

# THE ROLE OF GOOD CORPORATE GOVERNANCE (GCG) IN MAXIMIZING THE FINANCIAL PERFORMANCE OF ISLAMIC BANKING IN INDONESIA

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## Abstract

The growth in the financial performance of Islamic banking in Indonesia is still an exciting discourse to discuss. This is because Indonesia, which is a Muslim country with the largest market share of halal products in the world, does not yet have a Sharia financial industry whose performance is classified as useful. The research attempts to explain how the principles of good corporate governance with the addition of Islamic principles can be a solution for the development of Islamic banking performance. The research method uses a qualitative approach and literature study. The results obtained from this study are that good corporate governance is expected to improve the company's financial performance in terms of managing company fixed assets, utilizing human resources, utilizing financial capital and maximizing corporate structure.

**Keywords:** financial performance, Islamic banking, good corporate governance (GCG), Islamic Perspective

## Abstrak

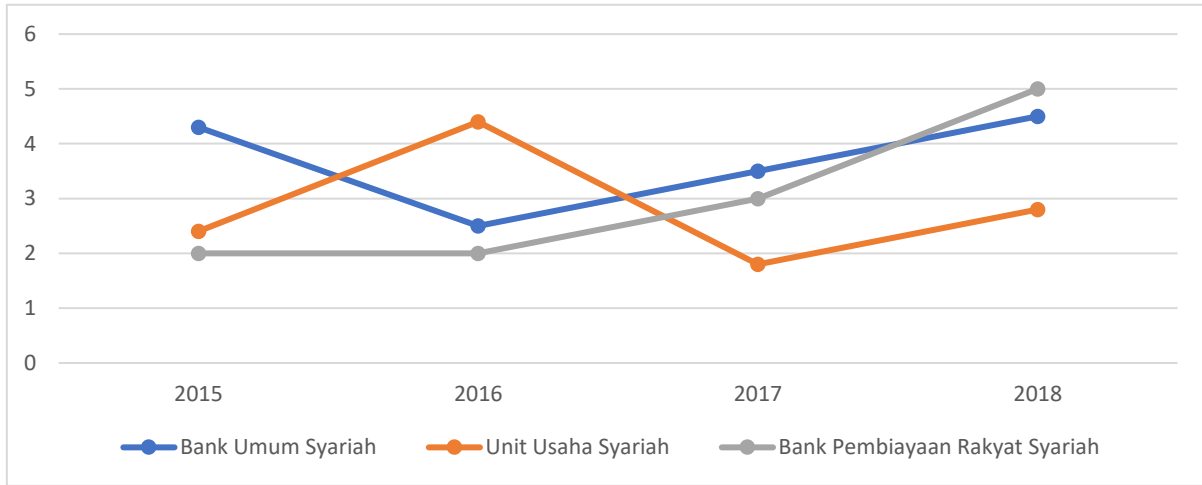
Pertumbuhan kinerja keuangan perbankan syariah di Indonesia masih menjadi wacana yang menarik untuk dibahas. Pasalnya, Indonesia yang merupakan negara muslim dengan pangsa pasar produk halal terbesar di dunia, belum memiliki industri keuangan syariah yang kinerjanya tergolong bermanfaat. Penelitian ini mencoba menjelaskan bagaimana prinsip-prinsip good corporate governance dengan penambahan prinsip syariah dapat menjadi solusi bagi pengembangan kinerja perbankan syariah. Metode penelitian menggunakan pendekatan kualitatif dan studi kepustakaan. Hasil yang diperoleh dari penelitian ini adalah good corporate governance diharapkan dapat meningkatkan kinerja keuangan perusahaan dalam hal pengelolaan aktiva tetap perusahaan, pemanfaatan sumber daya manusia, pemanfaatan modal keuangan dan pemaksimalan struktur perusahaan.

**Kata Kunci:** kinerja keuangan, perbankan syariah, tata kelola perusahaan yang baik (GCG), perspektif Islam

## 1. Introduction

Based on a survey conducted by Thompson Reuters in 2017 on the size of the Islamic financial market worldwide, the condition of the Islamic financial market in Indonesia has much potential that can be developed. Unfortunately, even though it has the largest Muslim population of all countries in the world, the market share of the Islamic finance industry in Indonesia is still far from the share of the Islamic economy and finance market in a number of countries. Malaysia reached 23.8 per cent, the United Arab Emirates 19.6 per cent, and Saudi Arabia 51.1 per cent (*Pangsa Pasar Ekonomi dan Keuangan Syariah Masih Minim*, 2019).

**Figure 1. Development of Islamic Bank Assets in Indonesia**



Source: Indonesian Financial Services Authority (OJK)

The growth of Islamic banking assets in Indonesia shows a significant development. The Financial Services Authority (OJK) recorded an increase in sharia banking assets (Sharia Business Entities and Sharia Business Units) in October 2019 of 10.15 per cent (YoY), that is, an increase from IDR 477 trillion in 2018 to IDR 513 trillion..(Statistik Perbankan Indonesia, 2019) he increases also occurred in the market share of the Islamic banking industry to the national banking industry. Market share growth when compared to the share of Islamic banks in the banking industry which has reached 6.01% as of October 2019 according to data from the Financial Services Authority (OJK) or reached IDR 513 trillion. When detailed, this achievement is the highest in history and increased from the beginning of 2019 to September 2019 which amounted to 5.94% (Mediatama, 2019).

Statistical data shows that the condition of domestic Islamic banking is quite good. However, there are significant challenges that must be faced, including the scale of Islamic bank assets, generally relatively small, there are only two Islamic banks with asset sizes above IDR 40 trillion, and the focus of services provided is also still limited in the retail segment including MSMEs and consumers (*SPS Desember 2018*, 2018). Meanwhile, at the ASEAN level, such as Malaysia, there is more than one Islamic bank with an asset scale of more than Rp 175 trillion, with more varied service segments and more efficient operations. At the end of 2019, the overall assets of Islamic banking in Malaysia reached Rp. 2,789 Trillion (*Aset Perbankan Syariah Malaysia Capai Rp 2.789 Triliun*, 2020).

Bank financial performance is an illustration of the level of success achieved by the bank in its operational activities (Wahyuni & Sukartha, 2019, p. 391). The financial performance of banks is a significant and essential factor in assessing the overall performance of the banking system itself, starting from assessing assets, debt, liquidity and more. The performance of a bank can be assessed by analyzing its financial statements. To be able to maximize the management of Sharia financial services companies and produce maximum performance, a supervisory process and good corporate governance are needed.

Good Corporate Governance (GCG) according to the Cadbury Committee is defined as the principle of directing and controlling the company in order to achieve a balance between the power and authority of the company in providing accountability to shareholders. Meanwhile, according to the Center for European Policy Studies (CEPS), Good Corporate Governance is an entire system that is formed from rights, processes and controls, both inside and outside company management (Sutedi, 2011, p. 1).

Good Corporate Governance (GCG) in an Islamic perspective is defined as a company effort to find ways of managing the economy, legal system and corporate governance that are directed by moral and social

values based on Sharia Law. Islamic banking operations cannot be separated from the demands of implementing good corporate governance and based on Sharia principles, which is referred to as Islamic Corporate Governance (ICG).

The application of corporate governance based on Islamic principles indicates to the public that Islamic institutions, especially banks, can carry out company management using principles that are following Islamic law. Research on the influence of ICG on the financial performance of Islamic banks was conducted by (Kusuma & Rosadi, 2019). Where in his research the Board of Commissioners Size, Audit Committee Size, Sharia Supervisory Board Size, Frequency of Financial Performance Sharia Supervisory Board Meeting are used as a proxy for Islamic Corporate Governance (ICG). From the results of this study, it is found that there is a positive and significant relationship between the Board of Commissioners Size, Audit Committee Size on the financial performance of Islamic banks.

Based on the description put forward on the background of the above problems, we can see that the financial performance of Islamic banking in Indonesia is still not as expected. So this paper will focus on three things, namely: first, an overview of financial performance in Islamic Banking in Indonesia. Second, such as the implementation of Good Corporate Governance (GCG) from an Islamic perspective. Third, how Good Corporate Governance (GCG) can maximize the Financial Performance of Islamic Banks.

## **2. Methods**

The approach used in this study is a qualitative approach (Sugiyono, 2017). This research was designed in the form of library research using various sources of literature as a source of research data. In addition to using sources from the research literature, the three studies use financial statement data as a reference to determine the size of the primary variable, namely the financial performance of Islamic banking.

## **3. Islamic Banking Financial Performance**

### **3.1. Definition of Financial Performance**

Financial performance is an activity of analyzing to see to what extent the company has used the rules of financial implementation properly. Financial performance is one of the benchmarks that can be used to determine the success of a company is running its business (Wahyuni & Sukartha, 2019, p. 391). To find out the state of the company's financial performance, stakeholders will usually conduct an analysis using financial ratios. Various financial ratio analyzes can be done by looking at financial reports, one of which is the profitability ratio.

To find out the state of the company's financial performance, stakeholders will usually conduct an analysis using financial ratios. There are various financial ratio analyzes that can be done by looking at financial reports, one of which is the profitability ratio. Performance measurement in Islamic banks mostly uses the same measurement as conventional banks, namely by calculating the CAMELS ratio (Capital, Asset, Management, Earning, Liquidity, Sensitivity of Market Risk) and starting in 2011 it was replaced by the RGEC approach (Risk Profile, Good Corporate Governance, Earning and Capital.)

If we return to the concept of the objective of establishing a sharia banking system, the measurement used to measure the performance of Islamic banking should be more specific and directed towards the goals to be achieved based on sharia principles. Measurement of the performance of Islamic banking must also be measured in terms of sharia objectives (maqashid syariah) so that it can be seen whether the banking performance or muamalah activities carried out are following the values and principles of sharia.

### **3.2. Financial Performance Objectives**

In managing a company, financial performance measurement becomes something significant and fundamental. There are several objectives for measuring financial performance, which is described as follows.:

- 3.2.1. Knowing the level of liquidity, which is the company's ability to meet financial obligations that must be completed immediately when they are collected.

- 3.2.2. Knowing the level of solvency, namely the company's ability to meet its financial obligations if the company is liquidated, the financial obligations in question include short-term and long-term finance.
- 3.2.3. Knowing the level of profitability or profitability, namely the company's ability to generate profits for a certain period by using assets or capital productively.
- 3.2.4. Knowing the level of stability, namely the company's ability to run and maintain its business so that it remains stable. This ability is measured by the company's ability to pay the principal debt and interest expense on time.

### 3.3. Profitability as a proxy for the financial performance of Islamic banks.

Profitability is the company's ability to earn profits and measures the rate of return on the investment made. Profitability also reflects the performance of management in maintaining the effectiveness of the company's operations (Sukamulja, 2019, p. 97). Profitability theory as a reference in measuring the amount of profit is critical to find out whether the company is running its business efficiently. The efficiency of a new business can be found after comparing the profits obtained with the assets or capital that generate these profits.

We can understand the Islamic view of getting profit from Allah's command, which obliges each of his servants to work to fulfil his life needs and determine the personal value or self-worth of every Muslim. As explained in the following paragraph:

#### 3.3.1. QS. Al-Jumu'ah (62):10

فَإِذَا قُضِيَتِ الصَّلَاةُ فَانْتَشِرُوا فِي الْأَرْضِ وَابْتَغُوا مِنْ فَضْلِ اللَّهِ وَاذْكُرُوا اللَّهَ كَثِيرًا لَعَلَّكُمْ تُفْلِحُونَ

*When the prayers have been fulfilled, they will be scattered on the face of the earth; and seek the gift of Allah and remember Allah a lot so that may be lucky.*

#### 3.3.2. QS. Al-Ahqaaf (46):19

وَلِكُلِّ دَرَجَاتٍ مِمَّا عَمِلُوا ۖ وَلِيُوَفِّيَهُمْ أَعْمَالَهُمْ وَهُمْ لَا يَظْلَمُونَ

*And for each of them the degree according to what they have done and so that Allah suffices for them (reward) their works while they are not harmed.*

Besides, it is hoped that from working someone can provide the best possible benefit to others to achieve the development and progress of the economy of society in general. One type of work that can be done is by trading or by conducting business activities.

The hadiths related to profit are found in the hadiths of the history of Bukhari and Muslim, as follows.:

*"A believer is like a trader: he will not receive a profit until he gets the principal capital.*

*Likewise, a believer will not get his sunnah practices until he has received his obligatory practices.."*

(HR. Bukhori dan Muslim).

In the hadith, Rasulullah likens a believer to a merchant, so a trader cannot be said to be lucky before he gets his principal capital. Likewise, a believer does not get a reward or reward from his sunnah practices unless he has completed the deficiencies contained in his obligatory practice (Darmawan & Fasa, 2020, p. 145).

From the hadith, it is known that profit is a spare part after completing the principal capital. This understanding is following the information about profit in Arabic and in the Al-Qur'an, which is the increased capital.

Here are some rules about profit in the context of Islam:

- a. The possessions (money) devoted to trading.
- b. Operate the capital interactively with other elements related to production, such as businesses and natural resources.
- c. Positioning treasure as an object in its playback due to the possibility of increase or subtraction of its number.
- d. Save principal capital which means capital can be returned (Darmawan & Fasa, 2020, p. 146).

#### **4. Good Corporate Governance (GCG)**

##### **4.1. The Definitions of Good Corporate Governance (GCG)**

The Cadbury Committee first introduced the term Corporate Governance in England in 1992, which used the term in their report called the Cadbury Report. The Forum for Corporate Governance in Indonesia (FCGI) defines Corporate Governance as a set of regulations that determine the relationship between shareholders, management, creditors, government, employees and other internal and external stakeholders concerning their rights and obligations or in other words, a system that regulates and controls the company to create added value for all interested parties (Sutedi, 2011, p. 2).

The goal of corporate governance is to create added value for stakeholders. Corporate governance is a concept proposed to improve company performance through supervision or monitoring of management performance as well as ensuring management accountability to stakeholders based on a regulatory framework. The implementation of good and consistent corporate governance can make all activities in the company run effectively and efficiently, and this is because the practice of implementing corporate governance aims to protect the interests of stakeholders so that it will create a harmonious atmosphere in the company environment.

Good corporate governance must provide the right incentives for boards and management to pursue goals for the benefit of the company and its shareholders and facilitate effective oversight. With this intensive provision, management is expected to improve its performance. Management performance can be measured by its ability to manage resources to generate profits. An then the corporate governance has an impact on management behaviour to act following the wishes of the principal, namely a high rate of return/profit..

According to the Forum for Corporate Governance in Indonesia (FCGI) the benefits of the implementation of Corporate governance, among others:

- 4.1.1. Improving the company's performance through the creation of better decision-making processes, improving the company's operational efficiency, and further improving services to stakeholders.
- 4.1.2. Facilitate the obtaining of cheaper financing funds (due to trust factors) that will ultimately increase corporate value.
- 4.1.3. Restoring investor confidence to invest in Indonesia.
- 4.1.4. Shareholders will be satisfied with the company's performance as it will simultaneously increase shareholders value and dividends.

With the implementation of good corporate governance in a company, it can reduce or avoid conflicts of interest that occur between principals and agents in the company, with excellent and practical implementation in the company, it is expected to improve company performance.(Muhamad, 2016, p. 533)

##### **4.2. Good Corporate Governance (GCG) in Islamic Perspective**

According to Najmudin, corporate governance in Islam is a system that directs and controls a company to fulfil its goals by protecting the interests and rights of all stakeholders by using the basic concept of decision making based on Islamic socio-scientific epistemology which is based on the unity of Allah..(Najmuddin, 2011)

Meanwhile, Bhatti and Bhatti (2009) in their writing explain that Islamic Corporate Governance

considers the effects of sharia law and Islamic economic and financial principles on practices and policies, for example in zakat institutions, prohibiting speculation, and developing an economic system based on profit sharing (Bhatti & Bhatti, 2009). Decision-making that takes place goes beyond the context of conventional corporate governance which includes shareholders, suppliers, creditors, consumers, competitors and employees (Lewis, 2006). The main objective of Islamic Corporate Governance is Maqasid Shariah which refers to the welfare of society. (Hasan, 2009)

*Corporate governance is not only related to structure, but also to corporate governance mechanisms* (Lukviarman, 2004). The mechanism that differentiates between conventional and Sharia companies is the decision-making mechanism. Decision-making in sharia companies is based on Islamic law. Namely, the Al Qur'an and Sunah Rasulullah saw, while companies with conventional corporate governance emphasize compliance with laws and government regulations.

The principles of implementing Corporate Governance in Islam are taken from the four mandatory characteristics of the Prophet Muhammad, namely Siddiq, Amanah, Tabligh, and Fathanah. The four mandatory characteristics of the apostle are the characteristics of leadership in Islam which are described as follows.:

#### 4.2.1. Shiddiq

Shiddiq means honest, meaning that what is conveyed is the actual situation. People with these characteristics feel that God is always there to watch over their behavior, so they are afraid to lie. Honesty is one of the main pillars in Islamic corporate governance. Some of the legal bases regarding the nature of this shiddiq are:

- (1) Surah At-Taubah (9):119

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَكُونُوا مَعَ الصَّادِقِينَ

Everybody who believe, fear Allah and be with the righteous In addition, in a hadith the Prophet Muhammad said:

عَنْ عَبْدِ اللَّهِ بْنِ مَسْعُودٍ رَضِيَ اللَّهُ عَنْهُ قَالَ : قَالَ رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ : عَلَيْكُمْ بِالصِّدْقِ ، فَإِنَّ الصِّدْقَ يَهْدِي إِلَى الْبِرِّ ، وَإِنَّ الْبِرَّ يَهْدِي إِلَى الْجَنَّةِ ، وَمَا يَزَالُ الرَّجُلُ يَصْدُقُ وَيَتَحَرَّى الصِّدْقَ حَتَّى يَكْتَبَ عِنْدَ اللَّهِ صِدْقًا ، وَإِيَّاكُمْ وَالْكَذِبَ ، فَإِنَّ الْكَذِبَ يَهْدِي إِلَى الْفُجُورِ ، وَإِنَّ الْفُجُورَ يَهْدِي إِلَى النَّارِ ، وَمَا يَزَالُ الرَّجُلُ يَكْذِبُ وَيَتَحَرَّى الْكَذِبَ حَتَّى يَكْتَبَ عِنْدَ اللَّهِ كَذِبًا

*From 'Abdullâh bin Mas'ûd Radhiyallahu anhumâ, he said: "Rasûlullâh Shallallahu 'Alayhi wa Sallam said, 'Be honest because honesty leads to goodness, and goodness leads one to Heaven. Furthermore, if someone always acts honestly and still chooses, to be honest, it will be recorded in the side of Allâh as an honest person. Furthermore, stay away from you from lying, because lying leads someone to evil, and evil leads someone to Hell. Moreover, if someone always lies and chooses a lie, it will be recorded in Allah's side as a liar."*

(HR AI-Bukhari: No. 6094)

Corporate governance in Islam emphasizes honesty in words and actions which constitute a unity. There is no more corruption if this shiddiq characteristic is possessed and applied. The company will develop better because the business will be cleaner, fairer, there is no fraud and injustice. In the context of corporate governance in general, shiddiq can be linked to the principles of transparency and trust.

#### 4.2.2. 'Amanah

Amanah means being trustworthy, not breaking promises and being responsible. What has been agreed will be accomplished as well as possible. This attitude gives trustworthiness from external and internal parties to the company. The trust of other parties in the company has implications such as investment, financing, and image or reputation.



The legal basis for the nature of the mandate used in Islamic corporate governance is:

- (1) QS AI-Mu'minin (23): 8.

وَالَّذِينَ هُمْ لِأَمَانَاتِهِمْ وَعَهْدِهِمْ رَاعُونَ

*And those who keep their messages and promises.*

- (2) QS AI-Ahzab (33): 70-71

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَقُولُوا قَوْلًا سَدِيدًا يُصْلِحْ لَكُمْ أَعْمَالَكُمْ وَيَغْفِرْ لَكُمْ ذُنُوبَكُمْ ۗ وَمَنْ يُطِيعِ اللَّهَ  
وَرَسُولَهُ فَقَدْ فَازَ فَوْزًا عَظِيمًا

*Everybody who believe, fear Allah and speak the real words, Allah will correct your deeds and forgive your sins. Moreover, whoever obeys Allah and His Messenger, then verily he has won a great victory.*

Amanah also means keeping commitments. Creating commitments is more straightforward than keeping them because commitment requires sincere intention and integrity and loyalty. An attitude of trustworthiness will bring success because it can make stakeholders have more trust in the company. In the context of corporate governance in general, the concept of Amanah can be linked to the principles of transparency and accountability.

#### 4.2.3. Tabligh

Tabligh means telling the truth. If in the past the apostle conveyed the revelations of Allah Almighty, now Muslims are also obliged to convey the truth. Allah Almighty commands to enforce what is wrong and prevent what is evil and to be wise in both matters. This is stated in several verses of the Koran, namely:

- (1) QS. Ali Imran (3): 110

كُنْتُمْ خَيْرَ أُمَّةٍ أُخْرِجَتْ لِلنَّاسِ تَأْمُرُونَ بِالْمَعْرُوفِ وَتَنْهَوْنَ عَنِ الْمُنْكَرِ وَتُؤْمِنُونَ بِاللَّهِ ۗ وَلَوْ آمَنَ أَهْلُ الْكِتَابِ لَكَانَ خَيْرًا  
لَهُمْ ۚ مِنْهُمْ الْمُؤْمِنُونَ وَأَكْثَرُهُمُ الْفَاسِقُونَ

You are the best people who were born to humans, order the ma'ruf and prevent those who are evil and believe in Allah. If the People of the Book were faithful, it would have been better for them, some of them were believers, and most of them were wicked people.

With a tabligh attitude, it is hoped that they can become a wise leader so that they understand what is right and what is wrong so that they can lead others to the truth.

- (2) QS. Al-Ahzab (33): 70-71

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَقُولُوا قَوْلًا سَدِيدًا يُصْلِحْ لَكُمْ أَعْمَالَكُمْ وَيَغْفِرْ لَكُمْ ذُنُوبَكُمْ ۗ وَمَنْ يُطِيعِ اللَّهَ  
وَرَسُولَهُ فَقَدْ فَازَ فَوْزًا عَظِيمًا

*O you who believe, fear Allah and speak the proper words (qaulan sadidan), surely Allah will correct your deeds and forgive you your sins. And whoever obeys Allah and His Messenger, then indeed he has won a great victory.*

(3) QS. Ibrahim (14): 2.

وَمَا أَرْسَلْنَا مِنْ رَّسُولٍ إِلَّا بِلِسَانٍ قَوْمِهِ لِيُبَيِّنَ لَهُمْ ۚ فَيُضِلُّ اللَّهُ مَنْ يَشَاءُ وَيَهْدِي مَنْ يَشَاءُ ۚ وَهُوَ الْعَزِيزُ  
الْحَكِيمُ

*We did not send an apostle, but in the language of his people, so that he could explain to them clearly.  
So Allah misleads whom He wants, and gives instructions to whom He wants. And He is God Almighty,  
Most Wise.(Surat Ibrahim Ayat 4, n.d.)*

4.2.4. Fathanah

Fathanah means smart. Research on corporate governance related to intelligence or competence can be seen from work performance, experience, education, years of service, and training that is followed. Companies need smart people as their HR. With intelligence possessed, the company's problems will be resolved, so that the company's performance and value will increase.

At the time of the apostle, intelligence was needed to convey Allah's revelations to his people. Not all people accept what the apostle taught and said. For this reason, intelligence is needed to deal with these people. Other arguments that can be used as references proving the intelligence of the Prophet can be explained as follows:

(1) QS. Al An'am (6): 83.

وَتِلْكَ حُجَّتُنَا آتَيْنَاهَا إِبْرَاهِيمَ عَلَىٰ قَوْمِهِ ۖ نَرْفَعُ دَرَجَاتٍ مَنْ نَشَاءُ ۚ إِنَّ رَبَّكَ حَكِيمٌ عَلِيمٌ

*And that is Our evidence that We gave to Abraham to face his people. We elevate who We will to several degrees. Surely your Lord is all wise, all-knowing.(Surat Al-An'am Ayat 83, n.d.)*

(2) QS Ar-Ra'd (13): 3.

وَهُوَ الَّذِي مَدَّ الْأَرْضَ وَجَعَلَ فِيهَا رَوَاسِيَ وَأَنْهَارًا ۚ وَمِنْ كُلِّ الثَّمَرَاتِ جَعَلَ فِيهَا زَوْجَيْنِ اثْنَيْنِ ۚ يُغْشِي اللَّيْلَ النَّهَارَ ۚ إِنَّ فِي  
ذَٰلِكَ لَآيَاتٍ لِّقَوْمٍ يَتَفَكَّرُونَ

*Furthermore, He is the Lord who stretched the earth and made mountains and rivers in it. Furthermore, make all the fruit in pairs. Allah closed the night to the day. Indeed, in this, there are signs (the greatness of Allah) for those who think.*

The intelligence that Allah SWT has given to his people must be used for shared prosperity. Allah SWT does not like people who are lazy and do not want to think with reason. The nature of fathanah will support the other three characteristics in Islamic Corporate Governance. Because with the nature of fathanah, the leader will be wise, have an open mindset to think, be able to face the changing times, be able to use opportunities for the progress of the company, be able to face challenges, improve weaknesses and maintain the strengths of the company. The intelligence referred to includes intellectual and spiritual intelligence.

To compare how the conventional implementation of Islamic Corporate Governance and Corporate Governance is, further explanation can be seen in the following table.

**Table 1. Comparison of Islamic Corporate Governance with Conventional Corporate Governance.**

	CG in Islam	CG Conventional
<b>Principle</b>	Shiddiq, Amanah, Tablig, Fathanah	Transparency, Accountability, Responsibility, Fairness (OECD, 1999)



<b>Legal Basis</b>	Al-Quran dan Hadits	Laws on PT, OJK Regulation, BI Regulation, Circular Letter of BI
<b>Structure</b>	General Meeting of Shareholders, Board of Commissioners, Board of Directors, Sharia Supervisory Board (PBI tahun 2009)	General Meeting of Shareholders, Board of Commissioners and Board of Directors (PBI tahun 2007)
<b>Mechanism</b>	Cooperation contracts and meetings/deliberations (Najmuddin, 2011)	Internal dan eksternal (Lukviarman, 2004)
<b>Theory</b>	Stakeholder Theory (Freeman, 1984) Ethics Theory (Crane dan Matten, 2007)	Agency Theory (Jensen dan Meckling, 1976), Stakeholder Theory (Freeman, 1984), Stewardship Theory (Davis, Schoorman, dan Donaldson, 1997), Resource Dependence Theory (Hillman, Canella, dan Paetzold (2000), Political Theory (Pound, 1993), Transaction Cost Theory (Cyert dan March, 1963)
<b>Decision Making Effects</b>	Stakeholder (Lewis, 2006)	Shareholder (Bhatti dan Bhatti, 2009)
<b>Purpose</b>	Maqasid Shariah (Hasan, 2008)	Pay attention to interests shareholders (Bhatti dan Bhatti, 2009)

Source: Compiled from various articles

## 5. Theory Basis and Relationship of Good Corporate Governance (GCG) with Islamic Banking Financial Performance.

### 5.1. Agency Theory

Jensen and Meckling (1976) state that agency theory describes shareholders as principals and management as agents. Management is a party contracted by shareholders to work for the interests of shareholders. For this reason, management is given some of the power to make decisions in the best interests of shareholders. Therefore, management is obliged to account for all of its efforts to shareholders (Jensen & Meckling, 1976).

Since the unit of analysis in agency theory is the contract that underlies the relationship between principal and agent, the focus of this theory is on determining the most efficient contract that underlies the relationship between principal and agent. To motivate the agent, the principal designs a contract in order to accommodate the interests of the parties involved in the agency contract (Anggraeni, 2011, p. 276).

### 5.2. Stakeholder Theory

Stakeholders according to Freeman are defined as any group or individual who can influence or be

influenced by the achievement of organizational goals. Stakeholder theory provides an overview of which parties the company is responsible for (Freeman, 1999, p. 234). The company must maintain relationships with its stakeholders by accommodating the wants and needs of its stakeholders, especially those who have power over the availability of resources used for the company's operational activities, for example, labour, markets for the company's products and others.

The emergence of stakeholder theory as the dominant paradigm further strengthens the concept that companies are responsible not only to shareholders but also to stakeholders. Stakeholder theory emphasizes organizational accountability far beyond simple financial or economic performance (Deegan et al., 2000, p. 120).

### 5.3. The Role of GCG in Improving Islamic Bank Financial Performance.

#### 5.3.1. Good Corporate Governance (GCG) maximizes company assets.

Islamic Bank is a business entity that cannot be separated from the general measure of success, namely profit and increasing company value. Good corporate governance describes how management's efforts to manage their assets and capital properly in order to attract investors. The benefits of implementing Good Corporate Governance (GCG) can be seen from the company's stock price that investors are willing to pay.

It is hoped that the implementation of Good Corporate Governance (GCG) will be useful to increase and maximize the existing resources in the company in realizing maximum corporate financial performance. Increasing company performance will then have an impact on increasing the value (assets) owned by the company.

#### 5.3.2. Good Corporate Governance (GCG) maximize the role of human resources.

Good Corporate Governance is expected to be able to strengthen all resources contained in the company, especially human resources, corporate structure and market aspects of the company's financial performance. Good corporate governance based on Sharia principles, namely, Siddiq, Tabliq, Amanah and Fathanah will encourage human resources in the company to realize maximum corporate financial performance.

This is supported by the Agency Theory, which in theory states that agents, in this case, the human resources of the company, will be able to accomplish work targets optimally if supervision can be carried out optimally. On the other hand, resources that strive for a balance between various interests will be able to provide benefits for the company as a whole.

#### 5.3.3. Good Corporate Governance (GCG) maximize the use of Islamic bank financial capital.

The bank is an institution that manages finances. They make money using the available money. Therefore, physical and financial capital is here referred to as capital efficiency, which is very significant in encouraging the development of the banking business. Islamic banks operate on an interest-free system; hence profits are mainly generated through various investment and trade projects. They are not relying on interest income like the conventional banking system in Indonesia.

The practical implementation of Good Corporate Governance is expected to increase the efficient use of the company's financial capital. Furthermore, the financial capital owned by a Sharia bank must be used trustfully because transactions in Islamic banking suggest under-asset. If the trust is not firmly held, it can cause financing risks that will arise in the future. The implementation of GCG is expected to be useful to increase and maximize company performance.

#### 5.3.4. Good Corporate Governance (GCG) maximize the company's structural capital.

Good Corporate Governance requires good corporate governance. Management of assets and capital of a company can be seen from the current financial performance. Meanwhile, structural capital is a combination of tangible and intangible resources owned by a company such as buildings, offices, desks, computers and software, databases and patents protected by copyright (Nawaz, 2019, p. 95). Organizations pay for human capital resources, but they also have structural resources that are reflected in their records

(financial statements).

In the Stakeholders Theory, the application of GCG principles cannot be separated from the influence of the parties in an organization. This is closely related to the development of a robust structural capital in a business organization. An organization that has adequate structural capital will be able to maximize its performance, primarily if it is supported by the sustainable implementation of GCG principles in the organization. These resources are essential for doing business. On the one hand, it helps employees to perform better and improves company efficiency. This efficiency will undoubtedly be maximized to improve financial performance if the company applies Good Corporate Governance to its full potential.

## 6. Conclusion

The concept of corporate governance had existed in Islamic teachings and has been implemented long before the concept of conventional corporate governance was implemented, namely since the time of the apostle who delivered the revelation of Allah SWT. The principles of shiddiq, amanah, tabligh and fathanah are the principles of the Islamic ummah in carrying out corporate governance, especially in the Islamic banking industry in Indonesia.

Concerning the optimization of the financial performance of Islamic banking in Indonesia, the concept of Good Corporate Governance can improve corporate financial performance as seen from 4 aspects, namely:

- 6.1. Good Corporate Governance (GCG) can maximize company assets.
- 6.2. Good Corporate Governance (GCG) can maximize the role of human resources.
- 6.3. Good Corporate Governance (GCG) can maximize the use of Islamic bank financial capital.
- 6.4. Good Corporate Governance (GCG) can maximize the company's structural capital.

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