IJEC
International Journal of Economics
https://ejournal.ipinternasional.com/index.php/ijec

e-ISSN: 2961-712X
Vol. 4 Issue 1, January-June 2025
DOI: **10.55299/ijec.v4i1.1265**

Implementation of Good Corporate Governance and Sharia Bank Performance

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Article history: received January 29, 2025; revised Fabruary 02, 2025; accepted Fabruary 07, 2025

Abstract

Bank financial performance is the achievement of activities within a certain period, especially related to the collection, distribution of funds, and other bank operational activities. Good Corporate Governance (GCG) can improve bank performance. One of the important objectives of implementing GCG in Sharia banking is to improve bank performance. A number of important factors are used to measure the implementation of a bank's level, one of whicht is the implementation of GCG. The level of Islamic banks is an important part of the efforts to increase the trust of shareholders, the public, and customers. The implementation of GCG can help and facilitate Sharia bank management in developing business strategies and making it easier to achieve goals. This study aims to determine the effect of GCG implementation on the level of Islamic banks in Indonesia. Using the bank's internal respondents. The use of these respondents was expected to provide information related to the implementation of banks. This stud uses a quantitative discrete analysis approach. The research results show that the implementation of GCG has a significant effect on the level of sharia banking. Continuous efforts are needed to implement GCG in the future, especially to increase competitiveness.

Keywords: *Good Corporate Governance, and Bank Performance*

INTRODUCTION

One of the important aspect of the national economy today is the contribution of Sharia banks, especially in providing banking services to the community. Sharia banking is part of the success and existence of the national economy (Yudianto, et al. 2024). This is proven by the existence of Sharia banking during and after Covid 19. The Covid 19 pandemic has put strong pressure on the national economy. The economic situation is worrying, and people's economic activities have slumped, resulting in an increase in state budget deficits (Hazmi et al. 2020). Many financial institutions experience strong pressure in terms of both collecting and allocating funds (Arwendi, and Himmati, 2024). Increase in bad credit due to failure to repay loans. Amid these conditions, Islamic banks do not experience this pressure. Overall, it is also experiencing pressure from the effects of Covid 19. However, thise pressure is not as strong as that experienced by commercial banks. Post-Covid, along with the recovery of the national economy, is marked by an increase in community economic activity, which is marked by an increase in the need for public funds, thus encouraging an outflow of funds (Nihayah and Rifqi 2022). UnderIn these conditions, comprehensive improvements in various banking activities are required. One thing to do is increase the implementation of GCG in banking. Increasing Good Corporate Governance is intended to improve bank performance, one of which is measured by its level of performance (Maridkha and Himmati 2021).

Increasing community economic activity must be supported by banking capabilities to provide maximum services. In this condition, competition between banks results (Nissa and Dhzuhri, 2022). This is eEspecially true for Sharia and commercial banks. If we refer to past events/covid 19, the existence of Islamic banks has been proven able to survive in unhealthy economic conditions. However, efforts to improve the performance of Sharia banks still need to be strengthened tso make them competitive with commercial banks. This is

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especially true for gaining public trust in managing funds (Masruron and Safitri, 2022). To gain public trust, the level of bank performance must be considered. Bank performance is a measure of a bank's ability to carry out normal operational activities and fulfill all obligations to external parties. A healthy bank can perform various functions to improve its performance. A good level of performance can also increase public trust, especially as an intermediation institution and payment traffic, and can lead to monetary policy (Saputra, 2020). Banking as a financial institution is based on the principle of public trust, which requires continuous efforts to increase trust. Under this condition, one of the important activities that banks must carry out is implementing the principles of good governance. This is also the case in Islamic banks.

In Sharia banks, implementing good bank governance is an important part of Sharia banking in realizing community welfare related to Sharia bank operational activities. By implementing GCG, Islamic banks can fulfill the principles and provisions contained in the GCC (Aldira Maradita, 2014). Increasing performance through the implementation of GCC in the Indonesian banking industry is currently not optimal. According to the Indonesia Institute for Corporate Release, of the 50 public banks that received a good title, Indonesia placed only four banks at the ASEAN level. Many large Indonesian banks have shown a declining trend in implementing the GCC (Valencia, 2018). Bank Indonesia, through the Financial Services Authority, continues to supervise the implementation of GCG in the banking industry, especially after Covid 19. This is in line with Bank Indonesia Regulation Number: 11/33/PBI/2009 concerning the implementation of the GCC for Sharia Commercial Banks. To improve the quality of GCC implementation, Islamic banks are required to carry out comprehensive self-assessments so that deficiencies can be detected immediately (Ma'aji, et al. 2021).

Literature Review

Implementation of GCG

Implementation of GCG as a concept that includes all governance principles, values, and practices. This concept is designed to ensure that companies are run in a transparent, accountable, fair, and responsible manner, considering the interests of all stakeholders involved. The GCG principles aim to improve company performance, minimize risks, and ensure long-term sustainability. The implementation of GCG is not only a formality or compliance with regulations, but also creates an organizational culture that fundamentally supports these values. Companies that implement GCG effectively are expected to improve their reputation, shareholder trust, and long-term performance. In the banking industry, thet GCC directs and controls banking to achieve a balance between power, authority in providing services, and responsibility to shareholders. According to Mishra (2005), many banking experts have not been able to identify a universal model for implementing GCG governance. However, the implementation of GCG can create better conditions for the realization of relations between government, society, and the business world that are equal, equitable, and balanced in mutually controlling roles (Gasperz, et al. 2022; Hazmi and Abdullah, 2024).

Sharia Bank Performance

Bank performance can be interpreted as the bank's ability to carry out normal banking operational activities and fulfill all its obligations properly in accordance with applicable banking regulations (Yusuf and Ichsan 2021). The definition of bank performance is broad, because it includes the performance of a bank in carrying out all its banking business activities. According to Bhatia and Gulati (2021), in general, healthy bank performance can be interpreted as a bank condition that is considered capable of having a significant negative influence from both changes in business conditions and other external factors. This is reflected in the ranking of assessment factors for Sharia Commercial Banks in the form of risk profiles and the, implementation of the GCC (Erdoğan, 2022).

Bank Performance Assessment Regulations

According to Bank Indonesia, the assessment of bank performance levels is qualitative and, consists of various aspects that influence bank performance. A number of assessment aspects, such as: capital, asset quality, management, profitability, liquidity, and sensitivity to market risk (Tüysüz and Yıldız, 2020). The assessment of a number of aspects also considers the underlying elements regarding the materiality and

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significance of a number of assessment factors and other factors that influence the condition of the banking industry and the national economy. The level of bank performance wa intended to increase public trust. In addition, it also serves as a means of evaluating conditions and problems. Banking must always have a good level of performance to provide excellent services to the community (Putra, et al. 2022). There are a number of factors in assessing bank performance levels, including the: risk profile, good corporate governance, profitability (earnings), and capital. In this case, banks must maintain their performance. This aims to ensure that banks can provide maximum services to the community and carry out their activities well. The performance of a bank is in the interests of all related parties, namely, bank owners and managers, the community using bank services, and Bank Indonesia as bank supervisors and supervisors (Aiman and Rahayu, 2019).

METHODO

Data Types and Sources

This study used quantitative descriptive analysis using primary and secondary data. Primary data are obtained through data collection carried out in the field, either through interviews, observation, or testing. Direct and indirect interviews were conducted in a structured manner with 60 respondents to obtain complete and accurate data. Secondary data were also used to provide a strong foundation for providing good results. For this, a number of references are used, such as trade regulations, operational standards and procedures, journals, Indonesian Bank policies, and so on.

Data Analysis Methods

One of the goals of data analysis is to understand data through an analysis process, so that it can transform complex data presented in the form of graphs and diagrams, making it easier to understand. This study uses regression analysis to predict the extent of the existing influence (which has been analyzed through correlation analysis). The linear relationship between research variables can be formulated using a regression equation.

$$\mathbf{Y = \alpha + \beta x + e}$$

Where:

Y : Performance bank
α : Constant
β : Regression coefficient
X : GCG
e : Error

Classical Assumption Test

This test is intended to produce a regression model that meets the BLUE (Best Linear Unbiased Estimator) criteria. Using regression analysis, a reliable model can be obtained, so that the following assumptions must be met: Through this test, we can provide certainty that the regression equation obtained has an accurate, unbiased, and consistent estimate. Classical assumptions are conditions that must be met in the OLS linear regression model so that the model is valid as an estimation tool.

Hypothesis Testing

This test aims to determine the significance of the regression coefficient. A significant condition is that the regression coefficient value is not statistically equal to zero. Testing is a stage for deciding whether to accept or reject a hypothesis. In this test, decision- making will contain fear. Using the analytical method, it is possible to determine the effect of implementing GCG on the performance of Sharia banks. Two types of hypothesis tests can be carried out on regression coefficients: the determination test (R test) and the partial significance test (t test).

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RESEARCH RESULTS AND DISCUSSION

Research Data Analysis

This study observes the influence of the implementation of good corporate governance on the performance level of Sharia banks. Sampling was carried out using the purposive sampling technique, that is, sampling was carried out using certain criteria. This study used a questionnaire with a number of statement items. For this, testing of the instrument is required by conducting validity and reliability testing. Validity testing wais carried out to measure the extent to which the measurement instrument could actually measure what was intended. Reliability testing is intended to measure how consistently the measurement instruments can produce the same results if repeated. The testing stage for the validity and reliability of the instrument was as follows:. This is a worthwhile endeavor because data analysis can help businesses identify patterns, trends, and opportunities that inform a variety of strategic decisions, such as which products to invest in, which marketing campaigns to run, and which customers to target.

Validity Test

Data validity can be influenced by various factors that researchers need to pay attention to and consider during the research process. Factors such as data collection methods, sampling techniques, and measurement errors can significantly affect the validity of the collected data. An important stage in testing using data and statistical methods is the analysis of statement instrument items. This was intended to verify the validity of the assessment instruments. Item analysis refers to the process of statistically analyzing assessment data to reveal the quality and performance of items. The results of the data validity test for GCC are shown in Table 1. Data validity testing was performed using a number of statement items.

Table 1 Test the Validity of GCG

Statement item	r count	r table	r table
Item 1	0,503	0,214	Valid
Item 2	0,479	0,214	Valid
Item 3	0,586	0,214	Valid
Item 4	0,422	0,214	Valid
Item 5	0,414	0,214	Valid
Item 6	0,496	0,214	Valid
Item 7	0,528	0,214	Valid

Source: Data processed by 2025

In testing the validity of the instrument, as shown in Table 1, a value will be obtained, if r > rtable (at a significant level); then, the questionnaire item is valid. If r count < r table (at a significance level of 0.05), then questionnaire item can be said to be invalid. We Searched for with a significance level of 5 percent (0.05), namely: Df= N-2, where N is the number of samples. The size of the DF can be calculated as 60-2 = 58; therefore, the size of the table with a significance level of 5 percent is 0.214.

Table 2 Bank Performance Validity Test Results

Statement item	r count	r table	r table
Item 1	0,471	0,214	Valid
Item 2	0,464	0,214	Valid
Item 3	0,475	0,214	Valid
Item 4	0,540	0,214	Valid
Item 5	0,376	0,214	Valid
Item 6	0,567	0,214	Valid
Item 7	0,423	0,214	Valid

Source: Data processed by 2025

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From the results of the data validity test shown in Table 2, it was found that all statement items for the GCC were valid. Data reliability testing was carried out as follows.

Reliability Test

Reliability testing on a research instrument is aimed at determining whether the items used in the data collection are reliable. The reliability test of this study was conductedusing Cronbach's lpha. A variable is said to be reliable if Cronbach's alpha is > 0.60 and unreliable if it is equal to or below 0.60.

Table 3 Reliability Test Results

Variable	Cronbach Alpha	Information
GCG	0,293	Reliable

Source: Data processedby2025

Based on Table 3, it can be seen from the results of the reliability test using Cronbach's alpha that all questions from the GCC statement can be declared reliable. This is because the Cronbach's alpha value is greater than 0.60, namely, 0.293.

Normality Test

This test ensured that the conclusions drawn from the global and partial tests were valid. Normality, through a regression sheet, evenly distributes each value. One way to see the normality of data is by using the KolmogorovSmirnov test as follows.

Table 4 Normality Test
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		60
Normal Parameters[a.b]	Mean	,0000000
	Std. Deviation	1,13577759
Most Extreme Differences	Absolute Positive	,112
	Negative	,112
		-,094
Test Statistic		,112
Asymp. Sig. (2 tailed)		,60[c]

Source: Data processed y 2025

Based on Table 4, it can be seen that the Kolmogorov-Smirnov value is 0.112 and the significance value of Asymp.Sig. (2-tailed) of 0.060, meaning that the probability of significance is greater than the reference, namely 0.05 (0.060 > 0.05). From these results, it can be concluded that the processed data have a normal distribution and are acceptable; thus, the data are suitable for use and normality is assumed to fulfill this model.

Analisis Regresi Linier

Although powerful in forecasting, the use of this analysis has some drawbacks. Assumptions regarding data relationships may not hold;, this analysis struggles with nonlinear trends, is sensitive to outliers, and relies on historical data that may not reflect future changes. Table presents the results of the linear regression test.

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Table 5 Linear Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	15,647	3,108		5,04	0
GCG	0,522	0,094	0,588	5,54	0

Source: Data processed by 2025

Table 5 presents the results of the linear regression analysis in the coefficient table. The constant figure of the unstandardized coefficient (a) in this case increases by 15.647, which means that if there is no implementation of GCC then the Bank's performance level will be 15.647. With the regression coefficient value being plus (+), it can be said that the implementation of Good Corporate Governance has a positive effect on the level of Islamic Bank Performance. From the results of the regression test, the following regression equation was created:

Y= 15,647 + 0,522 + e

Hypothesis Testing

Partial Test (T test)

When conducting this test, attention must be paid to the significance of the regression/partial coefficients. Through this test, you will be able to determine the partial influence between the independent and limiting variables by looking at the t value at the 5 persen significance level.

Table 6 T Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	15,647	3,108		5,035	,000
GCG	,522	,094	,588	5,537	,000

Source: Data processed by 2025

Based on the T test results shown in Table 6, the effect of implementing Good Corporate Governance is obtained by tcount of 5.537 with a significant T of 0.000. The T- table value is obtained from the value (n-k-1) in the t value distribution table, namely 2.002, because tcount is greater than the T table (5.537>2.002). Therefore, H0 is rejected, and H1 is accepted, which means that the independent variable has a partially a significant effect.

Determination test (R test)

The coefficient of determination is the magnitude of the contribution of the independent variable to the dependent variable, or the magnitude of the influence of the implementation of Good Corporate Governance on the level of bank performance in linear regression analysis. The results of the determination test are listed in Table 7.

Table 7 Determination Results.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,588[a]	,346	,334	1,146

Source: Data processed by 2025

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From Table 7, the coefficient of determination R Square was 0.334 or 33.4 percent. This explains why the GCC variable of 33.4 has an influence on the performance variable of Islamic banks. Thus, 66.6 percent was another variable. Determine the effect of implementing the GCC on the level. The results of the regression test show that the effect of implementing GCC on Bank Performance is 0.000. Thus, the implementation of the GCC has a significant impact on the performance of Islamic banks. From the results of the T test for the GCC variable, the tcount value > ttable 5.537 > 2.002, and the Sig value 0.000 < 0.05, which means that there is a significant influence between the implementation of GCC. Bank financial performance is the achievement of activities within a certain period, especially related to the collection, distribution of funds, and other bank operational activities. Improving bank performance can be achieved by implementing GCC. The level of performance of Sharia banks is an important part of the efforts to increase the trust of shareholders, society, and customers. The implementation of GCC can help and facilitate Sharia bank management in developing business strategies and making it easier to achieve goals. The research results show that the implementation of the GCC has a significant effect on Islamic Bank Performance. Continuous efforts are needed to implement GCC in the future, especially to increase competitiveness between banks. The implementation of GCG improves the performance of Sharia banks. However, a number of factors still hinder the implementation of GCG, including the quality of human resources and integrity. discipline, and technological infrastructure. Improving human resources and infrastructure is important for building good and sustainable GCG.

CONCLUSIONS

The implementation of Good Corporate Governance (GCG) plays a significant role in enhancing the performance of Islamic banks in Indonesia. This study demonstrates that the adoption of GCG not only increases trust among shareholders and the public but also assists bank management in formulating effective business strategies. By embracing the principles of GCG, Islamic banks can improve operational processes, reduce risks, and achieve sustainable long-term goals.

Although the research findings show a strong positive impact of GCG on bank performance, there are still challenges that need to be addressed, including the quality of human resources and technological infrastructure. Therefore, enhancing and strengthening GCG should be a priority to improve the competitiveness of Islamic banks, especially in the face of competition with conventional banks. Continuous efforts in GCG implementation will contribute to the development of the Islamic banking sector and the stability of the national economy.

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