The Influence of Islamic Corporate Governance Towards Financial Performance (Empirical Study on Sharia Commercial Banks in Indonesia Year 2013-2017)

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Article Info	Abstract
Received : 2019-11-16 Accepted : 2020-01-09 Published : 2020-07-30	This study aims to find empirical evidence of the Islamic corporate governance mechanism influence the institutional ownership, commissioner board proportion, a board of independent commissioners, the sharia supervisory board proportion, and the audit committee on financial performance. The population of this study is Sharia Commercial Bank in Indonesia year 2013-2017. The population is 13 Sharia Commercial Banks. The sampling technique in this study used a purposive sampling technique. This study obtained 9 banks. The data used is secondary data and data analysis methods using multiple regression analysis. The result of this study concludes that the institutional ownership, the size of board commissioners, independent commissioner board, the size of the sharia supervisory board, and the audit committee do not affect financial performance.
Keywords: institutional ownership, size of board commissioners, independent commissioner board, size of the sharia supervisory board, audit committee, financial performance	

INTRODUCTION

The development of Sharia banking in Indonesia has experienced very rapid growth. In accordance with sharia banking statistics in April 2018, there are 13 Sharia Commercial Banks (BUS), 21 Sharia Business Units (UUS), and 168 Sharia Rural Financing Banks (BPRS) in Indonesia OJK, (2018). The increasing number of Sharia banking that has emerged shows the increase in sharia business activities. Thus, it can be preconcerted that business competition between companies is also getting tougher. Brealey *et al* (2007), states that businesses competition will always exist, but only companies that are able to provide product or service innovations that will survive. Therefore the company must always try to improve its competitiveness towards other companies. In increasing competitiveness, companies need to strengthen their performance. The performance itself is a description of the company's condition that reflects the results of work or achievements achieved by the company in a given period (Jumingan, 2011). By measuring performance, it can be known the level of success of the company is running its business for a certain period.

The performance level of a bank can affect society's trust in the bank. Because basically, society's judgment is seen from implied sizes such as facilities, services, and profit rates. So that as an institution that running their activities by using society funds, the bank is required to maintain and improve its performance (Astutik, 2015).

To see the performance of Sharia banking, these presented indicators of the Sharia banking growth for the 6th consecutive year.

Table 1: Financial Performance of Islamic Commercial Banks

Tahun	2012	2013	2014	2015	2016	2017
ROA (%)	2,14	2,00	0,41	0,49	0,63	0,63

Source: Islamic Banking Statistics, 2018

Seeing the increasing number of Sharia banks, of course, it must be balanced with good performance. Regarding financial performance, according to the records of the Infobank

Research Bureau, the performance of Sharia banking has not improved since 2012. It can be seen from the return on asset (ROA) Sharia banking continues to decrease (Supriyanto, 2018). In this case, it shows that the growth of Islamic banking has not been quite good. Known that Sharia banks have been established in Indonesia since 1992 or around 26 years ago (OJK, 2016).

The factors that can improve a company's financial performance are the implementation of good corporate governance (Prasojo, 2015). Good corporate governance is important to be applied to every industrial sector, knowing the increasing risks and challenges. If the risks and challenges faced cannot be managed properly, they can cause losses, including financial losses (Hery, 2017).

Corporate governance is a system that regulates and controls a company is conducting its business in order to increase success and accountability based on legislation and ethical values (Sutedi, 2011).

The mandatory implementation of corporate governance for sharia commercial banks and the Sharia business unit is regulated in Law No. 21 of 2008 Article 34 Paragraph 1 and were clarified in Bank Indonesia Regulation (PBI) No 11/33/2009 concerning the implementation of good corporate governance for sharia commercial bank and sharia business unit. It is hoped that the release of regulations regarding governance in the company will have a positive impact on the financial performance and control of companies in Indonesia.

The form of corporate governance in sharia banks is Islamic Corporate Governance (Farook *et al.*, 2012). According to Najmudin (2011), corporate governance in Islam is a system that directs and controls the company to fulfill the company goals by protecting the interests and rights of all stakeholders using the basic concept of decision making based on Sharia social-scientific epistemology based on the unity and God. There are some mechanisms that are often used in various researches on corporate governance including institutional ownership, size of commissioners board, independent commissioner board, the size of the Sharia supervisory board, and audit committee.

This research is a development of research conducted by Aprianingsih (2016) that examines the effect of the application of good corporate governance, ownership structure, and firm size on banking financial performance. Because of the inconsistency of the results of the previous studies, the researcher is interested in conducting research.

Research Objective

The purpose of this study is to test and analyze institutional ownership, size of board commissioners, independent commissioner board, size of the sharia supervisory board and audit committee affect the financial performance.

LITERATURE REVIEW

Agency Theory

Perspective of agency theory is the basic theories used to understand corporate governance and earnings management. Agency theory is a relationship or contract between the principal and the agent.

Jensen and Meckling (1976) define agency relations as contracts where one or more people (principal, that is shareholders) designate other people (agent, that is a manager) to do services for the principal interests including delegation of decision-making power to agents. According to Jensen and Meckling (1976), the separation between the ownership and management of the company will cause agency problems because there are interest differences between the owner as the principal and the manager as an agent. This agency problem is a common thing in company contracts.

There are two types of agency conflict. The first one is a conflict that happens in companies with dispersed ownership. In this case, the manager (the agent) acts for the agent's

interest without paying attention to the interest of the shareholders (principal). The second type of agency conflict is a conflict which occurs in concentrated ownership companies such as family company (Savitri, 2018).

The agency problem is solved by implementing corporate governance. The owner will give several authorities to managers in conducting the company operations. The application of good corporate governance is expected to function as a control tool that can help minimize the conflicts of interest between owners and managers. In other words, based on corporate governance agency theory, it is expected to function to improve financial performance by pressing or reducing agency costs and minimize the occurrence of earnings management actions.

Financial Performance

According to Sucipto (2013), financial performance is the determination of particular measures that can measure the success of an organization or company in obtaining profits. According to Jumingan (2011), financial performance is a picture of the achievements of the company in its activities in its operations both in terms of financial aspects, marketing aspects, aspects of raising funds and channeling funds, aspects of technology, as well as aspects of human resources. So the financial performance is a picture of the company's financial condition in a certain period both regarding aspects of raising funds and channeling funds, which are usually measured by indicators of capital adequacy, liquidity, and profitability.

So financial performance is a description of the financial condition of a company in a given period, both in terms of aspects of raising funds and channeling funds, that are usually measured by the indicators of capital adequacy, liquidity, and profitability.

Institutional Ownership

Institutional ownership is company ownership by institutions such as insurance companies, banks, investment companies, mutual funds, and other institutions (Hery, 2017).

Institutional ownership encourages the emergence of more optimal monitoring of the firms' performance. Through an effective monitoring process, institutional investors are able to monitor the management to reduce the extent of earnings management (Savitri, 2016).

The Size of the Board of Commissioners

The size of the Board of Commissioners is the total number of members of the board of commissioners in a company (Sembiring, 2006). Based on Bank Indonesia Regulation Number 11/3 / PBI / 2009 Concerning Sharia Commercial Banks, the number of members of the Board of Commissioners must be at least 3 (three) people and at most the same as the number of Board members.

Independent Commissioners Board

Independent Commissioners are members of the board of commissioners who are not affiliated with management, the other board of commissioners members and controlling shareholders, free from business relationships or other relationships that can affect their ability to act independently or act solely in the interests of the company (KNKG, 2006).

Size of Sharia Supervisory Board

The size of the Sharia Supervisory Board is the total number of sharia supervisory boards that conduct sharia supervision in Sharia banking. Regulation of Bank Indonesia Number 6/24 / PBI / 2004 article 26 (1) states that the number of members of the Sharia Supervisory Board is at least 2 (two) people and a maximum of 5 (five) people.

Audit Committee

Indonesian Stock Exchange Decision through Jakarta Stock Exchange Board of Directors Decree No. Kep-339 / BEJ / 07/2001 states that: "Audit Committee is a committee formed by the board of commissioners in a company, where the members are appointed and dismissed by

the board of commissioners, who are responsible for doing check or research that necessary for the implementation of the director function in the company management”.

RESEARCH FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Institutional Ownership Towards Financial Performance

Effective supervision of institutional investors will minimize the occurrence of financial manipulation by managers, which in turn will affect the company profits as reflected in the company's financial statements. The company's financial statements will show the financial performance of the company itself. Research conducted by Taufiq *et al* (2014) shows the results that institutional ownership influences company performance.

H₁: Institutional ownership of the company has a positive effect on financial performance

Size of Board of Commissioners Towards Financial Performance

Regarding the size of the board of commissioners, Collier & Gregory (1999) states that the greater the number of members of the board of commissioners, the easier it is to control the Chief Executives Officer (CEO) and be more effective in monitoring management activities and more effectively maximize company performance in obtaining profits. Research conducted by Zabri *et al* (2016) shows the results that the size of the board of commissioners influences financial performance.

H₂: The size of the Board of Commissioners has a positive effect on financial performance

Independent Commissioners Board Towards Financial Performance

Fama and Jensen (1983) state that independent commissioners will be more effective in monitoring managers, monitoring by independent commissioners is considered as able to solve the agency problems. In addition, independent commissioners can contribute to company performance. Research conducted by Widyati (2013) shows that independent commissioners influence financial performance.

H₃: The Board of independent commissioners has a positive effect on financial performance

Size of the Sharia Supervisory Board Towards Financial Performance

The bigger the number of members of the sharia supervisory board it will increase supervision of the management of banks in accordance with sharia principles, so there is no use of funds that are not sharia-compliant that can reduce financial performance. Thus, bank financial performance will increase. Research conducted by Mollah and Zaman (2015) shows that the size of the sharia supervisory board has a positive effect on return on assets.

H₄: The size of the Sharia Supervisory Board has a positive effect on financial performance

Audit Committee Towards Financial Performance

The existence of an audit committee is expected to optimize the supervisory function conducted by the board of commissioners and directors. The lacking supervision of the independent board of commissioners, the board of directors, and the audit committee has caused good corporate governance is not running optimally which in turn affects banking financial performance. Research conducted by Taufiq *et al* (2014) shows that the audit committee has a significant direct effect on financial performance.

H₅: The audit committee has a significant effect on financial performance

RESEARCH METHODS

Data

The population in this study is Sharia Commercial Bank in Indonesia year 2013-2017, with the population of 13 banks. This study uses a purposive sampling method to choose the sample in which the purposive sampling method is based on a particular assessment of some characteristics of the sample members adjusted for the purpose of the study. The sample in this

study numbered to 9 banks. This study uses secondary data obtained from the financial report provided by the firms.

Data collection technique

Data collection techniques in this study are the documentation and study of literature by collecting, noted, and review of secondary data in the financial statements that have been published.

Data analysis method

This study used multiple linear regression statistical tests.

RESULTS AND DISCUSSION

Descriptive Statistics Analysis

Descriptive statistics provide a description or description of data that is seen from the average, mean deviation, variance, maximum, minimum, sum, range, kurtosis and skewness (Ghozali, 2013). The variables used in this study are institutional ownership, size of commissioner board, independent commissioners board, size of sharia supervisory board, audit committee, and financial performance. Each of these variables was descriptively and statistically tested. Descriptive statistical results of each variable can be explained as follows:

Table 2: Descriptive Analysis Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
X1	39	.95	1.00	.9922	.01589
X2	39	3	6	3.82	.914
X3	39	.50	1.00	.6656	.15962
X4	39	1	3	2.36	.537
X5	39	2	7	3.74	1.208
KinerjaKeuangan	39	-1.12	2.63	.8015	.71887
Valid N (listwise)	39				

Source: processed data

Table 2 shows institutional ownership (X1) as measured by the number of shares held by other institutions divided by the number of shares outstanding in the company. The descriptive statistical test explained that institutional ownership has 0.95 minimum value, 1.00 maximum value, 0.9922 mean value, and 0.01589 standard deviations.

The size of the board of commissioners variable (X2) is measured by summing the board of commissioners in the company. The descriptive statistical test explains that the size of the board of commissioners has 3 as a minimum value of 3. 6 as a maximum value, 3.82 as mean and 0.914 as standard deviation.

The board of independent commissioners variable (X3) which is measured by the number of independent commissioners is divided by the number of commissioners board in the company. The descriptive statistical test explains that the independence of the board of commissioners has a minimum value of 0.50, a maximum value of 1.00, a mean value of 0.6656 and a standard deviation of 0.15962.

The variable size of the shariah supervisory board (X4) of the company is measured by summing up the existing sharia supervisory board in the company. The descriptive statistical test explains that the size of the sharia supervisory board has a minimum value of 1, a maximum value of 3, a mean value of 2.36 and a standard deviation of 0.537.

The audit committee variable (X5) of the company is measured by summing up the audit committee in the company. The descriptive statistical test explained that the audit committee has a minimum value of 2, a maximum value of 7, a mean value of 3.74 and a standard deviation of 1.208.

The company's financial performance variable is measured by ROA (Return On Asset). The descriptive statistical test explained that financial performance has a minimum value of -1.12, a maximum value of 2.63, a mean value of 0.8015 and a standard deviation of 0.71887.

Classic Assumption Test

Normality Test

Table 3: Normality Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		39
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.55079909
Most Extreme Differences	Absolute	.092
	Positive	.077
	Negative	-.092
Test Statistic		.092
Asymp. Sig. (2-tailed)		.200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Source: processed data

Based on Table 3 the Kolmogorov-Smirnov test results show that all variables have sig > 0.05. This can be seen from Asymp. Sig. (2-tailed) Sig (0.200) > α (= 0.05), so it can be concluded that all variables are normally distributed.

Heteroscedasticity Test

Figure 1: Result of the Heteroscedasticity Test

Based on the result of heteroscedasticity that the point is spread randomly, have No particular pattern, as well as the spread above and below zero on the Y-axis so it can be concluded that the regression model in this study is free of heteroscedasticity.

Multicollinearity Test

Table 4. Multicollinearity Test Result

		Coefficients					Collinearity Statistics	
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Tolerance	VIF
		B	Std. Error	Beta				
1	(Constant)	-3.761	9.792		-.384	.703		
	x1	3.539	9.951	.078	.356	.724	.379	2.639
	x2	-.044	.176	-.056	-.252	.802	.368	2.720
	x3	2.227	1.059	.495	2.104	.043	.332	3.013
	x4	-.115	.298	-.086	-.387	.702	.369	2.713
	x5	-.013	.122	-.022	-.109	.914	.434	2.305

a. Dependent Variable: Financial Performance

Source: processed data

From Table 4, it can be seen that the VIF value of the independent variable above is below the number 10, namely Institutional Ownership (X1) = 2.639, Size of Commissioners Board (X2) = 2.720, Independent Commissioners Board (X3) = 3.013, Size of Sharia Supervisory Board (X4) = 2.713, Audit Committee (X5) = 2.305, So that it can be said the regression model is free from multicollinearity. Thus the assumption of no multicollinearity in the regression model has been fulfilled.

Autocoleration Test

Table 5: Autocorrelation Test Result

Model Summary ^b			Std. Error of the	
Model	R	R Square	Adjusted R Square	Durbin-Watson
1	.552 ^a	.305	.200	.64307

a. Predictors: (Constant), x2, x4, x1, x5, x3

b. Dependent Variable: Financial Performance

Source: processed data

From the results of the autocorrelation test in table 5, it can be explained by using Durbin Watson to show that the DW value of 2.110 is $> dU$ (1.7886) and $< (4-dU) = 4 - 1.7886 = 2.2114$, it can be concluded that autocorrelation does not occur.

Hypothesis Testing Using Regression Analysis

Table 6: Result of regression analysis

Model		Coefficients		T	Sig.
		Unstandardized Coefficients	Standardized Coefficients		
		B	Std. Error	Beta	
1	(Constant)	-6.670	10.412		
	X1	6.848	10.561	.151	
	X2	-.123	.185	-.156	
	X3	1.697	1.110	.377	
	X4	-.094	.320	-.070	
	X5	-.064	.127	-.107	

a. Dependent Variable: Financial Performance

Source: processed data

In Table 6 it appears that of the five independent variables studied, none of them affected financial performance.

Coefficient of Determination

Table 7: Coefficient of Determination

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.552 ^a	.305	.200	.64307

a. Predictors: (Constant), X2, X4, X1, X5, X3

b. Dependent Variable: Y

Source: processed data

From table 7, the coefficient of determination obtain an R square value of 30,5%. This illustrates the financial performance required using ROA can be valued at 30.5% by the five variables studied, namely institutional ownership, the board size, the board of commissioners independent, the size of the sharia supervisory board, and the audit committee. While the remaining 69.5% is explained by other variables not tested in this study.

The test results of the influence of the independent variables together on financial performance can be seen in the following table 8:

Table 8: Simultaneous Regression Coefficient Test Results (Test F)

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.990	5	1.198	2.897	.028 ^b
	Residual	13.647	33	.414		
	Total	19.637	38			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), x5, x3, x4, x1, x2

Source: processed data

Based on table 8, the Sig value of 0.028 is smaller than 0.05. This means that institutional ownership, the size of the board of commissioners, the board of independent commissioners, the size of the sharia supervisory board, and the audit committee together have a significant effect on financial performance at Islamic Commercial Banks in Indonesia.

Discussion

Institutional ownership of the company did not affect financial performance

Statistical results of institutional ownership show Institutional Ownership does not affect financial performance. This is because the Islamic bank control scheme is based on the principle of profit and loss distribution. So the amount of institutional ownership does not affect the company's performance in Islamic Commercial Banks. These findings support research conducted by Zouri (2014), but the results of this study cannot support the research of Taufiq *et al* (2014).

The size of the Board of Commissioners did not affect financial performance

Statistical results the size of the board of commissioners show the size of the board of commissioners did not affect financial performance. This is because in the Islamic view, the number of members of the board of commissioners is more emphasized to those who have knowledge and experience related to sharia, because the board of commissioners who are experienced and have knowledge related to sharia and banking issues, can make better decisions that will ultimately affect the company performance. This finding supports research conducted by Elghuweel *et al* (2017), but the results of this study cannot support the research of Taufiq *et al* (2014).

The independent commissioners Board did not affect financial performance

Statistical results of the Independent Board of Commissioners show the Independent Board of Commissioners does not affect financial performance. This is because the independent commissioners in the company are still unable to work effectively in increasing operational oversight. This finding supports research conducted by Lukas and Basuki (2015), but the results of this study cannot support the research of Widyati (2013).

The size of the Sharia Supervisory Board did not affect financial performance

Statistical results of the Sharia Supervisory Board Size show the Sharia Supervisory Board Size does not affect financial performance. This is because the sharia supervisory board which not only works at one Islamic financial institution causes its performance to be less effective. This finding supports research conducted by Musibah and Wan (2014), but the results of this study cannot support Mollah and Zaman's research (2015).

The audit committee did not affect financial performance

The audit committee's statistical results show the audit committee does not support financial performance. This causes the number of audits does not guarantee the effectiveness of performance audits in conducting oversight of the company's financial performance. Because many of the small numbers of audits will continue to supervise financial statements. This finding supports research conducted by Ajili and Bouri (2018), but the results of this study cannot support the research of Taufiq *et al* (2014).

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This research was conducted to see the effect of Islamic corporate governance in this case institutional ownership, the board size, the board of commissioners independence, the size of the sharia supervisory board, and audit committee on financial performance.

Institutional ownership does not affect financial performance. This is because the Islamic bank control scheme is based on the principle of profit and loss distribution. So the amount of institutional ownership does not affect the company's performance in Islamic Commercial Banks.

The size of the Board of Commissioners does not affect Financial Performance. This is because, in the Islamic view, the number of members of the board of commissioners is more emphasized to those who have knowledge related to sharia and experience in Islamic banks, not based on many or at least the number of the board of commissioners in banking.

Independent commissioners board did not affect Financial Performance. This happens because the board of independent commissioners in the company is still unable to work effectively in increasing the supervision of the company and is proven not to support financial performance.

The size of the Sharia Supervisory Board did not affect financial performance. Because the authority is only to supervise bank operations to be in accordance with Islamic law, in addition to the sharia supervisory board which not only works at one Islamic financial institution causes its performance to be less effective.

The Audit Committee did not affect Financial Performance. This is because the formation of an audit committee in a company is only based on compliance with regulations in accordance with PBI No.8/4 / PBI / 2006 requires that banks must form an audit committee.

Recommendations

In further research, there are additional indicators in assessing the company's financial performance variables, to have a better description of actual finance. Further researchers have additional years of research with a longer period. As further research, to conduct research using

other variables, it is expected to obtain more accurate results. In addition, consideration is also needed to use samples from other countries, to be used as a generalization beside Indonesia.

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