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The effect of Sharia governance on financial performance mediated by leverage: Study on primary consumer goods sector in Indonesian Sharia Stock Index

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ABSTRACT

This study aims to examine the effects of sharia governance on financial performance mediated by leverage. This study employs a quantitative methodology. The participants in this study obtained from Indonesia Exchange using 81 companies in the Primary Goods Consumer Sector. Purposive sampling was used, and there were 26 companies as the sample. The data analysis used SPSS and path analysis, with 78 observations from 2020-2022. The findings of this study indicate that Sharia governance does not have a significant effect on financial performance. However, sharia governance has a significant effect on leverage. Leverage also has a significant effect on financial performance. Leverage can mediate the link between Sharia governance and financial performance.

Introduction

The primary consumer goods industry is one of the sectors of manufacturing companies in Indonesia. The Primary Consumer Goods Industry includes companies that produce or distribute products and services generally sold to consumers but for anti-cyclical or primary/essential goods. So that the demand for these goods and services is not affected by economic growth as Primary Goods Retail Companies - Food Stores, Drug Stores, Supermarkets, Beverage Manufacturers, Packaged Food, Agricultural Product Sellers, Cigarette Manufacturers, Household Goods, and Personal Care Goods.

Indonesia's population, which is increasing yearly, shows the need for goods from the primary consumer goods sector by the wider community. The large consumer demand can be one of the drivers of companies' improvement of their performance. This makes the primary consumer goods sector one of the investment areas that is quite popular with investors because the performance of a company is one of the important information for investors.

The primary consumer goods sector is growing, marked by the presence of a new financial industry, namely the Sharia primary consumer goods sector, which is listed in the Indonesia Sharia Stock Index. Sharia business has characteristics that allow it to carry out its operations using Sharia principles, which make it a differentiator between transactions in the Sharia primary consumer goods sector and conventional industrial transactions. The Sharia primary consumer goods industry is increasingly known to the public as an investment alternative for people who want to invest in Sharia companies.

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ROE in primary consumer goods sector companies listed on ISSI generally experienced a decline during 2021-2022. Return on equity (ROE) is a measure of shareholder performance during the year. Providing benefits to shareholders is the company's goal, and ROE, in accounting terms, is a true measure of performance (Ross et al., 2019). The profitability of a company can be measured by Return on Equity (ROE), which is used to measure the extent to which the company's ability to generate profits (Fahmi, 2017).

Financial performance problems, as mentioned above, can be solved through agency theory. Agency theory is the main intellectual foundation of corporate governance. The need to establish a system of corporate governance arises from the agency relationship that binds shareholders and managers. Corporate governance is the primary means of management control available to shareholders. What corporate governance seeks to do is to structure management decision-making power so that individual managers are unable to allocate income to themselves at the expense of the company's shareholders, creditors, and employees, and, more generally, society as a whole (Quiry et al., 2018). So, with good Corporate Governance, financial performance will also increase.

The number of Sharia stocks listed on the Sharia Securities List (DES) also increases yearly. Meanwhile, the number of Sharia stocks that went public was 533 companies or around 62.5%, from 852 issuer companies listed on the Indonesia Stock Exchange (OJK, 2022)The Sharia stock index also experienced positive growth compared to the end of 2021. The positive increase in the number of Sharia stocks in the capital market shows that people are starting to pay attention to religious values and Sharia principles of company management when investing in the capital market. The increase in Sharia stocks indicates increasing investor interest in the capital market.

Sharia business in Islam must be run with good governance because it is seen as one of the manifestations of worship or good deeds based on piety, so obedience to spiritual and operational principles is required. A business with good governance will be more likely to remain sustainable or run well. Business continuity is very important because it can promise business continuity and provide benefits to all interested parties, including the surrounding environment. Therefore, Sharia upholds good business because it provides broad benefits to many parties; as the Prophet Muhammad SAW said: "The best people are those who provide the most benefits to others" (HR. Bukhari) (KNKG, 2011).

Islam requires the obligation to act in good faith in contracts and transactions. This requires taking positive steps to do the right thing, making complete and honest disclosures, and carrying out one's obligations properly. In this way, Allah has encouraged transparency as stated in QS Al Baqarah (2):282, accountability as stated in QS Al Baqarah (2):284, trust as stated in QS Al Anfal (8):27, and fairness as stated in QS Al Imran (3):159 (Larbsh, 2015). Key players of companies whose shares are included in the Sharia stock list, especially managers and members of the board of commissioners, should be symbols of the implementation of Sharia principles in the capital market. They should be able to be examples of the implementation of transparent, accountable, responsible, independent, and fair business principles.

The principle of corporate governance is not something foreign to Islamic managers. Managers in companies with sharia shares should have good corporate governance principles that treat their shareholders fairly and are responsible for the rights of shareholders and stakeholders as a form of their responsibility to Allah SWT. Good corporate governance will be one of the investors' considerations when investing in sharia shares. Previous research on Sharia governance and financial performance states a positive relationship between Sharia governance and financial performance ((Buallay, 2021; Haider et al., 2015). The results of other studies also show that sharia governance positively impacts the performance of Islamic Banks (Aslam & Haron, 2020). Mardnly et al., (2018) also found that sharia governance significantly affects financial performance.

Although there are many findings that show a significant relationship between Sharia governance and financial performance, there are still contradictory findings that show that the implementation of Sharia governance does not significantly affect company value. According to Norman and Haron, Sharia governance still requires more empirical analysis using alternative analytical methods, alternative measures, and different periods (Nomran & Haron, 2020). Other studies also show that the relationship between Sharia governance and financial performance depends on the measurement used for financial performance (Mertzanis et al., 2019). In their research, Ramli et al., (2020) also stated that Sharia governance does not have a significant relationship with financial performance.

The contradictory results of the previous studies above indicate that there is a possibility of other variables that mediate the relationship between sharia governance and financial performance. Investors can consider the possibility of other variables that can provide attributes to Sharia governance practices in a company. One of the characteristics of Islamic companies registered with ISSI is the existence of leverage limits determined by OJK; namely, the total amount of interest-based debt compared to total assets is not more than 45%. According to Pecking Order Theory, the Company prefers internal funding. In this theory, there is no clear debt-equity mix target because there are two types of equity, internal and external, one at the top and one at the bottom. The pecking order explains why the most profitable firms generally borrow less—not because they have low target debt ratios but because they do not need external money. Firms with low profitability issue debt because they do not have sufficient internal funds for their capital investment programs (Brealey et al., 2020).

Good governance can be substituted with leverage to discipline managers (Jiraporn et al., 2012). Other studies that support this opinion state that short-term debt can function as a substitute for corporate governance (Harford et al., 2008; Huang et al., 2018). Based on these studies, the shares of Sharia companies that have low leverage levels indirectly reflect good corporate management. Based on the opinion above, if Sharia governance and leverage are interrelated, then the shares of Sharia companies should have a low level of leverage, which indirectly reflects the implementation of good Sharia principles in GCG. Therefore, Sharia companies with low debt reflect good Sharia corporate governance, which can then be used to discipline and direct Sharia company managers to limit corporate debt, which is expected to reduce agency problems and improve financial performance.

Based on existing data and research gaps, this study analyzes "The Effect of Sharia governance on financial performance mediated by leverage."

Literature Review

Theoretical and Conceptual Background

Agency Theory

An agency relationship arises whenever a person, called the principal, hires another person, called the agent, to perform some service, and the principal delegates decision-making authority to the agent (E. Brigham & Ehrhardt, 2017). In companies, the main agency relationships are the Conflict Between Shareholders, Shareholders, and Creditors, Conflicts between Owners/Managers, Insiders, and Outside Owners, and Conflicts between Managers and Shareholders. This paper was based on the conflicts between owners/managers. The misalignment of interest between owners and managers and the lack of proper observations as a result of diffused ownership structure could lead to a conflict, which is known as principal–agent conflict (Panda & Leepsa, 2017) .

Good Corporate Governance

The study of corporate governance is the study of the relationships between these relationships with the firm and each other (Monks & Minow, 2011). Corporate governance is the company's operating system. A good corporate governance structure is a working system for principled goal setting, effective decision-making, and compliance and performance monitoring. Essentially, corporate governance encompasses the relationship between a company's stakeholders and balancing their respective interests. The main stakeholders in corporate governance are shareholders, the Management Board, and the Supervisory Board. At the same time, other stakeholders are employees, suppliers, customers, banks and other creditors, regulators, and the wider community. The Indonesian Good Corporate Governance Guidelines are based on five core values: transparency, accountability, responsibility, independence, and fairness (Puradiredja et al., 2019).

Sharia Governance

Sharia governance is a structure and process in the sharia economic sector to ensure compliance with sharia laws and principles. Specifically, sharia governance can be interpreted as an institutional and organizational arrangement by which entities can ensure effective independent management/supervision of sharia compliance (KNKG, 2023). The practice of implementing business exemplified by the Prophet Muhammad SAW, illustrates his nature and behavior, as agreed by all scholars, namely shiddiq, fathonah, amanah, and tabligh or can be abbreviated as ShiFAT which means nature. The Islam always encouraged the business community to conduct trade and commerce in accordance with the injunctions of Islam i.e. Holy Qur'an and Sunnah (Hafeez, 2013).

Shiddiq means true, always stating and carrying out the truth and being honest wherever you are and to anyone. The implication in business is upholding honesty and avoiding fraud, embezzlement, and lying behavior. Fathanah means intelligent, which means thinking clearly and rationally and making decisions quickly and accurately. In the business world, this fathanah trait is used to identify and determine things and/or activities that are halal, tayib, ikhsan, and tawazun. Amanah means trustworthy, which means maintaining the trust Allah and others give. This trust is manifested in various forms of responsibility and accountability for business activities. Tabligh means to convey, namely to convey the Message from Allah about the truth that must be upheld on earth. The truth of this Message must be continued by the Muslim community from time to time so that Islam can truly be a blessing to the universe. In the business world, conveying the truth can be realized through socializing good and clean business practices, including the business behavior of the Prophet Muhammad and his companions (KNKG, 2011).

Pecking Order Theory

The idea that managers will prefer to use retained earnings first and issue new equity only as a last resort is often referred to as the pecking order hypothesis by Stewart Myers. Companies may have low leverage because they cannot afford to issue additional debt and are forced to rely on equity financing or because they are profitable enough to finance all investments using retained earnings (Berk & DeMarzo, 2017).

Capital Structure Theory

The company's capital structure decisions include the choice of target capital structure, the average maturity of its debt, and the type of financing it decides to use at any given time. Like operating decisions, managers must make capital structure decisions designed to maximize the firm's intrinsic value (Madura, 2018). Capital structure or financial leverage decision should be examined concerning how debt and equity mix in the firm's capital structure influence its market value. Debt to equity mix of the firm can have important implications for the value of the firm and cost of capital (Abeywardhana, 2017).

Leverage

Leverage is how much fixed-income securities (debt and preferred stock) are used in a company's capital structure (Brigham & Houston, 2019). The leverage ratio indicates the extent to which borrowed funds, or debt, are used to finance assets and the company's ability to meet its debt payment obligations (Melicher & Norton, 2017).

Profitability

Profitability is the net result of several policies and decisions. The ratios examined provide useful clues to the company's operational effectiveness, but profitability ratios show the combined effect of liquidity, asset management, and debt on operations. Some of the profitability ratios that are often used are Net Profit Margin (NPM), Return on Total Assets (ROA), and Return on Common Equity (ROE) (Madura, 2018). Ratio analysis can help stakeholders analyze the financial health of a company. Using these financial ratios, comparisons can be made across companies within an industry, between industries, or within a firm itself. The higher these ratios, the more successfully the firm can control its costs and expenses, and by doing so improve its performance (represented as ROE and ROA) (Delen et al., 2013).

Financial Performance

The profit and loss report or company financial performance report is a report listing the company's income and expenses over a period of time. The income statement is sometimes called the profit and loss statement, and net income is also referred to as the company's earnings (Berk & DeMarzo, 2017).

Hypothesis Development

The effect of Shariah Governance on Financial Performance

Previous studies on sharia governance and financial performance state that there is a positive relationship between Islamic corporate governance and financial performance (Buallay, 2019; Haider et al., 2015). The results of previous studies more specifically show that the audit committee (AUDC) and the Sharia board (SB) have a positive impact on the performance of Islamic Banks (Aslam & Haron, 2020). Another study also found that ownership structure is the only significant corporate governance provision in determining the financial performance of Syria, because it loads positively and significantly on the financial performance proxy (Mardnly et al., 2018).

H1: Shariah Governance has a significant influence on financial performance

The Effect of leverage on financial performance

In the long run, absent acute economic downturn, lower leverage levels tend to lead to higher profit margins and returns on assets and equity (Al-Tally, 2014). Other studies have shown that the effect of leverage on financial performance is positive for listed firms in Nigeria. However, this new finding is evidence that the strength of the positive relationship depends on firm size and is mostly higher for small firms (Ibhagui & Olokoyo, 2018).

H2*:* Leverage has a significant influence on financial performance

The Effect of sharia governance on leverage

Based on the results of the study Arping & Sautner, (2010) revealed that corporate governance reform in the Netherlands reduced the company's financial leverage. This is in line with research Uddin et al., (2019) which states that corporate governance has a significant influence on leverage funding decisions in Bangladesh. It can be concluded that the better the Corporate Governance, the less debt will be. This finding is consistent with the view that increasing or improving corporate governance will reduce the value of debt.

H3: Sharia governance has a significant influence on leverage

The Effect of sharia governance on financial performance mediated by Leverage

Companies with poor governance have significantly higher leverage. Good governance can be substituted with leverage as a mechanism to discipline managers (Jiraporn et al., 2012). Research by Sarwar et al., (2022)examines corporate governance and financial performance have a significant but negative relationship and are mediated by financial leverage.

H4: Leverage mediates the effect of sharia governance on financial performance.

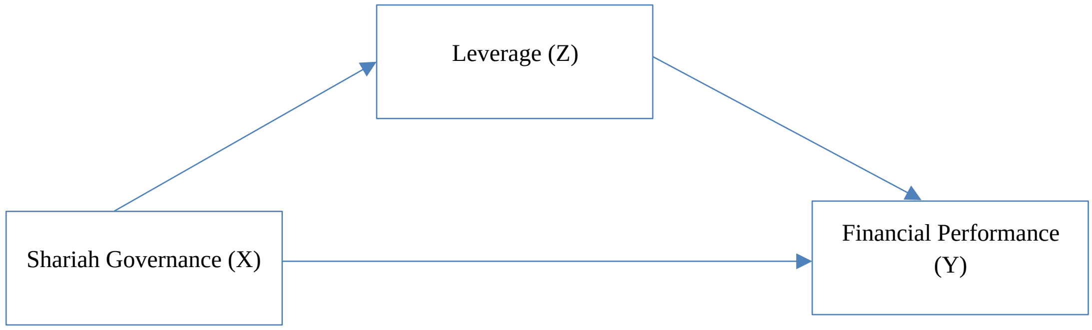

Figure 1: Conceptual Model of the Study; Source: Authors 2024

Research & Methodology

This study uses an explanatory research approach to test the theory objectively by testing the relationship between each variable using statistical procedures and a quantitative approach. This research was conducted at the Indonesia Stock Exchange, specifically on the Indonesian Sharia Stock Index (ISSI). The object of this research is Sharia companies in the Primer Consumer Goods Sector listed on the ISSI, and the data was taken by accessing the official BEI (www.idx.co.id). The population of this study is Islamic stocks listed in the primary consumer goods sector in the Indonesian Sharia Stock Index (ISSI) in 2020-2022, totaling 81 Islamic stocks. The sampling technique used in this research is non-probability sampling using purposive sampling. Sampling with purposive sampling is limited to certain that can provide the desired information because they are parties that have met or met the criteria determined by the researcher (Sekaran & Bougie, 2016). Sample selection criteria, namely, Islamic stocks that experienced favorable profit conditions during the research period and Islamic companies that entered or listed for three consecutive years during the research period. Then, the research sample was 26 companies with 3 years of observation, so the total data sampled was 78 observation data. The data analysis technique used is path analysis because there is a complex relationship between one or more dependent variables and one or more independent variables, and the Sobel test is a mediation test. The indicators used in this study are Shariah Governance using from Abdallah & Bahloul, 2021; Alqatamin, 2018; leverage from Shabilah et al., 2023; financial performance from Buallay, 2021.

Findings and Discussions

This study focuses on the shares of companies in the Primary Consumer Goods sector listed on the Indonesia Stock Exchange (IDX) for 2020-2022. From the population and sampling techniques used, 26 companies were studied using 3 years of analysis for each company. The following companies were analyzed in the study. PT Astra Agro Lestari Tbk (AALI), PT Akasha Wira International Tbk (ADES), PT Austindo Nusantara Jaya Tbk (ANJT), PT Campina Ice Cream Industry Tbk (CAMP), PT BISI International Tbk (BISI), PT Sariguna Primatirta Tbk (CLEO), PT Wahana Interfood Nusantara (COCO), PT. Charoen Pokphand Indonesia Tbk (CPIN), PT. Diamond Food Indonesia (DMND), PT. Enseval Putera Megatrading Tbk (EPMT), PT. FKS Multi Agro Tbk (FISH), PT. Garudafood Putra Putri Jaya Tbk (GOOD), PT. Indofood CBP Sukses Makmur Tbk (ICBP), PT. Indofood Sukses Makmur Tbk (INDF), PT. Japfa Comfeed Indonesia Tbk (JPFA), 16. PT. Mulia Boga Raya Tbk (KEJU), PT. Mayora Indah Tbk (MYOR), PT. Provident Agro Tbk (PALM), PT Nippon Indosari Corpindo Tbk (ROTI), PT. Millenium Pharmacon International Tbk (SDPC), PT Sekar Bumi Tbk (SKBM), PT Sekar Laut Tbk (SKLT), PT Tigaraksa Satria Tbk (TGKA), PT Uni-charm Indonesia Tbk (UCID), PT Ultrajaya Milk Industry & Trading Company Tbk (ULTJ), PT Unilever Indonesia Tbk (UNVR).

Descriptive Statistic

Descriptive analysis provides an overview of the research objects used and sampled in this study. The variables observed include sharia governance, leverage, and financial performance.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SyariahGovernance	78	9	33	17.77	5.170
Leverage	78	0.0004	0.8152	0.3924	0.1917
Kinerja Keuangan	78	0.0056	0.7175	0.1498	0.1120
Valid N (listwise)	78				

Source: Author 2024

Path Analysis

Direct Influence (1st Equation) Equation 1 is used to test the influence between the variables of sharia governance and leverage on financial performance. If the significance value is <0.05 then there is a significant influence.

Table 2: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.002	0.040		-0.039	0.969
	Leverage	0.243	0.051	0.484	4.791	0.000
	SyariahGovern.	0.003	0.002	0.046	1.447	0.152
a. Dependent Variable: financial performance						

Source: Author, 2024

The significance value of the sharia governance variable is 0.152, this value is greater than 0.05 (p>0.05). So it can be concluded that the path value of the sharia governance variable on financial performance does not have a significant effect. Thus, the H1 hypothesis in this study which states that Shariah Governance has a significant effect on financial performance is rejected. Meanwhile, for the significance value of the leverage variable of 0.000, the value is smaller than 0.05 (p <0.05). So it can be concluded that the path value of the leverage variable on financial performance has a significant effect. Thus, the H2 hypothesis in this study which states that leverage has a significant effect on financial performance is accepted.

Direct Influence (2nd Equation) Equation 2 is used to test the influence between sharia governance variables on leverage. If the significance value <0.05 then there is a significant influence.

Table 3: Partial test (t test) Result

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.180	0.088		2.041	0.045
	Syariah Governance	0.012	0.005	0.277	2.513	0.014
a. Dependent Variable: Leverage						

Source: Author, 2024

The significance value of the sharia governance variable is 0.014, this value is smaller than 0.05 (p <0.05). So it can be concluded that the path value of the sharia governance variable on leverage has a significant effect. Thus, the hypothesis H3 in this study which states that Shariah Governance has a significant effect on leverage is accepted.

The number of the indirect influence of the sharia governance variable on financial performance mediated by leverage is 0.277 x 0.484 = 0.134, so the total influence is 0.046 + 0.134 = 0.18. Based on this description, it can be concluded that leverage is proven to be able to mediate the relationship between sharia governance and the company's financial performance. This can be seen from the value of the direct influence which is smaller than the indirect influence, which is 0.046 <0.134.

Based on the results of the Sobel test calculation above, the results show that the Z-count value is 9.375, which is greater than the Z-table value of 1.96, so it can be concluded that leverage is able to mediate the relationship between sharia governance and financial performance. Thus, the H4 hypothesis in this study which states that Leverage mediates the influence of sharia governance on financial performance is accepted, with perfect mediation.

Sharia governance has not significant effect on financial performance. Sharia governance variable as measured by the Board of Directors and Audit Committee indicators, is unable to improve financial performance. Based on these findings, it can be seen that in the primary consumer goods sector in the sharia stock index, sharia governance has no significant effect on financial performance. This means that the implementation of sharia governance as proxied by the Board of Directors and Audit Committee in Primary Consumer Goods Sector Companies has no direct influence on financial performance. The lack of independent directors can be one of the reasons. Independent Directors will be more able to be objective in making decisions, so that they can assume the trust of shareholders. Independent Directors have the nature of Amanah, which can be trusted in their duties to carry out the interests of the Company and shareholders. The legal basis for the nature of trust is found in Q.S. Al-Mu'minun [23]: 8 (Hasanah, 2022).

The verse emphasizes that those who will attain happiness are those who are stewards of the trusts placed upon them and the agreements they enter into with other parties. The mandate is conveyed by the owner on the basis of trust to the trustee that the mandated thing will be maintained and safe in the hands of the recipient. The mandate that rests on human shoulders covers four aspects. First, between man and Allah, such as various acts of worship, for example vows. Second, between a person and other people, such as entrustments, secrets, and others. Third, between a person and the environment, including its maintenance so that it can also be enjoyed by future generations. And fourth, the mandate with himself (Shihab, 2002). Conversely, if the company does not have independent directors, then there are indications that the directors will act based on personal interests which make them not objective in making decisions, so that the directors are considered less capable of carrying out the trust of shareholders. This is contrary to the nature of Amanah. The results of this study support the research of Ramli & Ramli (2016), Ramli et. al. (2020) which suggests that sharia governance has no significant effect on company performance.

Leverage with debt to asset ratio proxy (total debt/total assets) has a significant effect on financial performance is accepted. Thus it can be concluded that the use of leverage limits on the Company's capital structure can improve financial performance. Based on these findings it can be seen that in the primary consumer goods sector in ISSI, leverage has a significant effect on financial performance. This means that the application of leverage proxied by debt to assets has a strong influence on Islamic financial performance. The use of leverage can increase the expected ROE, but leverage also flattens the probability distribution and increases the probability of large losses, thereby increasing the risk borne by shareholders. With a controlled debt policy, the company will have good performance. When the Company chooses the right leverage percentage, with the right financing, financial performance will improve. The determination of the right leverage policy strategy is in accordance with the principle of Sharia business governance, namely Fathonah. The application of the fathonah trait is in accordance with Q.S. Al-Imron (3): 159 and Q.S. Al-An'am (6): 83. With the nature of fathonah, leaders will be wise, open-minded, able to deal with changing times, able to take advantage of opportunities for the progress of the company, able to face challenges, improve weaknesses and maintain the strength of the company. The intelligence in question includes intellectual and spiritual intelligence (Syah, 2021). These findings support the research by At-Tally (2014), Rahim et. al. (2021) and Menacer et. al. (2019) which state that leverage has a significant effect on financial performance.

Sharia governance with the Board of Director and Audit Committee indicators has a significant effect on leverage with the debt to asset ratio (DAR) indicator is accepted. This means that the implementation of good sharia governance is able to influence the Company's capital structure decision making, especially the right leverage policy. so it can be concluded that managers are able to set the right policies, especially the right leverage policy. This behavior illustrates the principle of sharia business governance, namely Fathonah. The nature of fathonah is in accordance with what is mentioned in Q.S. Al-Imron (3): 159 and Al-An'am (6): 83. The results of this study are supporting Puspitasari et al., (2023) which states that sharia governance has a significant effect on leverage, and Hameed et al., (2023) which said that board size, board independence, CEO duality, and auditor reputation determine the leverage policy of Shariah-compliant firm.

Leverage mediates the effect of sharia governance on financial performance is accepted. sharia governance does not have a significant effect on financial performance. However, with the mediation of leverage in this study, it is proven that leverage is able to mediate the relationship between the two perfectly. So that the results of this study indicate that sharia governance can affect the Company's performance. The results of this study are in line with Buallay (2019), Haider et al. (2015), Aslam & Haron (2020), and Mardnly et al. (2018) which reveal that sharia governance has a significant effect in determining financial performance. In addition, the test results also prove that Sharia governance has an indirect effect on financial performance. This is in accordance with the role of governance as a supervisor, namely supervising and directing. Good sharia governance will direct managers to choose the right leverage policy which then results in optimal leverage, which in turn will improve financial performance.

Conclusions

Based on the results of research and discussion, it can be concluded that sharia governance cannot improve financial performance but can increase leverage. Company leverage can improve financial performance. In addition, it is also concluded that sharia governance has a significant effect on financial performance mediated by leverage. These results align with the principles of Sharia business governance written by KNKG (2011), where managers of Sharia companies adopt the trait of Shidiq, which means honesty and avoiding all forms of fraud. The practice of shiddiq in the companies can be seen by the publishing the financial reports every year. Amanah which means means trustworthy, not breaking promises and being responsible towards what has been handed over to. Anything that has been agreed upon will be carried out as well as possible, this is the essence of Amanah. Amanah can be seen from the company's accountability and ability to fulfill its stakeholders' responsibilities by the independence of the directors and the audit committee. Fathanah, in doing business, is used to determine the halalness of activities, which can be seen by the use of minimum leverage by OJK regulations, which is less than 45%, so that the Company avoids the practice of usury, which is forbidden. And lastly tabligh which means to convey and spreading the truth. If in the past the apostle conveyed the revelation of Allah SWT, then now Ummah Muslims are also required to convey the truth anytime anywhere to anyone. Allah SWT commands to uphold what is good and forbid what is evil. Tabligh can be seen by the delivery of the message of truth which can be realized in the form of good and clean business practices, like the business behavior of the Prophet Muhammad and his companions.

This research contributes theoretically and practically. The results of this study support the pecking order theory, which explains that companies will prefer the use of internal funds rather than debt, but retained earnings are only one source of equity financing (increasing the value of equity while the value of debt remains unchanged). However, this study cannot confirm the agency theory unless there are restrictions on the leverage used. Therefore, firms may have low leverage because they cannot afford to issue additional debt and are forced to rely on equity financing or because it is profitable to finance all investments using retained earnings (Berk & DeMarzo, 2017). In addition, this study has practical implications related to the development of financial performance in the Primary Consumer Goods Sector listed on the ISSI in order to encourage an increase in the strength of the board of directors and audit committee, help policy-making taken by the board of directors affect the composition of debt in the capital structure and help company managers in managing funding with minimal debt in the company can improve financial performance.

The limitations of this study are research that only focuses on the consumer goods sector, besides that, in terms of the coefficient of determination, which is quite low that the influence between the independent variable and the dependent variable has a fairly weak influence that it is estimated that other variables can affect financial performance. Therefore, future research is expected to expand and extend the research period, add variables such as the firm's value and cash flow, and use other measures such as using a survey to deepen the sharia value from the first-person perspective and other measures in future research.

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Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.
Conflicts of Interest: The authors declare no conflict of interest

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