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Islamic Banking Sustainability In Indonesia

Helma Malini
Universitas Tanjungpura, Pontianak, Indonesia
helma.malini@ekonomi.untan.ac.id

Abstract

Corporate governance exists to increase and maintain shareholder value. On this basis, corporate governance is argued to be vital to any company's long-term viability. To determine how transparency and accountability affected the Islamic banking sector's long-term viability. The study was guided by three theories: agency theory, stewardship theory, and stakeholder theory. This study is quantitative. It is used in quantitative research to generate numerical data or data that can be transformed into statistics. Transparency, accountability, justice, and responsibility are all important factors in the study's findings. Transparency and accountability appear to have a significant impact on the banking industry's long-term viability. To achieve sustainability, Islamic banks in Indonesia should strictly enforce transparency in all operations and worker activities.

Keywords: Indonesia, Islamic Banking industry, Transparency, Accountability, Sustainability

A. Introduction

Secrecy in derivative markets allows companies to avoid disclosure requirements and build up hidden risk, making regulators' jobs difficult. Continued inefficiency at a bank could be taking crucial resources that a bank needs to thrive. But relying solely on cost-cutting is not a winning strategy. That way, a bank can improve operational efficiency while also improving its ability to respond to market demands and plan for the future. Although, prolonged low interest rates have made it difficult for many banks to increase profitability, the banking industry's net income is on the rise, mostly due to efficiency gains. At many banks across the country, noninterest expenses (also known as overhead expenses) are rising, albeit at a far slower rate than total assets. As a positive development, the industry is now running more effectively. The fact that certain banks have been able to increase efficiency at a time when operational and information security costs are apparently increasing begs the following question: Is it possible for a bank to be overly effective? Administrative costs are important to guarantee that the institution has adequate resources for all of its many operations, including administrative, human resources, compliance, and audit functions.

The drive to improve efficiency is not unique to the banking business. Most firms are regularly looking for methods to operate more effectively, as more efficient enterprises are often more profitable and better positioned to create larger returns for their owners. Businesses are often able to run more effectively thanks to technology improvements. Banking has certainly experienced significant technological developments over recent decades, such as the advent of computers, ATM creation, electronic payment evolution and expansion in internet banking. ATMs are a great example of this. As a result of these developments in technology, banks are able to grow much larger organizations with fewer employees, branches, and support offices while still providing superior customer service. For example, during the past several years, a dramatic shift has been noticed in how clients interact with their banks (Sholikah & Miranti, 2020).

Corporate governance, or Good Corporate Governance (GCG), has been around for a long time. GCG is vital in the establishment of a company to increase the income and welfare of owners, shareholders, and employees. Stakeholders will be empowered to make decisions, allowing management to focus on generating profits for the company's owners and shareholders. The principles and metrics of good corporate governance are the same in all sectors; the application varies. Because banks deal with people's trust and the Indonesian economy, effective corporate governance has been difficult to implement (Ayunitha et al., 2020; Lozano et al., 2016; Mukhtaruddin et al., 2019). As a business that contributes to a country's economy, banks should practice Good Corporate Governance to maintain honesty, dedication, and commitment.

Bank Indonesia has devised a series of regulatory measures in an effort to reduce the prevalence of fraud in the banking industry. Implementing a Good Corporate Governance (GCG) system is one method for combating fraud. As a result of existing fraud problems, it is critical for a financial institution to adopt the principles of Good Corporate Governance to the fullest extent possible. This is because the bank faces both internal and external risks and problems. A healthy and transparent business atmosphere can only be created if banks adhere to GCG principles, which can help them survive in the face of ever-increasing competition and ensure that they are adhering to good business ethics. Fraud will be less likely to occur as a result of the implementation of Good Corporate Governance.

In order for the banking industry to grow and prosper, it is imperative that the public and the international community have faith in it. GCG principles can be used as a foundation for sensible and professional business practices when applied to internal banking reforms. As a new corporate management model for today's businesses, Good Corporate Governance (GCI) is seen as a way for banks to effectively manage the current and future difficulties of fierce interbank competition for customers' trust and business growth. In actuality, not all of the Good Corporate Governance concepts that are aspired to and anticipated to be implemented in a corporation are really implemented. There has been a widespread perception that, with the installation of GCG, a company's corporate governance has been flawless. However, things aren't as straightforward as they appear. GCG's realization necessitates additional effort and assistance from a variety of sources, both within and beyond the organization.

There are five fundamental concepts that should guide the implementation of excellent corporate governance in the banking industry: Openness in expressing relevant and material information, as well as transparency in the decision-making process, is first and foremost. Second, accountability, which includes a clear definition of roles and responsibilities, as well as the installation of an accountability bank. As a third consideration, the bank's management must demonstrate that it adheres to both current legislation and the best practices of sound bank management. Finally, the bank's independence ensures that the bank's management is professional and independent of any external influence or pressure. It's also important to ensure that stakeholders' rights are being met in accordance with the existing agreement and legislation. Banks must follow a variety of regulations and minimal standards and guidelines in order to implement the 5 (five) essential principles described above.

Good corporate governance establishes a professional framework for owners, managers, shareholders, and stakeholders to interact. Each role has its own set of tasks that must be completed with accountability and responsibility while working for the same aim of high profit (Krenn, 2014). Banks are subject to a variety of risks and must comply with government regulations. Due to their size, some banks can fail, affecting millions of people. Governments can better regulate banks by recognizing the risks they face by making responsible decisions (Malini et al., n.d.)

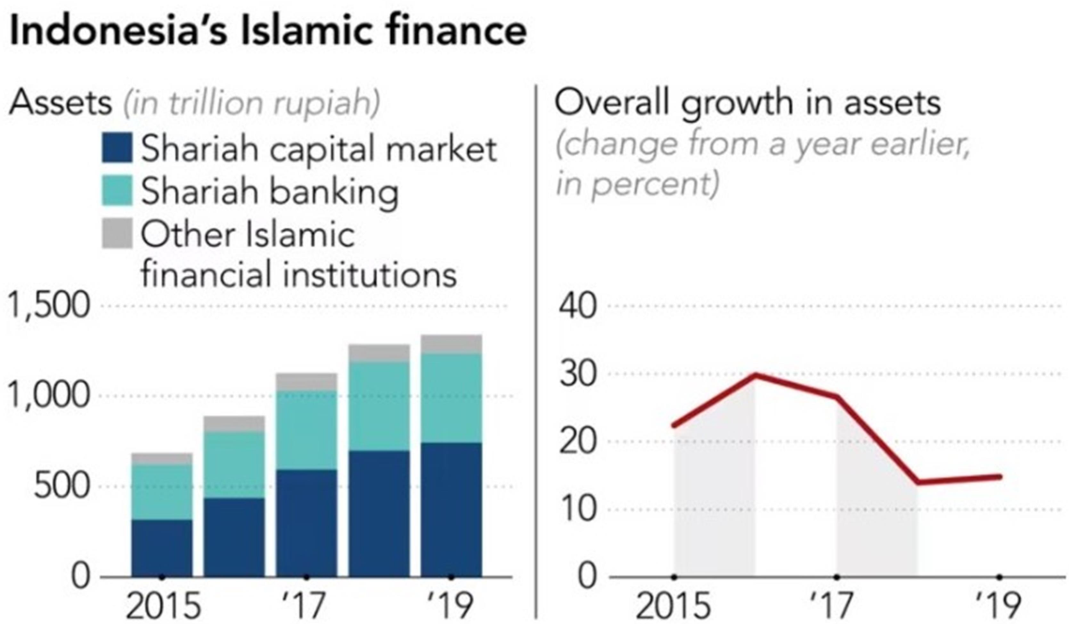
A more long-term and resilient global financial system, requiring accountability and transparency. We consider the banking sector more transparent if it has a more reliable information system about risky loan returns. Increasing transparency does not always reduce exogenous return uncertainty. Instead, we're talking about the reliability of a publicly observable signal correlated with transparency (Ashamu & Abiola, 2012). Good corporate governance promotes investment, financial stability, and long-term economic success by encouraging trust, transparency, and accountability. Corporate governance is a process and framework for directing and managing a company's affairs to achieve long-term shareholder goals. Reducing and compensating for financial products' carbon footprints. In order to identify their major sources of carbon pollution, banks should track, offset, and certify their emissions while creating banking products.

Increasingly, Islamic banking is based on religious principles supported by the implementation of a risk-sharing model that requires several prerequisites, such as openness and accountability, sound economic institutions and well-functioning financial markets. The Islamic banking industry has grown to be a significant part of the country's financial infrastructure and a driver of economic progress. Two nations in Asia, Indonesia and Malaysia, reflect the rise of Islamic banking in the region. Asian Shariah Industry hubs, notably in ASEAN, are established in Malaysia and Indonesia as a point of reference for the newest advances in the Shariah industry.

According to the definition provided by the Central Bank of Indonesia, a bank is an entity that operates for the purpose of collecting funds from the general public in the form of savings and distributing those funds back to the general public in the form of loans or other financial services in order to raise the general population's standard of living. In order to cater to the religious needs of Indonesia's predominantly Muslim population, the country's financial system transitioned to an Islamic model sometime during this decade. The Islamic financial system in Indonesia has expanded across a variety of financial sectors, including capital markets, insurance, mortgage, savings and loan institutions, and banks, amongst others. It makes the Islamic system superior than the conventional system that was previously utilized, which makes it intriguing to compare their performances and future prospects in particular.

Establishing an Islamic bank is impossible without also establishing a conventional bank. The ideology and economic roles of the two banking systems are slightly different. Both Islamic and conventional banks are run in the same way at the local level. Implementation theory for deposits that should be viewed as mere custody, for example. Banks are currently employing the theory of irregular deposit rather than regular deposit because of an epistemological fallacy. Conventional and Islamic banks both fall victim to the fallacy of the deposit hypothesis.

Figure 1. The Growth of Islamic Finance in Indonesia



Source : Indonesia Financial Services (OJK)

Islamic banks, which provide financial and investment goods in a different fashion than regular banks, are now a growing part of Indonesian banking. Islamic banking is advancing quickly, despite the fact that it is still a relative newcomer. Indonesia is the world's largest Muslim country, and banks that adhere to Islamic law and ethics are expected to be more popular. Traditional Indonesian banks are now forming Islamic institutions or business divisions of their own in order to keep up with the times. It's a way of attracting new customers who are interested in Islamic banking's many advantages. Banking and investing methods that prioritize social responsibility and/or environmental sustainability are referred to as sustainable banking. Sustainability is crucial for banks because it helps them mitigate the repercussions of climate change. Sustainable banks encourage investments in renewable energies and socially responsible firms over destructive corporations such as fossil fuel industries, helping them fund the future low-carbon economy.

Sustainable Islamic banking is still a work in progress (Sobari et al., 2019). It is now widely accepted that sustainable banking involves conducting banking operations and business activities while considering the environmental and social impacts. Human resources, expenses, opportunities, and risk exposures) and their activities relating to outward client interactions and the types of projects they sponsor execute sustainable banking (Dialysa, 2015; Manurung et al., 2019) Some banking studies have looked at internal and external stakeholder perceptions (Malini, 2016, 2021b) or the disclosure of sustainable information through bank publication reports (Liu et al., 2012), However, few studies have examined the impact of sustainable Islamic banking on bank performance. A fascinating subject to research further is the use of information technology innovation and improving the quality of financial services.

Sustainable banking entails more than just financial gains; it also entails moral responsibilities. Climate change and social justice problems are becoming increasingly popular around the world, and banking clients are looking for banks that offer services that are in line with these new standards. Banks give value-added services to their consumers by allowing customers to become involved in these concerns. Customers have the potential to make a difference in the world because of the increased transparency that sustainable banking provides. People's urge to make decisions that have long-term consequences is only going to grow in the future (Sarker et al., 2019; Zainuldin et al., 2018).

In practice, whether sustainable Islamic banking improves financial or nonfinancial institutions is still debated. For a business to survive in the competitive financial sector, financial success is critical. However, non-financial performance issues like social and environmental issues also boost banking performance. This study's goal was to assess how transparency and accountability affect the Islamic banking sector's sustainability in Indonesia. Since adoption was influenced by contextual (bank-specific) factors, bank corporate governance affects the process of going to sustainability. Results of this study may support sustainable banking practices, both as a short-term financial investment and as a long-term policy discretion. In terms of regulation, this research will support the Financial Services Authority's sustainable finance roadmap for financial institutions in Indonesia (OJK).

B. Discussion

There are 160 observations, 32 cross section data, and a 5-year timeframe in table 1. Tobin'Q is represented by the dependent variable Y1, which has values of -1.12 and 3.71. The standard deviation of the companies' Tobin'Q ranges from -1.12 to 3.71. PBV is the second dependent variable, with a range of 0 to 4.99. The companies' PBV standard deviation ranges from 0 to 4.99.

X1 represents the Board of Commissioners activity (meetings) from 2015 to 2019. The figure was derived from each Islamic bank's annual report's number of Board of Commissioners meetings. It ranges from 2 to 60. From 2015 to 2019, the second independent variable X2 represents the Board size. The value was calculated using the number of Board members listed in each Islamic bank's annual report. X3 is the number of Commissioners on the Board of Independence from 2015 to 2019. Calculated using the number of Independence Commissioners listed in each company's annual report. It ranges from 1 to 6.

Table 1. Descriptive Statistic

	Y1	Y2	X1	X2	X3	X4	X5	X6
Mean	0.14	1.53	14.41	6.96	2.97	3.9	4.94	31.54
Median	0.07	1.24	10	7	3	4	4.85	31.31
Maximum	3.71	4.99	60	12	6	7	9.3	34.89
Minimum	-1.12	0	2	3	1	3	0.39	28.35
Std. Dev.	0.34	1.04	12.63	2.56	1.04	1.06	1.67	1.71
Skewness	7.15	1.20	1.81	0.31	0.66	1.12	-0.06	0.12

Kurtosis	78.93	4.14	5.38	1.97	2.67	3.51	3.29	2.12
Sum	22.08	244.51	2305	1114	475	624	789.8	5046.30
Observations	160	160	160	160	160	160	160	160

Source: Eviews 8.0 (Processed Data)

Tabel 2. Common Effect Model I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.0014	1.1837	0.0012	0.9991
X1	-0.0027	0.0026	-1.0397	0.3001
X2	0.0282	0.0256	1.1006	0.2728
X3	-0.0414	0.0410	-1.0086	0.3148
X4	0.0356	0.0298	1.1955	0.2338
X5	0.0458	0.0166	2.7625	0.0064
X6	-0.0083	0.0438	-0.1904	0.8492

Source: Eviews 8.0 (Processed Data)

Tobin'Q is not affected by Board of Commissioners activities (meetings), as shown in the table (0.05 or 5 percent). The coefficient of X1 indicates that for every 1-point change in X1, Tobin'Q changes by 0.0027 points, indicating a negative relationship. This study's findings show the value of activities (meetings). So, as a result, Islamic banks are likely to be both more stable and less efficient than their conventional counterparts. When it comes to financial stability and efficiency, Islamic and conventional banks differ because of the nature of their business activities. In general, we can draw the conclusion that Islamic banks are less efficient than their conventional counterparts, although they do have greater intermediation ratios, higher asset quality, and superior capitalization. During the recent financial crisis, Islamic banks have performed particularly well thanks, in particular, to the latter two factors. As a result, Islamic banking institutions are confronted with significant regulatory challenges in the form of cross-border activities. These challenges include financial engineering, various Shariah issues, a lack of appropriate institutional framework, a lack of appropriate legal framework, a lack of equity institutions, and the need to maintain appropriate accounting standards, costs, and other parameters.

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.929a	.862	.859	80201

a. Predictors: (Constant), Accountability, Transparency

Table 4. Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	656.940	4	164.235	255.331	.000b
Residual	104.845	163	.643		
Total	761.786	167			

a. Dependent Variable: Sustainability of the Islamic banking sector

b. Predictors: (Constant), Accountability, Transparency

Table 5. Regression Coefficients

	Unstandardized	**Coefficients**	**Standardized Coefficients**		
	B	Std. Error	Beta	t	Sig.
(Constant)	7.323	3.283		2.231	.027
Transparency	.151	.058	.298	2.589	.011
Accountability	.177	.063	.277	2.805	001

The industry's sustainability is estimated at 7.323 when all factors are held constant. Keeping other factors constant, an increase in transparency would increase

Islamic bank sustainability by 15.1%. Changing accountability by one unit would result in a 17.7% difference in Islamic bank sustainability. There was a significant impact on the industry's long-term viability of transparency, according to the study. Accountability affects sustainability (p=0.0010.05). Transparency refers to the bank disclosing to savers and markets all relevant information about its strategy, assessments, policy decisions, and procedures. Most banks, including those in Indonesia, now value transparency. According to the findings (Malini, 2021a; Zainuldin et al., 2018) of the hazard and survivor functions, Islamic banks have a greater incidence rate of failure, and as a result, a shorter survival period than regular banks.

Competition and market concentration in Indonesia's Islamic banking industry indicate that the market is dominated by one bank. Certain advantages arise from being in a Monopoly market, and Monopolies in banking can be a driving force for expansion. Due to the immediate benefit of allocating the majority of their assets to more attractive investment initiatives, monopolistic banks do just that. Deposit rates at monopolistic banks, on the other hand, are reducing depositors' interest in saving, which means that savings to banks are decreasing. Compared to Indonesia's conventional banks, Indonesia's Islamic banks are less competitive in terms of liquidity. The dual banking system has been implemented as a result of Indonesia's banking landscape shift. The moderate concentration of Islamic banks in Indonesia also has a significant impact on the Islamic banking industry in Indonesia.

Table 6. Fixed Effect Model II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.3993	5.2417	-0.4577	0.6480
X1	-0.0157	0.0043	-3.6202	0.0004
X2	0.0183	0.0346	0.5296	0.5973
X3	0.0151	0.0560	0.2692	0.7882

X4	0.0967	0.0468	2.0674	0.0408
X5	-0.0869	0.0549	-1.5816	0.1163
X6	0.0838	0.1626	0.5155	0.6071

Source: Eviews 8.0 (Processed Data)

The Fixed Effect Model differs from the Common Effect Model because it no longer treats all companies the same. Each organization has its own equation, and in this case, its own intercept point. However, because each bank has its own management system and organizational structure, this method explained the real market situation better than the previous method.

An Islamic bank's management team usually includes one top executive and several senior staff members. The many functions in a retail Islamic bank, from electronic banking to customer service and division managers tend to force an ineffective management. Islamic bank management emphasizes change (internal and external), but market conditions change quickly (Spong et al., 1995). As a result of the new regulations, banks must restructure their management structures. Islamic banks must be able to adapt to changing and uncertain business and financial situations in order to be sustainable.

This study's findings support previous research showing that transparency and accountability can help Islamic banks survive. Nonetheless, this result did not support (Scholtens & van't Klooster, 2019) findings that transparency and accountability helped Islamic banks survive. This study's findings influenced theory, practice, and policy. The Legitimacy Theory was argued in sustainable Islamic banking practice. The use of sustainable business by Islamic banks demonstrated an attempt to gain operational legitimacy by meeting stakeholder or regulatory expectations. Transparency and accountability were expected from banks, not only in terms of financial gain, but also in terms of social and environmental impacts.

C. Conclusion

Indonesian Islamic banks are committed to sustainability, but they need certain success factors in place to fully benefit from their efforts. Despite this, all banks agree that more can be done to improve sustainable Islamic banking. Most Islamic banks said sustainability was well integrated into their business plans. Banks must adopt sustainable Islamic banking practices to have the greatest impact on Indonesia's long-term growth. The more meetings financial business boards hold, the worse their performance, forcing them to look for, examine, and discuss the causes of the company's sustainability decline. In Model I, the size of the Board has a small but positive effect on Tobin'Q. Increase the number of Board Directors in Model I to increase the Tobin'Q of Islamic banking sustainability. In Model II, the size of the Board has little impact on PBV. Increasing the number of directors on Model II reduces the PBV. The size of the Board of Independent Commissioners affects the Islamic banking system's long-term viability. The result is relevant depending on the measurement used. In Model I, the number of Independent Commissioners has a small positive effect on Tobin'Q. In Model II, the size of the Board of Independent Commissioners has a big impact on PBV.

Thus, the size of the Board of Independent Commissioners has a positive impact on Islamic banking sustainability. To protect minority shareholders' interests and keep everything in balance and sound condition, the Board of Independent Commissioners is expected to minimize conflicts of interest among board members. The size of the Audit Committee has a negligible impact on the banking industry's long-term viability. Both models produce the same result. Lower Islamic banking sustainability with a larger Audit Committee. Larger Audit Committees encourage more conservative detailed reporting, lowering Islamic banking financial sustainability.

It is clear from the findings that theories must explain not only how corporate governance affects sustainability, but also which aspects are most affected. The most important implication for practitioners is that certain corporate governance structures may help to promote sustainable activities. The findings also help to the continuing standard-setting process, particularly in relation to the in-depth reassessment of the economic aspects of sustainability under the new GCG framework. To provide transparency to external parties and relevant stakeholders, Islamic bank management can use this research to disclose sustainability issues in corporate reports, such as economic, social, and environmental indicators. The Islamic banking industry adopted sustainability to reduce financial, social, and environmental risks, making it a strategic issue. As a result of this research, regulations on the implementation of pro-environmental policies, such as sustainable finance in banking, are being supported.

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