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Influence of Corporate Governance On Profit of Islamic Banks in Indonesia Period 2016-2020

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Abstract

Profitability in Islamic banks is one of the most critical elements. Meanwhile, corporate governance becomes the central aspect of Islamic banks in the company's internal management, including the quality of financial statements that have implications for profitability. The small proportion of independent boards of commissioners, audit committees, and board of directors leads to a potential decrease in profits at Islamic banks in Indonesia. This phenomenon is caused by the management of companies, including Islamic banks, less responding to the situation. The independent variables of this research are the proportion of separate boards of commissioners, audit committees, and boards of directors. At the same time, the dependent variable is profit. The data used in secondary data is the annual report of Islamic banks in Indonesia in 2016-2020. The analysis method uses multiple regression analysis of panel data. This study showed that the audit committee affected profits while the proportion of independent boards of commissioners and directors did not affect profits.

Keywords: *Profit, Corporate Governance, Proportion of Independent Board of Commissioners, Audit Committee, Board of Directors*

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1. INTRODUCTION

The history of establishing Islamic banks in Indonesia began with various seminar activities on bank interest. In addition, the establishment of Islamic banks in Indonesia was also strongly supported by the Indonesian Ulema Council (MUI), which K.H. then chaired. Hasan Basri (alm) (Z, 2012). Then this was further strengthened by the holding of deliberations conducted by the Indonesian Muslim Scholars Association (ICMI) to support the establishment of Islamic banks in Indonesia. This business implies that in 1992 Bank Muamalat Indonesia was formed as the first Islamic bank in Indonesia. A bank is an employment entity that collects funds from the community in deposits and distributes them to the community in credit or to improve its living standard (D'Amato & Gallo, 2019). Islamic bank is a bank that is run based on sharia principles. The scholars argue that the establishment of Islamic banks is to eliminate tyranny in the economic system, especially the existing system in banking. Islamic banks are guided by a banking system that holds sharia principles, one of which is a violation of the element of riba (Siregar, 2019).

One of the goals of a company is to get profit. Profit is one of the elements that must be fulfilled in running a business. The increase in finance is usually measured by looking at company management's ability to manage assets and capital. No company is oriented to profit that does not prioritize profits in its business (Afkar, 2018). Profit is several assets resulting from sales in a certain period that has been reduced by the cost of goods sold and costs or can also be called net income. To increase profit/ profit, sales are necessary. Several factors increase the profit of Islamic banks, one of which is that Islamic banking can improve and maintain the quality of financing so that receipts from financing increase (Kurniawan & Khafid, 2016). Profit to show the success of the company in making profits. Potential investors will carefully analyze the smooth running of a company and its ability to profit. Here researchers will explain the net income of Islamic commercial banks from 2016-2020.

Table 1
Development of Net Income of Islamic Commercial Banks
(In millions of Rupiah)

No.	Islamic Bank	2016	2017	2018	2019	2020
1	Bank Maybank Syariah	3,529,338	1,892,096	2,701,100	2,163,127	1,613,692
2	Bank Mega Syariah	110,214.07	141,215.24	46,577.07	49,150.92	131,727
3	Bank Muamalat	80,511.09	26.115,56	46,002.04	16,326.33	10,019.74
4	Bank Panin Dubai Syariah	19,540.91	968.851,3	20,788.23	13,237.01	128.12
5	Bank Syariah Bukopin	27,778	1,648	2,245	1,729	845
6	Bank Syariah Mandiri	325,414	365,166	605,213	1,275,034	1,434,488
7	Bank Victoria Syariah	18,473	4,594	4,974	913	215
8	BCA Syariah	368,163.36	47,860.234	58,367.07	67,193.539	73,105.88
9	BJB Syariah	414,714	383,427	16,897	15,399	3,682
10	BNI Syariah	277,000	307,000	416,000	60,315	505,000
11	BPD Aceh Syariah	246,588.93	383,694.75	330,807.73	452,327	333,158
12	BRI Syariah	170,209	101,091	106,600	74,016	248,054
13	BTPN Syariah	412,495	670,182	965,311	1,399.63	854,614
14	Bank NTB Syariah	202,922	126,044	166,219	163,249	130,166
Total		**1,889,170.29**	**5,292,941.08**	**5,320,882.14**	**4,190,167.43**	**5,208,728.74**

Source: Processed Data

The company's performance can be assessed through profit revenue. If the company's performance is good, then profit growth increases, and vice versa; if the company's performance is not good, then profit growth will decrease. Better profitability will make investors more confident to then invest in the company. In the table above, the net income of Islamic commercial banks fluctuates so that what happens to Islamic commercial banks does not fit the theory.

In financial institutions, the principle of corporate governance is well known in banking, especially Islamic Banks. Indonesian Banking Corporate Governance Guidelines were issued by the National Committee on Corporate Governance Policy in January 2004. Bank Indonesia Circular Letter explaining the implementation of corporate governance for Commercial Bank No. 9/12/DPNP dated May 30, 2007, and stipulated Bank Indonesia Regulation No. 8/4/PBI/2006 dated January 30, 2006, on the implementation of corporate governance for Commercial Banks and Bank Indonesia Regulation No. 8/14/PBI/2006 dated October 5, 2006, on Changes to Bank Indonesia Regulations and Bank Indonesia Regulations No. 11/33/PBI/2009 dated December 7, 2009, concerning the implementation of good corporate governance for Islamic commercial banks and Sharia business units.

Corporate governance is a system used in directing and controlling a company's business activities.(Ali & Sudradjat, 2006)In other words, corporate governance is the division of duties and responsibilities between participating parties. It is interested in its direction and control, including the board of directors, managers, shareholders, and other stakeholders. Corporate governance is based on agency theory. The existence of this theory reduces problems or conflicts that occur between shareholders and management (Lukviarman, 2017). In other words, corporate governance is the division of duties and responsibilities between participating parties. It is interested in its direction and control, including the board of directors, managers, shareholders, and other stakeholders. Corporate governance is based on agency theory. The existence of this theory reduces problems or conflicts that occur between shareholders and management. According to Jensen and Meckling, an Agency relationship is a contract where the principal hires the agent to carry out tasks and entrusts the decision-making authority to the agent (Harun et al., 2020).

The goal of Islamic bank shareholders is to maximize profits and expand the business by strengthening the recruitment of more customers in the long run (Harun et al., 2020). Most customers choose Islamic banks for religious reasons because to ensure that banking operations adhere to sharia principles. Non-compliance with Shariah can make the loss of income in the short term and adversely affect reputation in the long run (Díaz & Huang, 2017). BCBS insists that the governance framework in Islamic banks must have close oversight to safeguard reputational risk and should include it in risk management.

The corporate governance mechanisms studied are independent boards of commissioners, audit committees, and directors. An independent board of commissioners is a member of the board of commissioners who have no relationship with the company's owner—the more significant the proportion of independent boards of commissioners, the maximum the supervisory function. The existence of independent commissioners aims to maintain fairness, create a more objective and independent climate, and provide a balance between the interests of majority shareholders and the interests of minority shareholders.

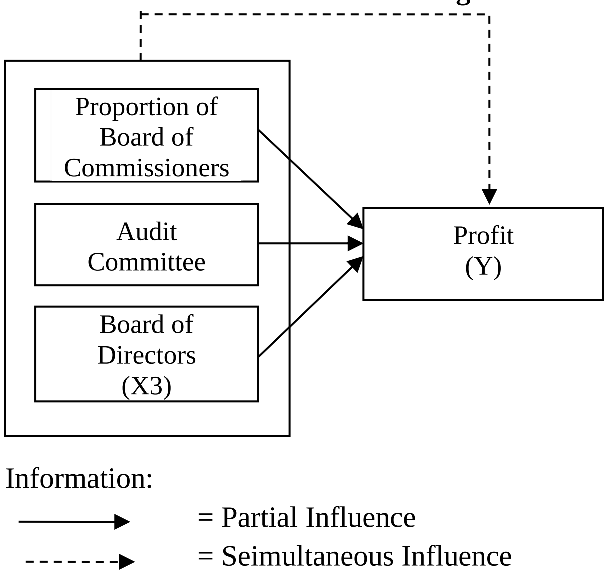
An audit committee is formed to help carry out the duties and functions of the board of commissioners. The audit committee has a substantial and strategic role in maintaining the credibility of the financial statement preparation process, ensuring the implementation of corporate governance, and creating an adequate corporate supervision system (Lukviarman, 2017). Next is the board of directors, the corporate body responsible for maintaining and controlling the interests of shareholders. The greater the number of boards of directors, the more optimal the company's financial performance. The number of board of directors significantly affects the accuracy and speed of the company's decision-making. The board of directors must also be careful in carrying out policies that often conflict, such as the option to take risks for the sake of return, as if risking the interests of stakeholders at stake (Ali & Sudradjat, 2006). The role of the board of directors is crucial for the company, especially when studying agency relations, because the board of directors working for stakeholders will consistently oversee all activities of the company and ensure that shareholder rights are not threatened.

Research on CG has been done a lot, especially in Indonesia. However, there are still differences in the results of his research. Several previous researchers have studied previous research examining the proportion of independent boards of commissioners on profitability. Research conducted by Nungky Wanodyatama Islami states that the proportion of independent board members positively affects profitability (Islami, 2018). In contrast to the analysis of Agung Santoso Putra and Nila Firdausi Nuzula, which says that the proportion of independent board of commissioners does not significantly influence profitability.

Furthermore, previous research that examined the audit committee on profitability has been studied by several previous researchers. Like research conducted by Nungky Wanodyatama Islami, which states that the audit committee negatively affects the company's profitability. Inversely proportional to the analysis of Luh Putu Ari Anjani and Putu Yadnya, who noted that the Audit Committee had a significant positive effect on profitability (Anjani & Yadnya, 2017).

Previous researchers have also researched recent research examining the board of directors on profitability. The study conducted by DompakPasaribu and Melisa Simatupang states that the board of directors has a positive and insignificant effect on profitability (ROA) (Pasaribu & Simatupang, 2020). In contrast to the research of Luh Putu Ari Anjani and Putu Yadnya, who stated that the Board of Directors had a negative but insignificant effect on profitability.

Figure1
Framework of Thought



X_1 (Independent Variables) = Proportion of Board of Commissioners Independent
X_2 (Independent Variables) = Audit Committee
X_3 (Independent Variables) = Board Of Directors
Y (Dependent Variables) = Profit

Based on figure 1 above, this research hypothesis is:

1. Partially an independent board of commissioners, audit committee, and board of directors affect profitability.
2. Simultaneously an independent board of commissioners, audit committee, and board of directors influence profitability.

2. METHOD

The type of research conducted is quantitative research with secondary data types. Sample selection uses purposive sampling. The sample selection criteria are as follows:

Table 2
Purposive Sampling

No.	Criteria Description	Total
1.	Sharia commercial banks in Indonesia 2016-2020	14
2.	Islamic banks that do not provide data according to variables	(2)
3.	Islamic banks that do not provide annual reports	(1)
4.	Total Islamic commercial banks in Indonesia and have consistent annual reports for 2016-2020	11
5.	Multiplied by the research period	11x5
6.	Total research sample	55

Data is obtained from annual reports sourced from the official website of Islamic commercial banks. The independent variables used in this study are the proportion of separate boards of commissioners, audit committees, and boards of directors. While the dependent variable used is net income. The measurement indicator can be seen in the table. Data panels are used to analyze data.

Table 3
Measurement Indicator

No.	Variables	Indicator	Measurement
1.	CG	Proporsi Dewan Komisaris Independen	Number of Independent Commissioners 100%Number of All Board Commissioners
		Audit Committee	∑ Members of The Audit Committee
		Board of Directors	Board of Directors = ∑ Board of Directors
2.	Profit	Net Income	Gross Profit – Business Expenses

The analysis method used is a regression analysis of panel data studied using the analysis tool, namely Eviews 8 software. The regression equation with panel data is as follows:

$$Y_{it} = \beta_0+\beta_1X_{1it}+\beta_2X_{2it}+\beta_3X_{3it}+e$$

Information:
Y_{it} : Profit
β_0 : Constant
β_1 β_2 β_3 : Independent Variable Coefficient
X_{1it} X_{2it} X_{3it} : Proportion of Board of Independent Commissioners, Audit Committee, Board of Directors

3. RESULT

The data in this study is panel data. Panel data is a combination of time-guided data or (time series) and cross-section data.(Widarjono & Pengantar, 2016)This research uses E-views 8 software as a tool to process data. Here are the results of this study:

Table 4
Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.90019	0.906737	26.35845	0.0000
Proportion of Board of Independent Commisioners	0.037434	0.104762	0.357318	0.7223
Audit Committee	1.222527	0.533336	2.292228	0.0261
Board of Directors	0.382123	0.783181	0.487912	0.6277
R-squared	0.189144	Mean dependent var		39.33891
Adjusted R-squared	0.141446	S.D. dependent var		22.08884
S.E. of regression	2.158648	Sum squared resid		237.6478
F-statistic	3.965492	Durbin-Watson stat		1.032272
Prob(F-statistic)	0.012887			

Based on the table above, the results of this study are:

a. The variable proportion of the independent board of commissioners (X1) has a probability value (Prob) of 0.7223 > (α) 0.05, so Ha is rejected. This could explain that the higher the proportion of the board of commissioners does not guarantee the increase in the company's profits. The addition of independent commissioners is just a formality of the company in carrying out Corporate Governance, while the majority shareholders have more roles so that the performance of the board of commissioners can be intervened. In addition, supervision carried out by independent boards of commissioners has not reduced agency costs. Refers to findings of Agung Santoso Putra and Nila Firdausi Nuzula, who stated that the proportion of independent board of commissioners does not significantly influence profit (ROE and ROA).

b. The audit committee variable (X2) has a probability value of 0.0261 < (α) 0.05, so ha is accepted. The more members of the audit committee, financial performance will be well monitored and have implications for improving the company's performance. The audit committee plays a role in assisting the board of commissioners in overseeing the company's activities, especially in the supervision and internal control of the company. The audit committee also plays a bridging role between external auditors and internal auditors. Supervision carried out by the audit committee on the company's internal controls will minimize fraud committed by management for its own sake. The research refers to Luh Putu Ari Anjani and Putu Yadnya, which found that the audit committee significantly affected profits.

c. The board of director variable (X3) has a probability value of 0.6277 > (α) of 0.05, so Ha is rejected. The board of directors plays a role in the company's sustainability, but the more the number of boards of directors, the more differences of opinion decide the company's essential policies to increase the company's profits. Refers to research by Nungky Wanodyatama Islami, which found that the board of directors negatively affects the company's profits.

d. Simultaneously the proportion of independent board of commissioners, audit committee, and board of directors has an F-statistics probability value of 0.012887 < (α) 0.05 so that Ha is accepted. Refers to Ika Prayanthi's research which found that the board of directors, proportion of independent commissioners, and audit committees simultaneously influence profit (ROE).

4. DISCUSSION

Based on the description of the results of hypothesis testing analysis using panel data and discussion of research results can be concluded as follows:

a. The proposed independent board of commissioners does not affect profit
b. Audit committees have a positive and significant effect on profit
c. The board of directors does not affect profit
d. The proportion of independent boards of commissioners, audit committees, and directors simultaneously/together affects profitability.

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