http://ejournal.seaninstitute.or.id/index.php/Ekonomi
**Jurnal Ekonomi, Volume 11, No 02, 2022**
ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)
JURNAL EKONOMI

# SUKUK ISSUANCE AND COMPANY FINANCIAL PERFORMANCE IN 2018-2022

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ARTICLEINFO

*Keywords*:
*Sukuk,*
*Financial Performance,*
*ROA*

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ABSTRACT

Sukuk issuance by an entity, where sukuk as a debt instrument is a financing option for companies, has a relationship with the entity's financial performance. The goal of this research is to see if sukuk issuance has an effect on financial performance in 13 companies from various industries that issued sukuk between 2018 and 2022. The SPSS software is used in this study to perform a simple linear regression method. The issuance of sukuk has no discernible impact on the company's financial performance as measured by Return on Assets, according to the findings (ROA)



## 1. INTRODUCTION

Sharia-based bonds namely "Sukuk" have become an integral part of the global financial system. In Indonesia, the development of the issuance of sukuk which is circulated through the capital market continues to experience growth. In December 2021, the Financial Services Authority (OJK) recorded that there were at least 211 outstanding sukuk with an outstanding nominal value of 39.85 trillion. (Financial Services Authority, 2022). This amount is higher than the previous year, which was recorded at only 189 sukuk with a nominal value of IDR 34.77 trillion (Financial Services Authority, 2021). Sukuk are no longer foreign to be used as an alternative capital structure in the financial management of an entity. In fact, not only business entities or companies that issue sukuk,

Issuance of sukuk by an entity where sukuk as a debt instrument is an option for companies in carrying out their financing activities, then it has a relationship with the financial performance produced by the entity. As according to several capital structure theories which state that there is an effect of the debt ratio on profitability. These theories are the trade-off theory and the pecking order theory. In the trade-off theory it is said that the company has a leverage target in the optimal direction. This theory assumes that companies that have debt have tax protection and companies that have high profitability will get high taxation as well. So therefore, according to the trade-off theory itself, there is a positive influence on the ratio of debt to profitability. But on the contrary according to (Myers, 1984), the pecking order theory states that companies with high levels of profitability actually have low levels of debt, because companies with high profitability have abundant internal funding sources, but if the company's internal funds are no longer sufficient to meet the company's needs, according to In this theory companies can use external funds seen from those that have the smallest risk, namely debt.[1]

Previous research on the effect of issuance of sukuk on the return on assets of issuers on the Indonesian stock exchange during the period 2011 to 2015 showed that sukuk as measured by the SER (Sukuk to Equity Ratio) and SLR (Sukuk to Liability Ratio) ratios simultaneously had a significant effect. significant to company profitability [2]. In contrast to other studies that conducted research on the effect of issuance of sukuk on financial performance at Islamic commercial banks in Indonesia in the period 2017 – 2020 where the results showed that there was no significant effect of issuance of sukuk on company profitability [3]. Similar research was conducted by analyzing the company's financial performance before and after issuing the sukuk, the result of which was that there was no significant difference between ROA before the issuance of the sukuk and ROA after the issuance of the sukuk (Rachmawati, Suryani, & Tambunan, 2018). Therefore, this study aims to answer whether sukuk as one of the capital instruments of an entity has a significant influence on a company's financial performance, especially in generating profitability by updating data from companies registered with the Financial Services Authority which have successively issued sukuk. from 2017 to 2021. There were 10 companies as a population namely PT Adira

Multifinance, PT Aneka Gas Industri, PT Angkasa Pura I, PT FKS Food, PT Global Mediacom, PT Indosat, PT State Electricity Company, PT Sumberdaya Sewatama, PT Timah, and PT XL Axiata. Then the authors re-select to curate any data that becomes outliers so that PT FKS Food and PT Semberdaya Sewatama are excluded as research objects. This study aims to provide confidence whether there is an effect of issuance of sukuk on company performance due to updating data and selecting cross-industry research objects.[4], [5]

## 2. LITERATURE REVIEW

### Sukuk

Accounting and Audition Organization for Islamic Finance Institutions(AAOIFI) defines sukuk as certificates of equal value representing full ownership of tangible assets, the useful value of assets and services, or ownership of assets in a project, or ownership in specific investment activities [6]. According to the MUI fatwa, Sukuk is a Sharia Securities (Sharia Securities) in the form of a certificate or proof of ownership that has the same value and represents an indefinite portion of ownership (musya') of the underlying asset (Sukuk Asset/Ushul al-Shukuk) after receipt sukuk funds, closing orders and starting the use of funds according to their designation (DSN MUI, 2020).

Previously in 2002, the National Sharia Council issued a fatwa No: 32/DSN-MUI/IX/2002, concerning Sharia Bonds which stated that Bonds Sharia is a long-term securities based on sharia principles issued by Issuers to Sharia Bond holders which require the Issuer to pay income to Sharia Bond holders in the form of profit sharing/margin/fee and repay the bond funds at maturity [7]

According to the DSN MUI fatwa NO: 137/DSN-MUIAX2020 concerning Sukuk, it is stated that Sukuk are Sharia Securities (Sharia Securities) in the form of certificates or proof of ownership that are of equal value and represent an unlimited portion of ownership (musya') of assets. the underlying asset (Sukuk/Ushul al-Shukuk Assets) after receiving the sukuk funds, closing the order and starting to use the funds according to their designation (DSN MUI, 2020). In Indonesia, the types of sukuk that exist and are often used are as follows[7]:

1) Sukuk Mudharabah (DSN MUI, 2002)
2) Based on Ijarah Sukuk (DSN MUI, 2004) Based on the issuer, there are two types of sukuk:
1) State sukuk are sukuk issued by the Indonesian government based on Law no. 19 of 2008 concerning State Sharia Securities (SBSN), (Law (UU) Number 19 of 2008 concerning State Sharia Securities, 2008)
2) Corporate Sukuk are bonds issued by companies, both private companies and State-Owned Enterprises (BUMN), based on OJK regulation no. 18/POJK.04/2005 regarding issuance and terms of sukuk. (Financial Services Authority, 2015)

Sukuk can be measured using the Sukuk To Equity Ratio (SER) ratio. Sukuk To Equity Ratio (SER) is the ratio used to measure the proportion of data sourced from sukuk in company equity. SER can be calculated using the following formula:

$$SER = \frac{\text{Outstanding Value of Sukuk}}{\text{Total Equity}}$$

### Financial performance

The company's financial performance is one of the basic assessments of the company's financial condition which is carried out based on an analysis of the company's financial ratios (Slamet, 2010). Financial ratio analysis can provide a better view of the company's condition and provide a benchmark for evaluating performance that is relevant when compared to competitors and the industry.

Profitability is an indicator of management performance in managing company wealth. Profitability can be calculated using the Return on Assets (ROA) ratio. This ratio shows the company's ability to use all of its assets to generate profit after tax. Companies can be said to have good performance if the profitability value is high [8]. Where the higher the Return on Assets (ROA), the more efficient the use of the company's assets [9] ROA can be calculated using the following formula:

$$ROA = \frac{\text{Profit After Tax}}{\text{Total Assets}}$$

**Capital Structure**

Capital structure is one of the most complex areas in financial decision making because of its interrelationships with other financial decision variables. Bad capital structure decisions will lead to high costs of capital which will reduce the value of a business and make it less acceptable. (Gitman & Zutter, 2010)

*a.* Trade-off theory

Companies will owe up to a certain level of debt, where the tax savings from additional debt are equal to the cost of financial distress [10]. The optimal level of debt is reached when the tax savings reach the maximum amount against the cost of financial distress. This theory has implications that managers will think in terms of a trade-off between tax savings and the cost of financial distress in determining capital structure. Companies with a high level of profitability will certainly try to reduce their taxes by increasing their debt ratio, so that additional debt will reduce their taxes [11]

*b.* Pecking Order Theory

Companies with high levels of profitability actually have low debt levels because companies with high profitability have abundant internal funding sources. (Myers SC, 1984). There are several sequential scenarios in choosing funding according to the pecking order theory, namely [12]:

1) Companies prefer to use internal funding sources or internal funding rather than external funding. Internal funds are obtained from retained earnings generated from the company's operational activities.
2) If external funding is needed, the company will first choose the safest security, i.e., the least risky debt, then riskier securities, such as convertible bonds, preferred stock, and lastly common stock.
3) There is a constant dividend policy, namely the company will set a constant amount of dividend payments, regardless of how much the company is profitable or losing.
4) To anticipate a shortage of cash supplies due to constant dividend policies and fluctuations in profit levels and investment opportunities, the company will take an investment portfolio that is smoothly available.

c. Modigliani-Miller Theory (MM)

This theory was developed by Franco Modigliani and Merton Miller (MM) in 1958. This theory explains the effect of capital structure composition on firm value. This theory has several assumptions, namely [11]:

1) The company has an equivalent level of business risk.
2) Investors have the same level of expectations.
3) *Perfect CapitalMarket*.
4) Using the risk free interest rate.
5) Ignoring transaction costs, agency costs and bankruptcy costs.

## 3. METHOD

The research method used by the authors in this study is descriptive statistics which aims to test the hypothesis in this study with the aim of making a systematic, factual, and accurate description, picture or painting of the facts, characteristics and relationships between the phenomena investigated. The type of data used for this research is documentary data taken through the financial reports of companies registered with the Financial Services Authority 2017-2021 which are the research samples.

The population in this study are companies registered with the Financial Services Authority from 2017 to 2021 which regularly issue sukuk. The sample used by the author uses a purposive sampling technique in the nonprobability sampling method with the following criteria:

1) Companies registered with the Financial Services Authority issue sukuk in 2017-2021
2) Has issued sukuk periodically during 2017-2021
3) Financial reports can be obtained during 2017-2021

The data collection method used by the author in this study is a documentation study and a literature study. Documentation studies are carried out by recording data to obtain relevant data. Data recording is done by collecting data in the form of literature related to research and collecting company financial report data. Literature study is a learning technique based on literature to obtain theoretical data in solving the problems studied. Data from the literature is useful as a consideration for data obtained from research[13]. This data is referred to as secondary data which is generally in the form of historical evidence or reports that have been compiled in published or unpublished archives (documentary data). Researchers obtained data related to this research through books, journals, theses, theses, the internet, and other literature that can support data fulfillment. The statistical method used in this study is simple linear regression by first carrying out a normality test and a heteroscedasticity test on the data used.[14]

## 4. RESULT AND DISCUSSION

**Normality test**

The normality test was carried out to test whether the confounding or residual variables in the research model follow a normal distribution.

Table 1 Normality Test Results

Test of Normality

| | Kolmogorov-Smornova | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistics | df | Sig. | Statistics | df | Sig. |
| transform_ser | .138 | 33 | .190 | .942 | 33 | 080 |
| transform_roa | .117 | 33 | .200* | .957 | 33 | .218 |

*. This is a lower bound of the true significance

a. Lilliefors Significance Correction

Based on the Kolmogorov-Smirnov test in the table above, the results obtained are significant values of 0.190 and 0.200 where these values are > 0.05, it can be concluded that the data is normally distributed.

**Heteroscedasticity Test**

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual one observation to another [15]. In this study, to detect the presence of heteroscedasticity the test was carried out by the Glejser test, where if the significance value (Sig.) > 0.05 then there was no heteroscedasticity.

Table 2 Heteroscedasticity Test Results

Coefficientsa

| Model | | Unstandardized Coefficients B | std. Error | standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 3,728 | .606 | | 6.149 | .000 |
| | X | -.095 | .073 | -.207 | -1,304 | .200 |

a. Dependent Variable: abs_res2

Based on the test results above using the Glejser test, a significance value of 0.200 was obtained where the value was > 0.05, it can be concluded that there was no heteroscedasticity

A. Regression Analysis

In this study using simple linear regression. The simple linear regression equation in this study is

$Y = \alpha + \beta X + \varepsilon$ Description:

Y : Return on Assets
α : Constant
β : Regression Coefficient
X : Publishing Sukuk
ε : Error

Table 3 Regression Analysis Results

Summary models

| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
|---|---|---|---|---|
| 1 | .241a | 058 | .033 | 4.05137 |

a. Predictors : (Constant), X

ANOVAa

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ISSN: 2301-6280 (print) ISSN: 2721-9879 (online)

| Model | | Sum of Squares | df | Mean Square | F | Sig |
|---|---|---|---|---|---|---|
| 1 | Regression | 38,420 | 1 | 38,420 | 2,341 | .134b |
| | residual | 623,717 | 38 | 16,414 | | |
| | Total | 662,138 | 39 | | | |

a. Dependent Variable : Y
b. Predictors: (Constant), X

Coefficientsa

| Model | | Unstandardized Coefficients | | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std Error | | | |
| 1 | (Constant) | 3,455 | 1010 | | 3,423 | 001 |
| | X | -.185 | .131 | -.241 | -1,530 | .134 |

a. Dependent Variable : Y

Based on the table above, the following model is obtained: Financial Performance = 3.455 – 0.185 Sukuk Issuance. The intended interpretation of the regression equation above is that financial performance without being influenced by the issuance of sukuk is 3.455. The constant number means that if there is no issuance of sukuk, the consistent value of financial performance is 3.45 and the regression coefficient value is -0.185 which means that for every 1% increase in the level of financial performance, the issuance of sukuk will increase -0.185. So the conclusion is that the issuance of sukuk has a negative correlation with the company's financial performance.

**Hypothesis testing**

In this study the test used was the two tail test by looking at the significance value of each variable.

Sig. ≥ 0.05 or Sig./2≥0.05 : H0 cannot be rejected Sig. <0.05 or Sig./2<0.05 : H0 is rejected

H0 = There is no effect of issuing sukuk on financial performance Ha = There is an effect of issuing sukuk on financial performance.

Based on the results in the table above, it is known that the t value is -1.530 and then compared with the t table value with df = 38 and a value of 0.025 which is equal to 2.024 and it can be concluded that there is no effect of the issuance of sukuk on financial performance. This research is different from the results of previous research from [2] but is directly proportional to previous research from [16][17]

## 5. CONCLUSION

This study aims to determine whether the issuance of sukuk affects the profitability of Islamic banking. Based on the results of the data analysis and discussion that has been described, the researcher can draw the conclusion that the issuance of sukuk does not have a significant effect on company profitability. as measured through Return on Assets. Even the issuance of sukuk has a negative relationship with Return on Assets.

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