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The Effect of Sharia Compliance and Islamic Corporate Governance on Financial Performance in Islamic Commercial Banks in Indonesia for the 2016-2021 Period

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ABSTRACT

This research uses a quantitative approach. The variable data type is secondary data, namely data obtained from the annual report published on the official website of each bank for the 2016-2021 period. The data analysis techniques used in this study include Descriptive Statistical Analysis, Classical Assumption Test consisting of Normality Test, Multicholinearity Test, Autocorrelation Test, and Heteroskedasticity Test, Hypothesis Test consisting of t Test, F Test, Coefficient of Determination, and Multiple Linear Regression Test with the help of the Eviews 10 application. The results of this study show that partially (t test) sharia compliance with islamic income ratio (IsIR) indicators has a positive and significant effect on financial performance. Partial sharia compliance with the profit sharing ratio (PSR) indicator has a positive and significant effect on financial performance. Partial sharia compliance with the Islamic investment ratio (IIR) indicator has a negative and insignificant effect on financial performance. Partial sharia compliance with the zakat performing ratio (ZPR) indicator has a negative and insignificant effect on financial performance. In part, Islamic corporate governance has a positive and significant effect on financial performance. Simultaneously (F test) the variables Islamic income ratio (IsIR), profit sharing ratio (PSR), Islamic investment ratio (IIR), zakat performing ratio (ZPR) and Islamic corporate governance (ICG) have a significant effect on the financial performance of Islamic commercial banks.

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INTRODUCTION

Countries that experience financial growth must be closely related to finance and banking. The banking industry is currently developing in many countries. Likewise with Indonesia, which is seen in the number of financial entities, both non-banks and banks. For example, Islamic banking which is part of the banking financial institution in Indonesia. This is proven by the data on the number of Islamic banks in Indonesia increasing rapidly after the passage of regulations related to Islamic banks in Indonesia listed in Law No. 21 of 2008 concerning Sharia Banking. Sharia Banks are banks that carry out their business activities based on sharia principles and by type consist of Sharia Commercial Banks, Sharia Business Units, and Sharia People's Financing Banks (BPRS)(Soemitra, 2016).

This growth in the number of banks and assets should also be followed by an increase in the performance of the Islamic bank itself which can be seen from the large financial ratio of Islamic banks which can be seen through the large financial ratio of an Islamic bank. One way to find out the ability of a bank or company to manage finances is by applying a profitability ratio called return on assets (ROA)(Winardi, 2013).

The emergence of weak corporate governance issues in the Islamic banking industry attracted the attention of Islamic economic and financial experts in revealing two important issues related to the weaknesses of Islamic banking corporate governance, one of which concerns sharia compliance (Asrori, 2011). Issues such as the level of compliance of Islamic banks and good corporate governance can affect the financial performance of Islamic banks (Anugrah, 2018).

Islamicity performance index consists of zakat performance, profit sharing, equitable distribution, Islamic investment, Islamic income, directors employee welfare. In this study, two additional proxies were used, namely zakat performance ratio and Islamic investment ratio proxies because these proxies have a greater chance of influence on financial performance in Islamic banks based on stewardship theory and Sharia Enterprise Theory (Budiman, 2017).

Another factor that can improve the performance of the company or in this case Islamic banking, one of which is the implementation of good corporate governance. Corporate governance is a system that regulates and controls the company in running its business in order to increase success and accountability based on laws and regulations and ethical values (Sutedi, 2011).

Based on the background above, there is a great interest of researchers to conduct research on Sharia principles and compliance with Islamic rules. In addition, in this study, researchers wanted to find out the influence / impact of corporate governance and Sharia principles on the financial performance of a bank. Based on this, the research conducted by the researcher has the title: **"The Effect of Sharia Compliance and Islamic Corporate Governance on Financial Performance in Islamic Commercial Banks in Indonesia for the 2016-2021 Period".** The sample used in this study consisted of 7 banks, including:

METHOD

In this research, the writer uses quantitative research with a secondary data measurement approach. Quantitative research is research based on the philosophy of positivism to examine certain populations or samples with the aim of testing hypotheses (Sugiyono, n.d.)

The variables studied consisted of an independent variable (X), namely sharia compliance as measured by islamic income ratio, profit sharing ratio, Islamic investment ratio, zakat performance ratio and Islamic corporate governance. And the dependent variable (Y) of financial performance. The type of data used in this study is secondary data sourced from annual financial statements and reports on good corporate governance of Sharia Commercial Banks in Indonesia for the 2016-2021 period. The source of this research data was obtained from the official website of each Sharia Commercial Bank in Indonesia. The population used is all buses registered at Bank Indonesia and OJK for the 2016-2021 period. This study used purposive sampling techniques. The sample used in this study consisted of 7 banks, including: Bank Muamalat Indonesia, Bank Victoria Syariah, Bank Panin Dubai Syariah, Bank BJB Syariah, Bank Syariah Bukopin, Bank BCA Syariah, and Bank Mega Syariah. Its data analysis method uses descriptive statistical analysis, the classical assumption test consists of normality test, Multicholinearity test, autocorrelation test, and heteroskedasticity test, hypotest test (Syafina & Harahap, 2019).

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RESULTS

In panel data regression, the first thing to do is to choose the right model to use. In the panel data regression, there are 3 regression models, namely the Common Effect model, Fixed Effect, Random Effect model.

Table 1. Panel data regression results by using Fixed Effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-39.82917	9.504525	-4.190547	0.0002
ISIR	37.49887	9.422325	3.979790	0.0004
PSR	6.461852	2.692772	2.399703	0.0228
IIR	-4.119739	2.638536	-1.561373	0.1289
ZPR	-0.880180	0.480108	-1.833294	0.0767
ICG	1.535895	0.661665	2.321258	0.0273
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.723936	Mean dependent var		-0.375714
Adjusted R-squared	0.622713	S.D. dependent var		2.839535
S.E. of regression	1.744148	Akaike info criterion		4.185365
Sum squared resid	91.26152	Schwarz criterion		4.681842
Log likelihood	-75.89267	Hannan-Quinn criter.		4.367344
F-statistic	7.151872	Durbin-Watson stat		2.148746
Prob(F-statistic)	0.000008			

Based on the table above, it can be concluded that, the constant value of -39.82917 means that if the variables IsIR (X1), PSR (X2), IIR (X3), ZPR (X4) and ICG (X5) are zero (0) or fixed values, then the variable Y has a value of -39.82917.

Table 2. Partial Test Results (t-test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-39.82917	9.504525	-4.190547	0.0002
ISIR	37.49887	9.422325	3.979790	0.0004
PSR	6.461852	2.692772	2.399703	0.0228
IIR	-4.119739	2.638536	-1.561373	0.1289
ZPR	-0.880180	0.480108	-1.833294	0.0767
ICG	1.535895	0.661665	2.321258	0.0273

Based on the table above, it is concluded that variable X1 (ISIR), variable X2 (PSR) and variable X5 (ICG) have a positive and significant influence on variable Y (ROA). While the variables X3 (IIR) and X4 (ZPR) have a negative and insignificant influence on variable Y (ROA).

a. Effect of Islamic Income Ratio (IsIR) on Financial Performance (ROA)

Based on the results of the t test, it was concluded that the Islamic Income Ratio (IsIR) has a positive and significant effect on financial performance (ROA). As is well known, sharia principles strongly support halal transactions and prohibit transactions involving maisir, gharar, and usury. Thus, if the higher the halal income obtained by Islamic banks, the higher the Islamic bank will get halal profits.

b. Effect of Profit Sharing Ratio (PSR) on Financial Performance (ROA)

Based on the results of the t test, it was concluded that the Profit Sharing Ratio (PSR) has a positive and significant effect on financial performance (ROA). Profit sharing ratio (PSR) is the profit sharing rate derived from musyarakah and mudharabah financing. To find out the ratio/comparison value, the amount of musyarakah and mudharabah insurers is distributed with the entire amount of financing. This profit sharing rate can determine the size of the profit obtained by the bank. And this certainly has an influence on the financial performance of a bank.

c. Effect of Islamic Investment Ratio (IIR) on Financial Performance (ROA)

Based on the results of the t test, it was concluded that the Islamic investment ratio (IIR) did not have a significant effect on financial performance (ROA). Investments that move in sharia should stay away from things that are not in accordance with sharia. However, there are still non-halal investments obtained by Islamic banks, this is evidenced by the number of non-halal investments in financial statements. This will reduce the financial performance of Islamic banks and reduce public trust in Islamic banks. So that this can have an impact on the profitability obtained by Islamic banks.

d. Effect of Zakat Performing Ratio (ZPR) on Financial Performance (ROA)

Based on the results of the t test, it was concluded that the zakat performing ratio (ZPR) did not have a significant effect on financial performance (ROA). Zakat payments in Islamic banks to replace conventional performance, namely profit per share. The assets of Islamic banks are large, so zakat payments are high. However, the high net assets owned are not offset by zakat expenditures that are in accordance with nishab. Most Islamic banks issue zakat below 2.5% not comparable to their net assets. So that this will reduce financial performance which will not have an effect on the profitability obtained by Islamic banks.

e. Effect of Islamic Corporate Governance (ICG) on Financial Performance (ROA)

Based on the results of the t test, it was concluded that Islamic Corporate Governance (ICG) has a positive and significant effect on financial performance (ROA). The higher the composite predicate of Islamic corporate governance (ICG), the better the financial performance of Islamic commercial banks.

CONCLUSION

The conclusions of the research on the Effect of Sharia Compliance and Islamic Corporate Governance on the Financial Performance of Islamic Commercial Banks in Indonesia for the 2016-2021 Period, among others:

1. Sharia compliance with the Islamic Income Ratio (IsIR) indicator has a positive and significant influence on the financial performance of Islamic commercial banks in Indonesia for the 2016-2021 period.
2. Sharia compliance with the Profit Sharing Ratio (PSR) indicator has a positive and significant influence on the financial performance of Islamic commercial banks in Indonesia for the 2016-2021 period.
3. Sharia compliance with the Islamic Investment Ratio (IIR) indicator has a negative and insignificant influence on the financial performance of Islamic commercial banks in Indonesia for the 2016-2021 period.
4. Sharia compliance with the Zakat Performing Ratio (ZPR) indicator has a negative and insignificant influence on the financial performance of Islamic commercial banks in Indonesia for the 2016-2021 period.
5. Islamic Corporate Governance (ICG) has a positive and significant influence on the financial performance of Islamic commercial banks in Indonesia for the 2016-2021 period.
6. Islamic Income Ratio (IsIR), Profit Sharing Ratio (PSR), Islamic Investment Ratio (IIR), Zakat Performing Ratio (ZPR), and Islamic Corporate Governance (ICG) together influence the financial performance of Islamic Commercial Banks in Indonesia for the 2016-2021 period.

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