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

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Abstract

This study looks into Sharia Banking Indonesia Tbk's good corporate governance (GCG) policies. The Board of Directors, Sharia Supervisory Board, Independent Commissioners, Board of Commissioners, and Audit Committee are among the GCG components that were looked at. Multiple linear regression was used to objectively examine secondary data from the yearly reports. We used the single-sample Kolmogorov-Smirnov test to check for data normalcy. The residual scatterplot was used to evaluate heteroskedasticity. Financial performance is unaffected by GCG factors when the p-value is higher than 0.05.Additionally, the F-test (ANOVA) results, which have a p-value of 0.939 and an F-value of 0.243, demonstrate that there is no link between any one item and total financial performance.The model indicates that just 4.8% of the variation in financial performance can be explained by GCG factors, with an R2 value of 0.048. There have been no appreciable financial gains from Bank Muamalat Syariah Tbk's implementation of GCG principles. As a result, enhancing the roles of the Board of Directors, the Audit Committee, the Independent Commissioners, and the Shariah Supervision Board ought to come first.

Keywords: good corporate governance; financial performance; sharia banking; indonesia; multiple linear regression; gcg principles.

1. Introduction

The financial development of corporations has been adversely affected by the recent global economic crisis. The improper application of corporate governance procedures was one element that led to a company's financial collapse. The expansion of Islamic banks has made it more challenging to enhance the company's reputation among staff members. An organization can benefit from the information that each member of the group possesses. Banks possessing highly skilled and informed employees can have substantial intellectual capital. Indonesian Islamic banks are required by the Financial Services Authority's (OJK) regulations to adhere more closely to the GCG principles. This not only safeguards stakeholders' interests but also progressively enhances financial performance. It is crucial to look at how GCG affects Islamic banking's financial performance given its structure and application of Sharia requirements. This study aims to investigate the impact of implementing good corporate governance (GCG) principles on Indonesia Tbk's Islamic banks' financial performance.

Islamic banking is based on Law No. 21 of 2008. Given that Indonesia is one of the biggest nations on earth, the number and size of Islamic banks are expanding quickly. The quantity of banks and their branches grows annually. This expansion started in 1992 with the founding of PT Bank Muamalat Indonesia. By 2020, there was more competition in the financial sector within the ASEAN Economic Community (AEC). The Islamic financial system has expanded even further as a result of this. Annual growth in the assets of Islamic banks has coincided with the opening of new branches and banks.

A company's primary goal is to maximize earnings and achieve optimal performance. This is due to the fact that businesses can increase profits by making new investments, enhancing the health of their owners and staff, and improving the caliber of their output. The board of directors and audit committee need to be under supervision in order to sustain a company's profitability (Yumina and Nisa, 2019). This study shows that a firm's financial performance measured by return on assets is positively and significantly impacted by good governance, as exemplified by an audit committee (Sihombing and Akbar, 2022). Financial reporting that accurately depicts the firm's operations can be used to monitor how well corporate governance is being implemented in a business. When it comes to raising and allocating capital in a way that grabs investors' interest, a bank's financial performance represents a snapshot of that capital at a specific moment in time (Sibolga, 2018).

Financial performance is seen by banking companies as a crucial component of financial management success, particularly when it comes to attaining profitability, capital adequacy, and liquidity. Financial performance shows how well the company is able to allocate and manage its resources. One way to evaluate their financial efficiency is through financial ratios. Financial data also affects the profitability and overall health of banks. Ratio analysis is a great tool for displaying financial performance, seeing trends in data, and pointing out opportunities and risks for businesses. Ekaningsih and Afkarina's research from 2021 shows that Islamic banks have a duty to the community to implement Good Corporate Governance (GCG). They also show that Islamic banks are professionally and prudently managed, with a focus on increasing shareholder value rather than taking into account the interests of the community.

The GCG's implementation demonstrates Islamic banks' social responsibility to the community and shows that they are professionally and cautiously managed to maximize shareholder value at the expense of other stakeholders' interests (Inda Jaya and Rasuli, 2020). The present study enhances our comprehension of the ways in which transparent and accountable corporate governance (GCG) practices impact Islamic bank management. By developing improved guidelines for the use of GCG standards, this research can boost investor and customer confidence. The study looks at the factors influencing Islamic banks' financial success as well as the correlation between GCG and financial performance. The findings can be useful to the Financial Services Authority (OJK) and other Islamic banking regulatory bodies in the development and revision of rules that facilitate effective GCG practices. Islamic banks are able to adhere to Sharia's financial regulations and principles in this fashion.

2. Literature Review

2.1 Good Corporate Governance

According to Suherman et al. (2024), corporate management, shareholders, and other stakeholders are all necessary for good corporate governance. Ensuring financial reporting is transparent is the aim of corporate governance. The broad application of this idea will be advantageous to the economy (Amelinda and Rachmawati, 2021). The purpose of corporate governance is to boost owner capital and assist the firm. Good corporate governance includes, among other things, monitoring, reviewing, and assessing business relationships with stakeholders and investors in compliance with legal requirements and corporate rules.

Effective corporate governance is one of the most crucial elements of enhancing business success, claim Zulaeha et al. (2023). This has to do with how boards of directors, investors, and other stakeholders see governance.

2.2 Financial Performance

Financial performance is critical to banking companies since it is seen as an indicator of the organization's resource management and allocation skills. The accomplishment of financial performance, particularly in the areas of liquidity, capital adequacy, and profitability, is also thought to be a prerequisite for the success of banking financial management (Amelinda and Rachmawati, 2021).

A bank's profitability serves as a gauge for its overall financial success and well-being. The firm's capacity to optimize earnings through asset management is evaluated using profitability through return on assets (ROA) (Wisnu, 2005).

According to Budi et al. (2019), effective budget execution can result from sound Islamic banking governance, allowing for the fulfillment of social obligations. Financial performance is the capacity of an organization to handle its money in an acceptable and right manner and produce outcomes (Tarmizi et al., 2023). Financial performance has a financial component.

Financial performance is critical to banking organizations since it is seen as an indicator of the management and distribution of the company's resources. The accomplishment of financial performance, particularly in the areas of liquidity, capital adequacy, and profitability, is also thought to be a prerequisite for the success of banking financial management (Amelinda and Rachmawati, 2021).

A bank's overall financial health and success are assessed by profitability. Return on assets (ROA) is a metric used to measure profitability and how well a firm can run all of its divisions at once to maximize earnings (Wisnu, 2005). If managed well, Islamic banks are capable of implementing large enough budgets to fulfill their social responsibilities (Budi et al., 2019). The ability of a business to succeed through prudent and effective financial management is referred to as financial performance (Tarmizi et al., 2023). Capital is one of the components. In broadening the range of services that Islamic banks provide to the general public, but banks that prioritize their ability and effectiveness to generate wealth from both tangible and intangible assets (Siagian et al., 2022).

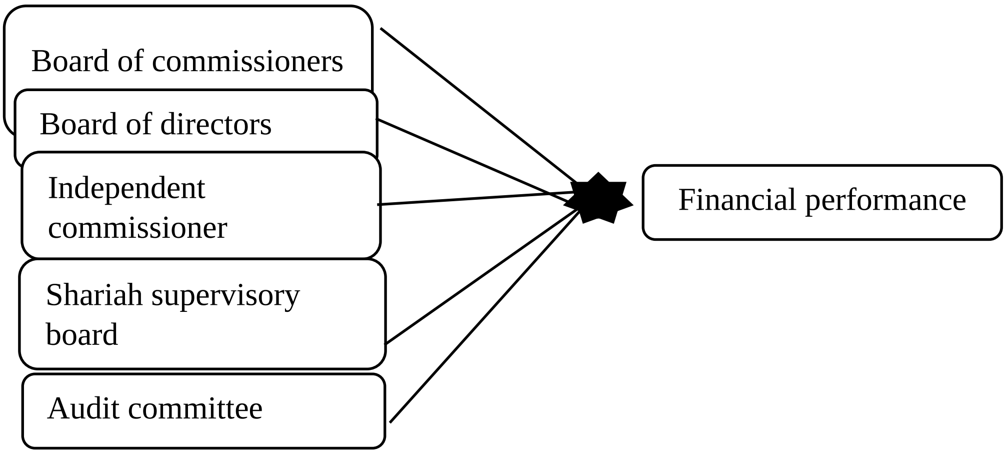

Figure 1. Framework

The subsequent research conjectures:

Hypothesis 1	: The Board is strengthening Islamic banks' financial standing.
Hypothesis 2	: Enhancing the Islamic bank's financial standing is the responsibility of the board.The board of directors has no bearing on an Islamic bank's financial situation.
Hypothesis 3	: Islamic banks perform better financially when they have an independent board of directors.
Hypothesis 4	: The sharia supervisory board and its members have no bearing on the Islamic banks' financial performance.
Hypothesis 5	: The audit committee has no bearing on the Islamic banking system.
Hypothesis 6	: A strong governance framework enhances a company's financial performance.

3. Research Method

This study looks at the relationship between Islamic banking's financial success and sound corporate governance (GCG). The methodology used for this investigation is quantitative. Examining the causal links between independent and dependent variables is the goal of the research. Data from annual and financial reports are used in the study. The data that was utilized comes from the preceding five years (2019–2023). The concept of the corporate governance mechanism's performance serves as the independent variable in this instance. From 2019 to 2023, a number of Indonesian Islamic banks were included in the study. A deliberately chosen sample was used in this investigation.

The samples for this study are as follows:

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

4. Result

The list of company names that follows was generated using the aforementioned selection criteria:

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
β1,β2,β3,β4,β5 = regression coefficient
ϵ = Error term

The test regression model's independent variables' capacity to account for the variance in the dependent variable is shown by the coefficient of determination.The R2 value denotes the degree to which the independent variables account for the variations seen in the financial indicators (Y) of Indonesia Islamic Bank Tbk.

Partial test (T)

- At the 0.05% significance level, there is a match between the t-values in the table and the t-values from the computations. H0 is rejected if the table's t-values show that the independentfactors significantly affect the dependent variable.
  The null hypothesis (H0) is incorrect if the t values for each variable are greater than the t values indicated in the table. This demonstrates the high correlation between the independent and dependent variables.

- The null hypothesis (H0) is rejected if the computed t-value is less than the table t-value. The dependent and independent variables in this instance are unrelated.

Simultaneous Test (F)

The impact of the independent and dependent variables on the regression model was investigated using the F-test. The study employed the F-test to investigate the possible impacts on Indonesia Islamic Bank Tbk's financial performance of the board of directors, members of independent committees, Shariah audit committee, and audit committee.

- The empty hypothesis (H0) asserts that the dependent variable does not significantly change if all of the independent variables are used at the same time.
- La teoria alternativa (H1) prevede: Tutte le variabili indipendenti contemporaneamente influenzatono significativamente la variabile dipendente.

Classical Assumption 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	

Finding out if the distribution of the finished data or unstandardized anticipated values is normal is the goal of the normality test. Regression analysis depends on this test since it verifies a number of statistical assumptions that depend on normally distributed residuals.

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

- Number of Samples (N): 30
- Average (Mean): 5.0530000\
- Standard Deviation (Std.Deviation): 1.11178616
- The primary distinction is:
  Accurate: 0.135
  A positive outcome of 0.131
  Value in negative: -0.135
  0.135 is the test result.

The p-value in this instance is 0.174, over the significance level of 0.05. Thus, it is decided to adopt the null hypothesis (H0). If not, the remaining data can be linked to a normal distribution.

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

- High or low coefficient values: Multicollinearity is indicated by high or low coefficient values.
- High p-value and low t-value: Multicollinearity issues may also be indicated by high p-values (higher than 0.05) and t-values (less than 2).

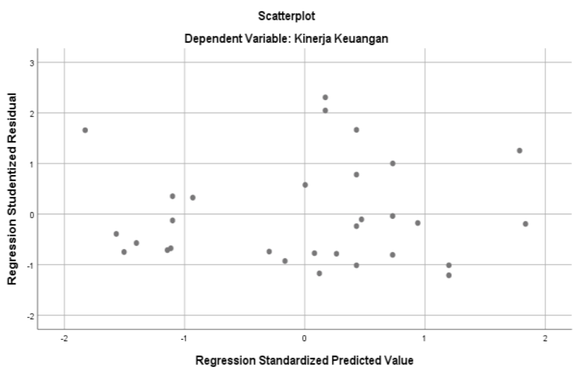

Figure 2. Heteroscedasticity Test

At each level of predicted values, the heteroskedasticity test determines whether the residuals' variance is variable (heteroskedasticity) or constant (homoskedasticity).

- A horizontal axis displays the regression model's normalized projected values.
- The vertical axis displays the standardized residuals after standard deviation adjustment.

Table 5. Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
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Independent variables do not have a substantial impact on financial performance. The multilinear linear regression analysis indicates that effective corporate governance elements have no discernible impact on Syariah Banking Tbk's financial performance. This could be due to the annual loss, which dropped progressively between 2019 and 2023.

Partial test (T)

- In the multiple linear regression table, the value of the constant (intercept) B is 9.563, and the T-statistic's instantaneous value is 0.838. The intercept's p-value is sig = 0.410. When results from the intercept are not statistically significant at the 0.05 significance level A commissioning board. The committee's regression coefficient is
  B = 0.233. source of the t-test results.
  1.781 is the standard error coefficient.
  T = 0.135 is the board of commissioners' t-statistic.
  P is 0.893 in the Board of Commissioners.

Definition: The Board of Commissioners has a negligible share. This demonstrates that the Board of Commissioners' influence over financial success is minimal.

- 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: There is no significance with the board ratio. This demonstrates that the financial performance is unaffected by the board of directors.

- 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
The interpretation states that the independent commissioners' coefficient is not important. This demonstrates that independent commissioners have no financial impact.

- 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: There is no reciprocal significance between the coefficients of the Islamic Supervisory Board. This indicates that the Shariah Supervisory Board's influence on financial performance is negligible at best.

- 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.

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			

- Financial success is the crucial factor.
- Regular indicators, sharia supervisory board, audit committee, board of directors, independent commissioners, and commissioners

F is equal to 7,169 / 29,558 = 0.242 for standard square regression and standard square residual. F turned out to be 0.243. The p value in this instance is 0,939, over the 0.05 level of significance. The independent and dependent variables did not exhibit any meaningful relationship, according to the regression model employed in this study.

Tabel 7. Test Coefficient of Determination (R2)

Model	**R**	**R Squere**	**Adjusted R Square**	**Std.error ofthe estimate**	**Change Statistics**					**Durbin-Watson**
					R.Square Change	F chang	df1	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.

5. Discussion

This study demonstrates that the financial performance of banks will not be significantly impacted by the implementation of sound corporate governance procedures by Indonesia Tbk's Islamic banking system.

Financial performance will be improved even if corporate governance theory and practice suggest that board members, independent commissioners, sharia supervisory committees, and audit committees should oversee and make decisions appropriately.

These findings demonstrate that each GCG component's job and function were not optimized to improve financial performance. Furthermore, the F-test (ANOVA) reveals that the independent factors concurrently have little effect on financial performance, with an R2 value of 0.048.

6. Conclusion

The primary conclusion of this study was that Bank Syariah Indonesia Tbk's financial performance did not improve after adopting GCG principles. Banks ought to reevaluate how GCG is being implemented and take into account additional variables that may have a big influence on financial performance. This can be accomplished through strengthening the capacity and training of committees and boards, maximizing the contribution of independent members, and boosting the efficiency of sharia audits and supervisory committees' oversight.

The F-test (ANOVA) findings show that the independent factors do not significantly affect financial performance, with an F-value of 0.243 and a p-value of 0.939. At 0.048, the coefficient of determination (R2) is incredibly low.

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