Journal of Islamic Accounting and Finance Research
ISSN 2715-0429 (print); 2714-8122 (online)
Vol. 5 No. 2 (2023), 177-202; DOI: https://dx.doi.org/10.21580/jiafr.2023.5.2.17176
Received 2023-07-22 Accepted 2023-09-21

Performance of Indonesia Sharia companies: Does corporate ethical identity matter?

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Abstract

Purpose - The development of Islamic finance has made many Indonesia sharia companies register themselves as part of the Indonesia Sharia Stock Index (ISSI). The government always encourages sharia economic growth that upholds ethics. From the Islamic perspective, ethics is the foundation of all aspects of life. This study aims to analyze the performance of Indonesia sharia companies, by linking the importance of Corporate Ethical Identity (CEI) which is implemented in corporate culture.

Method - Quantitative research is reviewed through the annual reports of manufacturing companies registered at ISSI for the 2018 and 2019. Linear regression analysis, along with moderated regression analytics, was used to analyze data from 154 manufacturing companies.

Result - The results of the study show that CEI has a positive influence on firm performance, and ownership structure as a moderating variable strengthens the influence of CEI on firm performance.

Implication - Sharia companies in Indonesia are advised to increase CEI reporting so as to improve financial performance in accordance with sharia principles.

Originality - This study represents the inaugural investigation into CEI within Islamic companies operating in Indonesia, with a specific emphasis on corporate culture. The novelty in this research is the focus on company culture, and what distinguishes it from the mentioned study is the utilization of the ownership structure concept as a moderating variable. It also incorporates the utilization of the ownership structure concept as a moderating variable.

Keywords: Sharia comany performance; corporate ethical identity; structure of public ownership

Journal of Islamic Accounting and Finance Research

Introduction

The development of the sharia economy globally continues to increase from year to year. Based on the Refinitiv, global Islamic financial assets will continue to increase, which is recorded at US$ 2.88 trillion in 2019 and in 2024 it is estimated to reach US$ 3.69 trillion (Karnadi, 2022). Not only countries with a Muslim majority, but many countries with a non-Muslim majority also implement a sharia-based economic system such as England and London (Julita S, 2021).

The Indonesian government through *Komite Nasional Ekonomi dan Keuangan Syariah* (KNEKS) wants to improve the development of the sharia economic and financial ecosystem and make Indonesia a World Halal Center. Quoted from its official website, *Komite Nasional Ekonomi Syariah* or KNKsS (now KNEKS) has launched the Indonesian Sharia Economics Master Plan as a starting point to position Indonesia as one of the main actors and world sharia economic relations (KNEKS, 2020).

In Indonesia, the development of the sharia economy has developed very well, where not only the banking sector, the capital market, and even sharia fintech are also experiencing continuous development. Based on data sourced from Refinitiv, Indonesia obtained the second best IFDI (Islamic Finance Development Indicator) score in the world after Malaysia with 76 points (Karnadi, 2022). This can be used as a breath of fresh air in realizing the government's plan to make Indonesia the world's halal center.

The application of sharia-based economics/business should not just be labeling based on "sharia" but running a business following sharia ethics. Running a business by religious law needs to pay attention to ethics in doing business. The reasons why business ethics are highlighted are the importance of government regulations, media news releases, and increased pressure from almost all companies (Berrone et al., 2007).

As an essential part of any type of business endeavor, business ethics has received more attention over the past several decades because of increased globalization and heightened stakeholder attention being paid to any of a company's or manager's misdemeanors (Dziubaniuk & Ivanova-Gongne, 2021). According to Hosmer (1994) and Jones (1995), good ethics is good business because it generates positive external relationships such as trust and commitment to stakeholders, which will ensure long-term performance. Business ethics defines the pillars for sustainable and responsible corporate governance, designing the moral structure of the entire organization (Blanco-González et al., 2021). Companies must have an ethical identity that in the future when an ethical identity is applied and applied, the company will become more advanced and developed.

Financial reports are a communication medium used by analysts to describe the company's performance to the parties with an interest in the company. Performance can be interpreted as an activity that can be measured by an entity within a certain period which can be used as a reference for the success of the entity (Muhibbai & Basri, 2017). Then information about performance can be used to measure the company's development and can be used as a reference to determine the policies to be taken by the company (Fitria & Sulhani, 2021).

From a theoretical point of view, there is controversy about the effect of business ethics and good corporate behavior on the company's financial performance (Balmer et al., 2007). There is an interesting step in exploring the relationship between ethics and performance through the perspective of corporate identity (a set of mutually unique characteristics, for example: organizational philosophy, values, history, scope of business, and communication) (Balmer, 1998). This demonstrates that when a company prioritizes the interests of all parties involved in its business and operates with a foundation of ethics and honesty, it can succeed and sustain its business activities.

Disclosure of Islamic ethical identity provides guarantees to stakeholders for the suitability of operations with the ideal identity that Islamic companies must have. The higher the value of the disclosure of Islamic ethical identity, the higher the level of compliance with Islamic principles. In the end, it will result in commitment and loyalty from stakeholders to the company, where the ultimate goal is to increase financial performance.

A company can be defined as whose social goals are as important as making a profit are described as having an ethical identity (Said et al., 2013). Corporate identity as defined in the marketing field is used as a distinct attribute of the firm (Balmer et al., 2007). In this case, the company's identity is used as a differentiator or special feature of each company. A company's ethical identity holds valuable information and increases shareholder value by having a positive impact on stakeholder satisfaction (Berrone et al., 2007).

The issue of the ethical identity of Islamic companies has an interesting scope to investigate these aspects of the Corporate Ethical Identity (CEI). The first research related to the Ethical Identity Index (EII) was conducted by Haniffa and Hudaib (2007) who developed a research instrument related to EII on Islamic banking and produced eight dimensions that are considered to be the ethical identity of a company. The eight dimensions that are considered as the ethical identity of a company include vision and mission statements; Board of Directors and Top Management (BOD and top management); products and services; zakat, charity & benevolence loans: commitment to employees; commitment to debtor; commitment to society; and the Sharia Supervisory Board.

Said et al. (2013) conducted research with an Ethical Identity theme which examines sharia companies (Sharia-Compliant Companies) in Malaysia whose numbers from year to year increase the extreme. Results from research by Said et al. (2013) indicate that the level of company ethical identity communicated in the sharia's, scope of the company, annual report for the end of 2009 is relatively low with an average of 21.50%.

Research by Arsad et al. (2019) assess the level of disclosure of Islamic Corporate Social Responsibility (i-CSR) for Sharia-Compliant Companies (ShCCs) and examined the relationship between the CEI of ShCCs and i-CSR disclosures. Based on the descriptive analysis of i-CSR disclosure, the results show that the overall level of i-CSR disclosure for the protection of faith (Al-

Din) is at a very minimal level. Meanwhile, the results of the relationship between CEI and i-CSR disclosure after being statistically controlled by firm size (proxied by total assets) and profitability (proxied by return on assets, net profit margin, and return on equity) show that CEI is very significant at $= +0.449$, $p < 0.01$ (Arsad et al., 2019).

There are some gaps that led to this present study, including a scarcity of literature or empirical studies examining the relationship between CEI and firm performance in the context of Indonesia's sharia companies, understanding how effectively these government initiatives translated into tangible improvements in the ethical identity and performance of sharia companies, and a gap in the adoption or awareness of CEI practices among these companies. The study aims to provide actionable recommendations to bridge this gap.

In contrast to previous research, this study analyses the CEI on the performance of companies with ownership structure as a moderating variable. Data involve annual reports of manufacturing companies listed on the Indeks Saham Syariah Indonesia (ISSI) in 2018-2019. CEI is measured using the EII checklist consisting of 78 items (Haniffa & Hudaib, 2007). In addition, this study adds ownership structure as a moderating variable where ownership structure is expected to increase the role of CEI on company performance. Focusing on manufacturing companies, this research assumes that manufacturing companies that consist of various industrial sub-sectors can reflect the reaction of the capital market as a whole.

Previous research on the influence of CEI on Islamic banks or companies was conducted by Awwal et al. (2023), Sukardi et al. (2022), Sumiyati & Vebtasvili (2021), and Mutmainah & Apriliantika (2023). The novelty in this research is the focus on company culture that begins to implement sharia principles, and what distinguishes it from the mentioned study is the utilization of the ownership structure concept as a moderating variable. Therefore, this study aims to determine the non-economic aspects, namely the ethical identity of Islamic companies. In addition, we investigate the extent to which manufacturing companies listed in ISSI implement a CEI that is following sharia principles.

This study is expected to provide empirical evidence and can be used as literature material to add insight in the field of accounting science regarding the discussion of CEI, and the factors that influence it, such as ownership structure, company market performance, firm size, and leverage as contributions in the field of knowledge. Practically, this study is expected to be a sign for companies to be able to implement and report their CEIs so that in the future, they can reduce the occurrence of ethical problems in the company, especially in public companies that have started and will join the ISSI.

Literature Review

Legitimacy theory is perceived as useful to explain the relationship of the role of CEI on company performance with ownership structure as a moderating variable. Legitimacy is a common perception or assumption that the actions of the desired entity are appropriate in some social system built on norms, values, beliefs, and definitions (Suchman, 1995). The basis of legitimacy theory is a social contract between the community and the company where the company operates and uses economic resources (Ghozali & Chariri, 2014). The theory of legitimacy extends the mechanisms in Company Ethical Identity reporting so that companies align company reporting of Company Ethical Identity with the broader interests of shareholders, the society interest.

Social contracts are used to represent the expectations of the community about how an organization should operate (Guthrie, 2007). In particular, it is considered that the survival of an organization will be threatened if the community feels that the organization has violated its social contract (Guthrie, 2007). The process of implementing and reporting Company Ethical Identity is expected to enable the company to gain legitimacy from the community, so the company has confidence that the company will keep it running or live.

Signaling theory explains that the sender (the owner of the information) gives a signal or signal in the form of information that reflects a condition of a company that is beneficial to the recipient (stakeholder) (Spence, 1973). From the understanding of the above signal theory, it explains the company's reason to have motivation in providing information about the financial report to external parties. By analyzing the existing research, it is not difficult to determine that signal theory is currently mainly used to interpret how firms use CSR as positive signals to influence the support of stakeholders or change their views (Marquis & Qian, 2014; Shou et al., 2020; Su et al., 2016; Wei et al., 2017; Zhong et al., 2022).

Corporate identity is increasingly receiving attention from practitioners and academics, because it is believed to have a positive effect on company reputation (Berrone et al., 2007; Fombrun & Shanley, 1990), which in turn gives birth to superior financial performance (Berrone et al., 2007; Deephouse, 2000; Fombrun & Shanley, 1990; Roberts & Dowling, 2002; Deephouse, 2000; Fombrun and Shanley, 1990; Roberts and Dowling, 2002). Corporate identity is also recognized as a strategic resource and a valuable tool for meeting the needs of corporate stakeholders (Berrone et al., 2007; Van Riel, 1995). Indeed, corporate identity and related concepts such as corporate communication and organizational identity are the result of permanent interactions between firms and their stakeholders (Balmer et al., 2007; Berrone et al., 2007). Stakeholders have interests and demands, and the way in which a firm manages these claims contributes to the shaping of its corporate identity, insofar as its values, actions, and stance differentiate it from other organizations (Berrone et al., 2007).

Hypotheses Development

Corporate Ethical Identity on the Company's Market Performance

Berrone et al. (2007) define Corporate Ethical Identity (CEI) as the aspect of a corporation's identity that encompasses its ethical behaviors, communications, and stances. It represents the organization's ethical attitudes and beliefs and contributes to its uniqueness and reality. CEI encompasses a firm's ethical goals, values, practices, communications, and actions, serving as a reference point for stakeholders to assess the corporation's ethical stance. CEI is shaped by the continuous interaction between the firm and its stakeholders, particularly in response to the ethical claims and expectations of society. When a firm's ethical actions align with societal ethical claims, stakeholders are more likely to be satisfied, leading to what is referred to as Stakeholder Satisfaction (SS), which measures the extent to which the stakeholders' claims are met by the firm's actions.

CEI has valuable information and enhances shareholder value by having a positive impact on stakeholder satisfaction (Berrone et al., 2007). Based on the signal theory which explains that a good company can give a signal to the market (stakeholder), the signal given is expected to make stakeholders believe in the company. The company has a primary goal to make stakeholders believe that the company has good credibility, achievement, good performance, and ensures the welfare of the company.

Company market performance is the evaluation of how well a firm is faring in the financial markets, particularly in relation to its stock price and overall financial health (Daud et al., 2016). It involves assessing various financial metrics and factors, including the composition of its capital structure (the mix of debt and equity used for financing). According to Hameed et al. (2016), performance measurement is a method to measure company achievement based on previously set targets which are control measures that can help companies to improve future performance and identify deficiencies from operations throughout the financial year. So, it is important for companies to have a good and appropriate performance measurement system because companies must remain competitive and financially strong. Fitria and Sulhani (2021) mention that performance evaluation of Islamic financial institutions is as important as measuring individual achievement. This is because the roles and responsibilities of Islamic financial institutions are not only limited to the financial needs of various parties, but the main principle is how they run their business and the actions used to ensure that all activities are compliant with sharia.

Company performance is not only seen from the financial performance, market performance can also be used as a reference to assess the performance of a company. Tobin's Q or q-theory is the ratio of the market value of capital to replacement costs and measures all investment opportunities of the company (Peters & Taylor, 2017). This Tobin's Q value shows the company's performance in managing company assets.

Performance measurement using Tobin's Q not only provides a reflection on the fundamental aspects, but also on the market assessment of the company viewed from various aspects by investors. Tobin's Q has been used in many areas of economic research including macroeconomics, investment, and financial studies. The reporting of CEI in sharia companies is expected to improve company performance in market performance cases. Based on these explanations, the following hypothesis can be formulated:

H1 : Corporate Ethical Identity positively affects the company's market performance.

Corporate Ethical Identity and the Structure Publicly Owned Share Ownership on the Company's Market Performance

Legitimacy theory comes from the concept of organizational legitimacy, which is defined by Dowling and Pfeffer (1975) as the condition or status that exists when the value system of an entity is the equal and same shape with the value system of the social system greater than that part of an entity. When disparity, actual or potential, exists between two value systems, there is a threat to the legitimacy of the entity. Legitimacy is considered important for companies because the legitimacy of society to the company is a very important factor for the development of the company in the future

Share ownership refers to the ownership of shares or stock in a corporation or company (McConnell & Servaes, 1990). When an individual or entity owns shares of a company, they hold a portion of the company's ownership, and this ownership is typically represented by stock certificates or digital records in modern times. The structure of share ownership is able to influence the running of the company which in turn affects the company's performance in achieving the company's goals, namely maximizing company value (Marsinah, 2021). The structure of share ownership in companies generally includes institutional ownership, managerial ownership, and individual or public share ownership (Marsinah, 2021). Public ownership is expected to encourage the company's performance, because when the company's shares are owned by the public, the public is expected to monitor all aspects of the company more closely.

Based on the legitimacy theory, the higher the share ownership owned by the public, it indicates that the high level of public trust, which affects the legitimacy of the company which will improve the company's performance, in this case is the market performance. In addition, the synergy between the structure of share ownership owned by the public and the implementation and reporting of the company's CEI has an impact on improving company performance, especially market performance. Based on this statement, it can be concluded that the CEI and share ownership owned by the public have a significant influence on the company's performance. Therefore, the following hypothesis can be formulated:

H2 : The public share ownership structure moderates the positive influence of Corporate Ethical Identity on a company's market performance.

Research Methods

In this research, the population used is a company engaged in the manufacturing sector listed on the Indonesia Stock Exchange (BEI) in Indeks Saham Syariah Indonesia (ISSI) for the period of 2018-2019. The Indonesian Sharia Stock Index is an indicator that reflects the performance of the sharia stock market listed on the stock exchange. ISSI describes the movement of all Islamic stock prices that are on the IDX and registered in the Sharia Securities List issued by the *Otoritas Jasa Keuangan* (OJK).

The selection of that period was based on several factors, such as the presidential election in 2019, infrastructure development, global trade tensions, halal certification, commodity prices, the growth of Islamic banking and finance, and global economic slowdowns. The method used in this study is a quantitative method. This method intends to prove the hypothesis that has been determined by the author to provide an overview of the data set from the test results by using data in the form of numbers as an analytical tool. The sample in this study used the purposive sampling method.

The criteria used in the sampling of this research are the sample companies engaged in manufacturing that have been listed on the Indonesia Stock Exchange (IDX) in the Indonesian Sharia Stock Index (ISSI) with the criteria described in OJK No.II.K.1 regarding Criteria and Issuance of Sharia Securities List. The annual report that is sampled is the annual financial report in rupiah currency. The source of the CEI data is derived from the company's annual report.

The criteria for selecting companies exclusively in the manufacturing sector in this case is due to the fact that manufacturing companies have the largest proportion in ISSI. Apart from that, manufacturing companies have diverse sectors, a very broad scope, and a larger scale. In the manufacturing sector, for example, companies in the food and beverage sector have halal form, content, processing and presentation methods, and are good for the body. This increases the trust and legitimacy of the community which is in line with sharia principles.

The dependent variable in this research used a market performance were measured by using Tobin's Q using the formula:

$$\text{Tobins}'Q = \frac{(MVE\ + PS + DEBT)}{TA}$$

Where

MVE	: Market Value of Equity
PS	: Number of outstanding Common Stock
DEBT	: Total Debt Owned by the Company
TA	: Total Assets

The independent variable in this research is CEI measured using 78 checklist items Ethical Identity Index (EII) found in the research (Haniffa & Hudaib, 2007), but re-identified to 51 items based on items that can be applied in companies listed in Indonesia Sharia Stock Index. The assessment of each item of CEI is measured subjectively by the researcher, both implicitly and explicitly. The CEI index is developed using a dichotomy, where the score is "1" if the company discloses the item, and "0" otherwise. Scores will be calculated using the following measurements (Said et al., 2013):

$$CEI\ j = \frac{\sum^{nj}\ t = 1\ Xij}{nj}$$

Where
CEI j : Corporate Ethical Identity (CEI) Index
Nj : Number of items expected to reveal corporate identity items
Xij : "1" if the company discloses the item CEI and "0" otherwise.

The share ownership structure owned by the public as a moderating variable in this research is measured using the percentage of publicly owned shares. The control variables in this research are firm size and leverage. In this research, firm size is measured by using the natural logarithm of total company assets, and leverage is measured using the formula long-term debt divided by total assets of the company “i” in year “t”.

The data analysis method used in this research is Multiple Linear Regression statistical model analysis. The multiple linear regression model used in this research is as follows:

$$MP_{it} = \beta_0 + \beta_1 CEI_{it} PO_{it} + \beta_3 FSIZE_{it} + \beta_4 LEV_{it} + \varepsilon_{it}$$

Where
MP : Market Performance
CEI : Corporate Ethical Identity
PO : Public Ownership
FSIZE : Firm Size
LEV : Leverage
$\beta_0 - \beta_2$: Coefficient of Determination
i : 1,2,..... n
t : 1,2,........ t
ε : Error

Results and Discussion

This research used manufacturing companies listed on Indeks Saham Syariah Indonesia on the Indonesia Stock Exchange from 2018 to 2019. Researchers take the sample research using a purposive sampling method based on certain criteria for the research. Companies used as research samples as many as (n) =154 companies with the following company criteria manufacturing companies listed on the Indonesia Stock Exchange is 94 excluded manufacturing companies that present their financial report using the foreign currency is 17 company.

Table 1 shows the results of a normality test conducted on the data using the Kolmogorov-Smirnov test, which yielded an asymmetrical significance value (2-tailed) > 0.05. Therefore, it can be inferred that the data is normally distributed. Only one type of data, namely CEI (1 group), was used in this study; therefore, a homogeneity test was not conducted.

Table 1. Result of Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		154
Normal Parameters[a]	Mean	.0000000
	Std. Deviation	.47536176
Most Extreme Differences	Absolute	.089
	Positive	.089
	Negative	-.066
Kolmogorov-Smirnov Z		1.106
Asymp. Sig. (2-tailed)		.173
a. Test distribution is Normal.		

Table 2. Result of Descriptive Analysis

Variables	Obs	Min	Max	Mean	Std. Deviation
Corporate Ethical Identity	154	0.14	0.67	0.53	0.09
Market Performance	154	0.00	494.33	13.64	73.11
Firm Size	154	25.71	34.84	28.64	1.82
Leverage	154	0.09	3.75	0.46	0.41
Public Ownership	154	0.00	0.68	0.24	0.16

Table 2 illustrates the descriptive statistics of the research variables. Ghozali (2013) explains that descriptive statistical analysis is used to provide an overview of the sample size, mean value, standard deviation, maximum value, and minimum value of the research variables.

The minimum value for CEI is found at PT Buana Artha Anugerah Tbk. (PT Star Petrochem Tbk.) in 2019, the maximum value is PT Indocement Tunggal Prakarsa Tbk. for the 2018 and 2019 fiscal years. The average company disclosing its CEI in the company's annual report (154) is 0.53. PT Intikeramik Alamasri Industri Tbk. in 2019 has the minimum value on the market performance variable, while the maximum value is obtained by PT Jembo Cable Company Tbk. in 2019. The lowest percentage of shares owned by the public is PT Champion Pacific Indonesia Tbk. in 2018 and 2019, and PT Fajar Surya Wisesa Tbk. in 2019, and the highest percentage is at PT Buana Artha Anugerah Tbk. (PT Star Petrochem Tbk.) in 2019.

The control variables in this study are firm size has a minimum value on PT Lionmesh Prima Tbk. in 2019, and a maximum on PT Intikeramik Alamasri Industri Tbk. in 2018 and 2019. Meanwhile, leverage has a maximum value on PT Intikeramik Alamasri Industri Tbk. in 2019 and a minimum value on PT Indospring Tbk. in 2019.

The results for the statistical models are presented in Table 3. The final sample is 154 companies present the CEI in the annual report in 2018-2019. This study ran two models to ensure that the coefficients were consistent:

Table 3. Regression Analysis

Variable	Prediction Marks	Coefficient Value	t-value	Sig.
Constant	+	0.69	9.96	0.00***
Corporate Ethical Identity	+	0.14	3.22	0.00***
Firm Size	+	0.15	3.55	0.00***
Leverage	-	0,21	5.10	0.00***
Public Ownership	-	0.02	0.58	0.57
Moderating	+	0.15	2.86	0.01***
R^2			= 0.28	
Adjusted R^2			= 0.26	

* significant at 10%, ** significant at 5%,*** and significant at 1%

The testing result of the CEI variable has a positive effect on market performance with firm size and leverage as control variables showing the test statistic value t is 3.22 with a significance value of 0.002 ($p <0.05$). This means that H1 has been empirically supported because the value of significance is less than 0.05. The direction of the regression coefficient is positive, which means that a company with good CEI disclosure will affect company performance in this case market performance.

The examination result of the interaction effect between CEI with public ownership structure has a positive effect on company performance, in this case market performance with firm size and leverage control variables obtained t-test statistic value of 2.86 with the value of significance of 0.005 ($p < 0.05$). By looking at the significance value which is smaller than 0.05, it means that H2 has been empirically supported. Besides that, the direction of the regression coefficient is positive, good CEI disclosure affects the market performance moderated by the public ownership structure.

The Influence of Corporate Ethical Identity on the Company's Market Performance

The analysis results indicate that CEI have a significantly positive influence on a company's market performance. This finding aligns with

(Berrone et al., 2007) that ethics not only provides valuable information but also enhances shareholder value. Moreover, it highlights the notion that applied ethics can have a profound impact on shareholder satisfaction, reinforcing the idea that ethical considerations should be at the forefront of corporate strategy and decision-making.

A body of prior research lends substantial credence to the proposition that CEI wield a significant and multifaceted influence on a company's overall performance. Fauziyah & Siswantoro (2016) conducted a notable study, demonstrating that Islamic banks in Indonesia are increasingly emphasizing the disclosure of CEI as a reflection of their Islamic ethical identity. Fauziyah & Siswantoro (2016) research the relationship between CEI disclosure and financial performance, specifically measured by Return on Assets (ROA) and Operational Costs to Operating Income. Their findings confirmed that CEI disclosure not only correlates with these financial metrics but also extends its impact to encompass market performance, assessed in this study through Tobin's Q.

Moreover, the present study results align with the findings of Fitria and Sulhani (2021), who similarly investigated the relationship between the EII and the performance of Islamic banking. Their research highlights a positive effect of ethical identity on overall banking performance. Additionally, Ariyanto (2014) also contributed to this body of knowledge by revealing that the disclosure of Islamic ethical identity significantly influences financial performance, using Return on Equity (ROE) as a proxy.

Furthermore, Berrone et al. (2007) shed light on the connection between CEI disclosure and financial performance, as measured by ROA and Market Value Added (MVA). While their findings indicate that CEI disclosure alone may not be the sole driver of substantial improvements in performance, it nonetheless plays a role in shaping financial outcomes. Complementing these insights, Chun et al. (2013) demonstrated a broader relationship between corporate ethics and financial performance. Their study elucidated that this relationship is mediated by collective organizational commitment and organizational behavior (OCB).

Drawing upon signal theory, which posits that a reputable company sends signals to its stakeholders, the act of reporting CEI to the market serves as a crucial signal. These stakeholders can include investors, customers, employees, regulators, and the general public. When a company reports its CEI, it is essentially broadcasting a signal about its commitment to ethical behavior and responsible business practices. Stakeholders, whether they are investors deciding where to allocate their funds or customers choosing which products to buy, need to trust the companies they engage with.

The phenomenon of corporate ethical identity influencing a company's market performance is rooted in the fundamental principles of ethical behavior and responsible business practices. As organizations embrace an ethical identity, they cultivate trust and credibility among their stakeholders, including customers, employees, investors, and the broader community. This newfound trust translates into tangible advantages, such as enhanced brand reputation, increased customer loyalty, and a competitive edge in the market. Ethical companies are also better positioned to attract and retain top talent, fostering innovation and productivity. Moreover, by adhering to ethical standards and sustainability practices, they reduce regulatory risks, gain support from various stakeholders, and ensure long-term viability. In a world where consumers and investors increasingly prioritize ethical considerations, a strong corporate ethical identity not only contributes to a company's reputation but also plays a pivotal role in shaping its market performance and sustainability in the long run.

However, it is worth noting that Alhammadi et al. (2022) present slightly different results in their study. They shed light on an intriguing challenge faced by Islamic banks, revealing that conventional performance measurements may not accurately reflect the higher ethical goals and principles of Islamic finance, as guided by Maqāṣid al-Sharīʿah. This discrepancy suggests that the traditional metrics used to gauge bank performance might not fully encapsulate the unique ethical dimensions that Islamic banks aim to uphold. In addition, research conducted by Muhibbai and Basri (2017) offers a different perspective. Their findings suggest that while Islamic ethical identity is positively related to financial performance, it may not always achieve statistical significance. This implies that Islamic ethical identity, while contributing positively to financial outcomes, may not be the sole determinant of improved financial performance within Islamic banks.

An ethical identity within a corporate context holds the power to catalyze a cascade of positive effects, with the potential to significantly impact a company's financial performance. One of the key facets of this phenomenon is the enhancement of reputation. When a company is seen as committed to ethical behavior and social responsibility, it tends to enjoy a more favorable image in the eyes of the public, investors, and stakeholders. This enhanced reputation can trigger a ripple effect, attracting positive media attention, fostering trust, and generating valuable word-of-mouth marketing. Simultaneously, ethical identities nurture increased customer loyalty, particularly among socially conscious consumers who prefer to align themselves with businesses that share their values. Such loyalty translates into repeat purchases, advocacy, and a broader customer base, ultimately bolstering sales and revenue. Moreover, ethical identities instil a sense of trust among stakeholders, from investors to employees, resulting in greater confidence, collaboration, and overall financial stability. Collectively, these elements contribute to improved financial outcomes for companies, underlining the pivotal role of ethical identities in shaping not only reputations but also the bottom line in today's business landscape.

The Influence of Corporate Ethical Identity and the Structure of Publicly Owned Share Ownership on the Company's Market Performance

This research indicates that CEI moderated by the structure of publicly owned share ownership have a significant positive influence on the company's market performance. This is in line with the studies by Bjuggren et al. (2007) and Espinosa-Méndez et al. (2021). In addition, the results of this study are in line with the findings of Gungoraydinoglu and Öztekin (2011), Degryse et al. (2012), Detthamrong et al. (2017), Ramli et al. (2019), and

Tsegba & Achua (2011), which prove that capital structure has a positive effect on company performance.

Most studies find evidence of a negative relationship between capital structure and firm performance, including Dawar (2014), Vo and Ellis (2017), Yildirim et al. (2018), and Li et al. (2019). In addition, studies by Ebaid (2009) and Connelly et al. (2012) found evidence that capital structure is not related to company performance.

This research aligns with the theory of legitimacy that the structure of public ownership can contribute to the legitimacy of the company as it can approach broader stakeholder groups and strengthen relationships between companies and stakeholders. Legitimacy is socially constructed because it reflects the appropriateness between the behavior of legitimized entities and the shared (or assumed shared) social group beliefs; thus, legitimacy depends on the collective audience but is independent of the particular observer. The change in social values and norms becomes motivated and is used as a source of pressure for company legitimacy.

The research findings align with the Stakeholder Theory, which posits that companies prioritizing the interests of various stakeholders, including customers, employees, and the broader community, tend to forge stronger relationships and enhance their long-term sustainability. When publicly owned shares are held by ethical investors or institutions endorsing responsible business practices, it reinforces the company's commitment to ethical behavior and positively impacts market perception and performance. In contrast, opposing theories such as Shareholder Primacy contend that a company's primary purpose is to maximize shareholder wealth, potentially leading to decisions driven by short-term profit gains for shareholders. Furthermore, issues related to corporate governance can arise when share ownership is concentrated among a select few, raising concerns about conflicts of interest, accountability, and undue influence on company decisions. Additionally, the direct impact of ethical behavior on market performance may vary, as various factors such as industry trends, economic conditions, and competitive forces can significantly influence a company's stock price and overall market performance.

Conclusion

This study aims to analyze the performance improvement of sharia companies in Indonesia, where CEI plays a role in improving the company's performance, and to add ownership structure as a moderating variable. There are two hypotheses tested and analyzed using linear regression.

The results of the first test of CEI have a positive impact on company performance, which means that companies that disclose CEI will have a significant impact on company performance. This proves that the greater the disclosure of CEI will have an impact on improving company performance in this case market performance. The results of the second test of the interaction of CEI with the public ownership structure have a positive impact on company performance, meaning that shares owned by the public strengthen the disclosure of CEI on the company's market performance. Share ownership owned by the public in general plays an important role in the company's performance which is strengthened by reporting CEI.

This research study benefits practitioners in sharia-compliant companies by emphasizing the importance of ethical values. Firstly, they can use the research to make more ethical decisions. This highlights the importance of integrating ethics into their strategies and daily operations. Secondly, communication professionals can use the research to create messages that emphasize the company's ethical values, building trust with stakeholders like customers and investors, ultimately improving the company's reputation and performance. Moreover, those involved in ownership decisions can learn that public ownership can strengthen CEI disclosure and performance. They can explore ways to optimize ownership structures or engage more effectively with public shareholders. In terms of performance improvement, practitioners can develop initiatives aligned with the research findings, such as ethical training programs and better measurement of CEI.

Although the results of this study are strong, there are still some limitations that must be acknowledged. This study only uses annual reports which tend to only report certain indicators as a source in determining of CEI disclosure, so that the results are not presented properly as CEI disclosure which should be reported separately. Only six of the eight dimensions contained in the Ethical Identity Index can be applied in disclosing a Company's Ethical Identity.

Based on the tests carried out, the results of the analysis, discussion, and conclusions in this study, the suggestions for further research are given to develop the company sector other than the manufacturing industry and increase the number of years to be studied. Subsequent research was carried out with a different method, namely by conducting direct interviews in collecting data to obtain more accurate data. In addition to the interview method, further research can assess aspects of CEI through websites or other company reports that can describe the CEI. For further research, the researchers suggest adding other variables that can affect the extent of disclosure of information about CEI.

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