

Capital Structure, Organizational Slack and Sustainability Reporting In Islamic Bank of Indonesia, Qatar and Bahrain

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Abstract:

This research aims to analyze the effects of capital structure and organizational slack on sustainability reporting in Islamic banks of Indonesia, Qatar, and Bahrain. The capital structure variable consists of leverage and investment account holders, while the organizational slack variable consists of available slack and recoverable slack. Analysis content that used to measure the disclosure of sustainability reporting based on the AAOFII index consisting of 78 items. The observation data used were 120 observations consisting of 26 Islamic banks on Indonesia, Qatar, and Bahrain for the period 2014 to 2018 with a purposive sampling method. The results showed that there was a positive influence between leverage and a negative effect between investment account holders on sustainability reporting. This study also found a positive relationship between available slack and there was no significant effect between recoverable slack on sustainability reporting.

Keywords: *capital structure; organization slack; sustainability reporting*

Abstrak:

Penelitian ini bertujuan untuk menganalisis bagaimana pengaruh yang ditimbulkan dari *capital structure* dan *organizational slack* terhadap *sustainability reporting* pada bank umum syariah di Indonesia, Qatar, dan Bahrain. Variabel *capital structure* terdiri dari *leverage* dan *investment account holder*, sedangkan variabel *organizational slack* terdiri dari *available slack* dan *recoverable slack*. Analisis konten yang digunakan untuk mengukur laporan keberlanjutan berdasarkan indeks AAOFII yang terdiri dari 78 items. Data observasi yang digunakan sebanyak 120 observasi yang terdiri dari 26 bank umum syariah yang terdaftar di Otoritas Jasa Keuangan, Qatar Central Bank, dan Central Bank of Bahrain periode 2014 hingga 2018 dengan metode purposive sampling. Hasil penelitian menunjukkan bahwa terdapat pengaruh positif signifikan antara *leverage* dan pengaruh negatif signifikan antara *investment account holder* terhadap *sustainability reporting*. Penelitian ini juga menemukan hubungan positif signifikan *available slack* terhadap *sustainability reporting* terdapat pengaruh yang tidak signifikan antara *recoverable slack* dengan *sustainability reporting*.

Kata Kunci: struktur modal; slack organisasi; laporan keberlanjutan

INTRODUCTION

Public awareness about the impact of social and environmental of companies increasing, therefore social and environmental reporting has become an important issue for many companies, which has grown along with the increased of sustainability reporting by several companies to communicate social, environmental, and economic performance¹. Proven from the number of companies that issue sustainability reporting around the world according to the Ernest and Young survey², exceeding 250 thousand companies, and the number of companies that report growing every year.

Sustainability reporting is important for a company, it's able to see business risks and opportunities, and also maintain the company's reputation with its stakeholders. Sustainability reporting has a positive impact on sustainable development which reflects how the company can stand and survive, so Elkington³ introduced the 3P concept people, planet, and profit, which is often called the Triple Bottom-Line. The 3P concept continues to develop along with the development of the TPB / SDGs concept into 5P, namely by changing the behavior of mankind (people) to protect nature (planet), a peace that is bound to one another (partnerships), it will be able to help prosperity and prosperity, fulfilled their needs (prosperity).

The concept of TPB / SDGs consists of 17 development goals⁴. One of the goals that align with the economy is number 12, concerning responsible consumption and production. This objective states that every company operating activity must be able to account for the impact of its business activities, including banking. One form of fulfilling its responsibilities is manifested in a sustainability reporting. Banking is a financial institution that functions to collect and distribute funds from the public and provide services, so that bank bankruptcy makes all economic systems fragile⁵. Due to this, banks have a strategic position to realize the concept of corporate sustainability so that banks should provide information on the positive and negative impacts of operational activities according to the needs of stakeholders.

One type of banking is Islamic bank, which differs from conventional banks that has a social function in addition to the function of managing investment and providing financial services. Social functions include zakat, environmental, human resource development, and other social funds by Islamic concepts. This social function is in line with the concept of sustainability reporting, which is to reveal accountability and be socially and environmentally responsible to stakeholders. It's in line with the Islamic concepts, that every human being is

¹ Dominik Dienes, Remmer Sassen, and Jasmin Fischer, "What Are the Drivers of Sustainability Reporting? A Systematic Review," *Sustainability Accounting, Management and Policy Journal* 7, no. 2 (2016): 154–89, <https://doi.org/10.1108/SAMPJ-08-2014-0050>.

² Ernest and Young, "Value of Sustainability Reporting - A Study by EY and Boston College," 2017, 1–29, [http://www.ey.com/Publication/vwLUAssets/EY_-_Value_of_sustainability_reporting/\\$FILE/EY-Value-of-Sustainability-Reporting.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Value_of_sustainability_reporting/$FILE/EY-Value-of-Sustainability-Reporting.pdf).

³ John Elkington, "Accounting for the Triple Bottom Line", *Measuring Business Excellence* 2, no. 3 (1998): 18–22.

⁴ United Nations, "Transforming Our World : The 2030 Agenda for Sustainable Development," *Arsenic Research and Global Sustainability - Proceedings of the 6th International Congress on Arsenic in the Environment, AS 2016*, 2016, 12–14, <https://doi.org/10.1201/b20466-7>.

⁵ (Bouheni et al., 2016)

responsible for delivering justice and the welfare of society and seeking the pleasure of Allah, for the success of the world and the hereafter⁶.

The development of Islamic finance in the world is increasing, in three industries that are Islamic banking, capital market and takaful in 2017 is 8.3%⁷. Islamic banking distribute for 71%, or US \$ 1.7 trillion, of total industry assets in 2017⁸. Countries in Asia such as Indonesia, Malaysia, as well as countries in the Middle East such as Bahrain, Qatar, and the UAE are ranked in the top 10, with the highest level of Islamic finance assets from all over the world and are considered the driving force behind the power of Islamic finance⁹.

In line with the importance of sustainability reporting, the increasing trend of sustainability reporting in various countries, the social function of Islamic banks and the growth of Islamic banks, however, the sustainability report reporting of Islamic commercial banks in various countries including Indonesia, Qatar, and Bahrain has no regulatory requirements for reporting which means that it is voluntary separate from annual reports.

Some researchers criticize Islamic banks for being less for carrying out the objectives of Islamic principles, such as research conducted by Maali et al (2006), Islamic banks in several countries are still low in disclosure about social concerns, especially in environmental issues, So that social and environmental problems are not the main concern of Islamic banking. Reseach from Hassan & Harahap (2010), lack of disclosure of social and environmental responsibility in the bank's annual report and sustainability reporting. Reseach from Asutay (2015), The social functions by Islamic banking have not shown the expected results, from a total value of 283 that must be achieved only a score of 60 or around 21.2 percent. Reseach from Amran et al (2017) shows that Islamic banks in Indonesia and Malaysia in environmental disclosure have a low level.

The growth of the assets of Islamic banks in the world has increased from year to year, so Islamic banks have a risk of corruption and cases of fictitious financing such as the case of fictitious financing Bank Syariah Mandiri 2018, BJB Syariah 2019 dan some can result in a potential bankruptcy such as Bank Muamalat Indonesia 2019¹⁰. This also happened to Islamic banks in Middle Eastern countries such as Bahrain and Qatar, these countries experienced a decline in economic activity from 10.7 percent in 2014 to 5.3 percent in 2016, and this led to banks in these countries, especially Islamic banks. to limit their expansion plans and risk bankruptcy¹¹. Risks in financial growth such as problems with corruption, fictitious financing, and potential bankruptcy according to¹² must be followed by an increase in Islamic banking in terms of social and environmental responsibility, because to create the image of the bank in the stakeholders and the view of Islam social and environmental responsibility does not only fulfill legal and moral but efforts to the long relationship between the bank and the community.

⁶ Faizah Darus et al., "Social Responsibility Reporting of Islamic Banks: Evidence from Indonesia," *International Journal of Business Governance and Ethics* 9, no. 4 (2014): 356–80, <https://doi.org/10.1504/IJBGE.2014.066275>.

⁷ Islamic Financial and Services Industry, *Islamic Financial Services Board Report 2018*, 2018.

⁸ Thomson Reuters, "Islamic Finance Development Report 2018: Building Momentum," *Thomson Reuters*, 2018, 1–44, <http://bit.ly/IFDatabase>.

⁹ Reuters.

¹⁰ CNBC Indonesia, "Terungkap! Ini Penyebab Masalah Kronis Di Bank Muamalat," *CNBC Indonesia*, 2019.

¹¹ Republika, "Bisnis Bank Syariah Timur Tengah Akan Merosot Pada 2018," 2017.

¹² Syukron (2015)

Sustainability reporting is to be affected by bank funding to implement it, one of which supports the public's trust in an Islamic financial institution is adequate capital structure. Capital Structure is a very important factor for banks to guard against the possible risk of loss on investment in assets. Besides the capital structure of banks, organizational slack is considered affected in sustainability reporting. Organizational slack is an advantage of the company's resources, which serves as a facilitator for the company to disclose its social responsibility¹³.

Previous research on capital structure with sustainability reporting was carried out by Farook et al (2011)¹⁴ and Grassa et al (2018)¹⁵. This study uses a proxy investment account holder, in measuring the capital structure which is the investment fund from the customer. The results showed that investment account holders have positive affected on social and environmental responsibility for Islamic banks. Organizational Slack is used as a research variable by Arora & Dharwadkar (2011), Anggraeni & Djakman (2017)¹⁶ and Kim et al (2019)¹⁷. The research of the three uses a measurement that is available slack and concluded that organizational slack have positive affected on the disclosure of social and environmental responsibility. Researchers' research is different from previous research, there are adding a proxy for debt structure or leverage ratios in measuring capital structure and recoverable slack in measuring organizational slack, then the scope of this research includes Islamic commercial banks in Indonesia, Qatar, and Bahrain in the 2014-2018 period.

According to Freeman (1984)¹⁸, stakeholder means group or individual that can influence or be influenced by the achievement of company goals. This theory explains that a company must be able to inform its benefits to its stakeholders because the company is not an entity that doing its business operations for its own. With the stakeholder theory, not only to aim to achieve profit, but it also achieves sustainable development. This can be fulfilled if a sustainability reporting is issued, which explains the reports that have been achieved by the company from economic, environmental, and social aspects so that the needs of stakeholders can be met.

Stakeholder theory is in line with the Islamic perspective, stakeholders are those who have risks or impacts of operational activities so that stakeholders are those who have an implicit connection with the operation of the entity not only those who have explicit contracts¹⁹. The implicit contract is at the main of the Islamic perspective, that is when humans are

¹³ Punit Arora and Ravi Dharwadkar, "Corporate Governance and Corporate Social Responsibility (CSR): The Moderating Roles of Attainment Discrepancy and Organization Slack," *Corporate Governance: An International Review* 19, no. 2 (2011): 136–52, <https://doi.org/10.1111/j.1467-8683.2010.00843.x>.

¹⁴ S Farook and Lanis Roman, "Banking on Islam? Determinants of Corporate Social Responsibility Disclosure," *Islamic Economics and Finance* 2, no. 17 (2007): 355–88.

¹⁵ Rihab Grassa, Raida Chakroun, and Khaled Hussainey, "Corporate Governance and Islamic Banks' Products and Services Disclosure," *Accounting Research Journal* 31, no. 1 (2018): 75–89, <https://doi.org/10.1108/ARJ-09-2016-0109>.

¹⁶ Dian Yuni Anggraeni and Chaerul D. Djakman, "Slack Resources, Feminisme Dewan, Dan Kualitas Pengungkapan Tanggung Jawab Sosial Perusahaan," *Jurnal Akuntansi Dan Keuangan Indonesia* 14, no. 1 (2017): 94–118, <https://doi.org/10.21002/jaki.2017.06>.

¹⁷ Su In Kim et al., "Organizational Slack, Corporate Social Responsibility, Sustainability, and Integrated Reporting: Evidence from Korea," *Sustainability (Switzerland)* 11, no. 16 (2019), <https://doi.org/10.3390/su11164445>.

¹⁸ R. E. 1984. Freeman, "Strategic Management: A Stakeholder Approach," *Boston Pitman*, 1984.

¹⁹ Munawar Iqbal and Philip Molyneux, *Thirty Years of Islamic Banking: History, Performance and Prospects*, 2005.

appointed as Khalifah on earth, then humans will have a contract of responsibility for all their activities implicitly to their Lord ²⁰. Stakeholder theory in an Islamic perspective is company responsibility not only from the horizontal dimension such as humans, and society but also a vertical dimension where operational activities are accountable to Allah SWT. Establishing good relations with stakeholders in an Islamic perspective also brings many benefits, in the hadist of Bukhori and Muslim, which means that the company will be going concerned or live long, and gain sustenance or profit if it keeps the relationship with stakeholders (Silaturrahmi).

Sustainability Reporting

Sustainability reporting is an entity's tool to set goals, evaluate and monitor performance, and ensure changes in the entity. Sustainability reporting is prepared separately from the annual report or as an inseparable part of the annual report. The sustainability report contains the company's vision and mission in finance along with short and long term targets as well as the risks and results to be achieved. Followed by disclosure of 3 aspects, there are economic, environmental, and social.

Sustainability reporting in Indonesia is regulated in Otoritas Jasa Keuangan regulation number 51 /POJK.03/2017 that financial service institutions are required to prepare sustainability reporting either separately from annual reports or as one, however sustainability reporting separately is still voluntary, as reports disclosure. Qatar is set in the ESG Guidance issued by the Qatar Stock Exchange and Qatar Central Bank which states that there are no regulatory requirements for ESG reporting, and compliance with these ESG guidelines is entirely voluntary if done separately from annual reports. The Kingdom of Bahrain issued ESG regulations issued by several institutions such as the Bahrain Bourse, and the Central Bank of Bahrain, which states that sustainability reporting is voluntary if it is separate from financial reports and there are no regulatory requirements for reporting.

Capital Structure

The capital structure includes debt and equity used in firm operations ²¹. Islamic banks have a different capital structure from conventional banking. Islamic banks have 3 capital structures, there are; foreign capital, is capital from outside the company such as debt or liability structures, owner's capital is the owner's capital, the last is temporary syirkah fund capital or investment account holders, is a capital structure that complements other sources of funding containing customer investment funds ²².

Organizational Slack

Organizational slack is a potential resource that enables entities to adapt to adjusting internal and external pressures for policy change, as well as to initiate changes in strategy

²⁰ Zamir Iqbal and Abbas Mirakhor, "Financial Inclusion : Islamic Finance Perspective," *Journal of Islamic Business and Management* 2, no. 1 (2012): 35–64, <https://doi.org/10.12816/0004974>.

²¹ Joshua Abor, "The Effect of Capital Structure on Profitability: An Empirical Analysis of Listed Firms in Ghana," *Journal of Risk Finance* 6, no. 5 (2005): 438–45, <https://doi.org/10.1108/15265940510633505>.

²² Hasan Mukhibad, "Peran Dewan Pengawas Syariah Dalam Pengungkapan Islamic Sosial Reporting," *Jurnal Akuntansi Multiparadigma* 9, no. 2 (2018): 299–311, <https://doi.org/10.18202/jamal.2018.04.9018>.

with respect to the external environment²³. Available slack is an excess of liquid assets which shows the entity's ability to meet its current liabilities with easily available resources²⁴. Recoverable Slack is an excess of resources that are not easily allocated to other parts because it has been absorbed and becomes an entity's expense²⁵.

Capital Structure and Sustainability Reporting

The Islamic stakeholder theory states that Islamic banks to get the trust of creditors, Islamic banks with high levels of debt, and risk need to increase creditor trust with the wider disclosures, such as Sustainability Reporting. Based on Jaiyeoba et al²⁶ The higher leverage or level of debt, the Islamic banks are required to present more complete sustainability reporting to get the trust of stakeholders, the higher level of leverage the wider the disclosure of sustainability reporting. Thus, the hypothesis used is as follows:

H1a: Leverage has an effect on sustainability reporting

investment account holder is an investment fund from a customer and is used as an investment and the bank has the right to manage and invest it within a certain period and the principle of sharing results according to the agreement. Based on the Islamic stakeholder theory, customers do not have voting rights in Islamic banks, but they still supervise management to ensure their funds. According to Farook et al²⁷ and Grassa et al²⁸, to show adherence to the principles of Islamic law to their customers, Islamic banks are required to provide more disclosure to attract customers to invest in their service products. Islamic banks that have high investment account holders have high investment funds, which will encourage Islamic banks to disclose sustainability reporting to continue to supervise management performance. Based on the description, the research hypothesis is formulated:

H1b: Investment account holder has an effect on sustainability reporting

Organizational Slack and Sustainability Reporting

According to Islamic stakeholder theory, the greater the excess of liquid resources in Islamic banks, the easier it will be for Islamic banks to manage these funds and use them to fulfill stakeholder desires with transparent disclosure and accountability through sustainability reporting. Research by Anggraeni and Djakman²⁹ and Kim et al³⁰ the higher the

²³ (Bourgeois, 1981)

²⁴ Andrew J Wefald et al., "Organizational Slack , Firm Performance , and the Role of Industry Linked References Are Available on JSTOR for This Article : Organizational Slack , Firm Performance , Role of Industry," *Journal of Managerial Issues* 22, no. 1 (2015): 70–87.

²⁵ Jeffrey S. Harrison and Joseph E. Coombs, "The Moderating Effects from Corporate Governance Characteristics on the Relationship Between Available Slack and Community-Based Firm Performance," *Journal of Business Ethics* 107, no. 4 (2012): 409–22, <https://doi.org/10.1007/s10551-011-1046-z>.

²⁶ Haruna Babatunde Jaiyeoba, Abideen Adeyemi Adewale, and Mahmud Oluwaseyi Quadry, "Are Malaysian Islamic Banks' Corporate Social Responsibilities Effective? A Stakeholders' View," *International Journal of Bank Marketing* 36, no. 1 (2018): 111–25, <https://doi.org/10.1108/IJBM-10-2016-0146>.

²⁷ Sayd Farook, M. Kabir Hassan, and Roman Lanis, "Determinants of Corporate Social Responsibility Disclosure: The Case of Islamic Banks," *Journal of Islamic Accounting and Business Research* 2, no. 2 (2011): 114–41, <https://doi.org/10.1108/17590811111170539>.

²⁸ Grassa, Chakroun, and Hussainey, "Corporate Governance and Islamic Banks' Products and Services Disclosure."

²⁹ Anggraeni and Djakman, "Slack Resources, Feminisme Dewan, Dan Kualitas Pengungkapan Tanggung Jawab Sosial Perusahaan."

liquid resources, the easier to manage funds for social and environmental responsibility as reflected in the sustainability reporting. Based on the description above, the research hypothesis is formulated:

H2a: Available Slack has an effect on sustainability reporting

The Islamic stakeholder theory states that recoverable slack which is over the expense in an entity is not easy to allocate to other parts so that too much recoverable slack is absorbed in a company expense cannot be used by managers for more sustainable operational activities to meet needs its stakeholders. Based on Reuer & Leiblein³¹ Tan & Peng³², and Argile³³, recoverable slack has a significant effect on profitability because these resources have been absorbed by the entity's expenses. The higher the recoverable slack owned by the entity, the lower the level of profitability. The low profitability makes management less flexible in disclosing social responsibility to stakeholders³⁴. So that the higher the recoverable slack of an entity, the lower the sustainability reporting disclosed. Based on the description above, the hypothesis is formulated as follows:

H2b: Recoverable Slack has an effect on sustainability reporting

RESEACH METHOD

Population and Sample

This study aims to test the effect of Capital Structure, Organizational Slack on Sustainability Reporting, using a quantitative method. The object studied in this study is islamic banks listed in OJK, Qatar Central Bank, and Central Bank of Bahrain 2014-2018. The population in this study is the sharia Islamic banks listed in islamic banks listed in OJK, Qatar Central Bank, and Central Bank of Bahrain 2014-2018. The samples in this study are selected using purposive sampling with the following criteria:

1. Islamic banks listed in OJK, Qatar Central Bank, and Central Bank of Bahrain 2014-2018.
2. The firm publishes Sustainability Reporting and or annual report in 2014-2018.
3. The firm publishes complete data on the variables used in this study

According to the statistical data of islamic banks published by Otoritas Jasa Keuangan Qatar Central Bank, and Central Bank of Bahrain per June 2019, the total number of islamic banks in Indonesia is 14 banks, 6 Islamic banks in Qatar, and 14 Islamic banks in Bahrain. Due to limited access and completeness of data, this study can only use 14 islamic banks in

³⁰ Kim et al., "Organizational Slack, Corporate Social Responsibility, Sustainability, and Integrated Reporting: Evidence from Korea."

³¹ Jeffrey J. Reuer and Michael J. Leiblein, "Downside Risk Implications of Multinationality and International Joint Ventures," *Academy of Management Journal* 43, no. 2 (2000): 203–14, <https://doi.org/10.2307/1556377>.

³² Justin Tan and Mike W. Peng, "Organizational Slack and Firm Performance during Economic Transitions: Two Studies from an Emerging Economy," *Strategic Management Journal* 24, no. 13 (2003): 1249–63, <https://doi.org/10.1002/smj.351>.

³³ Josep Garcia-Blandon and Mo'nica Martinez-Blasco Josep M. Argile's-Bosch, "The Impact Of Absorbed and Unabsorbed Slack On Firm Profitability: Implications For Resource Redeployment," *Advances in Strategic Management*, 2016.

³⁴ Bassam Maali, Peter Casson, and Christopher Napier, "Social Reporting by Islamic Banks | ReadCube Articles," *Abacus* 42, no. 2 (2006): 266–89, <https://doi.org/10.1111/j.1468-4497.2006.00200.x>.

Indonesia, 3 islamic banks in Qatar and 10 islamic banks in Bahrain, so that the total sample used is 27 Islamic commercial banks.

The data of this research is unbalanced data where each bank has a different data year. Researchers to determine the sample criteria used a purposive sampling method, which causes several Islamic banks to be eliminated because they do not meet the specified criteria. The final sample used in this study were 120 observations. The selection process can be seen in table 1.

Table 1.
Sampling Criteria and Observation Data

Sampling Criteria and Observation Data	N
All Islamic banks registered in Indonesia, Qatar and Bahrain	170
Less: Annual reports that cannot be accessed online	<u>(35)</u>
	135
Less: Islamic banks that do not disclose all research variables (incomplete data) and outlier data	<u>(15)</u>
Total	120

Sustainability Reporting

This study uses the sustainability reporting index, the index is based on AAOIFI standard No.7 of 2010³⁵, Hassan & Harahap³⁶ dan Amran et al³⁷. The variable is measured using the scoring method. Score 1 is given for the item disclosed according to ISR index and score 0 is given for the undisclosed item. The measurement results are expressed with values that can be calculated based on simple calculations

$$\text{Sustainability Reporting} = \frac{\epsilon \text{ Total Item Obtained}}{\text{The Maximum Score}} \quad (1)$$

Capital Structure

The capital structure uses 2 proxy, there are :

1. *Leverage*

Leverage is measured by the ratio of total Islamic bank debt to total equity³⁸.

$$DER = \frac{\text{Total Debt (Liability)}}{\text{Total Equity}} \quad (2)$$

2. *Investment Account Holder*

³⁵ AAOIFI, *Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions. Accounting and Auditing Organization for Islamic Financial Institutions*, 2010.

³⁶ Hassan & Harahap, (2010)

³⁷ Amran et al (2017)

³⁸ (Anggraini, 2006)

Investment account holders based on Farook et al³⁹ which is measured by a comparison between temporary syirkah funds compared with the total equity of Islamic banks.

$$IAH = \frac{\text{Total Investment Account Holder}}{\text{Total Ekuitas}} \quad (3)$$

Organizational Slack

Organizational Slack uses 2 proxy, there are:

1. *Available Slack*

Measurement of available slack variables is based on research Bourgeois and Singh⁴⁰, there are :

$$AVSL = \frac{\text{Cash + Marketable Securies} - \text{Current Liabilities}}{\text{Operational Revenue}} \quad (4)$$

2. *Recoverable Slack*

Measurement of recoverable slack variables is based on research Bourgeois and Singh⁴¹, there are :

$$RVSL = \frac{\text{General and Administrative Expense}}{\text{Operational Revenue}} \quad (5)$$

Data analysis method

Data analysis used in this research is quantitative analysis, and statistical analysis techniques in this study use panel data regression using Stata 13 statistical tools. The stages of testing analysis in this study include descriptive statistical analysis, correlation matrix analysis, regression analysis, and hypothesis analysis.

The econometric approach model used to test the effect of capital structure and organizational slack on sustainability reporting in Islamic banks in Indonesia, Qatar and Bahrain is:

$$SR_{it} = \alpha + \beta_1 LEV_{it} + \beta_2 IAH_{it} + \beta_3 AVSL_{it} + \beta_4 RVSL_{it} + \beta_5 GDP_{it} + \varepsilon$$

The treatment of data testing in this study does not differentiate between Islamic banks in each country. The data test used in this research is quantitative analysis. The technical statistical analysis in this study uses panel data regression with a robust fixed effect approach.

RESULT AND DISCUSSION

Descriptive Statistics

Table 2.

³⁹ Farook, Kabir Hassan, and Lanis, "Determinants of Corporate Social Responsibility Disclosure: The Case of Islamic Banks."

⁴⁰ Bourgeois and Singh, (1983)

⁴¹ Bourgeois and Singh, (1983)

Descriptive Statistics					
Variabel	Obs	Mean	Std. Dev	Min	Max
SR	120	0,5097	0,1680	0,1282	0,9487
LEV	120	1,8626	1,0725	0,4961	4,0135
IAH	120	4,4831	2,7959	0,2480	9,6904
AVSL	120	1,5421	1,3301	-2,0081	5,4992
RVSL	120	0,1616	0,0895	0,0316	0,4658
GDP	120	0,0043	0,0679	-0,0248	0,1267

Source: Data processing results Stata 13, 2020

Table 2 shows the observational data of 120 which are all Islamic banks in Indonesia, Qatar, and Bahrain in 2014 - 2018. Islamic banks have the highest leverage level of 4.01 owned by As-Salam Bank Bahrain and the lowest level of leverage of 0.49 owned by BPD NTB Syariah. The higher the leverage value with the DER measurement, it shows that the total composition of debt is greater than capital. The leverage variable has a mean value of 1.86 and a standard deviation of 1.07.

Investment account holders have a maximum value of 9.69 owned by Panin Syariah and a minimum level of 0.24 owned by As-Salam Bank Bahrain. The higher the investment account holder value, the more customer investment funds are in Islamic banks. Investment account holders have an average value of 4.48 from the average, minimum and maximum values, these numbers have a very far range of data as evidenced by the standard deviation value of 2.79, which is the highest value among all. The existing standard deviation means that the investment account holder has a large spread and the difference is too far. Finance companies, such as banks, have higher levels of debt and temporary syirkah funds or investment account holders than their capital. This is because some of the funds that are managed are from third party funds, such as in liability there are wadiah deposits, isti'na debts, etc, which are deposits from customers that must be maintained and returned, while in investment account holders there are savings and mudharabah deposits as well as musyarakah which is the customer's investment fund, therefore the average value of leverage and investment account holder for Islamic banks is higher than other companies. The analysis also shows that the investment account holder has an average value that is higher than the leverage, this explains that most of the funding sources for Islamic banks come from temporary syirkah funds or investment account holders.

The available slack variable has a mean value of 1.54 and a standard deviation of 1.33. The maximum value of available slack is 5.4 which is owned by the Bahrain Islamic Bank and the minimum is -2 owned by the Qatar International Islamic Bank. Bahrain Islamic Bank is an Islamic bank that has been operating for a long time and is one of the largest Islamic banks in the Middle East. So that Bahrain Islamic Bank banks have good current assets, compared to other Islamic banks. The high available slack shows that there are more excess resources owned by Islamic banks.

Recoverable slack shows the maximum value of 0.46 owned by Al-Baraka Bahrain and the minimum 0.03 owned by As-Salam Bahrain, high recoverable slack shows that the resources absorbed by Islamic banks are getting higher too. The mean and standard deviation of recoverable slack are 0.16 and 0.08.

The control variable in this study is the annual change in gross domestic per capita, which is a measure of the production or monetary value of a country's production both goods and services within a certain time period. The GDP has a maximum value of 0.126 owned by

the country of Qatar in 2018 and a minimum value of -0.02 owned by the country of Qatar also in 2015. GDP has an average value of 0.004. The higher the GDP value, the higher the change in the country's production in a certain period of time.

The dependent variable in this study is sustainability reporting which has an average value of 0.50, which means that the average sustainability reporting index for Islamic banks in Indonesia, Qatar, and Bahrain is 50.9%, sustainability reporting for Islamic banks in Indonesia, Qatar, and Bahrain is good enough. The maximum value is 0.94 and the minimum value is 0.12. The lowest sustainability reporting index came from Islamic Bank Al-Khair from Bahrain at 0.12 (12%) and the maximum value achieved by Bank BNI Syariah Indonesia was 0.94 (94%). The lowest score is owned by Islamic banks that have never published sustainability reporting separately from annual reports, while the highest score is owned by Islamic banks that have consistently published sustainability reporting 4 times in a row from 2015-2018. The higher the sustainability reporting value, the higher the voluntary disclosure that occurs.

Correlation Matrix

Table 3.
Correlation Matrix

	LEV	IAH	AVSL	RVSL	GDP
LEV	1				
IAH	0,0132	1			
AVSL	0,2128	0,1521	1		
RVSL	0,0938	0,3944	0,3107	1	
GDP	0,0012	0,1051	-0,0384	0,0853	1

Source: Data processing results Stata 13, 2020

The correlation matrix in Table 3 shows the value of each of the independent and control variables is less than 0.75. So, the variables in this study can be tested simultaneously in a regression model.

Regression Results

Regression testing in this study uses panel regression with a fixed-effect model. This study also uses robust testing that accommodates the distribution of abnormal error values so that a robust or resistance model is produced. Robust testing is used to overcome heteroscedastic problems, and/or autocorrelation, and reduce the possibility of variance function specification errors.⁴² The regression test results are shown in the following table:

Table 4.
Regression Test Results, Fixed Effect, Robust Model

(1)					
VARIABLES					
	Coef	Robust Std.	t Value	P-Value	Keterangan

⁴² R. Charter Hill, William Griffiths E, and Guay C. Lim, *Principle of Econometrics* (Denvers: John Wiley & Sons Inc, 2011).

		Err			
LEV	0,036	0,0102	3,53	0,002***	Affected
IAH	-0,02	0,00853	-2,34	0,0280**	Affected
AVSL	0,0215	0,00698	3,08	0,005***	Affected
RVSL	-0,00202	0,184	-0,01	0,9910	Not Affected
GDP	0,334	0,102	3,26	0,003***	Affected
Constant	0,498	0,0481	10,35	0,000***	
Observations	120				
Number of BANKID		26			
Adj.R-squared		0.316			
F		6,3		0,0007***	

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Data processing results Stata 13, 2020

Based on table 4, the F value with a significance level of 0.0007 is 6.3. This value is smaller than the 5% significance level, which means that the variables of leverage, investment account holder, available slack, recoverable slack, and GDP together have a significant effect on the sustainability reporting. The adjusted R2 value is 0.316, meaning that the leverage variable, investment account holder, available slack, recoverable slack, and GDP can explain the sustainability reporting with 31.6%, and 68.4%, explained by other variables.

The leverage variable from the regression test results in table 4 has a p-value of 0.002 at a significance level of 1%, meaning that leverage has a significant effect on sustainability reporting. This research is consistent with research from Jaiyeoba et al⁴³, which states that the higher level of debt, the wider the disclosure. According to Islamic stakeholder theory, the increase in debt is in line with the demands of stakeholders in the disclosure of information presented by Islamic banking. Large debt has the risk of default on bank payments. To reduce risk, banks need to increase creditor trust with wider disclosures, including disclosures in sustainability reporting. The higher leverage or the level of the company's debt, the company is required to present complete sustainability reporting to gain the trust of stakeholders, so it can be concluded that the higher leverage level, the wider the disclosure of sustainability reporting. Thus, the hypothesis that leverage has an effect on sustainability reporting can be supported.

The p-value of the investment account holder (IAH) variable is 0.0280 at a significance level of 5%, which means that investment account holders have a significant effect on sustainability reporting. Investment account holders have an effect on sustainability reporting. Based on Farook et al⁴⁴ and Grassa et al⁴⁵, the higher customer will encourage Islamic banks to disclose sustainability reporting so that customers monitor through sustainability reporting on management performance. Therefore this study is inconsistent

⁴³ Jaiyeoba, Adewale, and Quadry, "Are Malaysian Islamic Banks' Corporate Social Responsibilities Effective? A Stakeholders' View."

⁴⁴ Farook, Kabir Hassan, and Lanis, "Determinants of Corporate Social Responsibility Disclosure: The Case of Islamic Banks."

⁴⁵ Grassa, Chakroun, and Hussainey, "Corporate Governance and Islamic Banks' Products and Services Disclosure."

with previous research. However, this study shows consistent results with Zanjabil⁴⁶ which states that there is an effect of investment account holders on sustainability reporting because sustainability reporting is a company's strategy to attract and establish collaborative relationships with customers. If the customers of an Islamic bank have decreased, the Islamic bank will make more disclosures to get customers. Likewise, on the other hand, if the customer is deemed sufficient according to the target set, Islamic banks will tend to reduce the disclosure.

The investment account holder in this study, the composition of the mudharabah account holder is greater than the musyarakah account holder, this is in accordance with the concept of the mudharabah contract that if there is a profit it will be shared with the customer, while if there is a loss the bank will bear it. This indicates that the more losses incurred by the bank, the lower the profitability⁴⁷, the lower the profitability that the bank gets, the bank will reduce the disclosure of sustainability reporting. According to the Islamic stakeholder theory, the level of profit is a factor that makes management flexible to disclose social responsibility to stakeholders. Islamic banks with high profits will provide freedom and flexibility to management to carry out sustainability reporting. The higher the investment account holder, the lower the sustainability reporting. So the hypothesis which states that investment account holders have an effect on sustainability reporting is supported.

Table 4 shows the probability value of the t statistical test results for the effect of available slack on sustainability reporting of 0.002. This value is less than 1%, which means available slack has a significant effect on sustainability reporting. Available slack has an effect on sustainability reporting. This is in line with Islamic stakeholder theory, the greater excess of liquid resources in Islamic banks, the easier it is for Islamic banks to manage these funds and can be used to fulfill stakeholder desires with transparent disclosure and accountability through sustainability reporting. Managers in making decisions to disclose sustainability reporting depends on how many excess resources there are. The higher the liquid resources in Islamic banks, the easier it will be for Islamic banks to manage funds to carry out social and environmental responsibility as reflected in the sustainability reporting. The higher available slack, the wider the sustainability reporting. The H2a hypothesis is consistent with the research of Anggraeni & Djakman⁴⁸ Kim et al⁴⁹ and can be accepted.

The recoverable slack variable has a p-value of 0.9910 at a significant level of 1% to 10%, which means that recoverable slack has no significant effect on sustainability reporting. The hypothesis that recoverable slack has an effect on sustainability reporting is not accepted. This result is inconsistent with research from Argile's⁵⁰, the higher recoverable slack owned by Islamic banks will reduce the level of company profitability. The low profitability causes management to be less flexible in disclosing sustainability reporting to

⁴⁶ Aviciena Zanjabil, "Faktor-Faktor Yang Mempengaruhi Pengungkapan Corporate Social Responsibility," *Diponegoro Journal Of Accounting* 4, no. 4 (2015): 1–13, <https://doi.org/10.15294/aaj.v4i4.9119>.

⁴⁷ Suhendri Hendrik, "Evidance From Indonesia : Is It True That Mudharabah Financing and Micro Business Financing Are At High Risk For Shara Banking Business?," *RJOAS* 6, no. June (2018): 197–205.

⁴⁸ Anggraeni and Djakman, "Slack Resources, Feminisme Dewan, Dan Kualitas Pengungkapan Tanggung Jawab Sosial Perusahaan."

⁴⁹ Kim et al., "Organizational Slack, Corporate Social Responsibility, Sustainability, and Integrated Reporting: Evidence from Korea."

⁵⁰ Josep M. Argile's-Bosch, "The Impact Of Absorbsed and Unabsorbsed Slack On Firm Profitability: Implications For Resource Redeployment."

shareholders⁵¹. But this is consistent with the research of Harrison and Coombs⁵² that recoverable slack has no effect on profitability. Islamic banks that have recoverable slack with high and low general expenses are equally responsible for their activities. So that the hypothesis that recoverable slack has an effect on sustainability reporting cannot be supported.

There is one macroeconomic variable that is used as a control variable, namely GDP. The effect of the GDP variable on the control variable can be seen in Table 4, which has a p-value of 0.003, which means it is significant because it is smaller than 0.01. For the coefficient value of the influence of GDP on sustainability reporting, it can be seen that the value is 0.334 which indicates a positive direction. This shows that the GDP level has an effect on sustainability reporting. The higher a country has a GDP the wider the disclosure of sustainability reporting.

CONCLUSION

The results of this study conclude several things, there are 1) simultaneously the capital structure and organizational slack variables have an effect on the sustainability reporting of Islamic banks in Indonesia, Qatar, and Bahrain. 2) partially the panel regression results show that leverage has a positive effect, investment account holders have a negative effect, available slack has a positive effect and recoverable slack has no effect on sustainability reporting in Islamic banks in Indonesia, Qatar, and Bahrain.

There are some limitation in this research; This research model only explains 31.6%, it's mean that the variables in this study have not been able to explain sustainability reporting and there are many other variables outside this study that have an effect on sustainability reporting. Further research is expected to add several variables besides capital structure and organizational slack, increase the scope of research other than Indonesia, Qatar, and Bahrain, and extend the research period.

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⁵¹ Maali, Casson, and Napier, "Social Reporting by Islamic Banks | ReadCube Articles."

⁵² Harrison and Coombs, "The Moderating Effects from Corporate Governance Characteristics on the Relationship Between Available Slack and Community-Based Firm Performance."

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