

The Impact of The Sustainability Report on The Performance of Maqashid Sharia Islamic Commercial Banks in Indonesia

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ABSTRACT

This study examines the effect of sustainability reports on the performance of maqashid sharia in Islamic banks. The sample of this research is Islamic commercial banks in Indonesia for the period 2014-2018. The sustainability report is measured by the standard score of the GRI 4 sustainability report and the performance of Islamic banks is measured using maqashid sharia with 3 perspectives, namely education, justice and welfare. The method used is panel data regression with 3 research models. The results of the analysis of model 1 show that the sustainability report has a significant negative effect on the performance of maqashid sharia from an education perspective. In model 2, the results show that the sustainability report does not have a significant effect on the performance of maqashid syariah justice perspective. Model 3 shows the results that the sustainability report does not have a significant effect on the performance of maqashid syariah from the welfare perspective.

Keywords: Maqashid Sharia, Sustainability Report

INTRODUCTION

Sustainable development is a development concept that is not only concerned with the present generation, but far into the future. This concept encourages the emergence of the concept of sustainability management in an industry / company (Hadad & Maftuchah, 2015). In 1987 the concept of sustainable development became the first focus of international policy making with the publication of the Brundtland Report (WCCED 1987). According to Jan, et al (2019) sustainability in the business sector is a process of managing economic, environmental and social risks by a company. Aras and Crowther (2008) also argue that sustainability is a process of transformation and awareness in terms of distributive effects. Sustainability management requires a good management framework, firstly connecting environmental and social management with business, second, integrating social environmental information with economic business information and sustainability reports (Schaltegger & Wagner, 2006).

John Elkington (1997) explains the sustainability report as an approach to company performance in the environmental, social and economic fields which is often referred to as the triple bottom line (profit, people, planet). First, the company must be able to generate profits in order to remain a going concern. Second, companies must pay attention to people (investors, employees, suppliers, consumers, society and community institutions). Third, companies must pay attention to the planet (environment). Shiller (2013) stated that banking failures and financial scandals that occurred around the world

led to the need to rethink the role of banks in society. Benedikter (2011) states that the shift towards social finance is essentially considered part of the basic mindset under the influence of the crisis and as a form of high responsibility for sustainable development in the social and environmental fields. How well banks respond to social and environmental risks is increasingly important, because in today's global economy the unrestricted flow of information can affect a bank's reputation and long-term business success (IFC, 2007).

Niswatin (2014) states that Islamic banks are a unique entity and have different characteristics from conventional banks, namely acting as a business, social and da'wah organization. Islamic banks have a role as a business organization, namely in the process of managing their business to comply with sharia regulations and rules. As a social organization of Islamic banks in the framework of achieving justice and helping to gain trust to distribute financing and funding. As a da'wah organization, in its management, Islamic banks implement Islamic values in their financial business.

Measurement of the performance of Islamic banks has used financial ratios such as Capital, Asset, Management, Earning, Liquidity, Rate of Assets, Rate of Equity and Balance Scorecard such as research conducted by Adib & Khalid (2010); Ali et al (2012). Adib & Khalid (2010) examined the performance measurement of Islamic banks using the financial ratios of Capital, Asset, Management, Earning, Liquidity (CAMEL) and Economic Value Added (EVA). Ali et al, (2012) tested the factors that affect the profitability of Islamic banks in Pakistan using the ROA and ROE ratios.

Measuring the performance of Islamic banks as seen from the financial sector still has weaknesses, because it only focuses on profit orientation so it fails to investigate aspects of sharia or Islamic values (Muhammed & Md Taib, 2015). Islamic banks were established to promote a fair distribution of wealth and adhere to Islamic values (Khan, 1997; Bedoui & Mansour, 2015), so that measuring the performance of Islamic banks must also be based on the objectives of the sharia adopted. The achievement of maqashid sharia in Islamic Banks can be measured by the achievement of goals in the form of individual education, creation of justice and achievement of public interests such as research conducted by Rusydiana & Al-Parisi (2016), Said (2016) and Hudaefi & Noordin (2019).

The novelty of this research is that measuring the performance of Islamic banks using the maqashid sharia index (MSI) is believed to be more in accordance with the characteristics and philosophy of Islamic banks, in contrast to previous studies that still use the same performance benchmarks as conventional banks. Because previous research has not been found on the impact of the sustainability report on the performance of maqashid sharia in Islamic commercial banks in Indonesia.

Measurement of Maqashid Sharia Performance

According to Islamic principles, business transactions are never separated from the moral goals of society (Ethica Institute of Islamic Finance, 2019). Islamic banks must develop their own culture, because Islam is not limited to banking transactions. Because being "Islamic" is not sufficient to design transactions based on Islamic principles, it is also important that the views of the institution and its staff reflect an Islamic identity that is quite different from conventional institutions. So, it takes a set of tools to evaluate the performance of Islamic banks that are in accordance with Islamic principles.

Islamic banks as financial institutions that are based on Islamic values must be measured properly so that benchmarks are needed in accordance with their characteristics and philosophy (Muhammed et al, 2008). Some Islamic economic researchers pay attention to the application of the maqashid sharia index as an indicator of measuring the performance of Islamic banking (Wasyith, 2017). Research using the maqashid sharia index as an approach to measuring the performance of Islamic banking was also carried out by Rusydianan & Al-Parisi (2016), Hudaefi & Noordin (2019).

Table 1. Measurement of Maqashid Sharia Performance

Object	Performance Ratios
Education (<i>Tahdhib al-Fard</i>)	1. Education grant/total income 2. Research expense/total expense 3. Training expense/total expense 4. Publicity expense/total expense
Justice (<i>Al-Adl</i>)	5. Profit/total income 6. Bad debt/total investment 7. Interest free income/total income
Welfare (<i>Al-Maslahah</i>)	8. Net profit/total asset 9. Pansfers 10. Investment Ratios in real sector

Hypotheses Development

A sustainability report is a report that contains information on financial and non-financial performance as well as social and environmental activities to enable the company to grow sustainably (Elkington, 1997). Information in the sustainability report is believed to provide stakeholders with the potential to reduce the level of risk in managing competitive capital resources, such as research by Ernst & Young (2013); Cahyandito (2010) states that investors prefer to invest in companies that are transparent and have lower asymmetry. This shows that sustainability reports can increase investor confidence.

Bedoui & Mansour (2015) link the objectives of Islamic law with the ethical performance of the Islamic vision and ensure its ethical influence on the development of human welfare, enhancement of social and economic stability and avoidance of corruption. Hasan (2006) states that from an Islamic point of view, sustainable development ultimately leads to concern for the environment and is surrounded by various complex problems such as moral, ethical, social and political issues that cannot be solved by the economy. So, it is expected that the sustainability report will provide distribution of financial and non-financial welfare to stakeholders. Based on this explanation, the hypothesis of this study is:

H1: The sustainability report has a significant positive impact on the performance of Islamic banks from an educational perspective

H2: The sustainability report has a significant positive impact on the performance of Islamic banks from a justice perspective

H3: The sustainability report has a significant positive impact on the performance of Islamic banks from a welfare perspective

RESEARCH METHOD

Sampling and Data

This study uses a quantitative approach to examine the impact of the sustainability report on the performance of maqashid sharia Islamic banks. The sample of this study is 12 Islamic commercial banks in Indonesia that actively report financial reports during the study period, namely 2014-2018. Data collected from the websites of each Islamic bank are in the form of annual reports and sustainability reports.

Research Variable

The independent variable of this study is the disclosure of the sustainability report which is measured using the GRI 4 standard which includes general sustainability standards, economic sustainability standards, environmental sustainability standards and social sustainability standards. This study uses the dichotomos method in analyzing the sustainability report, from the results of the score then divided by the total standard. The dependent variable of this study is the performance of Islamic banks which is measured using the Maqashid Islamic Index (MSI) perspective as in table 1. Following previous research, the study used two control variables, namely bank age, debt ratio and capital ratio (Platonova et al. al, 2019; and Zeng et al, 2018).

Research Model

In this section several models are also visualized to make it easier to analyze the relationship between variables into data analysis tools. Models 1, 2 and 3 describe the relationship between the independent variable and the dependent variable partially. The model consists of three panel data regression models, namely the common effect, fixed effect and random effect model. Furthermore, the three models are carried out a feasibility test to test the hypotheses H1, H2, H3. The following models are:

Education : $\alpha + \beta_1 \text{TotalSus} + \beta_2 \text{Bank Age} + \beta_3 \text{Risk Ratio} + \varepsilon_{it}$ (M1)

Justice : $\alpha + \beta_1 \text{TotalSus} + \beta_2 \text{Bank Age} + \beta_3 \text{Risk Ratio} + \varepsilon_{it}$ (M2)

Welfare : $\alpha + \beta_1 \text{TotalSus} + \beta_2 \text{Bank Age} + \beta_3 \text{Risk Ratio} + \varepsilon_{it}$ (M3)

RESULTS AND DISCUSSION

Table 1 shows the results of descriptive statistics for this research variable. The results of descriptive statistics show that Islamic commercial banks in Indonesia have reported 62%, namely $3.55 / 5.7 * 100\%$. The minimum value is 2.34 and the maximum value is 6.35, this shows that Islamic banks in Indonesia are quite good at disclosing sustainability reports

Table 2. Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev
Sustainability Report	60	2,34	6,35	3,55	1,18
Education	60	0,00	0,12	0,03	0,03
Justice	60	-0,68	3,09	0,94	0,50
Welfare	60	-0,00	1,01	0,69	0,32
Bank Age	60	4,00	27,00	11,00	7,20
Risk Ratio	60	0,05	1,52	0,24	0,28

Descriptive statistics for the dependent variable show that the minimum value is 0.00, this indicates that Islamic banks do not report the use of tuition fees, and a maximum value of 0.12 indicates that Islamic banks are still low in educational performance. The minimum value of justice and welfare performance produces negative numbers, this shows that Islamic banks also experience losses in their business operations. The minimum age of a bank is 4.00, indicating that the age of the youngest Islamic bank is 4 years and a maximum value of 27.00 means that the age of the oldest bank is 27 years. Meanwhile, the average risk ratio value of 0.24 indicates that Islamic banks have not fully managed their debt properly

Table 3 is the result of the multicollinearity test and heteroscedasticity test of the research variables. The research variable is said to have multicollinearity if it has a correlation coefficient > 0.7 . The results of the analysis show that the correlation coefficient value of the research variables is < 0.7 , so it can be concluded that the model in this study is free from multicollinearity.

Table 3. Test classic assumptions

Parameter	Multicollinearities	Heteroscedasticity
Total Sus	0,46	0,14
Education	0,06	0,00
Justice	0,65	0,69
Welfare	0,16	0,53
Bank Age	0,11	0,68
Risk Ratio	0,05	0,62

Heteroscedasticity test is carried out to see the similarity of variants in the residuals of an observation. A good regression model is homoscedasticity or heteroscedasticity does not occur. Based on table 3, it can be seen that only the education variable is significant. This is one of the weaknesses of this study, so readers are expected to be more careful when using the results of this study as a reference for decision making.

Table 4. Model Appropriateness Test

Effect Test	Chow test		Hausman test	
	Chi-Square Statistic	Prob.	Chi-Square Statistic	Prob.
Cross-section F	11,092	0,000		
Cross-section chi- square	78,685	0,000		
Cross-section random			15,032	0,001

The model provision / specification test is carried out when it is in the form of panel data. In panel data regression, there are three models, namely the common effect model, the fixed effect model and the random effect model. To determine which model is the most appropriate, the Chow test, Hausman test and Lagrange test were performed. Table 4

shows that the exact model determination test is the result of the Hausman test, meaning that the right model to test the research hypothesis is the fixed effect model.

Table 5 shows the results of the panel data regression tests on the 3 research models. The value of R² in model 1 (Education) is 0.80, meaning that the independent variable explains the research model by 80%. The P-value of the sustainability report variable was found to be significant with a value of 0.03, but the coefficient has a negative value of -0.00. This shows that the sustainability report has a significant negative impact on the performance of maqashid sharia from an education perspective. So that the research hypothesis 1 is rejected. The results of this study are different from the research of Hudaefi & Noordiin, 2019; Julia & Kasim, 2019, which states that in the context of banking, the maintenance of mind and spirit can also be done by providing training, education and scientific development by providing scholarships and research.

Table 5. Panel Data Regression Test

Variabel	Education R ² = 0,80		Justice R ² = 0,48		Welfare R ² = 0,65	
	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.
Cons_	0,05	0,00	1,51	0,00	1,31	0,00
Total Sus	-0,00	0,03	-0,00	0,97	-0,03	0,55
Bank Age	0,00	0,82	-0,05	0,20	-0,04	0,03
Risk Ratio	0,04	0,00	0,09	0,74	0,15	0,32

In model 2 (Justice), the R² value is 0.48, this indicates that the independent variable explains 48% of this research model. The p-value of 0.97 with a negative coefficient value indicates that the sustainability report variable does not have a significant positive effect on the performance of maqashid sharia justice perspective. The two control variables did not show a significant effect, so hypothesis 2 of this study was rejected.

In model 3 (Welfare), the R² value is 0.65, this indicates that the independent variable explains the research model by 65%. The p-value of the sustainability report variable is 0.55 > 0.05 with a negative coefficient value, this indicates that the sustainability report does not have a significant positive effect on the performance of maqashid sharia from a welfare perspective. The control variable bank age shows a significant value of 0.03 with a negative coefficient value, so hypothesis 3 of this study is rejected.

Dusuki & Abdullah (2007) describe the application of the problem pyramid in CSR. The first level, managers are expected to try to protect the essential needs of stakeholders (religion, life, intelligence, ancestry, and property). Under CSR guidelines, companies can protect the welfare and basic needs of employees by providing prayer space, ensuring the safety and health of employees. At the second level, it is useful for eliminating difficulties that may not threaten the survival of the normal order. Managers can expand their social responsibility commitment by meeting the essential needs of employees, such as salaries, providing a safe workplace, providing ongoing training programs and promoting human values.

At the third level, companies are expected to be able to carry out their social responsibilities by being involved in activities to improve and achieve the perfection of public life. Like Islamic teachings, giving alms, donations, waqf, zakat and giving scholarships to poor students, providing product advertising information correctly. This example is a CSR commitment to realizing these level objectives. Public. This is in line with the sharia entrepreneurship theory which places three stakeholders between God and humans. Accountability to Allah is a form of vertical accountability by realizing the payment of zakat, alms and infaq according to His orders to get reward, and utilizing these funds for social interests so that they can choose their soul and mind to always run a good performance.

CONCLUSIONS

This study evaluates the impact of the sustainability report on the performance of maqashid sharia in Islamic commercial banks in Indonesia for the 2014-2018 period. In accordance with the research objectives, panel data regression was used to analyze the relationship between the independent and dependent variables. The results showed that the sustainability report had a significant negative effect on the performance of maqashid syariah with the perspective of education so that it rejected hypothesis 1. The results of the analysis of model 2 indicate that the sustainability report has no significant effect on the performance of maqashid syariah justice perspective. And the results of the analysis of model 3 show that the sustainability report does not have a significant effect on the performance of maqashid syariah from the welfare perspective

The limitation of this research is that the research sample consists of Islamic commercial banks in Indonesia within 5 years and the use of control variables for bank age and debt ratio. Suggestions for further research can be to add research samples of Islamic banks from various countries as well as a longer period of time. The use of control variables for only two variables with the results of the analysis having no significant effect can also be a consideration for further research in the use of other variables.

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