

Corporate Sukuk Strengthening Strategy in Indonesia

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ABSTRACT

This study examines strategies for strengthening corporate sukuk in Indonesia by analyzing the relationship between corporate governance, corporate sustainability, and default risk mitigation. The rapid growth of the corporate sukuk market in Indonesia reflects increasing investor interest in Islamic financial instruments; however, challenges related to governance quality, sustainability disclosure, and financial risk management remain significant. Therefore, this research aims to identify the main constraints and formulate strategic priorities to enhance the sustainability and resilience of corporate sukuk. This study employed a qualitative approach combined with the Analytic Network Process (ANP) method. Data were collected through literature studies, Focus Group Discussions (FGDs), in-depth interviews, and pairwise comparison questionnaires involving experts, academics, regulators, and practitioners in the field of Islamic finance. The findings indicate that default risk is the most dominant criterion affecting corporate sukuk sustainability, followed by corporate governance and corporate social sustainability. Information transparency emerged as the primary governance challenge, while strengthening board structure and composition became the most effective governance strategy. In terms of sustainability, the development of a sustainable economic framework was identified as the top strategic priority. Furthermore, optimizing capital structure and strengthening cash flow projections are essential strategies for mitigating default risk. Overall, integrated governance, sustainability, and financial risk management strategies can strengthen investor confidence and improve the long-term stability of corporate sukuk in Indonesia.

Keywords: sukuk, corporate governance, corporate sustainability, distance to default

INTRODUCTION

The global Islamic finance market, particularly sukuk, has shown significant growth in recent decades. This growth has been characterized by the widespread adoption of sukuk from traditional centers in the Middle East and Southeast Asia to various regions including Europe, reflecting the increasing global interest in Islamic financial instruments (DinarStandard, 2022). Sukuk, as an Islamic based financial instrument, offers an Islamic-compliant alternative to conventional fixed-income securities, with a structure designed to generate cash flow similar to conventional bonds while still adhering to Sharia principles (Ur Rehman et al., 2022)

Along with the growth of the sukuk market, attention to corporate governance (*Corporate Governance*) and the company's sustainability report (*Corporate Sustainability*) are becoming increasingly important in determining the credit risk of corporate sukuk loans. Recent research shows that the quality of corporate governance has a significant impact on the credit performance and risk of Sharia financial instruments (Bin-Nashwan & Muneeza, 2023; Mseddi, 2023). This is

in line with sharia principles that emphasize the importance of transparency, accountability, and fairness in financial transactions.

In Indonesia, as the country with the largest Muslim population in the world, the development of the corporate sukuk market is strategic in supporting national economic growth. However, the risk assessment of corporate sukuk credit still faces challenges, especially in integrating aspects of corporate governance and social sustainability into the risk assessment model (Kiaee & Soleimani, 2019). This is crucial given the unique characteristics of sukuk that not only considers financial aspects but also adherence to sharia principles and socio-environmental impact.

The sukuk market continues to face several challenges despite impressive growth, particularly in European markets where complexity, the need for legal adjustments, and higher issuer risks and costs have hampered its widespread adoption. These challenges underscore the need for tailored regulatory frameworks and risk management strategies to facilitate market development and mitigation of the inherent risks associated with sukuk structures (Piotrowski, 2017). The expansion of the sukuk market has significant implications for economic growth and financial inclusion. By catering to investors seeking Shariah-compliant financial instruments, the market promotes the inclusion of faith-observant Muslims who might otherwise be excluded from the financial system. The positive correlation between the development of the sukuk market and economic growth suggests that market expansion can have far-reaching effects on the development of the global economy (Smaoui & Nechi, 2017). The efficiency of the sukuk market, especially during times of financial crisis, has been a point of concern. The 2008 global financial crisis, for example, highlighted market vulnerability, with significant declines in issuances and increased defaults. However, the resilience demonstrated by long-term sukuk indices during the period demonstrated the market's potential for stability and growth, confirming the need for sustainable regulatory development and adaptation to improve market efficiency and crisis resilience (Rahim et al., 2021).

The development of corporate sukuk in Indonesia during 2022–2024 tends to increase. The outstanding value of sukuk was recorded at IDR 42.50 trillion in 2022 and increased to IDR 45.37 trillion in 2023. Entering 2024, the value of outstanding sukuk continues to increase gradually from IDR 46.37 trillion in January to IDR 55.27 trillion in December 2024. This shows that the corporate sukuk market in Indonesia continues to grow and is increasingly in demand by investors. In addition to the increase in *outstanding* value, the number of sukuk in circulation and accumulated issuance also show a positive trend throughout 2024. This increase indicates that companies are increasingly actively using sukuk as an alternative source of funding compared to conventional instruments. This growth also reflects increasing investor confidence in Islamic financial instruments in Indonesia. In general, the increasing development of corporate sukuk shows that this instrument has great potential to continue to grow in the future. Nevertheless, this growth still needs to be supported by good corporate governance, transparency, and effective risk management so that the corporate sukuk market in Indonesia becomes more stable and sustainable.

This research is complemented by the Analytic Network Process (ANP) method as a follow-up approach to analyze complex and interrelated problems. The use of ANP in the context of corporate sukuk in Indonesia is still relatively limited, so this study seeks to fill the gap in the literature. The ANP method is used to systematically identify and evaluate various obstacles, solutions, and strategies in the issuance of corporate sukuk, taking into account the interconnectedness between factors such as default risk, corporate governance, and the level of business sustainability.

In the sukuk industry, the increase in the number of default cases has attracted attention globally, highlighting the uncertainties that exist in the sector (Halim et al., 2017; Klein et al., 2018; Smaoui and Khawaja, 2017; Ariff et al., 2018; Borhan and Ahmad, 2018). The researchers emphasize the importance of timely analysis of default risks and their management through various tools for mitigation (Van Wijnbergen and Zaheer, 2013; Halim et al., 2017). In Indonesia, sukuk defaults are influenced by a variety of factors, both internal and external, having a significant impact on the economy and financial markets. The global economic and financial crisis, for example, is one of the main causes, demonstrating sukuk's vulnerability to external shocks (Abdul Karim Abdullah (Leslie Terebessy, 2011).

Internally, four financial ratios working capital to total assets, sales to total assets, operating profit to total assets, and cash to total assets were found to have a significant effect on sukuk default risk (Atik Fazalina & Raditya Sukmana, 2017). Other factors such as money supply, exchange rate, solvency ratio, and profitability ratio were also identified as important determinants of the likelihood of sukuk default, underlining the influence of macroeconomic conditions and monetary policy on sukuk default risk (M. Ardiansyah et al., 2013). The COVID-19 pandemic also had a significant impact, with an economic decline of 2.07% in 2020 in Indonesia, which impacted economic activity and sukuk demand (Moh Agus Nugroho et al., 2021). Despite the growing interest in the sukuk industry, research on the risk of default is still sparse and scattered. Previous studies have generally compared the performance of sukuk to conventional bonds in terms of risk and return, or explored the determinants of sukuk issuance and its pricing dynamics (Ariff et al., 2013; Bacha et al., 2015; Hossain et al., 2021; Nagano, 2016, 2017; Smaoui and Khawaja, 2017; Grassa and Miniaoui, 2018; Uddin et al., 2020a, b; Saeed et al., 2021).

Corporate Governance (CG) plays an important role in reducing the risk of default, with a good governance framework limiting potential misuse of resources and attracting investor confidence, which in turn reduces demands for higher debt returns (Koirala et al., 2020; Bradley and Chen, 2011; Sandvik, 2020).

METHODS

Research Design

This study also uses *the Analytic Network Process* (ANP) method with a population consisting of experts and practitioners in the field of corporate sukuk in Indonesia. The sample for ANP analysis was determined through purposive sampling with the criteria of expertise and

experience in the field of corporate sukuk. Respondents were divided into four groups: government representatives, academics in the field of Islamic finance, practitioners and sukuk experts, and regulators represented by the OJK and IDX. Primary data collection was carried out through *Focus Group Discussions* (FGDs), in-depth interviews with experts, and ANP paired comparison questionnaires.

Data Collection Methods

1. **Qualitative Data Sources:** Data collection for ANP analysis needs in this study was carried out through several interrelated stages. **First**, the researcher conducted a comprehensive literature study to identify problems, solutions, and initial strategies related to the issuance of corporate sukuk. Next, to validate and enrich the information obtained, a *Focus Group Discussion* (FGD) was held. The next stage involved in-depth interviews with experts, which aimed to validate the *Analytic Network Process* (ANP) framework and gain further insights. Based on the results of the previous stages, the ANP questionnaire was compiled in a paired comparison format using a scale of 1-9. Finally, this questionnaire was filled out by carefully selected expert respondents. This study involved expert respondents selected using *the purposive sampling* method, which was divided into four main groups.
 - a. The first group consists of representatives of the Government,
 - b. The second group is academics
 - c. The third group consists of practitioners and experts,
 - d. The fourth group is the regulator.

The selection of these diverse speakers aims to obtain comprehensive perspectives from various parties related to the issuance of corporate sukuk in Indonesia. Each speaker was selected based on their background, competence, and relevant experience in the field of sukuk development, so that they can make a significant contribution to this research.

RESULTS AND DISCUSSION

Analytic Network Process Results

The first thing to do in the ANP (*Analytic Network Process*) analysis is to calculate the eigenvector of each subject (Criteria, Subcriteria, etc.) from which the result will be obtained an inconsistency value, where this value is used to see whether the results of the questionnaire can be used or not. A good inconsistency value is below 0.1. The following results can be obtained below, the value in the right corner is the eigenvector.

Criteria : Main

Inconsistency: 0.01759		
Keberlanjutan		0.16920
Risiko Gagal		0.44343
Tata Kelola		0.38737

An inconsistency value of 0.01759 was obtained so that the results of the questionnaire on the criteria could be used.

Corporate Governance Constraints:

Inconsistency: 0.01759		
Efektifit~		0.16920
Struktur ~		0.38737
Transpara~		0.44343

An inconsistency value of 0.01759 was obtained so that the results of the questionnaire in the subcriteria of the Corporate Governance Constraints section could be used.

Governance Strengthening Strategy:

Inconsistency: 0.01759		
Penguatan~		0.44343
Peningkat~		0.16920
Peningkat~		0.38737

An inconsistency value of 0.01759 was obtained so that the results of the questionnaire in the subcriteria section of the Governance Strengthening Strategy section could be used.

Constraints of the company's sustainability report:

Inconsistency: 0.00000		
Pengungka~		0.60000
Pengungka~		0.20000
Pengungka~		0.20000

An inconsistency value of 0 was obtained so that the results of the questionnaire on the company's sustainability report constraints subcriteria could be used.

Strategies to Improve Sustainability:

Inconsistency: 0.05156		
Implement~		0.15706
Pengemban~		0.59363
Peningkat~		0.24931




An inconsistency value of 0.05156 was obtained so that the results of the questionnaire on the sub-criteria of the Strategy to Improve Sustainability could be used.

Risk of Default :

Inconsistency: 0.05156		
Keterbata~		0.49339
Keterbata~		0.19580
Struktur ~		0.31081

An inconsistency value of 0.05156 was obtained so that the results of the questionnaire on the subcriteria of Default Risk Constraints can be used.

Strategies to Mitigate the Risk of Default:

Inconsistency: 0.05156		
Diversifi~		0.14937
Optimalis~		0.47423
Penguatan~		0.37640

An inconsistency value of 0.05156 was obtained so that the results of the questionnaire on the subcriteria of Mitigating the Risk of Default could be used.

After all the questionnaire results meet the criteria, the next step is to see which priority is the highest in each criterion, subcriterion, and alternative.

The following are the final results of the priorities based on the results of ANP data processing:

Table 1. ANP Priority Results

	Name	ANP	Rank
Criteria	Corporate Social Sustainability	0.1692	3
	Risk of Default	0.44343	1
	Corporate Governance	0.38737	2
Corporate Governance Constraints	Effectiveness of the Audit Committee	0.1692	3
	Structure of the Council	0.38736	2
	Information Transparency	0.44343	1
	Strengthening the Structure and Composition of the Board	0.44343	1
Governance Strengthening Strategy	Increased Audit Committee Effectiveness	0.1692	3
	Increased Information Transparency	0.38736	2
	Disclosure of Sustainable Economic Aspects	0.6	1
	Disclosure of Environmental Aspects	0.2	2
Corporate Social Sustainability Constraints	Disclosure of Social Aspects	0.2	2
	Implementation of Eco-Friendly Practices	0.15706	3
	Development of a Sustainable Economy Framework	0.59362	1
Sustainability Improvement Strategy	Improvement of Social Responsibility Programs	0.24933	2
	Risk of Default	0.49338	1

	Name	ANP	Rank
Constraints	Limitations of Underlying Assets	0.1958	3
	Capital Structure Not Optimal	0.31081	2
	Diversification of Underlying Assets	0.14937	3
Strategies to mitigate the risk of default	Optimization of Capital Structure	0.47423	1
	Strengthening Cash Flow Projections	0.3764	2

Source: Processed research data by the authors, 2026.

Overview of ANP Analysis

Analytic Network Process (ANP) is a development of *the Analytic Hierarchy Process* (AHP) which is used to analyze complex problems involving the interconnectedness between elements in a system. In this study, ANP is used to identify and determine priorities between criteria, constraints, and strategies that affect the risk of corporate sukuk default in Indonesia.

The three main criteria that this research focuses on include:

1. Corporate *governance*
2. Corporate Sustainability Report, and
3. Default risk.

Each criterion has sub-elements of constraints and strengthening strategies that interact with each other. The weighted and rating assessments resulting from the ANP model show priority in strategic decision-making to minimize the risk of default and improve the sustainability of corporate sukuk in Indonesia.

CONCLUSION

The risk of default is the most dominant criterion in the valuation of the highest-weighted corporate sukuk, indicating that financial factors are still a major concern in investment decision-making. The main obstacle in corporate governance is the low transparency of information, while the most effective strategy is the strengthening of the structure and composition of the board. In the aspect of corporate social sustainability, the biggest obstacle is the lack of disclosure of sustainable economic aspects, with the main strategy being the development of a sustainable economic framework. To mitigate the risk of default, the priority strategy is the optimization of capital structure, followed by strengthening projected cash flows and diversifying underlying assets. Overall, the combination of strategies to strengthen governance, social sustainability, and financial risk management will increase investor confidence and strengthen the company's resilience to potential defaults. Based on the results of the analysis using *the Analytic Network Process* (ANP) approach and in-depth interviews with various sources, this study provides a comprehensive overview of the relationship between *corporate governance*, *corporate sustainability reports*, and corporate sukuk default risk in Indonesia. The

findings of the study show that these three aspects interact dynamically with each other and have different contributions to the sustainability of Islamic financial instruments, especially corporate sukuk.

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