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THE INFLUENCE OF SHARIA COMPLIANCE AND ISLAMIC CORPORATE GOVERNANCE ON THE PERFORMANCE OF SHARIA BANK FUNDS IN INDONESIA 2018-2022

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ABSTRACT

[This study aims to determine the influence of Sharia Compliance and Islamic Corporate Governance on the Financial Performance of Islamic Banks in Indonesia. The population of this study is 14 Sharia Commercial Banks in Indonesia, namely Bank Muamalat Indonesia, Bank Mandiri Syariah, Bank BRI Syariah, Bank BNI Syariah, Bank BCA Syariah, Bank Syariah Bukopin, Bank Mega Syariah, Bank Victoria Syariah, Bank Panin Dubai Syariah, Bank Maybank Syariah, Bank Jabar Banten Syariah, Bank Aceh Syariah, Bank BTPN Syariah, and Bank NTB Syariah. The sampling technique in this study is using purposive sampling. The number of samples taken in this study is 5 Sharia Commercial Banks, including Bank BCA Syariah, Bank Mega Syariah, Bank Bukopin Syariah, Bank Aceh Syariah, and Bank Jabar Banten Syariah. Data testing using multiple linear regression analysis. The results of the study show that Sharia Compliance which includes the Islamic Interbank Rate (ISIR) ratio, Profit Sharing Ratio (PSR), Islamic Interest Rate (IIR), and Zakat Profit Ratio (ZPR) has a significant influence on the performance of Sharia Commercial Banks. This study also shows that Islamic Corporate Governance does not have a significant influence on the Return On Asset (ROA) and Return On Equity (ROE) financial performance of Sharia Commercial Banks. In addition, Sharia Compliance has a joint or

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[*Keywords:*

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simultaneous influence on the financial performance of Islamic banks, which is measured through Return on Asset (ROA) and Return on Equity (ROE).

1.0 INTRODUCTION

The development of national Islamic banking is also a bigger challenge that must be faced. One of the biggest challenges is maintaining an image and good name in the eyes of customers in order to maintain customer trust and loyalty to Sharia banks (Dzahabiyah, 2020). In addition, most of the people are still questioning compliance and conformity with Sharia principles. Bank Indonesia stated that customers who use Islamic bank products and services have a tendency to stop being customers due to doubts about the consistency of the application of Sharia principles (Mulazid, 2016). In line with Sari (2020) who explained that Islamic banking practices have so far not paid attention to sharia principles which is one of the things that can affect the reputation and trust of the public in Islamic banks, this also has an impact on public loyalty in using the services of Islamic banks.

The emergence of issues that say weaknesses in corporate governance in the Islamic banking industry has 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 or compliance with Sharia principles (Sry, 2020).

In terms of compliance with Sharia principles, Islamic banking must face challenges in keeping their operations always in accordance with Islamic values and principles. There is a risk of violations that can damage the reputation and trust of customers. Lack of strict supervision or lack of understanding of aspects of Islamic law in the banking business can also open up opportunities for irregularities. Compliance with Sharia principles is the core of Islamic banking, so it must be managed carefully (Azizah, 2021).

Meanwhile, good governance is very important in ensuring transparency, accountability, and efficient risk management in Islamic banking companies. Shortcomings in this case can lead to uncertainty in decision-making, conflicts of interest, or the use of funds that are not in accordance with Sharia principles. Therefore, Islamic banking companies need to have a strong supervisory structure, conduct continuous internal audits, and involve stakeholders transparently to ensure sound governance (Permatasari, 2023).

Several studies on Sharia compliance and Islamic corporate governance have been conducted. Research by (Martasari & Mardia, 2015) also conducted a study on public perception of sharia compliance in the Barabai community using primary data with questionnaires. The results of the study show that the perception of the Barabai community towards Sharia compliance is neutral with an average score of 3.39 percent.

Research by Mulazid, (2016) on Sharia compliance for Sharia banks. The results show that the supervision system for sharia compliance has been implemented properly. Meanwhile, the research conducted by Najib and Rini, (2016) by adding the variable Islamic Corporate Governance (ICG). With the results stating that the Profit Sharing Ratio has a significant negative effect, while the Islamic Income Ratio (IsIR), Islamic Investment Ratio (IIR) have no effect on Sharia bank fraud.

According to Yunasari and Nurdin, (2017) using financial performance variables is proxied with ROA. The results revealed that the variables of Profit Sharing Ratio (PSR), Islamic Income Ratio (IsIR), Islamic Investment Ratio (IIR) and Islamic Corporate Governance (ICG) had a significant effect on the performance of Islamic banks. (Santika & Ghofur, 2019) also conducted research on the influence of Sharia Compliance on Fraud. with the results stating that the Profit Sharing Ratio (PSR), Islamic Income Ratio (IsIR), and Islamic Investment Ratio (IIR) have no effect on Sharia bank fraud.

In contrast to the research conducted by Umiyati et al., (2020) that the Profit Sharing Ratio (PSR), Islamic Income Ratio (IsIR), Islamic Investment Ratio (IIR) have no effect on the financial performance of Islamic banks, but Islamic Corporate Governance (ICG) and Zakat Performance Ratio (ZPR) have an effect on the performance of Islamic banks. Furthermore, research by Dzahabiyah and Umiyati, (2020) shows that the Profit Sharing Ratio (PSR) and Islamic Corporate Governance (ICG) have a significant effect. Meanwhile, the Islamic Income Ratio (IsIR) and Zakat Performance Ratio (ZPR) do not have a significant effect on Third Party Funds (DPK) in BUS in Indonesia.

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Based on the issue, gap research and previous studies can be seen that most researchers investigate Sharia Compliant and Islamic Corporate Governance (ICG) on the performance of Sharia banks which are proxied with the Return on Asset (ROA) ratio. Therefore, to our knowledge, this empirical research is important to comprehensively capture the conditions related to the relationship between Sharia Compliant and Islamic Corporate Governance (ICG) by expanding the performance variables of Sharia banks. Sharia compliance is measured by Islamic Income Ratio (IsIR), Profit Sharing Ratio (PSR), Islamic Investment Ratio (IIR), and Zakat Performance Ratio (ZPR). Islamic Corporate Governance (ICG) is measured with the dimensions of transparency, accountability, accountability, and independence in the form of percentages. Meanwhile, the performance of Islamic banks is measured by the ratio of Return on Asset (ROA) and Return on Equity (ROE). Thus, this study is interested in analyzing the Influence of Sharia Compliance and Islamic Corporate Governance on the Financial Performance of Sharia Banks in Indonesia 2018-2022.

2.0 LITERATURE REVIEW

Sharia Banking

According to Najib, (2017) the word bank comes from the Italian word banco which means bench. The bench that refers to the table and place of the money changer business is used by bankers to serve their operational activities to customers. This means that the transaction function is money exchange or a broader business transaction, namely paying for goods and services. Then this term is used to describe the place of transaction between customers and various products and services offered.

Sharia Compliance

Sharia Compliance is the compliance of Sharia banks with Sharia principles. Sharia banks are financial institutions that operate in accordance with Sharia principles, meaning that banks operate in accordance with the provisions of Islamic Sharia, especially regarding Islamic muamalat procedures. Therefore, guarantees regarding the fulfillment of sharia compliance are very important in business activities and customer fund management activities by Sharia banks (Sry, 2020). Sharia Compliance will be measured using 4 indicators, namely as follows: Islamic Income Ratio, Profit Sharing Ratio, Profit Sharing Ratio, Islamic Investment Ratio, and Zakat Performing Ratio.

Islamic Corporate Governance

Islamic Corporate Governance (ICG) is corporate governance based on Islamic principles. Operational and business activities carried out must be based on Sharia morals and values. Islamic Corporate Governance (ICG) is a concept of corporate governance that is based on sharia principles. ICG aims to ensure that the company's activities and operations not only follow laws and regulations, but are also aligned with Islamic values. One of the important aspects of the ICG is its adherence to the principles of fairness, transparency, and social responsibility. In this context, companies must ensure that all actions and decisions taken take into account the well-being of all stakeholders, including shareholders, employees, customers, and the wider community (Haniffa and Hudaib, 2007).

Financial Performance

According to Yunawati, (2019) Defining Financial Performance is a measure of success for the directors of a bank so that if the performance is poor, there is a possibility that the directors will be replaced with their performance. This is also a guideline for what things need to be fixed and how to fix them. In measuring financial performance, Return on Assets (ROA) and Return on Equity (ROE) are two financial ratios that are important in analyzing the performance and profitability of a company. While both are often used together, they provide different views on how companies manage and generate profits from their assets and equities.

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3.0 METHODOLOGY

This research method uses a causal quantitative approach, because it is to prove a causal relationship. This study is a causal variable as an independent variable and a causal variable as a dependent variable. The type of data in this study is secondary data. The data source is taken from the annual report on the official website of each Sharia Commercial Bank, information on reports from Bank Indonesia, the Financial Services Authority, and the Central Statistics Agency. The population in this study is 14 sharia commercial banks in Indonesia, namely Bank Muamalat Indonesia, Bank Mandiri Syariah, Bank BRI Syariah, Bank BNI Syariah, Bank BCA Syariah, Bank Syariah Bukopin, Bank Mega Syariah, Bank Victoria Syariah, Bank Panin Dubai Syariah, Bank Maybank Syariah, Bank Jabar Banten Syariah, Bank Aceh Syariah, Bank BTPN Syariah, and Bank NTB Syariah. The sampling technique used is purposive sampling. So the sample taken in this study is 5 Sharia commercial banks, including Bank BCA Syariah, Bank Mega Syariah, Bank Bukopin Syariah, Bank Aceh Syariah, and Bank Jabar Banten Syariah. The analysis tool uses multiple linear regression. There are two types of hypothesis tests on regression coefficients that can be carried out, namely the statistical t test (Partial Test) and the statistical F test (Silmultan Test), as well as the Determination Coefficient (R²). The multiple linear analysis is as follows:

$$Y_1 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

$$Y_2 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Information :

- Y₁ = ROA
- Y₂ = ROE
- a = Constant
- X₁ = IsIR
- X₂ = PSR
- X₃ = IIR
- X₄ = ZPR
- X₅ = ICG
- e = error term

4.0 FINDINGS AND DISCUSSION

Based on the results of the estimation with the first model multiple linear regression, the results of the analysis in table 1 are obtained:

Table 1 ROA Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.394	.426		3.270	.010
	IsIR	1.828	.445	.863	4.103	.003
	PSR	-4.394	.761	-1.116	-5.774	.000
	IIR	.456	.192	.351	2.375	.042
	ZPR	3.732	1.439	.413	2.593	.029
	ICG	-.014	.014	-.194	-1.010	.339

a. Dependent Variable: ROA

Source: data processed, 2024

The following results are obtained from the multiple linear regression equations:

$$ROA = 1.394 + 1.828 \text{ IsIR} - 4.394 \text{ PSR} + 0,456 \text{ IIR} + 3.732 \text{ ZPR} - 0.014 \text{ ICG}$$

From the results of the regression equation above, it can be explained that: The Constant Coefficient of 1,394 means that the ROA will be 1,394 if IsIR, PSR, IIR, ZPR, and ICG are considered constant or said to have no change, so that the ROA value will increase by 1,394 percent. The IsIR variable obtained a regression coefficient value of 1,828 which states

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that every addition/increase in IsIR will increase ROA by that value as well. The PSR variable obtained a regression coefficient value of -4,394 which states that every time there is an increase/increase in IsIR, the ROA will decrease by that value as well. The IIR variable obtained a regression coefficient value of 0.456 which states that every addition/increase in IIR, the ROA will increase by that value as well. The ZPR variable obtained a regression coefficient value of 3,732 which states that every addition/increase in ZPR, the ROA will increase by that value as well. The ICG variable obtained a regression coefficient value of -0.014 which states that every addition/increase in ICG, the ROA will decrease by that value as well.

Based on the results of the estimation with the double linear regression of the second model, the results of the analysis in table 2 are obtained:

Table 2 Multiple Linear Regression ROE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	38.025	26.031		1.461	.178
	IsIR	41.018	27.199	.494	1.508	.166
	PSR	-160.748	46.464	-1.041	-3.460	.007
	IIR	11.040	11.734	.217	.941	.371
	ZPR	350.347	87.852	.990	3.988	.003
	ICG	-1.044	.866	-.361	-1.205	.259

a. Dependent Variable: ROE

Source: data processed, 2024

The following is the result of the multiple linear regression equation:

$$ROE = 38.025 + 41.018 \text{ IsIR} - 160.748 \text{ PSR} + 11.040 \text{ IIR} + 350.347 \text{ ZPR} - 1.044 \text{ ICG}$$

From the results of the regression equation above, it can be explained that: The Constant Coefficient of 38,025 means that the ROE will be 38,025 if IsIR, PSR, IIR, ZPR, and ICG are considered constant or said to have no change, so that the ROE value will increase by 38,025 percent. The IsIR variable obtained a regression coefficient value of 41,018 which states that every time there is an increase/increase in IsIR, ROE will increase by that value as well. The PSR variable obtained a regression coefficient value of -160,748 which states that every addition/increase in IsIR will decrease ROE by that value as well. The IIR variable obtained a regression coefficient value of 11,040 which states that every addition/increase in IIR, ROE will increase by that value as well. The ZPR variable obtained a regression coefficient value of 350,347 which states that every addition/increase in ZPR, ROE will increase by that value as well. The ICG variable obtained a regression coefficient value of -1,044 which states that every time there is an increase/increase in ICG, the ROE will decrease by that value as well.

Coefficient of Determination

The Coefficient of Determination is denoted by R-Square which is a very important measure in regression, in the following results:

Table 3 ROA Determination Coefficient

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.939 ^a	.882	.817	.33111	2.603

a. Predictors: (Constant), ICG, IIR, PSR, ZPR, IsIR

b. Dependent Variable: ROA

Source: data processed, 2024

Based on table 3, it shows that the ROA variable has a value of 88.20%, meaning that it can be significantly explained by IsIR, PSR, IIR, ZPR, and ICG. While the remaining 11.80% is explained by other factors and variables that are not carried out in this study.

As for the determination coefficient in the second result, see the following table:

Table 4 ROE Determination Coefficient

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.845 ^a	.714	.556	20.21513	2.525
a. Predictors: (Constant), ICG, IIR, PSR, ZPR, IsIR					
b. Dependent Variable: ROE					

Source: data processed, 2024

Based on table 4, it shows that the ROE variable has a value of 71.40%, meaning that it can be significantly explained by IsIR, PSR, IIR, ZPR, and ICG. While the remaining 28.60% is explained by factors and also other variables that are not carried out in this study.

Test F (Simultaneous)

In this F test, it is intended to test the regression coefficient (slope) hypothesis at the same time, in other words it is used to determine whether the model that has been selected is feasible or not suitable to be interpreted with independent variables to bound variables, seen in the following table:

Table 5 Test F ROA Statistics

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.396	5	1.479	13.492	.001 ^b
	Residual	.987	9	.110		
	Total	8.383	14			
a. Dependent Variable: ROA						
b. Predictors: (Constant), ICG, IIR, PSR, ZPR, IsIR						

Source: data processed, 2024

In table 5 of the F test results above, the Sig value is 0.001 which means that the value is smaller than the constant, namely 0.05 which can be said to be accepted by Ha. so that the variables IsIR, PSR, IIR, ZPR, and ICG simultaneously or together affect ROA. Furthermore, the second test is as follows:

Table 7 Statistical F Test (Simultaneous)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9195.562	5	1839.112	4.500	.025 ^b
	Residual	3677.862	9	408.651		
	Total	12873.424	14			
a. Dependent Variable: ROE						
b. Predictors: (Constant), ICG, IIR, PSR, ZPR, IsIR						

Source: data processed, 2024

In table 6 of the F test results above, the Sig value is 0.025 which means that the value is smaller than the constant, namely 0.05 which can be said to be Ha accepted. so that the variables IsIR, PSR, IIR, ZPR, and ICG simultaneously or together affect ROE.

Test t (partial)

In this t test, it is used to test whether the regression coefficient is individual. The test was carried out on the population regression coefficient, whether it is equal to zero which means that the independent variable does not have a significant influence on the bound variable at all, or it is not equal to zero which means that the independent variable has a significant influence on the bound variable can be seen in the following table:

Table 7 Statistical t-test (partial)

	Sig	Alpha	Keterangan
IsIR Against ROA	0.003	0.05	Significant
PSR Against ROA	0.000	0.05	Significant
IIR Against ROA	0.042	0.05	Significant

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ZPR Against ROA	0.029	0.05	Significant
ICG Against ROA	0.339	0.05	Insignificant
IsIR Against ROE	0.166	0.05	Insignificant
PSR Against ROE	0.007	0.05	Significant
IIR on ROE	0.371	0.05	Insignificant
ZPR Against ROE	0.003	0.05	Significant
ICG Against ROE	0.259	0.05	Insignificant

Source: data processed, 2024

Based on table 7, it shows that the Sharia compliance variables that have a significant effect on return on assets (ROA) consist of IsIR, PSR, IIR, and ZPR, but for the ICG variable does not have a significant effect on return on assets (ROA). Meanwhile, the Sharia compliance variables that have a significant effect on return on equity (ROE) consist of PSR, and ZPR, but the IsIR, IIR, and ICG variables do not have a significant effect on return on equity (ROE)..

The Effect of Sharia Compliance on BUS's Financial Performance with ROA and ROE Approaches

This study shows that sharia compliance which includes IsIR, PSR, IIR, and ZPR ratios has a significant influence on the performance of Sharia Commercial Banks. Sharia Compliance in Islamic banks requires banks to avoid activities involving riba, gharar, and maysir (Darsono, 2022). Instead, Islamic banks use contracts such as mudharabah, musyarakah, murabahah, ijarah, and istisna (Hidayatullah, 2022). This approach ensures that financial transactions are carried out fairly, transparently, and in accordance with Islamic law (Yuristama, 2022). However, the application of these principles of sharia compliance can affect the profitability of Islamic banks, which is reflected in ROA and ROE. In theory, the relationship between sharia compliance and the financial performance of Islamic banks, measured by Return on Assets (ROA) and Return on Equity (ROE), can be explained through several important perspectives. First, sharia compliance ensures that banks follow sharia principles that prohibit riba, gharar, and maisir. By avoiding these practices, banks can maintain income stability from halal sources such as murabahah, ijarah, and mudharabah financing. This stable income, in turn, supports increased ROA and ROE as it reduces volatility and risk in the bank's portfolio. Overall, sharia compliance is not only fulfilling religious obligations but is also an effective business strategy to improve the financial performance of Islamic banks. By observing sharia principles in every aspect of their operations and investments, banks can optimize their financial performance in a way that is in line with Islamic values. In the context of Islamic economic theory, it also strengthens the argument that sharia principles are not only relevant but also provide a significant competitive advantage for Islamic banks in an increasingly complex global market. An analysis of the financial performance of Islamic banks on Return on Asset (ROA) and Return on Equity (ROE) provides a comprehensive picture of the bank's profitability in its operations in accordance with sharia principles (Saima, 2018). ROA measures a bank's ability to generate profits from its total assets, while ROE assesses how effective a bank is in generating profits from shareholder equity. Both are important indicators that show the financial health and operational performance of Islamic banks (Javaid, 2022).

The Influence of Islamic Corporate Governance on BUS's Financial Performance with ROA and ROE Approaches

This study shows that Islamic Corporate Governance does not have a significant influence on the ROA and ROE of the financial performance of Sharia Commercial Banks. The research conducted shows that Islamic Corporate Governance (ICG) does not have a significant influence on Return on Assets (ROA) and Return on Equity (ROE) in the financial performance of Sharia Commercial Banks (BUS). Although ICG is considered important to ensure that bank operations are in accordance with sharia principles, the results of this study show otherwise. One of the reasons why ICG may not have a significant influence on ROA and ROE is the limitations in its implementation. Although the principles of the ICG have been established, their implementation may not be fully effective. Factors such as lack of training and understanding of ICGs, resistance to change, and lack of support from top management can hinder the effectiveness of ICGs. If ICG is not implemented consistently and thoroughly, its impact on the bank's financial performance may not be noticeable. In addition, in addition to implementation limitations, there are also external and internal factors that may affect the results of the research. External factors such as macroeconomic conditions, industry competition, and government regulations can affect a bank's financial performance more than corporate governance. Meanwhile, internal

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factors such as organizational structure, company culture, and management quality also play an important role in determining financial performance. If these factors are more dominant, the influence of ICG may be reduced or insignificant. Furthermore, ICG implementation often involves complexity and additional costs that may not directly impact financial performance. Processes such as sharia audits, supplemental reporting, and employee training require significant resources. These costs may not immediately result in an increase in ROA and ROE, especially if the bank already has an effective governance system in place. In the short term, the cost of ICG implementation can offset the expected benefits. Islamic Corporate Governance (ICG) is designed to ensure that Islamic banks operate in accordance with sharia principles which include transparency, accountability, and fairness. However, several studies have shown that the implementation of ICG does not always have a significant influence on the financial performance of Islamic banks, which is measured through Return on Asset (ROA) and Return on Equity (ROE). One of the studies that supports this view is a study by Alfijri and Priyadi (2022) which found that the application of ICG was not significantly positively correlated with an increase in ROA and ROE. This result can be seen from the transparency of information disclosure and accountability in Islamic banking. Overall, while ICG is important for maintaining sharia compliance and the integrity of Islamic banks, research shows that external and internal have a more significant influence on financial performance as measured through ROA and ROE. Therefore, to achieve optimal financial performance, Islamic banks need to focus on operational and managerial aspects in addition to applying ICG principles.

5.0 CONCLUSION

Sharia compliance, which includes the Islamic Income Ratio (IsIR), Profit Sharing Ratio (PSR), Islamic Investment Ratio (IIR), and Zakat Performance Ratio (ZPR), has a significant influence on the financial performance of Sharia Commercial Banks. Islamic Corporate Governance does not have a significant influence on the Return on Asset (ROA) and Return on Equity (ROE) financial performance of Sharia Commercial Banks. Sharia Compliance has a joint or simultaneous influence on the financial performance of Islamic banks, which is measured through Return on Asset (ROA) and Return on Equity (ROE).

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