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# THE MEASUREMENT OF GOOD CORPORATE GOVERNANCE IN ISLAMIC BANKING AND ITS EFFECT ON FINANCIAL PERFORMANCE (Empirical Study of Islamic Commercial Banks in Indonesia)

**Alfiz Rahdian[1], Sepky Mardian[2], and Muhammad Razikun[3]**
[1,2,3]*Program Studi Akuntansi Syariah, Sekolah Tinggi Ekonomi Islam (STEI) SEBI, Depok, Indonesia*
*Email*: [1]*zrahdianalfiz@gmail.com*, [2]*sepky.mardian@sebi.ac.id*

ABSTRACT

This research aims to measure the quality of Good Corporate Governance (GCG) in Islamic Banking and examine its effect on financial performance. The independent variables examined include GCG Index, Board of Commissioner (BOC), Audit Committee (AC), Sharia Supervisory Board (SSB), Gender Diversity of BOC and SSB. The dependent variable includes financial performance determined by Return on Assets (ROA). This research uses samples of 11 Islamic Commercial Banks period of 2015-2019. They were selected using judgement sampling method. The data analysis method used panel data regression analysis with Fixed Effect estimation model. The result revealed that the GCG quality of Islamic Commercial Banks in Indonesia adheres to 90% of the indicator used in the GCG Index. Despite that, the GCG Index found no significant effect on financial performance. Moreover, the Good Corporate Governance implication in Board of Commissioner, Audit Committee, Sharia Supervisory Board and Gender Diversity also found no significant effect on Islamic banking's financial performance.

*Keywords: GCG Index, Islamic Banking, Financial Performance, SSB*

ABSTRAK

Penelitian ini bertujuan untuk mengukur kualitas tata kelola bank syariah dan menguji dampaknya terhadap kinerja keuangannya. Variabel bebas menggunakan proksi dari indeks tata kelola, dewan komisioner, komite audit, dewan pengawas syariah, jender dewan direksi. Kinerja keuangan diukur dengan rasio ROA. Riset ini menggunakan 11 sampel bank syariah untuk periode 2015-2019. Sampel dipilih dengan pendekatan sampling judgement. Data dianalisis dengan regresi data panel dengan Fixed Effect sebagai model terpilihnya. Temuan riset menjelaskan bahwa tata kelola bank syariah sampel mencapai indeks sebesar 90%, namun tata kelola tersebut tidak berpengaruh signifikan atas kinerja bank syariah.

*Kata kunci: indeks tata kelola, bank syariah, kinerja keuangan dan dewan pengawas syariah*

# 1. INTRODUCTION

The development of the Islamic banking industry is confirmed to be growing rapidly. According to OJK (2020), the growth of the Assets, Financing (Pembiayaan Yang Disalurkan – PYD) and Depositor Funds (Dana Pihak Ketiga – DPK) has increased from year to year in trillions of rupiah. Although the growth that ensued every year, the Islamic Banking industry is afflicted with various problems. The first case is corruption that occurred at Bank Syariah Mandiri in 2009. The bank alleged corruption in the provision of financing facilities to PT Tanjung Siram worth Rp. 35 billion. Next, the fictitious credit problems afflicted Islamic banks. In 2014 BJB Syariah distributed two years of loan to its subsidiary PT Hastuka Sarana Karya (HSK) Rp. 548 billion without collateral. Unsecured Credit (KTA) is allowed for only Rp. 200 - 300 million range loan. Table 1 below is the cases afflicted Indonesian Islamic Banking industry as follows:

Table 1**.** Cases Afflicted Indonesian Islamic Banks

| Afflicted Bank | Amount | Details | Reference |
|---|---|---|---|
| Bank Syariah Mandiri | Rp. 35 Billion | Fictitious credit | (Faturrohman, 2019) |
| Bank Aceh Syariah | Rp. 75,1 Billion | Fictitious credit | (Winarman, 2018) |
| Bank Panin Dubai Syariah | Rp. 14 Trillion | Fictitious credit | (Saleh, 2019) |
| Bank NTB Syariah | Rp. 5,1 Trillion | Fictitious credit | (Yustisi, 2019) |
| Bank BJB Syariah | Rp. 548 Million | Fictitious credit | (Arief, 2019) |

Source: compiled from many sources

The distribution of banking funds through financing in the banking industry is the one step in improving the economy. Nevertheless, these banking problems expose the failure of managing funds in the banking industry. In fact, in the accepting process of credit financing, the bank has adequate credit management procedures (corporate governance) to minimize the glitches and risks in distributing these banking funds (Turuis et al., 2017). Internal banking structure and public fund management must be adequately implemented. Regulation related to GCG (Good Corporate Governance) for Islamic banking has been regulated by Bank Indonesia in regulation No. 11/33/PBI/2009 about Implementation of Governance for Sharia Commercial Banks and Sharia Business Units. The regulation requires Islamic banks to perform good corporate governance in every business activity at the organization's entire ranks. The implementation of good corporate governance is expected to increase public and stakeholder trust in the Islamic bank (BI, 2009). The proper implementation of GCG also can improve company performance. For instance, it will create a culture of good decision-making, which able to increase operational efficiency, also the improvement to the quality of public service (Ihsan, 2016).

The measurement of the company's performance can be perceived by the financial and non-financial side. Despite this fact, financial performance remains the most widely applied assessment measure. The financial performance uses various financial ratios in measuring company performance which is reflected in the financial statements such as the statement of financial position, statement of financial performance, statement of retained earnings, and statement of cash flows (Supatmi, 2007).

Previous empirical studies indicated the implementation of GCG at Islamic banking in Indonesia had been appropriately implemented (H. Kusuma & Ayumardani, 2016; Pratiwi, 2016). The empirical research findings develop whether the implementation of GCG is the primary indicator of Islamic banking to improve its financial performance. Previous empirical studies indicated the Board of Commissioner (BOC) did affect financial performance (Hisamuddin & Tirta K, 2015; H. Kusuma & Ayumardani, 2016). However, the other studies found there was no significant effect of the Board of Commissioner on the financial performance (M. Kusuma & Rosadi, 2019; Muchtar et al., 2020; Nasution & Nasrizal, 2020; Savitri et al., 2020).

Previous empirical studies stated the next indicator of GCG is the Audit Committee (AC) affected financial performance (Aslam & Haron, 2020; Hanifah & Syafruddin, 2020; M. Kusuma & Rosadi, 2019). Yet, another previous study reported Audit Committee (AC) did not affect financial performance (Eksandy, 2018; Muchtar et al., 2020; Nasution & Nasrizal, 2020; Savitri et al., 2020).

Previous researchers found the Sharia Supervisory Board (SSB) affected financial performance (Aslam & Haron, 2020; Hanifah & Syafruddin, 2020; Hassan et al., 2017; Hisamuddin & Tirta K, 2015). While the other researchers stated, the Sharia Supervisory Board did not affect financial performance (Eksandy, 2018; Muchtar et al., 2020; Nasution & Nasrizal, 2020; Savitri et al., 2020). According to the phenomenon and research gap explained, this research aims to continue the empirical studies. This research is expected to prove the measurement of GCG in Islamic banks and its effect on financial performance.

This study is modification research conducted by Ajili (2018) and Eksandy (2020) approaching the corporate governance quality on Islamic banking and its effect on financial performance. Ajili (2018) and Buallay (2019) suggested an additional variable such as gender diversity which is considered as a current issue and challenge to the implementation of GCG. Jabari (2020) stated there had been many studies on GCG but ignored the other important indicator, i.e. gender diversity. A study on gender diversity is not much conducted, especially in the Islamic banking industry. This research is an attempt to contribute gender diversity on corporate governance boards, such as the Board of Commissioner and Sharia Supervisory Board, whether or not to affect Islamic banking financial performance. This research uses Return on Assets (ROA) as the measurement of financial performance. ROA is examined to GCG mechanisms such as Board of Commissioner, Audit Committee, Sharia Supervisory Board, and Gender Diversity along with control variables such as Bank Size, Bank Age, and Bank Leverage.This study is modification research conducted by Ajili (2018) and Eksandy (2020) approaching the corporate governance quality on Islamic banking and its effect on financial performance. Ajili (2018) and Buallay (2019) suggested an additional variable such as gender diversity which is considered as a current issue and challenge to the implementation of GCG. Jabari (2020) stated there had been many studies on GCG but ignored the other important indicator, i.e. gender diversity. A study on gender diversity is not much conducted, especially in the Islamic banking industry. This research is an attempt to contribute gender diversity on corporate governance boards, such as the Board of Commissioner and Sharia Supervisory Board, whether or not to affect Islamic banking financial performance. This research uses Return on Assets (ROA) as the measurement of financial performance. ROA is examined to GCG mechanisms such as Board of Commissioner, Audit Committee, Sharia Supervisory Board, and Gender Diversity along with control variables such as Bank Size, Bank Age, and Bank Leverage.

## 2. RESEARCH METHODS

This research used quantitative research methods. The method is based on the positivism philosophy. Quantitative research aims to obtain results from numerical data process using statistical analysis (Sugiyono, 2016). The research type used is associative research, which means this research aims to observe how significant the effect of GCG Index, Board of Commissioner, Audit Committee, Sharia Supervisory Board and Gender Diversity as independent variables, towards Return on Assets (ROA) as a dependent variable. Additional control variables used are Bank Age, Bank Size, and Bank Leverage. The research object is Islamic Commercial Banks in Indonesia from the period of 2015 to 2019. The research data used is secondary data such as financial reports, annual reports and GCG reports. Data is obtained from the banks' official website. The analysis method used is panel data regression analysis which is processed through statistical software, namely E-Views 9.0.

This research population is each Islamic Commercial Banks (BUS) registered to Bank Indonesia from 2015 to 2019. Furthermore, the sampling technique used in this study is the judgment sampling method. Judgment sampling is a non-random sampling technique using certain considerations for sorting the information obtained (Indriantoro & Supomo, 2018). The selected sample is based on the considerations that the researcher has determined are 11 Islamic Commercial Banks period of 2015-2019.

This research used a panel data regression analysis method. Panel data is a combination of cross-section and time-series data, which means a number of variables are tested for a number of categories and collected over a certain period of time (Rosadi, 2012). This research used GCG Index, Board of

Commissioner, Audit Committee, Sharia Supervisory Board and Gender Diversity as independent variables, while Return on Assets (ROA) used as a dependent variable. Additional control variables used are Bank Age, Bank Size, and Bank Leverage. Thus, the regression equations are constructed in two models as follows:

$$\mathrm{ROA}_{it} = \beta_0 + \beta_1 GCGIndex_{it} + \beta_2 GDBOC_{it} + \beta_3 GDSSB_{it} + \beta_4 AGE_{it} + \beta_5 SIZE_{it} + \beta_6 LV_{it} + \mathcal{E}_{it} \quad \textbf{...Model (1)}$$

$$\mathrm{ROA}_{it} = \beta_0 + \beta_1 BOC_{it} + \beta_2 AC_{it} + \beta_3 SSB_{it} + \beta_4 GDBOC_{it} + \beta_5 GDSSB_{it} + \beta_6 AGE_{it} + \beta_7 SIZE_{it} + \beta_8 LV_{it} + \mathcal{E}_{it} \quad \textbf{...Model (2)}$$

The Table 2 below shows the operational definition of each variable used in this research, as follows:

Table 2**.** Operational Definition of Variable

| Variable | Definition | Formulation | Reference |
|---|---|---|---|
| Return on Assets (ROA) | Measure ROA by dividing Total EBT by Total Assets | $\frac{\text{Earning Before Tax}}{\text{Total Asset}}$ | (OJK, 2015a) |
| GCG-Index | The scores generated by the Index for the Board of Commissioners, Audit Committee and Sharia Supervisory Board is summed. | $\frac{\mathrm{DK_{Index}} + \mathrm{KA_{Index}} + \mathrm{DP_{Index}}}{3}$ | (Ajili & Bouri, 2018) |
| BOC-Index | 1. Number of Board of Commissioner (BOC) Meetings<br>2. Independent Member of the Board of Commissioners | 1. Dichotomous: 1 If the board of commissioner meeting in one year is at least 6 (six) times, 0 Otherwise,<br>2. Dichotomous: 1 If the proportion of independent commissioner is 50% of the number of members of the board of commissioner. 0 otherwise. | (BI, 2009) |
| AC-Index | 1. Number of Audit Committee (AC) Meetings<br>2. Independent Member of the Audit Committee | 1. Dichotomous: 1 If the audit committee meeting in one year is at least 6 (six) times, 0 Otherwise,<br>2. Dichotomous: 1 If at least one member of audit committee is independent. 0 otherwise. | (BI, 2009) |

| Variable | Definition | Formulation | Reference |
|---|---|---|---|
| SSB-Index | 1. Number of Sharia Supervisory Board (SSB) Meetings<br>2. SSB member expertise in Finance and Islamic Banking Competence | 1. Dichotomous: 1 If the SSB meeting in one year is at least 12 (twelve) times, 0 Otherwise,<br>2. Dichotomous: 1 If at least one SBB member expertise in finance and Islamic banking competence, 0 Otherwise, | (BI, 2009) (Ajili & Bouri, 2018) |
| Gender Diversity of BOC | Gender Diversity of the member of BOC | Dichotomous: 1 if at least one female member of Board of Commissioner, 0 Otherwise. | (Jabari & Muhamad, 2020) |
| Gender Diversity of SSB | Gender Diversity of the member of SSB | Dichotomous: 1 if at least one female member of Sharia Supervisory Board, 0 Otherwise. | (Jabari & Muhamad, 2020) |
| Bank Age | Measure the age of the bank by calculating the operation years. | The number of years passed since the foundation. | (Ajili & Bouri, 2018) |
| Bank Size | Measure the size of a bank with the Natural Logarithm of Total Asset. | Ln Total Assets | (Ajili & Bouri, 2018) |
| Bank Leverage | Measure bank leverage by dividing Total Liabilities by Total Assets. | $\frac{\text{Total Liability}}{\text{Total Assets}}$ | (Ajili & Bouri, 2018) |

Source: Researcher (2020)

## 3. RESULTS AND DISCUSSION

The discussion consisted of a foundation of literature theory/study, discussion of research result, and analysis. The number of words in the discussion maximum 2500 words.

The regression model applied in this research was panel data regression, which examined the model specification and theory correctness to reality. This section will perform the selection of a panel data regression model. Which models are the best for the regression, whether Common Effect Model, Fixed Effect Model, or Random Effect Model. According to the result of the Chow test and Hausmann test, stated that the estimation panel data regression is the best to apply for Model 1 and Model 2 is the Fixed Effect Model (FEM). Hence, this research uses FEM estimation for both regression models. The Table 3 below is the resulted panel data analysis with selected estimation is FEM, as follows:

Table 3**.** Selected Panel Data FEM

| Variable | Model 1 | | | Model 2 | | |
|---|---|---|---|---|---|---|
| | Coef. | t-Stat | Prob. | Coef. | t-Stat. | Prob. |
| C | -4,2408 | -4,3463 | 0,0001 | -4,1537 | -3,9552 | 0.0003 |
| GCGINDEX | 4,2840 | 0,5808 | 0,5648 | - | - | - |
| BOC | - | - | - | 0,8229 | 0,1954 | 0,8461 |
| AC | - | - | - | 3,1529 | 0,6669 | 0,5091 |
| SSB | - | - | - | 0,9177 | 0,2368 | 0,8142 |
| GDBOC | -2,2239 | -0,8199 | 0,4174 | -2,0988 | -0,7474 | 0,4597 |
| GDSSB | 2,7970 | 0,9036 | 0,3719 | 2,6421/ | 0,7836 | 0,4384 |
| AGE | -1,2662 | -3,0424 | 0,0042 | -1,2547 | -2,9409 | 0,0057 |
| SIZE | 1,4473 | 4,5064 | 0,0001 | 1,4155 | 4,0746 | 0,0002 |
| LEV | 6,6758 | 1,0955 | 0,2802 | 6,6503 | 1,0542 | 0,2988 |
| Adjusted R-squared | 0,2811 | - | - | 0,2453 | - | - |
| F-Statistic | 2,3197 | - | - | 1,9751 | - | - |
| Prob (f-stat.) | 0,0168 | - | - | 0,0404 | - | - |

Notes: GCGIndex is value GCG quality, BOC: Board of Commissioner, AC: Audit Committee, SSB: Sharia Supervisory Board, GDBOC: Gender Diversity of Board of Commissioner, GDSSB: Gender Diversity of Sharia Supervisory Board, AGE: Bank Age, SIZE: Bank Size, LEV: Bank Leverage.

Source: E-Views 9.0 data output

The estimation model has revealed FEM is the best regression model. Once the best estimation model is recognized, the model will perform a classical assumption test. According to Basuki (2017) and Nachrowi (2002), classic assumption tests that are used for OLS panel data regression are Multicollinearity and Heteroscedasticity tests. According to the result of the

Multicollinearity and Heteroscedasticity tests stated that the panel data regression for both Model 1 and Model 2 are free from Multicollinearity and Heteroscedasticity. As follows the Table 4 and Table 5 are the result of the classic assumption tests.

Table 4. Multicollinearity Test Result

| | *GCGINDEX* | *GDDK* | *GDDP* | *UM* | *UK* | *LEV* |
|---|---|---|---|---|---|---|
| *GCGINDEX* | 1 | -0,1778 | -0,271 | -0,040 | -0,132 | 0,283 |
| *GDDK* | -0,178 | 1 | 0,181 | -0,482 | -0,560 | -0,197 |
| *GDDP* | -0,271 | 0.181 | 1 | 0,008 | -0,195 | -0,162 |
| *UM* | -0,040 | -0,482 | 0,008 | 1 | 0,569 | -0,145 |
| *UK* | 0,132 | -0,560 | -0,195 | 0,569 | 1 | 0,189 |
| *LEV* | 0,284 | -0,197 | -0,162 | -0,145 | 0,189 | 1 |

| | *DK* | *KA* | *DP* | *GDDK* | *GDDP* | *UM* | *UK* | *LEV* |
|---|---|---|---|---|---|---|---|---|
| *DK* | 1 | -0.155 | 0.096 | 0.321 | 0.021 | -0.342 | -0.535 | 0.036 |
| *KA* | -0.155 | 1 | 0.219 | -0.114 | 0.134 | 0.070 | 0.084 | 0.191 |
| *DP* | 0.096 | 0.219 | 1 | -0.409 | -0.475 | 0.133 | 0.122 | 0.272 |
| *GDDK* | 0.321 | -0.114 | -0.408 | 1 | 0.181 | -0.482 | -0.560 | -0.197 |
| *GDDP* | 0.021 | 0.134 | -0.475 | 0.181 | 1 | 0.008 | -0.195 | -0.162 |
| *UM* | -0.342 | 0.07Q | 0.133 | -0.482 | 0.008 | 1 | 0.569 | -0.145 |
| *UK* | -0.535 | 0.084 | 0.122 | -0.560 | -0.195 | 0.569 | 1 | 0.189 |
| *LEV* | 0.036 | 0.191 | 0.272 | -0.197 | -0.162 | -0.145 | 0.189 | 1 |

Source: E-Views 9.0 data output

Table 5. Multicollinearity Test Result

| Variable | Prob. (Model 1) | Prob. (Model 2) |
|---|---|---|
| C | 0.8207 | 0.5500 |
| GCGINDEX | 0.3297 | - |
| BOC | - | 0.6134 |
| AC | - | 0.0520 |

| Variable | Prob. (Model 1) | Prob. (Model 2) |
|---|---|---|
| SSB | - | 0.6429 |
| GDBOC | 0.9601 | 0.7977 |
| GDSSB | 0.6652 | 0.6742 |
| AGE | 0.9366 | 0.9687 |
| SIZE | 0.7234 | 0.4616 |
| LEV | 0.7188 | 0.6737 |

Source: E-Views 9.0 data output

The coefficient determination aims to measure how far the regression model explains the variation of the dependent variable. According to the Table 5, Model 1 revealed the result of an Adjusted R-Squared value is 0.2811 or 28.11%. This confirms Model 1 approximately 28.11% of a dependent variable of financial performance (ROA) can be explained significantly by independent variables. Such as GCG Index, Gender Diversity of Board of Commissioner, and Gender Diversity of Sharia Supervisory Board. Added by control variables such as Bank Age, Bank Size, and Bank Leverage. Meanwhile, the remaining 71.89% (100% - 28.11%) is explained by variables outside the regression model in this research. While for Model 2 the Adjusted R-Square result is 0.2453 or 24.53%. This confirms Model 2 approximately 24.53% of a dependent variable of financial performance (ROA) can be explained significantly by independent variables. Such as Board of Commissioner, Audit Committee, Sharia Supervisory Board, Gender Diversity of Board of Commissioner, and Gender Diversity of Sharia Supervisory Board. Added by control variables such as Bank Age, Bank Size, and Bank Leverage. Meanwhile, the remaining 75.47 % (100% - 24.53%) is explained by variables outside the regression model in this research.

The significant simultaneous test (F test) is conducted to determine whether all the independent variables used had a joint effect on the dependent variable. The Table 3 revealed the result of the probability value of Model 1 is 0.0168 and known probability $< 0.05$. Hence, the result confirmed that independent variables such as GCG Index, Gender Diversity of Board of Commissioner, and Gender Diversity of Sharia Supervisory Board added by control variables such as Bank Age, Bank Size, and Bank Leverage are simultaneously affect the dependent variable measured by ROA. Moreover, Model 2 revealed the result of the probability value is 0.0404 and known probability $< 0.05$. Hence, the result confirmed that independent variables such as Board of Commissioner, Audit Committee, Sharia Supervisory Board, Gender Diversity of Board of Commissioner, and Gender Diversity of Sharia Supervisory Board added by control variables such as Bank Age, Bank Size, and Bank Leverage are simultaneously affect the dependent variable measured by ROA.

A partial significance test (t-test) was conducted to determine the significant effect of individual independent variables on the dependent variable. The positive (+) and negative (-) signs indicate the direction of the relationship, whether dependent variable changes are in the same direction (positive) with the independent variable or in the opposite direction (negative).

The t-statistic value obtained from the GCG-Index variable in this research is 0.5808 with a probability value of 0.5648. It is known that the probability value is > 0.05. This indicates that the GCG-Index has no significant effect on the financial performance of Islamic Commercial Banks. This result is a total agreement with Ajili (2018) and Korac-Kakabadse (2001) who revealed no significant effect between GCG quality and financial performance. Magalhaes (2013) argued that the implementation of GCG in Islamic banking was unique rather than the implementation in conventional banking because Islamic banking GCG purposed to assure stakeholders that the banks in compliance with the sharia principle. According to the argument, it can be found that the higher quality of GCG implementation in Islamic banking was not motivated to improve financial performance as the stewardship theory stated. Rather, the value of 90% achieved by Islamic banking was motivated to comply institution with the sharia principle. However, this result is opposed the study conducted by Khanifah (2020) and Kusuma H (2016). They argued that GCG quality was had a significant effect on financial performance.

The Board of Commissioner resulted the t-statistic value of 0.1954 with a probability value of 0.8461. It is known that the probability value is > 0.05. This indicates that the Board of Commissioner proxied by the number of BOC meetings and the proportion of 50% independent commissioner has no significant effect on the financial performance of Islamic Commercial Banks, which is explained by Return on Assets (ROA). The value score of GCG implementation of BOC is 92% which demonstrated that GCG was decently implemented. The supervision functions of BOC are also properly fulfilled. Nevertheless, Tertius (2015) found that the financial sector companies such as banks have external parties (OJK and Bank Indonesia) to supervise the financial performance that purposed to have a good performance. Hence, the quality of supervision conducted by the Board of Commissioner is similar whatsoever during every condition of performance. This underlines that the number or frequency of BOC meetings did not significantly affect the financial performance of Islamic banking. This result also in total agreement with a study conducted by Hassan (2017). Otherwise, it is opposed to a study performed by Kusuma M (2019) who found that the Board of Commissioner had a significant effect on financial performance.

The Audit Committee variable resulted the t-statistic value of 0.6669 with a probability value of 0.5091. It is known that the probability value is > 0.05. This indicates that the Audit Committee proxied by the number of AC meetings and the presence of the independent commissioner has no significant effect on the financial performance of Islamic Commercial Banks. This result is in line with a study conducted by Eksandy (2018), who revealed that the

Audit Committee did not affect the financial performance of Islamic banking. The result indicates that the Audit Committee had 95% implemented GCG yet not found a significant effect on financial performance. It may be because the Audit Committee in Islamic banks was only fulfillment of the regulation applied namely Peraturan Bank Indonesia No. 11/33/PBI/2009. This regulation pronounced that the primary responsibilities of the Audit Committee were to guarantee the quality of the bank's financial statement is in proper condition and supervise the compliance of the internal control, not for the improvement of financial performance. Wild (1996) also stated that the primary focus of the Audit Committee was to guarantee the quality of issued financial statements, not focusing on financial performance improvement. It is proved that the meetings conducted by the Audit Committee only purposed for the audit requirement topic, which aims to improve the quality of financial statements. Hence, the number of meetings conducted by the Audit Committee did not affect financial performance.

The t-statistic value obtained from the Sharia Supervisory Board variable in this research is 0.2368 with a probability value of 0.8142. It is known that the probability value is > 0.05. This indicates that the Sharia Supervisory Board proxied by the number of SSB meetings and the presence of the SSB member experts in finance and Islamic banking competence has no significant effect on the financial performance of Islamic Commercial Banks, which is explained by Return on Assets (ROA). This result is in line with Muchtar (2020) who found out that effectivity of Sharia Supervisory Board had no significant impact on financial performance. That happened maybe because Sharia Supervisory Board only had an oversee function to the bank's business activity with the purpose of compliance in sharia principle and value. Hence, the SSB meetings are considered only aimed to discuss their supervisory function. Then, it can be concluded that much or less amount of SSB meetings did not reveal any significant effect on financial performance. Furthermore, as can be seen the presence of SSB members whom experts in finance or Islamic banking are implemented only for the fulfillment of regulation of *Peraturan Bank Indonesia* 11/33/PBI/2009, consequently, the presence of those competencies in SSB members are considered not influenced a financial performance. Otherwise, this result is not in line with the study conducted by Hisamuddin (2015), who found that empirically Sharia Supervisory Board had a significant effect on financial performance in Islamic banking.

Gender Diversity of Board of Commissioner variable in this research resulted t-statistic as follows: Model 1 of -0.8199 with a probability value of 0.4174. While Model 2 of -0.7474 with a probability value of 0.4597. These probability values are known > 0.05. Thus, for both models, the Gender Diversity of Board of Commissioner proxied by the presence of the female member in Board of Commissioner has no significant effect on the financial performance of Islamic Commercial Banks. The value score of gender diversity of BOC resulted in 35% which was not implemented decently. Further, gender diversity composition in BOC did not reveal a significant effect on financial performance. It is maybe because the improvement of financial performance depends on each individual capability who occupies strategic positions in the company, not based on what their gender is. This argument is relevant to the stewardship theory. The theory demonstrated that boards and managers are running the company based on a behavior of prioritizing a common interest than personal interest or collectivistic behavior oriented to organizational success. Hence, to improve a successful performance, it is essential to have a board or manager figure who behaves collectively, without specific gender requirement. Tacheva (2006) argued that questions and debate about 'whether' women could make a better contribution to the boardroom at the company did not have an answer yes or no, rather the questions are changed to ‘how’ women would create a better contribution to the boardroom. This finding can be concluded that the presence of female BOC member did not reveal any significant effect on financial performance. Nevertheless, this result is opposed to the study conducted by Fathonah (2019) who found that gender diversity of Board of Commissioner did affect financial performance.

Moreover, the t-statistic value obtained from the Gender Diversity of Sharia Supervisory Board variable in this research as follows: Model 1 of 0.9036 with a probability value of 0.3719. While Model 2 of 0.7836 with a probability value of 0.4384. These probability values are known > 0.05. Hence, for both models, the Gender Diversity of Sharia Supervisory Board proxied by the presence of the female member in Sharia Supervisory Board has no significant effect on the financial performance of Islamic Commercial Banks. Alongside with Board of Commissioner that previously explained, gender diversity of SSB is found no significant effect on the financial performance of Islamic financial institutions (IFIs). The effectiveness of being an SSB member depends on each individual performance. This result also supported by the stewardship theory, that the determination of successful boards or managers in improving company performance is on each collective behaviors, not in a particular gender. It can be concluded that sharia supervision performed by either women or men is the same. Hence, this conclusion demonstrated that the presence of female SSB member did not affect the financial performance of Islamic banks. This result in total agreement with a study conducted by Pletzer (2015), who found that the female board members had no effect on financial performance. Otherwise, this result is not in line with a study conducted by Jabari (2020).

The t-statistic value obtained from the control variable of Bank Age, Bank Size and Bank Leverage in this research as follows: AGE Model 1 of -3.0424 with a probability value of 0.0042. While AGE Model 2 of -2.9409 with a probability value of 0.0057. SIZE Model 1 of 4.5064 with a probability value of 0.0001. While SIZE Model 2 of 4.0746 with a probability value of 0.0002. LEV Model 1 of 1.0955 with a probability value of 0.02802. While LEV Model 2 of 1.0542 with a probability value of 0.2988. This indicates Bank Age has a significant negative effect on the financial performance, Bank Size has a significant positive effect on the financial performance, it may be because the larger or older the banks, the more experience the bank will have. Bank Leverage has no significant effect on the financial performance. Meanwhile, the Leverage bank did reveal no significant effect on financial performance. This demonstrates that banks either have large or small debts found no significant effect on financial performance. These three results of the control variables are in line with a study conducted by Hanifah (2020)

## 4. CONCLUSION

This research aims to empirically examine the quality of the implementation of Good Corporate Governance and the effect of the Board of Commissioners, Audit Committee, Sharia Supervisory Board and Gender Diversity on the financial performance of Islamic Commercial Banks in Indonesia.The quality of Good Corporate Governance in this research sample of Islamic banks in Indonesia is 90 percent. Nevertheless, achievement scores did not affect the financial performance of Islamic banks The implementation of good corporate governance in the Board of Commissioner (BOC) did not affect the financial performance of Islamic banks. It may be because the quality of the BOC supervision function is the same as the supervision has been executed by outside parties such as the OJK and BI. The implementation of good corporate governance in the Audit Committee (AC) did not affect the financial performance of Islamic banks. This is because the Audit Committee only has a primary function of auditing and internal control, not on improving the financial performance of Islamic banks.The implementation of good corporate governance in the Sharia Supervisory Board (SSB) did not affect the financial performance of Islamic banks. It may be because the Sharia Supervisory Board only has a primary function of supervising sharia compliance and not on improving the financial performance of Islamic banks. Gender diversity of Board of Commissioners (BOC) did not affect the financial performance of Islamic banks. This confirms that both men and women have no differences in running their functions and duties, especially in contributing to the performance of Islamic commercial banks. Gender diversity of Sharia Supervisory Board (SSB) did not affect the financial performance of Islamic banks. This confirms that both men and women have no differences in running thesir functions and duties. Especially in contributing to the performance of Islamic commercial banks.

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