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The Influence of the Board of Commissioners, Board of Directors, Sharia Supervisory Board, and Audit Committee on the Financial Performance of Islamic Banking in Indonesia

(Empirical Study on Sharia Banking in Indonesia Registered at Financial Services Authority 2017-2020 Period)

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ABSTRACT : *This study aims to determine the influence of the Board of Commissioners, Board of Directors, Sharia Supervisory Board, and Audit Committee on Financial Performance in Islamic Banking in Indonesia that has been registered with Financial Services Authority in 2017-2020. The research method used by researchers in this study is a quantitative method. This study uses secondary data from annual reports of Islamic banking. The data collection technique used a purposive sampling technique, based on the established criteria, a sample of 12 Islamic banks was obtained. Data were analyzed using multiple regression analysis with SPSS version 25. The results of this study indicate that (1) the Board of Commissioners has a positive and significant effect on the Financial Performance of Islamic Banking, (2) the Board of Directors has a negative and insignificant effect on the Financial Performance of Islamic Banking, (3) The Sharia Supervisory Board has a negative and significant effect on the Financial Performance of Islamic Banking, (4) the Audit Committee has a negative and insignificant effect on the Financial Performance of Islamic Banking.*

Keywords : Corporate Governance, Financial Performance, Financial Services Authority, Islamic Banking, NPF.

I. INTRODUCTION

Currently, the development of banks in Indonesia is increasingly diverse, not only conventional banks, currently there are also many products of Islamic banks in Indonesia that provide various kinds of financial products and investment services in other ways compared to commercial banks or conventional banks.

Therefore, it is very important that the operational management and working principles must be developed very well and systematically. Along with the rapid competition in the banking world, banking has also experienced rapid development, starting from digitization, interest rate competition, to competition in obtaining funds. Therefore, we need an information system that can provide an overview of banking financial performance. *Bank performance* as a whole is the result of what the bank has achieved in its operations, both in terms of financial aspects, collection and distribution of funds, technology marketing and human resources.

One way to improve financial performance and assess the work system of a bank is through an assessment of *Good Corporate Governance* with this concept considered capable of improving the financial performance of a company or bank. The use of corporate governance from Islamic institutions with the supervisory system of Islamic financial institutions in Islamic banking can be one of the important requirements in ensuring how the development and stability of the Islamic industry can develop properly. Due to the existence of *Good Corporate Governance (GCG)* for Sharia Business Units and Sharia Commercial Banks can build a strong, effective and healthy sharia banking industry.

Good Corporate Governance (*GCG)* is one way to control and regulate companies to provide added value to *stakeholders* (stakeholders). The existence of good corporate governance can be a very big benchmark for customers in trusting and establishing sharia banking as a partner. The better the value of *good corporate governance (GCG)* , the better the resources available to the company or bank.

This study examines the influence of the board of commissioners, board of directors, sharia supervisory board, and audit committee on the financial performance of sharia banking in Indonesia which is registered with the financial services authority.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Definition of Islamic Banking

In accordance with Law no. 21 of 2008 concerning Islamic Banking, Islamic Banks are banks that carry out business activities based on sharia principles, or Islamic legal principles regulated in the fatwa of the Indonesian Ulema Council such as the principles of justice and balance *('adl wa tawazun)* , benefit *(maslahah)* , universalism *(alamiyah))* , and does not contain *gharar, maysir, usury, unjust* and unlawful objects.

The implementation of the regulatory and supervisory functions of sharia banking from the aspect of implementing prudential principles and good governance is carried out by the Financial Services Authority as is the case with conventional banking, but with a regulation and supervisory system adapted to the peculiarities of the operational system of sharia banking. In this regard, the institution that has an important role is the National Sharia Council (DSN) MUI. Law No. 21 of 2008 concerning Sharia Banking gives authority to the MUI whose functions are carried out by organs in particular, namely the DSN-MUI to issue fatwas on the conformity of sharia of a bank product.

2.2 Theoretical basis

2.2.1 Agency Theory

Agency theory according to Jensen and Meckling (1976) views that company management as an agent for shareholders, will act with full awareness for its own interests, not as a wise and prudent and fair party to shareholders. In other words, *agency theory* views that management cannot be trusted to act as well as possible for the public interest in general and shareholders in particular.

2.2.2 Financial Performance

Performance is a general term used for some or all of the activities of an organization in a period with reference to a number of standards such as past or projected costs on the basis of efficiency, accountability or management accountability and the like. Beiner et al (2003), Jensen (1993) and Lipton and Lorsh (1992) explain that company performance is the result of the director's actions. Company performance is the determination of certain measures that can measure the success of a company in generating profits (Sucipto, 2003). Rifai (2009:24-25) argues that performance measurement should use or integrate various measurement dimensions. Financial ratio analysis is useful as an internal analysis for company management to find out the financial results that have been achieved for future planning and also for internal analysis for creditors and investors to determine a company's lending and investment policies (Usman, 2003).

2.3 Corporate governance

Corporate *governance* is a series of processes, customs, policies, rules and institutions that influence the direction, management and control of a company or corporation. Corporate governance also includes the relationship between the stakeholders *(stakeholders)* involved and the objectives of managing the company. The main parties in corporate governance are shareholders, management, and the board of directors. Corporate governance affects the financial performance of companies to varying degrees and characteristics.

2.4 Hypothesis Development

2.4.1 Board of Commissioners

In accordance with Law No. 21 of 2008 concerning Islamic banking and Bank Indonesia Regulation No. 11/33/PBI/2009 concerning the implementation of GCG for Islamic commercial banks and Islamic business units, the board of commissioners always carries out their duties and responsibilities professionally and independently guided by good corporate governance. Dalton (1999) explains that the higher the board of commissioners in the company, the better. Because more and more are monitoring the behavior of management so that they will always act in accordance with the wishes of the shareholders. From this description, the hypothesis proposed is:

H1: The board of commissioners has a positive influence on financial performance.

2.4.2 Board of Directors

The board of directors has a very vital role in a company. With the separation of roles from the board of commissioners, the board of directors has great power in managing all the resources in the company. The board of directors has the duty to determine the direction of policies and resource strategies owned by the company, both for the short and long term. From this description, the hypothesis proposed is:

H2: The board of directors has a positive influence on financial performance.

2.4.3 Sharia Supervisory Board

A large sharia supervisory board is better than a small sharia supervisory board (Quttainah, Liang, & Qiang, 2013). The large size of the Sharia Supervisory Board can affect the financial performance of Islamic banks, because more and more members of the Sharia Supervisory Board consist of scholars with a lot of experience and skills as well as knowledge of Islamic law and fiqh which will have an impact on product interpretation. and Islamic bank operations will get better so that in the end the performance of Islamic banks will also increase (Hamza, 2016). From this description, the hypothesis proposed is:

H3: The Sharia supervisory board has a positive influence on financial performance.

2.4.4 Audit Committee

According to Bank Indonesia Regulation number 11/33/PBI/2009 the Audit Committee is an independent party that evaluates the implementation of internal audits in order to assess the adequacy of internal control including the adequacy of the financial reporting process. The audit committee has a very important role, this is because the oversight of the audit committee can affect the company's performance in general. According to Familia (2010) and Wicaksono (2014) the audit committee has a positive relationship to company profitability. The greater the number of audit committees in a company, the better protection and control over the accounting and financial processes will provide a positive influence on the company's financial performance (Anderson et al., 2004). From this description, the hypothesis proposed is:

H4: Audit Committee has a positive effect on financial performance.

III. RESEARCH METHODS

3.1 Population and Sample

The population in this study is Islamic banking in Indonesia that is registered with the Financial Services Authorization for the 2017-2020 period. Based on data from the Financial Services Authority, there are 15 Islamic banks in Indonesia. In selecting the sample, this study used a *purposive sampling method* . According to Sutrisno (2017) *purposive sampling* is a sampling technique that is adjusted to certain criteria desired by the researcher. The conditions desired by the researcher were first determined before selecting the sample. Certain criteria that must be met as requirements include:

a. Sharia banking in Indonesia registered with the financial services authority during the 2017-2020 observation period.
b. Have complete financial reports during the 2017-2020 observation period.
c. The Islamic banking sample used did not have negative profits during the 2017-2020 observation period.

3.2 Data collection

The data used in this research is secondary data which is quantitative in nature. The data is obtained from the company's annual report on the company's website or official website which contains annual reports on Islamic banking in Indonesia.

3.3 Operational Definition of Research Variables

This study uses company performance as a proxy for *Non Performing Financing (NPF)* as the dependent variable. The independent variable in this study uses corporate governance which is proxied by the Sharia Supervisory Board, Audit Committee, Board of Commissioners and Board of Directors.

3.3.1 Company Performance

Non Performing Financing (NPF)

The performance of Islamic banking in this study is also measured by *NPF. Non Performing Financing (NPF)* is one of the performance appraisal instruments of an Islamic bank which is an interpretation of the assessment of productive assets, especially in the assessment of non-performing financing. *In accordance with the guidelines for calculating financial ratios in Bank Indonesia Circular Letter No.9/24/DPbs, the* Non Performing Financing (NPF) ratio *is calculated using the following formula:*

$$NPF = \frac{\text{pembiayaan bermasalah}}{\text{total pembiayaan}} x\ 100\%$$

3.3.2 Corporate Governance

a. board of Commissioners

The Board of Commissioners is an organ of the company whose job is to carry out general and/or special supervision in accordance with the articles of association and provide advice to the Board of Directors. The Board of Commissioners has a fiduciary duty to act in the best interests of the company

and avoid all forms of conflict of personal interest. The size of the Board of Commissioners can be formulated as follows (Zhou et al., 2018):

Size of the Board of Commissioners = Number of members of the Board of Commissioners

b. Board of Directors

According to bank Indonesia regulation number 11/33/PBI/2009, the board of directors is a company organ that is authorized and fully responsible for managing the company for the benefit of the company in accordance with the aims and objectives of the company and represents the company, both inside and outside control in accordance with the provisions the articles of association as referred to in law no. 40 of 2007 concerning limited liability companies. The number of members of the board of directors is at least three people and the criteria for becoming a director are subject to bank Indonesia regulations. Measurement of the board of directors can be measured by looking at the total number of members of the board of directors (Velnampy, 2013):

Formula = ∑ members of the board of directors

c. Sharia Supervisory Board

According to bank Indonesia regulation number 11/33/PBI/2009 the Sharia supervisory board is a board tasked with providing advice and suggestions to the directors and supervising bank activities so that they comply with sharia principles. Provisions regarding the number of members and criteria for becoming Sharia Supervisory Board members are subject to Indonesian regulations. Sharia Supervisory Board members are appointed through the GMS. The size of the sharia supervisory board is the number of Sharia Supervisory Board members in a company as measured by counting the number of company Sharia Supervisory Board members listed in the company's annual report (Khoirudin, 2013). The following is the formula for calculating the size of the Sharia Supervisory Board:

Sharia supervisory board size =∑ Sharia Supervisory Board

d. Audit Committee

According to Bank Indonesia Regulation number 11/33/PBI/2009 the Audit Committee is an independent party that evaluates the implementation of internal audits in order to assess the adequacy of internal control including the adequacy of the financial reporting process. The audit committee has a very important role, this is because the oversight of the audit committee can affect the company's performance in general. The audit committee is measured using the total number of audit committee members in a company (Widyati, 2013).

Audit Committe = Number of Audit Committee Members in the Company

3.4 Data analysis method

This study uses multiple linear regression analysis method. This analysis is used to analyze how much influence the independent variables have on the dependent variable. The dependent variable of this model is financial performance as measured by *NPF* , and the independent variables are the board of commissioners, board of directors, sharia supervisory board and audit committee. Before carrying out multiple linear regression analysis, a classic assumption test must be carried out first to get better results. The regression equation model used to test this hypothesis is:

$$\mathbf{Y = \alpha + \beta 1X_1 + \beta 2X_2 + \beta 3X_3 + \beta 4X_4}$$

Information : Y = Sharia Banking Financial Performance

α = Constant

β = Regression Coefficient

X_1 = Board of Commissioners

X_2 = Board of Directors

X_3 = Sharia Supervisory Board

X_4 = Audit Committee

IV. RESULTS ANALYSIS

4.1 Description of Research Object

This study aims to determine the effect of *good corporate governance* with the indicators of the Board of Commissioners, the Board of Directors, the Sharia Supervisory Board, and the Audit Committee on Financial Performance using *NPF* . This study uses secondary data, namely financial reports from Islamic banking companies in Indonesia that are registered or supervised by the Financial services authority in the 2017-2020 period. Based on the sampling technique, namely by using *purposive sampling* , the research samples selected were 12 Islamic banks. The selected sample is then used for data analysis and hypothesis testing.

4.2 Descriptive Statistical Analysis

Table IV. 1
Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Means	std. Deviation
board of Commissioners	48	2	9	4,13	1,619
Board of Directors	48	3	9	4.81	1,746
Sharia Supervisory Board	48	2	5	2,21	0.544
Audit Committee	48	2	7	3.92	1.285
NPF	48	0.02	19,48	4.3567	4.24563
Valid (N)	48				

Source: Secondary data processed by researchers, 2022.

From table IV.1 above it can be seen that the amount of data from this study is 48 observational data. While the following is an explanation of the results of the descriptive statistical test on the independent variables:

a) The overall value obtained for the Board of Commissioners has a minimum value of 2 and a maximum value of 9 with an average value of 4.13 and a standard deviation value of 1.619 .
b) The overall score for the Board of Directors has a minimum value of 3 and a maximum value of 9 with an average value of 4.81 and a standard deviation value of 1.746 .
c) The overall value obtained for the Sharia Supervisory Board has a minimum value of 2 and a maximum value of 5 with an average value of 2.21 and a standard deviation value of 0.544 .
d) The overall value obtained for the Audit Committee has a minimum value of 2 and a maximum value of 7 with an average value of 3.92 and a standard deviation value of 1.285 .

As for the explanation of the results of the descriptive statistical test on the dependent variable as follows :

a) Overall obtained score for *NPF* has a minimum value of 0.02 and a maximum value of 19.48 with an average value of 4.3567 and a standard deviation value of 4.3456 .

4.3 Classic assumption test

4.3.1 Normality test

Table IV.2
Normality test

Variable	Test Statistics	asymp. Sig. (2-tailed)	Information
Unstandardized residuals	0.126	0.055	Normal Distributed Data

Source: Secondary data processed by researchers, 2022.

Based on the table above, the *Asymp value is obtained. Sig. (2-tailed)* of 0.055 . Due to the *Asymp. Sig. (2-tailed)* greater than the significant level of 0.05 or (0.055 **>** _ 0.05) , then H0 is accepted; which means the data is normally distributed. Thus this normality test shows that the normality assumption is fulfilled.

4.3.2 Multicollinearity Test

Table IV.3
Multicollinearity Test

Variable	tolerance	VIF	Information
board of Commissioners	0.265	3,778	Multicollinearity Does Not Occur
Board of Directors	0.237	4,221	Multicollinearity Does Not Occur
Sharia Supervisory Board	0.904	1.106	Multicollinearity Does Not Occur
Audit Committee	0.805	1,242	Multicollinearity Does Not Occur

Source: Secondary data processed by researchers, 2022.

The table above shows that all independent variables have a Variance Inflation Factor (VIF) of less than 10 and a tolerance value of more than 0.10. So that the variables in this study do not contain symptoms of multicollinearity.

4.3.3 Heteroscedasticity Test

Table IV.4
Heteroscedasticity test with spearman rank test

Variable	Sig.	Information
Board of Commissioners	0.641	There is no Heteroscedasticity
Board of Directors	0.890	There is no Heteroscedasticity
Sharia Supervisory Board	0.589	There is no Heteroscedasticity
Audit Committee	0.715	There is no Heteroscedasticity

Source: Secondary data processed by researchers, 2022.

Based on the table above, it shows that the sig value of the Board of Commissioners is 0.641, the Board of Directors is 0.890, the Sharia Supervisory Board is 0.589, and the Audit Committee value is 0.715 or the sig value of all variables > 0.05. So based on the sig value with *the spearman rank test* it can be concluded that the regression model does not contain heteroscedasticity.

4.3.4 Autocorrelation Test

Table IV.5
Autocorrelation Test

Model	R	R square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	0.604	0.365	0.306	3.62144	1,944

Source: Secondary data processed by researchers, 2022.

From the table above, the Durbin-Watson value (count DW) is 1.944 . If you look at the DW table with a significant 5% and n as many as 48, and the number of independent variables (k = 4), it can be seen that the DL = 1.3619 with a DU value of 1.7206. Because the DW value of 1.944 is greater than the upper limit of 1.7206 and less than the 4-d u value of 2.280 . Based on predetermined criteria, the calculated DW is between 1.7206 and 2.280 , namely 1.720 ≤ 1.944 ≤ 2.280 , this means that there is no autocorrelation.

4.4 Multiple Linear Regression Analysis

Table IV.6
Multiple Liner Regression Analysis

Model		Unstandardized Coefficients		t	Sig.	Information
		B	Std. Error			
1	(Constant)	4,508	2,577	1,750	0,087	
	Board of Commissioners	1,738	0,634	2,742	0,009	Significant
	Board of Directors	-0,095	0,621	-0,153	0,879	Not Significant
	Sharia Supervisory Board	-2,080	1,021	-2,037	0,048	Significant
	Audit Committee	-0,580	0,458	-1,266	0,212	Not Significant

Source: Secondary data processed by researchers, 2022.

The table above shows that the multiple linear regression equation obtained from the results of the analysis are as follows:

NPF = 4.508 + 1.738 X_1 - 0.095 X_2 – 2.080 X_3 – 0.580 X_4

Thus the above equation can be interpreted as follows:

- The constant has a positive value of 4.508 indicating that the magnitude of Y is 4.508 assuming that X_1 , X_2 , X_3 , X_4 is constant.
- Regression coefficient X_1 has a positive value of 1.738 indicating that each addition of 1 (one) value of X_1 will increase Y by 1.738 .
- Regression coefficient X_2 has a negative value of -0.095 indicating that each addition of $_1$ (one) value of X2 will decrease Y by -0.095 .
- Regression coefficient X_3 has a negative value of -2.080 indicating that each addition of 1 (one) value of X3 will decrease Y by $_{-2.080}$.
- Regression coefficient X_4 has a negative value of -0.580 indicating that each addition of $_{1\ (one)}$ value of X4 will decrease Y by -0.580 .

4.4.1 Partial Testing(t-test)

Based on table IV. 6 t test results are as follows:

a) Influence of the Board of Commissioners on *NPF* :

Based on the calculation results shown in the figure above, the p-value obtained from the t-test results of the Board of Commissioners variable is 0.009. Because the p-value is smaller than the significant level of 5% or (0.009 < 0.05), then Ha is accepted; which means there is influence of the board of commissioners on the *NPF* . The results of this study are in line with Eko Sunarwan's research (2015) which states that the Board of Commissioners has a significant effect on financial performance. However, this research contradicts the results of research conducted by Hanifah and Muchammad Syafruddin (2020).

b Influence of the Board of Directors on *NPF* :

Based on the calculation results shown in the figure above, the p-value obtained from the t-test results of the Board of Directors variable is 0.879. Because the p-value is greater than the significant level of 5% or (0.879 > 0.05), then Ha is rejected; which means there is no influence of the board of directors on the *NPF* . The results of this study are in line with Eko Sunarwan's research (2015) which states that the Board of Directors has no significant effect on financial performance.

c The influence of the Sharia Supervisory Board on *NPF* :

Based on the calculation results shown in the figure above, the p-value of the t-test results of the Sharia Supervisory Board variable is 0.048. Because the p-value is smaller than the significant level of 5% or (0.048 < 0.05), then Ha is accepted; which means there is influence of the board of commissioners on the *NPF* . The results of this study are in line with the research of Eko Sunarwan

(2015) and Hanifah and Muchammad Syafruddin (2020) which states that the Board of Commissioners has a significant effect on financial performance.

d The influence of the Audit Committee on *NPF* :

Based on the calculation results shown in the figure above, the p-value obtained from the t-test results of the Audit Committee variable is 0.212. Because the p-value is greater than the significant level of 5% or (0.212 > 0.05), then Ha is rejected; which means there is no influence of the audit committee on the *NPF* . The results of this study are in line with the research of Eko Sunarwan (2015) and Hanifah and Muchammad Syafruddin (2020) which state that the audit committee has no significant effect on financial performance.

4.4.2 F test

Table IV.7
F test

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	323,631	4	80,908	6,169	0,001
Residual	563,939	43	13,115		
Total	887,57	47			

Source: Secondary data processed by researchers, 2022.

Based on the table above, the sig. of 0.001. Due to the sig. obtained is less than a significant level of 5% or (0.001 < 0.05), it can be concluded that the significant model or this model has a low error rate .

4.5 Coefficient of Determination

Table IV.8
Determinant Coefficient

Model	R	R Square	Adjusted R Square
1	0.604	0.365	0.306

Source: Secondary data processed by researchers, 2022.

The results of the calculation of the coefficient of determination by looking at the *adjusted* R *square* (R2) value of 0.306 or a positive value, thus indicating that the magnitude of the role or contribution of the independent variables to *Earning Per Share* (EPS) is 30.6 % while the remaining is 69.4 % explained by other variables not included in the regression model.

4.6 Recapitulation of Hypothesis Test Results

The following shows the results of the recapitulation of the results of the research hypothesis test:

Table IV.9
Recapitulation of Hypothesis Test Results

hypothesis	Information
H1: The Board of Commissioners has a positive effect on the company's financial performance.	Accepted
H2: The Board of Directors has a negative effect on the company's financial performance.	Rejected
H3: The Sharia Supervisory Board has a negative effect on the company's financial performance.	Accepted
H4: The Audit Committee has a negative effect on the company's financial performance.	Rejected

Source: Secondary data processed by researchers, 2022.

V. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

This study aims to determine the effect of *GCG* with the variable indicators of the Board of Commissioners, Board of Directors, Sharia Supervisory Board, and Audit Committee on the Financial Performance of Islamic Banking registered at OJK for the 2017-2021 period. Based on the results of the analysis that has been carried out, the following conclusions can be drawn:

a) The Board of Commissioners has a positive and significant effect on the Financial Performance of Islamic Banking. This is indicated by a positive coefficient value of 1.738 and a significance value of 0.009 which is smaller than the significance of 0.05.
b) The Board of Directors has a negative and insignificant effect on the Financial Performance of Islamic Banking. This is indicated by the coefficient value which is negative, namely -0.095 and a significance value of 0.879 which is greater than the significance of 0.05.
c) The Sharia Supervisory Board has a negative and significant effect on the Financial Performance of Islamic Banking. This is indicated by the coefficient value which is negative, namely -2.080 and a significance value of 0.048 which is smaller than the significance of 0.05.
d) The Audit Committee has a negative and insignificant effect on the Financial Performance of Islamic Banking. This is indicated by the coefficient value which is negative, namely -0.580 and a significance value of 0.212 which is greater than the significance of 0.05.

5.2 Suggestion

The following are some suggestions that researchers can convey based on the analysis that has been carried out:

a) For Sharia Banking
Banking can maintain and improve its performance. Performance improvement can be done by implementing *GCG* properly and correctly.

b) For Investors
Investors must be wise in deciding to invest in a company. Investors should consider various aspects when investing, especially in the implementation and application of *GCG* in Islamic banking because with the implementation of good and correct *GCG* , investors' rights will be protected.

c) For Further Research
1) Future researchers should conduct similar research, but with Islamic banking that is not only registered with the financial services authority and with a larger number of samples so that it can strengthen the results of research that has been done before.
2) Future researchers can add other variables that can affect the financial performance of Islamic banking. Because this study only uses four proxies for the implementation of *GCG* , namely the Board of Commissioners, the Board of Directors, the Sharia Supervisory Board, and the Audit Committee.
3) Future researchers should use other financial performance measures besides using NPF, it can be ROA, ROE, and so on.
4) The next researcher can increase the research period to renew similar research.

5.3 Research Limitations

This study has limitations that can hinder the results of the study. Some of the limitations encountered are as follows:

a) This study only uses proxies for the Board of Commissioners, Board of Directors, Sharia Supervisory Board and Audit Committee to represent *GCG* , even though there are many other proxies such as institutional ownership, company size, risk management committee and so on.
b) This study only took samples from Islamic banks registered with the financial services authority.

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