# Sustainability Disclosures and Financial Performance of Islamic Banks in Indonesia

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**Abstract.** Sustainability practices and disclosures of Islamic banking in Indonesia are still very low. Currently, the disclosure of sustainability reports has been required by the Financial Services Authority (OJK). This paper measures the level of sustainability disclosures (economic, social, and environmental) based on OJK Regulation No. 51/2017 and investigates its impact on the financial performance of Islamic banks in Indonesia. The study was conducted in Islamic banks during 2018-2020 with a total sample of 12 banks obtained through purposive sampling. The results show that there is no significant effect of the sustainability disclosure dimensions on ROA. On the other hand, there is a significant effect of the sustainability disclosure dimensions on ROE and EPS. These results encourage Islamic banks to consistently issue a sustainability report. In the long term, the sustainability disclosure is expected to have a positive impact on the growth of Islamic banks in Indonesia.

**Key words**: Financial performance, Islamic bank, sustainability, sustainability disclosure.

***Abstrak****. Praktik keberlanjutan dan pengungkapannya oleh perbankan syariah di Indonesia masih sangat rendah. Saat ini pengungkapan laporan keberlanjutan telah diwajibkan oleh Otoritas Jasa Keuangan (OJK). Tulisan ini mengukur tingkat pengungkapan keberlanjutan (ekonomi, sosial, dan lingkungan) berdasarkan Peraturan OJK No. 51/2017 dan menyelidiki dampaknya terhadap kinerja keuangan bank syariah di Indonesia. Penelitian dilakukan pada Bank Umum Syariah selama tahun 2018-2020 dengan jumlah sampel sebanyak 12 bank yang diperoleh melalui purposive sampling. Hasil penelitian menunjukkan bahwa tidak terdapat pengaruh signifikan dimensi pengungkapan keberlanjutan terhadap ROA. Sebaliknya terdapat pengaruh signifikan dimensi pengungkapan keberlanjutan terhadap ROE dan EPS. Hasil tersebut mendorong Bank Umum Syariah untuk tetap konsisten menerbitkan laporan keberlanjutan. Dalam jangka panjang, pengungkapan keberlanjutan diharapkan dapat memberikan dampak positif terhadap pertumbuhan bank syariah di Indonesia.*

***Kata kunci****:* Bank syariah, keberlanjutan, kinerja keuangan, laporan keberlanjutan.

## INTRODUCTION

Islamic banks have a very important role in the Islamic financial services sector. As a financial intermediary institution, Islamic banks collect and distribute funds from and to the public according to the sharia principles. In a broader scope, as contained in Act No. 21 of 2008, Islamic banks play a role in encouraging national development to improve justice, togetherness, and equitable distribution of community welfare.

In 2020, the distribution of Islamic banking financing experienced a slowdown. One of the causes of the slowdown was the growth in working capital costs which slowed to 4.14% (yoy) compared to the previous year of 6.00% (yoy) and investment financing slowed to 0.16% (yoy) from 14.84% (yoy) in the previous year (OJK, 2021). The financing slowdown has an impact on the profitability of BUS-UUS. This can be seen from the Return on Assets (ROA) ratio in 2020 of 1.54%, down from 1.83% in the previous year (OJK, 2021).

As a company, Islamic Commercial Bank certainly wants a satisfactory return on the funds invested and good financial performance. Financial performance measurements that are popular in measuring a



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bank's financial performance include Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS) (Zyadat, 2017). Measurements using ROA, ROE, and EPS are expected to be able to provide an accurate assessment of the company's performance which in turn can attract investors to invest their capital (Rosikah et al., 2018).

Hastuti (2005) explained that several factors affect the company's performance, namely the concentration of ownership, profit manipulation, and the level of disclosure. Disclosure is very important to provide company information to stakeholders. One form of disclosure that can be prepared by the company is a sustainability report.

The sustainability report is a company performance report that focuses on the triple bottom line concept, which contains performance reports in the economic, social, and environmental fields (Elkington, 1997). The concept of sustainability first emerged in 1987 when the World Commission on Environment and Development (WCED), known as the Brundtland Commission, published a book entitled *Our Common Future*.

Currently, the success of a company is not only seen in its profitability but also in how it achieves its social and environmental performance. The presumption of the importance of CSR reports and sustainability reports can be confirmed by the widespread use of international guidelines on sustainability reporting such as the Global Reporting Initiative (GRI). In addition, based on the KPMG survey (2017) more than 93% of the 250 largest companies in the world have published sustainability reports (Prayoga and Siswantoro, 2021).

However, in the case of the Islamic banking industry in Indonesia, the level of sustainability practices and reporting is still very low. Mallin et al. (2014) examined 90 Islamic banks in 13 countries and found that Islamic banks in these countries paid little attention to sustainability practices and disclosures. Meutia and Febrianti (2017) found that the level of disclosure of the sustainability of Islamic banks in Indonesia and Malaysia is still low, which is only 26%.

According to Jan et al. (2018), the low level of sustainability practice and reporting in Islamic banking is likely due to the limited literature on sustainability in Islamic banking, and the inadequate framework for measuring these practices. Driven by the importance of the sustainability report, currently, in Indonesia, it has been formed the Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies.

The urgency and the increasing need for sustainability reports have made these reports widely used as a research topic. Zyadat (2017) in his research on Islamic banks in Jordan, found that there was an effect of the sustainability dimension on ROA and EPS, but there was no effect on ROE. Different results were found by Sabrina and Lukman (2019) who researched banking companies listed on the Indonesia Stock Exchange (IDX) 2014-2016, the sustainability report does not affect ROA, ROE, and ROS. Furthermore, Sakiyah et al. (2020) in banking companies listed on the Indonesia Stock Exchange (IDX) 2014-2016, found that the economic dimension and the environmental dimension had a significant negative effect on ROA, while the social dimension had a significant positive effect on ROA. Shodiq (2021) in his research on Islamic Commercial Banks in Indonesia found that the sustainability report had a positive effect on ROA. Previous studies present different results.

Previous studies present different results. Therefore, this study aims to investigate the effect of sustainability reports on the financial performance of Islamic banking in Indonesia. For this reason, this paper is structured as follows. Section 2 presents the literature review. Section 3 presents the research methods used. Section 4 describes the results and the discussion of the study. Section 5 concludes and provides relevant recommendations related to the practice of sustainability disclosure in Islamic banking and the future research agenda.



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## LITERATURE REVIEW

### Legitimacy Theory

Suchman (1995) explains that what is meant by legitimacy is the general perception that the actions of an entity are desirable, proper, or appropriate in some socially constructed system of norms, values, beliefs, and definitions. Burlea and Popa (2013) argue that legitimacy theory assists organizations in implementing and developing voluntary social and environmental disclosures to fulfill social contracts that enable awareness of organizational goals and survival. Organizational activities must follow the expectations of society. When organizational activities do not respect moral values, the organization receives severe sanctions from society which can even lead to organizational failure (Burlea and Popa, 2013). From the explanation, it can be concluded that legitimacy theory is a theory that explains that companies must operate following the boundaries and values accepted by society so that companies get recognition and are considered legitimate entities.

### Signaling Theory

The concept of signaling was first studied in the context of labor and product markets by Akerlof and Arrow (Ross, 1977). The signaling theory developed by Ross (1977) explains that company executives who have better information about their company will be motivated to convey this information to potential investors so that the company's stock price increases.

Signaling theory focuses on providing information to stakeholders. This is important because information imbalance has the potential to cause conflict between management and agents in the organizational environment. Signals can reduce gaps by sending relevant and quality information to different parties (Bae et al., 2018). From the description before, it can be concluded that signaling theory is a theory that suggests that companies that have better information about their companies will be motivated to convey this information to outsiders to reduce the information gap.

### Stakeholder Theory

The definition of stakeholder is any group or individual that can influence or be affected by the achievement of a company (Freeman, 2015). Freeman (2015) adds that this definition raises the need for processes and techniques to improve strategic organizational management capabilities.

Hörisch et al. (2014) also argue that stakeholder theory broadens the scope of the social attachment of organizations and their dependence on the community environment. In addition, experts in the field of corporate sustainability emphasize the social and ecological environment and the interdependence between organizations and the social and natural environment (Hörisch et al., 2014). As a result, companies must contribute to sustainable development both economically, socially, and environmentally. From the explanation before, it can be concluded that the stakeholder theory is a theory that explains that a company must achieve goals related to both inside and outside the company that affect or are affected by the company's achievements to achieve sustainability.

### Sustainability Report

In POJK No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, it is explained that a sustainability report is a report addressed to the public that contains the economic, financial, social, and environmental performance of an FSI, issuers, and public companies in running a sustainable business. Sustainability reports are reports issued by companies that contain the important pillars of sustainability, namely the economic, environmental, and social dimensions.

1. Economic Dimension, according to POJK No. 51/POJK.03/2017, economic performance relates to production targets and performance, portfolio, financing targets, or investment, income and profit and loss as well as investments in financial instruments or projects that are in line with the implementation of sustainable finance.



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2. The Social Dimension, according to POJK No. 51/POJK.03/2017, social performance is related to the commitment of Financial Services Institutions (LJK) in providing services for products and/or services, employment, and society.
3. Environmental Dimensions, according to POJK No. 51/POJK.03/2017, environmental performance regarding living costs incurred, use of environmentally friendly materials, and energy use.

From the description above, it can be concluded that a sustainability report is a report issued by a company that contains the important pillars of sustainability, namely the economic, environmental, and social dimensions.

## Financial Performance

Financial performance is the result of decisions based on the company's assessment, both in terms of liquidity, activity, solvency, and profitability carried out by parties related to the company (Nugroho and Arjowo, 2014). Nugroho and Arjowo (2014) also explained that financial performance reflects the company's fundamental performance which will be measured using data derived from financial reports. Measurement of financial performance can be done by assessing financial ratio analysis (Nugroho and Arjowo, 2014).

It can be concluded that financial performance is an assessment of the company's ability, both from the aspects of liquidity, activity, solvency, and profitability as measured by using the data contained in the financial statements. The use of various standards has been popularized in measuring bank financial performance, these standards include Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS) (Zyadat, 2017).

1. Return on Assets (ROA), ROA is expressed as the profit sharing of the bank's net profit after deducting taxes on all of the bank's assets. It is mathematically stated as follows (Gibson, 2013 in Zyadat, 2017):

$$Return\ on\ Asset = \frac{Net\ Profit}{Total\ Assets} \times 100\% \tag{1}$$

2. Return on Equity (ROE), ROE is a profitability ratio to measure a company's ability to generate profits based on the company's share capital (Rosikah et al., 2018). ROE is expressed as the distribution of the bank's net profit (net of tax) on shareholder equity which includes paid-in capital, premiums, reserves, and retained earnings. It is mathematically stated as follows (Gibson, 2013 in Zyadat, 2017):

$$Return\ on\ Equity = \frac{Net\ Profit}{Shareholders'Equity} \times 100\% \tag{2}$$

3. Earning per Share (EPS), according to Arifin (2002) in Rosikah et al. (2018), EPS is the result of a comparison between net income and the number of shares outstanding. The profit used as a measure is the profit for the owner after tax. It is mathematically stated as follows:

$$Earning\ per\ Share = \frac{Net\ Profit}{The\ Number\ of\ Current\ Shares} \times 100\% \tag{3}$$

## Hypothesis

Sustainability reports are reports that show that the company is within the limits of applicable norms and contributes to the social environment. Good company legitimacy and reputation can be a signal for stakeholders to finally collaborate and invest which can improve company performance and productivity. Ameer and Othman (2012) found that disclosure of sustainability reports can significantly increase sales growth, Return on Assets (ROA), and company cash flow.

From the description above, the hypothesis can be formulated as follows:

**H1: There is a significant influence from the dimensions of the sustainability report on financial performance as measured by ROA**



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A sustainability report is a report that communicates the company's economic, environmental, and social performance to stakeholders and the public. According to Cheng et al. (2014) by reporting on sustainability initiatives, companies can convince potential equity sources that they are companies with competitive and low-risk investments. This can attract stakeholders to invest and the company can increase its ability to generate profits. Research conducted by Al-Dhaimesh and Zobi (2019) found that disclosure of economic and social dimensions had a positive effect on ROE. In addition, Dian (2018) found that disclosure of sustainability reports has a significant positive effect on financial performance as measured by ROE.

**H2: There is a significant influence from the dimensions of the sustainability report on financial performance as measured by ROE**

The preparation of a sustainability report indicates that the company has a commitment to sustainability and is responsible for the interests of stakeholders. One of the goals of companies disclosing sustainability reports is to attract investors to buy company shares (Sejati and Prastiwi, 2015). With the increase in the number of outstanding shares and the company's stock price, the company's value also increases. High corporate value can increase the prosperity of shareholders so that shareholders are encouraged to invest in the company (Haruman, 2007 in Anita and Yulianto, 2016). Anita and Yulianto (2016) in their research found that sustainability reports have a positive effect on EPS values. Zyadat (2017) found that each dimension in the sustainability report has a significant effect on company performance as measured by EPS. Rohmah et al. (2019) also found that disclosure of economic and social dimensions can indicate a company's ability to generate profits by proxy EPS.

**H3: There is a significant influence from the dimensions of the sustainability report on financial performance as measured by EPS**

## METHOD

This research is causal associative research with quantitative technique. This study aims to determine whether there is an effect of the sustainability report dimension on financial performance as measured by ROA, ROE, and EPS. The population used in this study is Islamic Commercial Banks (BUS) in Indonesia. Determination of the sample was carried out using the purposive sampling method and obtained as many as 12 samples of Islamic Commercial Banks.

The type of data used in this research is secondary data. Data is obtained through the annual report and/or sustainability report issued by Islamic Commercial Banks (BUS). Data collection is done by documentation technique. In addition, a content analysis was carried out on the annual report and/or sustainability report of the BUS which was sampled based on POJK 51/2017. The POJK is used because it is a regulation in Indonesia that requires Islamic Commercial Banks (BUS) to publish a sustainability report, as well as providing a report format that must be used by every bank in reporting sustainability performance.

In achieving the research objectives, panel data regression analysis was used by selecting one of the best models among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). From those three models, the most appropriate one will be selected by performing the Chow test, Hausman test, and Lagrange Multiplier test (LM test).

Chow test is carried out to determine which model is more appropriate between CEM and FEM (Melati and Suryowati, 2018). If FEM is selected, then the Lagrange Multiplier test (LM test) does not need to be carried out (Srihardianti et al., 2016). Hausman test is conducted to determine which model is better between REM and FEM (Gujarati, 2003). The Lagrange Multiplier test (LM test) is used to find out which model is better between REM and CEM (Melati and Suryowati, 2018).

After obtaining the best model, the classical assumption test is then carried out. Panel data has the advantage that not all classical assumption tests need to be carried out. If CEM and FEM are selected,



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it is necessary to test the classical assumptions in the form of autocorrelation and heteroscedasticity tests. However, if the chosen one is REM, there is no need to test the classical assumption.

Panel data involve cross-sectional dimensions and time, so heteroscedasticity problems and time-series data problems such as autocorrelation need to be addressed (Gujarati and Porter, 2009). In panel data with the OLS approach (CEM and FEM), it is necessary to carry out an autocorrelation test and a heteroscedasticity test (Lestari and Setyawan, 2017). Furthermore, according to Lestari and Setyawan (2017) with the selection of the Random Effect Model (REM), it is not relevant to do the classical assumption test. This is because the Random Effect Model (REM) model uses Generalized Least Square (GLS) estimation which is a treatment method to overcome violations of heteroscedasticity and autocorrelation assumptions (Greene, 2002).

A heteroscedasticity test is conducted to determine whether the regression model used there is an inequality of variance from the residuals of one observation to another observation. The heteroscedasticity test used in this study is the Glejser test. Meanwhile, the autocorrelation test is used to determine whether there is a correlation between the confounding error in period t and the confounding error in period t-1 (previous) in the linear regression model. The autocorrelation test conducted in this study was the Durbin-Watson test (DW test).

The dependent variable in this study is financial performance as measured by ROA, ROE, and EPS. The independent variable in the form of a sustainability report which is analyzed per dimension includes the economic dimension, social dimension, and environmental dimension. The operational measurement of variables can be seen in the table below.

Table 1 Operational variables

| Variable | | Measurement | Data Source |
|---|---|---|---|
| Independent Variable | Economic Dimension | EcDI = n/k | Sustainability Report |
| | Social Dimension | SoDI = n/k | Sustainability Report |
| | Environmental Dimension | EnDI = n/k | Sustainability Report |
| Dependent Variable | Return on Assets | (Net Profit/Total Assets) × 100% | Annual Report |
| | Return on Equity | (Net Profit/Shareholders' Equity) × 100% | Annual Report |
| | Earnings per Share | (Net Profit/The Number of Current Shares) × 100% | Annual Report |

Source: Authors, 2023.

## RESULTS AND DISCUSSION

### Analysis and Discussion of ROA Variable

#### *Panel data regression test results*

In performing panel data regression analysis, there are three models, one of which will be selected as the best model and used in the study. The three models are the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). From the three models above, the best one will be selected using the Chow test, Hausman test, and LM test.

Based on the results of the Chow test, it can be seen that the probability value of Cross-section F is 0.0000 <0.05. Thus, the better model to use is FEM. In addition, with the election of FEM, the LM test does not need to be carried out (Srihardianti et al., 2016).



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Furthermore, the Hausman test was carried out to find a more precise model. The results of the Hausman test show that the probability value of a random cross-section is 0.2622 > 0.05. Thus, a more appropriate model to be used in this study is REM.

Table 2 Random effect model

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.258561 | 0.181890 | 1.421523 | 0.1648 |
| ECDI | 0.460849 | 0.249987 | 1.843491 | 0.0745 |
| SODI | 0.068767 | 0.321907 | 0.213623 | 0.8322 |
| ENDI | -0.185166 | 0.156385 | -1.184035 | 0.2451 |
| | | | | |
| R-squared | 0.135824 | Mean dependent var | | 0.075397 |
| Adjusted R-squared | 0.054807 | S.D. dependent var | | 0.091366 |
| S.E. of regression | 0.088827 | Sum squared resid | | 0.252486 |
| F-statistic | 1.676495 | Durbin-Watson stat | | 1.746209 |
| Prob(F-statistic) | 0.191655 | | | |

Source: Authors, 2023 (processed).

Based on the results of statistical testing, it can be seen that the most appropriate capital to be used in research is REM. According to Lestari and Setyawan (2017) with the selection of the Random Effect Model (REM), it is not relevant to do the classical assumption test. This is because the Random Effect Model (REM) model uses Generalized Least Square (GLS) estimation which is a treatment method to overcome violations of heteroscedasticity and autocorrelation assumptions (Greene, 2002).

Based on the results of the REM test, the regression equation obtained is as follows.

$$ROA = 0.258561 + 0.460849EcDIit + 0.068767SoDIit - 0.185166EnDIit + eit \qquad (4)$$

From this equation, it can be seen that the constant value of 0.258561 indicates that if the independent variables (EcDI, SoDI, and EnDI) in observation i of period t are fixed (constant), then the ROA value is 0.258561. If the EcDI value in observation i and period t increases by 1% assuming the value of the variable otherwise the value of EcDI in observation i and period t will increase by 0.460849. Furthermore, if the SoDI value in observation i and period t increases by 1% assuming the value of other variables remains, then the SoDI value in observation i and period t will increase by 0.068767. However, if the EnDI value in observation i and period t increases by 1% assuming the value of other variables remains, then the value of EnDI in observation i and period t will decrease by -0.185166.

From the Table 2, it can also be seen that the R-squared value is 0.135824, or equal to 13.58%. This figure explains that the dependent variable (ROA) of 13.58% can be explained by independent variables (economic dimensions, social dimensions, and environmental dimensions). While the other 86.42% is explained by the other variables that are not explained in this study.

### *Discussion*

This study proves that the economic, social, and environmental dimensions together do not have a significant effect on the financial performance of Islamic Commercial Banks as measured by ROA. This is indicated by the results of the F test with a Prob value (F-statistic) of 0.191655 which is greater than the significance level of 0.05 (5%).

In terms of performance, as measured by ROA, the research results do not follow the legitimacy theory, signaling theory, and stakeholder theory described in this study. This can be caused by the influence of time and the existence of sustainability reports on Islamic banking in Indonesia.

In the world of Indonesian Islamic banking, the sustainability report has not been simultaneously published by Islamic Commercial Banks. From the research process, when the data was taken, it can be seen that it was only in 2020 that all Islamic Commercial Banks in Indonesia published a sustainability



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report. The availability of sustainability reports at Islamic Commercial Banks that are used as research samples can be seen in Table 3.

Table 3 Availability of sustainability report

| No. | Islamic Commercial Bank | Sustainability Report | | | | |
|---|---|---|---|---|---|---|
| | | 2016 | 2017 | 2018 | 2019 | 2020 |
| 1 | PT. Bank Aceh Syariah | × | √ | √ | √ | √ |
| 2 | PT. Bank Muamalat Indonesia Tbk | × | √ | √ | √ | √ |
| 3 | PT. Bank BRI Syariah | √ | √ | √ | √ | √ |
| 4 | PT. Bank Jabar Banten Syariah | × | × | × | × | √ |
| 5 | PT. Bank BNI Syariah | × | √ | √ | √ | √ |
| 6 | PT. Bank Syariah Mandiri | √ | × | √ | × | √ |
| 7 | PT. Bank Mega Syariah | × | × | × | × | √ |
| 8 | PT. Bank Panin Syariah Tbk | × | × | × | × | √ |
| 9 | PT. Bank Syariah Bukopin | × | × | × | × | √ |
| 10 | PT. BCA Syariah | × | × | × | × | √ |
| 11 | PT. Bank Tabungan Pensiunan Nasional Syariah | × | × | × | √ | √ |
| 12 | PT. Bank Aladin Syariah Tbk | × | × | × | √ | √ |

Note:
√= Publish a sustainability report that can be accessed
×= Does not publish a sustainability report/ publishes but cannot be accessed
Source: Authors, 2023 (processed).

From Table 3, it can be seen the availability of a 5-year sustainability report. Apart from 2019 and 2020, every year more Islamic Commercial Banks do not publish sustainability reports than Islamic Commercial Banks that publish sustainability reports. Based on the table, the level of disclosure of the sustainability report in 2016 only reached 17%, in 2017 it reached 33%, in 2018 it reached 42%, in 2019 it reached 50%, and in 2020 it reached 100%. The results of the study indicate that the issuance of sustainability reports in the world of Indonesian Islamic banking has not become a concern because of its recent existence and has not received much attention so has not yet reached the point where it has a significant impact.

The results of this study are in line with the research of Sabrina and Lukman (2019) who found that the sustainability report did not affect financial performance as proxied by ROA. Partially, both the economic, social, and environmental dimensions do not have a significant effect on ROA.

### *The influence of the economic dimension on ROA*

Partially, the economic dimension does not affect financial performance as measured by ROA. This is indicated by the EcDI coefficient value of 0.460849 towards a positive coefficient, with a probability value of 0.0745 which is greater than the significant value of 5% (0.05).

The results of the study do not follow the legitimacy theory, signaling theory, and stakeholder theory described in the study. This can happen because the sustainability report in the Indonesian Islamic banking world when this data was taken was still relatively new and had not been simultaneously disclosed by the company for a long period. In tune with Nofianto and Agustina (2014) who explain that the economic dimension does not affect financial performance due to research conducted in the short term. Disclosure of sustainability reports in Indonesia has not been practiced for a long time, initially, it was voluntary, and only in 2019 began to be required for Islamic Commercial Banks BUKU 3, BUKU 4, and foreign banks based on POJK No. 51/2017.

The results of this study are in line with the research of Susanto and Tarigan (2013), Tarigan and Semuel (2014), Nofianto and Agustina (2014), and Setiyowati and Gunarsih (2020) which state that the disclosure of the economic dimension does not affect financial performance as proxied by ROA.



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### *The influence of the social dimension on ROA*

The social dimension does not affect ROA. This is indicated by the SoDI coefficient value of 0.068767 towards the positive coefficient, with a probability value of 0.8322 which is greater than the significant value of 5% (0.05).

The results of the study do not follow the legitimacy theory, signaling theory, and stakeholder theory described in the study. This can happen because the social performance carried out by the company does not directly affect the company's performance but gradually until finally it can provide reciprocity in the form of profits for the company. Bukhori and Sopian (2017) explain that social performance affects the value of the company gradually. After influencing the value of the company, social performance affects the market response, and only after that affects the company's financial performance. All of that happens in the long term so that in the short-term social performance does not have a significant effect on the company's financial performance. The results of this study are in line with the research of Bukhori and Sopian (2017) which states that the social dimension does not affect financial performance as measured by ROA.

### *The influence of the environmental dimensions on ROA*

The environmental dimension does not affect ROA. This is indicated by the EnDI coefficient value of -0.185166 towards the negative coefficient, with a probability value of 0.2451 greater than the significant value of 5% (0.05).

The results of the study do not follow the legitimacy theory, signaling theory, and stakeholder theory described in the study. Concerning the negative relationship, Sabrina and Lukman (2019) explained that the environmental dimension of the sustainability report can reduce the value of the company's assets (cash) with the expense or burden of implementing the company's sustainability practices.

Research results are in line with the research of Burhan and Rahmanti (2012) who found that the environmental dimension did not affect financial performance as measured by ROA and had a negative coefficient.

From the description above, H1 is rejected because there are no dimensions in the sustainability report that have a significant effect on ROA.

## Analysis and Discussion of ROE Variable

### *Panel data regression test results*

In performing panel data regression analysis, there are three models, one of which will be selected as the best model and used in the study. The three models are the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). From the three models above, the best one will be selected using the Chow test, Hausman test, and LM test.

Based on the results of the Chow test, it can be seen that the probability value of Cross-section F is 0.0000 <0.05. Thus, the more appropriate model to be used in this research is FEM. In addition, with the selection of FEM, the Lagrange Multiplier test (LM test) does not need to be carried out (Srihardianti et al., 2016).

Furthermore, the Hausman test was carried out to determine a more appropriate model. The results of the Hausman test show that the probability value of a random cross-section is 0.0932 > 0.05. Thus, a more appropriate model to be used in this study is REM.



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Table 4 Random effect model

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.379207 | 0.270795 | 1.400348 | 0.1710 |
| ECDI | 0.803661 | 0.394835 | 2.035437 | 0.0502 |
| SODI | -0.594398 | 0.512215 | -1.160446 | 0.2545 |
| ENDI | -0.522767 | 0.255625 | -2.045059 | 0.0491 |
| | | | | |
| R-squared | 0.213744 | Mean dependent var | | 0.067218 |
| Adjusted R-squared | 0.140033 | S.D. dependent var | | 0.169103 |
| S.E. of regression | 0.156817 | Sum squared resid | | 0.786931 |
| F-statistic | 2.899743 | Durbin-Watson stat | | 1.247117 |
| Prob(F-statistic) | 0.050074 | | | |

Source: Authors, 2023 (processed).

Based on the results of statistical testing, it can be seen that the most appropriate capital to be used in research is REM. According to Lestari and Setyawan (2017) with the selection of the Random Effect Model (REM), it is not relevant to do the classical assumption test. This is because the Random Effect Model (REM) model uses Generalized Least Square (GLS) estimation which is a treatment method to overcome violations of heteroscedasticity and autocorrelation assumptions (Greene, 2002).
Based on the results of the REM test, the regression equation obtained is as follows.

$$ROE = 0.379207 + 0.803661EcDIit - 0.594398SoDIit - 0.522767EnDIit + eit \quad (5)$$

From this equation, it can be seen that the constant value is 0.379207, which indicates that if the independent variables (EcDI, SoDI, and EnDI) in the period t observation i are constant (constant), then the ROA value is 0.379207. If the EcDI value in observation i and period t increases by 1% assuming the value of other variables remains, then the value of EcDI in observation i and period t will increase by 0.803661. However, if the SoDI value in observation i and period t increases by 1% assuming the value of other variables remains, then the SoDI value in observation i and period t will decrease by -0.594398. Furthermore, if the EnDI value in observation i and period t increases by 1% assuming the value of other variables remains, then the value of EnDI in observation i and period t will decrease by -0.522767.

From the Table 4, it can also be seen that the R-squared value is 0.213744, or equal to 21.37%. This figure explains that the dependent variable (ROE) of 21.37% can be explained by independent variables (economic dimensions, social dimensions, and environmental dimensions). While the other 78.63% was explained by the other variables that are not explained in this study.

### *Discussion*

This study proves that the economic, social, and environmental dimensions together do not have a significant effect on the financial performance of Islamic Commercial Banks as measured by ROE. This is indicated by the results of the F test with a Prob value (F-statistic) of 0.050074, which is greater than the significance level of 0.05 (5%).

In terms of performance, as measured by ROE, the research results do not follow the legitimacy theory, signaling theory, and stakeholder theory described in this study. This could be because the sustainability report in the Islamic banking world has not become a reference by a stakeholder group, has not been given much attention, and has not been seen as an important report. Tarigan and Semuel (2014) explained that stakeholders in Indonesia have not seen the elements reported in the sustainability report as material for consideration in making decisions. This means that the existence of a sustainability report in Indonesian Islamic banking has not been given much attention by a group of stakeholders so whether or not the sustainability report is disclosed, it does not have a significant effect on the company's financial performance.

The results of this study are in line with the research of Sabrina and Lukman (2019) and Rahmananda and Gustyana (2019) who found that simultaneously, sustainability reports did not affect financial


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performance as measured by ROE. Partially, the economic and social dimensions have no significant effect, while the environmental dimension has a significant negative effect on ROE.

### *The influence of the economic dimension on ROE*

Partially, the economic dimension does not affect the financial performance of Islamic Commercial Banks as measured by ROE. This is indicated by the probability value of 0.0502 which is greater than the significant value of 5% (0.05). The coefficient value is 0.803661 towards the positive coefficient.

The results of the research do not follow the legitimacy theory, signaling theory, and stakeholder theory described in the research. This can happen because stakeholders also have not been able to understand the information from the sustainability report properly. Djajadikerta and Trireksani (2012) stated that awareness and understanding of sustainability reporting in Indonesia are still very lacking. In addition, Wijaya (2017) in Lestari and Suardana (2019) explained that the sustainability report did not affect market reactions, one of which was due to mixed perceptions. This mixed perception is caused by differences in views between investors who have a long-term investment view and investors who have a short-term view so not all investors in the market can use the information contained in the sustainability report. The results of this study are in line with the research of Rahmananda and Gustyana (2019) who found that the economic dimension did not affect financial performance as measured by ROE.

### *The influence of the social dimension on ROE*

The social dimension does not have a significant effect on the financial performance of Islamic Commercial Banks as measured by ROE. This is indicated by the probability value of 0.2545 which is greater than the significant value of 5% (0.05). The coefficient value is -0.594398 towards the negative coefficient.

The results of the study do not follow the legitimacy theory, signaling theory, and stakeholder theory described in the study. The negative relationship that occurs can be caused because the company has incurred additional costs in achieving social performance practices. The company has spent money to carry out sustainable performance practices, but these practices have not received positive feedback from stakeholders. For example, the company has distributed business assistance to the community in the hope of giving a signal and attracting stakeholders to build business cooperation. But unfortunately, these actions have not succeeded in attracting stakeholders to cooperate so the company has spent money to carry out sustainability practices but has not received the expected response from stakeholders. The results of this study are in in line with the research of Zyadat (2017) who found that the social dimension did not affect ROE and had a negative coefficient direction.

### *The influence of the environmental dimension on ROE*

The environmental dimension has a significant negative effect on the financial performance of Islamic Commercial Banks as measured by ROE. This is indicated by the probability value of 0.0491 which is smaller than the significant value of 5% (0.05).

It means that the higher the performance of the environmental dimension, the lower the company's financial performance. The results of the study do not follow the legitimacy theory, signaling theory, and stakeholder theory described in the study. This can happen because of the additional costs incurred in carrying out sustainable practices.

Dibia and Nwaigwe (2017) explained that a negative relationship might indicate that sustainable development practices attract additional costs. Furthermore, Dibia and Nwaigwe (2017) explained that the additional costs could be incurred for initiatives to reduce greenhouse gas emissions, energy-saving practices, biodiversity conservation, environmental impact mitigation strategies, employee and customer health and safety strategies, recycling, employee training and education, non-pollution technologies, and programs community support. Companies incur additional costs in carrying out social and environmental dimensions of sustainability practices so these costs erode the company's profitability.



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The results of this study are in line with the research of Makori and Jagongo (2013) who found that the environmental dimension had a significant negative effect on financial performance as measured by ROE.

From the description above, H2 is accepted because there are dimensions in the sustainability report that have a significant effect on ROE, namely the environmental dimension which has a significant negative effect.

## Analysis and Discussion of EPS Variable

### *Panel data regression test results*

In performing panel data regression analysis, there are three models, one of which will be selected as the best model and used in the study. The three the models are Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). From the three models above, the best one will be selected using the Chow test, Hausman test, and LM test.

Based on the results of the Chow test, it can be seen that the probability value of Cross-section F is 0.0000 <0.05. Thus, the better model to use is FEM. In addition, with the selection of FEM, the Lagrange Multiplier test (LM test) does not need to be carried out (Srihardianti et al., 2016).

Furthermore, the Hausman test was carried out to find a more precise model. The results of the Hausman test show that the probability value of a random cross-section is 0.005 < 0.05. Thus, a better model to use in research is FEM.

Table 5 Fixed effect model

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.396208 | 0.230902 | 1.715911 | 0.1009 |
| ECDI | 0.821050 | 0.392550 | 2.091581 | 0.0488 |
| SODI | -0.756710 | 0.503190 | -1.503824 | 0.2545 |
| ENDI | -0.522767 | 0.255625 | -2.025440 | 0.0557 |
| | | | | |
| R-squared | 0.913647 | Mean dependent var | | 0.195471 |
| Adjusted R-squared | 0.856078 | S.D. dependent var | | 0.349588 |
| S.E. of regression | 0.132623 | Akaike info criterion | | -0.908271 |
| Sum squared resid | 0.369368 | Schwarz criterion | | -0.248471 |
| Log-likelihood | 31.34887 | Hannan-Quinn criter. | | -0.677983 |
| F-statistic | 15.87057 | Durbin-Watson stat | | 1.919695 |
| Prob(F-statistic) | 0.000000 | | | |

Source: Authors, 2023 (processed).

With the selection of FEM, it is necessary to test the classical assumptions, namely the heteroscedasticity test and the autocorrelation test.

### *Heteroscedasticity test*

In this study, the Glejser test was used to test the presence or absence of heteroscedasticity. Glejser test results can be seen in the Table 6.



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Table 6 Heteroscedasticity test

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.070884 | 0.105306 | 0.673122 | 0.5057 |
| ECDI | 0.092570 | 0.119654 | 0.773653 | 0.4448 |
| SODI | -0.154368 | 0.140903 | -1.095563 | 0.2814 |
| ENDI | 0.048744 | 0.077642 | 0.627806 | 0.5346 |
| R-squared | 0.048036 | Mean dependent var | | 0.078190 |
| Adjusted R-squared | -0.041210 | S.D. dependent var | | 0.065307 |
| S.E. of regression | 0.066639 | Akaike info criterion | | -2.474618 |
| Sum squared resid | 0.142104 | Schwarz criterion | | -2.298671 |
| Log likelihood | 48.54312 | Hannan-Quinn criter. | | -2.413208 |
| F-statistic | 0.538242 | Durbin-Watson stat | | 1.586526 |
| Prob(F-statistic) | 0.659502 | | | |

Source: Authors, 2023 (processed).

From the results of the Glejser test, it can be seen that the probability values of the EcDI, SoDI, and EnDI variables are 0.4448, 0.2814, and 0.5346, respectively. Each variable has a probability greater than a significant level of 0.05 or 5%, so it can be concluded that in the regression model, there is no heteroscedasticity.

### *Autocorrelation test*

In this study, the Durbin-Watson test was used to test the presence or absence of autocorrelation.

Table 7 Durbin-Watson test results

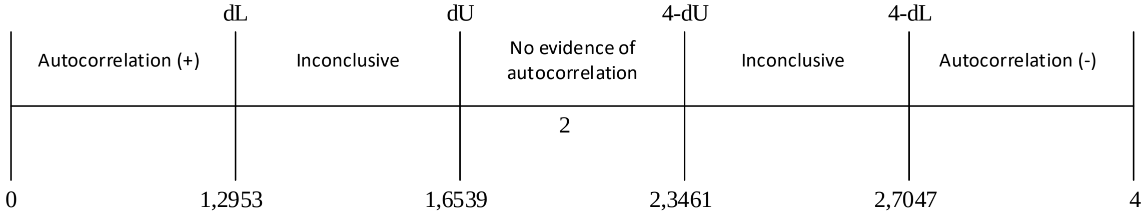
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| R-squared | 0.913647 | Mean dependent var | | 0.195471 |
| Adjusted R-squared | 0.856078 | S.D. dependent var | | 0.349588 |
| S.E. of regression | 0.132623 | Akaike info criterion | | -0.908271 |
| Sum squared resid | 0.369368 | Schwarz criterion | | -0.248471 |
| Log likelihood | 31.34887 | Hannan-Quinn criter. | | -0.677983 |
| F-statistic | 15.87057 | Durbin-Watson stat | | 1.919695 |
| Prob(F-statistic) | 0.000000 | | | |

Source: Authors, 2023 (processed).

In Table 7 it can be seen that the Durbin-Watson value is 1.919695 (DW = 1.919695). With the number of observations as many as 36 (n = 36) and the number of independent variables is 3 (k = 3), it is known that:

dL = 1.2953
dU = 1.6539
4-dU = 2.3461
4-dL = 2.7047

So that the image of the Durbin-Watson test area is obtained as follows.




Source: Authors, 2023 (processed).

Figure 1 Durbin-Watson test area



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The value of DW = 1.919695 is between the values of dU < d < 4-dU, so it can be concluded that there is no autocorrelation in the regression model. Based on the results of the FEM test, the regression equation obtained is as follows.

$$EPS = 0.396208 + 0.821050EcDIit - 0.756710SoDIit – 0.488700EnDIit + eit \quad (6)$$

From this equation, it can be seen that the constant value is 0.396208, which indicates that if the independent variables (EcDI, SoDI, and EnDI) in the t period of observation are constant (constant), then the ROA value is 0.396208. If the EcDI value in observation i and period t increases by 1% assuming the value of other variables remains constant, then the value of EcDI in observation i and period t will increase by 0.821050. However, if the SoDI value in observation i and period t increases by 1% assuming the value of other variables remains, then the SoDI value in observation i and period t will decrease by -0.756710. Furthermore, if the EnDI value in observation i and period t increases by 1% assuming the value of other variables remains, then the value of EnDI in observation i and period t will decrease by -0.488700.

From Table 7, it can also be seen that the R-squared value is 0.913647, or equal to 91.37%. This figure explains that the dependent variable (EPS) of 91.37% can be explained by independent variables (economic dimensions, social dimensions, and environmental dimensions). While the other 8.63% was explained by other variables that are not explained in this study.

### *Discussion*

This study finds that the economic, social, and environmental dimensions together have a significant effect on the financial performance of Islamic Commercial Banks as measured by EPS. This is indicated by the results of the F test with a value (F-statistic) of 0.000000, smaller than the significance level of 0.05 (5%).

The information disclosed in the sustainability report has a positive impact on the company. In terms of performance, as measured by EPS, the results of the study are in line with the theory used in the study where with the sustainability report the company gains legitimacy and a good image which then becomes a signal for stakeholders so that they want to build cooperation with companies and improve financial performance.

One of the goals of companies disclosing sustainability reports is to attract investors to buy company shares (Sejati and Prastiwi, 2015). EPS is a ratio that is often used to measure the profitability of a company in achieving profits for shareholders. Thus, EPS is the main driver of stock prices so it can affect firm value (Islam et al., 2014; Rizki et al., 2019).

The results of this study are in line with the research of Dewi et al. (2019) and Johari and Komathy (2019) who found that the sustainability report affected financial performance as measured by EPS. Partially, the economic dimension has a significant positive effect, while the social and environmental dimensions do not have a significant effect on the financial performance of Islamic Commercial Banks as measured by EPS.

### *The influence of the economic dimension on EPS*

Partially, the economic dimension has a significant positive effect on financial performance as measured by EPS. This is indicated by the probability value of 0.0488 which is smaller than the significant value of 5% (0.05). The coefficient value is 0.821050 towards the positive coefficient. It means that the higher the practice and disclosure of economic performance is carried out, the company's financial performance also increases.

The results of this study are in line with the theory where the economic dimension in the sustainability report provides information as well as a signal to investors that the company has good economic performance so that it can attract investors and then improve financial performance. In addition, in buying shares, of course, the economic dimension can be a major concern to see the profitability of Islamic Commercial Banks. The results of this study also are in line with the research of Zyadat (2017) who found that the economic dimension had a significant positive effect on financial performance as measured by EPS.



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### *The influence of the social dimension on EPS*

The social dimension does not affect financial performance as measured by EPS. This is indicated by the probability value of 0.1475 which is greater than the significant value of 5% (0.05). The coefficient value is -0.756710 towards the negative coefficient.

The results of the study are not in line with the legitimacy theory, signaling theory, and stakeholder theory described in the study. This can happen because stakeholders in Indonesia have not seen the elements reported in the sustainability report as a consideration in making decisions (Tarigan and Semuel, 2014).

In this case, it means that investors have not considered the importance of corporate social disclosure in investing, but investors have seen other factors such as profits, financial reports, investment announcements, and so on. The results of this study are in line with the research of Nofianto and Agustina (2014) which explains that the disclosure of social performance does not affect financial performance because the disclosure of social performance affects the value of the company gradually. The results of this study are also in line with the research of Lestari and Suardana (2019) who found that the social dimension did not affect financial performance as measured by EPS and had a negative coefficient direction.

### *The influence of the environmental dimensions on EPS*

The environmental dimension does not affect financial performance as measured by EPS. This is indicated by the probability value of 0.0557 which is greater than the significant value of 5% (0.05).

The results of the study are not in line with the legitimacy theory, signaling theory, and stakeholder theory described in the study. Regarding the negative relationship, Sabrina and Lukman (2019) explained that the environmental dimension of the sustainability report can reduce the value of the company's assets (cash) with the expense or burden of implementing the company's sustainability practices. When costs are incurred to carry out sustainability practices but stakeholders have not given a positive response to the company, then this can reduce the company's cash. In the previous research, Kurniawan et al. (2018) even found that the sustainability report had a significant negative effect on firm value.

From the description above, H3 is accepted because there is a dimension in the sustainability report that has a significant effect on EPS, namely the economic dimension which has a significant positive effect.

## CONCLUSION

Based on the results and discussion of the research above, it can be concluded that no sustainability report dimension has a significant effect on financial performance as measured by ROA. All dimensions, both economic dimension, social dimension, and environmental dimension do not have a significant effect on ROA. In financial performance as measured by ROE, there is a sustainability report dimension that has a significant negative effect, namely the environmental dimension. The economic and social dimension have no significant effect on ROE. In financial performance as measured by EPS, the economic dimension has a significant positive effect on EPS. Meanwhile, the social and environmental dimensions have no significant effect on EPS.

Based on the research findings, the authors encourage Islamic Commercial Banks to consistently publish sustainability reports that have been mandated by the OJK. In the long term, the sustainability report is expected to have a positive impact on the growth of Islamic banks in Indonesia. For further research, it is better to use a research period that is longer than 3 years so that it can provide stronger results regarding the effect of sustainability reporting on financial performance.



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