

Good Corporate Governance Perspective In Islamic Banking Towards Improving Financial Performance

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Abstract

The implementation of Good Corporate Governance in Islamic banking institutions is intended to foster public trust, improve performance, and maintain the stability of banking activities. Good Corporate Governance is a manifestation of banking governance that implements the principles of openness, accountability, liability, independence, and fairness. Implementation of good banking governance principles from a Sharia perspective as a form of management responsibility for stakeholders. This study was conducted at the Islamic Bank, using a quantitative descriptive approach. This study uses Confirmatory Factor Analysis. This analysis is intended to provide an overview of Islamic banks' performance. The research results show that, the quality of transparency, accountability, responsibility, professionalism, and fairness shows very good figures, and there is an increase in performance from the previous year. This achievement is in line with the increasing commitment of Islamic banks' top management to improve bank performance. This is especially true in an effort to improve corporate governance performance. In all lines of bank activity, this is inseparable from the increasing demand for Islamic bank performance in terms of good governance.

Keywords: Islamic Banks, GCG, Financial Performance.

INTRODUCTION

The existence of Good Corporate Governance (GCG) as a framework for setting targets for an entity plays a role in achieving better performance (Puspita and Kartini 2022). Good Corporate Governance is a series of structures and activities that function to manage a business, and aims to increase company value by paying attention to the interests of stakeholders. Research conducted by Cahyani, et al. (2024) regarding the application of GCG principles, is important in the banking industry. The complexity of external and internal situations shows that the need for banking GCG practices is increasing, which aim to increase bank competitiveness and provide protection to customers (Basri 2022). The application of GCG principles in the banking sector is important for increas company value, protecting stakeholders' interests, and maintain order. Banks remain intermediary institutions that can be trusted by the public (Fadhililhaq et al, 2024).

In the same year, research related to GCG was also carried out by Nur'aini & Rohman, (2024). In this research, it was concluded that Sharia principles in Good Corporate Governance in Islamic banking can be interpreted as a series of governance activities that prioritize Islamic principles. Diana et al. (2024) stated that, in an effort to improve bank performance, governance is intended to increase the value of Islamic banking performance, which includes a series of activities. Fitriani and Sunandar (2023), Governance includes a series of activities consisting of: monitoring and control, so that it can protect shareholder rights Harmaen et al, (2022). Along with the occurrence of the national economic crisis in 1997, which also had an impact on the aspects of the national economy that worsened, including the decline in national banking performance (Anggraini and Mariana, 2023 and Maharani, 2023).

Intensive discussions regarding GCG as an effort to improve performance continue. A severe financial crisis will not only damage the national economic order but also heal the banking sector, which has shown a significant decline in performance, whichs is characterized by a decline in banking financial performance, especially the failure to return a financing (Mulyati and Fajar, 2023).

In the banking sector, the existence of Good Corporate Governance is in line with the existence of Bank Indonesia regulations, which emphasizes the importance of GCG, namely in line with the issuance of Bank

Indonesia regulation Number: 11/33/PBI/2009 concerning the implementation of GCG for Islamic Banks. The Islamic principles contained in this PBI are reflected in the implementation of the duties and responsibilities of the supervisory board in managing Islamic subscription activities. This regulation regulates check and balance activities avoids conflicts of interest in carrying out bank activities, and strengthens Sharia bank governance.

To improve the quality of GCG implementation, Islamic banks are required to carry out a comprehensive Self Assessment of all lines of activity. To minimize errors and encourage strengthening of the bank's internal controls in order to prevent errors as early as possible. Reporting on the implementation of GCG to stakeholders is a form of management transparency (Hazmi and Abdullah 2024). The implementation of GCG in Sharia banking must be based on principles of transparency, accountability, responsibility, professionalism, and justice. Attention to the principles of GCG increased in line with the increasing financing problems in 2012, involving the leadership of Islamic banks. In the same year, there were large financing problems that also involved internal Islamic banks (Giavinny and Ugut 2022).

These two major scandals have proven that poor bank governance is far from good corporate governance particularly in 2012. In an effort to improve the management performance of Islamic banks, it continues to strive to implement GCG for all lines of Sharia banking activities (Sari and Khuzaini, 2022).. This is characterized by conducting a self-assessment as an effort to measure the implementation of GCG, as regulated in Bank Indonesia Regulation No. 11/33/PBI/2009. The measurement results are then submitted to the Financial Services Authority (OJK). Efforts to intensively improve the performance of Islamic banks have continued to this day and have provided good results. The implementation of GCG in 2023 provided good review results. Along with the implementation of GCG at Aceh Syariah banks, this has had an impact on improving bank's performance which is getting better. As table 1, by 2023, the performance of Aceh Syariah banks will be very good. Performance improvement cannot be separated from management's ongoing commitment to strengthen bank governance. Details of the self a assessment results are shown in Table 1.

Table 1 Index Self Assesment GCG Islamic Banking

Year	2019	2020	2021	2022	2023
Composite	2	2	2	2	3
Predicate	Fine	Fine	Fine	Fine	Very fine

Source: Data processed in 2024.

The bank's good performance is also supported by an increase in financing allocation and lower financing problems. Ovelarll, the Islamic Bank also experienced an increase in assets from year to year. This proves that public trust in Islamic banks has continued to increase. For 2024, total assets will reach IDR 31.8 trillion, or grow by 104.24 percent, with disbursed financing growing to IDR 20.4 trillion, from the plan of IDR 20.1 trillion. The increase in GCG performance in Aceh sharia banks is shown by the increase in the bank's financial performance.

In general, the financial performance of the Islamic Bank over the past five years shows an increase, which is reflected in 2019-2023. Productive assets show an increase in 2019 of 23.09 and in 2023 total assets are at 28.77 trillion. With the Temporary Syirkah Funds in 2023, it has reached 21.01, and this figure shows an increase from previous years. This increase is, of course, in line with increasingly improving bank performance and, of course, can not be separated from increasingly improving GCG performance. Bank management has consistently improves performance and service quality. Table 2 shows the movement of financial performance over the last five years (2019-2023), showings an increase from year to year.

Table 2 Islamic Bank Financial Performance

Information	2019	2020	2021	2022	2023
Asset	23,09	25,12	25,48	22,02	28,77
Liabilities	3,453	3,12	2,43	3,54	4,18
Temporary Syirkah Fund	17,42	19,55	20,57	20,99	21,01
Equity	2,22	2,48	2,48	2,48	3,512

Source: Islamic Banking Financial Report, 2024

According to Aprilya and Misbach (2024) and Terzaghi and Ikhsan (2022). The principles of Good Corporate Governance from a Sharia perspective are in line with Islamic guidance in Muamalah, which includes the following:

- a. Shiddiq is a form of consistency in speech and action that refers to the truth. By upholding truth as the basis for benefits in Muamalah relationships. Honesty is an important foundation for building trust and harmony in Muamalahs.
- b. Tabligh, as a form of communicating well and wisely, conveys correct information. In a business context, tablet principles include the practice of conveying information honestly, transparently, and accurately to all stakeholders.
- c. Trusted. The origin of the word Al-Amanah, which refers to loyalty, sincerity, and honesty, is a personal quality and attitude toward carrying out responsibilities. This condition reflects the trust (tsiqah) given by other parties. Fathonah mencerminkan sifat memahami, dan menghargai tugas dan tanggung jawab yang entrusted. Fathonah's nature is to be able to think creatively and innovatively when making wise decisions.

Previous research related to the role of Good Corporate Governance in improving bank performance, especially Sharia banking (Aprilya and Misbach 2024). There is a need for quality management in the banking sector in accordance with Sharia law to improve principles (Sharia Compliance). In Shank et al.'s (2013) research, the focus was on the importance of CCG, which includes the principles of: transparency, accountability, responsibility, independence) and justice. Along with increasing public trust in Sharia banks, this is a sustainable opportunity to improve their performance. After Covid-19 hit Indonesia, it impacted the national economy. Covid 19 has put very heavy pressure on the national economy, and all lines of the economy have had a worsening impact. This condition also impacts the banking sector, especially in non-Islamic banking.

METHOD

Testing Research Instruments

a. Validity Test

The validity test was intended to ensure the validity of the research questionnaire. The validity of the questionnaire was demonstrated by the instrument's ability to provide consistent answers. This can be seen from the significance value of greater than 0.05, which is the Pearson significance value that must be achieved to be valid. If the result is less than 0.05, the instrument does not have the expected validity.

b. Reliability Test

The reliability test was intended to provide information related to the construct being studied, which can be explained through its indicators. If from one time to another, the answers given by someone do not differ, it means that the questionnaire has achieved the desired reliability. The reexplanatory value is in the form of Cronbach's alpha value. A Cronbach's Alpha above 0.06 explains the reliability of a questionnaire, and a result below 0.06 it means the questionnaire is not reliable.

Confirmatory Factor Analysis

According to Thompson (2004), Confirmatory Factor Analysis (CFA) is used to test hypothesis concepts, theories, constructs, and latent variables that cannot be measured or observed directly. The main purpose of this analysis is to confirm a model, namely a model whose measurements are based on theory:

$$X_i = \beta_1 F_1 + \beta_2 F_2 + \beta_3 F_3 + \beta_4 F_4 \dots + V_{iui}$$

Information:

X_i = Standardized 1st variable

β_{ij} = Partial regression coefficient of variable 1 on jth common factor

F_{bj} = 1st common factor

Confirmatory Factor Analysis

Confirmatory factor analysis includes a number of tests, consisting of:

a. Uji Kalsar Meyer Olkin

According to Hill (2011), the Meyer Olkin-Kalser (KMO) test is intended to test the construct to provide the expected level of validity. With a KMO value for factor analysis of at least 0.5. If it is less than 0.5, it indicates that it is unprofitable to be tested for factor analysis. For social research, the eigenvalue has a value > 1, with a cumulative variance > 60 percent.

b. Measure Of Sampling Adequacy

Whether a construct is appropriate in the factor analysis concept is determined by the value produced by the measure of sampling adequacy. Constructs or variables in the factor analysis concept can be considered feasible if they have a mass value greater than 0.5. Meanwhile, if the MSA value obtained is below 0.5, this variable cannot be predicted and analyzed further; therefore this variable must be eliminated.

c. Total variance Explained

The level of variation in variable factors can be explained by factors in factor analysis research using the Total Variance Prepared. A factor variable can be said to be able to be explained by factors if it has a variation value of > 60 percent. A variation value of less than 60 percent provides an explanation for the factors studied.

d. Loading Factor (Component Matrix)

The Loading Factor value is the level of relationship between the factors and the constructs being studied. When interpreting the Loading Factor value, the magnitude of the value can be observed. If the Factor Loading value is less than 0.50, it indicates that the factor under study cannot maintain it. The range of loading values from the smallest 0.31 is interpreted as weakness in explaining the variables, 0.55 is interpreted as good in explaining the factor variables, 0.63 is interpreted as very good in explaining the variables. Explains the factors, and 0.71 is interpreted as the best or very good in explaining the factor variables.

RESEARCH RESULTS AND DISCUSSION

The statistical method used in this research was confirmatory factor analysis (CFA). CFA test the attributes used to confirm a construct or variable being studied. The first step in carrying out a confirmatory factor analysis (CFA) test is to conduct a feasibility test on each attribute used. This was intended to examine the KMO index and Bartlett's test. The test results are shown in table 3, which shows the results of the CFA KMO Model Feasibility test and Bartlett's test (Elimination F.2). From the results of the KMO and Bartlett's tests after the elimination of F.2, the calculated KMO value was 0.663, which is > 0.5. So this can be interpreted as meaning that the factor analysis process can fulfill the requirements for the advanced process and factor analysis is fulfilled.

Table 3 CFA KMO Model Feasibility Test Results and Bartlett Test (F.2 Elimination)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.663
Bartlett's Test of Sphericity	Approx. Chi-Square	200.833
	Df	105
	Sig.	0.000

Source: Data processed, 2024.

A sig value of 0.000 was obtained, which less than 0.05. In this manner, all variables are accumulated and can continue to the next stage.

Rotating Matrix Test

Based on the results of the grouping of indicators above, it can be seen that component 1 is filled in by.

Table 4 Component Matrix Results

	Component				
	1	2	3	4	5
T.1	0.394	0.677	-0.091	0.008	0.138
T.2	0.280	0.585	0.319	0.300	-0.073
T.5	0.305	0.643	0.318	-0.188	0.212
A.1	0.721	0.097	0.840	0.125	0.223
A.2	0.851	0.142	0.749	-0.094	-0.002
A.3	-0.071	-0.041	0.794	0.030	-0.041
A.4	0.018	0.202	0.798	-0.129	0.252
R.1	0.873	0.188	-0.010	0.020	0.862
R.2	0.558	-0.116	0.266	0.212	0.720
R.3	0.543	0.165	-0.233	0.322	0.326
R.4	0.673	0.167	0.436	0.575	0.130
P.1	0.293	0.419	0.014	0.462	0.794
P.2	0.570	-0.093	-0.159	0.561	0.872
F.1	-0.007	0.024	-0.106	0.728	0.130
F.3	0.256	-0.745	0.012	0.532	0.038

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 a. Rotation converged in 6 iterations.

Source: Data processed, 2024

For questions R.1-R.4, component 2 was filled by questions T.1-T.5, component 3 was filled by questions A.1-A.4, component 4 was filled by questions F.1-F.3 and, component 5 was filled with questions P.1-P.2. From the above results, it can be concluded that all questions were grouped according to their theoretical dimensions.

Table 5 Total Variance Explained

Component	% of Variance	Cumulative %	Eigent Value	Information
Transparency	25,29	45,29	3,794	Significant
Accountability	13,94	39,13	2,076	Significant
Responsibility	9,42	48,55	1,141	Significant
Professional	8,72	57,28	1,309	Significant
Fairy	7,31	64,60	1,098	Significant

Source: Data processed, 2024.

Based on Table 5, it can be seen that the five dimensions have eigenvalues greater than 1, so that all dimensions have significant influence on the implementation of Good Corporate Governance in Islamic Banks.

3.2 Good Governance Performance of Islamic Banking

a. Performance transparency

Based on the research results, the application of the principle of openness (transparency) is one of the highest values among other indicators, as can be seen through the eigenvalues that are greater than 1. The eigenvalues value of the transparency variable is 3.794; thus it has a contribution as a condition for the percent variance that can be used. The variance result of the transparency dimension is 25.290 percent, which is the dimension with the highest value and is dominant in explaining the implementation of Good Corporate Governance.

a. Performance Accountability

Based on the research results, the application of the principle of accountability can be seen through the eigenvalues That are greater than 1, the eigenvalues value of the Accountability variable is 2.076 so that it has a contribution as a condition for the percent of variance to be used, and the resulting variance from the Accountability dimension is 13.842 percent. The value of implementing the principle of accountability is below that of transparency (25.290 %). However, the principle of accountability contributes to its implementation.

b. Performance Responsibility

Based on the research results, the application of the principle of responsibility can be seen through the eigenvalues that are greater than 1, the eigenvalues of the variable are 1.414, so it has a contribution as a condition for the % of variance to be used, and the resulting variance from the responsibility dimension is 9.424 percent. This value was used to see the contribution in explain the implementation of the principle of responsibility.

d. Professional Performance

Based on the research results, the application of professional principles can be seen through eigenvalues that are greater than 1, the eigenvalues value of the professional variable is 1.309, so that it has a contribution as a condition for the percent of variance to be used, the variance result from the professional dimension is 8.729 percent, which is used to see the contribution in explain the principles of professional implementation.

c. Fairness Performance

Based on the research results, the application of the fairness principle can be seen through the eigenvalues which are greater than 1, the eigenvalues value of the fairness variable is 1.098 so that it has a contribution as a condition for the percent of variance to be used, the resulting variance from the fairness dimension is 7.317percent. However, the fairness principle is the principle with the least benefits among the other four indicators.

CONCLUSIONS

The implementation of banking governance in Sharia is a manifestation of the responsibility of Islamic banks to the community regarding managing the bank well, prioritizing professionalism and caution, and continuously trying to increase shareholder value without ignoring the interests of other stakeholders. Good governance practices are intended to improve financial performance and reduce risk in decision making. In general, good bank governance can increase investors' confidence in investing in capital. Good corporate governance is not just a matter of fulfilling these requirements. Governance requires a good strategy and impacts the long-term success of an organization. By adhering to the principles of accountability, transparency, and behavior, we will be able to create a governance framework that fosters trust among stakeholders. Efforts are needed to increase stakeholder awareness and commitment to improve governance. Internally, the role of the top management is key to success. However, an effective and measurable governance strategy is required. An internal control system can provide strong support for implementing GCG and detecting possible actions that could be detrimental to the business entity. Apart from the principles of governance, they are continually improving. Thus a good organizational culture was created. The organization consistently increases its human resource capacity and utilizes information technology in business activities.

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