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Issuers' Insight for Identifying Choice of Sukuk Structuring

Abstract

One of the common problems that occur in Indonesia concerning the issuance of Sukuk is the limited issuance of Sukuk by companies. There were only two types of Sukuk issuance issued by companies, namely Mudaraba Sukuk and Ijarah Sukuk, and based on the data of OJK Sukuk Statistics, as of 2017 the issuance of Ijarah Sukuk still dominates Sukuk issuance. We investigated to discover how issuers of Sharia bonds (Sukuk) choose between the issuance of Mudaraba Sukuk and Ijarah Sukuk structures, based on the determinant factors of company characteristics, variables related to Sharia, and type of company industry. The population in this study were companies that issue Mudaraba Sukuk and Ijarah Sukuk. The sampling technique used to purposive sampling. The selection of the research sample consists of 27 issuers that issued 59 Ijarah Sukuk and 31 Mudaraba Sukuk during the period of observation. By implementing a probit regression analysis, the results showed that leverage level, Sharia compliance, and financial industry type might all influence the choice of companies to issue Mudaraba Sukuk.

Keywords: Ijarah; Mudaraba; Sharia Compliance; Sukuk

JEL Classification: G12, G23, O16

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Abstrak

Salah satu masalah umum yang terjadi di Indonesia dalam kaitannya dengan penerbitan Sukuk adalah terbatasnya penerbitan Sukuk oleh perusahaan. Hanya ada dua jenis penerbitan Sukuk yang diterbitkan oleh perusahaan, yaitu Sukuk Mudaraba dan Ijarah, dan berdasarkan data Statistik Sukuk OJK, per 2017 penerbitan Ijarah Sukuk masih mendominasi penerbitan Sukuk. Kami meneliti untuk mengetahui bagaimana emiten syariah (Sukuk) memilih antara penerbitan struktur Sukuk Mudaraba dan Sukuk Ijarah, berdasarkan faktor-faktor penentu karakteristik perusahaan, variabel yang terkait dengan Syariah, dan jenis industri perusahaan. Populasi dalam penelitian ini adalah perusahaan yang menerbitkan Mudaraba Sukuk dan Ijarah Sukuk. Teknik sampling yang digunakan adalah purposive sampling. Pemilihan sampel penelitian terdiri dari 27 emiten yang menerbitkan 59 Ijarah Sukuk dan 31 Mudaraba Sukuk selama periode pengamatan. Dengan mengimplementasikan analisis regresi probit, hasilnya menunjukkan bahwa tingkat leverage, kepatuhan syariah, dan jenis industri keuangan dapat mempengaruhi pilihan perusahaan untuk menerbitkan Sukuk Mudaraba.

Kata Kunci: Ijarah; Mudaraba; Kepatuhan Syariah; Sukuk

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The Islamic finance industry in Indonesia has shown tremendous growth. One area of growth is driven by the development of the Sharia financial instrument known as Sukuk or Sharia bonds. Sukuk are Sharia bonds which have two major differences when compared with conventional bonds (Smaoui, Mimouni, & Temimi 2017). First, Sukuk operates under Islamic law (Sharia) by paying profit, not interest. Second, Sukuk usually involves ownership of a tangible asset.

Based on the 2017 Sukuk statistics report by the Financial Services Authority (OJK), it is clear that a rapid development of corporate Sukuk issuance took place in 2017, with an increase in the number of Sukuk issuers throughout the year rising to 137 issuing companies and the accumulated value of Sukuk issuance during 2017 totaling IDR26.39 trillion. The total number of outstanding Sukuk was recorded at 79 by the end of December 2017 with an outstanding amount of IDR15.7 trillion (Figure 1). This is the result of the enactment of regulation concerning Sharia economic activity in Indonesia in 2008 (Law 19/2008 concerning State Sharia Securities, SBSN), which has caused Sharia economic activity to grow rapidly to

this day. Moreover, Bank Indonesia (BI) and OJK have also stated their commitment to encouraging Sharia finance, while from the side of the Sharia product, the factor of the prohibition of usury has led to increased interest among investors to invest in this Sharia financial instrument.

The development of Sukuk can be categorized into several types (Dusuki, 2010). The types of Sukuk issued depend on the underlying principles of Sharia, and include Sukuk types such as *Bay Bithamin Ajil* (payment of deferred payments), *Murabaha* (cost-plus sales), *Salam* (sales ahead), *Ishtisna* (manufacturing sales), *Ijarah* (rent for business), *Musarakah* (joint ventures), *Mudaraba* (partnerships) and *wakalah* (agents). Generally, Sukuk can be grouped further into three main groups: (1) sales-based Sukuk (consisting of *Bay Bithamin Ajil*, *Murabaha*, *Salam*, and *Istisna*); (2) rent-based Sukuk (*Ijarah*); and (3) equity-based Sukuk (*Musarakah*, *Mudaraba*, and *Wakalah*) (Dusuki, 2010).

In a previous study, it has been found that Sukuk is one of the investment instruments that provide opportunities for Muslim and non-Muslim investors to invest and can be utilized to build the nation's economy and create prosperity in Indonesian society (Fatah, 2011). Up to the end of 2017, OJK data shows that the market has been very responsive to the issuance of Sukuk, although the market share of Sukuk is still much lower, at around 4 percent than that of the conventional bond market, especially on a national level.

One of the common problems that occur in Indonesia in relation to the issuance of Sukuk is the limited issuance of Sukuk by companies. There are only two types of Sukuk issuance issued by companies, namely *Mudaraba* Sukuk and *Ijarah* Sukuk, and based on the data of OJK Sukuk Statistics, as of 2017 the issuance of *Ijarah* Sukuk still dominates Sukuk issuance, totaling around 90 percent compared with *Mudaraba* Sukuk.

The unique characteristics of Sukuk structure may further affect the issuer's choice. One differ-



Figure 1. Development of Corporate Sukuk
Source: OJK (2017)

ence, for example, is that *Ijarah* Sukuk entitles actual ownership of the underlying asset, but in contrast, *Mudaraba* Sukuk has more similarities with equity than debt. This means that *Ijarah* Sukuk is more secure than their conventional counterparts (Azmat, Skully, & Brown, 2014a). The impact of this wider range of characteristics of Sukuk or Islamic bonds may affect the issuer's choice of debt selection. This gap motivates us to question whether the factors that affect an issuer's choice of Sukuk are the same as for conventional bonds.

Numerous studies have already been carried out to determine the factors affecting the issuance of Sukuk by companies. The factor of asymmetry of information relating to the issuance of conventional debt is proven to influence the issuance of Sukuk (Nagano, 2017). The factor of company characteristics based on the trade-off theory is also proven to influence the issuance of Sukuk (Mohamed, Masih, & Bacha, 2015). Meanwhile, Azmat, Skully, & Brown (2014b), Mohamed, Masih, & Bacha (2015), and Grassa (2017) all indicate that there are several significant differences between the determinants of issuers' choice of Sharia bonds and conventional bonds that can be attributed to the specific characteristics of Sharia bonds. The influence of Pecking Order Theory (Nagano, 2017) and agency cost (Halim, How, & Verhoeven, 2017) has been demonstrated to underlie the choice of companies in issuing Sukuk.

Existing research studies focus more on the selection of issuers in the issuance of Sukuk or conventional bonds, while the selection of Sukuk issuance based on the structure of Sukuk has not yet been investigated. This research attempts to fill the gap in the selection of Sukuk issuance by issuers based on Sukuk structure, a subject that has never been studied before, specifically as it occurs in the Sukuk market in Indonesia, namely between *Mudaraba* Sukuk and *Ijarah* Sukuk. Therefore, the purpose of this study is to examine the factors that influence the choice of issuers in the selection of Sukuk issuance.

This research makes several important contributions. First, the research focuses on implementation in the Indonesian Sukuk Market. Although the largest Sukuk market today is Malaysia, the development of the Indonesian Sukuk market has experienced significant growth over the past three years. As in other emerging Sukuk markets, the Sukuk market in Indonesia is also thriving relatively well, due to the influence of several macroeconomic factors such as GDP per capita, economic size, open trade, and the percentage of Muslims in the population, all of which have a positive influence on the growth of the Sukuk market (Said & Grassa, 2013). Second, based on the observations made, this study provides empirical evidence of the influence of company-specific characteristics on the selection of Sukuk, as well as variables associated with Sharia relatedness of the product. Third, the research findings provide a practical contribution for issuers and can be taken into consideration when designing company policy, in determining the policy for choosing the type of Sukuk investment which suits the characteristics of the company and other supporting factors.

The following discussion in this article includes section 2 which describes the theoretical framework and develops the hypothesis; section 3 which describes the data, samples, and methods; section 4 which presents the empirical results and discussion; and section 5 which provides a closing statement.

HYPOTHESES DEVELOPMENT

The early theory of Sukuk is concerned with the legal and theoretical aspects of Sukuk, viewed from the perspective of Sharia because up to the present time there is much debate among Sharia scholars concerning the theory and legal aspects of Sukuk according to Sharia (Zulhibri, 2015). A combined epistemology has been formulated between the *Al-naql* and *Al-naqli* arguments, using the *ulama's Ijtihad* method, which states that Sukuk is equal to debt and that Sukuk is a form of investment policy

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in Islam that has been approved by scholars and is in accordance with the principles of Sharia.

In other studies, it has been concluded that there are both similarities and differences between various aspects of conventional Sukuk and bonds. Sukuk and bonds differ in their legal structure and in Sharia compliance (Ariff & Safari, 2012), as well as in aspects of the Sukuk portfolio that can reduce risks (Ariff & Safari, 2012; Elhaj, Muhamed, & Ramli, 2015; Ibrahim, 2015; Saad, Haniff, & Ali, 2016; Warsame & Ileri, 2016; Bhuiyan et al. 2017). Meanwhile, Godlewski (2014) tests the difference between Sukuk and bonds in terms of stock market reaction.

The next theory of Sukuk places much emphasis on operational aspects of Sukuk, viewed in terms of aspects of issuance, risk, and structure. Some of the policies created are related to Sukuk performance, and the innovations Sukuk offers, such as the policy on Sukuk implementation which may present a huge burden for investors compared with the benefits received, according to the perspective of investors (Jobst et al., 2008). The effectiveness of Sukuk investment in a company may provide great benefits, especially in the case of corporate Sukuk (Jobst et al., 2008). The importance of the announcement of Sukuk issuance for shareholders is investigated empirically by Godlewski, Turk-Ariss, & Weill (2013), Godlewski (2014), Aloui, Hammoudeh, & Hamida (2015), and Klein & Weill (2016). In addition, interest rate policy for Sukuk value may also affect the market failure aspect (Wilson, 2006).

Sukuk as an alternative investment is expected to be a factor that can increase economic growth, although empirical research that analyses the influence of Sukuk on economic growth is still very limited (Zulkuhibri, 2015). Some of the macroeconomic variables that have proven to have a positive influence on the empirical development of the Sukuk market are GDP per capita, Muslim population, economic size, and open trade (Ahmad & Muda, 2013; Said & Grassa, 2013).

The classification of Sukuk types, according to AAOIFI (the Accounting and Auditing Organization of Islamic Financial Institution), is divided into twelve types, based on the types of financing in financial assets that are in accordance with Islamic Sharia. In addition, based on the financial asset contracts in the secondary market, Sukuk is classified into two categories, tradable Sukuk and non-tradable Sukuk (Tariq, 2004). Sukuk that can be traded include *Mudaraba* Sukuk, *Musharaka* Sukuk, and *Ijarah* Sukuk, while Sukuk that are not traded are *Istishna* Sukuk and or *Murabahah* and *Salam* Sukuk.

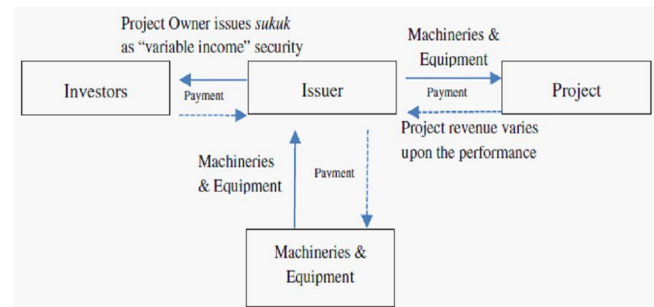


Figure 2. *Mudaraba* Sukuk Scheme

The types of Sukuk that have been issued since 2004 by issuers in Indonesia are *Mudaraba* Sukuk and *Ijarah* Sukuk, which are types of traded Sukuk in the secondary market. Sukuk issuance with the *Mudaraba* structure refers to Fatwa No.33/DSN-MUI/IX/2002, which states that *Mudaraba* Sukuk is a type of Sukuk that uses a *Mudaraba* contract. Furthermore, based on the DSN MUI fatwa, the specific characteristics of *Mudaraba* Sukuk are described as being the most appropriate form of funding and long-term investment, suitable for use in general financing, and an instrument or product based on cooperation between capital and service (business activities). Its structure makes it possible not to require collateral on specific assets (Figure 2). This is different from the structure that uses the basis of a sale and purchase agreement which requires collateral for assets that are funded.

The issuance of *Ijarah* Sukuk is based on Fatwa No.41/DSN-MUI/III/2004 concerning Sharia *Ijarah* Sukuk. *Ijarah* Sukuk is typically structured using a special purpose vehicle (SPV) (Figure 3). While the issuer may create it, the SPV is legally separate and considered a remote bankruptcy entity just as in conventional structured finance. The originator sells the SPV some specific assets which are agreed to and then leased back at a periodic rental rate and then repurchased at a certain price and a certain date. The SPV uses this set of agreements to support an *Ijarah* Sukuk issue and uses the issue's proceeds to pay the issuer for the assets. The SPV collects the rental payments and pays them to the bondholders, as well as on maturity, the face value.

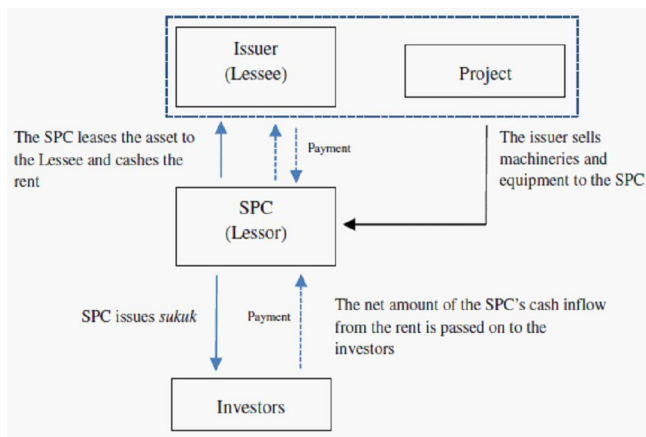


Figure 3. *Ijarah* Sukuk Scheme

The unique characteristics of Sukuk may further influence the choice of the issuing company (issuer) in choosing the type of bond or Sukuk. According to Azmat, Skully, & Brown (2014a), a company's choice of investment type refers to capital structure theories such as the Miller-Modigliani Theory and the Pecking Order Theory, which will influence the selection of Sukuk type by the issuer. Based on the characteristics of *Mudaraba* Sukuk, in some respects, it can be equated to equity or stock, while *Ijarah* Sukuk can be equated to debt (Azmat, Skully, & Brown, 2017).

HYPOTHESES DEVELOPMENT

The Sukuk issuer must disclose the various requirements for the mechanism of *Ijarah* and *Mudaraba* Sukuk. The requirements of *Ijarah* Sukuk that must be disclosed include how the company can fulfill the underlying assets or benefits, the amount of the reward, the Sukuk nominal value, the Sukuk period, and an explanation of the assets or benefits underlying the issuance of *Ijarah* Sukuk.

Meanwhile, in the case of the requirements of *Mudaraba* Sukuk, the issuing company must be able to disclose the basis of profit sharing and the amount of the profit sharing ratio, as well as an explanation of the activities underlying the issuance of *Mudaraba* Sukuk, including business types, business trends, and parties managing the business (Purnamawati, 2015). It can be seen that the issuance of *Mudaraba* Sukuk is riskier than the issuance of *Ijarah* Sukuk.

The variables of company characteristics, such as company leverage level, have a significant effect on the issuance of Sukuk (Arundina, Omar, & Kartiwi, 2015; Elhaj, Muhamed, & Ramli, 2015; Grassa, 2017). The leverage level of a company indicates the amount of the company's payment obligations. Hence, the higher the leverage level of a company, the lower the ability of capital to cover the corporate debt, thus increasing the company's risk of default.

Since Sukuk have certain similarities with conventional bonds, implications can be drawn for them by analyzing the determinants of conventional bond characteristics. Since *Mudaraba* Sukuk have some features similar to equity, the trade-off theory of capital structure can be used to analyse an issuer's choice of *Mudaraba* Sukuk. This tries to balance the tax advantage of debt against its cost of financial distress. The trade-off theory suggests that taxes and financial distress costs are important in choosing between *Mudaraba* and *Ijarah* Sukuk (Azmat, Skully, & Brown, 2014a). Another study uses theoretical arguments from both the trade-off and pecking order

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theories, and examines the impact of different factors on a company's debt-equity ratio empirically, arguing that companies target a particular debt-equity ratio. If the actual ratio differs from the target, the company will change its debt or equity to adjust this ratio (Azmat, Skully, & Brown, 2014a). This implies that the debt-equity ratio is affected by two types of factors; those that shift the target ratio and those that cause deviations from the target. Given the above arguments, if a company's current debt is higher than its targeted level, the company may prefer *Mudaraba* Sukuk over *Ijarah* Sukuk.

H₁: companies with high leverage prefer *Mudaraba* Sukuk over *Ijarah* Sukuk

The age of a company shows how long the company has been established and operating. Companies that are relatively older usually have better operational processes and are more experienced than younger companies, which tend to be more vulnerable to failure due to lack of experience. Companies that have been established longer have more solid strategies and tips for surviving in the future. The longer a company has been established, the more twists and turns it has encountered in doing business, ranging from progress to problems or obstacles faced. The ability of a company to solve the various problems that arise in the company's management will further strengthen the existence of the company itself. *Mudaraba* Sukuk, though riskier than *Ijarah* Sukuk, will be more easily published by companies that are older and more experienced.

H₂: older companies prefer *Mudaraba* Sukuk over *Ijarah* Sukuk

Earnings growth ratio is an investment calculation that measures the value of stock based on the current income and future growth potential of a company. This ratio can be used as a reflection of the company's prospects. If a company has high growth, it usually has a high earnings growth rate.

The profit sharing scheme in Sukuk is very different from that in bonds, especially in terms of certainty of the return that comes from the profit sharing or interest earned by the fund owner. The returns obtained from Sukuk investments depend on the principle/contract agreement used. If the *Mudaraba* or *Musharaka* principle is used, then the returns come from profit sharing. The returns are determined based on the expected returns because by nature this depends on the performance of the revenue generated. Thus, a company's earnings growth can affect the company's choice of *Mudaraba* Sukuk.

H₃: companies with a high earnings growth prefer *Mudaraba* Sukuk over *Ijarah* Sukuk

A Sukuk issuer has the responsibility to explain and ensure that the Sukuk issued in its operations is in accordance with Sharia principles. Non-compliance with Islamic principles will create a reputation risk for Sukuk issuing companies. Sharia compliance is the manifestation of the fulfillment of all Sharia principles in an institution, in the characteristics, integrity, and credibility of the company, including the values, behavior, and actions that support the establishment of Sharia compliance with all applicable Sharia rules. Sharia compliance is the level of conformity of the Sukuk product mechanism to the rules laid out in AAOIFI for the international standard of Sharia regulations and MUI DSN for the national standard, as well as several OJK regulations related to Sharia (Sukardi, 2012).

The measure of Sharia compliance used may be in the form of the issuing company's disclosure of the Sukuk mechanism. AAOIFI requires disclosure that is specific to Sukuk investment. The disclosure must be made by the Sukuk issuer in terms of the value, the percentage of ownership of Sukuk, and type of Sukuk issued. In addition, the disclosure is needed to discuss the contractual relationship between issuers, managers and Sukuk holders. Other forms of disclosure are related to the classifi-

cation of Sukuk based on the maturity date (Purnamawati, 2015). The compliance function serves as the implementer and manager of compliance risk in coordination with the work unit in risk management. Compliance function performs preventive supervision tasks and becomes an important element in the management and operation of a company's Sharia products to ensure that the policies, regulations, systems, and procedures undertaken by the company are in accordance with the provisions and regulations of Bank Indonesia, the Government, OJK, Fatwa issued by MUI, as well as the enforcement of laws established in the international standards of IFSB and AAOIFI (Sukardi, 2012).

H₄: companies with disclosed Sharia compliance prefer *Mudaraba* Sukuk over *Ijarah* Sukuk

Companies issuing Sukuk with a condition of high operating margins tend to issue *Mudaraba* Sukuk rather than *Ijarah* Sukuk (Azmat, Skully, & Brown, 2014a). Meanwhile, another study carried out by Azmat, Skully, & Brown (2017) shows that the type of company industry, which is divided between financial and non-financial industries, is proven to have an impact on the Islamic bond rating. It is, therefore, necessary to reaffirm whether the type of industry is a variable that can affect a company's choice of Sukuk. In this study, the type of industry of the issuer is used as a variable that can determine whether industry type affects the company's choice of Sukuk.

H₅: companies that are financial industries prefer *Mudaraba* Sukuk over *Ijarah* Sukuk

METHODS

This study uses a quantitative approach to measure the data, and the data used is secondary data obtained from the Indonesian Bond Pricing Agency (IBPA) and the Indonesian Stock Exchange

(IDX). The population used in this study consists of 90 data of Sukuk, either in the form of *Ijarah* Sukuk or *Mudaraba* Sukuk. The sampling technique used is purposive sampling. The criteria used as the basis for selecting sample members in this study are Sukuk issuers that are listed in the IDX and Indonesian Bond Pricing Agency, and also traded actively from 2005-2017. In this study, the population is classified into two groups of Sukuk, namely *Ijarah* Sukuk and *Mudaraba* Sukuk. The selection of the research sample consists of 27 issuers that issued 59 *Ijarah* Sukuk and 31 *Mudaraba* Sukuk during the period of observation.

A probit regression model is used to compare several dependent variables with independent variables that are qualitative (qualitative response). This model uses latent variables to form the relationship between the discrete variables and their determinants. The data described consists of two types of Sukuk, *Mudaraba* and *Ijarah* Sukuk, in accordance with a number of previous studies that test the behavior of the dynamic adjustment and the specific determinants of a company influencing the company's selection (Chava, Kumar, & Warga, 2010; Azmat, Skully, & Brown, 2017; Grassa, 2017). A probit regression model is a non-linear model used to analyze the relationship between a dependent variable and one independent variable, where the dependent variable is binary. In the probit regression analysis in this study, the y variables used are the type of Sukuk, namely *Mudaraba* Sukuk and *Ijarah* Sukuk. A dummy variable is used to categorize Sukuk types, with a value of 1 for *Mudaraba* Sukuk and 0 for *Ijarah* Sukuk.

The determinant factors that may influence issuers' choice of *Mudaraba* or *Ijarah* Sukuk include company characteristics, Sharia relatedness, and industry type, as represented in the following equation model:

$$y_i^* = \alpha + \beta_1 LEV + \beta_2 AGE + \beta_3 EG + \beta_4 SHCOMPL + \beta_5 INDUSTRY + \varepsilon \quad (1)$$

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RESULTS

Of a total of 90 issuances of Sukuk, 59 issuances are *Ijarah* Sukuk and 31 *Mudaraba* Sukuk. The average company leverage level is 34.5 percent for *Ijarah* Sukuk and 38.3 percent for *Mudaraba* Sukuk. This shows that issuers of *Mudaraba* Sukuk have a higher average level of debt compared with issuers of *Ijarah* Sukuk. With regard to company age, the average age of issuers of *Ijarah* Sukuk is greater than the average age of issuers of *Mudaraba* Sukuk, namely over 38.9 years compared with 32.7 years. The level of earnings growth of companies issuing *Ijarah* Sukuk is greater than that of those issuing *Mudaraba* Sukuk, with an average of 72.673 for *Ijarah* Sukuk and 40.729 for *Mudaraba* Sukuk.

It can be concluded that the choice of *Mudaraba* Sukuk is found in companies with a high average level of leverage, while issuers of *Ijarah* Sukuk are known to have a low average level of leverage, along with company age, and a high level of earnings growth.

Meanwhile, the Sharia compliance variable is the level of Sharia compliance used by Sukuk publishing companies, which is measured using a dummy variable where a value of 1 indicates a company that discloses in its report a reference to the national standard of DSN MUI fatwa and the international standard of AAOIFI, and a value of 0 indicates a company that does not disclose the implementation of Sharia compliance that meets the standards of MUI DSN and AAOIFI. Based on the observations, 66.6 percent of Sukuk issuance companies reveal Sharia compliance using the standard reference of the DSN MUI fatwa, while only 33.3 percent of companies do not disclose Sharia compliance using the DSN MUI fatwa and AAOIFI standards.

The type of industry of a company is categorized as either financial or non-financial. Of a total of 90 Sukuk issuances, 34 percent are from financial industry companies while 66 percent are from non-financial companies.

Table 1. Variable Descriptions and Measurements

Variable	Description	Measurement
Lev	Leverage ratio	Long-term debt + debt in current liabilities/total assets
Age	Issuer age	Number of years
EG	Earnings Growth of the company	(Current period net earnings–prior period net earnings)/prior period earnings * 100
ShCompl	Disclosure of Sharia compliance based on AAOIFI / DSN MUI rules by company	Dummy variable 1 = disclosed 2 = undisclosed
Type-Ind	Type of Industry	Dummy variable 1 = financial industry 0 = non-financial industry

Table 2. Descriptive Statistics

Variabel	Ijarah Sukuk				Mudaraba Sukuk			
	Mean	Std	Min	Max	Mean	Std	Min	Max
Leverage	0.3452	0.159	0.045	0.7560	0.383	0.308	0.0005	0.9450
Age	38.9	11.5	14	57	32.7	15.07	5	58
Earnings Growth	72.673	78	2.597	334.967	40.729	38.791	3.408	192.892
Number of Observations	59				31			

In this research, the analysis of the influence of company characteristics, Sharia relatedness, and industry type on issuers' choice of Sukuk is carried out using a probit regression analysis. The stages in a probit analysis include a goodness-of-fit model test and the results of the probit regression estimation model.

The goodness-of-fit model test is used to test the feasibility of the probit regression model in testing the influence of the variables of company characteristics, Sharia relatedness, and type of industry on issuers' choice of Sukuk issuance. The goodness-of-fit model test in a probit regression analysis is performed by looking at the probability value of the likelihood ratio. A likelihood ratio with a probability value of < 0.05 indicates that the probit regression model is fit for use.

The results of the probit regression analysis show that the probability value (LR statistic) is 0.0000. Because the significant value obtained is < 0.05, it can be concluded that the probit regression model is fit to be used for further testing. Table 3 above shows that the value of McFadden R-Squared is 0.63. This means that 63.6 percent of issuers' choice variables in Sukuk issuance can be explained by the independent variables in the research.

The results of the probit regression analysis in Table 4 show that out of all the free variables

examined, the variables that significantly influence the choice of Sukuk issuance are the variables of leverage, Sharia compliance, and type of industry.

Based on the results, the following probit regression equation can be generated:

$$F(Z) = F(2,7603 LEV + 0,3581 AGE + 0,2594 EG + 1,301 SHCOMPL + 0,5288 TYPEIND) \quad (2)$$

The results of the probit regression analysis in Table 4 show that the variables which significantly influence the choice of Sukuk issuance are the variables of leverage, Sharia compliance, and industry type. The regression coefficient of the leverage variable is 2.7603 which shows that the higher the company leverage level, the higher the probability that the issuing company will issue *Mudaraba* Sukuk, and vice versa. The value of Sharia compliance is 1.301, which indicates that the disclosure of Sharia compliance within the company can affect the issuer's choice of Sukuk issuance. The industry type variable with a regression coefficient of 0.528 indicates that the background of a financial industry causes the issuer to issue *Mudaraba* Sukuk rather than *Ijarah* Sukuk.

Meanwhile, based on the results of the probit regression analysis in Table 4, it can be seen that the variables of company earnings growth and com-

Table 3. Goodness-of-fit Model Test

LR Statistic	Prob(LR Statistic)	McFadden R-Squared
80.2336	0.00000	0.63604

Table 4. Results of Probit Regression Analysis

Variable	Coefficient	Std.Error	Z-Stat	Prob
LEV	2.7603	1.5249	2.4248	0.0077***
AGE	0.3581	0.4062	0.5439	0.3570
EARNING G.	0.2594	0.4737	1.0797	0.3384
SHCOMPL	1.301	0.6822	1.9079	0.0664*
TYPEIND	0.5288	0.2472	2.9519	0.0004***

*Significant at a level of significance of 0.10

** Significant at a level of significance of 0.05

*** Significant at a level of significance of 0.01

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pany age do not significantly affect the issuer's choice of Sukuk issuance. Company age is not a reference for a company in choosing a more risky type of Sukuk such as *Mudaraba* Sukuk. Therefore, the level of earnings growth does not affect the choice of companies in issuing Sukuk. This means that in the issuance of *Mudaraba* Sukuk, which is riskier, companies do not take into consideration the prospect of high growth in the future.

DISCUSSION

A company's leverage level affects Sukuk issuance, as shown in some research studies conducted by Klein & Weill (2016), Azmat, Skully, & Brown (2017), and Grassa (2017), which prove that leverage level can affect the issuance of Sukuk by companies. These studies indicate that the higher the level of a company's leverage, the higher the probability of the company choosing *Mudaraba* Sukuk. A company's leverage level is an indicator of the optimal position of the capital structure of the company. The leverage level indicates the amount of the company assets owned by shareholders in comparison with the number of assets owned by creditors (debt givers). If the shareholders own more assets, then the company is said to be less leveraged. However, if the creditors (debt givers) own the majority of assets, then the company in question is said to have a high degree of leverage. In this case, the results of the research show that companies choosing to issue *Mudaraba* Sukuk have a high degree of leverage. Hypothesis 1 is accepted.

Older and more established companies tend to have expertise in business processes that can produce cost efficiency and minimize risks, compared with younger companies which tend not to have experienced competitive losses. Therefore, long-standing companies are assumed to produce higher profits and can minimize risks compared with new companies. However, the results of a study by Loderer & Waelchli (2010) also find that long-standing

companies experience slower growth in lower margins, and higher costs which cause companies to reduce investment activities so that investors are not interested in investing, reflecting a high level of risk for the company. Regarding Sukuk, *Mudaraba* Sukuk is a type of Sukuk with a higher level of risk compared with *Ijarah* Sukuk, about the losses that will be borne by the capital provider in the event of any loss. Newly established companies prefer *Ijarah* Sukuk since the risk level is lower than *Mudaraba* Sukuk because under any circumstances investors still receive profit in the form of rent paid by Sukuk issuers.

In this study, the variable of company age is proven to have no significant effect. This result does not support previous research which states that the age of a company affects the issuance of Sukuk (Halim, How, & Verhoeven, 2017). The results of the present study indicate that the age of a company does not affect the choice of the company in issuing *Mudaraba* Sukuk or *Ijarah* Sukuk, because even if a company is relatively young, it may choose to issue the more risky *Mudaraba* Sukuk. Therefore, regardless of how old a company is, it is still able to issue *Mudaraba* Sukuk, or in other words, company age is not a reference for a company in choosing more risky Sukuk such as *Mudaraba* Sukuk. Thus, hypothesis 2 is rejected.

The variable of earnings growth is also proven not to affect the probability of a company's choice in Sukuk issuance, although this result contradicts previous research conducted by Mohamed, Masih, & Bacha (2015) and Grassa (2017), which states that earnings growth is a variable that may affect companies' issuance of Sukuk. A company's growth (profit growth) has a positive effect on the issuance of *Mudaraba* Sukuk. This is because companies with high growth opportunities and adequate retained earnings tend not to rely on debt financing. Therefore, companies with a high prospect of profit growth prefer to issue *Mudaraba* Sukuk rather than *Ijarah* Sukuk.

The earnings growth variable is an indicator of profit growth for a company. The earnings growth ratio is an investment calculation that measures the value of shares based on current income and future growth potential of the company. This ratio can be used as a reflection of future company prospects. If a company has high growth, it usually has a high level of earnings growth. The results of this study indicate that the level of earnings growth does not affect the choice of companies in issuing Sukuk. Earnings growth opportunity is not taken into consideration by companies when choosing the more risky option of issuing *Mudaraba* Sukuk rather than *Ijarah* Sukuk, which has a lower risk level. The high or low earnings growth of a company is not one of the factors that are a cause for concern in determining the company's choice of Sukuk issuance. Thus, hypothesis 3 is rejected.

The variable of Sharia compliance has a significant effect on companies' choice of *Mudaraba* Sukuk. This means that the disclosure of the level of Sharia compliance in accordance with the standard reference of MUI DSN and the international standard of AAOIFI is proven to affect the probability of companies issuing *Mudaraba* Sukuk or *Ijarah* Sukuk.

Issuance of Sukuk must be based on contracts that are in accordance with Sharia so that Sukuk can be issued with various schemes according to particular needs. Sukuk is not a debt instrument with interest (*riba*) like conventional bonds, but can instead be used as an investment instrument. This instrument is issued with underlying assets according to clear Sharia principles. The underlying assets referred to here are the particular assets that are the object of an agreement, where the assets must have economic value. The function of underlying assets is to avoid usury and as a condition to be traded on the secondary market. From the side of the issuer, or the company issuing the Sukuk, there are some requirements that must be met, including a core business and investment that are *halal*. The issuing company has certain requirements in mak-

ing a disclosure related to Sharia compliance. The main requirements in the issuance of *Mudaraba* Sukuk are more complex than *Ijarah* Sukuk, and include a summary of the contract used, underlying activity, nominal value, principle of profit sharing, basis for profit sharing and amount of profit sharing ratio, as well as an explanation of activities that underlie the issuance of *Mudaraba* Sukuk, including types of business, business trends, and parties managing the business. Issuers of *Mudaraba* Sukuk are more prudent in the principles of Sharia compliance in their disclosure because this type of Sukuk is riskier compared with *Ijarah* Sukuk. Thus, hypothesis 4 is accepted.

The variable of industry type can be categorized into two groups, namely financial industries and non-financial industries, to distinguish the specific characteristics of the type of industry issuing the Sukuk. Financial industries consist of banking and insurance sectors, while non-financial industries consist of manufacturing, energy, real estate, and transportation industries (Grassa, 2017).

In this research, industry type is proven to have a positive and significant influence at a level of 1 percent on the issuers' choice of Sukuk. The results prove that issuers of the non-financial type are increasingly using *Ijarah* Sukuk rather than *Mudaraba* Sukuk. The type of industry of a company is proven to have a significant influence on the choice of Sukuk of the issuer. This means that the issuers' industry type that is used as a variable in this research is proven to affect the issuers' choice in issuing Sukuk. Companies that have a high probability of issuing *Mudaraba* Sukuk operate more in the field of financial industries rather than in other types of non-financial industry.

CONCLUSION AND SUGGESTIONS

Conclusion

The results show that of the several research variables used in this study, only the variables of

leverage, Sharia compliance, and type of industry may affect issuers' choice to issue *Mudaraba* Sukuk. This means that the variables of leverage, Sharia compliance, and type of industry are the variables that cause issuers to choose *Mudaraba* Sukuk over *Ijarah* Sukuk. On the other hand, the variables of earnings growth and company age are not proven to have any effect on issuers choosing *Mudaraba* Sukuk. The findings suggest that there should be an intensive and comprehensive plan to encourage new companies to issue either *Mudaraba* Sukuk or *Ijarah* Sukuk, based on their unique determinants as identified in this paper. These findings have several implications for regulators, financial authorities, Sukuk issuers, and investors. For regulators, the findings amplify how *Mudaraba* Sukuk and *Ijarah* Sukuk can be improved. For issuers, the findings suggest that company-specific characteristics can affect an issuer's choice of Sukuk. This implies that issuers should be more concerned about company-specific characteristics. For investors, the findings may encourage them to investigate the structure of bonds further before investing. Finally, there is additional room for improvement in terms of the regulatory framework and facilitative infrastructure to achieve a more balanced growth of the debt security market.

Suggestions

The limitations of this research include the limited variation of variables of company characteristics, and there is a need, therefore, to add more variation to the variables of company characteristics. Empirical tests of the Trade-off Theory and Pecking Order Theory may use different debt security principles and each of their sub-categories offered. Variables related to return and Sukuk risk, market timing, and macro variables can be used in future research.

About the selection of analysis technique, there is a need for a comparative analysis method, to accompany the probit analysis, such as the addition of the relatively advanced econometric technique for a dynamic panel data model by combining the characteristics of time series and cross-sectional data of analysis econometrics.

In order to examine the dynamic adjustment behavior and specific determinants of a company influencing the company's selection, most previous studies employ a probit model. The probit model uses a latent variable to establish a link between the discrete variables and their determinants. Moreover, many previous studies use a traditional technique, i.e., a two-stage procedure to estimate their partial adjustment model.

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