

SUSTAINABLE DEVELOPMENT GOALS (SDGS) AND SHARIA FINANCIAL PERFORMANCE

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Abstract

The Sustainable Development Goals (SDGs) are a long-term global program to optimize all the potentials and resources of each country. The ultimate goals of the SDGs are to end global poverty, spread prosperity, and still preserve the earth. The implementation of SDGs must be carried out in company operations, especially related to the twelfth goal, namely sustainable consumption and production. Banking is one company that takes part in implementing the concept of sustainable development. Financial performance can be affected by the implementation of the SDGs in the company's operation. This study aims to analyze the effect of Sustainable Development Goals (SDGs) on Islamic financial performance. The sample used is Islamic Commercial Banks which publish financial reports and sustainability reports in Indonesia in 2020 and 2021. The data analysis uses multiple linear regression. The results showed that the Sustainable Development Goals (SDGs) had a negative effect on financial performance from the profit sharing aspect. These results indicate that the company has a relationship with many interested parties. The funds that owned by the company will be distributed more broadly and complexly in accordance with the existing SDGs formulation, not only to investors.

Keywords: Sustainable Development Goals (SDGs), Financial Performance, Profit Sharing

INTRODUCTION

The Sustainable Development Goals (SDGs) are a long-term global program to optimize all the potentials and resources of each country. The SDGs have 17 goals to achieved, namely; 1). No Poverty, 2). Zero Hunger, 3). Good Health and well being, 4). Quality education, 5). Gender equality, 6). Clean water and sanitation, 7). Affordable and clean energy, 8). Decent work and economic growth, 9). Industry, innovation, infrastructure, 10). Reduced Inequalities, 11). Sustainable Cities and Communities, 12). Responsible consumption and production, 13). Climate Action, 14). Life Below Water, 15). Life on Land, 16). Peace, justice and strong institutions, and 17). Partnership for the goals. The ultimate goals of the SDGs are to end global poverty, spread prosperity, and still preserve the earth. This is in line with the spirit of Islam to realize the benefit of human life.

The SDGs must be implemented in business operations, particularly in relation to the twelfth objective, responsible consumption and production. The company ideally has a sustainable framework in its operations to support the achievement of the SDGs goals by 2030. One of the state institutions that supports the implementation of the SDGs is the Financial Services Authority (OJK). The method taken by OJK is by issuing a sustainable finance roadmap, which is comprehensive support from the financial services industry for sustainable growth resulting from the harmony between economic, social and environmental interests (OJK, 2014). OJK issued regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies (OJK, 2017).

Banking is one company that takes part in implementing the concept of sustainable development goals. The form of commitment made is in the Sustainable Finance Action Plan to provide credit to creditors who have certification in accordance with ESG principles and Environmental Impact Analysis permits in the green construction, agriculture, green infrastructure, forestry, renewable energy, industrial sectors recycling and energy efficiency (Hayati et al, 2020). Nearly 50% of banks in Indonesia representing 91% of the total assets of the Indonesian banking market show an increasing commitment to implementing sustainable finance, as measured by their Sustainability Report. In the banking sector, total loans related to sustainable finance were recorded at USD55.9 billion or IDR809.75 trillion (OJK, 2021). This amount is a component of loans from Islamic and conventional banking.

The sustainable development of Islamic banks in Indonesia is an effort to reduce the lack of access to financial services. Islamic finance innovation is needed to provide the right financial products and services for the community to increase their income and social welfare. The existence of access to Islamic Bank financial services for economic sustainability, the environment and religious order, can contribute to society in achieving the highest goals of sharia that are focused and oriented towards human survival, nature, creative economic resources, and all aspects of life (Sukardi, 2016). Islamic banks as an intermediary institutions that collect and distribute funds contribute to the SDGs through productive financing that helps customers obtain business capital with profit sharing contracts, especially for Small, Micro and Medium Enterprises (Trimulato & Rahmatia, 2020). The results show that the average number of sustainability practices in Islamic banking in Indonesia is very low, so proper sustainability guidelines are needed for Islamic banking, especially in Indonesia (Prayoga & Siswantoro, 2021). The result (Jan et al., 2019), (Panjaitan & Sukoharsono, 2107)

Buallay et al, (2019) Felita & Faisal (2021) which states that sustainable development has a positive effect on company performance. And (Sari, 2020) states that the sustainability report has no effect on firm value. (Yunitasari, 2017) disclosure of sustainability reports from an economic, environmental and social perspective does not affect the company's financial performance.

This study develops research from (Jan et al., 2019) which examines the effect of sustainability practices on financial performance in Malaysian banks. The difference between this research and the previous one is that previous research used conventional financial performance measurement, namely Return on Assets (ROA) and Return on Equity (ROE). In this study use the profit sharing ratio as an indicator of Islamic financial performance. The profit sharing ratio is used because Islamic banking carries out its activities based on Sharia principles both operationally and financially. The profit that is shared is a net profit, so it will bring justice to the interested parties.

Legitimacy Theory

Legitimacy Theory emphasizes that companies continue to strive to ensure they operate within the framework and norms that exist in the society or environment in which the company is located, trying to ensure that company activities are accepted by outsiders as legitimate (Deegan, 2014). Legitimacy theory emphasizes that organizations will be punished if they do not operate in a manner that is consistent with societal expectations. In line with the goals of the SDGs, which focus on economic, social and environmental issues, companies will be judged good when they comply with rules and norms. The SDGs have a goal to improve economic welfare, social life of the community, and protect the environment while maintaining the quality of life from generation to generation. This explains that the company must maintain a relationship with the environment and the surrounding community for the realization of the company's survival.

Stakeholder Theory

Stakeholder theory is one of the main theories underlying research on sustainable development. This theory has an ethical (moral), or normative, (which is also considered prescriptive) and a positive (managerial, or sometimes instrumental) branch. Freeman (1984) defines stakeholder as groups that significantly influence the success and failure of an organization. This group consists of all parties who have an interest in the organization such as suppliers, customers, shareholders and so on. Companies that have fulfilled sustainable finance not only pay attention to legal and consumer interests but also all parties with an interest in the company (stakeholder). Company must pay attention to stakeholder relationships including consideration of stakeholder rights, stakeholder power or effective stakeholder management (Deegan, 2014). This theory incorporates a branch of ethics that specifically takes into account the numerous stakeholder groups that exist in society and how their expectations may affect company strategy.

These two theory are frequently used to explain why managers choose to disclose non-financial information (for example, to provide information about the environmental implications of various corporate activities). The communities in which the entity operates are presumptively influenced by the organization and will ultimately have an impact on those communities.

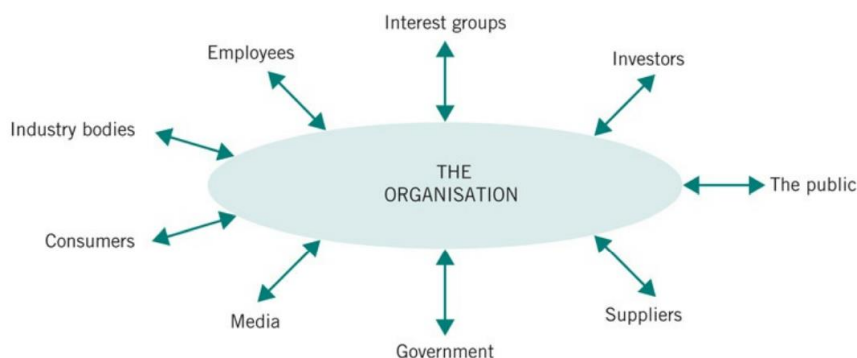


Figure 1.
The organisation viewed as part of a wider social system (Deegan, 2014)

Sustainable Development Goals (SDGs)

The Sustainable Development Goals or SDGs, are an improvement on the Millennium Development Goals (MDGs), although they are more all-encompassing. The SDGs have a wider objective of correcting the unequal allocation of resources internationally and on a national scale. The MDGs are more focused on poverty, education, and social issues. The SDGs include a richer definition of social goals and simultaneously address economic, social and environmental dimensions on a global scale (United Nations, 2015). The SDGs are directed at all countries, regardless of their level of development, including both developed and developing nations (Walker, 2019). Each country has primary responsibility

for its own economic and social development. The implementation of the SDGs will depend on individual countries addressing their particular concerns. Government is the key to success in achieving this set of goals (Dalby et al., 2019).

The GRI framework is a reporting system that provides metrics and methods for measuring and reporting sustainability-related impacts and performance. GRI's mission is to make sustainability reporting standard practice for all companies and organizations. The framework—which includes Reporting Guidelines, Sector Guidelines and other resources—allows for greater organizational transparency and accountability. A sustainability report is a report published by a company or organization on the economic, environmental and social impacts caused by daily activities. The sustainability report also presents the organization's values and governance model, and demonstrates the relationship between its strategy and its commitment to a sustainable global economy. Sustainability reporting can build stakeholder trust in the organization, and yield many other benefits. Thousands of organizations, of all sizes and sectors, use the GRI Framework to understand and communicate their sustainability performance. The Framework was developed collaboratively with expert input: international working groups, stakeholder engagement, and processes that help make the Framework appropriate and credible for all organizations. And The indicator used is the Global Reporting Index (GRI) 2018 which includes 157 indicators.

Financial performance

Financial performance is a measuring tool to determine the process of implementing the company's financial resources (Ichsan et al, 2021). Financial performance shows the extent to which the company's management has succeeded in achieving its targets and providing benefits to society. Financial performance evaluation can identify the company's operating deficiencies in the past and plan for the future. This is an important step that the company can take for the sustainability of its business.

Profit Sharing or profit sharing is the main objective of Islamic banking. Therefore, it is important to identify the extent to which Islamic banks have succeeded in achieving these goals. One indicator that can be used to measure the financial performance of Islamic banking is the Profit Sharing Ratio (Hameed, 2004). The formula used is as follows:

$$\frac{\text{Mudaraba} + \text{Musyarakah}}{\text{Total Financing}}$$

Sustainability reports will affect earnings management based on Legitimacy and Agency theory where the company seeks to convey all information to stakeholder (Kepakisan & Budiasih, 2022). Managers tend to suggest reducing social spending in order to increase short-term profitability and management compensation (Clarissa & Rasmini, 2018). Investors do not use the social and environmental analysis that is part of the SDGs as a consideration in investing in the banking sector (Pratiwi et al, 2022). The SDGs which cover three aspects, namely economic, social, and environmental will cause management to share company profits in various components to meet the wishes of stakeholder. Investors will choose to prioritize the economic aspect in the form of high profit sharing while the community and government and other stakeholder will demand the fulfillment of social and environmental aspects.

Several studies have shown that the SDGs have a positive impact on financial performance (Jan et al., 2019), (Panjaitan & Sukoharsono, 2107Buallay et al, 2019; Felita & Faisal, 2021). This shows that companies that implement the SDGs optimally are able to improve financial performance in meeting the interests of stakeholders.

Hypothesis: Sustainable Development Goals (SDGs) have a positive effect on Islamic financial performance

RESEARCH METHOD

Types of research

Quantitative research is used in this study because the data obtained are in the form of numbers. Based on the numbers obtained then perform the analysis. This study uses two types of secondary data, namely sustainable report data and annual reports on Islamic Commercial Banks.

Population and Sample

The population in this study is Islamic banking in Indonesia. The sampling technique uses purposive sampling with the criteria that they have implemented and reported sustainable development activities for 2020-2021.

Analysis Method

1. Normality test

This study uses the normality test to test whether the distribution of data in a group of data or variables is normally distributed or not. If the data is normally distributed, the residual will be around the mean value which means that the value of the difference between the prediction and the actual value will be more valid (Ghozali, 2016). The test used is the Kolmogorov Smirnov.

2. Autocorrelation Test

This study uses the autocorrelation test to determine whether there is a correlation between the residuals of one observation with other observations at different times. Residual (error): the difference between the estimated value and the actual observed value in the sample (population). A good regression is a regression that is free from autocorrelation (Ghozali, 2016). The test used is the Durbin-Watson.

3. Simple Regression Test

This study uses a simple regression test to measure the dependence of one dependent variable with one independent variable. The aim is to estimate and/or predict the population mean or dependent variable average value based on known independent variable values (Gujarati, 2004). The simple regression:

$$SFP = \alpha + \beta 1SDGs + e$$

- SFP : Sharia Financial Performance
- α : konstanta
- β : Beta
- SDGs : Sustainable Development Goals

Operational Variables

1. Dependent variable:
Sharia Financial Performance
2. Independent variables:
Sustainable Development Goals

RESULTS AND DISCUSSION

1. Normality Test

Based on the results of the normality test using the Kolmogorov Smirnov method, the statistical test value was 0.210 with a significance level of 0.058 greater than 0.05. The results of this test indicate that the data in the study are normally distributed. The following table displays the results of the normality test, namely:

Table 1. Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test	
Test Statistic	0,210
Asymp. Sig. (2-tailed)	0,058

Source: Data processed, 2022

2. Autocorrelation Test

The results of the autocorrelation test showed that the Durbin Watson value was 1.949 with an upper limit (du) of 1.086 and a lower limit (dl) of 0.844 and 4-du (4-1.086=2.914). It can be concluded that the value of dw 1.949 > du 1.086 and less than 4-du (2.914), so this data is free from autocorrelation. The following table 2 results of the autocorrelation test:

Table 2. Autocorrelation Test

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0,675a	0,455	0,416	0,27481	1,949

Source: Data processed, 2022

3. Regression Test

Regression test was conducted to see the influence between the independent variable and the dependent variable. The results of the regression test are shown in the following table:

Table 3. Regression Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1,116	-	0,2435	4,793	0,000
SDGs	-	1,113	0,3329	-	0,004
			-0,675	3,419	

Source: Data processed, 2022

Based on the results of the regression coefficients in table 3, the regression equation is obtained as follows:

$$SFP = -1.116 - 1,113SDGs + e$$

Information:

$\alpha = -1,116$	It means that if the value of the independent variable Sustainable Development Goals (SDGs) is equal to 0, then the dependent variable Sharia performance has a fixed value -1,116.
$B1 = -1,113$	It means that every 1% increase in SDGs will reduce sharia performance by 1,113.

4. R Square Test

This test is to measure the ability of each independent variable included in the regression model in explaining the dependent variable. The test results show that the Adjust R square value of 0.416 or 41.6% is influenced by the Sustainable Development Goals (SDGs) and the remaining 58.4% is influenced by other factors. The results of the R test are shown in the following table:

Table 4. Determination Coefficient

R	R Square	Adjusted R Square	Std. Error of the Estimate
0,675a	0,455	0,416	0,27481

Source: Data Processed, 2022

5. Goodness of Fit Test

The results of the F test show the calculated F value of 11,691 with a significance of 0.004. Thus the model is said to be fit, meaning that the research model is feasible to use.

6. T Test

The test results show the t-count value of -3.149 > t-table of -1.337 with a significance value of 0.004 < 0.005, so the hypothesis is not accepted. That is, the greater the SDGs, the lower the performance of Islamic finance in terms of profit sharing.

Table 5. Hypothesis Test

Variabel	thitung	ttabel	Sig	Keterangan
SDGs	-3,149	- 1,337	0,004	Ha tidak diterima

Source: data processed, 2022

DISCUSSION

The results of the study indicate that the greater the sustainable development goals (SDGs) practice, the smaller the performance of Islamic finance based on profit sharing. These results indicate that the company has a relationship with many interested parties both from the economic (profit), social (people) and environmental (planet) aspects. These interested parties must be accommodated in a fair way. According to the SDGs concept, businesses must fulfill not just their financial commitments, such as profit sharing with investors, customers, and creditors, but also their other rights and responsibilities to the environment and society (social).

The funds obtained by the company will be managed in such a way in the fields of operations, investment and funding. These three things have the aim of achieving a certain profit, so that business continuity and also the provision of profit sharing, dividends and financial fulfillment to stakeholder can be fulfilled. In the current era, the company has implemented policies that focus on the long term, namely implementing finance and sustainable development. Where the concept will encourage companies to formulate and make policies that are more supportive in sustainable and sustainable business development. This means that apart from fulfilling financial and economic aspects, the company also prioritizes social and environmental aspects. The funds owned by the company will be distributed more broadly and complexly in accordance with the existing SDGs formulation.

The results of this study are in accordance with the research of Clarissa & Ketut Rasmini (2018); Pratiwi et al (2022);Kepakisan & Budiasih (2022); Eriyanti & Fitri (2022) which states that sustainable disclosure of the economic dimension has a negative effect on company performance. This is related to the understanding of investors in the Indonesian capital market about the benefits of having them in the long term, so that companies do not only focus on economic activities. Investors will choose to prioritize the economic aspect in the form of high profit sharing while the

community and government and other stakeholder will demand the fulfillment of social and environmental aspects. This will cause management to focus on economic aspects and result in less attention to social and environmental aspects. However, this research does not support Panjaitan & Sukoharsono (2017); Buallay (2020); Felita & Faisal, (2021) which proves that sustainable development has a positive effect on company performance.

CONCLUSION

This study aims to analyze the effect of Sustainable Development Goals (SDGs) on Islamic financial performance. The sample used is Indonesian Islamic Commercial Banks which publish financial reports and sustainability reports in 2020 and 2021. The results show that the Sustainable Development Goals (SDGs) have a negative effect on financial performance from the profit sharing aspect. These results indicate that the company has a relationship with many interested parties. According to the current SDGs formulation, the company's funds would be dispersed more extensively and intricately, not just to investors. This research only focuses on the Sustainable Development Goals (SDGs) aspects with the Global Reporting Initiative (GRI) Standard 2018 guidelines, so the further research can use the 2021 Rules for the GRI Standards, whose implementation will begin on January 1, 2023.

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