

Political Instability and Sustainability Islamic Finance in the World

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Abstract

This study aims to analyzed the relationship between company performance, inflation, good corporate governance, and Islamic finance sustainability with political instability as moderating variable in Islamic banking in the world. Sources of data collected from secondary data by using the method of documentation through websites of the central bank. Sampling the research are 24 companies that are included in the top 30 Islamic banking in the world for the 2019-2021 period and analyzed using Smart PLS. The results of this study indicate that only the company's performance has a positively effect on Islamic banking sustainability. Then the company's performance is not a mediated and political instability is not a moderated variables.

Keywords: company performance, inflation, good corporate governance, Islamic finance sustainability, political instability.

A. Introduction

The emergence of Islamic banks provides a different color in terms of service, operations, and transactions in the banking world. Islamic banks are financial institutions that act as collectors, distributors and providers of public financial services in accordance with Islamic principles (Mursid & Aziz, 2020). In order to carry out its duties optimally, a bank must have a good level of sustainability and growth (Bartolacci et al., 2020). The sustainability of banking itself can be seen from the ability of banks, namely by comparing the costs incurred with the income received. One way to see the level of sustainability of a bank is to use the financial sustainability ratio (FSR). FSR is a sustainability ratio that compares a company's financial income with its financial expenses, which is useful in assessing the efficiency of an institution (Kepakisan & Budiasih, 2022).

Islamic banking requires good company performance to achieve a sustainable business. Financial performance is one way to see a company's ability to make a profit. This is categorized as something that must be achieved because performance is a form of how companies can be assessed from the company's strength in maximizing the resources they have (Trisnowati et al., 2021). Besides that, stakeholder trust in the company's sustainability performance will increase, if there is the implementation of Good Corporate Governance (Bokhari & Suleman, 2019). Companies need to strengthen their Good Corporate Governance to reduce agency conflicts that arise from the interests of investors and agents. The board is the main party tasked with strengthening Good Corporate

Governance and maintaining the trust and interests of stakeholders by supervising and directing managers so they can make the right decisions.

In addition, macroeconomic factors or factors outside the company also affect the sustainability of banking directly or indirectly. High inflation is usually caused by overheating of the economy, which is a condition when demand is higher than supply, which in turn causes price increases (Himawan & Imanda Firmantyas Putri Pertiwi, 2022). Overheating in this economy will also reduce the value of money and reduce real income from investment so that it can threaten the sustainability of the banking itself. Then because there are different countries, the condition of a country can affect the sustainability of Islamic banking itself. For example, such as political instability. The positive sign of political risk found by Khan & Saqib (2011) in their study indicates that politically stable countries generate higher returns on equity. Portfolios that experience reduced political risk in their environment often produce better returns than portfolios with high risk.

In addition, political instability has serious consequences for economic performance (Muhoza, 2022.). This affects the economy because it increases uncertainty about the situation and future economic policies. Furthermore, it affects the business and investment environment as well as the decisions of producers, consumers and all stakeholders involved in the country's economy. In short, it can present a serious threat to economic performance and hinder a country's development.

B. Literature Review

Contingency theory states that the alignment between strategy and the external business environment determines the survival and performance of a company. Contingency theory also means how strategic planning is able to meet environmental demands, which if there is no alignment between strategic planning and the external business environment can result in decreased performance resulting in an organizational or corporate crisis (Hult, 2011). Islamic finance sustainability can be seen from the company's ability to cover all costs with the income received. One way to measure the level of sustainability of a bank is to use the financial sustainability ratio (Abu Murad & Alshyab, 2019).

Islamic banking requires good company performance to achieve a sustainable business. Financial performance is a method used to see a company's strength in obtaining profits. This is categorized as something that must be achieved because performance is a form of how companies can be assessed from the company's strength in maximizing the resources they have (S et al., 2020).

One of the main factors causing economic turmoil and feared by the government is inflation. This is because inflation can cause bad things for production costs and also people's welfare. One of the main causes of inflation is due to the gap that arises because demand cannot be matched by the economy's aggregate supply (Khan & Saqib, 2011).

The concept of Good Corporate Governance (GCG) is about corporate structure, GMS, binding directors and empowered officials, as well as similar working mechanisms, assignment of duties, authorities and responsibilities internally and externally which consist of elements that apply to companies in

Indonesia, with the aim of increasing the value of the company for the benefit of the company for investors and stakeholders. Proper corporate governance must be implemented to build a transparent and effective market that complies with the rules. In order to succeed in good corporate governance within the company, there must be a supporting role through the presence of three interacting actors. The state and its institutions as regulators, entrepreneurs as market players, and society as consumers (Tjahjadi et al., 2021).

There are several hypotheses from this study are as follows: (H₁): Company performance has a positive effect on sustainability Syariah banking; (H₂): Inflation has a negative effect on Banking Sustainability Sharia; (H₃): Good Corporate Governance has a positive effect on Sharia Banking Sustainability; (H₄): Inflation has a negative effect on company performance; (H₅): Good Corporate Governance has a positive effect on performance Company; (H₆): Company performance mediates the relationship between Good Corporate Governance and Sharia Banking Sustainability; (H₇): Company performance mediates the relationship between inflation and Sharia Banking Sustainability; (H₈): Political Instability moderates the relationship between Performance Company towards Sharia Banking Sustainability; (H₉): Political Instability moderates the relationship between Inflation and Sharia Banking Sustainability; (H₁₀): Political Instability moderates the relationship between Good Corporate Governance of Sharia Banking Sustainability

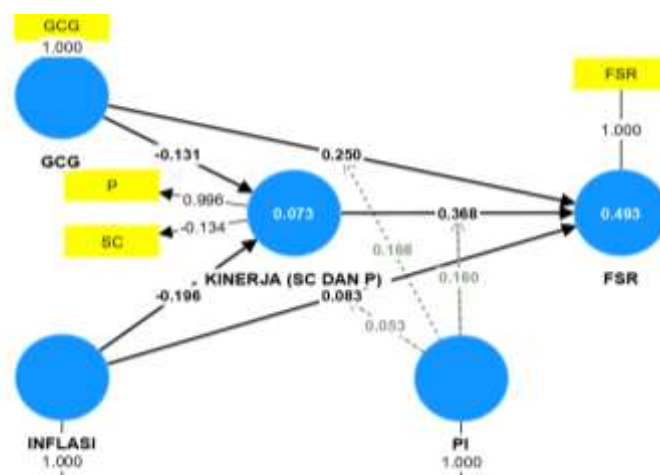
C. Method

This research is quantitative descriptive research that was conducted the website of the Central Bank of each country and the website of each bank where each serves as a medium for providing secondary data related to the annual report on a country's economy and the bank's annual financial report. Meanwhile, the time for conducting the research is from January to September 2022. The population in this study is Islamic banking in the world for the 2019-2021 period.

The documentation method is used as a data collection method. The documentation carried out in this research is to collect all economic reports along with their notes reported by each country by the World Bank and the annual reports of each Islamic bank in the sample for the 2019-2021 period. Processing and analysis of data in this study with the analysis of Partial Least Square-Structural Equation Modeling (PLS-SEM).

D. Result and Discussion

From the test results through Partial Least Square-Structural Equation Modeling (PLS-SEM) analysis, the following results are obtained:



The results of the analysis above show that the effect of company performance on the sustainability of Islamic banking has a t statistic value of $2.208 > t$ table, namely 1.996008, and a P value of $0.027 < 0.05$. So that H_{a1} is accepted, company performance has a significant positive effect on banking sustainability. Just like Rahim's research results, company performance has a significant effect on the sustainable growth rate (Kepakisan & Budiasih, 2022). Likewise, according to Nurhikmah, financial factors have a positive impact on the Financial Sustainability Ratio (Nurhikmah & Rahim, 2021).

From these results it can be concluded that the company can use its resources, which include all assets, capabilities, pro-access, company equipment, information, knowledge and others that make the company's strengths to understand and apply strategies for the company (Martina, 2016). For example, like Al Rajhi Bank in 2019 which has a high Sharia Conformity and Profitability score of 3.64 and 30.38 it can also produce a high financial sustainability ratio score of 315.915, and the following year it will follow. From the analysis above, it shows that the effect of inflation on the sustainability of Islamic banking has a t statistic value of $0.736 < t$ table, namely 1.996008, and a P value of $0.476 > 0.05$. So that H_2 is rejected, inflation not affected toward Islamic banking sustainability. Just like the research results from Sahetapy (2019) which revealed that inflation has no effect on the financial sustainability of Indonesian banking. The results of this study can be explained because the inflation rate is relatively stable in walking inflation ($< 10\%$). This low and stable inflation rate may be the main reason why inflation does not affect the bank's financial sustainability.

The Influence of Good Corporate Governance on the Sustainability of Islamic Banking H_3 is rejected, good corporate governance has no significant effect on banking sustainability. A larger Board of Commissioners represents the interests of shareholders more efficiently and effectively in terms of receiving information and making the right decisions, while raising the economic and financial level (Coldwell et al., 2022). This can mean that the existence of a large number of commissioners in the company is not directly proportional to the precise decision making within the company. The performance of the board of commissioners was declared a failure because they could not read the possibilities that would occur in the future. For example, such as Islami Bank Bangladesh, which has the largest number of commissioners, namely 20 people, but these banks cannot produce a lower financial sustainability ratio than Al Rajhi Bank and Dubai Islamic Bank, which only have boards of commissioners of 11 people and 8 people.

The analysis above shows that the effect of inflation on company performance has a statistical t value of $1.412 < t$ table, namely 1.996008, and a P value of $0.158 > 0.05$. So that H_4 is rejected, inflation does not have an

insignificant impact on company performance. Inflation tends to be stable due to government policies that regulate it, so that it is possible for the company's performance not to feel the impact. Because the company only carries out its operations as usual without any significant changes. From the analysis above, it shows that the effect of good corporate governance on company performance has a t statistic value of $0.736 < t_{table}$, namely 1.996008, and a P value of $0.462 > 0.05$. So that H_5 is rejected, good corporate governance has no significant effect on company performance.

From the analysis above, it shows that the effect of good corporate governance on the sustainability of Islamic banking with company performance as a mediating variable has a t statistic value of $0.88 < t_{table}$, namely 1.996008, and a P value of $0.379 > 0.05$. So that H_6 is rejected, company performance cannot mediate the relationship between good corporate governance and banking sustainability.

From the analysis above, it shows that the effect of inflation on the sustainability of Islamic banking with company performance as a mediating variable has a t statistic value of $0.974 < t_{table}$, namely 1.996008, and a P value of $0.33 > 0.05$. So that H_7 is rejected, company performance cannot mediate the relationship between inflation and banking sustainability.

From the analysis above, it shows that the effect of company performance on the sustainability of Islamic banking with political instability as a mediating variable has a t statistic value of $1.15 < t_{table}$, namely 1.996008, and a P value of $0.25 > 0.05$. So that H_8 is rejected, political instability cannot moderate the relationship between company performance and banking sustainability.

Political instability with the Arab Spring has a direct negative effect on the performance of banks in the GCC (Gulf Cooperative Council), both Islamic banks and non-Islamic banks. The most pronounced direct negative effect on the banking systems of the GCC region in the inability of these banks to improve and maintain their financial performance and probability levels during the Arab Spring (Jaara, 2021).

From the analysis above, it shows that the effect of inflation on the sustainability of Islamic banking with political instability as a mediating variable has a t statistic value of $0.528 < t_{table}$, namely 1.996008, and a P value of $0.598 > 0.05$. So that H_9 is rejected, political instability cannot moderate the relationship between inflation and banking sustainability. From the analysis above, it shows that the effect of good corporate governance on the sustainability of Islamic banking with political instability as a mediating variable has a t statistical value of $1.285 < t_{table}$, namely 1.996008, and a P value of $0.199 > 0.05$. So that H_{10} is rejected, political instability cannot moderate the relationship between good corporate governance and banking sustainability.

E. Conclusion

The results of this study indicate that only company performance has a significant effect on Islamic banking sustainability. Then Company Performance is not a mediating variable and Political Instability is not a moderating variable.

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