



## AN ANALYSIS OF ISLAMIC CORPORATE GOVERNANCE IMPLEMENTATION ON THE PERFORMANCE OF SHARIA COMMERCIAL BANKS IN INDONESIA BY USING INDEX SHARIA MAQASHID APPROACH AND RISK AS AN INTERVENING VARIABLE

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### Abstract

*The purpose of this study is to analyze the influence of implementation of Islamic Corporate Governance on the performance of Sharia Commercial Bank in Indonesia using approach of Maqashid Syariah with risk as intervening variable. Islamic Corporate Governance is a process and structure that is used to direct and manage the business and corporate accountability with the main purpose of enhancing the value of shares in the long term by still paying attention to the interests of other stakeholders who in the perspective of Islam always associate all the concepts and behavior in business governance with regard - transcendental things and faith. Data analysis method used in this research is path analysis (Path Analysis). Stages of testing performed include Classical Assumption Test then conducted path analysis.*

*The results show that the Islamic Corporate Governance (ICG) can directly influence the performance/Maqashid Syariah Index (MSI) and can influence indirectly from Islamic Corporate Governance (ICG) to Non Performing Finance (NPF) intervening variable to performance / Maqashid Syariah Index (MSI) at Sharia Commercial Bank in Indonesia. Islamic Corporate Governance (ICG) has an effect on the risk to Sharia Commercial Bank in Indonesia. Risk or Non Performing Finance (NPF) has an effect on performance with indicator of Maqashid Syariah Index at Syariah Commercial Bank in Indonesia.*

**Key Word** : Islamic Corporate Governance, Maqashid Syariah Index, Performance



## **A. Introduction**

Islamic banks in Indonesia were first established in 1992, although the development of institutional aspects over the past ten years from 2001 to 2010 has been phenomenal, reaching an average of 40% per year, much higher than the development of conventional bank institutions in the same period only 10% per year (Ismail, 2011: 5). The Islamic banking industry in Indonesia in 2011 was supported by 11 Islamic banks (BUS) and 23 Islamic business units (UUS). However, as a Muslim-populated country spread around the world at around 208 million in 2010, the market share of the sharia banking industry until the end of 2010 was still only 3.2%, unable to meet the target set by Bank Indonesia at 5%. This phenomenon indicates the performance of Islamic banks as Islamic financial institutions is still weak.

Measuring the performance of Islamic banks using financial ratios adapted from conventional banking has not been able to show an assessment of the performance of actual Islamic banks as an Islamic economic subsystem that aims to realize justice and balance of society as an embodiment of sharia / Maqashid Syariah goals (Mohammad and Shahwan, 2013) . Thus the model for measuring the performance of Islamic banks based on Maqasid Sharia needs to be applied in measuring the performance of Islamic Commercial Banks.

This research is a replication of the research conducted by Setiawaty, A (2016). The difference in this research with previous research is on performance measurement, in this study using Maqashid Shariah Index with the 2014-2017 research period while in previous studies using ROA with the 2012-2014 research period.

Based on the description above, the researcher is interested in conducting research with the title "Analysis of the Implementation of Islamic Corporate Governance Against Performance in Islamic Commercial Banks in Indonesia Using the Maqashid Shariah Index Approach with Risk as an Intervening Variable".



## **B. Method**

The data analysis technique carried out is quantitative analysis which is expressed by numbers and calculations using statistical methods. Data analysis carried out in this study consisted of Classical Assumption Test, Path Analysis and Hypothesis Test.

## **C. Research Finding**

### **Classic assumption test**

Before testing hypotheses, first test the classical assumption to find out that the regression model is free from the problem of correlation between independent variables, data normality and heteroskedastisitaas. The test results show that the data is normally distributed. The Glejser test results show that none of the independent variables that are statistically significant affect the absolute dependent variable  $Ut$  ( $absUt$ ). It can be seen from the probability of its significance above the 5% confidence level ( $sig > 0.05$ ), so the regression model does not lead to heteroscedasticity.

### **Path Analysis**

To test the influence of intervening variables, Path Analysis method is used. Path analysis is an extension of the analysis of multiple linear regression or path analysis is the use of regression analysis to estimate causal relationships between variables (causal models) that have been predetermined based on theory. Pathway analysis alone cannot determine causal relationships and also cannot be used as a substitution to see causal relationships between variables. Inter-variable causality relationships have been formed with models based on theoretical foundations. Path analysis is used to determine the pattern of relationships between three or more variables and cannot be used to confirm or reject the hypothesis of imaginary causality.



The coefficient calculation is done by regression analysis through SPSS 16.0 software with the following equations, namely:

$$NPF = b_1ICG + e_1 \dots\dots\dots (1)$$

$$MSI = b_2ICG + b_3NPF + e_2 \dots\dots\dots (2)$$

Based on the results of the analysis of the regression equation 1 above, the structural equations are as follows:

$$Y_1 = \rho_1X + e_1 \dots\dots\dots (3)$$

$$Y_1 = 0,509X + e_1$$

The above equation can be interpreted namely ICG variable has a regression coefficient of 0.509. This shows that the ICG variable has an effect on NPF. If ICG increases by 1 unit, the NPF will increase by 0.509.

Based on table above, the structural equations are as follows:

$$Y_2 = \rho_2X + \rho_3Y_1 + e_2 \dots\dots\dots (4)$$

$$Y_2 = 0,124X - 0,336Y_1 + e_2$$

The above equation can be interpreted as ICG variable has a regression coefficient of 0.124 which means ICG has an influence on performance / MSI. This means that if ICG increases by 1 unit, the performance / MSI increases by 0.124.

NPF variable has a coefficient of -0.336 which means that NPF has a negative influence on performance / MSI. This means that if the NPF increases by 1 unit, the performance / MSI decreases by 0.336.

**Standard Error and Determination Coefficient**

The amount of error in each influence of the independent variable on the dependent variable is obtained through the following calculations, namely:

$$Pe_i = \sqrt{1 - R^2}$$

$$Pe_1 = \sqrt{1 - (0,509)^2} = 0,861$$

$$Pe_2 = \sqrt{1 - (0,293)^2} = 0,956$$

In Trimming's theory the influence of the validity of the research model is observed through the calculation of the total determination coefficient as follows:

$$R^2m = 1 - (0,861)^2 (0,956)^2$$



$$= 1 - (0,741)(0,914)$$

$$R^2 m = 0,323$$

The coefficient of determination of 32.3% indicates that 32.3% of the information contained in the data can be explained by the model while the remaining 67.7% is explained by errors and validations outside the model.

#### **Direct and Indirect Effects**

From the results of the SPSS Output found in Table V.5, the standardized beta value for ICG is 0.509 and the significance of 0.002 means that ICG affects NPF. The standardized value of beta 0.509 is the P2 path value. In SPSS Output Table standardized beta value for ICG is 0.124 and NPF is - 0.336. The standardized value of ICG beta 0.124 is the value of line P1 and the standardized beta value of -0.336 is the value of the P3 path. The value of  $e_1 = (1 - 0.235)^2 = 0.585$  and  $e_2 = (1 - 0.025)^2 = 0.950$

The results of path analysis show that ICG can have a direct effect on performance / MSI and can have an indirect effect from ICG to NPF (intervening variable) then to performance / MSI. The amount of direct influence is equal to 0.124 while the indirect effect is calculated by multiplying the indirect coefficient so that it is obtained 0.467.

#### **D. Discussion**

##### **Islamic Corporate Governance influences the Performance of Islamic Commercial Banks in Indonesia.**

After testing the hypothesis described using the path analysis technique that is operated through the SPSS version 16.0 statistical data processing program with a significance level of 5%. This study successfully reported a significant direct relationship between Islamic Corporate Governance and the performance of Islamic Commercial Banks in Indonesia where the results of this study contained  $p = 0.045$ , meaning that the value is still smaller than the required probability level of 5%.

This value indicates that the results of this study are statistically significant. From the value of  $p = 0.045$ , it can also be concluded that the



results of this study support the research conducted by Asrori (2014) entitled The Implementation of Islamic Corporate Governance and Its Implications on Islamic Bank Performance. The results of this study also support the research conducted by Ariestya and Ardiana (2016), where the results of his research on Good Corporate Governance have an effect on Company Performance. With the significance of the results statistically,  $H_0$  in Hypothesis 1 is declared acceptable.

**Tabel. 1**

<b>Islamic Corporate Governance Terhadap Kinerja</b>					
<b>Variabel</b>	<b>Regression Coefficient</b>	<b>T value</b>	<b>Sig P&lt;</b>	<b>Keterangan</b>	<b>Pembahasan</b>
<b>ICG</b>	0,124	0,613	0,045	Signifikan	$H_{A1}$ Diterima

Sumber : data diolah, 2018

With the acceptance of  $H_0$  on hypothesis 1, overall it can be concluded that the increase in Islamic Corporate Governance has a direct effect on the performance of Islamic Commercial Banks in Indonesia.

Governance in this case is Islamic Corporate Governance where the focus is on the Unity of God. Institutions must not only comply with a set of rules (sharia), but also must fulfill the expectations of Muslim (and non-Muslim in general) society by providing an acceptable Islamic financing model. Without effective corporate governance, it is not possible to strengthen Islamic banks and with effective governance allowing Islamic banks to grow more widely and carry out their roles effectively.

**Islamic Corporate Governance influences the Risk of Sharia Commercial Banks in Indonesia.**

Hypothesis 2 which states Islamic Corporate Governance has an effect on the Risk of Sharia Commercial Banks in Indonesia. After testing the hypotheses described in the table using path analysis techniques operationalized through the SPSS version 16.0 statistical processing



program with a required level of significance of 5%, the results obtained from these tests  $p = 0.002$ .

**Tabel. 2**  
**Islamic Corporate Governance Terhadap Risiko**

Variabel	Regression Coefficient	T value	Sig P<	Keterangan	Pembahasan
ICG	0,509	3,292	0,002	Signifikan	H <sub>A1</sub> Diterima

Sumber : data diolah, 2018

In the table above, the results obtained with a value of  $p = 0.002$  are certainly still smaller than the level of probability required by ( $p > 0.05$ ). Therefore statistical evidence supports that with the increasing Islamic Corporate Governance it will be followed by an increased risk of Islamic Commercial Banks in Indonesia. With a value of  $p = 0.002$  it can also be concluded that Hypothesis 2 is stated to support research conducted by Ariesty and Ardiana (2016), where the results of his research on Good Corporate Governance have an effect on risk management. This study also supports research conducted by Roziq and Danurwenda (2011) with the title Effect of Good Corporate Governance on Corporate Social Responsibility through Business Risk and Financial Performance in Islamic Commercial Banks in Indonesia, the results of the study show that Good Corporate Governance has a significant positive effect on risk business of Islamic Commercial Banks. this finding implies that the better corporate governance is carried out by Islamic Commercial Banks, the higher the risk of the business. However, this is contrary to the theory which explains that the better corporate governance, the lower the business risk. This mismatch is caused by an increase in business risks experienced by Islamic Commercial Banks from year to year.



The next explanation of the results presented in the table also proves that Risk plays a mediating role in the relationship between Islamic Corporate Governance and the performance of Islamic Commercial Banks in Indonesia. If seen from the P coefficient generated from the Risk of Sharia Commercial Banks in Indonesia,  $p = 0.509$ . This method is explained by Mia and Clarke (1999) that a coefficient  $p = 0.06$  or greater is important in explaining the relationship in research using path analysis techniques. Due to the fact that Risk is an intervening variable (path) on the relationship between Islamic Corporate Governance and the performance of Islamic Commercial Banks in Indonesia with the resulting value of  $\beta = 0.509$ , Risk applies as a path. In addition, to see whether risk is truly an intervening variable or a path to the relationship between Islamic Corporate Governance and the performance of Islamic Commercial Banks in Indonesia, other testing techniques will be carried out by multiplying the direct and indirect relationships of the Beta Standard Coefficient ( $\beta$ )

Testing the direct and indirect relationships of this Standard Coefficient Beta ( $\beta$ ) is explained in the table. Can be seen in the combination of variables between P1 and P2 resulting in a direct relationship that occurs at 0.124. Direct relationships occur when viewed from the research model showing only one direction arrow, which means there is no intermediate variable on the two variables. Meanwhile, for a combination of variables P3 with P1 a direct relationship of 0.509 was generated. The effect of Islamic Corporate Governance on the performance of Islamic Commercial Banks in Indonesia and indirect relationships that occur through Risk ( $(\beta_1 * \beta_2 = 0.124 * -0.336 = -0.0417)$ ). This indicates that Risk plays a role in mediating between Islamic Corporate Governance and performance Sharia Commercial Banks in Indonesia.

### **Risks affect the performance of Islamic Commercial Banks in Indonesia**

Hypothesis 3 which reads with the existence of risks influences the performance of Islamic Commercial Banks in Indonesia. The purpose of





this test is to find out whether the risk affects the performance of Islamic Commercial Banks in Indonesia. After testing the hypothesis described in table IV.6 by using path analysis that is operated through the SPSS version 16.0 statistical processing program with a 5% significance level the results are  $p = 0.008$  where this value is smaller than the specified probability level ( $p \leq 0, 05$ ). Then it can be concluded that the risk has an effect on the performance of Islamic Commercial Banks in Indonesia, which means that with increased risk can reduce the performance of the company. The results of this study are in accordance with the theory expressed by Purwanto (2011) that one of the factors that influence the bank's financial performance is credit risk. The results of this study are in accordance with the results of the research conducted by Attar, D et al (2014), also in accordance with the results of research conducted by Permatasari and Novitasari (2014).

#### **E. Conclusion**

Based on the results of the above research, conclusions can be taken as follows:

1. Islamic Corporate Governance (ICG) can have a direct effect on performance/ Maqashid Syariah Index (MSI) and can have an indirect effect that is from Islamic Corporate Governance (ICG) to Non Performing Finance (NPF) and then to performance/Maqashid Syariah Index (MSI) in Sharia Commercial Banks in Indonesia.
2. Islamic Corporate Governance (ICG) has an effect on risk in Islamic Commercial Banks in Indonesia.
3. Risk or Non Performing Finance (NPF) has an effect on performance with the Maqashid Syariah Index indicator on Islamic Commercial Banks in Indonesia.

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