The Influence of Good Corporate Governance on Financial Performance in Indonesian Islamic Banking

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Abstract

This study examines the impact of Good Corporate Governance (GCG) on the financial performance of Sharia banking in Indonesia Tbk. Analyzed GCG variables include the Board of Commissioners, Board of Directors, Independent Commissioners, Sharia Supervisory Board, and Audit Committee. Using a quantitative method with multiple linear regression analysis, the study employs secondary data from annual reports of Sharia banking in Indonesia Tbk. Normality tests were conducted using the One-Sample Kolmogorov-Smirnov test, while heteroscedasticity tests were performed using a scatterplot of residuals against standardized predicted values.Results indicate that none of the independent variables significantly impact financial performance, with p-values well above 0.05. Additionally, the F-test (ANOVA) shows that the independent variables collectively do not significantly impact financial performance, with an F value of 0.243 and a p-value of 0.939. The very low coefficient of determination (R^2) of 0.048 suggests that the regression model explains only 4.8% of the variation in financial performance.The implementation of GCG principles at Bank Muamalat Syariah Tbk has not effectively improved financial performance. Therefore, evaluation and improvement of GCG implementation are needed, along with consideration of other factors potentially influencing financial performance. Recommended measures include enhancing the capacity of the Board of Commissioners and Board of Directors, optimizing the role of Independent Commissioners, and increasing the effectiveness of the Sharia Supervisory Board and Audit Committee to improve the bank's financial performance.

Keywords: good corporate governance; financial performance; sharia banking

1. Introduction

The recent global economic crisis has negatively impacted the financial development of corporations. One of the contributing factors to the financial crisis in companies is the weak implementation of corporate governance systems. The growth of Islamic banks has brought about challenges in efforts to improve the corporate image in the eyes of the individuals within the organization. The knowledge possessed by individuals in an organization can provide added value to the organization. Thanks to high-quality staff, banks with qualified and talented employees can possess high levels of intellectual capital. According to the regulations of the Financial Services Authority (OJK), Islamic banks in Indonesia are required to implement

GCG principles more rigorously. This not only protects the interests of stakeholders but also leads to sustainable improvement in financial performance. Investigating the impact of GCG on the financial performance of Islamic banking operations is crucial, considering the unique structure and Sharia principles applied in GCG. The objective of this study is to examine how the implementation of Good Corporate Governance (GCG) principles affects the financial performance of Indonesian Islamic banks Tbk. The legal basis for Islamic banking is Law Number 21 of 2008. The growth of Islamic banks in Indonesia is significant because Indonesia is one of the largest countries in the world, and therefore, banks that implement Sharia law and principles are becoming more popular and increasing in number. The number of banks and their branches is growing every year. This growth began with the establishment of PT Bank Muamalat Indonesia in 1992. By 2020, competition in the financial sector within the ASEAN Economic Community (AEC) has intensified, further driving the growth of Islamic banking. In addition to the increasing number of offices and banks, the assets of Islamic banks have also shown annual growth. Essentially, a company is established to achieve optimal performance, one of which is maximizing profits. This is because companies can do much for the welfare of their owners and employees, improve product quality, and make new investments with the maximum profits they desire. The pursuit of a company's profits requires supervision by the board of directors and the audit committee to ensure that these efforts do not violate applicable benefits (Yumina and Nisa, 2019). This study provides evidence that good management, represented by an audit committee, positively and significantly impacts a company's financial performance based on return on assets (Sihombing and Akbar, 2022). The implementation of good corporate governance in a company can be observed through financial reporting that reflects the company's activities. The financial performance of a bank is a snapshot of the bank's financial condition at a particular time, both in terms of fund mobilization and fund allocation, in such a way as to attract investor attention (Sibolga, 2018). Financial performance is crucial for banking companies because it is believed to reflect the company's ability to manage and allocate resources and is considered a vital factor in the success of bank financial management, particularly in achieving liquidity, capital adequacy, and profitability. One way to measure the level of financial performance is by using financial ratios. Additionally, financial indicators also affect the health of the bank, such as profitability. Ratio analysis provides excellent results that show the state of financial performance, reveal patterns of change, and indicate business risks and opportunities. According to research by Ekaningsih and Afkarina (2021), the implementation of Good Corporate Governance (GCG) represents the responsibility of Islamic banks to the community, showing that Islamic banks are managed well, prudently, and professionally while striving to increase shareholder value without considering their interests. The implementation of GCG is a manifestation of the responsibility of Islamic banks to the community, indicating that Islamic banks are managed well, prudently, and professionally in efforts to enhance shareholder value without considering the interests of other stakeholders (Inda Jaya and Rasuli, 2020). This study contributes to a better understanding of how the practice of Good Corporate Governance (GCG) impacts transparency and accountability in the management of Islamic banks. The findings of this research can be used to formulate better policies for the implementation of GCG standards, thereby enhancing investor and customer confidence.

The study provides important insights into the factors influencing the financial success of Islamic banks by investigating the relationship between GCG and financial performance. The findings can assist regulators, such as the Financial Services Authority (OJK), in developing and updating regulations that support effective GCG practices in Islamic banks. This ensures that Islamic banks comply not only with financial standards but also with Sharia principles.

2. Literature Review

2.1.Good Corporate Governance

(Suherman et al., 2024) Good corporate governance is a set of relationships between company management, managerial ownership, shareholders, and other stakeholders. The concept of corporate governance aims to achieve transparency in financial reporting If we fully implement this idea, the economy will improve to the benefit of various stakeholders (Amelinda & Rachmawati, 2021). Corporate governance is a management and control system intended to be given to the company and to increase brand owner equity. Good corporate governance is the process of regulating, reviewing, and balancing relationships with stakeholders and shareholders with company-based laws and regulations. (Zulaeha et al, 2023) state that good corporate governance is one of the key factors in improving the efficiency of the company and is related to the series of relationships between company management, board of directors, investors, and other stakeholders.

2.2.Financial Performance

Financial performance is very important for banking companies because it is believed to reflect the company's ability to manage and allocate resources The achievement of financial performance, especially liquidity, capital adequacy, and profitability, is also considered the most important factor in the success of bank financial management (Amelinda & Rachmawati, 2021). The level of performance and financial health of a bank is measured by its profitability. Performance measurement is carried out using profitability through return on assets (ROA) to measure the company's ability to maximize profits while managing total assets (Wisnu, 2005). Proper Islamic bank administration can make good budget implementation so that it can carry out social duties properly (Budi et al., 2019). Financial performance in a company is being able to process company finances properly and correctly and produce company achievements (Tarmizi et al,. 2023). Financial performance plays a financial role Financial performance is very important for banking companies because it is believed to reflect the company's ability to manage and allocate resources The achievement of financial performance, especially liquidity, capital adequacy, and profitability, is also considered the most important factor in the success of bank financial management (Amelinda & Rachmawati, 2021). The level of performance and financial health of a bank is measured by its profitability. Performance measurement is carried out using profitability through return on assets (ROA) to measure the company's ability to maximize profits while managing total assets (Wisnu, 2005). Proper Islamic bank administration can make good budget implementation so that it can carry out social duties properly (Budi et al., 2019). Financial performance in a company is being able to process company finances properly and correctly and produce company achievements (Tarmizi et al,. 2023). Financial performance plays a role.

in increasing the activities offered by Islamic banks to the public, but banks that focus on capacity and efficiency to create value from physical and financial assets (Siagian et al., 2022).

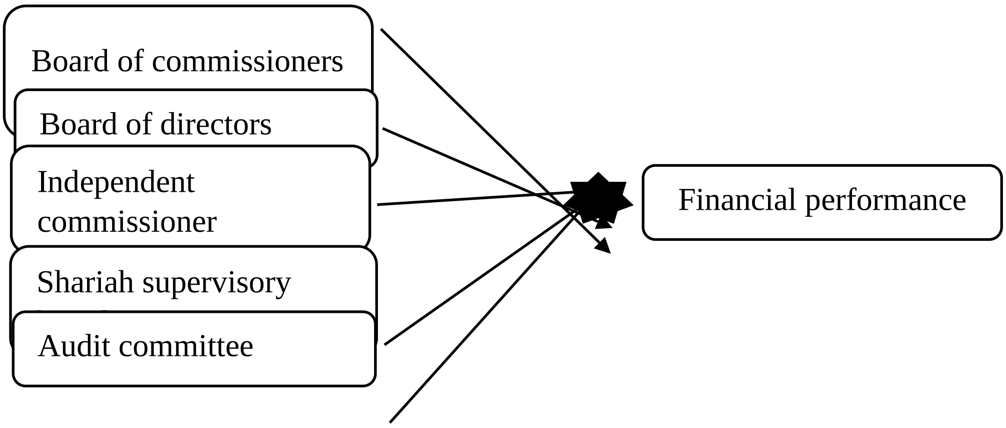


Figure 1 Framework

The hypotheses of the study are:

Hypothesis 1: There is a positive influence between the board of commissioners on the financial performance of Islamic banks

Hypothesis 2: There is no effect between the board of directors on the financial performance of Islamic banks

Hypothesis 3: There is a positive influence between independent commissioners on the financial performance of Islamic banks

Hypothesis 4: There is no effect between members and the sharia supervisory board on the financial performance of Islamic banks

Hypothesis 5: There is no effect between the audit committee on Islamic banking

Hypothesis 6: A good corporate governance system has a positive impact on the company's financial results.

3. Research Method

This study uses a quantitative approach to analyze the effect of good corporate governance (GCG) on the financial performance of Islamic banking. In this study using secondary data obtained from annual reports and financial reports, data is taken from the last five years (2019-2023) this research is causal research because the purpose of this study is to examine the causal relationship between two variables, namely the independent variable and the dependent variable. The concept of corporate governance mechanism indicators or in this case is an independent variable. The population in this study were several Islamic banks in Indonesia, during the 2019-2023 period. The sampling method in this study used purposive sampling method. The samples for this study are as follows:

1. is an Islamic commercial bank that has an annual report for 2019-2013 which is available on the website of each bank.
2. Islamic commercial banks that have financial reports for 2019-2023 which are available on the website of each bank. 2.

Based on the criteria used in the sampling above, the list of company names is obtained as follows:

Table 1. List Of Research Sample Company Names

No	Company Name
1	PT.BANK SYARIAH INDONESIA TBK
2	PT.BANK BTPN SYARIAH TBK
3	PT.BANK ALADIN SYARIAH TBK
4	PT.BANK PANIN DUBAI SYARIAH TBK
5	PT.BANK RIAU KEPRI SYARIAH TBK
6	PT.BANK ACEH SYARIAH TBK

The data analysis method formula used in this study:
Multiple linear regression test

$$\mathbf{Y=\alpha+\beta 1X1+\beta 2X2+\beta 3X3+\beta 4X4+\beta 5X5+\epsilon}$$

Where:
Y = Financial performance
X1 = Board of commissioners
X2 = Board of directors
X3 = Independent commissioner
X4 = Sharia supervisory board
X5 = Audit committee
A = Constant
$\beta 1,\beta 2,\beta 3,\beta 4,\beta 5$ = regression coefficient
ϵ = Error term
Test Coefficient of Determination (R2)
The coefficient of determination measures how well the independent variables in the regression model explain the variation in the dependent variable. In the context of this study, R2 shows how much variation in the financial performance (Y) of Islamic banking in Indonesia Tbk can be explained by the independent variables.

Partial test (T)

The t test is used for comparison of the calculated t value with the t table value at a certain significant level with a significance level of 0.05% (5%) and if t table, then H0 is rejected, which means that the independent variable has a significant effect on the dependent variable.

a.)If the t value for each variable is greater than the t table value, the null hypothesis (H0) is rejected, which means that the independent variable has a significant effect on the dependent variable.

b.) If the calculated t value is smaller or equal to the t table value, the null hypothesis (H0) is not rejected, which means that the independent variable has no significant effect on the dependent variable.

Simultaneous test (F)

The F test is used to test the significance of the effect of all independent variables simultaneously on the dependent variable in the regression model. In the context of this study, the F test will test whether the Board of Commissioners, Board of Directors, Independent Commissioners, Sharia Supervisory Board, and Audit Committee together have a significant influence on the financial performance of Islamic banking in Indonesia Tbk.

a) Blank hypothesis (H0) all independent variables simultaneously have no significant effect on the dependent variable

b) Alternative hypothesis (H1) all independent variables simultaneously have a significant effect on the dependent variable.

Classical Assumption Test

Normality Test

Table 2. Normality Test

One Sample Kolmogorov-Smirnov Test		
	Unstandardized Prediced value	
N	30	
Normal Parameters[a,b]	Mean	5.0530000
	Std. Deviation	1.11178616
	Absolute	.135
	Positive	.131
	Negative	-.135
Test Statistic	.135	
Asymp.sig.(2	.174	

The normality test aims to determine whether the distribution of residual data (non-standardized predicted values) follows a normal distribution. This test is important in regression analysis because many statistical assumptions require normally distributed residual data.

From the results of the normality test above, the following is a summary of the results:

a.)Number of Samples (N): 30

b.) Average (Mean): 5.0530000

c.) Standard Deviation (Std.Deviation): 1.11178616

d.) Most extreme differences:

Absoult: 0.135

Positive: 0.131

Negative: -0.135

e.)Test statistic: 0.135

In this case, the p-value is 0.174 which is greater than 0.05. Therefore, we do not reject the null hypothesis (H0). This means that the residual data can be considered to follow a normal distribution.

Multicollinearity Test

Table 3. Multicollinearity Test

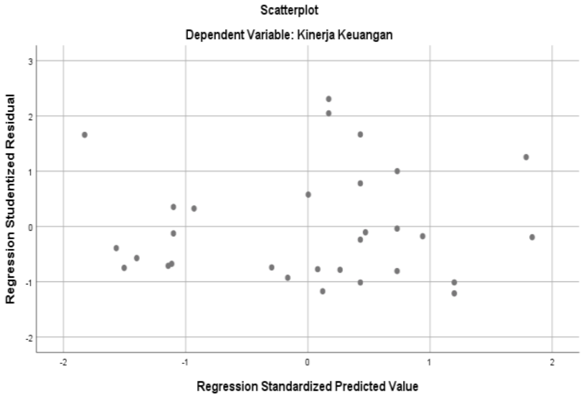
Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero-order	Partial
1	(Constant)	9.563	11.409		.838	.410		
	Board of commissioners	.233	1.718	.048	.135	.893	-.099	.028
	Board of directors	-.520	1.024	-.188	-.508	.616	-.061	-.103
	Independent commissioner	1.748	1.921	.239	.910	.372	.098	.183
	Shariah supervisory board	-1.894	3.116	-.235	-.608	.549	-.070	-.123
	Audit committee	-.519	2.076	-.083	-.250	.805	-.018	-.051

a.) Large or small coefficient values, if you have large or small coefficient values, this is a sign of multicollinearity

b.) Low t value and high p value: a high t value (less than 2) and a high p value (greater than 0.05) can also indicate a multicollinearity problem.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test



The heteroscedasticity test aims to test whether the variance of the residuals is constant (homoscedasticity) or varies (heteroscedasticity) at all levels of predicted values.
a.)Horizontal axis: shows the standardized predicted values of the regression model
b.) Vertical axis: shows the standardized residuals (i.e., the residuals that have been adjusted to the standard deviation).

Multiple Linear Regression

Table 5. Multiple Linear Regression

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Correlations**	
		B	**Std. Error**	**Beta**			**Zero-order**	**Partial**
1	**(Constant)**	9.563	11.409		.838	.410		
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There are no independent variables that have a significant effect on financial performance The results of this multiple linear regression show that there are no Good Corporate Governance variables that significantly affect the financial performance of the Syariah Banking Tbk. This can be caused by losses in each year so that from year (2019-2023) it always decreases.

Partial test (T)

t test is taken directly from the multiple linear regression table where:
Intercept (constant)
B = 9.563: Constant value or intercept
T = 0.838: T statistic
Sig = 0.410: p-value for intercept
Where the intercept is not significant at the 0.05 level of significance
a.Board of commissioners

B = 0.233; Regression coefficient for the board of commissioners
Std.Error = 1.781: standard error of the coefficient
T = 0.135: t statistic for the board of commissioners
Sig. = 0.893: p-value for the board of commissioners
Interpretation: The coefficient of the board of commissioners is not significant at the significance level. This shows that the board of commissioners has no significant effect on financial performance.

b. Board of directors
B = 0.520: Regression coefficient for the board of directors
Std. Error =1.024: Standard error of the coefficient
T = -0.508: t-statistic for board of directors
Sig. = 0.616: p-value for board of directors
Interpretation: The coefficient for board of directors is not significant at the significance level. This indicates that the board of directors does not have a significant influence on financial performance.

c. Independent Commissioner
B = 1.748: Regression coefficient for independent commissioner
Std.error = 1.921: standard error of the coefficient
T = 0.910: statistic for independent commissioner
Sig. = 0.372: p-value for independent commissioners
Interpretation: the coefficient of independent commissioner is not Interpretation: the coefficient of independent commissioners is not significant at the significance level. This shows that independent commissioners have no significant effect on financial performance.

d. Sharia Supervisory Board
B = -1.894: regression coefficient for sharia supervisory board
Std. error = 3.116: standard error of the coefficient
T = -0549: statistics for the sharia supervisory board
Sig. = 0.549: p-value for sharia supervisory board
Interpretation: The coefficient of the Islamic supervisory board is not mutually significant at the significance level. This indicates that the sharia supervisory board does not have a significant influence on financial performance.

e. Audit Committee
B = -0.519: Regression coefficient for audit committee
Std, error = 2.076: standard error of the coefficient
T = -0.250: p-value for audit committee
Sig. = 0.805: p-value for audit committee
Interpretation: The coefficient of audit committee is insignificant at the significance level. This indicates that the audit committee has no significant effect on financial performance.

Simultaneous Test (F)

Table 6. Simultaneous Test (F)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.846	5	7.169	.243	.939[b]
	Residual	709.385	24	29.558		
	Total	745.231	29			

a. Dependent variable: financial performance

b.Predictors (constant), audit committee, board of commissioners, independent commissioners, board of directors, sharia supervisory board.

F = Mean square regression / mean square residual = 7,169 / 29,558 = 0.242

The F value obtained is 0.243. in this case the p-value (0.939) is much greater than 0.05 The regression model used does not show a significant relationship between the independent variables and the dependent variable in this study.

Test Coefficient of Determination (R2)

Tabel 7. Coefficient of Determination (R2)

Model	R	R Squere	Adjusted R Square	Std.error ofthe estimate	Change Statistics					Durbin-Watson
					R.Square Change	F chang	df 1	df2	Sig.F Change	
	.219[a]	.048	-.150	5.437	.048	.243	5	24	.939	1.135

in the table above shows the value of R (0.219) which has a low prediction
to explain the variability in the financial performance of Islamic banking in Indonesia Tbk.

4. Discussion Results

The results of this study indicate that good corporate governance practices implemented by Islamic banking in Indonesia Tbk are unlikely to have a significant impact on the financial performance of banks.

Although the theory and practice of good governance indicate that proper supervision and decision making by the board of directors, board members, independent commissioners, sharia supervisory committee, and audit committee will improve financial performance.

These results indicate that the role and function of each GCG component has not been optimal in encouraging improved financial performance. In addition, the F test (ANOVA) shows that simultaneously, the independent variables have no significant effect on financial performance with an R2 value of only 0.048.

5. Conclusion

The main conclusion obtained from this study is that the implementation of GCG principles at Bank Syariah Indonesia Tbk does not result in an effective improvement in financial performance. Banks should re-evaluate the implementation of GCG and consider other factors that can have a significant impact on financial performance. Improving the training and capacity of committees and boards, optimizing the role of independent members, and increasing the effectiveness of supervision by supervisory committees and sharia audits can be important steps to achieve this goal.Overall, the results of the F-test (ANOVA) also show that the independent variables do not have a significant influence on financial performance, with an F-value of 0.243 and a p-value of 0.939. The coefficient of determination (R2) is very low at 0.048.

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