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The Influence of the Board of Commissioners, Board of Directors, Audit Committee, and Sharia Supervisory Board on the Financial Performance of Islamic Banking (Empirical Study on Islamic Banking in Indonesia 2017-2021 Period)

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Abstract: This study aims to determine the effect of the board of commissioners, board of directors ,*audit committee, and sharia supervisory board on the financial performance of Islamic banking in Indonesia from 2017 to 2021 in terms of ROA, CAR, and NPF. The sampling technique used in this study was purposive sampling. Data obtained from Islamic banking financial reports for the 2017-2021 period. The statistical test used in this study is multiple linear regression.*

Keywords: Board of Commissioners, Board of Directors, Audit Committee, Sharia Supervisory Board, Financial Performance.

I. INTRODUCTION

According to Stolovitch and Keeps (1992) performance is defined as a form of achievement or a reflection of a job performed. The company's performance is said to be good if the initial goals that have been planned have been achieved (Donnelly, Gibson and Ivancevich, 1994). Likewise with service companies that must evaluate by looking at the company's operating results, as it should be for service companies such as Islamic banks.

Currently, both in Indonesia and abroad, Islamic banks have experienced rapid development. Currently, both in Indonesia and abroad, Islamic banks have experienced rapid development. Moreover, with the development of the times and the openness of society, Islamic banking is now widely accepted easily. This is evidenced by the fact that in 2021 there will be 14 Islamic Commercial Banks (BUS), 20 Islamic Business Units (UUS), and 163 Islamic People's Financing Banks (BPRS). (Source: OJK Sharia Banking Statistics for 2021).

Good Corporate Governance (GCG) research on Islamic banks is still limited. Most research on GCG uses commercial banks as research objects. Based on this explanation, it is interesting to study further the influence of GCG on the financial performance of Islamic banking in 2017 to 2021. This research can contribute to the literature on the influence of GCG on the financial performance of Islamic banking. In addition, it also tries to apply specific components of Corporate Governance, such as the Board of Commissioners, Board of Directors, Audit Committee and Sharia Supervisory Board to the financial performance of Islamic banking in Indonesia from 2017 to 2021.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Theoretical Perspective

Agency theory describes the company as a meeting place between the owner of the company which is called the principal and the manager who is called the agent. According to Jensen and Meckling (1976: 85) states that the agency relationship is a contract that arises between the manager (agent) and the owner of the company (principal). Where the powers and obligations of the representative and the client are regulated together in a work contract. As a result of this relationship, management is obliged to account for what has been instructed by the principal.

Financial performance is a form of company achievement that can be defined by the results that have been obtained for the activities that have been carried out. So that financial performance is also defined, namely an analysis made to assess whether the company has complied with all applicable regulations. This study uses measuring instruments *Return On Assets* (ROA), *Capital Adequacy Ratio* (CAR), and *Non-Performing Financing* (NPF) as the basis for measuring Islamic banking financial performance. *Return on Assets* (ROA) is an indicator that reflects a company's financial performance, the higher the ROA value, the better the company's performance. *The Capital Adequacy Ratio* (CAR) reflects a bank's ability to cover the risk of loss from its activities and the bank's ability to fund its operations (Idroes, 2008:69). *Non Performing Financing* (NPF) is an indicator of problematic financing that needs attention because of its fluctuating and uncertain nature, so it is important to observe it with special attention. Sharia Banking is everything that concerns Sharia Banks and Sharia Business Units, including institutions, business activities, and methods and processes in carrying out their business activities.

2.2 Hypothesis Development

2.2.1 board of Commissioners

The board of commissioners has an important role for the company, especially in terms of implementing the corporate governance system. As a management supervisor, holding a meeting of the board of commissioners is a means of communication and coordination between members of the board of commissioners one to another. Thus, the more often the board of commissioners holds meetings, the better the company's performance. This can bring high profits for the company and increase the value of the company. The hypothesis offered in this study is:

H1: The board of commissioners has a significant effect on the financial performance of Islamic banking in terms of ROA.

H2: The board of commissioners has a significant effect on the financial performance of Islamic banking in terms of NPF.

H3: The board of commissioners has a significant effect on the financial performance of Islamic banking in terms of CAR.

2.2.2 Board of Directors

In a company, the board of directors plays a role in making decisions or company strategy, both short and long term. One of the successes of corporate governance implementation is determined by the performance of the board of directors in the company in making business decisions and strategies. Good moral quality and qualified technical competence are characteristics that must be possessed by members of the board of directors. The hypothesis offered in this study is:

H4: The board of directors has a significant effect on the financial performance of Islamic banking in terms of ROA.

H5: The board of directors has a significant effect on the financial performance of Islamic banking in terms of NPF.

H6: The board of directors has a significant effect on the financial performance of Islamic banking in terms of CAR.

2.2.3 Audit Committee

The audit committee has a role in providing independent expert opinion to the board of commissioners on reports submitted by the directors to the commissioners in order to increase the credibility of financial reports. The more the number of audit committees in a company, the better the oversight role will run. Thus, the audit committee enters into the factors that affect the company's financial performance. So, the hypothesis offered is:

H7: The audit committee has a significant effect on the financial performance of Islamic banking in terms of ROA.

H8: The audit committee has a significant effect on the financial performance of Islamic banking in terms of NPF.

H9: The audit committee has a significant effect on the financial performance of Islamic banking in terms of CAR.

2.2.4 Sharia Supervisory Board

The sharia supervisory board is the body that oversees sharia financial activities so that they remain in line with sharia principles. The more members of the sharia supervisory board, the supervisory function will increase and be more professional towards banking financial performance in accordance with sharia principles. So, the hypothesis offered is:

H10: The sharia supervisory board has a significant effect on the financial performance of sharia banking in terms of ROA.

H11: The sharia supervisory board has a significant effect on the financial performance of sharia banking in terms of NPF.

H12: The sharia supervisory board has a significant effect on the financial performance of sharia banking in terms of CAR.

III. RESEARCH METHODS

3.1 Research design

This research is a causality study that was structured to examine the possibility of a causal relationship between one variable and another variable, namely the board of commissioners (X1), the board of directors (X2), the audit committee (X3), and the sharia supervisory board (X4) as variables. independent, Islamic banking financial performance (Y) as the dependent variable.

3.2 Population and Sample

The population in this study are all Islamic banking companies for the 2017-2021 period registered with the Financial Services Authority (OJK). The sampling technique used in this study was purposive sampling. This technique uses various considerations or certain criteria in sampling, namely Islamic banking companies registered with the Financial Services Authority (OJK) for the 2017-2021 period, publishing financial reports in Indonesia for the 2017-2021 period, and having complete data on financial performance. Syariah banking.

3.3 Data And Data Sources

The type of data used in this research is secondary data. Data collection in this study was obtained from records, in the form of published financial reports of Islamic banking companies in Indonesia from 2017 to 2021, books as theories, journals, articles, and others.

3.4 Research and Measurement Variables

3.4.1 Dependent Variable

This study uses the dependent variable of Islamic banking financial performance which is projected into several ratios, including the following:

3.4.1.1 Return On Assets (ROA)

The higher the ROA of a company, the greater the company's profits. Return on Assets need to be considered by investors in investing in stocks, because Return on Assets acts as an indicator of a company's efficiency in using assets to earn profits. The ROA formula is:

$$ROA = \frac{\text{Net profit}}{\text{Total Assets}}$$

3.4.1.2 Capital Adequacy Ratio (CAR)

The greater the CAR ratio, the better the bank's ability to face the risk of any risky earning assets. The CAR formula is:

$$CAR = \frac{\text{Bank Capital}}{\text{Risk Weighted Assets}}$$

3.4.1.3 Non Performing Financing (NPF)

The higher this ratio, the worse the quality of Islamic bank financing (Muhammad, Islamic Bank Financing Management, 2005). This ratio is formulated as follows:

$$NPF = \frac{\text{Substandard, Doubtful, Loss Financing}}{\text{Total Financing}}$$

3.4.2 Independent Variable

3.4.2.1 board of Commissioners

As the number of board members increases, board oversight will be much better than before and the input and choices given to the board of directors will be much greater. The size of the board of commissioners is measured using an indicator of the number of members of the board of commissioners of a company (Sukandar, 2014).

3.4.2.2 Board of Directors

The size of the board of directors is measured using an indicator of the number of members of the board of directors in a company. The size of the board of directors is measured using an indicator of the number of members of the board of directors in a company (Sukandar, 2014).

3.4.2.3 Audit Committee

The audit committee is measured using the number of audit committees. An increasing number of audit committees will provide better control over the company's accounting and financial processes which will ultimately have a positive influence on the company's financial performance (Setiawan, 2020).

3.4.2.4 Sharia Supervisory Board

The size of the Sharia Supervisory Board shows the number of members of the Sharia Supervisory Board in banking in a certain period. Ekasari and Hartomo (2019) argue that the size of the Sharia Supervisory Board is measured by the number of Sharia Supervisory Boards in Islamic banks.

3.5 Data analysis method

This study uses multiple regression analysis as follows:

$$ROA = \alpha + \beta 1DKM + \beta 2DDR + \beta 3KAD + \beta 4DPS + \varepsilon$$

$$CAR = \alpha + \beta 1DKM + \beta 2DDR + \beta 3KAD + \beta 4DPS + \varepsilon$$

$$NPF = \alpha + \beta 1DKM + \beta 2DDR + \beta 3KAD + \beta 4DPS + \varepsilon$$

Information:

ROA = Return On Assets

CAR = Capital Adequacy Ratio

NPF = Non Performing Financing

α = Constant

DKM = board of Commissioners

ddr = Board of Directors

KAD = Audit Committee

DPS = Sharia Supervisory Board

Ɛ = Error

IV. ANALYSIS RESULTS

4.1 Descriptive Statistical Analysis

Table 1 Descriptive Statistical Test Results

Variables	N	Minimum	Maximum	Means	std. Deviation
board of Commissioners	55	1	7	3.6364	1.06046
Board of Directors	55	2	9	4.2545	1.43008
Audit Committee	55	2	6	3.54555	0.95874
Sharia Supervisory Board	55	1	3	2,2	0.44721
ROA	55	-10.77	13,6	1.0527	3.38876
CAR	55	11.51	58,27	24.7511	9.65548
NPF	55	0.01	5,28	2.0116	1.65277
Valid N (listwise)	55				

Source: Author's secondary data processing, 2022

Based on table 1, it can be seen that:

a. The board of commissioners shows a minimum result of 1.00 and a maximum of 7.00 having an average of 3.6364 with a standard deviation of 1.06046.
b. The board of directors has a minimum score of 2.00 and a maximum score of 9.00 with an average of 4.2545 and a standard deviation of 1.43008.
c. The audit committee has a minimum score of 2.00 and a maximum score of 6.00 with an average of 3.5455 and a standard deviation of 0.95874.
d. The sharia supervisory board shows a minimum result of 1.00 and a maximum of 3.00 having an average of 2.20000 with a standard deviation of 0.44721.
e. Return On Assets (ROA) shows a minimum yield of -10.77 and a maximum of 13.60 with an average of 1.0527 with a standard deviation of 3.38876.
f. The Capital Adequacy Ratio (CAR) shows a minimum yield of 11.51 and a maximum of 58.27 with an average of 24.7511 with a standard deviation of 9.65548.
g. Non Performing Financing (NPF) shows a minimum yield of 0.01 and a maximum of 5.28 having an average of 2.0116 with a standard deviation of 1.65277.

4.2 Classic assumption test

4.2.1 Normality test

Table 2 Normality Test Results

Variable	Test Statistics	asymp. Sig. (2-tailed)	Information
ROA	0.083	0.2	Normal Distributed Data
CAR	0.083	0.2	Normal Distributed Data
NPF	0.136	0.127	Normal Distributed Data

Source: Author's secondary data processing, 2022

Table 2 shows that the data is normally distributed where the Asymp. Sig. (2-tailed) is greater than the significant level of 5% or (0.200 > 0.05).

4.2.2 Multicollinearity Test

Table 3 Multicollinearity Test Results

Variable		tolerance	VIF	Information
board of Commissioners	ROA	0.32	3,122	Multicollinearity Does Not Occur
	CAR	0.34	2,943	Multicollinearity Does Not Occur
	NPF	0.257	3,895	Multicollinearity Does Not Occur
Board of Directors	ROA	0.281	3,559	Multicollinearity Does Not Occur
	CAR	0.295	3,387	Multicollinearity Does Not Occur
	NPF	0.26	3,846	Multicollinearity Does Not Occur
Audit Committee	ROA	0.938	1,066	Multicollinearity Does Not Occur
	CAR	0.924	1,082	Multicollinearity Does Not Occur
	NPF	0.894	1.118	Multicollinearity Does Not Occur
Sharia Supervisory Board	ROA	0.628	1,592	Multicollinearity Does Not Occur
	CAR	0.597	1.675	Multicollinearity Does Not Occur
	NPF	0.413	2,423	Multicollinearity Does Not Occur

Source: Author's secondary data processing, 2022

Table 3 shows the tolerance value > 0.1 and VIF < 10 on the board of commissioners, board of directors, audit committee and sharia supervisory board. So it can be concluded that the regression model is free from multicollinearity.

4.2.3 Heteroscedasticity Test

Table 4 Heteroscedasticity Test Results

Variable		Sig.	Information
board of Commissioners	ROA	0.174	There is no Heteroscedasticity
	CAR	0.305	There is no Heteroscedasticity
	NPF	0.089	There is no Heteroscedasticity
Board of Directors	ROA	0.74	There is no Heteroscedasticity
	CAR	0.667	There is no Heteroscedasticity
	NPF	0.228	There is no Heteroscedasticity
Audit Committee	ROA	0.058	There is no Heteroscedasticity
	CAR	0.505	There is no Heteroscedasticity
	NPF	0.08	There is no Heteroscedasticity
Sharia Supervisory Board	ROA	0.289	There is no Heteroscedasticity
	CAR	0.159	There is no Heteroscedasticity
	NPF	0.334	There is no Heteroscedasticity

Source: Author's secondary data processing, 2022

Table 4 shows that the board of commissioners, board of directors, audit committee and sharia supervisory board are free from heteroscedasticity problems because the probability value is higher than the significant value of 0.05 or 5%.

4.2.4 Autocorrelation Test

Table 5 Autocorrelation Test Results

Variable	Durbin-Watson	Information
ROA	2,077	No Autocorrelation Occurs
CAR	2.025	No Autocorrelation Occurs
NPF	1,801	No Autocorrelation Occurs

Source: Author's secondary data processing, 2022

Based on table 5, the Durbin-Watson values for ROA, CAR, and NPF are free from autocorrelation symptoms where the value of dU < D < 4 - dU.

4.3 Hypothesis testing

4.3.1 Multiple Linear Regression Analysis

Table 6 Multiple Linear Regression Test Results

Variable		t	Sig.	Information
board of Commissioners	ROA	-2,658	0.011	Significant
	CAR	-1.378	0.174	Not significant
	NPF	2,794	0.009	Significant
Board of Directors	ROA	2,579	0.013	Significant
	CAR	2,238	0.03	Significant
	NPF	-2,489	0.019	Significant
Audit Committee	ROA	2.77	0.008	Significant
	CAR	2,237	0.03	Significant
	NPF	0.753	0.458	Not significant
Sharia Supervisory Board	ROA	-0.515	0.609	Not significant
	CAR	-3,806	0	Significant
	NPF	-1,974	0.058	Not significant

Source: Author's secondary data processing, 2022

Based on table 6, the following equation is obtained:

ROA = -3.245 - 3.184DKM + 3.268DDR + 2.223KAD - 0.680DPS + e

From the regression equation, it can be interpreted as follows:

a. A constant value of -3.245 indicates that the ROA (Y) is -3.245 with the assumption that the board of commissioners (X1), board of directors (X2), audit committee (X3), and sharia supervisory board (X4) are constant.
b. The board of commissioners coefficient (X1) is negative, which is -3.184, which means that every 1 (one) increase in the value of X1 will decrease the value of Y, which is -3.184.
c. The board of directors coefficient (X2) is positive, which is 3.268, indicating that every 1 (one) increase in the value of X2 will increase the value of Y, which is 3.268.
d. The audit committee coefficient (X3) is positive, which is 2.223, indicating that every 1 (one) increase in the value of X3 will increase the value of Y, which is 2.223.
e. The coefficient of the sharia supervisory board (X4) is negative, i.e. -0.680, indicating that every 1 (one) increase in the X1 value will decrease the Y value, which is -0.680.

CAR = 0.710 - 0.095DKM + 0.174DDR + 0.104KAD - 0.290DPS + e

From the regression equation, it can be interpreted as follows:

a. A constant value of 0.710 indicates that the ROA (Y) is 1.710 with the assumption that the board of commissioners (X1), board of directors (X2), audit committee (X3), and sharia supervisory board (X4) are constant.
b. The board of commissioners coefficient (X1) is negative, i.e. -0.095, indicating that every 1 (one) increase in the value of X1 will decrease the value of Y, which is -0.095.
c. The board of directors coefficient (X2) is positive, which is 0.174, indicating that every 1 (one) increase in the value of X2 will increase the value of Y, which is 0.174.
d. The audit committee coefficient (X3) is positive, which is 0.104, indicating that every 1 (one) increase in the value of X3 will increase the value of Y, which is 0.104.

e. The coefficient of the sharia supervisory board (X4) is negative, i.e. -0.290, indicating that every 1 (one) increase in the X1 value will decrease the Y value, which is -0.290.

NPF = 0.298 + 1.235DKM - 0.906DDR + 0.195KAD - 1.043DPS + e

From the regression equation, it can be interpreted as follows:

a. A constant value of 0.298 indicates that the ROA (Y) is 1.917 with the assumption that the board of commissioners (X1), board of directors (X2), audit committee (X3), and sharia supervisory board (X4) are constant.
b. The board of commissioners coefficient (X1) is positive, which is 1.235, which means that every 1 (one) increase in the value of X1 will increase the value of Y, which is 1.235.
c. The board of directors coefficient (X2) is negative, i.e. -0.906, indicating that every 1 (one) increase in the X2 value will decrease the Y value, which is -0.906.
d. The audit committee coefficient (X3) is positive, which is 0.195, indicating that every 1 (one) increase in the value of X3 will increase the value of Y, which is 0.195.
e. The coefficient of the sharia supervisory board (X4) is negative, which is -1.043, indicating that every 1 (one) increase in the value of X1 will decrease the value of Y, which is -1.043.

4.3.2 F test

Table 7 F Test Results

Variable	F	Sig.	Information
ROA	4,631	0.003	Significant
CAR	7,437	0.00	Significant
NPF	3,859	0.013	Significant

Source: Author's secondary data processing, 2022

Based on table 4.14 above, it can be seen that the probability value is smaller than the significant value of 5% or 0.05. So it can be concluded that the variables of the board of commissioners, board of directors, audit committee, and sharia supervisory board have a simultaneous or joint effect on ROA, CAR, and NPF.

4.3.3 Coefficient of Determination

Table 8 Test Results for the Coefficient of Determination

Variable	R	R Square	Adjusted R Square
ROA	0.536	0.287	0.225
CAR	0.615	0.378	0.327
NPF	0.596	0.355	0.263

Source: Author's secondary data processing, 2022

The table above shows that the board of commissioners, board of directors, audit committee, and sharia supervisory board are able to influence ROA by 22.5%, CAR by 32.7%, and NPF by 26.3% while the rest are influenced by other factors outside the research.

4.3.4 Statistic test

Statistical test results based on table 6, namely the probability value of the results of the board of commissioners variable t test is 0.011. H0 is rejected because the probability value is smaller than the significant level of 5% or (0.011 <0.05). In other words, there is the influence of the board of commissioners on ROA. The result of the t-test for the variable of the board of directors is 0.013. H0 is rejected because the probability value

is smaller than the significant level of 5% or (0.013 <0.05). In other words, there is influence of the board of directors on ROA. The result of the t test for the audit committee variable is 0.008. H0 is rejected because the probability value is smaller than the significant level of 5% or (0.008 > 0.05). In other words, there is an influence of the audit committee on ROA. The result of the t test for the variable of the sharia supervisory board is 0.609. H0 is accepted because the probability value is greater than the significant level of 5% or (0.609 > 0.05). In other words, there is no influence of the sharia supervisory board on ROA.

The probability value of the results of the t-test for the board of commissioners variable is 0.174. H0 is accepted because the probability value is greater than the significant level of 5% or (0.174 > 0.05). In other words, there is no influence of the board of commissioners on CAR. The result of the t-test for the variable of the board of directors is 0.030. H0 is rejected because the probability value is smaller than the significant level of 5% or (0.030 <0.05). In other words, there is influence of the board of directors on CAR. The result of the audit committee variable t test is 0.030. H0 is rejected because the probability value is smaller than the significant level of 5% or (0.030 <0.05). In other words, there is an influence of the audit committee on CAR. The result of the t test for the variable of the sharia supervisory board is 0.000. H0 is rejected because the probability value is smaller than the significant level of 5% or (0.000 <0.05). In other words, there is influence of the sharia supervisory board on CAR.

The probability value of the results of the t-test for the board of commissioners variable is 0.009. H0 is rejected because the probability value is smaller than the significant level of 5% or (0.009 <0.05). In other words, there is the influence of the board of commissioners on the NPF. The result of the t-test for the variable of the board of directors is 0.019. H0 is rejected because the probability value is smaller than the significant level of 5% or (0.019 <0.05). In other words, there is influence of the board of directors on the NPF. The result of the t test for the audit committee variable is 0.458. H0 is accepted because the probability value is greater than the significant level of 5% or (0.458 > 0.05). In other words, there is no influence of the audit committee on NPF. The result of the t test for the variable of the sharia supervisory board is 0.058. H0 is accepted because the probability value is greater than the significant level of 5% or (0.058 > 0.05). In other words, there is no influence of the sharia supervisory board on NPF.

V. CONCLUSION

Based on the results of the analysis and discussion in this study, the following conclusions can be drawn:

1. The board of commissioners has a significant effect on financial performance in terms of ROA and NPF. But it does not have a significant effect on financial performance in terms of CAR. The proportion of the board of commissioners affects the value of ROA and NPF.
2. The board of directors has a significant effect on financial performance in terms of ROA, CAR and NPF. The percentage of the number of commissioners affects the value of ROA, CAR and NPF.
3. The audit committee has a significant effect on financial performance in terms of ROA and CAR. But it has a significant effect on financial performance in terms of NPF. This shows that a high or low percentage of the audit committee does not guarantee an increase in the company's financial performance.
4. The sharia supervisory board has a significant effect on financial performance in terms of CAR. But it has a significant effect on financial performance in terms of ROA and NPF. The percentage of the number of sharia supervisory boards does not affect the value of ROA and NPF.

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