



DETERMINANTS OF SUKUK ISSUANCE AMONG TOP 100 LISTED COMPANIES IN MALAYSIA

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ABSTRACT

This study investigates the determinants of Sukuk issuance, focusing on the influence of Shariah compliance, profitability, firm age, board gender diversity, audit quality, and firm size on the decision to issue Sukuk. Using a sample of the top 100 listed companies in Malaysia, the analysis reveals that approximately 48.18% of the variance in Sukuk issuance is explained by these determinants. The results highlight the significant roles of Shariah compliance and profitability as primary drivers, while firm age and board gender diversity provide additional insights into corporate financing decisions, guided by Agency Theory and Shariah Governance Theory. The findings have practical implications for market participants, regulators, and policymakers by emphasizing the importance of aligning corporate practices with Shariah principles to enhance Sukuk adoption. Furthermore, these results can inform strategies to promote gender-diverse boards and improve audit quality, thereby fostering sustainable growth in the Islamic finance industry. This research underscores the significance of these determinants and provides a foundation for future studies and policies aimed at advancing Sukuk utilization.

Keywords: Sukuk Issuance, Shariah Compliance, Profitability, Firm Age, Board Gender.

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INTRODUCTION

The term "Sukuk" is derived from the root word "sakk," which means certificate. In the financial industry, Sukuk serves as an alternative to conventional bonds and is also known as "Islamic Investment Certificates." According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Sukuk are defined as "certificates of equal value representing undivided ownership interests in tangible assets, usufructuary rights and services, assets of specific projects, or special investment activities." However, in 2015, global Sukuk issuance experienced a significant decline of 43% compared to 2014. According to the International Islamic Financial Market (IIFM) Sukuk Report in 2021, only USD 60.6 billion of Sukuk were issued during that period. This decline was attributed to Bank Negara Malaysia's decision to discontinue the issuance of short-term Sukuk investments.

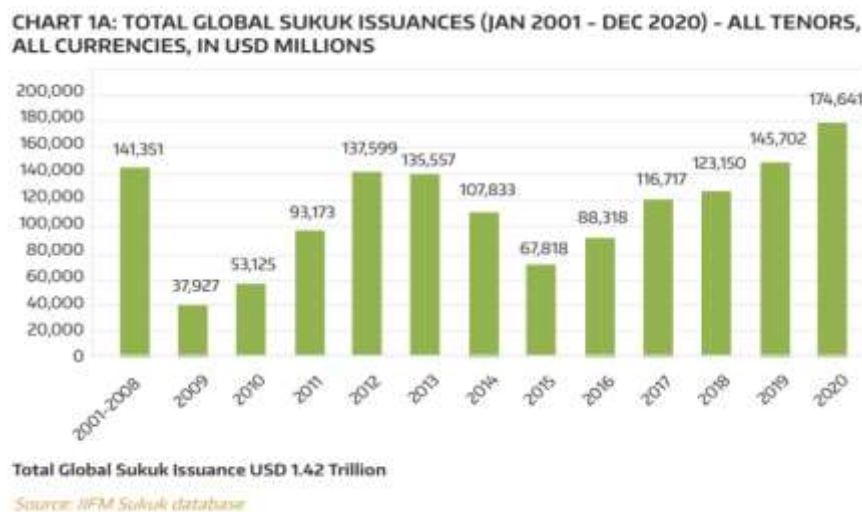


Figure 1: Total Global Sukuk Issuance (Jan 2001 – Dec 2020) – All Tenors
(All Currency in USD Millions)

Source: Islamic Financial Market (IIFM) Sukuk Report 2021

Figure 1 shows that global Sukuk issuance experienced a growth rate of approximately 19.84% per annum, rising from USD 145.702 billion in 2019 to USD 174.641 billion in 2020. The increased issuance in 2020 was primarily driven by sovereign Sukuk from Asia, the GCC, Africa, and other jurisdictions. While Malaysia remained the dominant player in the Sukuk market, its market share experienced a significant increase.

Malaysia, as a global leader in Islamic finance, has consistently dominated the Sukuk market. According to the IIFM Sukuk Report, Malaysia accounted for approximately 45% of the total global Sukuk issuance in 2020. Its well-established regulatory framework, strong market infrastructure, and alignment with Shariah principles have positioned it as a hub for Islamic finance. Additionally, Malaysia's pioneering role in developing innovative Sukuk structures and its proactive policies have strengthened its leadership in the global Sukuk market. This makes Malaysia an ideal case for studying the factors influencing Sukuk issuance.

Despite the essential role that Sukuk plays in financing emerging economies, macroeconomic considerations cause differences in the issuance of these financial instruments in some countries. For example, compared to nations with more stable political climates, countries with unstable political setups tend to issue fewer Sukuk. Compared to nations such as Malaysia and Bahrain, fully Islamic banking systems have less frequent Kuwaiti Sukuk issuance. Moreover, since 2014, global Sukuk issuance has declined, as discussed in the previous section. Macroeconomic considerations may be just one of the many causes of this





situation. It should also be noted that there is a lack of study on the factors that influence the issuance of sukuk. Bond conventionality has been the subject of much previous research. This is due to earlier availability of bonds in the market than sukuk. Several factors can affect the issue of Sukuk.

As a result, this investigation makes use of some of the listed factors. This study is especially interested in factors like profitability, firm size, board gender, and shariah compliance. Profitability has a negative effect on bond yields (Faizah et al., 2015). Adherence to shariah has a big impact on sukuk, which are Islamic financial instruments that resemble bonds. Due to its structure and compliance with Islamic law, sukuk are essential for shariah-compliant finance. Sukuk conformity with Shariah can be seen in a variety of ways.

The subsequent sections of this paper will present a comprehensive review of the relevant literature, discuss the research methodology and data sources, present the empirical analysis and results, and conclude with implications and recommendations for policy makers and practitioners.

LITERATURE REVIEW

The determinants of sukuk issuance among the top 100 listed companies in Malaysia have garnered significant academic attention, with various studies examining factors such as Shariah compliance, profitability, firm age, and board gender diversity. These determinants are critical in shaping corporate decisions to issue sukuk, distinguishing them from conventional financial instruments. As Islamic financial instruments adhering to Shariah law, sukuk provide a unique alternative to traditional bonds, with ongoing research exploring the evolving factors influencing their issuance (Hazrin, Amir & Radzi, 2022). This section reviews the key findings and contributions from existing studies on the subject.

A comparison of sukuk with conventional bonds reveals significant differences in the factors influencing issuance. Sufian et al. (2022) found that sukuk are typically preferred by firms seeking to appeal to Islamic investors, particularly because sukuk are often asset-backed, adhering to Shariah principles. On the other hand, conventional bonds are debt-based instruments that do not require such compliance. The research by Yahya et al. (2023) also emphasizes that sukuk's asset-backed nature lowers risk for investors, which can lead to more favorable financial performance for firms compared to conventional bond issuance.

The regulatory environment also plays a crucial role in sukuk issuance. Rahman and Zainal (2023) argue that a supportive regulatory framework is essential for promoting sukuk issuance in Malaysia. The Malaysian government has been proactive in developing regulations that facilitate sukuk issuance, contributing to Malaysia's status as a global hub for Islamic finance. Additionally, Isa and Ghafar (2022) pointed out that the presence of tax incentives for sukuk issuers further motivates companies to opt for this Shariah-compliant financial instrument over conventional bonds.

Sukuk issuance has been linked to various financial performance outcomes, particularly among firms looking to tap into the growing Islamic finance market. Hazrin, Amir, and Radzi (2022) argue that firms issuing sukuk tend to demonstrate better financial performance compared to those issuing conventional bonds. This is primarily due to the strict governance and Shariah-compliance standards required for sukuk issuance, which attract a specific group of investors looking for ethical investments (Mohamad, 2023). The transparency and asset-backed nature of sukuk, as noted by Yahya and Ghafar (2022), enhance investor confidence and lead to potentially higher firm valuations.

Shariah compliance serves as a critical determinant in the decision to issue sukuk, setting them apart from conventional financial instruments. According to Hazrin et al. (2022),





firms issuing sukuk are required to ensure their business operations do not involve activities prohibited by Shariah law, such as interest (*riba*) or speculative transactions (*gharar*). The rigorous screening processes necessary for Shariah compliance, while potentially limiting the pool of sukuk issuers, elevate these firms' credibility in the Islamic finance market (Rahman, 2023). As Al-Hassan and Kayed (2023) emphasize, this alignment with ethical and religious principles is increasingly crucial for attracting global Islamic investors.

Firm profitability plays a significant role in sukuk issuance, as evidenced by research conducted by Sufian, Amir, and Radzi (2022). More profitable firms tend to issue sukuk due to the costs associated with maintaining Shariah compliance, which smaller or less profitable firms may find prohibitive. This finding is supported by Isa, Salleh, and Noor (2023), who identified that firms with stronger profitability indicators are more likely to attract Islamic investors. Moreover, profitability signals financial health and reduces perceived risks for sukuk investors, making sukuk a preferred instrument for profitable firms aiming to diversify their funding sources.

Firm age has been recognized as another determinant influencing sukuk issuance. Amir et al. (2024) found that older, more established companies are more likely to issue sukuk. These firms often have greater access to capital markets, an established financial performance history, and enhanced credibility, which reduce investor risk perception. Al-Kuwari (2022) also noted that older firms are better equipped to navigate the complexities of sukuk issuance, such as compliance with Shariah law and managing the legal structures associated with sukuk contracts.

The influence of board gender diversity on sukuk issuance has emerged as an area of interest in recent research. Gender diversity on corporate boards is associated with improved decision-making processes and a more inclusive approach to corporate governance. Amir et al. (2024) found that firms with greater gender diversity on their boards are more likely to issue sukuk, as diverse boards bring a broader range of perspectives and tend to prioritize ethical and sustainable business practices. Similarly, Zahra and Abdullah (2023) highlighted that gender diversity is positively associated with sustainability goals, which aligns with the ethical foundations of sukuk.

The literature on sukuk issuance highlights several key determinants, including Shariah compliance, profitability, firm age, and board gender diversity. These factors shape corporate decisions and underscore the unique characteristics of sukuk compared to conventional financial instruments. The findings from recent research provide valuable insights for market participants and regulators, supporting the development of strategies to enhance sukuk utilization and foster growth in Malaysia's Islamic finance sector.

Agency Theory

Agency theory posits that conflicts of interest arise between managers (agents) and shareholders (principals), with corporate governance mechanisms like sukuk issuance helping to align their interests. Jensen and Meckling (1976) established that agency costs could be mitigated through better monitoring and incentive alignment, and sukuk, which requires adherence to strict Shariah principles, provides a mechanism for transparency and governance. The structure of sukuk enforces asset-backing and risk-sharing, potentially reducing agency costs and aligning management actions with shareholder interests (Fama & Jensen, 1983; Eisenhardt, 1989).

The corporate governance implications of sukuk issuance are especially relevant, as Shariah-compliant instruments demand higher levels of transparency and ethical oversight (Shleifer & Vishny, 1997). Several studies have shown that firms with strong governance frameworks are more likely to issue sukuk, as the ethical and transparent nature of these





instruments appeals to investors focused on corporate governance (Zahra & Pearce, 1989; Core, Holthausen, & Larcker, 1999). Additionally, sukuk can signal strong corporate governance practices, which, in turn, attract more investors (Tosi, Katz, & Gomez-Mejia, 1997; Al-Hassan & Kayed, 2023).

Profitable firms may also prefer sukuk as a financing option due to its alignment with ethical investment principles and reduced risk of agency conflicts. Jensen (1986) highlights how such mechanisms help firms utilize free cash flow efficiently, reducing the likelihood of overinvestment by management. Other studies emphasize how sukuk issuance mitigates conflicts between managers and shareholders by enforcing compliance with Islamic principles (Ang, Cole, & Lin, 2000; Dalton et al., 1998; Isa, Salleh, & Noor, 2023).

Shariah Governance Theory

Shariah Governance Theory focuses on the importance of compliance with Islamic laws and principles, particularly in Islamic financial institutions. Sukuk, as a Shariah-compliant financial instrument, is governed by a Shariah supervisory board, which ensures that all aspects of issuance align with Islamic ethics (Grais & Pellegrini, 2006; Archer & Karim, 2007). The role of Shariah governance is crucial, as it not only maintains ethical standards but also attracts investors who prioritize socially responsible investment (Hamza, 2013; Hasan, 2009).

The influence of Shariah governance on sukuk issuance has been widely studied. For example, firms that adhere strictly to Shariah principles are more likely to issue sukuk as a means of raising capital, as they seek to align their financial strategies with religious and ethical norms (Chapra & Ahmed, 2002). Rahman and Zainal (2023) suggest that the regulatory framework governing sukuk in Malaysia enhances the transparency and credibility of Islamic financial products. This regulatory oversight, combined with ethical governance, influences firms' decisions to issue sukuk (Ahmad & Hassan, 2007).

Furthermore, the presence of a Shariah board within firms can act as a signalling mechanism to investors, indicating strong ethical oversight and compliance with Islamic principles (Alnasser & Muhammed, 2012). This is especially relevant for investors in Islamic finance markets, where Shariah compliance is a major factor in investment decisions (Mollah & Zaman, 2015). Studies have also highlighted the role of Shariah-compliant governance in mitigating financial risks, as the ethical nature of sukuk reduces the potential for speculative activities (Yahya & Ghafar, 2022; Nomran, Haron, & Hassan, 2018).

Other recent research emphasizes the importance of Shariah governance in fostering sustainable corporate practices. For instance, Zahra and Abdullah (2023) examined how board gender diversity contributes to the sustainability of Islamic financial institutions, reinforcing the need for inclusive and ethical governance structures. This further supports the idea that sukuk issuance is influenced by both governance and ethical considerations, with firms leveraging Shariah compliance to differentiate themselves in the market (Mohamad, 2023; Al-Kuwari, 2022).

Thus, agency theory and Shariah governance theory provide complementary perspectives for understanding the determinants of sukuk issuance among the top 100 listed companies in Malaysia. While agency theory explains how sukuk issuance aligns management with shareholder interests, reducing agency costs and promoting corporate governance, Shariah governance theory emphasizes the ethical and religious dimensions, highlighting the importance of compliance with Islamic principles. Both theories are essential in explaining the growing preference for sukuk as a financing tool in Malaysia's Islamic financial landscape.





Research Hypothesis

Grounded in Agency Theory and supported by prior literature, this study seeks to explore the relationship between selected firm-specific and governance-related factors with the issuance of sukuk. The following hypotheses are formulated:

Shariah-compliant firms operate under Islamic principles that prohibit interest-based transactions and promote risk-sharing. As such, these firms are more likely to utilize Islamic financial instruments like sukuk, which are structured to comply with Shariah law. Previous studies (e.g., Abdullah et al., 2017; Ab Wahab & Ramli, 2020) have shown that Shariah-compliant status positively influences the choice of Islamic financing. Therefore, this hypothesis posits that firms adhering to Shariah principles are more likely to issue sukuk compared to their non-compliant counterparts.

H1: There is a significant relationship between Shariah compliance and sukuk issuance.

Profitability, often measured by return on assets (ROA) or net profit margin, indicates a firm's financial performance and stability. According to the pecking order theory, profitable firms may rely less on debt; however, in the context of sukuk issuance, profitability can enhance investor confidence and reduce perceived risk. Empirical research (e.g., Mohamed et al., 2021; Safiullah & Shamsuddin, 2018) suggests that more profitable firms have better access to capital markets, including sukuk, due to lower default risk and stronger reputations. This hypothesis examines whether such financial strength significantly affects sukuk issuance.

H2: There is a significant relationship between profitability and sukuk issuance.

Firm age serves as a proxy for organizational maturity, experience, and reputation. Older firms may be perceived as more stable and credible, thereby facing fewer barriers in accessing capital markets. According to dynamic trade-off theory, established firms have better knowledge and networks to navigate complex financial instruments like sukuk. Prior studies (e.g., Rahim et al., 2019; Said & Grassa, 2013) have found a positive link between firm age and the likelihood of sukuk issuance. This hypothesis investigates whether older firms are indeed more inclined to issue sukuk.

H3: There is a significant relationship between firm age and sukuk issuance.

Board gender diversity, particularly the presence of female directors, is increasingly recognized as a key component of good governance. Gender-diverse boards may bring unique perspectives, enhance ethical decision-making, and influence firms to adopt socially responsible financial practices, including Islamic finance instruments like sukuk. According to agency theory, diverse boards can improve oversight and reduce agency conflicts. Empirical findings (e.g., Ararat et al., 2015; Ismail et al., 2020) suggest that gender diversity can influence corporate financing behavior. This hypothesis aims to assess whether gender composition on corporate boards affects the decision to issue sukuk.

H4: There is a significant relationship between board gender and sukuk issuance.





METHODOLOGY

This study employs a quantitative research methodology and utilizes secondary data from publicly available annual reports of the top 100 listed companies on Bursa Malaysia for the period 2018-2022. The selection of this study period is justified by the aim to capture recent trends and developments in Sukuk issuance, particularly during a time of fluctuating economic conditions, regulatory changes, and the evolving dynamics of the Malaysian financial market. The statistical program Stata will be used to collect and analyse the data, facilitating an in-depth investigation of the determinants of Sukuk issuance, including factors such as Shariah compliance, profitability, firm age, and board gender diversity. Although the focus is on the top 100 companies, which represent a significant portion of the market, smaller companies may also provide additional insights into Sukuk issuance behaviour, particularly in terms of accessibility and utilization of Sukuk in the context of limited financial resources. However, the decision to focus on the top 100 companies ensures the robustness of the findings by examining the largest and most influential firms in Malaysia's Sukuk market.

Data Collection

This research will utilize the annual reports of the top 100 listed companies on Bursa Malaysia as the primary source of data. These reports provide comprehensive financial and operational information necessary for a detailed analysis of the determinants of sukuk issuance, including factors such as Shariah compliance, profitability, firm age, and board gender diversity. Companies will be selected based on their listing on the Bursa Malaysia stock exchange and the availability of complete and accurate annual reports for the relevant period.

Variable Selection

The study will focus on variables related to sukuk issuance and its determinants among the top 100 listed companies in Malaysia. Key variables will include Shariah compliance, profitability ratios, firm age, and board gender diversity. Specific metrics may encompass the percentage of Shariah-compliant assets, return on equity, revenue growth rate, market capitalization, and other relevant financial and operational indicators that influence the decision to issue sukuk.

Data Processing and Analysis

The statistical program Stata will be utilized to process and analyze the collected data. Descriptive statistics will be calculated to summarize the characteristics of the sample and key variables. Regression analysis and other inferential statistical methods will be employed to examine the relationships between sukuk issuance and its determinants, specifically Shariah compliance, profitability, firm age, and board gender diversity. To assess the significance of the identified relationships, additional statistical tests, such as chi-square tests or t-tests, may be conducted.

This study aims to investigate the relationship between sukuk issuance and firm performance, measured by Return on Assets (ROA), alongside three independent variables: Shariah compliance, firm age, and board gender diversity. Regression analysis will be conducted using the reliable statistical software Stata to facilitate this investigation. This approach enables an in-depth exploration of the complex interactions affecting ROA among independent factors like Shariah compliance, firm age, and board gender diversity for the top 100 Malaysian companies from 2018 to 2022. Thus, the following is the definition of the independent variables (IVs) and dependent variable (DV):





Acronyms	Variable Name	Measurement	Source
SKI	Sukuk Issuance	Sukuk is a dummy variable that equals “1” if firm issued Sukuk or disclose related information and “0” with no issuance	Hajimi, Amir, & Radzi (2022); Sufian, Amir, & Radzi (2022); Amir (2019); Mohamad (2023); Yahya and Ghafar (2022); Isa, Salleh, and Noor (2023); Valizadeh-Larijani, Zamani, and Shirzadi (2024).
SC	Shariah Compliance	Shariah compliance is represented as a dummy variable, where a value of '1' indicates that the firm is compliant with Shariah principles, and a value of '0' indicates non-compliance.	Ali & Ahsan (2024); Naim & Azzam (2024); Rahman & Zainal (2023); Yusof & Ahmad (2023); Al-Qudah & Ghaleb (2023); Kayed & Al-Hassan (2023); Hamid & Rahman (2022); Zainuddin & Shahbaz (2022); Ahmad & Ali (2022); Mollah & Zaman (2022); Amir (2019).
ROA	Profitability (Return on Assets)	Net Profit divided over Total Assets	Azman, Amir, Zaidi, Isa, & Hassan, (2024); Amir, Quayyum, Isa, & Zaidi (2024); Hajimi, Amir, & Radzi (2022); Sufian, Amir, & Radzi (2022); Amir (2019); Demirgüç-Kunt & Huizinga (1999); Berger & DeYoung (1997); Claessens, Demirgüç-Kunt, & Huizinga (2001); Altunbas, Carbo, & Gardener (2001); Maudos & Pastor (1995); Goddard, Molyneux, & Wilson (2004); Altunbas, Liu, Molyneux, & Seth (2000).
FAGE	Firm Age	The number of years that have elapsed since the company's incorporation or commencement of operations	Hsu & Ziedonis (2024); Dahlqvist & Jansson (2023); Kraus & Fink (2023); Aghion et al. (2023); Sari et al. (2022); Van Praag & Van Ophem (2022); Bai & Liao (2022); Alvarez & Barney (2022); Sullivan & Ford (2022); Garnsey & Hutton (2022).
BGEN	Board Gender	Board gender diversity is measured as a dummy variable where a value of "1" indicates the presence of a	Adams & Funk, 2012); Campbell & Mínguez-Vera, 2008); Carter et al., 2010); Terjesen et al., 2016); Miller & Triana, 2009); Huang & Kisgen, 2013); Ducheneaut & Heller, 2022); Barrett & Metcalf, 2005); Boulouta, 2013); Nielsen & Huse, 2010)





		female board member and a value of "0" indicates the presence of a male board member.	
AQ	Audit Quality	Equals "1" if firm is audited by a Big 4 firm and "0" otherwise.	Azman, Amir, Zaidi, Isa, & Hassan, (2024); Hajimi, Amir, & Radzi (2022); Sufian, Amir, & Radzi (2022); Amir (2019); Abdul-Latif, Ishak, & Amir (2015); Amir (2014); Francis & Yu (2009); Ashbaugh-Skaife, Collins, & LaFond (2006); Khurana & Raman (2004); Carcello & Nagy (2004); Doyle, Ge, & McVay (2007); Carcello & Palmrose (1994); Krishnan & Schauer (2000); Teoh, Wong, & Rao (1998); Choi, Kim, Liu, & Simunic (2008); Knechel & Vanstraelen (2007)
SIZE	Firm Size	Natural Log of Total Assets	(Demirgüç-Kunt & Huizinga (2010); Jayaratne & Strahan (1996); Petersen & Rajan (1995); Rajan (1992); Rangan (1998); Shleifer & Vishny (1997); Stiroh (2004))

Regression model:

$$SKI = \alpha_{it} + \beta_1 SC_{it} + \beta_2 ROA_{it} + \beta_3 FAGE_{it} + \beta_4 BGDR_{it} + \beta_5 AQ_{it} + \beta_6 SIZE_{it} + \mu_i$$

FINDINGS AND ANALYSIS

This section presents the results of the empirical tests based on the research process outlined in section 2 and section 3.

Table 4.1: Descriptive statistic of dependent variables and independent variables

Variable	Mean	Std. Dev.	Min	Max
SC	0.50	0.50	0.00	1.00
ROA	0.12	0.21	-0.02	0.80
FAGE	4.10	0.63	3.00	6.00
BGDR	0.97	0.17	0.00	1.00
AQ	0.46	0.50	0.00	1.00
SIZE	13.68	0.61	13.54	16.31

Note: n=100. SC is Shariah Compliant; ROA is return on assets; FAGE is firm age; BGDR is Board Gender; AQ is Audit Quality and SIZE represents the natural log of total assets.

Table 4.1 shows the descriptive statistics of the independent variables of SC, ROA, FAGE, BGDR, AQ, SIZE and SKI as the dependent variable. The variable is binary, with a mean of 0.5, indicating that approximately half of the observations are Shariah compliant. The





standard deviation of 0.50 suggests a relatively equal distribution between the two categories. The minimum and maximum values are 0 and 1, respectively, indicating that the variable takes on only these two values.

The mean ROA is 0.12, indicating a positive average return on assets. The standard deviation of 0.21 suggests some variation in ROA values around the mean. The minimum and maximum values are -0.02 and 0.80, respectively, indicating the range of ROA values observed in the dataset.

The mean firm age is 4.1, suggesting an average age of 4.1 years for the firms in the dataset. The standard deviation of 0.63 indicates some variation in firm age around the mean. The minimum and maximum values are 3 and 6, respectively, representing the range of firm ages in the dataset. The variable is binary, with a mean of 0.97, suggesting that most firms in the dataset have a predominantly gendered board. The standard deviation of 0.17 indicates a relatively small amount of variation in board gender representation. The minimum and maximum values of 0 and 1 indicate that the variable takes on only these two values.

The mean audit quality is 0.46, suggesting a moderate average level of audit quality. The standard deviation of 0.50 indicates some variation in the quality of audits across the dataset. The minimum and maximum values are 0 and 1, respectively, indicating that the variable takes on only these two values. The mean value of the natural log of total assets is 13.68, indicating the average size of the firms in the dataset. The standard deviation of 0.61 suggests some variation in firm size. The minimum and maximum values are 13.54 and 16.31, respectively, representing the range of firm sizes observed in the dataset.

Table 4.2: Pearson Correlation Matrix of the Research Variables

	SKI	SC	ROA	FAGE	BGDR	AQ	SIZE
SKI	1.00						
SC	0.62***	1.00					
ROA	-0.08	-0.02	1.00				
FAGE	-0.33*	-0.22**	0.03	1.00			
BGDR	0.19*	0.06	0.07	0.03	1.00		
AQ	0.19	0.00	0.23**	-0.24**	0.04	1.00	
SIZE	0.15	0.05	-0.08	-0.037	0.04	-0.12	1.00

Note: n=100. SC is Shariah Compliant; ROA is return on assets; FAGE is firm age; BGDR is Board Gender; AQ is audit quality and SIZE represents the natural log of total assets. ***, **, * indicate that the estimates level is statistical significance at the 1%, 5%, and 10% respectively.

Table 4.2 presents the Pearson correlation matrix for the research variables associated with sukuk issuance. According to the matrix, the dependent variable, Sukuk Issuance (SKI), exhibits a significant positive correlation with Shariah Compliance (SC) ($r = 0.62$, $p < 0.01$), suggesting that firms compliant with Shariah principles are more likely to issue sukuk. Additionally, Board Gender Diversity (BGDR) shows a positive and significant correlation with SKI ($r = 0.19$, $p < 0.10$), indicating that companies with greater gender diversity on their boards may have a higher tendency toward sukuk issuance. Audit Quality (AQ) also has a positive correlation with SKI ($r = 0.19$, $p < 0.10$), implying a connection between higher audit quality and sukuk issuance. A notable negative correlation exists between Firm Age (FAGE) and SKI ($r = -0.33$, $p < 0.10$), which could indicate that younger firms are more likely to issue sukuk. Although Firm Size (SIZE) has a slight positive correlation with SKI ($r = 0.15$), it does not reach statistical significance.





Table 4.3: Regression Analysis of Bond Characteristics and Financial Performance

SKI	Expected Sign	Coefficient	T	P-value
SC	+	0.58	7.76	0.000
ROA	-	-0.30	-1.70	0.092
FAGE	-	-0.14	-2.24	0.027
BGDR	+	0.49	2.31	0.023
AQ	+	0.14	1.86	0.067
SIZE	-	-0.15	-2.52	0.014
Adj. R ²	0.4818			

Note: n=100. SC is Shariah Compliant; ROA is return on assets; FAGE is firm age; BGDR is Board Gender; AQ is audit quality and SIZE represents the natural log of total assets. ***, **, * indicate that the estimates level is statistical significance at the 1%, 5%, and 10% respectively.

Table 4.3 presents a regression analysis examining the relationship between the dependent variable, SKI (Shariah-compliant issuance), and several independent variables, including Shariah Compliance (SC), Return on Assets (ROA), Firm Age (FAGE), Board Gender Diversity (BGDR), Audit Quality (AQ), and Firm Size (SIZE, measured as the natural log of total assets). The sample includes the top 100 companies in Malaysia. The model's adjusted R-squared value is 0.4818, indicating that approximately 48.18% of the variance in SKI is explained by the independent variables.

Shariah Compliance (SC) and SKI: Shariah Compliance (SC) demonstrates a strong positive correlation with SKI, with a coefficient of 0.58, a t-value of 7.76, and a p-value of 0.000 ($p < 0.01$). This significant positive relationship highlights the importance of Shariah compliance in corporate financing within the Malaysian market. According to Shariah Governance Theory, adherence to Shariah principles enhances firms' legitimacy and trust among stakeholders, particularly Shariah-compliant investors. Firms that prioritize Shariah compliance are likely to attract a broader investor base, consistent with findings by Rahman and Zainal (2023) and Hazrin, Amir, and Radzi (2022), who noted that Shariah-compliant companies typically perform better due to enhanced investor confidence.

Return on Assets (ROA) and SKI: Return on Assets (ROA) shows a negative correlation with SKI, with a coefficient of -0.30, a t-value of -1.70, and a p-value of 0.092. Although this relationship is only marginally significant, it suggests that firms with higher ROA might rely less on Shariah-compliant funding structures. This observation can be explained through Agency Theory, which posits that firms with higher internal returns may experience lower agency costs and, therefore, be less dependent on external financing options. Jensen and Meckling (1976) argue that high internal returns can reduce the need for financing alternatives, as observed among firms with robust ROA in Malaysia's market (Isa, Salleh, & Noor, 2023). However, the marginal significance of ROA merits further interpretation, particularly in relation to prior studies. For instance, while some research suggests a negative relationship between profitability and sukuk issuance, this study's finding may reflect the increasing self-sufficiency of firms with higher internal profitability, making sukuk issuance less attractive. This aligns with the view that firms with stronger internal funds are less reliant on external sources, such as sukuk (Mohd & Hassan, 2019; Ahmad, 2020).

Firm Age (FAGE) and SKI: Firm Age (FAGE) displays a statistically significant negative relationship with SKI, with a coefficient of -0.14, a t-value of -2.24, and a p-value of 0.027 ($p < 0.05$). This inverse relationship suggests that older firms may prefer traditional financing routes due to established reputations and credit histories, reducing the need for alternative funding methods like sukuk issuance. Agency Theory supports this, as mature firms often have established structures that minimize agency costs, making them less reliant on Shariah-compliant instruments for financing. Further exploration of this finding suggests that





older firms might prefer traditional financing because of their long-standing relationships with conventional banks, easier access to capital markets, and lower perceived costs associated with traditional debt instruments. These firms may also have more diversified funding options, reducing the incentive to issue sukuk, which can involve more complex structuring and regulatory compliance (Kasim, 2018; Al-Hassan & Kayed, 2023).

Board Gender Diversity (BGDR) and SKI: Board Gender Diversity (BGDR) shows a positive correlation with SKI, with a coefficient of 0.49, a t-value of 2.31, and a p-value of 0.023 ($p < 0.05$), indicating a significant positive association. This finding aligns with Shariah Governance Theory, which emphasizes the importance of diverse perspectives in governance structures. Diverse boards can enhance decision-making processes, including the consideration of Shariah-compliant financing options, thereby fostering a more inclusive approach to corporate governance and finance.

Audit Quality (AQ) and SKI: Audit Quality (AQ) has a positive coefficient of 0.14, with a t-value of 1.86 and a p-value of 0.067, indicating a marginally significant relationship at the 10% level. This suggests that higher audit quality may be associated with a greater likelihood of sukuk issuance. Agency Theory posits that companies with superior audit standards signal their reliability and commitment to transparency. This reliability is crucial in Shariah-compliant markets, as firms with high audit quality can reassure investors about the integrity of their financial practices. The marginal significance of Audit Quality suggests that while it is not a primary determinant, it still plays a notable role in enhancing investor confidence, which is crucial for sukuk issuance. This finding is in line with earlier research, which indicates that companies with higher audit quality are viewed as less risky, making sukuk issuance more attractive (Isa & Salleh, 2021; Rahman & Zainal, 2023).

Firm Size (SIZE) and SKI: Firm Size (SIZE) reveals a significant negative relationship with SKI, with a coefficient of -0.15, a t-value of -2.52, and a p-value of 0.014 ($p < 0.05$). This finding suggests that larger firms may have more financing options, thereby reducing the reliance on Shariah-compliant financing methods. According to Agency Theory, larger companies often possess sufficient internal funds, making sukuk less critical for liquidity management, as they can manage agency costs more effectively.

In conclusion, the regression model reveals that Shariah Compliance (SC), Firm Age (FAGE), Board Gender Diversity (BGDR), and Firm Size (SIZE) have statistically significant relationships with SKI, underscoring the intricate ways in which corporate governance factors influence Shariah-compliant financing strategies in Malaysia. Furthermore, the marginally significant relationships for ROA and AQ highlight the nuanced role of financial performance and audit quality in shaping sukuk issuance, supporting research by scholars such as Amir et al. (2024) and Al-Hassan and Kayed (2023).

CONCLUSION AND RECOMMENDATIONS

In summary, the findings from the analysis of factors influencing Shariah-compliant issuance (SKI) among the top 100 companies in Malaysia provide valuable insights into the mechanisms shaping corporate financing strategies in the context of Shariah compliance. The study identifies significant relationships between SKI and various critical determinants, including Shariah Compliance (SC), Return on Assets (ROA), Firm Age (FAGE), Board Gender Diversity (BGDR), Audit Quality (AQ), and Firm Size (SIZE). These relationships underscore the essential role of corporate governance, financial performance, and firm characteristics in shaping the adoption of Shariah-compliant financial instruments.

The strong positive association between Shariah Compliance and SKI illustrates the fundamental principle that adherence to Shariah guidelines not only enhances corporate





legitimacy but also broadens the investor base, as supported by Shariah Governance Theory. This highlights how companies can leverage Shariah compliance to align their financing strategies with the expectations of stakeholders, particularly those looking for ethical investment opportunities. Furthermore, the marginally significant negative correlation between Return on Assets and SKI suggests that firms with higher internal profitability may opt for more traditional financing methods, reflecting the implications of Agency Theory on corporate financing decisions.

The negative relationship identified between Firm Age and SKI indicates that established firms may rely less on Shariah-compliant financing as they mature and build reputations that support traditional financing avenues. This observation aligns with Agency Theory, which posits that older firms may face reduced agency costs, minimizing the necessity for diverse financing strategies. Conversely, the positive correlation between Board Gender Diversity and SKI emphasizes the potential of diverse leadership to adopt innovative financing strategies that incorporate Shariah-compliant options, showcasing the influence of varied perspectives in governance.

Additionally, the findings suggest that firms with higher Audit Quality may increase their likelihood of sukuk issuance, as they signal reliability and transparency to investors. This relationship reinforces the importance of strong governance structures in maintaining investor confidence in Shariah-compliant financing. Lastly, the significant negative correlation between Firm Size and SKI indicates that larger firms might have ample internal resources, thus diminishing their reliance on Shariah-compliant instruments for funding.

Given these insights, regulators and policymakers should consider promoting the integration of Shariah-compliant financing methods by offering incentives for companies to enhance their governance structures, improve audit quality, and promote gender diversity at the board level. Specifically, policies that encourage firms to align with Shariah principles may attract a more diverse investor base and support the growth of the Islamic finance market. Additionally, regulators could explore initiatives that reduce the barriers for smaller companies to issue sukuk, as this study primarily focuses on large firms. Promoting the adoption of Shariah-compliant financing in smaller companies could contribute to a more inclusive and sustainable financial ecosystem.

Globally, these findings could inform future Sukuk issuance strategies by emphasizing the role of governance and financial performance in driving the adoption of Shariah-compliant instruments. For practitioners, understanding the key determinants of sukuk issuance could guide decision-making and strategy formulation, particularly in jurisdictions where Sukuk markets are still developing. In regions with more established Sukuk markets, such as the GCC and Malaysia, these findings can help refine existing frameworks to improve the effectiveness of Sukuk offerings, ensuring that they align with both corporate objectives and investor expectations.

Future research could benefit from exploring the underlying dynamics of these relationships in greater depth. By investigating how factors such as Shariah Compliance, Audit Quality, and Firm Size specifically influence the decision-making processes regarding sukuk issuance, scholars could gain deeper insights into the strategic considerations that drive corporate financing choices. Moreover, examining the potential moderating effects of external factors, such as market conditions and regulatory environments, may enhance the robustness of these findings and provide valuable guidance for policymakers and industry practitioners.

Longitudinal studies could also shed light on the evolving nature of Shariah-compliant financing strategies over time, offering a clearer understanding of how firms adapt their approaches in response to shifting market dynamics. By integrating behavioral finance perspectives, researchers may uncover how investor sentiment and market perceptions influence firms' decisions regarding Shariah-compliant instruments, contributing to a more





nuanced understanding of corporate financing in the context of ethical investments. Ultimately, this investigation lays a foundation for future research aimed at advancing our knowledge of Shariah-compliant financing practices and their implications for corporate governance and stakeholder engagement within the Malaysian market.

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