



Influence of good corporate governance and the sharia supervisory board on the financial performance of sharia banking in Indonesia

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ABSTRACT

This research aims to discuss and analyze the internal mechanisms of good corporate governance such as: the influence of the effectiveness of the audit committee on the performance of the Islamic banking system, the influence of the effectiveness of the risk supervision committee on the performance of the Islamic banking system, and the influence of remuneration and committee appointments on the performance of the Islamic banking system. sharia banking operations, as well as the effectiveness of the sharia supervisory board on the operations of the sharia banking system in Indonesia during the 2022 period. The data used in this research is secondary data obtained by measuring the number of meetings held for each variable. The method used to select samples was purposive sampling. The sample size in this study was six banks taken from annual reports, with a sample size of 30 people. The hypothesis test used in this research is the t-statistical test. The data analysis technique used in this research is multiple linear analysis using Statistical Products and Services Solutions (SPSS) version 26.0. The research results show that the effectiveness of the sharia supervisory board has a positive effect on sharia financial performance.

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1. INTRODUCTION

Indonesia has become one of the centers of significant sharia banking growth in the world. Since it was first introduced in 1992, Islamic banking has grown substantially, both in the number of Islamic banks and in assets under management.(Mahardika et al., 2023). This growth is in line with the increasing interest of the Indonesian people in financial products based on sharia principles(Gandhi Mahardika et al., 2023).

One of the key factors that supports the rapid growth of the sharia banking sector is the implementation of good Corporate Governance (GCG). (Kurinci et al., 2022). GCG is a framework that ensures that Islamic banks carry out their operations with the principles of ethics, transparency, accountability and responsibility.social(Maradita, 2014). Apart

from GCG, the use of the Sharia Supervisory Board (DPS) is also an important element in maintaining the financial performance of sharia banking in Indonesia.

Good Corporate Governance (GCG) mechanisms are an important foundation in maintaining the stability and growth of sharia banking (Zahrawani & Sholikhah, 2021). Several key elements in implementing GCG that are relevant for sharia banking include: Sharia banks must provide clear and accurate information to shareholders, customers and other related parties. This includes consistent reporting on financial performance and sharia-compliant banking practices (Syukron, 2015). Islamic bank managers and employees must have a strong understanding of the sharia principles underlying their operations (Firkiawan, 2018). It is important to ensure that all products and services provided by the bank comply with sharia law. Developing a competent management team is an important aspect of GCG. Bank administrators must have adequate knowledge of sharia banking and dedication to sharia principles (Nuralam, 2018). Building an effective internal control system can help identify operational and financial risks early (Soetedjo & Sugiarto, 2018). This is also important in preventing fraudulent acts or ethical violations.

Apart from GCG, the Sharia Supervisory Board (DPS) is a very relevant institution in Indonesian sharia banking (Ilyas, 2021). DPS plays a role in ensuring that Islamic banks comply with sharia principles in all aspects of their operations (Prabowo & Jamal, 2017). Some DPS roles include: DPS is responsible for ensuring that all bank products, services and operations comply with sharia principles (Ilyas, 2021). They carry out routine supervision and provide advice to bank management. DPS can provide fatwas or guidance to banks on certain aspects related to sharia compliance. This helps banks take decisions in accordance with sharia principles (Misbach, 2015). DPS collaborates with national sharia authorities to ensure that sharia banks comply with applicable regulations and guidelines (Mulazid, 2016).

With implementation *Good Corporate Governance* (GCG) by the Government or Bank Indonesia (BI) is expected to create a conducive, healthy, efficient and transparent business climate. Therefore, BI issued Bank Indonesia Regulation Number 11/33/PBI/2009 concerning implementation *Good Corporate Governance* (GCG) for Sharia Commercial Banks and Sharia Business Units. This regulation has been in effect since January 1 2010 and replaces Bank Indonesia Regulation No.8/4/PBI/2006 (Wafi, 2020).

Based on the description above, this research is entitled "Influence *Good Corporate Governance* and the Sharia Supervisory Board on the Financial Performance of Sharia Banking in Indonesia".

2. RESEARCH METHOD

The data used in this research is secondary data. This comes from the annual report of sharia banking companies published in 2022, based on sharia banking statistics issued by the Financial Services Authority (OJK). The population of this research is Islamic commercial banks in Indonesia. Of this number, 6 companies were used as samples. The data collected in this research was collected through documentation, which means that the data was collected from the company's official website, journals and other literature relevant to the research topic. This research will use descriptive quantitative analysis which describes data obtained through regression analysis. This data analysis will be carried out using a computer application program (Zulfikar & Gandhi Mahardika, 2023).

3. RESULTS AND DISCUSSIONS

3.1 Correlation Coefficient (R) and Determination (R²)

To see the results of the correlation and determination coefficient values, you can see the table below as follows:

Table 1. Correlation and Determination Coefficients

Model Summary b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.913a	.833	.786	.12647

a. Predictors: (Constant), GCG, DPS

b. Dependent Variable: KKPS

Source: Secondary Data from SPSS 26 Research Results

Based on Table 1 above, it can be seen that the R value (correlation) or the level of relationship between variables is 0.913. This means that the variables Good Corporate Governance and the Sharia Supervisory Board as a whole have a very strong correlation with the variable Financial Performance of Sharia Banking in Indonesia.

Meanwhile, the R-square (R²) value or the level of influence between variables is 0.833 or 83.3%. This figure means the influence that occurs between the Good Corporate Governance variables and the Sharia Supervisory Board on the Financial Performance of Sharia Banking in Indonesia by calculating the coefficient of determination (KD). So it means that the percentage contribution of the Good Corporate Governance variable and the Sharia Supervisory Board as a whole to the Financial Performance of Sharia Banking in Indonesia is 83.3% while the remaining 16.7% is influenced by other factors outside the research.

3.2 F test

Table 2. F test

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.560	2	.280	17,508	.002b
	Residual	.112	7	.016		
	Total	.672	9			

a. Dependent Variable: KKPS

b. Predictors: (Constant), GCG, DPS

Source: SPSS 26 Research Data

Based on the analysis results, a significant value was obtained ($0.002 < \alpha(0.05)$ and $F_{count} = 17.508 > F_{table} = 4.74$). Because the probability is smaller than 0.05, the regression model can be used to predict Good Corporate Governance and the Sharia Supervisory Board on the Financial Performance of Sharia Banking in Indonesia or it can be said that the regression model is a good/feasible model (Goodness of fit) or a thorough model.

3.3 t test

Table 3. T test

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	6,969	3,072		2,269	.058
	GCG	.547	.173	.703	3,167	.016
	DPS	.250	.208	.266	2,991	.027

a. Dependent Variable: KKPS

Source: Secondary Data from SPSS 26 Research Results

a. Good Corporate Governance (X1) Regarding the Sharia Banking Financial Performance variable (Y)

Based on the analysis results, the Sig value ($0.016 < \alpha(0.05)$) and the value of $t = 3.167 > t_{table} = 2.364$, then the partial effect is significant and it is decided to reject H₀ and accept

H1. So, there is a partially significant influence between the Good Corporate Governance variable on the Sharia Banking Financial Performance variable.

b. Sharia Supervisory Board (X2) on the Sharia Banking Financial Performance variable (Y)

Based on the analysis results, the Sig value (0,027) $< \alpha(0.05)$ and the value of $t_{count} = 2.991 > t_{table} = 2.364$, then it partially has a significant effect and it is decided to reject H0 and accept H1. So, there is a partially significant influence of the Sharia Supervisory Board variable on the Sharia Banking Financial Performance variable.

It is shown by the results of the t test on the Good Corporate Governance variable (X1) that the calculated t value is (3.167) $> t_{table}$ (2.364) and the probability value is (0.016) $< \alpha$ (0.05). Thus H0 is rejected and H1 is accepted. By assuming the other variables are constant, it can be concluded that the Good Corporate Governance variable has a significant effect on Financial Performance (Y).

The results of this research show that good corporate governance has a positive influence on the performance of sharia banking in Indonesia in 2017-2022. This means that the intensity of audit committee meetings increases, this means that the level of supervision carried out is also getting better. So that the results of the meetings that occur are able to provide output to managerial, in this case the board of directors, especially supervision of the implementation of good corporate governance through monitoring the company's Internal Control System (SPI), so that management is expected to be able to manage assets effectively and efficiently so as to influence the increase in company assets which means that the level of banking performance is getting better. These results are in accordance with research according to research Hermiyetti & Katlanis, 2017; Irma, 2019 which states that the audit committee influences financial performance. This result is different from research Eksandy, 2018; Hartati, 2020; Honi et al., 2020; Titisari & Nurlaela, 2020 which states that the audit committee has no influence on financial performance.

The results of the t test on the sharia supervisory board variable (X4) have a calculated t value (2.991) $> t_{table}$ (2.364) and a probability value (0.027) $< \alpha$ (0.05), thus H0 is rejected and H1 is accepted. This means that the sharia supervisory board variable has a significant influence on the financial performance of sharia banking in Indonesia for the 2017-2022 period.

This research shows that the effectiveness of the sharia supervisory board in carrying out its duties in supervising company operations through intense meetings can have an impact on asset management. This research is in line with research Azizah & Erinos, 2020; Ningrum et al., 2013 which shows the positive influence of the sharia supervisory board on performance. However, it is different from research Jaya & Rasuli, 2020; Nurmalia & Ardana, 2019 which explains that the sharia supervisory board does not have a significant effect on financial performance.

4. CONCLUSION

Based on the data and results of research conducted as well as discussions as explained, the existence of the Good Corporate Governance variable which must be established by the Board of Commissioners to support the effective implementation of its duties and responsibilities (POJK 55, 2016) plus the variable of the sharia supervisory board, has an influence on improving company performance.

The researcher realizes that this research cannot be separated from its limitations, however, it is hoped that it will be able to provide material for consideration in practice and subsequent development. Some of the limitations of this research include: this research is limited to the good corporate governance mechanism variable, while there are still other variables from good corporate governance mechanisms (internal and external) which could influence the performance of sharia banking. Furthermore, the sample for this research is

limited to 6 Sharia Commercial Banks in Indonesia and only uses a five year period, namely 2017-20122.

Good Corporate Governance This is something that is really needed and required by regulators for companies that have gone public. Its existence is able to have a positive impact on overcoming complex problems in a company. Based on the research above, we can suggest that: Apart from internal mechanisms, external mechanisms such as Public Accounting Firms can be used as variables for performance because they are also an important factor as part of realizing good performance for a company. Then, another external mechanism, namely the regulator, in this case the POJK regarding GCG, can be one of the variables in the research, because as an external party it has the functions needed to realize good performance.

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