is a difference between the company's values and the values of the company and the values of society, the company's legitimacy will be in a threatened positio (Rinaldy, 2011). This discrepancy between corporate value and the social value of society, often referred to as the "legitimacy gap," can affect the going concern assumptions of a company.

The company tries to monitor the company's values and the social values of the community and identify the possibility of the emergence of these gaps. Although it should be remembered that the existence and magnitude of the legitimacy gap is not an easy thing to determine. So to reduce the legitimacy gap, companies must identify activities that are under their control. The effective way or media to gain legitimacy from the community is by publishing Social Responsibility which represents the company's environmental and social responsibility. Companies that continue to strive to gain legitimacy through disclosure, hope that in the end it will continue to exist.

2.1.2 Stakeholder Theory

Stakeholders are all parties, both internal and external, who have a relationship, whether influencing or being influenced, directly or indirectly by the company. Stakeholders are internal and external parties, such as: the government, competing companies, the surrounding community, the international environment, institutions outside the company (NGOs and the like), environmental watchdog institutions, company workers, minorities and others whose existence greatly affects and is influenced by the company. (Hadi, 2011)

Internal and external parties that influence or are influenced by the company are considered as part of the stakeholders. Understanding the needs and desires of stakeholders is in the spotlight of management because they are directly or indirectly involved in the activities and policies carried out and to be taken by a company. Islamic Social Reporting is expected to be a desire of stakeholders that can be accommodated so as to produce a harmonious relationship between the company and its stakeholders where the company will voluntarily disclose the ISR to the public and the public will ultimately place high trust in the company to manage its funds. (Widiyanti & Hasanah, 2017)

Stakeholder theory is a theory that explains how company management meets or manages stakeholder expectations. Gray, Kouhy dan Adams, 1994 inRinaldy, (2011) said that: “The survival of the company depends on the support of stakeholders and that support must be sought so that the company's activity is to seek that support. The more powerful the stakeholders, the greater the company's effort to adapt. Social disclosure is considered as part of the dialogue between the company and its stakeholders”. The definition of a stakeholder has changed significantly. Initially, shareholders were seen as the sole stakeholders in the company.

Stakeholder theory holds that socially responsible activities are carried out to satisfy the wants and needs of the stakeholders and with the support of all these stakeholders. Stakeholder theory emphasizes that organizational responsibility goes beyond mere economic or financial performance. This theory states that organizations will choose to voluntarily disclose information about their environmental, social and intellectual performance, in addition to their mandatory requirements, in order to meet real or public expectations. receipts from interested parties. One form of voluntary disclosure that is rapidly growing today is socially responsible posting. Through the publication of Social Responsibility (social and environmental disclosures) companies can provide more sufficient and complete information related to activities and their effects on the social conditions of society and the environment (Ghozali and Chariri, 2007 in Rinaldy, 2011). According to Nurrokhman (2017) in Dewi & Putri (2021) In a company, a stakeholder has the duty to make a decision in Islam and is expected to be able to carry out social responsibilities that are in accordance with sharia principles and prove that the company carries out its business activities in accordance with Islamic law. So that Islamic companies must carry out all activities according to Islamic law.

GCG as a corporate control program cannot be separated from the influence of stakeholders. Professor John Kay, tries to propose that an alternative model in protecting stakeholder interests must at least have several important elements, including the following, (Sutedi, 2011 in Soemari et al., 2020)

a. A distinction and separation must be strictly made between the company and the owners who control the limited liability company.
b. The new governance framework should be immediately applied to public companies. Public companies are required to have a board of directors headed by an independent director with at least three independent directors.
c. The roles and functions of the Chief Executive Officer (CEO), should be carried out and the selection process should be consulted with employees, investors, suppliers and other relevant regulatory bodies. Independent directors are expected to lead the process and prepare reports related to the company's performance and strategy.
d. The authority to appoint directors should be left to independent directors. However, independent directors must consult with stakeholders before appointing a new independent director.

Stakeholder Theory as a theory that talks about the concept of cooperation between companies and stakeholders is supported by the concept of takafui in Islam.The term At-takafui al-ijtima'i in the Islamic encyclopedia refers to solidarity which is defined as the attitude of people who think about each other, pay attention to each other and help overcome difficulties. Where can be likened to the feeling that the suffering of others is his own suffering and his own gain is the benefit of others as well.

2.2 Islamic Social Reporting (ISR)

ISR is a form of corporate responsibility towards the environment for social care and environmental responsibility by not neglecting the capabilities of the company in accordance with Islamic principles. The indicators used to measure social responsibility in Islamic banking use ISR in accordance with sharia principles.ISR or ISR Index is a social disclosure standard that is in line with sharia guidelines. If the disclosure is based on sharia guidelines, the standards used must comply with sharia guidelines. Haniffa in 2002 who proposed ISR for the first time, and after that ISR was developed by Othman et al. 2009.

The ISR contains a set of elements of the social responsibility parameters defined by AAOIFI, an independent international organization. This index contains disclosures covering various things related to Islamic principles such as existence of no usury transactions, no speculation or uncertainty, zakat disclosure , recognizing respect for sharia and social aspects like shadaqoh, waqf, etc. arrive. It deals with the main pillars of Islamic economics and finance.Darsono (2017)revealed that the main pillars in Islamic economics and finance are the obligation of zakat, the recommendation of waqf, the prohibition of maysir, gharar, dharar, ihtikar, and usury, as well as the pillars that distinguish it from the conventional financial system. In practice, Islamic banks are expected to implement these pillars with the ISR Index as the basic principle as a guideline for Social Responsibility disclosure in line with Islamic law.

2.3 Good Corporate Governance (GCG)

GCG is basically a system (input, process, output) and a set of rules that regulate the relationship between various interested parties (stakeholders), especially in the narrow sense of the relationship between shareholders, the board of commissioners, and the board of directors. In order to achieve the objectives of the company's GCG, including to regulate these relationships and prevent significant errors in the company's strategy and to ensure that errors that occur can be corrected immediately (Zakarsyi, 2008 in Soemari et al., 2020)

According to T. Muhyiddin et al. (2020), The application of good GCG principles can increase thecompany performance and long-term economic value for the investors and stakeholders. Understanding GCG according to the Turnbull Report in the UK (april 2006) quoted by Tsuguoki Fujinuma in Soemari et al., (2020)are as follows: Corporate governance is a company's internal control system, the main objective of which is the management of significant risks to the fulfillment of its business objectives, with the aim of safeguarding the company's assets and increasing shareholder investment value.

Based on the above understanding, GCG is defined as a company's internal control system that has the main objective of managing significant risks in order to meet its business objectives through securing company assets and increasing shareholder investment value in the long term. The World Bank defines GCG as a collection of laws, regulations, and rules that must be complied with, which can encourage the efficient use of company resources to create long-term sustainable economic value for shareholders and the surrounding community at large.

The GCG variable is measured using the Corporate Governance Perception Index (CGPI). The calculation in determining the total GCG score obtained by the company uses the following formula (Ilmi et. Al, 2017 in I. D. Khasanah et al., 2020)

$$\text{CGI} = \frac{A+B+C+D+E}{Total\ Items} \times 100\%$$

CGI = Corporate governance index

A = Shareholders' Rights

B = Board of directors

C = Board of Commissioners

D = Audit Committee and internal auditor

E = Disclosure to investors

2.4 Good Corporate Governance in Islamic Perspective

The concept of the popular GCG is closely related to existing religious teachings. The principles of the GCG are consistent with Islamic teachings. Although Islam always offers good moral teachings, sound ethics, integrity and honesty, it is not easy to integrate these moral values into the Islamic GCG. In fact, most Muslim businesses use existing common business standards that may not be in line with Islamic values. Since the Islamic view sees government as a Muslim's obligation to Allah, this leads to an implicit contract with Allah and an explicit contract with man.

The GCG in Islam exhibits unique characteristics that combine elements of monotheism, shura, sharia rule, and uphold personal goals without neglecting social welfare duties. Islam also believes that one's daily activities and business dealings should be based on the values of honesty, constancy, respect, fairness, tolerance, patience and honesty, not lies, pride, envy, jealousy, slander and self-aggrandizement, and this practice must be reflected in the individual in his business activities and activities as well as in his relationship with all the respective stakeholders.

Sharia principles are closely related to the implementation of GCG in companies, as the principle of profit sharing takes precedence, so that neither party is harmed in the business.The implementation of GCG in Islamic financial institutions needs to be carried out through a values approach that applies specifically and generally applies in a country to maintain the stability of the financial system as a whole. In the provisions of Article 2 paragraph (1) PBI No.11/33/PBI/2009 concerning the Implementation of Good Corporate Governance for BUS and Sharia Business Units (UUS), it is stated that banks are required to apply the principles of GCG in every business activity at all levels or levels of the organization.

Some of the sharia principles that support the implementation of GCG or governance in the banking world. Sharia principles are part of the sharia system. The application of the sharia system in sharia banking can be seen from two perspectives, namely micro and macro. Furthermore, Khotibul Umam (2017) in Farida(2018)states that sharia values in a micro perspective include;

a. Siddiq, namely this value reflects that the management of public funds will be carried out by prioritizing lawful ways and avoiding dubious ways (subhat), especially those that are unlawful.
b. Tabligh, namely conducting continuous socialization and education to the public about sharia banking principles, products and services.
c. Amanah, namely maintaining the principle of prudence and honesty in managing funds obtained from the owner of the fund (shahibul maal) so that mutual trust arises between the owner of the fund and the manager of the fund or investor (mudharib).
d. Fathanah, namely ensuring that bank management is carried out professionally and competitively.

2.5 Financial Performance

Financial performance is the determination of certain measures that can measure the success of a company in generating profits. In measuring financial performance, it is necessary to link the company with the responsibility center. Financial performance appraisal is one of the methods used by the management in order to fulfill its obligations to the owners of the company.

Financial performance is proxied by routine on assets (ROA) because it can interpret the level of company profitability or can measure how much the company's ability to earn profits is based on all assets owned by the company (total assets). The greater the ROA, the more effective the company is in generating profits from the total assets owned by the company(Wufron, 2017).

- **Ratio of Return on Assets (ROA)**

Ratio of ROA is a measure of management effectiveness in carrying out the company's management responsibilities for the use of company assets as effectively as possible in dividing profits for owners (Simamora, 2012 Harapan et. al., 2013). ROA can be calculated using the following formula:

$$\text{ROA} = \frac{\boldsymbol{EAT(EarningAfterTax)}}{Total of Assets} \text{ x } 100\%$$

ROA in financial analysis has a very important meaning as an analytical tool to measure how efficient management is in using assets to generate profits. ROA tells investors how much profit is generated from the invested capital. The results of the ROA calculation are used to calculate how effectively the company converts the money invested into net profit.

2.6 Firm Size

Firm size is a company that can be classified as large or small in various ways, including by looking at the total asset log, total sales log, and market capitalization. According to Zubir (2017) in Pohan et al. (2018) basically the size of the company is divided into 3 categories, namely large companies, medium companies and small companies. There are several proxies used to see the size of the company, namely the number of employees, total assets, total sales and market capitalization.

Size is used to see the size of a company based on the company's total assets. Company size is a form of company classification based on company scale (Mukhibad and Fitri, 2020 in Irbah et al., 2021). The scale of the company greatly affects the breadth of information submitted in the entity's social and environmental responsibility reports. Large-scale entities will absorb a fairly large number of stakeholders compared to small-scale entities. This explanation is supported by stakeholder theory which states that the greater the number of company stakeholders, the greater pressure will be on companies to disclose company information needed by stakeholders, because without stakeholder intervention, company activities will not run well. The importance of the role of stakeholders in the company makes the company to continue to establish good relations with stakeholders, namely by disclosing company information such as social and environmental responsibilities to stakeholders.

According to Mahdaleta (2016) in Manan (2019) The size of the company can be seen from the total assets of the company. The size of the company is one of the things that investors pay attention to. Large companies usually have better management in terms of fund management. Large companies usually have long-term plans about the company's finances and how to execute those plans. The bigger the company, the more likely investors will trust the company.

In addition, large companies usually have good financial performance. Thus, investors will prefer large companies over small companies. The presence of company size as a moderating variable can indicate whether large company size can strengthen the social influence of company activities and corporate governance on financial performance where as we know large companies will usually carry out social activities to increase profits and attract investors, that's why company size selected as the moderating variable in this study.

2.7 Previous Resources

Table 2.1
Previous Resources

NO.	RESEARCHER (YEAR)	RESEARCH TITLE	RESEARCH METHODOLOGY	RESULTS
1	Samri et al., (2015)	The Influence of CSR on Company Profitability	This research uses explanatory research. This research use Kuantitatif Method.	a. The results of the study prove that CSR has a significant effect on ROA. This shows that the more companies carry out CSR in the annual report, the company's profitability will increase. b. The results of the study prove that CSR has a significant effect on ROE. This shows that the more companies carry out CSR in the annual report, the company's profitability will increase. c. The results of the study prove that CSR has a significant effect on EPS. This shows that the more companies carry out CSR in the annual report, the company's profitability will increase.

2	Pratama et al., (2018)	CSR Disclosures and Financial Performance of Islamic Banking in Indonesia	This study uses secondary data. The sample selection method used in this study is the purposive judgment sampling method, which is a non-random type of sample selection whose information is obtained using certain considerations.	CSR disclosure has an insignificant positive effect on the financial performance of Islamic banking, some Islamic banking companies do not really prioritize CSR disclosure compared to manufacturing companies, which in their business operations are inseparable or directly related to the environment or the surrounding community. Disclosure of CSR by private Islamic banking is more complete than that of state/BUMN Islamic banking. This is due to several factors, including, from the aspect of corporate governance implementation, where private Islamic banking pays more attention to its GCG compared to state Islamic banking.
3	Gangi et al., (2019)	The impact of CSR knowledge on corporate financial performance: evidence from the European banking industry	The empirical research analyzed a panel of 72 banks from 20 European countries for seven years (2009-2015). The hypotheses were tested using fixed effect regression	To improve internal CSR and corporate citizenship performance can be justified also from a shareholder perspective because of its positive relationship with financial results. The more banks invest in CSR, the greater the benefits of internal and external trust relationships that can

			analysis and the two-stage Heckman model (1976) to overcome endogeneity bias.	support knowledge sharing within and outside the organization. The synergistic linkage between CSR and KM (Knowledge Management) increases knowledge creation opportunities thereby increasing bank competitiveness.
4	Mardliyyah et al., (2020)	The Effect of Islamic Social Reporting on Bank Performance (Study on Islamic Banking in Indonesia)	Descriptive and verification methods were used in this study as research methods. Descriptive analysis and linear regression simple method used as statistical analysis in this study, starting with testing normality of data with normality test and linearity test of data with linearity test, then performed regression testing using the Analysis of Variance (ANOVA) test and partial test.	1. The description of social responsibility disclosure in Islamic banking in Indonesia as measured using the ISR indicator in 2013 to 2017 shows that the extent of social responsibility disclosure has fluctuated. Overall, the financial and investment aspects are the aspects with the highest average value of disclosure area when compared to other aspects. 2. Description of bank performance in Islamic banking in Indonesia as measured by the Maqashid Syariah Index (MSI) indicator with the Abdul Majid Najjar method based on 4 objectives and 8 elements fluctuated from

				2013 to 2017, but there are still some banks that have bank performance below the overall average means that Islamic banks have not fully implemented each of their operations based on sharia values and principles. Meanwhile, when viewed from the overall goal, the first goal, namely securing human values which consists of elements of faith and human rights, is a goal that has the highest average compared to other goals. 3. ISR has a positive effect on bank performance in Islamic banking in Indonesia from 2013 to 2017. This explains that the higher the ISR disclosure, the higher the bank's performance.
5	Retnaningsih et al. (2019)	The Effect of Disclosure of Islamic Social Reporting (ISR) on Financial Performance in Islamic Banking in	The sampling method that will be used in this research is purposive sampling method. This study uses two variables, namely the	The analysis showed that audit committee size, liquidity and profitability significantly affect the disclosure of ISR. Meanwhile, commissioners board size and leverage does not affect the disclosure of ISR.

		Indonesia Year 2012-2016	dependent variable, and the independent variable. The dependent variable in this study is the company's financial performance which consists of ROA, Return on Equity (ROE). The independent variable of this research is CSR. Research Model The data analysis technique used in this study is multiple regression analysis with data pooling.	
6	(Hasanah et al., 2018)	Analysis of the GCG and Financial Performance Influences to ISR Disclosure	This research is in the form of quantitative descriptiveresearch.Populations in this study are all companies that listed in Jakarta Islamic Index exchange in 2011-2015. The sampling method	The analysis showed that audit committee size, liquidity and profitability significantly affect the disclosure of ISR. Meanwhile, commissioners board size and leverage does not affect the disclosure of ISR.

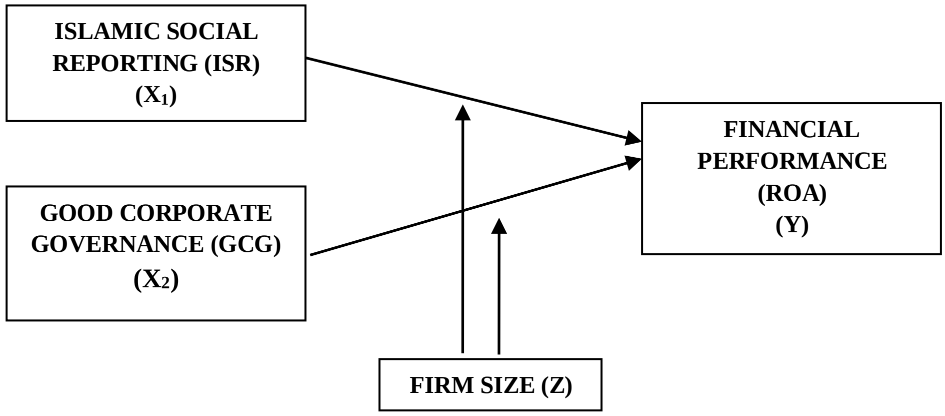
			in this tudy is puposivesampling.The total number of samples in this study were 55 research samples. The disclosure of ISR is obtained by content analysis through scoring method from corporate annual reports. The analytical techniques was conducted by descriptif statistic and classical assumption test and also hypothesis was tested using multiple liniear regression method, Adjusted R2 test, F test and t test.	
7	I. D. Khasanah & Sucipto (2020)	The Effect of CSR and GCG on firm value with profitability as an intervening variable	This research using Quantitative Method. CSR in this study is CSR Disclosure, which is measured using the Social	The results of this study indicate that Corporate Social Responsibility (CSR) does not have a significant and negative effect on firm value and profitability. Good Corporate Governance (GCG) has an insignificant and

			Responsibility Index proxy while the Good Corporate Governance (GCG) variable is measured using the Corporate Governance Perception Index (CGPI) and firm value can be measured using price book value.	positive effect on company value. GCG has a significant and positive effect on profitability. Profitability has a significant and positive effect on firm value. Indirectly, CSR does not have a significant effect on firm value with profitability. Conversely, GCG indirectly has a significant effect on company value with profitability.
8	Farida (2018)	Pengaruh Penerapan Good Corporate Governance Dan Pengungkapan Islamic Social Reporting Terhadap Kinerja Keuangan Perbankan Syariah Di Indonesia	This research is a quantitative model using multiple regression analysis method to determine the direction and influence of the relationship between the dependent and independent variables. Multiple regression analysis was carried out on time series data during the period 2013-2017 in the Islamic banking	The results of this study indicate that the GCG and ISR variables partially GCG affect the financial performance of Islamic banking, while ISR has no effect on the financial performance of Islamic banking. Meanwhile, together, GCG and ISR have no effect on the financial performance of Islamic banking.

			industry.	
9	Maulana Putri (2020)	Pengaruh Islamic Social Reporting Dan Good Corporate Governance Terhadap Kinerja Keuangan Dengan Financial Distress Sebagai Variabel Moderasi	This research is a quantitative research. Analysis using multiple linear regression and Moderated Regression Analysis (MRA).	1. ISR has a significant positive effect on Financial Performance 2. GCG has a significant positive effect on Financial Performance 3. Financial Distress is not able to moderate the relationship between the influence of ISR on Financial Performance 4. Financial Distress is not able to Moderate the effect of the relationship between GCG and Financial Performance.
10	(Tohir Pohan et al., 2018)	Pengaruh Profitabilitas Dan Pengungkapan Corporate Social Responsibility Terhadap Nilai Perusahaan Dengan Ukuran Perusahaan Sebagai	This research is a quantitative research. The sampling technique used by the researcher is purposive sampling.	The profitability weighs positive and has significant effect towards company values. Corporate Social Responsibility disclosure affected company values and weighs unsignificant towards company values. Corporate Social Responsibility disclosure that uses company size as moderation variable has unsignificant effect towards company values.

2.8 CONCEPTUAL FRAMEWORK

The framework is a conceptual thinking model about how the theory relates to various factors that have been defined as important. In this study the framework of thinking will be described as follows:



2.9 Hypothesis

2.9.1 The Effect of ISR Disclosure on Financial Performance (ROA)

Return on Assets is a ratio that shows the result of the number of assets used in the company or a measure of management efficiency. ROA shows the results of all assets controlled regardless of the source of funding. Usually the value of ROA is presented as a percentage.

H1 = ISR disclosure has a Significant effect on ROA at Sharia Banking in Indonesia

2.9.2 Effect of GCG on Financial Performance (ROA)

According to Nuswandari (2009) inPraleo (2021), the results of his research are that GCG has a significant positive effect on company performance. This is supported by Pranata (2007) in Praleo (2021). The results show that GCG has a significant positive effect on company performance as measured by ROA. From the description above, the following hypothesis is formed:

H2 = Implementation of GCG has a significant effect on ROA in Sharia banking in Indonesia.

2.9.3 Effect of Firm Size on the Relationship between ISR Disclosure and Financial Performance (ROA)

The size of the company will affect the development of the company.Companies with large assets will usually get more attention from the public and will also get greater profits.Companies are expected to always try to maintain stable financial performance (Fitri Prasetyorini, 2013 in Pohan et al., 2018).

The presence of FirmSize as a Moderating Variable can show whether a large firm size can strengthen the social influence of a company's activities on financial performance where as we know A large company will usually carry out social activities to increase profits and attract investors who will also have an effect on Financial Performance(Manan, 2019), that is why firm size was chosen as the moderating variable in this study.

H3 = Firm size can strengthen the effect of ISR disclosure on ROA in Sharia banking in Indonesia.

2.9.4 The Effect of Firm Size on the Relationship between GCG and Financial Performance (ROA)

Firm size is a measure of the size of the assets owned by the company so that large companies generally have large total assets. Large companies can more easily access the capital market than small companies. The larger the size of the company, the easier it is to get external capital in larger amounts, so investors are interested in investing in the company so as to increase the value of the company. The availability of these funds makes it easier for companies to make investments. The size of the company that describes the size of the company is indicated by the size of the assets, the number of sales, the average level of sales, and the average total assets. to see whether the size of the company has an effect on the relationship between GCG and Financial Performance.

According Manan (2019), The size of the company is one of the things that investors pay attention to. Large companies usually have better management in terms of fund management. Large companies usually have long-term plans about the company's finances and how to carry out those plans. The larger the company, the more likely investors will trust the company. In addition, large companies usually have good financial performance. Thus, investors will prefer large companies over small companies. The presence of company size as a moderating variable can show whether a large company size can strengthen the influence of a company's GCG on financial performance where as we know large companies will attract investors which will also affect financial performance because investors will usually be more interested in great company. That is why firm size was chosen as the moderating variable in this study, then:

H4 = Firm size can strengthen the influence of GCG on ROA in Sharia banking in Indonesia.