



# Sustainability Performance – Perspective on Islamic Entity

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**Abstract.** This study aims to develop sustainability report indicators following Islamic business entities, especially Islamic banking. The four sustainability report indicators developed include four indicators, namely Shariah compliance performance indicators and social, environmental, and economic performance. This study is a descriptive statistic to report the level of sustainability performance in Islamic banking entities. The research population is Islamic banks in Indonesia, which have been mandated for 13 years (2009 to 2021). The study results reported that the sample had a greater economic indicator (average 0.886) than other indicators. The average environmental and social performance were 0.777 and 0.727. In addition, the study's results reported that the lowest performance was Shariah compliance performance (0.707).

**Keywords:** Environment Performance, Social Performance, Shariah Compliance Performance.

## 1 Introduction

The public, regulators, and researchers have been pushing sustainability reports as key performance indicators for business entities. This push is based on environmental damage, air pollution, and climate damage caused by global industrialization. To facilitate this push, several organizations have emerged to develop sustainability performance indicators. The tree-bottom line (TBL) is a main indicator in measuring sustainability performance.

The tree-bottom line concept is widely used to measure the sustainability performance of organizations. This concept measures companies by three main indicators: economic, social, and environmental factors [1] [2]. This concept was introduced by Elkington [3], who has expanded the indicators of sustainable development to include environmental integrity, social justice, and economic prosperity, which he calls TBL. Environmental performance improvement integrity refers to organizational business

practices that do not sacrifice environmental resources for future generations. To improve this environmental performance, organizations must protect ecosystems with limited regeneration capacity [1]. Efforts that organizations can make are company operations that can reduce carbon emissions, minimize environmental degradation, or produce environmentally friendly goods and services [4]. Social care performance refers to organizational business operations that ensure beneficial and fair practices in the labor market and society [1]. By building transparent relationships and promoting fair wages or health coverage, an organization can focus on good interactions with the community to increase the company's value. Finally, the economic dimension refers to the impact of the organization's operations on the organization's growth, general economic prosperity, and profitability, which support the sustainability of the organization's business. Previous literature uses TBL indicators to measure the performance of sustainability reports.

To measure this TBL, researchers use the Global Reporting Initiative (GRI) standard [5] [6]. The proof is that GRI G3 uses 79 indicators and is arranged based on three main objectives, with the social dimension further divided into indicators of labor practices, human rights, society, and product responsibility. On this basis, KPMG's 2017 study showed that the GRI reporting guidelines are now highly popular worldwide. In fact, 75% of G250 firms refer to the GRI reporting guidelines in their sustainability reports [7].

Other researchers, such as Jan [8] and Rehman [9] use GRI as an indicator of sustainability performance in Islamic entities. However, GRI, which is based on three indicators (economic, social, and environmental performance), ignores the special characteristics of Islamic bank operations, namely providing banking services by Shariah [10]. Shariah causes Islamic banks to have different principles, operations, governance, and objectives with other firms [11]. A special board will be assigned to handle all bank operations to ensure that Islamic bank operations follow Shariah. Thus, Shariah compliance is an indicator that must be considered by the board so that bank operations are under their objectives [12]. In line with Mukhibad [12], we add Shariah compliance performance as an additional social, economic, and environmental performance measure of sustainability performance.

## 2 Literature Review

In general, from various sustainability report indicators, three main indicators are used: environmental, social and economic, and profitability [1] [2]. Economic performance refers to the function of an Islamic entity as a business organization established to make a profit. In the context of Islam, the ummah is required to seek sustenance as a way to support their living expenses and those of their families. This is in accordance with the verses of the Qur'an that require Muslims to seek sustenance. Surah AN-Najm, verses 39-40, states, "and that each person will only have what they endeavored towards, and that 'the outcome of' all their endeavors will be seen 'in their record.'" Furthermore, Surah al Baqarah verse 172 states, "O believers! Eat from the good things We have provided for you. And give thanks to Allah if you 'truly' worship Him

'alone'". Even Islam prohibits poverty and avoids begging behavior. Based on the hadith narrated by Abu Daud and Hakim states that "Allah's Messenger said, "Whoever can guarantee (the chastity of) what is between his two jawbones and what is between his two legs (i.e. his tongue and his private parts), I guarantee Paradise for him.". Thus, economic performance manifested by profitability is highly emphasized in Islam.

The second indicator of sustainability performance is environmental performance. In Islam, God created the universe to fulfill his life. The universe was created by God as a means of life (*wasilah al-hayat*), to ensure the fulfillment of human life needs (welfare). In this concept, because the continuity of human life is continuous, the maintenance and preservation of the universe becomes an obligatory action for all humans. Al-Quran as the primary source of Islamic law there are 675 verses in 84 paragraphs contained in 30 chapters which have content regarding the environment, including human beings, water, air, land, plants, animals, and other resources [13] [14]. Based on Islam, Muslims respecting and obeying the needs of the environment and all its components is an obligation of every Muslim who has submitted him/herself to the creator and the owner [14]. According to the Qur'an surah Al-Baqarah 205, "And when they leave 'you', they strive throughout the land to spread mischief and destroy crops and cattle. Allah does not like mischief." This Islamic perspective of environmentalism offers a complementary way to combat irresponsible behaviors and attitudes towards the environment, as opposed to the corporate view [14]. Thus, Islam encourages its followers to be directly involved in environmental sustainability for the sustainability of the universe in fulfilling all generations of humanity.

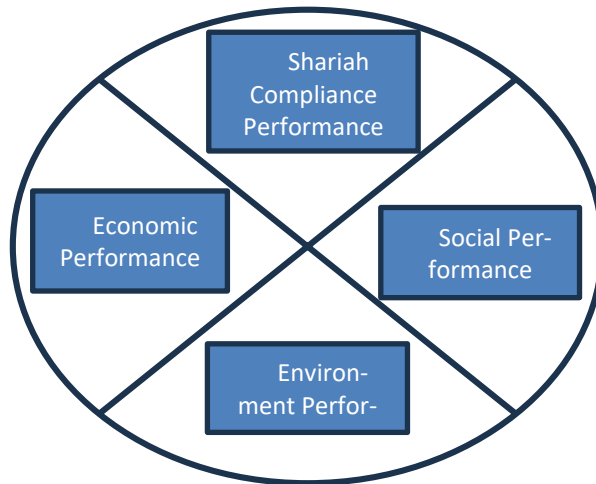
The third indicator is social performance. The social commitment of Muslims is one of the Islamic principles [15]. Al-Qur'an Surah al-Hujurat [49] verse 13 states, "O mankind, indeed We created you from a male and a female and made you into nations and tribes so that you may know one another. Based on this verse, respecting, honoring, and helping one another with neighbors is part of the strength of faith. In fact, in the perspective of Islamic teachings, respecting, honoring, and helping one another with neighbors is part of the strength of faith. This statement is in accordance with QS an-Nisaa [4] verse 36: "Worship Allah and do not associate anything with Him. And do good to your parents, relatives, orphans, the poor, your near neighbors and your distant neighbors, your colleagues, your kinsmen, and your slaves. Indeed, Allah does not like those who are arrogant and boastful." In fact, in QS al-Mâ'un [107], it is stated that people who do not care about the poor and orphans are considered to be liars of religion. Note His words in QS al-Mâ'un [10] verses 1-3: "Do you know (the person) who denies religion? (1) That is the one who rebukes the orphan (2) And does not encourage feeding the poor (3)." As defined in the previous Quran verses, social objectives play an important role in internalizing Islamic values in Islamic bank practices [16].

The fourth indicator is Shariah compliance. Although Islam encourages its followers to seek sustenance, Islam limits the sustenance sought to be categorized as halal. The Qur'an and hadith are the main sources of Islamic law - shariah requires its followers to seek and consume halal sustenance. The Qur'an, Surah An-Nahl, verse 114, states: "Eat of what Allah has bestowed upon you as (sustenance) that is lawful and good and be grateful for the favors of Allah if you only worship Him." In Islam, God will provide

sustenance for all humans. The Messenger of Allah said that seeking halal sustenance is obligatory for every Muslim (hadith narrated by Thabrani).

Ibn Abbas said this verse was read beside the Messenger of Allah: "O all mankind, eat of the sustenance that is on earth that is lawful and good." Then Saad bin Abi Waqas stood up and said: O Messenger of Allah, pray to Allah so that Allah makes me a person whose prayers are effective. The Prophet answered: O Saad, try to make your food halal, then you will be the one whose prayers are answered. And by Allah, in whose power the Prophet Muhammad is, there really was a servant who put a mouthful of haram rice in his stomach, and his deeds of worship were not accepted for forty days. And if a servant grows his flesh from haram goods, hell is more appropriate for that person (hadith narrated by Thabrani). Al-Qur'an surah At Thalaq verses 2-3 states: "Whoever fears Allah will surely open a way out for him, and He will give him sustenance from a direction he does not expect. And whoever puts his trust in Allah, Allah will surely fulfill his (needs). Indeed, Allah carries out His affairs. Indeed, Allah has made provisions for everything." However, humans must strive to seek sustenance and pray, shown by increasing piety).

Based on its history, the establishment of Islamic banks was due to the need of the community to obtain banking and investment services by Shariah [17]. The emergence of Islamic banking in Indonesia after the Indonesian Ulema Council issued a fatwa that bank interest is haram. Thus, shariah compliance performance is important to improve sustainability performance in Islamic banks. Based on the discussion above, we can develop the concept of sustainability performance in Figure 1.



**Figure 1.** Sustainability Performance – Islamic Perspective  
Source: Authors' own work

### 3 Method

This study is a descriptive statistic to report the level of sustainability performance in Islamic banking entities. The research population is Islamic banks in Indonesia, which are mandated for 13 years (2009 to 2021).

Shariah compliance performance is measured by 27 indicators, referring to his research from Mukhibad [12]. Economic performance is measured by 14 indicators, according to Mukhibad research [12]. Social performance is measured by ten indicators referring to Mukhibad research [12]. Finally, environmental performance is measured by 14 indicators, according to Yusoff and Darus [18]. Each indicator will be given a score of 1 if the bank discloses and vice versa, a score of zero if the bank does not disclose. Details of the indicators of the four indicators are presented in Table 1.

**Table 1.** Sustainability Performance Disclosure Indicators in Islamic Banks

No.	Indicator
<b>Shariah Compliance Disclosure</b>	
1	Name of members of the Shariah board
2	A brief description of each member of the Shariah Board (Background and qualifications)
3	Number of members of the board
4	Images of members of the board
5	Administrative positions of the Shariah board in the organizational structure
6	Roles and responsibilities of the board
7	Authorities of the board
8	Shariah audit department in the bank
9	Number of board meetings
10	Information about the attendance of the board in meetings
11	Information about the minutes of meetings
12	Does the website or annual report disclose the Shariah Board Fatwa related to Islamic services
13	Does the website disclose the role of the board in spreading awareness about Islamic banking thinking
14	Shariah Supervisory Board report assigned by the board
15	Information about the bank's responsibility in Zakat
16	Information about the bank's responsibility for activities that are not by Shariah and how the bank deals with them
17	Information about how the profit distribution process in the bank is by Islamic Shariah
18	Information about the independence of the Shariah board with a charter showing the objectivity of the board
19	Information about the opinion of the board on the bank's full compliance with Islamic Shariah rules
20	The board expresses its opinion after reviewing all documents and all financial reports of the bank
21	Does the report show that the bank has complied with <i>Ulama</i> fatwa
22	Information about the report date and name of the bank
23	Names of members of the Shariah board
24	Brief explanation of each member of the Shariah Board (Background and qualifications)
25	Number of board members Picture of board members

No.	Indicator
26	Administrative positions of Shariah administrators in the organizational structure
27	Roles and responsibilities of the board Authority of the board
<b>Economic Performance</b>	
1	Comparative financial statements
2	Basic information about banks
3	Disclosure of currencies used for accounting measurements
4	Disclosure of significant accounting policies
5	Disclosure of income or expenses prohibited by Shariah
6	Disclosure of asset and liability risks
7	Disclosure of contingencies
8	Disclosure of changes in accounting policies
9	Presentation and disclosure in Financial Position
10	Presentation and disclosure in Income Statement
11	Disclosure in Cash Flow Statement of Changes in Owner's Equity
12	Statement of Changes in Restricted Investments
13	Disclosure in Statement of Sources and Uses of Zakat and Sadaqah Funds
14	Disclosure in Statement of Sources and Uses of Funds, Loan Funds ( <i>Qard Hassan</i> Funds)
<b>Social Performance</b>	
1	Employee welfare
2	Internal environmental preservation policy
3	Income and expenses prohibited by Sharia
4	Customer service
5	Late payments and bankrupt clients and avoiding burdensome requirements
6	<i>Qard Hassan</i>
7	Micro and small businesses and social savings and investment and Development
8	Screening and informing clients for compliance with Islamic principles
9	Zakat Charitable Activities
10	Waqf management Social responsibility
<b>Environment Performance</b>	
1	Environmental Related Policy
2	Climate Change Mitigation and Adaptation.
3	Energy Consumption
4	Sustainable Initiatives
5	Research and Development Program
6	Stakeholder Engagement
7	Continuous Monitoring Initiatives
8	Climate Change Policy
9	Prevention Initiatives
10	Virtual Communication
11	Green Products and Services
12	Virtual Marketing
13	Environmental Preservation
14	Education and Training

## 4 Result and Analysis

Table 2 presents the sustainability performance achievements of four types of performance: shariah compliance, economic, social, and environmental. Table 2 reports that the sample has an average environmental performance level of 0.777, while the average social disclosure is 0.727. These results indicate that the average brightness of environmental and social performance indicators is 77.7% and 72.7%. In addition, Table 2 also reports that economic and shariah compliance performance have an average of 0.886 and 0.707. This shows that the sample has disclosed 70.7% of shariah compliance performance indicators, and the sample has disclosed 88.6% of economic performance indicators. Based on these sustainability report performance findings, it show that the sample has a lower sustainability report score than that reported by [12]. However, from the social performance indicator (the average score is 72.7%) it is higher than that reported by Mukhibad, et al. [19], Santoso and Dhiyaul-Haq [20] and Handayati et al [21].

**Table 2.** Sustainability Performance of Islamic Bank in Indonesia

Variables	Mean	Std. Dev.	Min.	Max.
Environment Performance	0.777	0.093	0.320	0.929
Social Performance	0.727	0.136	0.200	0.900
Economic Performance	0.886	0.149	0.071	1.000
Shariah Compliance Performance	0.707	0.087	0.370	0.852

Shariah compliance performance is a disclosure-based measurement tool to assess how much a bank discloses its compliance performance concerning indicators related to the profile of members of the Shariah supervisory board, activities of the supervisory board, and the structure owned by the bank to minimize bank operations that are not by shariah. This performance is very important considering that the main establishment of Shariah banks is to provide banking services that are Shariah [17]. The Shariah compliance disclosure score of 0.707 indicates that the management of Shariah banks does not consider 29.30% of indicators. Indicators that need to be improved are indicators related to the profit distribution process in banks by Islamic Shariah and the opinion of the Shariah supervisory board that they have reviewed all documents and all bank financial reports as a basis for evaluating Shariah compliance.

The second sustainability performance indicator is environmental performance. Table 2 reports an achievement value of 0.777, which indicates that the bank has not disclosed 22.3% of environmental performance indicators. In the Islamic view, the universe was created by God to fulfill his life. The universe was created by God as a means of life (*wasilah al-hayat*), to ensure the fulfillment of human needs (welfare). In this concept, because the continuity of human life is continuous, the maintenance and preservation of the universe is an obligatory action for all humans. Even the Al-Quran is the primary source of Islamic law. There are 675 verses in 84 paragraphs contained in 30 chapters which have content regarding the environment, including human beings, water, air, land, plants, animals, and other resources [13] [14]. Thus, Islam strongly

emphasizes that its people have environmental concerns to ensure all creatures can use the universe.

The third indicator of sustainability performance is social performance, which averages 0.727. The social commitment of Muslims is one of the Islamic principles [15]. In Islam, respecting, glorifying, and helping each other with neighbors is part of the strength of faith. In fact, in the perspective of Islamic teachings, respecting, glorifying, and helping each other with neighbors is part of the strength of faith (Quran Surah and Nisa, verse 36). In addition, in relation to orphans, Islam rebukes people who do not care about orphans as people who deny religion.

Table 2 shows that the sample has an economic performance with an average of 0.886. This indicates that the sample has a higher economic performance than other performances. In Islam, the ummah must seek sustenance to support their living expenses and their families (Quran Surah AN-Najm, verses 39-40). Economic performance refers to the function of a Shariah entity as a business organization established to make a profit. Thus, economic performance manifested by profitability is also emphasized in Islam, and its operations must align with other performances.

## 5 Conclusion

This study aims to develop sustainability report indicators that are in accordance with Islamic business entities, especially Islamic banking. The four sustainability report indicators developed include four indicators, namely shariah compliance performance indicators and social, environmental, and economic performance indicators. The study's results of these various performance indicators reported that the sample had a larger economic indicator (average 0.886) than other indicators. In addition, the study's results reported that the lowest performance was shariah compliance performance (0.707).

The results of this study recommend that Islamic bank directors improve shariah compliance performance. In addition, Islamic bank regulators increase their effectiveness in supervising bank performance. Regulators can issue regulations or laws that require banks to comply. In the context of this study, regulators can develop various performance indicators that support sustainability reports and must be disclosed by banks.

This study uses descriptive analysis that can only present the average score of the research sample. This model study does not answer the driving factors of Islamic banks in improving sustainability report performance. Thus, we suggest further research to expand this study by explaining the determinants that can improve sustainability reports.

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