

## The Effect of Implementing Good Corporate Governance on the Profitability and Financing Risk of Sharia Commercial Banks

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### Abstrak

Konsep *good corporate governance* (GCG) didasarkan pada teori agensi yang diharapkan mampu mengurangi konflik kepentingan antara agen dan prinsipal yang dapat terjadi pada setiap perusahaan, termasuk bank syariah. Keadaan ini disadari oleh Bank Indonesia yang kemudian mengeluarkan kebijakan yang menekankan perlunya penerapan GCG dalam Peraturan Bank Indonesia yaitu PBI Nomor 11/33/PBI/2009. Penelitian ini menguji pengaruh penerapan GCG terhadap profitabilitas dan risiko pembiayaan pada Bank Umum Syariah (BUS) di Indonesia. Penerapan GCG diukur dengan menggunakan nilai komposit *self assessment* GCG. Profitabilitas diukur dengan rasio ROA dan ROE, sedangkan risiko pembiayaan diukur dengan rasio NPF. Penelitian ini menggunakan data sekunder yaitu laporan tahunan dan laporan pelaksanaan GCG tahun 2010 sampai dengan 2019 yang dipublikasikan pada masing-masing website resmi BUS. Berdasarkan metode *purposive sampling*, 8 BUS menjadi sampel dalam penelitian ini dengan total 80 observasi. Teknik analisis data menggunakan analisis regresi data panel. Hasil penelitian menunjukkan bahwa penerapan GCG berpengaruh negatif dan signifikan terhadap profitabilitas yang diukur dengan rasio ROA dan ROE, dan berpengaruh positif signifikan terhadap risiko pembiayaan yang diukur dengan rasio NPF.

**Kata Kunci:** *good corporate governance, return on asset, return on equity, non performing financing.*

### Abstract

The concept of *good corporate governance* (GCG) is based on agency theory which is expected to reduce conflicts of interest between agents and principals that can occur in every company, including sharia banks. This situation was realized by the Bank of Indonesia, which then issued a policy that emphasized the need for applying GCG in Bank Indonesia Regulation, namely PBI Number 11/33/PBI/2009. This study examines the effect of applying GCG on profitability and financing risk at the Sharia Commercial Bank in Indonesia. The application of GCG is measured using a composite value *self-assessment* GCG. Profitability is measured by the ratio of ROA and ROE, while the ratio of NPF measures financing risk. This study uses secondary data, namely annual and GCG implementation reports from 2010 to 2019, published on each official website of Sharia Commercial Bank. Based on the *purposive sampling* method, 8 of Sharia Commercial Bank were sampled in this study with a total of 80 observations. Data analysis techniques use panel data regression analysis. The results showed that the application of GCG had a negative and significant effect on profitability measured by ROA and ROE ratios and had a significant positive effect on financing risk measured by the NPF ratio.

**Keywords:** *good corporate governance, return on asset, return on equity, non performing financi*

## Introduction

Banks are financial institutions that play an important role in Indonesia's economic activities.<sup>1</sup> The role of sharia banks as institutions intermediary is not much different from conventional banks, which play a role in distributing income from people who have excess funds in the form of savings and deposits to communities that lack funds in the form of financing.<sup>2</sup> In addition, banks also face increasingly complex challenges and risks, both from internal and external factors. Moreover, the economic crisis of 1997 caused bankruptcy in companies and the Indonesian economy to deteriorate.<sup>3</sup> One factor that caused the economic crisis was the weak implementation of the corporate governance system in Indonesia at the time of the economic crisis.<sup>4</sup>

Bank Indonesia issued a policy that stressed the need to implement good corporate governance (GCG) to overcome the economic crisis due to the weak implementation of corporate governance. The policy is in the form of Indonesian Banking Regulations (PBI) Number 8/14/PBI/2006 concerning the Implementation of GCG for Commercial Banks. All commercial banks, including sharia commercial banks and conventional

commercial banks that have sharia business units in Indonesia, must implement GCG policies in the operation of their activities.<sup>5</sup> However, since 2010, PBI Number 8/4/PBI/2006 has no longer been valid for sharia banks. Instead, the application of GCG to sharia banks has been regulated by PBI Number 11/33/PBI/2009 regarding the implementation of GCG for Sharia Commercial Banks and Sharia Business Units. The cause of the replacement of the regulation is because the GCG applied to sharia banks must adapt to the sharia principle.<sup>6</sup>

In recent years, sharia banking in Indonesia has shown positive developments. It can be seen from the increase in sharia banks that have operated in Indonesia. Based on data published in Sharia Banking Statistics (SPS) in July 2020, there have been 14 Sharia commercial Banks, 20 Sharia Business Units, and 162 Islamic Rural Banks.<sup>7</sup> Such good growth must also be accompanied by the implementation of good corporate governance so that Sharia financial institutions can operate according to sharia principles and be professional to compete with conventional financial institutions.<sup>8</sup>

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<sup>1</sup> Indra Siswanti, Implementasi Good Corporate Governance pada Kinerja Bank syariah, *Jurnal Akuntansi Multiparadigma*, Vol 7, Issue 2, 2016, h.307-321.

<sup>2</sup> Purwanto dan Fuad Yanuar A.R, Kontribusi Pembiayaan yang Diberikan oleh Perbankan Syariah Terhadap Produk Domestik Regional Bruto di Pulau Jawa dan Sumatera Tahun 2012-2016, *IQTISHADIA: Jurnal Ekonomi & Perbankan Syariah*, Vol 4, Issue 2, 2017, h.214-234.

<sup>3</sup> Lidia Desiana, Mawardi dan Sellya Gustiana, Pengaruh Good Corporate Governance Terhadap Profitabilitas (ROE) Pada Bank Umum Syariah Di Indonesia Periode 2010-2015, *I-Finance*, Vol 2, Issue 2, 2016, h.1-20

<sup>4</sup> Riana Christel Tumewu dan Stanly W. Alexander, Pengaruh Penerapan Good Corporate Governance Terhadap Profitabilitas Pada Perusahaan Perbankan yang

Terdaftar di BEI Periode 2009-2013, *Jurnal Accountability*, Vol 3, Issue 1, 2014, h.1-10.

<sup>5</sup> Ferly Ferdiant et al, Pengaruh Kualitas Penerapan Good Corporate Governance dan Risiko Pembiayaan terhadap Profitabilitas Perbankan Syariah, *Jurnal Dinamika Akuntansi dan Bisnis*, Vol 1, Issue 2, 2014, h.134-149.

<sup>6</sup> Nur Hisamuddin dan M. Yayang Tirta K, Pengaruh Good Corporate Governance terhadap Kinerja Keuangan Bank Umum Syariah, *Jurnal Akuntansi Universitas Jember*, Vol 10, Issue 2, 2015, h.109-138.

<sup>7</sup> Otoritas Jasa Keuangan, Statistik Perbankan Syariah, [www.ojk.go.id](http://www.ojk.go.id), diakses tanggal 26 Oktober 2020.

<sup>8</sup> Fathan Budiman, Pengaruh Kualitas Penerapan Good Corporate Governance (GCG) Terhadap Tingkat Pengembalian dan Risiko Pembiayaan Bank Syariah di Indonesia, *Muqtasid: Jurnal Ekonomi dan Perbankan Syariah*, Vol 7, Issue 2, 2016, h.1-21.

Various measuring instruments can be used to assess the condition of a bank. One of them is to use aspects of earning or profitability. The good performance of a bank can be assessed through this aspect of profitability. Profitability illustrates the ability of banks to achieve profits from various operational and non-operational activities. Profitability is also a ratio used to measure a bank's ability to make a profit for one period by managing its various resources such as assets and capital effectively and efficiently. Return can measure profitability on Assets (ROA). The greater a bank obtains ROA, the greater the level of profit that has been achieved by the bank, so that the bank's position in terms of using assets will look better.<sup>9</sup> In addition, the measuring instrument also used is Return on Equity (ROE). Higher the return or income that has been obtained means the better the position of the company owner.<sup>10</sup>

Research on good corporate governance (GCG) and profitability has been done a lot. Research results from Prasojo (2015), Ariyani and Gunawan (2014), Tumewu and Alexander (2014), and Desiana (2016) show that the application of GCG has a significant positive effect on profitability. It can be concluded that the better the GCG implementation is carried out by sharia banks, the better they will also generate profits. Research conducted by Ferdyant (2014), Pudail et al. (2018), and Pratiwi (2016) stated a different result, namely that the quality of GCG implementation had a negative and significant effect on the profitability of sharia banks. However, research by Budiman (2016) and Siswanti (2016) proves

the opposite result, namely, the quality of GCG implementation does not affect the rate of return of sharia banks as measured by ROA. It can be concluded that the application of GCG by sharia banks that has been done well and following GCG principles does not guarantee it can increase profitability.<sup>11</sup>

The risk of failure in returning the channelled financing is also one of the risks faced by the banking business. The financing risk is measured using a ratio Non-Financing Performance (NPF). Therefore, sharia banks are always required to maintain NPF levels. The correct and correct application of GCG can assist Islamic banks in suppressing the level of financing risk (NPF).<sup>12</sup> Research conducted by Pudail et al. (2018) and Pratiwi (2016) states that the application of GCG has a positive effect on the risk of problem financing (NPF). However, some studies reveal different results. Research conducted by Budiman (2016) and Siswanti (2016) shows that the quality of GCG implementation has a significant negative effect on financing risk as measured by (NPF). The results show that exemplary implementation of GCG can reduce the risk of financing in sharia banks. However, contrary to research by Ardana (2019), which revealed that Corporate Governance has no significant effect on financial risk measured using NPF. It can be concluded that the effect of applying GCG on the risk of empowerment is still not consistent. Therefore, this study aims to analyze the effect of GCG implementation on the profitability and risk of financing the Sharia Commercial Bank in Indonesia by using a panel data analysis for 2010-2019.

<sup>9</sup> Fathan Budiman, Pengaruh Kualitas Penerapan Good Corporate Governance (GCG), h.1-21.

<sup>10</sup> Noor Dwi Yantiningih et al, Pengaruh Kualitas Penerapan Good Corporate Governance Terhadap Kinerja Keuangan Pada Perbankan Syariah Indonesia

Periode 2010-2014, Jurnal Magister Akuntansi, Vol 5, Issue 1, 2016, h.79-89.

<sup>11</sup> Indra Siswanti, Implementasi Good Corporate Governance pada Kinerja Bank syariah, h.307-321.

<sup>12</sup> Indra Siswanti, Implementasi Good Corporate Governance pada Kinerja Bank syariah, h.307-321.

## The Foundation of Theory Agency Theory

Agency theory is one of the theories related to good corporate governance (GCG). According to Jensen and Meckling (1976), Agency theory considers that company management as an agent for shareholders will act with full awareness of their interests, not as a party that is wise and wise and fair to shareholders. Agency theory describes the relationship that exists between principals and agents.<sup>13</sup> Principals are those who submit the mandate to the agent to play a role on behalf of the principal. At the same time, an agent becomes a party who receives the mandate to play a role on behalf of the principal. Therefore, the agent must be responsible to the principal for every action taken.

Agency theory is based on the separation of tasks between the principal and the agent, which results in an imbalance in the mastery of information, referred to as information asymmetry. It causes the agent to know better information about the organization than the principal.<sup>14</sup> This asymmetry allows managers (agents) to conduct profit management to trick the owner (principal) about the company's performance and condition.<sup>15</sup> One attempt to minimize the conflict is applying GCG, which regulates the management to comply with the agreed contract. The application of GCG principles is also expected to be able to align

different interests between the two and can improve company performance.<sup>16</sup>

## Sharia Bank

Sharia banks are banks that do not use interest in their operational activities. Sharia banks are financial institutions that work on operational activities and products based on the Qur'an and Hadith of the Prophet Muhammad SAW. In other words, the sharia bank is a financial institution whose primary activity is to provide financing and other services through payment and circulation of money operated by adjusting to the principle of Islamic sharia (Muhammad, 2011).

According to Law Number 21 of 2008 concerning Sharia Banking, what is meant by a sharia bank is a bank that operates its business activities based on sharia principles and, according to its type, consists of the Sharia Commercial Bank and the Sharia People's Financing Bank. The function of the sharia bank is to be obliged to raise funds from the community and then redistribute them and have a social function of obtaining funds originating from zakat, infaq, alms or other social funds and channel them to zakat management institutions.<sup>17</sup> Sharia banks also trust if the funds they have (equity) and other funds used for these investments obtain income that follows sharia and can also benefit the community.<sup>18</sup> Sharia banks also trust if the funds they have (equity) and other funds used for these investments obtain income that

<sup>13</sup> Michael C. Jensen dan William H. Meckling, Theory Of The Firm: Managerial Behavior, Agency Costs and Ownership Structure, Journal of Financial Economics, Vol 3, 1976, h. 305-360.

<sup>14</sup> Muamar Nur Kholid dan Arief Bachtar, Good Corporate Governance dan Kinerja Maqasid Syariah, JAAI, Vol 19, Issue 2, 2014, h. 126-136.

<sup>15</sup> Prasajo, Pengaruh Penerapan Good Corporate Governance terhadap Kinerja Keuangan Bank Syariah, Jurnal Dinamika Akuntansi dan Bisnis, Vol 2, Issue 1, 2015, h.59-69.

<sup>16</sup> Alimatul Farida, Pengaruh Penerapan Good Corporate Governance Dan Pengungkapan Islamic Social Reporting Terhadap Kinerja Keuangan Perbankan Syariah Di Indonesia, Jurnal Ekonomi Islam, Vol 10, Issue 1, 2018, h. 31-42.

<sup>17</sup> Otoritas Jasa Keuangan, Undang-Undang Republik Indonesia Nomor 21 Tahun 2008 Tentang Perbankan Syariah, [www.ojk.go.id](http://www.ojk.go.id), diakses tanggal 26 Oktober 2020.

<sup>18</sup> Prasajo, Pengaruh Penerapan Good Corporate Governance, h.59-69.

follows sharia and can also benefit the community. According to Law Number 21 of 2008 concerning Sharia Banking. Sharia Business Unit are prohibited from carrying out business activities contrary to sharia principles, buying shares directly on the market, conducting capital participation, except such activities are based on sharia principles, and also carrying out insurance business activities, except as marketing agents for sharia insurance products.

### **Good Corporate Governance**

According to PBI No. 11/33/PBI/2009 on the Implementation of GCG for Sharia commercial banks and sharia business units state that GCG is bank governance that applies the principles of openness (transparency), accountability (accountability), accountability (responsibility), professional (professional), and fairness (fairness).<sup>19</sup> According to the Forum Corporate Governance in Indonesia (FCGI), Corporate Governance is a set of regulations that govern the relationship between shareholders, administrators (managers) of companies, creditors, governments, employees and stakeholders intern and extern others, related to their rights and obligations or in other words a system that regulates and controls the companies.<sup>20</sup>

Institutions, including sharia bank institutions, are a must for applying GCG principles. The bank's operational activities are expected to comply with established provisions

seriously and be responsible to the public (Puteri et al., 2022; Shabri & Azhari, 2022). In addition, the application of GCG to sharia banking must also be based on and meet the applicable sharia principal provisions.<sup>21</sup> The GCG that sharia banks effectively implement can be an essential pillar to strengthen its position and make sharia banks superior and resilient. The necessity of the sharia bank to implement GCG is also under the concept of risk-sharing in the operation of the sharia bank.<sup>22</sup> The aim of implementing GCG is to be able to improve the operational performance of the sharia bank, achieve productivity and efficiency, be able to be responsible to the public, protect the interests of stakeholders and make sharia banks compliant with ethical values and applicable laws and regulations.<sup>23</sup>

GCG in each sharia bank can be measured using a composite value self-assessment. The quality of implementation of GCG principles in sharia banks can be assessed through self-assessment GCG; it contains eleven GCG implementation assessment factors. According to Bank Indonesia Circular Letter No.12/13/DPbS on Implementation Good Corporate Governance for BUS and UUS in 2010, a self-assessment of Sharia banks must be done at least once a year.<sup>24</sup>

### **Profitability**

Profitability is the ability of banks to use resources in their operational activities that are useful for bringing profits.<sup>25</sup> Harahap (2010)

<sup>19</sup> Otoritas Jasa Keuangan, Pelaksanaan Good Corporate Governance Bagi Bank Umum Syariah dan Unit Usaha, [www.ojk.go.id](http://www.ojk.go.id), diakses tanggal 26 Oktober 2020.

<sup>20</sup> Forum for Corporate Governance in Indonesia (FCGI), Seri Tata Kelola Perusahaan (Corporate Governance) Jilid II, [www.fcgi.or.id](http://www.fcgi.or.id), diakses tanggal 26 Oktober 2020.

<sup>21</sup> Prasajo, Pengaruh Penerapan Good Corporate Governance, h.59-69.

<sup>22</sup> Fathan Budiman, Pengaruh Kualitas Penerapan Good Corporate Governance (GCG), h.1-21.

<sup>23</sup> Alimatul Farida, Pengaruh Penerapan Good Corporate Governance, h. 31-42.

<sup>24</sup> Bank Indonesia, Pelaksanaan Good Corporate Governance bagi Bank Umum Syariah dan Unit Usaha Syariah, [www.ojk.go.id](http://www.ojk.go.id), diakses tanggal 26 Oktober 2020.

<sup>25</sup> Riana Christel Tumewu dan Stanly W. Alexander, Pengaruh Penerapan Good Corporate Governance, h.1-10.

discloses that the profitability ratio arises because of the company's goal of obtaining the desired profit by using the capabilities owned and resources that include sales, cash, capital, employees, number of branches, and others.<sup>26</sup> It can be concluded that profitability is a ratio that describes a bank's ability in one period to obtain profits through all its operational activities carried out effectively and efficiently and by using resources such as assets and capital.

Profitability can be measured using a ratio of Return on Asset (ROA). This ratio reveals that banks can generate profits from the ability of bank management to manage all assets. According to Sirait (2017), ROA is the ratio of the yield of the asset, which is also referred to as the ratio of profit strength (earning power ratio), which illustrates the company's ability to generate profits from available resources (assets)<sup>27</sup>. ROA calculation by comparing pre-tax profits with total assets held. Thus, the more significant the acquisition of ROA achieved, the better the bank management is in managing assets to increase profits or reduce costs<sup>28</sup>. ROA is one of the comprehensive measuring tools that can influence all bank statements. ROA can also be a reference for banks to be more efficient at managing their assets for profit because one of the objectives that the bank expects is to obtain the desired profit. A consistent and reasonable application of GCG can assist the bank in achieving that goal.<sup>29</sup>

Profitability can also be measured using a ratio of Return on Equity (ROE). This ratio shows that after-tax profits can be obtained by mobilizing the ability of bank management to manage all available capital. The higher the ROE obtained, the higher the profit obtained by the bank so that the available capital can cover the risks that might occur. This ratio is calculated by dividing profit after tax with owned capital.<sup>30</sup> Menurut<sup>31</sup>(2015), ROE adalah rasio yang digunakan untuk mengukur keberhasilan perusahaan dalam menghasilkan laba bagi para pemegang saham. ROE dianggap sebagai representasi dari kekayaan pemegang saham atau nilai perusahaan. ROE juga merupakan kemampuan bank dalam mencapai laba bersih yang dikaitkan dengan pembagian dividen dan merupakan suatu hal penting yang dinilai oleh para pemegang saham maupun calon investor According to Hery (2015), ROE is the ratio used to measure the company's success in generating profits for shareholders. ROE is considered a representation of shareholder wealth or company value. ROE is also the ability of banks to achieve net income associated with dividend distribution and is an important matter that shareholders and potential investors assess.<sup>32</sup>

The ROE ratio is significant for shareholders because the primary purpose of the shareholders in investing their capital is to obtain a high-profit level.<sup>33</sup> High profits can be achieved if the business can be managed as well as possible because shareholders have

<sup>26</sup> Sofyan Syafri Harahap, (2010), *Analisis Kritis Atas Laporan Keuangan*, Jakarta: RajaGrafindo Persada, h. 1-417.

<sup>27</sup> Pirmatua Sirait, (2017), *Analisis Laporan Keuangan*, Yogyakarta: Ekuilibria, h. 142.

<sup>28</sup> Nur Hisamuddin dan M. Yayang Tirta K, *Pengaruh Good Corporate Governance*, h.109-138.

<sup>29</sup> Noor Dwi Yantiningsih et al, *Pengaruh Kualitas Penerapan Good Corporate Governance*, h.79-89.

<sup>30</sup> Riana Christel Tumewu dan Stanly W. Alexander, *Pengaruh Penerapan Good Corporate Governance*, h.1-10.

<sup>31</sup> Hery

<sup>32</sup> Hery, (2015), *Analisis Laporan Keuangan*, Yogyakarta: Center For Academic Publishing Services, h.230.

<sup>33</sup> Muhammad Ihwan Umar Zamani dan Moeljadi, *Kinerja Keuangan Sebelum dan Sesudah Penerapan Good Corporate Governance Pada PT. Bank Negara*

limitations in managing the company, so the manager who manages it must be transparent in reporting all of its activities. The application of GCG also plays an essential role in measuring the ability of managers constantly to carry out their activities following applicable principles.<sup>34</sup>

### Financing Risks

Financing risk is the risk of loss experienced by the bank because the party borrowing funds from the bank does not fulfil its obligation to make repayments following the stipulated time.<sup>35</sup> This risk is also related to the party who borrowed capital, i.e. the debtor did not provide the benefits obtained to the bank following the agreement specified at the beginning.<sup>36</sup> The risk of financing in sharia banks is measured using a ratio Non-Performing Finance (NPF).

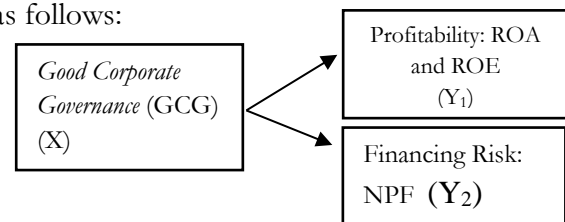
The NPF ratio is the ratio used to measure the ability of banks to cover the risk of losses that will arise when the debtor fails to return the capital that has been given. NPF is also the ratio between problem financing and the total amount of financing channelled by sharia banks.<sup>37</sup> A high NPF ratio shows that bad loans occur experienced by banks and cause deterioration in conditions and credit quality in banks.<sup>38</sup>

One of the bank's primary objectives as a channel for funds is to benefit and suppress the risk of failure in returning borrowed capital. It

causes the sharia bank to be more careful in channelling funds and considering possible possibilities. The application of GCG to sharia banks is essential because the principles contained in the GCG can help banks continue to implement existing principles and guarantee the rate of return on borrowed capital so that the profits derived by the bank will also be maximum<sup>39</sup>.

### Hypothesis Development

This research examines the effect of applying GCG on profitability and financing risk. The independent variable in this study is GCG, measured by composite values, while the dependent variable is profitability, measured by ROA and ROE and financing risk, measured by NPF. Then the frame of mind in this study is as follows:



Graphic 1. Reseach Model

#### a. Effect of good corporate governance (GCG) on profitability

Every sharia bank has a fundamental goal to achieve, namely profitability, which is good profitability, able to illustrate that sharia banks can benefit and have good potential for resilience and stability. Compliance in the

Indonesia Tbk, Jurnal Ilmiah Mahasiswa FEB, 2012, h. 1-24.

<sup>34</sup> Indra Surya dan Ivan Yustiavandana, (2008), *Penerapan Good Corporate Governance: Mengesampingkan Hak-Hak Istimewa Demi Kelangsungan Usaha*, Jakarta: Kencana Prenada Media. h. 1-244.

<sup>35</sup> Fathan Budiman, Pengaruh Kualitas Penerapan Good Corporate Governance (GCG), h.1-21.

<sup>36</sup> Imam Wahyudi, (2013), *Manajemen Risiko Bank Islam*, Jakarta: Salemba Empat, h. 91.

<sup>37</sup> Nur Suhartatik dan Rohmawati Kusumaningtias, Jurnal Ilmu Manajemen, Vol 1, Issue 4, 2013, h. 1176-1185.

<sup>38</sup> Luciana Spica Almilia dan Winny Herdinigtyas, Analisis Rasio CAMEL Terhadap Prediksi Kondisi Bermasalah Pada Lembaga Perbankan Periode 2000-2002, Asian Review of Accounting, Vol 28, Issue 4, 2020, h. 545-566.

<sup>39</sup> Indra Surya dan Ivan Yustiavandana, (2008), *Penerapan Good Corporate Governance: Mengesampingkan Hak-Hak Istimewa Demi Kelangsungan Usaha*, Jakarta: Kencana Prenada Media. h. 85.

application of good corporate governance can help sharia bank achieve its goal of profit.<sup>40</sup>

It is in line with disclosure by Randi and Siregar, which states that implementing the GCG mechanism aims to make progress on the performance of the sharia bank, one of which is profitability.<sup>41</sup> The results of research conducted by Tumewu and Alexander (2014), Prasojo (2015) and Desiana (2016) support the theory because it shows the results that GCG application has a positive and significant effect on profitability which means that if the application of GCG principles to sharia banks is carried out consistently, it will be able to increase profitability due to success performance that has been achieved. However, different from research, Pratiwi (2016) states that the application of GCG has a significant negative effect on profitability which means that if the quality of GCG implementation is better, it will cause a decrease in the performance of the sharia bank, one of which is profitability<sup>42</sup>. Another conflicting study is research conducted by Ardana (2019) which shows GCG does not affect ROA, which means that even though the application of GCG in a sharia bank has been implemented following the principle, it turns out that it cannot guarantee to be able to affect the performance of a sharia bank<sup>43</sup>. Based on this description, the hypothesis in this study is:

H<sub>1</sub>= The application of GCG positively affects profitability

#### **b. Effect good corporate governance (GCG) against financing risk**

In theory, applying GCGs that pay attention to the precautionary principle can reduce financing risk. The involvement of the audit function intern and extern GCG is also one way to suppress financing risks. The practical application of GCG can also increase public confidence in banks; if the risk of financing in sharia banks is low, then the bank is in healthy condition so that the public also believes in providing its funds to Sharia banks.<sup>44</sup>

It is in line with the results of research conducted by Pratiwi (2016), Siswanti (2016) and Budiman (2016), which shows that the application of GCG has a significant negative effect on financing risks which means that if the implementation of GCG is carried out effectively on sharia banks, it will be able to reduce the financing risks that arise. The low NPF value indicates that the bank is in good health and profitable condition. However, it is not in line with the research conducted by Ardana (2019), which states that applying GCG does not affect financing risk. Based on this description, the research hypothesis is as follows:

H<sub>2</sub>= The application of GCG negatively affects financing risks

<sup>40</sup> Noor Dwi Yantiningsih et al, Pengaruh Kualitas Penerapan Good Corporate Governance, h.79-89.

<sup>41</sup> Dani Riandi dan Hasan Sakti Siregar, Pengaruh Penerapan Good Corporate Governance Terhadap Return on Asset, Net Profit Margin, Dan Earning Per Share Pada Perusahaan Yang Terdaftar Di Corporate Governance Perception Index, Jurnal Ekonom, Vol 14, Issue 3, 2011, h. 127-133.

<sup>42</sup> Angrum Pratiwi, Pengaruh Kualitas Penerapan Good Corporate Governance (GCG) Terhadap Kinerja

Keuangan Pada Bank Umum Syariah Di Indonesia (Periode 2010-2015), Al-Tijary - Jurnal Ekonomi dan Bisnis Islam, Vol 2, Issue 1, 2016, h. 55-76.

<sup>43</sup> Yudhistira Ardana, Implementasi Good Corporate Governance (GCG) dalam Mengukur Risiko dan Kinerja Keuangan Bank Syariah di Indonesia, Jurnal Masharif al-Syariah: Jurnal Ekonomi dan Perbankan Syariah, Vol 4, Issue 1, 2019, h. 97-112.

<sup>44</sup> Fathan Budiman, Pengaruh Kualitas Penerapan Good Corporate Governance (GCG), h.1-21.



## Metode

### Research Methodology

The population used in this study is the entire Sharia commercial Bank in Indonesia, which numbered 14 and has been operating from 2010 to 2019. This study uses purposive sampling methods with some established criteria: 1) GSB, which has published annual financial statements in the 2010-2019 period; 2) GSB, which has published GCG implementation reports in the 2010-2019 period. Following the method of purposive sampling, selected as many as 8 Sharia commercial Banks that have met the criteria, namely: 1) Sharia BCA Bank; 2) Sharia BNI Bank; 3) Sharia BRI Bank; 4) Bank Muamalat Indonesia; 5) Panin Dubai Sharia Bank 6) Independent Sharia Bank; 7) Mega Sharia Bank; 8) Victoria Sharia Bank. Sharia commercial banks that can be taken as samples amount to 8 with an observation number of 80 observations. Banking companies taken as a sample include government banks and private banks. A total of six companies that did not qualify as samples were due to annual reports and GCG implementation reports that were not published during the period 2010 to 2019 and did not present complete information related to variables to be researched.

This study uses secondary data, namely annual financial statements and GCG implementation reports from 2010 to 2019 and data sources derived from each Islamic public bank website. Data collection techniques involve using documentation techniques by collecting, studying and processing the data.

### Variabel Independen

An independent variable in this study is the application of Good Corporate Governance. GCG is bank governance that applies the principles of openness (transparency), accountability (accountability), accountability (responsibility), professional (professional), and fairness.<sup>45</sup> The measuring instrument used is a composite value self-assessment GCG. Composite values are a category for assessing that sharia banks have applied GCG principles consisting of eleven factors to assess GCG implementation.<sup>46</sup> The steps in analyzing the quality of GCG application in sharia commercial banks are by multiplying the rank of each factor by a specific weight determined by the BI, which then produces a composite value based on rules as follows:

**Table 1. Assesment Factor of GCG**

No	Factors	Weight
1	Implementation of the duties and responsibilities of the Board of Commissioners	12,5%
2	Implementation of the duties and responsibilities of the Directors	17,5%
3	Completeness and implementation of committee duties	10%
4	Implementation of the duties and responsibilities of the Sharia Supervisory Board	10%
5	Implementation of Sharia Principles in fund collection and distribution of funds and service services	5%
6	Handling of conflicts of interest	10%
7	Application of Bank compliance functions	5%
8	Application of internal audit functions	5%
9	Application of external audit functions	5%

<sup>45</sup> Otoritas Jasa Keuangan, Pelaksanaan Good Corporate Governance Bagi Bank Umum Syariah dan Unit Usaha, [www.ojk.go.id](http://www.ojk.go.id), diakses tanggal 26 Oktober 2020.

<sup>46</sup> M. Pudail, Yeny Fitriyani, dan Achmad Labib, Good Corporate Governance Dalam Meningkatkan Kinerja Keuangan Bank Syariah, Jurnal Studi Keislaman, Vol 4, Issue 1, 2018, h. 128-149.

No	Factors	Weight
10	Maximum Limit on Funds Distribution	5%
11	Maximum Limit on Funds Distribution	15%
<b>TOTAL</b>		<b>100%</b>

Source: Circular Letter BI No. 12/13/DPbS 2010

Composite values are obtained by adding up the values of all factors. Based on the composite value, the Islamic commercial bank sets the composite predicate as follows:

**Table 2. Composite Rating Value**

Composite Value	Composite Predicate
Composite Value < 1.5	Very good
1.5 ≤ Composite Value < 2.5	Good
2.5 ≤ Composite Value < 3.5	Good enough
3.5 ≤ Composite Value < 4.5	Not good
4.5 ≤ Composite Value ≤ 5	Not good

Source: Circular Letter BI No. 12/13/DPbS 2010

### Dependent Variable

#### Profitability

Profitability is a ratio that measures a company's ability to manage certain levels of sales, assets and share capital to generate profits. This study's ratio used to measure profitability is Return on Asset (ROA) and Return on Equity (ROE).

ROA is the asset yield ratio, referred to as the profit power ratio (earning power ratio), which illustrates the company's ability to generate profits from available resources (assets). ROA describes the level of efficiency of asset management carried out by banks. The formula used to find out the ROA ratio

according to Bank Indonesia Circular Letter Number 6/23/DPNP 2004 is as follows:

$$ROA = \frac{\text{Profit Before Tax}}{\text{Average of Total Asset}}$$

ROE is the ratio used to measure a company's success in generating profits for shareholders. ROE is considered a representation of shareholder wealth or company value.<sup>47</sup> The greater the acquisition of ROE, the level of profit achieved by banks is also more significant so that sufficient capital can cover the risks that banks may face. The formula used to find out the ROE ratio according to Bank Indonesia Circular Letter Number 6/23/DPNP 2004 is as follows:

$$ROE = \frac{\text{Profit After Tax}}{\text{Average of Main Capital}}$$

#### Financing Risk

Financing risk is a risk caused by a debtor or other party that fails to fulfil its obligations to the bank.<sup>48</sup> Financing risk is measured by the ratio Non-Performing Financing (NPF). The NPF describes the ability of bank management to manage financing that banks have provided. The high NPF ratio shows that problem financing experienced by banks is also high. It increases the likelihood that the higher the losses experienced by banks or the declining profitability.<sup>49</sup> The formula used to determine the NPF ratio according to PBI Number 23/2/PBI/2021 is as follows:

$$NPF = \frac{\text{Problematic Financing}}{\text{Total Financing}}$$

<sup>47</sup>Hery, (2015), *Analisis Laporan Keuangan*, Yogyakarta: Center For Academic Publishing Services, h.230.

<sup>48</sup>Taufikur Rahman dan Dian Safitrie, Peran Non Performing Financing (NPF) Dalam Hubungan Antara Dewan Komisaris Independen dan Profitabilitas Bank Syariah, *BISNIS*, Vol 6, Issue 1, 2018, h. 145-171.

<sup>49</sup>Rida Hermina dan Edy Suprianto, Analisis Pengaruh CAR, NPL, LDR dan BOPO Terhadap Profitabilitas (ROE) pada Bank Umum Syariah, *Jurnal Akuntansi Indonesia*, Vol 3, Issue 2, 2014, h. 129-142.

### Data Analysis Techniques

This study uses regression analysis of the data panel technique, which combines time-sailing data (times series) with cross data (cross-section); therefore, there will be more observations than data cross-section or time series only. As a result, when combined into a data pool when creating regression, the results tend to be better than regression that only uses data cross-section or time series.<sup>50</sup> Data processing in this study was assisted with a statistical tool, Eviews 9.

### Results

#### Descriptive Statistical Analysis

Descriptive statistics are displayed in Table 3.

**Table 3. Descriptive statistics**

Variable	N	Mean	Maximum	Minimum	Standard Deviation
GCG	80	1,80	3,00	1,00	0,58
ROA	80	0,00	6,9	-10,8	0,01
ROE	80	0,07	64,8	-94,0	0,17
NPF	80	0,03	12,52	0,00	0,02

Source: *Output Eviews 9*, processed (2021)

There are three alternative research models in the panel data before conducting an analysis that must first be done, namely to test the model estimate. Test the estimation of this model is carried out so that the research model used is the best so that data analysis is more accurate.<sup>51</sup>

**Table 4. Model Estimation Test**

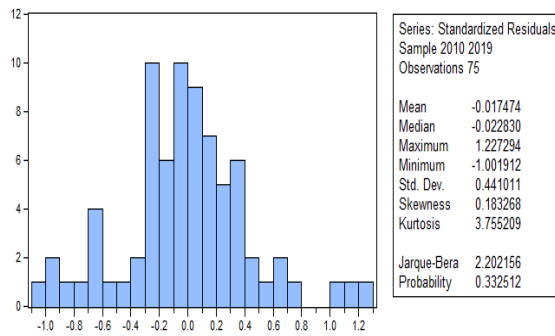
Variable	Model Estimation Test	Result	Conclusion
ROA	<i>Chow Test</i> (Common effect or fixed effect)	0,0089	<i>Fixed effect</i>
	<i>Hausman Test</i> (Fixed effect or random effect)	0,9481	<b>Random effect</b>
ROE	<i>Chow Test</i> (Common effect or fixed effect)	0,0008	<i>Fixed effect</i>
	<i>Hausman Test</i> (Fixed effect or random effect)	0,5103	<b>Random effect</b>
NPF	<i>Chow Test</i> (Common effect or fixed effect)	0,0000	<i>Fixed effect</i>
	<i>Hausman Test</i> (Fixed effect or random effect)	0,0696	<b>Random effect</b>

Table 4 shows that the appropriate model to analyze the effect of GCG on profitability (ROA and ROE) and financing risk (NPF) is to use Random Effect Model.

Figure 2 shows the results of the normality test. Based on the normality test, it can be known that the probability value Jarque-Berra is 0.332512, which indicates that the probability value is > 0.05. So, it can be concluded that residual data is normally distributed.

<sup>50</sup> Nachrowi Djalal Nachrowi dan Hardius Usman, (2006), Jakarta: Badan Penerbit Universitas Indonesia.

<sup>51</sup> M. Pudail, Yeny Fitriyani, dan Achmad Labib, Good Corporate Governance Dalam Meningkatkan Kinerja, h. 128-149.



Graphic 2. Normality Test Results  
Source: *Output Eviews 9*, diolah (2021)

Table 5 shows the results of the autocorrelation test. Based on the results of the autocorrelation test that has been carried out, a Chi-Square probability value of 0.1581 is obtained. Chi-Square probability value  $> 0.05$ . Then it can be concluded that there is no autocorrelation disorder.

Table 5 Autocorrelation Test Results

F-Statistic	Obs*R-Squared	Prob. F (2,74)	Prob. Chi-Square (2)
1,788485	3,688692	0,1744	0,1581

Source: *Output Eviews 9*, processed (2021)

Table 6 shows the results of heteroscedasticity tests. Based on the output results in Table 6, the probability value of Obs\*R-Squared is greater than  $\alpha = 0.05$  (0.9127  $> 0.05$ ). So, it can be concluded that there is no deviation from the assumption of heteroscedasticity in the regression model.

Table 6. Heteroscedasticity Test Results

F-statistic	1,424111	Prob. F(9,70)	0,1947
Obs*R-square	12,38103	Prob. Chi-Square(9)	0,1927
Scaled explained SS	76,28539	Prob. Chi-Square (9)	0,0000

Source: *Output Eviews 9*, processed (2021)

Table 7 shows the results of panel data regression to test the effect of applying GCG on profitability (ROA and ROE) and financing risk (NPF).

Table 7. Panel Data Regression Model Result

Variabel	Koefisien	Probabilitas Two Tailed	Probabilitas One Tailed
Konstanta	-4,239415	0,0000	0,0000
ROA	-1,220943	0,0001	0,00005

Variabel	Koefisien	Probabilitas Two Tailed	Probabilitas One Tailed
Konstanta	-2,297514	0,0000	0,0000
ROE	-1,316115	0,0001	0,00005

Variabel	Koefisien	Probabilitas Two Tailed	Probabilitas One Tailed
Konstanta	-4,149867	0,0000	0,0000
NPF	0,740090	0,0005	0,00025

Source: *Output Eviews 9*, processed (2021)

## Discussion

### Effect of Applying GCG To Profitability

The research results using the *eviews 9* application obtained using panel data regression show that H1 is not supported, meaning that the GCG variable has a significant negative effect on profitability proxied with ROA. The results of this study are not in line with the results of the research conducted by Prasojo (2015), Yantiningasih et al. (2016) and Ariandhini (2019), which revealed that the application of GCG had a significant positive effect on profitability measured by ROA was subject to the consistent application of GCG and the obligation to comply with various applicable accounting rules and principles was expected to be able to improve the quality of company financial statements.<sup>52</sup> In addition, the results of this study also contradicted the results of the study conducted by Budiman (2016), Siswanti (2016) and Ardana (2019),

<sup>52</sup> Prasojo, Pengaruh Penerapan Good Corporate Governance, h.59-69.

which states that the application of GCGs carried out by Sharia commercial banks has no significant effect on ROA.

The results of this study are consistent with the results of the research conducted by Pratiwi (2016), Ferdyant et al. (2014) and Pudail et al. (2018), which shows that the application of GCG has a significant negative effect on profitability as measured by ROA. So, there is an upside-down or negative relationship. The results of this study are not in line with existing theories, and this is thought to be because the GCG implementation indicators set by the BI tend to be long-term, so it cannot be measured for its success if it only relies on one accounting period while the calculation of bank profitability is short-term.<sup>53</sup> In addition, the BI regulations on GCG for new sharia banks were effective in 2010, so the profit and assets owned by banks have not reached the specified standards.<sup>54</sup>

The results of this study also show that the GCG application variable has a significant negative effect on profitability as measured by ROE. These results differ from the research conducted by Yantiningsih et al. (2016), Tumewu and Alexander (2014), and Hisamuddin and Tirta (2015), which states that the application of GCG has a positive and significant effect on ROE. It means that the better the implementation of GCG will increase the company's ability to generate profits as measured by ROE.

The results of this study are as directed as the research conducted by Pratiwi (2016) and Pudail et al. (2018), which states that the application of GCG has a negative and significant effect on ROE. The study results are

not in line with existing theories, where the quality of GCG application negatively influences the ROE ratio in BUS, meaning that the application of GCG will increasingly reduce the ratio return on equity. This decrease occurred because the ROE ratio produced by sharia banks was still low, supported by the market share of Sharia banks in December 2020, still in the range of 6.51 % nationally, still lagging compared to conventional banks.<sup>55</sup>

### **Effect of GCG application on financing risks**

The research results using the eviews 9 application obtained using panel data regression show that H2 is not supported, meaning that the application of GCG positively affects financing risks measured by the NPF ratio. The results of this study are not in line with the results of the study by Budiman (2016) and Siswanti (2016), which states that the application of GCG has a negative and significant effect on NPF. It shows that the exemplary implementation of GCG can minimize banks' bad credit or financing risk. However, the results of this study are in line with the research conducted by Prime et al. (2020), Pratiwi (2016), and Permatasari and Novitasary (2014), which says that the application of GCG has a positive and significant effect on financing risks measured by NPF. It shows that if the implementation of GCG is improving, the financing risk will also increase. It is not in line with the existing theory of the risk of problematic financing at Sharia commercial banks every year still seems unstable. The Financial Services Authority (OJK) records that the total non-performing financing (NPF) of Sharia commercial banks in

<sup>53</sup> Prasajo, Pengaruh Penerapan Good Corporate Governance, h.59-69.

<sup>54</sup> Angrum Pratiwi, Pengaruh Kualitas Penerapan Good Corporate Governance (GCG), h. 55-76.

<sup>55</sup> Otoritas Jasa Keuangan, Snapshot Perbankan Syariah Indonesia 2020, [www.ojk.go.id](http://www.ojk.go.id), diakses tanggal 23 Agustus 2021

2019 were at 3.23 % as of December 2019. The ratio did not move much compared to the previous year's period, which touched 3.26 %, whereas, in 2016, the NPF ratio in sharia commercial banks even met 5.68 % at the end of the first semester. It is generally an economic slowdown in the homeland. If the economy slows down, financing will slow down, so the NPF will also increase. Although research related to corporate governance relationships with profitability and financing risk shows different results, corporate governance must be applied consistently subject to applicable corporate governance; the good indirectly influences the performance of the sharia bank (Prasojo, 2015).

### Conclusion

From the study results, it can be concluded that the application of good corporate governance has a negative and significant effect on profitability as measured by the ratio of ROA to sharia commercial banks in Indonesia. The application of good corporate governance has a negative and significant effect on profitability as measured by the ratio of ROE to sharia commercial banks in Indonesia. The application of good corporate governance has a positive and significant effect on financing risks measured by NPF in Sharia commercial banks in Indonesia.

In this study, the number of samples used was only 8 Sharia commercial banks and had not used 14 sharia commercial banks that had stood in Indonesia. The author has difficulty finding and collecting data on each website's official Sharia commercial bank. It is hoped that several Islamic commercial banks do not issue and have no complete availability of annual reports and GCG implementation reports so that the sample that can be used as the object

of this study is only the Sharia commercial bank that issues annual reports and GCG reports in full. In this study, the authors did not examine ratios to measure profitability other than ROA and ROE due to the author's limitations in terms of data access.

Further research is expected to increase the number of sharia commercial banks sampled. Further research should also be able to obtain complete data from all existing samples to strengthen the study results further. The application of GCG does not only apply to Islamic commercial banks, but all commercial banks have implemented this rule in Indonesia, so further research can broaden the object of research by comparing how GCG applies from sharia and conventional aspects. It is hoped that further research can use ratios to measure profitability other than ROA and ROE or increase the number of variables that could theoretically affect the profitability of Islamic commercial banks.

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