Privietlab
Priviet Social Sciences Journal
Volume 1
Issue 1

Priviet Social Sciences Journal

P-ISSN:2798-866X & E-ISSN:2798-6314

available at http: www.privietlab.org

Priviet Social Sciences Journal, 2022, 2(2), 21-23

The effect of good corporate governance on financial performance in the financial sector

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Received: 26 January 2022 **Accepted:** 30 September 2022 **DOI:** https://doi.org/10.55942/pssj.v2i2.136

ABSTRACT

This study examines the effect of Good Corporate Governance (GCG) on the financial performance of Islamic banks in Indonesia, with a focus on the period 2011–2014. Financial performance, measured by Return on Assets (ROA), serves as the dependent variable, while GCG components such as the board of directors, independent commissioners, sharia supervisory board, and audit committee act as independent variables. Using panel data regression analysis through Eviews 9.0, the results reveal that only the board of directors significantly and positively impacts financial performance ($t = 3.123652$, $p < 0.05$). Conversely, independent commissioners, the sharia supervisory board, and the audit committee demonstrate no significant effect on ROA. The study highlights challenges such as concurrent positions held by supervisory boards and audit committees, leading to inefficiencies in governance. These findings underscore the pivotal role of the board of directors in enhancing financial performance within the context of Islamic banking, while other governance structures require reevaluation to optimize their contributions. This research contributes to the growing body of literature on GCG in the financial sector and offers practical insights for policymakers and practitioners in Islamic banking.

Keywords: Good Corporate Governance, Islamic Banking, Financial Performance, Return on Assets, Board of Directors, Sharia Supervisory Board.

1. INTRODUCTION

Basically, Good Corporate Governance is a system of rules that regulates the relationship of various parties who have an adequate interest in achieving company goals. fraud can occur at any time if there is an opportunity to misuse financial reports, asset reports, and corruption. This research was conducted in an empirical way the effect of Good Corporate Governance on the financial performance of Islamic banking, The dependent variable in this study is financial performance as measured by Return On Asset (ROA). The independent variable in this study is Good Corporate Governance (GCG). This study will find out that the board of directors has an effect on financial performance, while independent commissioners, sharia supervisory boards and audit committees have no effect on financial performance.

Good Corporate Governance is used as a foundation to oversee the governance of companies or Islamic banking institutions in order to provide more effective and efficient management mechanisms. Based on previous research, research has been conducted on the application of GCG to financial performance in the manufacturing industry. So, we conduct new research that aims to add insight related to the application of GCG in a new sector, namely the financial sector (Sharia Bank).

2. LITERATURE REVIEW

Agency Theory

Agency theory is based on agency problems that arise when the management of a company is separated from its ownership. Agency theory according to Jensen and Meckling (1976) views that company management as agents for shareholders, will act with full awareness of their own interests, not as wise and wise and fair to shareholders. it can be said that agency theory views that management cannot be trusted to act in the interests of the public in general and even shareholders.

Board of Directors

The board of directors according to Bank Indonesia regulation number 11/33 / PBI / 2009 is an organ of the company that is authorized and also fully responsible for the management of the company for the benefit of the company in accordance with the aims and objectives of the company and represents the company, both inside and outside the court in accordance with the provisions of the articles of association as referred to in Law No. 40 of 2007 concerning Limited Liability Companies.

Independent Board of Commissioners

An independent commissioner according to Bank Indonesia regulation number 11/33 / PBI / 2009 is a member of the board of commissioners who has no financial, management, share ownership and / or family relationship with controlling shareholders, members of the board of commissioners or members of the board of directors. His job is to assist the board of commissioners in carrying out its duties to be more effective.

Sharia Supervisory Board

The sharia supervisory board according to Bank Indonesia regulation number 11/33/PBI/2009 is a board that has the task of providing advice and suggestions to the board of directors and overseeing bank activities to comply with Sharia Principles.

Audit Committee

The purpose of establishing an audit committee according to Ministerial Decree number 117 of 2002 is to assist commissioners or supervisory boards in ensuring the effectiveness of the implementation of the duties of external auditors and internal auditors.

3. METHODOLOGY

The population to be tested in this study is Indonesian Sharia Commercial Banks in the period 2011 to 2014 with a total of 11 Islamic banks. The method to be used is purposive sampling.

a. Independent Variable

The independent variables in this study are good corporate governance, board of directors, independent board of commissioners, sharia supervisory board, and audit committee.

b. Dependent Variable

The dependent variable or the dependent variable is the financial performance of Islamic banks as measured by Return On Asset (ROA).

Data Analysis Technique

In this study, the technique used is panel data regression analysis using a statistical data processor, Eviews 9.0.

4. RESULTS

Testing the First Hypothesis (H1)

The first hypothesis proposed in this study is the board of directors which has tcount < t table (3.123652 > 2.05183) with a significance value of 0.0053 < the significance level of 0.05. Significance level of 0.05. These results indicate that the board of directors has a positive effect on financial performance (ROA). This is supported by the opinion of Alexander, Fernell, Halporn (1993) and Goodstein, Gautarn, Boeker (1994) in Wardhani (2006) which states that a large board of directors benefits the company from stating that a large number of boards benefit the company from a resource dependence point of view, namely that the company depends on resource dependence. resource dependence, namely that the company depends on its board to be able to manage its resources better.

Second Hypothesis Testing (H2)

The second hypothesis proposed in this study is independent commissioners who have t count> t table (0.703633 < 2.05183) with a significance value of 0.4898> significance level 0.05. These results indicate that independent commissioners have no effect on financial performance (ROA). The results of this study are in line with independent commissioners who are not employees or people who deal directly with the company and do not represent shareholders. Independent commissioners are appointed because their experience is considered useful for the company. They can oversee the board of commissioners and oversee how the company is run.

Third Hypothesis Testing (H3)

The third hypothesis proposed in this study is the sharia supervisory board which has t count < t table (0.254242 < 2.05183) with a significance value of 0.8019 > the significance level of 0.05. These results indicate that the sharia supervisory board has no effect on financial performance (ROA). In fact, DPS has no effect on banking performance. This is because the DPS in a bank has concurrent positions as DPS also in other banks which results in less good or less focused performance of a DPS in supervising a bank. So that DPS performance is considered poor and does not affect banking performance.

Testing the Fourth Hypothesis (H4)

The fourth hypothesis proposed in this study is the audit committee which has t count < t table (0.640078 < 2.05183) with a significance value of 0.5294 > significance level 0.05. These results indicate that the audit committee has no effect on financial performance (ROA). The results of this study indicate that the audit committee has no effect on the financial performance of Islamic banking due to ineffective performance due to concurrent positions held by the audit committee which has an impact on the lack of supervision over management activities, as well as the lack of external intensive to encourage the creation of efficiency in the company through fair competition.

4. CONCLUSIONS

From the results of data analysis, it is concluded that the independent variables, namely the board of directors, independent commissioners, sharia supervisory board, and audit committee in good corporate governance, are expected to affect financial performance, but only the board of directors variable has a positive effect on financial performance. From the t test, it is found that the variable values of independent commissioners, sharia supervisory boards, and audit committees have insignificant values and do not affect financial performance in Islamic banking. While the board of directors variable has a positive influence on financial performance. From the results of the F test, the significance value of F is greater than the predetermined significance value of 0.05. This means that all independent variables in this study have an effect but are not significant.

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