THE RELATIONSHIP BETWEEN GOOD CORPORATE GOVERNANCE AND PROFITABILITY: A STUDY ON SHARIA BANKS IN INDONESIA

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Abstract

The purpose of this research is to determine the relationship between Good Corporate Governance and bank risk, which is a measure of the performance of Islamic commercial banks in Indonesia as measured by profitability. The variables of Profitability (ROA and NOM) are the dependent variable in this study, with Good Corporate Governance, bank risk, and bank size as independent variables. Purposive sampling was used in the sampling method, and 11 BUS were obtained from 2010 to 2021. The quantitative technique of analysis employed multiple linear regression. According to the findings of this study, government ownership, foreign ownership, board of commissioners, the proportion of independent commissioners, and bank size have no significant effect on ROA, whereas bank risk has a significant effect on ROA. Government ownership, the number of the board of commissioners, the proportion of independent commissioners, and the size of the bank have no effect on NOM, whereas foreign ownership and bank risk do.

Keywords: GCG, NPF, SIZE, ROA, NOM

Introduction

The overall financial performance of a bank is an important factor in assessing the bank's overall health and stability. The financial performance of a bank is a reflection of the bank's ability to effectively manage its operations and generate profits for its shareholders. The research in this case focuses on the profitability of Islamic banks in Indonesia as seen through the lens of Good Corporate Governance, which is viewed through two mechanisms, namely internal mechanisms and external mechanisms. In this study, the internal mechanism includes the ownership structure, which includes government ownership, foreign ownership, and private ownership. While the external mechanism is viewed from the number of commissioners and the proportion of independent commissioners. The number of independent commissioners refers to commissioners who are appointed from outside the company. What is meant by government ownership is the total number of shares owned by the government out of all shares managed (Al Farooque et al., 2007). The structure of foreign ownership can be determined by comparing foreign investor shares to Indonesian company shares (Nugrahanti & Novia, 2012).

Good corporate governance is a set of principles and practices that are applied by banks to ensure that they are run in the best interests of their shareholders and stakeholders. The goal of good corporate governance is to maximize the value of the bank, improve its performance, and increase its contribution to the economy and society. A good GCG structure is recognized as something that influences bank performance and
can also increase accountability to the community. GCG is the entire system formed by rights, processes, and controls both inside and outside the company's management. From an Islamic perspective, good corporate governance is closely tied to the principles of sharia law, which is based on Islamic principles and teachings. Sharia law emphasizes on fairness, transparency, and ethical behavior in business transactions, and encourages the use of social and moral values in corporate governance (Shah, 2020).

The role of GCG in Islamic banks can also be seen from the risk value of Islamic banks as measured by non-performing finance (NPF). NPF is used by Islamic banks which replaces the concept of loans with financing. Specifically, NPF is used to measure problematic financing with a reasonable limit of 5%. NPF can be said to be a guide to NPF because it is very volatile or has the potential to always change, so it must be carefully observed (Popita, 2013).

Large companies typically have a number of advantages that can help them generate more profits compared to smaller companies. Large companies also have access to the capital market, making them more capable and easier to obtain funds or profits in the future (Nugrahanti & Novia, 2012). Hence, there may be a relationship between size and profitability. Profitability or profit is a benchmark for measuring a bank's performance; this can be accomplished through the bank's operational or non-operational activities. Profitability is an important goal for banks, as it is an indication of the bank's ability to generate income and create value for its shareholders. A high level of profitability can indicate that the bank is performing well and efficiently by effectively managing its operations, minimizing costs, and maximizing revenue (Idrus, 2018). The measurement of profitability ratios in this study focuses on ROA (Return on Assets) and NOM (Net Operating Margin), which are ratios indicating the amount of contribution from assets to obtain net income.

Good Corporate Governance research seeks to examine banking performance as measured by the value of banking profitability. Researchers examined GCG through two lenses in this study: internal and external. Previously, GCG research was examined from a single mechanism, and profitability was measured by previous researchers using returns on assets (ROA). In this study, the measurement of good corporate governance is observed from government ownership, foreign ownership, number of board of commissioners, number of independent commissioners, bank risk, and bank size on the profitability of Islamic banks in Indonesia as seen from the return on assets (ROA) and net operational margin (NOM).

**Literature Review**

According to agency theory, agency relationships emerge when one or more people (principals) hire another person (agent) to provide a service and then delegate decision-making authority to the agent (Jensen & Meckling in Muyassaroh, 2008). There is a conflict of interest between the owner and the agent because the agent may act against the interests of the principal, resulting in agency costs. Managers, as agents, are morally obligated to maximize owners' profits.

Good Corporate Governance is expected to provide confidence to shareholders that management can work properly so that it can fulfill the interests of shareholders and the public interest (Arry, 2018). Good corporate governance is seen through two lenses:
internal and external. Internal mechanisms include government ownership, foreign ownership, and private ownership. On the other hand, external mechanisms are viewed from two perspectives: the number of commissioners and the proportion of independent commissioners.

Bank risk is known as non-performing loan. The proxy for bank risk is the NPF ratio, which is the ratio used to appraise the level of credit risk faced by Islamic banks. This ratio can be seen in the quality of assets, which is an effort made to assess the types of assets owned by banks; banks should maintain the quality of their assets to obtain the expected income (Silvia, 2017).

Bank size is typically measured by its total assets, which is the sum of all the resources that the bank owns or controls. Dianitasari and Hersugondo (2020) describe that bank with large assets has better resources for their business activities. According to Shawtari (2018), The total amount of assets at the bank is used to calculate the size or size of the bank, which is usually operationally written using the notation Ln (total assets).

OJK Regulation (POJK) Number 8/POJK.03/2014 concerning the Level of Soundness for Sharia Commercial Banks and Sharia Business Units are described more clearly in the Financial Services Authority Circular Letter (SEOJK) Number 10/SEOJK.03/2014 concerning Risk-Based Bank Rating for Islamic Commercial Banks and Islamic Business Units that there are several ratios in measuring profitability. These ratios are Return on Assets (ROA), Net Operation Margin (NOM), and Net Rewards (NI). In this study, the measurement of bank profitability is ROA and NOM.

A study conducted by Santoso and Nuzula (2017) examined the effect of independent commissioners, audit committees, managerial, and institutional ownership on ROA and ROE. Another study conducted by Idrus (2018) shows that NPF has a negative and insignificant effect on ROE. In 2020, Dianitasari and Hersugondo revealed that the bank model and government ownership have a significant positive effect on NIM. Ulfii et al. (2017) investigated the ownership structure on profitability by comparing the profitability obtained by foreign ownership and government ownership through the ratio of NPM, ROA, and ROE.

Pratiwi (2016), in her study, exposed that the quality of GCG implementation has a negative and significant effect on financial performance with ROA and ROE ratios, and has no effect on NIM and FDR. Johl et al. (2015) suggest that board independence does not affect company performance, while board size and board accounting/finance expertise positively influence company performance. Novado and Hartomo (2014) proffer that private banks have better credit risk control.

Fuzi et al. (2016) indicate a mixed relationship between the proportion of independent directors and company performance. The existence of many independent directors on the board will not guarantee increased company performance, so the presence of independent commissioners on the board must be monitored to have a positive impact on shareholder value. Al-Matari (2014) discloses a relationship between corporate governance mechanisms (characteristics of the board of directors, audit committee characteristics, and executive committee) and the performance of listed companies in Oman from 2008 to 2012.
Method

This statement describes a type of quantitative research known as explanatory research. In explanatory research, the goal is to explain the relationship between one or more independent variables (also known as predictor variables or explanatory variables) and a dependent variable (also known as the outcome variable). The independent variables are thought to have an effect on the dependent variable, and the goal of the research is to understand how and to what extent that effect occurs. This study is using panel data, which is a type of data that involves multiple observations of the same individuals, firms, or other entities over time. In this case, the study is using financial report data from Islamic commercial banks (BUS) in Indonesia from 2010 to 2021. Panel data allow researchers to examine the changes in the variables of interest over time, and to analyze the relationships between these variables while controlling for individual or entity-specific characteristics. The data used are annual reports from Islamic commercial banks in Indonesia published on the Financial Services Authority website (www.ojk.go.id) or the website of each bank included in the study from 2010 to 2021. There are 14 Islamic Commercial Banks in Indonesia, while the sample for this study is 11 Islamic Commercial Banks. The study is using purposive sampling, which is a non-probabilistic sampling technique where the researcher actively chooses the sample based on certain criteria. In this case, the researcher is choosing Islamic commercial banks that have published annual reports between 2010 and 2021. This is a non-random sampling method. This method of sampling is used when the researcher wants to study a specific group and when the group is difficult to obtain. The researcher will be looking for specific characteristics and, in this case, the characteristics are the banks that have published their annual reports between 2010 and 2021.

The statistical analysis aims to analyze multiple linear regression to test the effect of variable government ownership, foreign ownership, number of board of commissioners, the proportion of independent commissioners, bank risk (NPF), and bank size as variable X and using Profitability (ROA and NOM) as variables Y1 and Y2 (Firdaus, 2021).

Results and Discussion

Descriptive Analysis Results

This analysis describes the profitability variable proxied by Return on Assets and Net Operating Margin, Government Ownership Structure, Foreign Ownership Structure, Private Ownership Structure, Total Board of Commissioners, Proportion of Independent Commissioners, Bank Risk (NPF), and Bank Size (Size), which can be explained as follows:

<table>
<thead>
<tr>
<th>Table 1. Results of Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>Return On Asset</td>
</tr>
<tr>
<td>Net Operational Margin</td>
</tr>
<tr>
<td>Government Ownership</td>
</tr>
<tr>
<td>Kepemilikan Asing</td>
</tr>
<tr>
<td>Foreign Ownership</td>
</tr>
<tr>
<td>Board of Commissioners</td>
</tr>
</tbody>
</table>
Profitability refers to the profit obtained by Islamic commercial banks whose measurement uses Return on Assets (ROA) and Net Operational Margin (NOM). In the Return On Assets (ROA) variable from 2010 to 2021, Maybank Syariah Indonesia obtained the lowest value of -20.13% in 2015, indicating that Maybank Syariah Indonesia was less capable of managing its assets and suffered the greatest loss among other research samples during the research period. Maybank Indonesia Syariah's maximum value of 11.15% in 2019 indicates that the bank is capable of managing its assets. The average Return On Assets (ROA) of Islamic commercial banks is 0.59, which is less than the standard deviation value of 3.77, indicating that data variation is high and heterogeneous.

The minimum value obtained in the variable Net Operational Margin (NOM) owned by Maybank Syariah Indonesia in 2018 was -37.74%, indicating that Maybank Syariah Indonesia was unable to manage its assets, resulting in the highest loss among other research samples during the research period. Bank Syariah Mega Indonesia's maximum value of 15.49% in 2010 indicates that the bank is capable of managing its assets. The average Net Operational Margin (NOM) of Islamic commercial banks is 1.69, which is less than the standard deviation value of 7.55, indicating that data variation is relatively high and heterogeneous.

In 2010-2021, the minimum value of Government Ownership is 0.00 at Bank Muamalat, Bank Syariah Mega Indonesia, Bank Panin Syariah, BCA Syariah, Bank Victoria Syariah, and Bank Syariah Bukopin, while the maximum value is 99.99 at Bank BNI Syariah, Bank Syariah Mandiri, and Bank BRI Syariah. The average Islamic commercial bank is 37.08, which is less than the standard deviation value of 47.70, indicating that data variation is relatively high and heterogeneous.

In 2010-2021, the minimum value of Foreign Ownership is 0.00 at Bank Syariah Mandiri, Bank Syariah Mega Indonesia, Bank BRI Syariah, Bank Syariah Bukopin, Bank Victoria Syariah, BCA Syariah, Bank Jabar and Banten Syariah, and Bank BNI Syariah, and the maximum value is 98.38 at Maybank Indonesia Syariah. The average Islamic commercial bank was 16.90, which was less than the standard deviation of 33.48, indicating that the data variation was relatively high and heterogeneous.

Commissioners have a minimum value of 2 at Bank Panin Syariah from 2012 to 2016, and a maximum value of 9 at Bank BNI Syariah and Bank BRI Syariah in 2020. In 2021, Syariah Mandiri Bank. The average Islamic commercial bank has a standard deviation of 3.73, which indicates that the data variation is relatively high and homogeneous.

The value of the proportion of Independent Commissioner is 0.33 at Bank Syariah Mega Indonesia, Bank Syariah Bukopin, Bank Panin Syariah, BCA Syariah, Maybank Indonesia Syariah in 2010 and 2011; Bank Syariah Mega Indonesia, Bank Syariah Bukopin in 2012 and 2013; Syariah Bank Mega Indonesia in 2014; Bank Syariah Mega Indonesia, Bank Victoria Syariah, Bank Syariah Mega Indonesia in 2015; Bank Victoria Syariah, Bank Syariah Mega Indonesia in 2016 and 2017; Bank Syariah Mega Indonesia in 2018; Bank
Jabar and Banten Syariah in 2021. The maximum value of 1% was owned by Bank Victoria Syariah in 2012, Bank BNI Syariah in 2015, Bank Syariah Mandiri in 2019, and Bank Syariah Mega Indonesia in 2020 and 2021. The average Islamic commercial bank has a standard deviation of 0.58, which indicates that the data variation is relatively high and homogeneous.

The NPF has a minimum value of 0.00% owned by Bank Victoria Syariah and Bank Panin Syariah in 2010, and a maximum value of 4.97% owned by Bank BRI Syariah in 2018. The mean NPF of Islamic commercial banks is 2.13, which is greater than the standard deviation of 1.43, indicating that data variation is low and homogeneous.

In 2021, Bank Muamalat has a bank size of 10.98, while Bank BNI Syariah, Bank Syariah Mandiri, and Bank BRI Syariah have a bank size of 19.40, indicating that this bank has a large number of assets and better ability in carrying out its business activities. Based on the total size of Islamic commercial banks, it is 15.95, which is greater than the standard deviation value of 1.54, indicating that the data variation is low and homogeneous.

**Results of Multiple Regression Analysis**

The statistical analysis results in the partial influence of the independent variables on Profitability (ROA). Ariandhini (2019) describes the following as the multiple regression equation models for Islamic commercial banks on profitability (ROA):

**Table 2. Regression Test Results**

<table>
<thead>
<tr>
<th>Coefficient</th>
<th>Sig.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constanta</td>
<td>-1.387</td>
<td>0.668</td>
</tr>
<tr>
<td>Government Ownership</td>
<td>-0.005</td>
<td>0.491</td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>-0.011</td>
<td>0.197</td>
</tr>
<tr>
<td>board of Commissioners</td>
<td>0.023</td>
<td>0.933</td>
</tr>
<tr>
<td>Proportion of Independent Commissioners</td>
<td>-0.134</td>
<td>0.933</td>
</tr>
<tr>
<td>Bank Risk</td>
<td>-0.695</td>
<td>0.000</td>
</tr>
<tr>
<td>Bank Size</td>
<td>0.240</td>
<td>0.298</td>
</tr>
<tr>
<td>R Square</td>
<td></td>
<td>0.114</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td></td>
<td>0.072</td>
</tr>
<tr>
<td>Probability</td>
<td></td>
<td>0.017</td>
</tr>
</tbody>
</table>

**The F-test**

The F test aims to simultaneously test Government Ownership, Foreign Ownership, Total Board of Commissioners, Proportion of Independent Commissioners, Bank Risk (NPF), and Bank Size to ROA. Table 2 shows that the probability value is 0.017, which is less than $\alpha = 5\%$ (0.017 < 0.05), indicating that the independent variables have a simultaneous influence on profitability (ROA).

**The t-test**

The t-test aims to partially test the effect of Government Ownership, Foreign Ownership, number of boards of Commissioners, Proportion of Independent Commissioners, Bank Risk (NPF), and Bank Size on ROA by comparing the probability value with the $\alpha$ value $= 5\%$. The results show that government ownership has a negative
but not significant effect on ROA, foreign ownership has no significant negative effect on ROA, the board of commissioners has no significant positive effect on ROA, and the proportion of independent commissioners has a negative but no significant effect on ROA. Non-Performing Financing has a significant negative effect on ROA and the bank size has no significant effect on ROA.

**Coefficient of Determination (R²)**

The purpose of this test is to determine how well the model can explain the variation of the independent variables on the ROA variable. The R² in Table 2 is 0.114 which means that 11.40% of the variation of the ROA variable is explained by the independent variable while the remaining 88.60% is influenced by other variables outside the model studied.

The following are the SPSS output results that show the effect of the independent variables on Profitability (NOM).

**Table 3. Regression Test Results**

<table>
<thead>
<tr>
<th></th>
<th>coefficient</th>
<th>Sig.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constanta</td>
<td>-1.568</td>
<td>0.833</td>
<td>H₀ is accepted</td>
</tr>
<tr>
<td>Government Ownership</td>
<td>-0.016</td>
<td>0.320</td>
<td>H₀ is accepted</td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>-0.087</td>
<td>0.000</td>
<td>H₀ is rejected</td>
</tr>
<tr>
<td>board of Commissioners</td>
<td>0.206</td>
<td>0.739</td>
<td>H₀ is accepted</td>
</tr>
<tr>
<td>Proportion of Independent Commissioners</td>
<td>-5.673</td>
<td>0.125</td>
<td>H₀ is accepted</td>
</tr>
<tr>
<td>NPF</td>
<td>-1.532</td>
<td>0.000</td>
<td>H₀ is rejected</td>
</tr>
<tr>
<td>Bank Size</td>
<td>0.699</td>
<td>0.188</td>
<td>H₀ is accepted</td>
</tr>
<tr>
<td>R Square</td>
<td></td>
<td></td>
<td>0.218</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td></td>
<td></td>
<td>0.181</td>
</tr>
<tr>
<td>Probability</td>
<td></td>
<td></td>
<td>0.000</td>
</tr>
</tbody>
</table>

**The F-test**

The F test aims to simultaneously test the independent variable on profitability (NOM). According to Table 3, the probability value of the F test is 0.000, which is less than 5% (0.000 < 0.05), indicating that the independent variables have a simultaneous effect on profitability (NOM).

**Partial Regression Test (T-test)**

The results of the partial test in Table 3 show that government ownership has no significant negative effect on profitability (NOM), foreign ownership has a significant negative effect on profitability (NOM), and the board of commissioners has no significant positive effect on profitability (NOM). The proportion of independent commissioners has no significant negative effect on profitability (NOM). Non-Performing Finance (NPF) has a significant negative effect on profitability (NOM) and the bank size has no significant positive effect on profitability (NOM).

**Coefficient of Determination (R²)**

This test aims to determine how well the model explains variations from the independent variable to the profitability variable (NOM). The R-squared value in table 3 is 0.218, indicating that the independent variables explain 21.80% of the variation in the
profitability variable (NOM), while the remaining 78.20% is influenced by variables outside the model studied.

**Classical assumption test**

The multicollinearity test aims to test whether there is a linear relationship between the independent variables in the regression model. The tolerance value close to 1 and the Variance Inflation Factor (VIF) can be used to determine multicollinearity; if the VIF value is less than 10, there is no multicollinearity. Multicollinearity does not occur based on the SPSS output results because the VIF value is < 10.00 and the tolerance value is > 1.

The heteroscedasticity test aims to assess a linear regression model. This test is carried out using a scatterplot. If the points spread evenly above and below the zero line, do not gather in one place, and do not form a certain pattern, it can be concluded that there is no heteroscedasticity problem in this regression test. The results of the heteroscedasticity test in this study can be seen in Figure 1.

![Figure 1. Scatter Plot](image)

The autocorrelation test seeks to detect the presence of autocorrelation by using the Durbin-Watson Statistics to determine the existence of a correlation between a series of observations sorted by time series. Based on the statistical test, the Durbin-Watson value is 1.908 while the upper limit (du) is 1.832 and (4-\(du\)) is 2.117. So, based on the calculation, the DW-test is located in the test area, and the calculated DW results are between 2 and 4-\(du\), indicating that there is no autocorrelation.

**DISCUSSION**

**Effect of Government Ownership on Profitability (ROA)**

The hypothesis test results show that government ownership structure has no significant effect on profitability as measured by the ROA in Indonesian Islamic banks. In Indonesia, the relationship between government ownership and Islamic bank profitability (ROA) is negative, which means that the larger the government ownership structure, the lower the profitability (ROA) of Islamic banks. This could be attributed to the inefficient culture of government banks. When the bank implements its business strategy, shareholders are assumed to have control over managers, and the government is able to supervise managers so that personal interests are not prioritized. However, the findings of this study were contradictory. The effect of government ownership is negative and not
The results of this study do not support previous studies that have been conducted by Dianitasari and Hersugondo (2020) and Shawtari (2018).

The Effect of Foreign Ownership on Profitability (ROA)

The hypothesis test results show that the structure of foreign ownership has no significant effect on profitability as measured by the ROA ratio in Islamic banks in Indonesia. The relationship between foreign ownership structure and Islamic bank profitability (ROA) in Indonesia is negative, which means that the larger the foreign ownership structure, the lower the profitability (ROA) of Islamic banks. This is most likely because the infrastructure of banks with foreign ownership is unquestionably more sophisticated than that of Islamic banks with non-foreign ownership structures. Of course, this requires a larger investment. Of course, this will have an impact on high costs and, as a result, will reduce Islamic banks’ profitability (ROA). The results of this research do not correspond to previous research conducted by Dianitasari and Hersugondo (2020), Weill (2007), Tang et al. (2000), and Bonin et al. (2005).

The Effect of the Number of Board of Commissioners on Profitability (ROA)

The regression test results show that the number of commissioners has no significant effect on profitability as measured by the ROA ratio in Islamic banks in Indonesia. The number of commissioners and the profitability of Islamic banks has a positive relationship. The greater the number of commissioners, the greater the ability to increase the profitability ratio of Islamic banks; however, the results are not significant. This is most likely due to a large number of ineffective Islamic bank commissioners. The Board of Commissioners’ supervision of Islamic banks in Indonesia is still ineffective. The results of this study are in line with studies that have been conducted by Ariandhini (2019).

The Effect of the Proportion of Independent Commissioners on Profitability (ROA)

The results of the hypothesis test show that the proportion of independent commissioners has no significant effect on profitability proxied by the ratio of ROA in Islamic banks in Indonesia. The relationship between the proportion of independent commissioners and the profitability (ROA) of Islamic banks in Indonesia is negative, which means that the greater the proportion of independent commissioners, the lower the profitability (ROA) of Islamic banks. This is possibly caused by the additional costs that must be incurred by the bank with the large proportion of the number of independent commissioners. The results of this study contradict previous research by Beasley (1996) and Boot et al. (1999).

The Effect of Financing Risk (NPF) on Profitability (ROA)

The hypothesis test results show that credit risk has a significant effect on profitability as measured by the ROA ratio in Islamic banks in Indonesia. The relationship between credit risk and Islamic bank profitability (ROA) in Indonesia is negative, which means that the higher the credit risk, the lower the profitability (ROA) of Islamic banks in Indonesia. This may be due to the high credit risk, which can increase bank costs and, as a result, have an impact on decreasing bank profitability, lowering the ROA of Islamic banks. The impact of a high NPF is the loss of opportunity for Islamic banks to obtain income from previously provided financing, which can reduce profits and have a negative
effect on profitability. Risks do not have to be avoided; risks that are managed appropriately can become opportunities. However, if the NPF ratio is not handled properly, it will eliminate income opportunities from previously provided financing, reducing profits and the bank's ability to provide financing. Because of the growing number of problematic financing, Islamic banks are hesitant to expand financing distribution.

The Effect of Bank Size on Profitability (ROA)

The regression test results show that bank size has no significant effect on profitability as measured by the ROA ratio in Islamic banks in Indonesia. The relationship between bank size and profitability (ROA) of Islamic banks in Indonesia is positive, which means that the larger an Islamic bank, the more capable it is of increasing the profitability (ROA) of Islamic banks in Indonesia, but this result is not statistically significant. This could be due to the existence of a large bank size but the inability to increase bank revenue, which has no impact on increasing the level of bank profitability, which will ultimately increase the ROA of Islamic banks. The findings of this study contradict previous results reported by Sari (2010) and Nugrahanti and Novia (2012).

Effect of Government Ownership on Profitability (NOM)

The hypothesis test results show that government ownership structure has no significant effect on profitability in Indonesian Islamic banks as measured by the NOM ratio. The relationship between government ownership structure and Islamic bank profitability (NOM) in Indonesia is inverse, which means that the larger the government ownership structure, the lower the profitability (NOM) of Islamic banks. This could be attributed to the inefficient culture of government banks.

Effect of Foreign Ownership on Profitability (NOM)

The regression test results show that the structure of foreign ownership has a significant effect on profitability, which is proxied by the ROA ratio in Islamic banks in Indonesia. The relationship between foreign ownership structure and profitability (ROA) of Islamic banks in Indonesia is negative, which means that the larger the foreign ownership structure, the lower the profitability (NOM) of Islamic banks. This is most likely due to the fact that the infrastructure of banks with foreign ownership is undoubtedly more sophisticated than that of Islamic banks with non-foreign ownership structures. This, of course, requires a larger investment. Of course, this will have an impact on high costs and, as a result, will reduce the profitability (NOM) of Islamic banks because it is not accompanied by an increase in profit sharing. Foreign banks should be more efficient in terms of manpower because they have fewer employees than non-foreign banks. Banks with the support of shareholders who bring better experience and technology will increase maximum support for efficiently channeling funds and placing assets in securities so that it will increasingly provide greater profitability with foreign ownership.

The Effect of the Number of Board of Commissioners on Profitability (NOM)

The regression test results show that the number of commissioners has no significant effect on profitability as measured by the NOM ratio in Indonesian Islamic banks. The number of commissioners has a positive relationship with the profitability of Islamic banks. The more commissioners there are, the more capable Islamic banks are of
increasing their profitability ratio, but the results are not significant. This is most likely due to the large number of commissioners in Islamic banks who have not been very effective in obtaining profit-sharing rewards. The supervision of Islamic banks by their boards of commissioners has been ineffective.

This study contradicts previous research by Ariandhini (2019), because he believes that the board of commissioners plays an important role in implementing corporate governance, such as ensuring strategy implementation to bank management and requiring accountability.

The Effect of the Proportion of Independent Commissioners on Profitability (NOM)

The hypothesis test results show that the proportion of independent commissioners has no significant effect on profitability as measured by the NOM ratio in Indonesian Islamic banks. The proportion of independent commissioners has a negative relationship with the profitability (NOM) of Islamic banks in Indonesia, which means that the higher the proportion of independent commissioners, the lower the profitability (NOM) of Islamic banks. This could be due to the additional costs incurred by the bank as a result of the high proportion of independent commissioners who do not receive additional revenue sharing. The board of commissioners' ability to carry out their functions is highly dependent on the number of different companies that commit fraud, with a lower percentage of independent commissioners in most cases. The results of this study are not in line with previous research (Beasley, 1996; Boot et al., 1999; Putra & Nuzula, 2017). This implies that Islamic banks' only option for establishing an independent board of commissioners is to comply with regulations or rules because they reduce profit.

It is generally considered to be a best practice for financial institutions, including Islamic banks, to have an independent board of directors. This is because an independent board can provide oversight and help ensure that the bank is run in the best interest of its shareholders, rather than just its management. The role of an independent commissioner is to act as a safeguard for the shareholders and bank customers. It could have a potential impact on the bank's profit as an independent commissioner may have a different approach to the bank's operation that could lead to a lower profit margin, but it also would help to mitigate the bank's risk profile and protect shareholders' interest.

Effect of Financing Risk on Profitability (NOM)

The regression test results show that credit risk has a significant effect on profitability as measured by the NOM ratio in Indonesian Islamic banks. The relationship between credit risk and profitability (NOM) of Islamic banks in Indonesia is inverse, implying that the higher the credit risk, the lower the profitability (NOM) of Islamic banks in Indonesia. This is due to the existence of high credit risk, which can increase bank costs and thus have an impact on lowering the level of bank profit sharing, resulting in a decrease in profitability (NOM) of Islamic banks. According to the results of this study, the growing number of problematic financing causes Islamic banks to be hesitant to increase financing distribution. Non-performing loans have an impact on income. The NPF ratio, which measures bank risk, has a negative effect on the profitability of Islamic commercial banks. If the bank's risk is higher, credit arrears are also higher, resulting in a decrease in profits. Bank risk, which is an analog of NPF (Idrus, 2018), based on this
An NPL is a loan or financing that has past its repayment time limit and is unlikely to be fully repaid. Banks typically establish a threshold, such as 90 days past due, after which a loan becomes an NPL. Non-performing financing (NPF) in Islamic banking refers to financing or installment payments and profit-sharing agreements that have not been paid after a certain period, usually 90 days. It is a risk because it may have an impact on the bank's liquidity and profitability which may no longer receive income from that loan.

**Effect of Bank Size on Profitability (NOM)**

The hypothesis test results show that bank size has no significant effect on profitability in Islamic banks in Indonesia, as measured by the NOM ratio. The relationship between credit risk and profitability (ROA) of Islamic banks in Indonesia is positive, implying that the larger the size of the Islamic bank, the higher the profitability (ROA) of Islamic banks in Indonesia, but the difference is not significant. This could be due to the existence of a large bank size, which can increase bank revenue and, as a result, increase the level of bank profit sharing, which will ultimately increase the profitability (NOM) of Islamic banks. The findings of this study contradict previous research in which Nugrahanti and Novia explained that large companies typically have diverse businesses, so the risk of failure is lower than in small companies, which typically have one business that creates more risk of failure.

**Conclusion**

Because government-owned Islamic banks do not operate professionally, government ownership has no significant effect on ROA; similarly, government-owned NOM has no significant effect. Foreign ownership has no significant effect on ROA because Islamic banks have not been able to operate optimally and have a market share of less than 10%, so it has no significant impact on ROA, whereas foreign ownership has an effect on NOM because Islamic banks have greater market access and product diversity than non-foreigners and create more technology, allowing them to have a higher NOM than non-foreign owned Islamic banks.

Because Islamic banks are still in their early stages and the board of commissioners cannot play a full role in supervision, the number of commissioners has no significant effect on ROA and NOM. Because independence has not run optimally, and the number of independent commissioners has resulted in a decrease in ROA and NOM where Islamic banks incur expenses on independent commissioners, the proportion of independent commissioners has no significant effect on ROA and NOM.

Bank risk has a significant impact on ROA and NOM, and the amount of NPF given has an impact on ROA and NOM. Bank size has no effect on ROA and NOM, and the size of Islamic bank assets does not correspond to the amount of income earned by Islamic banks.

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