

## Sustainability Reporting And Firm Performance Based On Maqashid Sharia Perspective

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### Abstract.

*This study aims to determine the effect of disclosure of sustainability reporting on company performance based on maqashid sharia perspective in sharia stock indexed companies in Indonesia. The study obtained a sample of 52 companies in the mining, property & real estate, energy, and basic industry & chemicals sectors listed in the Indonesian Sharia Stock Index (ISSI) during 2022-2023, resulting in 104 observations through purposive sampling. The data analysis technique was conducted using documentation methods, specifically by collecting annual report data and sustainability reports from the sample companies. The analysis was performed using multiple regression with E-Views 13 software. Based on the research results, the Sustainability Reporting does not have a statistically significant effect on the Maqashid Syariah Index. This research indicates that companies listed in the Indonesian Sharia Stock Index, although they have demonstrated concern for environmental issues and social interests through sustainability reporting, have not yet fully integrated the principles of Maqashid Sharia into their operational practices in an optimal manner.*

**Keywords:** Sustainability Reporting; Firm Performance and Maqashid sharia.

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### I. INTRODUCTION

The maqashid sharia perspective on company performance focuses on how businesses balance economic, social, and spiritual goals in line with Islamic principles, in addition to maximizing financial returns (Aisyah et al., 2021). By upholding the five main principles of maqashid sharia, namely the protection of religion (*hifdh al-din*), soul (*hifdh al-nafs*), intellect (*hifdh al-aql*), offspring (*hifdh al-nasl*), and property (*hifdh al-mal*), in this context, company performance must reflect the concept of *maslahah* and ensure business sustainability (Jaiyeoba et al., 2024). Most of the company's performance measurements are still based on conventional indicators, such as profitability and asset growth, without considering the sharia dimension, companies that meet the criteria of sharia principles are considered to have a more holistic performance assessment model, which not only considers financial aspects, but also social responsibility, business ethics, and environmental sustainability (Mohd Zain et al., 2024). In Islamic companies, the performance of the Islamic industry should be measured using appropriate methods that focus on the business perspective, religious perspective including *maslahah*. Islamic companies refer to companies that do not violate Islamic law in all aspects, especially financial aspects. Islam helps companies to adapt to changes that encourage creativity, dynamism and flexibility (Al-Mubarak & Osmani, 2010). The maqashid sharia perspective emphasizes balancing economic, social, and spiritual goals in corporate performance, aligning with the purpose of sustainability reports in communicating social, environmental, and governance impacts to support sustainable development.

Rosati & Faria (2019) argue that sustainability has become an important parameter for various stakeholders, by which they evaluate the performance of various companies, thus putting pressure on organizations to comply with its principles. Consequently, sustainable development has become an important issue for companies, especially public companies (Ludwig & Sassen, 2022). The importance of sustainability reporting has increased over the last decade, as companies view it as an influential channel to communicate their short-term and long-term strategies to stakeholders, resulting in an unprecedented surge in this form of disclosure (Githaiga & Kosgei, 2022). At the same time, sustainability reporting can help investors and stakeholders in evaluating the overall performance of

a company (Buallay, 2019). Julia et al (2018) showed that sustainable development in environmentally friendly companies has a positive relationship with company performance based on maqashid sharia principles. Green company activities are also in line with sharia values. From this, it can be concluded that there is a strong relationship between the concept of sustainable development and maqashid Sharia, because according to the maqashid sharia principle of hifdh al-mal, transparent sustainability reporting shows the company's dedication to managing assets with trust and sustainability.

This study is also based on the phenomenon of the current increasing development of the Islamic industry, starting from the financial industry, interest in Islamic economics extends to other business and trade industries (Rahman et al., 2017). Given that the majority of its population is Muslim, Indonesia exhibits tremendous potential for the growth of the Islamic financial market. A solid basis for the rise in interest in Islamically compliant financial products is provided by this demographic situation. The growing capitalization of the Islamic stock market, which is mirrored in the performance of indices like the Indonesian Islamic Stock Index (ISSI) and the Jakarta Islamic Index (JII), is one accurate measure of this trend [11]. Research by Lusyana & Sherif (2017) shows that the interest of the Muslim community has recently increased to invest in the capital market in public companies. This is due to the sharia compliance process for businesses that want to develop capital and target public companies to be listed on the sharia stock index and capital growth that primarily targets the Muslim community (Farooq & Alahkam, 2016). The image of Islam projected in business, such as refusing to transact with products prohibited by Islam, is one of the factors that attract investors to sharia-compliant businesses. The image upheld by sharia businesses, such as refraining from selling products prohibited by Islam and refraining from offering loans with interest above a certain amount. Furthermore, businesses that comply with sharia law are considered more open in sharing information, both financial and non-financial (Farooq & AbdelBari, 2015). This study aims to examine the effect of sustainability reporting disclosure on company performance from the perspective of Maqashid Sharia.

Previous research has generally measured sustainability reporting using conventional financial indicators such as CAMEL, ROA, BSC, ROE, Tobin's Q, and EVA such as those conducted by Daryaei & Fattahi (2020); Lahjie et al (2023); Al Hawaj & Buallay (2022); Buallay (2020); Shad et al (2019); Laskar & Gopal Maji (2018); Aroul et al (2022); Carvajal & Nadeem (2023); Khanchel et al (2023); Swarnapali (2020); Fosu et al (2016); Gao & Zhu (2012); Huynh et al (2019); dan Setiany & Suhardjanto (2021). However, the findings remain inconsistent. Ascarya & Sukmana (2014) that sharia company performance should not rely solely on financial ratios, as business activities in the Islamic context must integrate Maqashid Al-Shari'ah principles. Sharia-based businesses shift the paradigm from profit maximization to also achieving spiritual objectives. In line with this, Rahman et al (2017) highlighted the importance of developing performance measures based on Maqashid Al-Shari'ah to evaluate sharia-compliant organizations. While many studies explore the relationship between sustainability reporting and performance, few address it from the Maqashid Sharia perspective. This study seeks to fill that gap, especially for companies operating under sharia principles. Unlike previous studies that relied solely on financial ratios, this research adopts the Maqashid Al-Shari'ah framework to develop a performance measurement method that evaluates the extent to which Islamic values are integrated into company operations (Rahman et al., 2017). It also applies the latest sustainability reporting standard, GRI Standards 2021, and expands the scope to the non-financial sector by examining companies listed in the Indonesian Sharia Stock Index (ISSI) to understand how Maqashid Sharia principles are implemented across various industries within the sharia capital market.

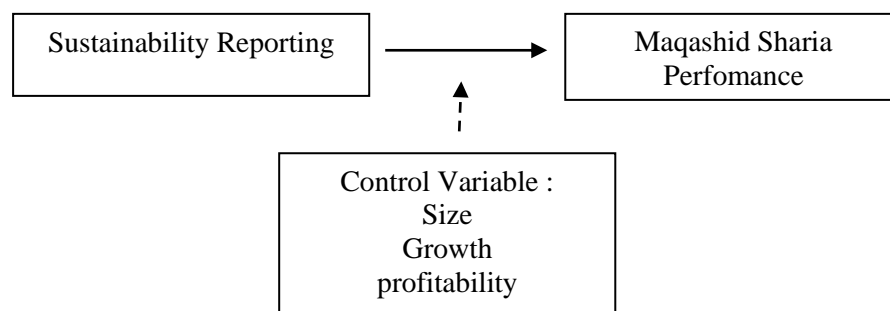
### **The Relation between Sustainability Reporting and Maqashid Sharia Performance**

Shariah Enterprise Theory (SET) emphasizes that companies have responsibilities to Allah (the creator), the wider community, and the environment in addition to shareholders [30]. According to Shariah Enterprise Theory, sustainability reporting is an important instrument to prove the company's responsibility in this case from the maqashid syariah perspective. This theory emphasizes the importance of justice, balance, and social responsibility in running a business [31]. As such, Sharia Enterprise Theory encourages a

more holistic reporting approach, which considers matters beyond financial performance [32]. Sustainability reporting increases transparency and good relationships with stakeholders, which in turn has a positive impact on company performance [20]. According to Buallay (2019a) and Carvajal & Nadeem (2023) companies that disclose sustainability information have better performance than companies that do not disclose such information.

This is because companies that show responsibility for sustainability issues by disclosing sustainability reports have a positive corporate reputation because of their dedication to environmental, social and economic issues. Furthermore, according to Julia et al (2018) sustainable development in environmentally friendly companies has a positive relationship with company performance based on maqashid sharia principles. Green company activities are also in line with sharia values. From this, it can be concluded that there is a strong relationship between the concept of sustainable development and Maqashid Sharia. This is because according to the principle of maqashid sharia *hifdh al-mal*, transparent sustainability reporting shows the company's dedication to managing assets with trust and sustainability. Improved company performance in terms of share value, capital, and market confidence, as well as easier access to better funding, can occur as a result of increased stakeholder and investor confidence in trustworthy companies due to reliable sustainability reporting [34].

Ha= Sustainability Reporting has a Positive Impact on Maqashid Sharia Performance.



**Fig 1.** Conceptual Framework

## II. METHODS

This research is a type of explanatory quantitative research. The data used in this study include secondary data sources sourced from annual reports and sustainability reports. The sample of this study consisted of companies engaged in the mining, property & real estate, energy, and basic industry & chemicals sectors listed in the Indonesian Sharia Stock Index (ISSI) on the Indonesia Stock Exchange (IDX) during the period 2022-2023 which met the research criteria, thus obtaining 104 total observations. The analysis tool in this research is evIEWS 13 software. The independent variable in this study is the disclosure of sustainability reports as measured using the 2021 GRI Standards guidelines with a total disclosure of 117 items (GRI, 2021). If the GRI standard indicator is implemented, it will be given a value of 1, while if not, it will be given a value of 0. After all matrices have been evaluated, the researcher will calculate the index value using a predetermined formula. As follows:

$$SRDI = \frac{\sum X_i}{N_i}$$

Description:

SRDI : Sustainability Report Disclosure Index

$X_i$  : Number of items disclosed by the firm

$N_i$  : Total of all disclosure items in the GRI Standards guidelines

The dependent variable of this study is the firm's performance measured using the Maqashid Syariah Index (MSI) perspective developed by Mohammed & Razak (2008) based on the theory developed by Abu Zahra (1958). There are three maqashid index, those are *Tahdzib al-Fard* (education for individuals), *Iqamah al-Adl* (upholder of justice), *Jalb al- Mashlahah* (benefit). The following table measures the maqashid sharia index:

**Table 1.** Maqashid Sharia Performance Measurement Model

Concepts	Dimensions	Elements	Performance Ratio	Data Sources
C1. Individual education ( <i>Tahzib al Fard</i> )	D1. Increase knowledge	E1. Education grants	R1. CSR education /Total Expenses	<i>Annual Report</i>
		E2. Research	R2. Research expenses/Total Expense	<i>Annual Report</i>
	D2. Increase and improve skills	E3. Training	R3. Training costs/Total expenses	<i>Annual Report</i>
	D3. Create public awareness of the existence of the company	E4. Publicity	R4. Publicity cost/Total expenses	<i>Annual Report</i>
C2. Realizing justice ( <i>Iqamah al-Adl</i> )	D4. fair contracts	E5. Fair Return	R5. Net profit/Total Revenue	<i>Annual Report</i>
	D5. Elimination of injustice	E6. Interest-free income	R6. Interest-free income /total income	<i>Annual Report</i>
C3. Public interest ( <i>Jalb al-Mashlahah</i> )	D6. Profitability of the company	E7. Profit ratio	R7. Net profit/total asset	<i>Annual Report</i>
	D7. Redistribution of income and welfare	E8. Corporate income	R8. CSR/net profit	<i>Annual Report</i>
	D8. investment in the real sector	E9. Investment in real sector ratio	R9. Investment in real sector/total investment	<i>Annual Report</i>

Source: Mohammed et al (2015)

This study also added control variables of firm size, firm growth, and profitability to investigate the effect of sustainability report disclosure on firm performance based on maqashid syariah perspective. Panel data regression analysis testing with two equation models was used in this study. The following are the first and second equation models:

Model 1 : MSI :  $\alpha + \beta_1 SR_{it} + \varepsilon_{it}$

Model 2 : MSI :  $\alpha + \beta_1 SR_{it} + \beta_2 SIZE_{it} + \beta_3 GROWTH_{it} + \beta_4 ROA_{it} + \varepsilon_{it}$

### III. RESULT AND DISCUSSION

Based on the panel data regression test results, the first panel data regression equation model is obtained as follows:

$$MSI = 0,318462 + 0,021294SR + \varepsilon$$

Based on the results of the equation model with panel data linear regression in table 2 shows that based on the regression estimation results above, it is obtained that the constant value of 0.318462 indicates that if there is no sustainability reporting ( $SR = 0$ ), then the value of the Maqashid Syariah Index (MSI) is estimated at 0.318462. The coefficient of the Sustainability Reporting (SR) variable of 0.021294 means that each one unit increase in sustainability reporting (SR) will be followed by an increase of 0.021294 points in the performance of the Maqashid Syariah Index (MSI), assuming other variables remain constant.

**Table 2.** First Model Regression Test Results

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
c	0.318462	0.024196	13.16193	0.0000
SR	0.021294	0.031548	0.674984	0.5012

Source: Own Elaboration in Eviews 13

Based on the panel data regression test results, the second panel data regression equation model is obtained as follows:

$$MSI = -0,002058 + 0,009887SR + 0,010292SIZE + 0,007612GROWTH + 0,202736ROA + \varepsilon$$

Based on the results of the equation model with panel data linear regression, it shows that based on the regression estimation results in table 3, the Constant (Intercept) is -0.002058. This means that the constant value shows that if all independent variables (SR, SIZE, GROWTH, and ROA) are zero, then the value of Maqashid Syariah Index (MSI) performance in companies indexed by Sharia stocks in Indonesia is -

0.002058. The coefficient of SR (Sustainability Reporting) is 0.009887. This means that every one unit increase in sustainability reporting (SR) in sharia indexed companies in Indonesia will increase MSI performance by 0.009887 points, assuming other variables remain constant. The coefficient of company size is 0.010292. That is, this coefficient shows that the greater the size of the company in sharia stock indexed companies in Indonesia, the performance of MSI will increase by 0.010292 points, assuming other variables remain. The coefficient of company growth is 0.007612. That is, it shows that every increase in the growth of sharia stock indexed companies in Indonesia by one unit will increase MSI performance by 0.007612 points, assuming other variables remain constant. Profitability coefficient of 0.202736. This means that each increase in one unit of ROA (profitability) of sharia stock indexed companies will increase MSI performance by 0.202736 points, assuming other variables remain constant. Indicating that more profitable companies tend to have better maqashid sharia performance.

**Table 3.** Second Model Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.002058	0.205800	-0.010000	0.9920
SR	0.009887	0.029770	0.332112	0.7405
SIZE	0.010292	0.006955	1.479817	0.1421
GROWTH	0.007612	0.012078	0.630281	0.5300
ROA	0.202736	0.052971	3.827273	0.0002

*Source: Own Elaboration in Eviews 13*

#### Hypothesis Testing:

Referring to the table above, the partial test results through the t-statistic test can be explained as follows:

- Based on the results of data processing, it is known that the prob. (p-value) of the Sustainability Reporting variable (X) is 0.7405. Because this value is greater than the 5% significance level (0.05), it can be concluded that the sustainability reporting variable does not have a statistically significant effect on the Maqashid Syariah Index (Y) variable. Thus, the null hypothesis (Ho) is accepted, and the alternative hypothesis (Ha) is rejected.
- Based on the results of data processing, it shows that the prob. (p-value) of the company size control variable is 0.1421. Because this value is greater than the 5% significance threshold (0.05), it can be concluded that company size does not have a statistically significant effect on the Maqashid Syariah Index (Y) variable.
- Based on the results of data processing, the prob. (p-value) of the company growth control variable is 0.5300. Because this value exceeds the significance limit of 5% (0.05), it can be concluded that the company growth variable has no statistically significant effect on the Maqashid Syariah Index (Y).
- Based on the results of data analysis, it is known that the prob. (p-value) value of the profitability control variable is 0.0002. Because this value is smaller than the 5% significance level (0.05), it can be concluded that profitability has a statistically significant effect on the Maqashid Syariah Index (Y).

Referring to the table 4, the coefficient of determination (Adjusted R-squared) of 0.126115 indicates that about 12.61% of the variation in maqashid syariah performance (MSI) can be explained by the independent variable of sustainability reporting as well as control variables consisting of company size (SIZE), company growth (GROWTH), and profitability (ROA) in the regression model. In other words, the four variables together contribute 12.61% to the performance of maqashid syariah. While the rest, which is about 87.39%, is explained by other factors outside the model that are not included in this study.



**Tabel 4.** Determination Coefficient Test Results (R2)

R-Squared	0.160052
Adjusted R-Squared	0.126115

*Source : : Own Elaboration in Eviews 13*

Based on the results of the classical assumption, table 5, the multicollinearity test results show that the Variance Inflation Factor (VIF) value for the Sustainability Reporting variable is 1.493460, company size is 1.411902, company growth is 1.068434, and profitability is 1.091359. This value is far below the general threshold used, namely  $VIF < 10$ , which indicates the absence of multicollinearity symptoms in these variables. Thus, it can be concluded that all variables do not have a high correlation relationship with other independent variables, and do not cause interference in the regression estimation process, so they are suitable for inclusion in the panel regression model used in this study.

**Table 5.** Multicollinearity test results

Variabel	Centered VIF
SR	1.493460
SIZE	1.411902
GROWTH	1.068434
ROA	1.091359

*Source : Own Elaboration in Eviews 13*

Referring to the table 6, the results of the Heterokedasititas test show that the probability value is  $0.65 > 0.05$ , so it can be concluded that there are no symptoms of heteroscedasticity.

**Tabel 6.** Heterokedasititas test results

Obs*R-squared	Prob. Chi-Square
2.452873	0.6531

*Source : : Own Elaboration in Eviews 13*

Based on the table 7 results of the Autocorrelation test, it shows that the Durbin-Watson (DW) value is 2.091170 which is between the  $DU < DW < 4-DU$  limits, namely  $1.6985 < 2.091170 < 2.3015$ . Based on the Durbin-Watson criteria, this shows that there is no positive or negative autocorrelation in the regression model, so the classical assumption regarding the absence of autocorrelation has been fulfilled.

**Tabel 7.** Autocorrelation test results

Durbin-Watson stat	2.091170
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*Source : Own Elaboration in Eviews 13*

### **The Impact of Sustainability Reporting on Maqashid Sharia Performance**

The results of this study indicate that the hypothesis stating that there is an influence between sustainability reporting on company performance from the perspective of maqashid sharia is rejected. This finding supports research by Arini et al (2020) and Aisyah et al (2021) which states that disclosure of corporate sustainability reports has not been able to provide a significant contribution to improving maqashid sharia performance. This indicates that companies listed on the sharia stock index in Indonesia and showing concern for environmental issues have not fully implemented maqashid sharia-based performance optimally. The main dimensions of maqashid sharia such as Tahzib al-Fard (individual education), Iqamah al-Adl (creating justice), and Jalb al-Mashlahah (realizing public welfare) have not been fully reflected in the company's operational activities or reporting. This shows that siding with the principle of sustainability does not necessarily reflect the spiritual and social depth as desired by maqashid sharia. According to Rahman et al (2017) this is because conceptually, maqashid sharia demands more than just compliance with formal principles.

However, it requires the integration of Islamic values into all aspects of management, from strategic decision making, governance, to contributions to the wider community. However, until now the performance measurement framework based on maqashid sharia for sharia business entities has not developed well, so that many companies do not have evaluation instruments that reflect the extent to which these sharia values have been internalized in practice. From the perspective of Shariah Enterprise Theory (SET), this finding can be interpreted that the sustainability reporting practices carried out by sharia indexed companies in Indonesia have not fully reflected the basic principles of sharia in depth. if the sustainability reporting prepared by the

company is still normative, namely only following international sustainability standards, not yet integrated in Islamic spiritual values, then the report cannot function as a complete representation of the achievement of maqashid sharia. This is in line with the view of Sonhaji et al (2018) which emphasizes that Islamic accounting is ideally built on the awareness of tawhid and not solely on the orientation of economic accountability.

#### IV. CONCLUSION

The results of this study found that the hypothesis stating that there is an influence between sustainability reporting on company performance in the maqashid sharia perspective is rejected. This finding indicates that companies incorporated in the sharia stock index in Indonesia, although they have shown concern for environmental issues and social interests through sustainability reporting, have not fully integrated the principles of maqashid sharia in their operational practices optimally. The main dimensions of maqashid sharia such as individual development (tahdzib al-fard), upholding justice (iqamah al-'adl), creating general welfare (jalb al-mashlahah) are still not fully reflected in the activities of companies incorporated in the Indonesian sharia stock index. Thus, alignment with the principle of sustainability does not automatically indicate the depth of spiritual values and social responsibility as expected in the maqashid sharia framework. Sustainability reporting prepared by companies is generally still normative, i.e. limited to meeting international reporting standards, without strong integration with Islamic spiritual values. Therefore, these reports cannot be said to be a complete representation of the achievement of maqashid syariah objectives.

The findings of this study indicate the theoretical implications of the gap between normative reporting practices and the essence of Islamic spirituality which is the main foundation of Shariah Enterprise Theory. Sustainability reporting practices carried out by sharia indexed companies in Indonesia do not fully reflect the basic principles of sharia in depth. This indicates that current sustainability reporting still tends to be oriented towards horizontal accountability (to stakeholders), not yet fully directed towards vertical accountability (to Allah) as emphasized in Shariah Enterprise Theory. The findings of this study provide practical implications for the management of companies incorporated in the Islamic stock index in Indonesia. Companies need to encourage the integration of Islamic values in corporate governance, including in social program planning, business strategy, and sustainability reporting that not only aims to attract investors, but also supports the achievement of social and spiritual goals. Thus, it can reflect the Islamic capital market more optimally.

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