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The Influence of Sharia Compliance and Islamic Corporate Governance on Financial Performance of Sharia Commercial Bank

Diana Djuwita
Sharia Banking Study Program
Faculty of Sharia and Islamic Economics
IAIN Syekh Nurjati Cirebon
email: dianadjuwita12@gmail.com

Nur Eka Setiowati
Sharia Banking Study Program
Faculty of Sharia and Islamic Economics
IAIN Syekh Nurjati Cirebon
email: setiowatinureka@gmail.com

Umi Kulsum
Sharia Banking Study Program
Faculty of Sharia and Islamic Economics
IAIN Syekh Nurjati Cirebon
email: azzahra.umi25@gmail.com

Abstract

This study aims to examine the effect of Sharia Compliance and Islamic Corporate Governace on Financial Performance in Islamic Commercial Banks. The population in this study were all Sharia Commercial Banks (BUS) registered at Bank Indonesia in the period 2013 to 2017. The samples were selected using the purposive sampling method. The total sample used in this study amounted to 8 Islamic Commercial Banks with a 5-year research period. The analytical method used in this study is multiple regression that is processed using SPSS version 20. The results of this study indicate that the Sharia Compliance variable has a significant negative effect on Financial Performance in Islamic commercial banks and the Islamic Corporate Governance variable has a significant negative effect on Financial Performance at sharia commercial bank. While simultaneously, Sharia Compliance and Islamic Corporate Governance have a significant positive effect on Financial Performance at Islamic commercial banks.

Keywords: *Sharia Compliance, Islamic Corporate Governance, Financial Performance, and Sharia Commercial Bank*

Abstrak

Penelitian ini bertujuan untuk menguji pengaruh Sharia Compliance dan Islamic Corporate Governace terhadap Kinerja Keuangan pada Bank Umum Syariah. Populasi dalam penelitian ini adalah seluruh Bank Umum Syariah (BUS)yang terdaftar di Bank Indonesia pada periode 2013 sampai dengan 2017. Sampel dipilih dengan menggunakan metode purposive sampling. Total sampel yang digunakan dalam penelitian ini berjumlah 8 Bank Umum Syariah dengan periode penelitian 5 tahun. Metode analisis yang digunakan dalam penelitian ini adalah regresi berganda yang diolah menggunakan SPSS versi 20. Hasil dari penelitian ini menunjukkan bahwa variabel Sharia Compliancememiliki pengaruh negatif signifikan terhadap Kinerja Keuangan pada bank umum syariahdan variabel Islamic Corporate Governancememiliki pengaruh negatif signifikan terhadap Kinerja Keuangan pada bank umum syariah. Sedangkansecara simultan, Sharia Compliance dan Islamic Corporate Governance berpengaruh positif signifikan terhadap Kinerja Keuangan pada bank umum syariah.

Kata Kunci: Sharia Compliance, Islamic Corporate Governance, Kinerja Keuangan, dan Bank Umum Syariah

INTRODUCTION

The sharia economic system has become one of the alternative choices of the Indonesian economic system after being proven able to withstand the economic crisis that hit Indonesia in 1998. During this period, the national banking world experienced a shock due to the economic crisis which also hit countries in the Southeast Asian region. The deteriorating economic situation in Indonesia due to high interest rates and the depreciation of the rupiah has actually had very bad consequences for the banking world. The economic crisis that occurred since mid-1997 proves that banks operating on sharia principles can survive amid fluctuations in exchange rates and high interest rates. This fact is supported by the characteristics of Islamic bank operations that prohibit interest (riba), transactions that are not transparent (gharar) and speculative (maysir) (Hidayah & Ika Ariani Kartini, 2015: 75).

The development of Islamic banking in Indonesia began in 1991 with the formation of the first Islamic bank in Indonesia. However, at that time Islamic banking did not yet have an adequate legal umbrella in guaranteeing its operational activities. As a legal basis for the existence of Islamic banks in 1992 in Law Number 7 of 1992 concerning Banking which contains provisions that allow bank management based on the principle of profit sharing (profit and loss sharing). Subsequently issued Government Regulation Number 72 of 1992 concerning Banks Based on Revenue Sharing Principles as regulated in Article 2 Government Regulation Number 72 of 1992 concerning Banks Based on Revenue Sharing Principles. After that, the existence of Islamic banks is regulated through Law Number 10 of 1998 concerning Amendment of Law Number 7 of 1992 concerning Banking. Although it has been arranged the distinction of bank management between conventional banks and Islamic banks both at commercial banks and at people's credit banks, the operational technical activities of Islamic banks have not been regulated in more detail and specifically. To accommodate this, the government then issued Law Number 21 of 2008 concerning Sharia Banking which regulates more clearly and in detail about sharia banking practices in Indonesia (Hidayah & Ika Ariani Kartini, 2015:76-77).

The development of Islamic banking in Indonesia is increasingly rapid after the passing of Law Number 21 of 2008 concerning Islamic Banking. As a law specifically regulating sharia banking, this Law regulates the issue of sharia compliance (sharia compliance) whose authority lies with the Indonesian Ulama Council (MUI) represented through the Sharia Supervisory Board (DPS) which must be formed in each Sharia Commercial Bank and Sharia Business Unit. To follow up the implementation of the fatwa issued by the Indonesian Ulama Council in a Bank Indonesia Regulation, an internal Islamic banking committee was formed, the membership of which consisted of representatives from Bank Indonesia, the Ministry of Religion, and elements of society that had a balanced composition. (Hasanah, 2015: 1).

The development of Islamic banks has implications for the challenges that must be faced by Islamic banks, where the biggest challenge is to maintain the image and good name in the eyes of customers in order to maintain customer trust and loyalty to Islamic banks. (Falikhatun & Assegaf, 2012: 246). As is known according to Law No. 21 of 2008 Islamic banks are banks that carry out their business activities based on sharia principles, which are sourced from the Qur'an, Hadith and Ijma 'of ulama (Maradita, 2014: 193).

The level of financial performance of a bank can affect public confidence in the bank. Community valuation is seen from the implied measure such as facilities, services and profitability. So as an institution that in its activities using funds from the public bank is required to maintain and improve its performance (Astutik, 2013: 2-3).

The reasons underlying this research are in line with the emergence of the bankruptcy event "Ihlas Finance House", which is the largest Islamic financial institution in Turkey in 2001, which by Islamic economics and financial experts was alleged as a result of weaknesses in the internal and external mechanisms of corporate governance. Issues regarding the weaknesses of corporate governance in the Islamic banking industry increasingly attract the attention of Islamic economics and financial experts to find a solution (Asrori, 2014: 92) in (Grais dan Pellegreni, 2006: 8-9).

Then the case of Islamic banks that occurred in the Dubai Islamic Bank which lost about US $ 300 billion due to improper financial reports and the Islamic Bank of South Africa which went bankrupt in 1997 with debts between R50 to R70 million due to poor management and the system improper accounting and management (Rini, 2014: 147).

The emergence of issues regarding weaknesses in corporate governance and the low compliance of sharia in the sharia banking industry has increasingly attracted the attention of Islamic economics and finance experts (Asrori, 2014: 92) so that is the reason underlying this research. Volker (2003) dalam (Asrori, 2014: 92) revealed two important issues related to weaknesses in sharia banking corporate governance. One of them concerns sharia compliance, where the management of sharia banks is unable to provide sharia compliance guarantees on every product and banking service provided. In order to be able to meet the provision of information on compliance of sharia banks with sharia principles, Hameed et al. (2003) and Taheri (2001) recommends the Islamic Desclosure Index (IDI) which is developed based on three components of Islamic disclosure indicators, namely sharia compliance, corporate governance and social / environment disclosure (Asrori, 2011: 2).

This study aims to determine the effect of Sharia Compliance and Islamic Corporate Governace on Financial Performance in Islamic Commercial Banks.

The following is obtained some research related to the practice of disclosure of sharia compliance in the research of Asori (2011) which measures the intentions of Islamic bank accountants and managers to apply the practice of sharia compliance disclosure. This study concludes that: 1) Accountants and managers of Islamic banks have a positive attitude towards the practice of disclosure of Shariah compliance as a responsibility of sharia bank compliance with sharia principles, 2) Accountants and managers of Islamic banks believe in the practice of disclosure of Islamic compliance as a responsibility of Islamic bank compliance with Islamic principles, 3) Accountants and managers of Islamic banks are interested in applying the practice of disclosure of Islamic compliance as a responsibility of Islamic bank compliance with Islamic principles, 4) The intention of the interest of accountants and managers of Islamic banks to apply the practice of disclosure of Shariah compliance is determined by the attitude and belief in the practice of disclosure of Shariah compliance as the responsibility of sharia bank compliance with sharia principles.

Furthermore Asrori (2014) conducted a study related to the Implementation of Islamic Corporate Governance and its influence on the performance of Islamic banks as measured by Islamic financial ratios of conformity and conventional financial ratios of profitability. The results of the study concluded that the implementation of Islamic Corporate Governance implementation of the duties and responsibilities of the Sharia Supervisory Board had a positive effect on the performance of Islamic banks as measured using Islamic financial ratios. . The implementation of Islamic Corporate Governance sharia compliance has a positive effect on bank performance as measured using Islamic financial ratios of conformity, profit sharing financing, Islamic income and zakat. Whereas Islamic Corporate Governance implementation of DPS duties and responsibilities and sharia compliance does not have a positive effect on the performance of Islamic banks as measured using financial ratios of profitability return on investment on equity and profit margins.

Hasanah (2015) conducted a study related to Sharia Principles Compliance and Islamic Corporate Governance on Financial Health at Sharia Commercial Banks.

This study concludes that: 1) Islamic income has not a significant positive effect on the financial health of BUS in Indonesia. This means that changing Islamic Investment will not affect financial health, 2) Profit Sharing Funding does not have a significant positive effect on the financial health of BUS in Indonesia. This shows that the higher the value of profit sharing financing will not affect financial health, 3) Islamic investment has a significant positive effect on the financial health of BUS in Indonesia. This shows that the higher the value of the Islamic Investment Ratio the better financial health will be, 4) The implementation of the duties and responsibilities of the sharia supervisory board have a significant positive effect on the financial health of BUS in Indonesia. This shows that the higher the value of the implementation of the duties and responsibilities of the sharia supervisory board, the better the financial health, 5) The implementation of the duties and responsibilities of the board of directors/ directors has no significant positive effect on the financial health of BUS in Indonesia. This means that changing the implementation of the duties and responsibilities of the board of directors / directors will not affect financial health.

Budiman (2017) conducted a research related to the Effect of Sharia Compliance and Islamic Corporate Governance on the Financial Performance of Sharia Commercial

Banks. The results of this study conclude that: 1) Partially, Islamic Income Ratio (IsIR) and Profit Sharing Ratio (PSR) have a significant influence on the Financial Performance of Islamic Commercial Banks. While Islamic Corporate Governance (ICG) partially has no significant effect on the financial performance of Islamic commercial banks, 2) Simultaneously, the results of the study show that there is a significant influence between Islamic Income Ratio (IsIR), Profit Sharing Ratio (PSR), Investment Ratio (IIR) and Islamic Corporate Governance (ICG) on the liquidity of Islamic commercial banks, 3) The most dominant variable affecting Financial Performance of Islamic commercial banks is the Islamic Income Ratio (IsIR) variable. While the least dominant variable affecting the Financial Performance of Islamic commercial banks is the Islamic Corporate Governance (ICG) variable.

Based on the above description of sharia compliance and Islamic corporate governance can be said to be a very important element in Sharia Banking, the low compliance of sharia and weak corporate governance can affect bank performance.

LITERATURE REVIEW

Sharia Compliance

Sharia compliance (sharia compliance) is a manifestation of the fulfillment of all sharia principles in institutions that have characteristics, integrity and credibility in Islamic banks. Where the compliance culture is the values, behaviors and actions that support the creation of Islamic bank compliance with all Bank Indonesia regulations (Sukardi, 2012: 4-5).

Sharia compliance is an absolute requirement that must be met by financial institutions that conduct business activities based on sharia principles. It is explicitly stated that sharia compliance is the raison deter for the institution. Sharia compliance is the fulfillment of all sharia principles in all activities carried out as a manifestation of the characteristics of the institution itself, including in this case the Islamic Bank institution (Ilhami, 2009: 477).

This study uses three indicators to measure sharia compliance according to (Hameed, Wirman, Alrazi, Nazli, & Pramono, 2004) namely, Islamic Income Ratio (IsIR), Profit Sharing Ratio (PSR), and Islamic Investment Ratio (IIR). First, Islamic Income Ratio (IsIR) or Islamic Income is income that comes from activities and investments that are in accordance with sharia principles. Islamic Income Ratio is used to assess the percentage of halal income from the total revenue received by Islamic banks, both halal and non-halal income. Islamic Income Ratio can be calculated by the formula:

$$\boxed{\text{IsIR} = \frac{\mathit{IsIn}}{\mathit{IsIn} + \mathit{N\ IsIn}}}$$

Second, the Profit Sharing Ratio (PSR). One of the most important elements in Islamic banks is financing with profit sharing. This ratio is used to see how Islamic banks use profit-sharing activities in their activities with total financing. This ratio can be calculated by the formula:

$$\boxed{\text{PSR} = \frac{\mathit{Mudharabah} + \mathit{Musyarakah}}{\text{Total Pembiayaan}}}$$

Third, Islamic Investment Ratio (IIR). Islamic principles forbid the existence of elements of usury, gharar, and gambling in its activities including investment. The ratio of Islamic investment is used to see the percentage of Islamic investment made by banks to the overall investment. This ratio can be calculated by the formula:

$$\boxed{IIR = \frac{Is\ Inv}{Is\ Inv + N\ Is}}$$

Islamic Corporate Governance

The term "Corporate Governance" was first introduced by the Cadbury Committee in 1992 in a report known as the Cadbury Report. This report also marks a turning point for the practice of Corporate Governance throughout the world. In Indonesia, the concept of good corporate governance began to be introduced in 1999 after the government formed the National Committee on Governance Policy (KNKG). KNKG issued General Guidelines for Good Corporate Governance in Indonesia in 2000 which were then revised in 2006.

Islamic governance (ICG) seeks to find ways in which the economy, legal system, and corporate governance can be directed by moral and social values based on sharia law. Its supporters believe that all economies, companies, and business activities must be based on the ethareligiuos paradigm, with the aim of prospering individuals and society as a whole. In many ways, ICG has the same goals as conventional corporate governance, but in a moral code based on the Islamic religion. A model of ICG can be proposed to align the objectives of Sharia law with the stakeholder model of corporate governance.

Financial performance

Bank performance as a whole is a picture of the achievements of the bank in its operations, both related to financial aspects, marketing, the collection and distribution of funds, technology and human resources. The Bank's financial performance is a picture of the Bank's financial condition in a given period both regarding aspects of fund raising and fund distribution which are usually measured by indicators of capital adequacy, liquidity, and profitability of the Bank (Juminang, 2009:239).

Profitability in this study is calculated using Return On Assets (ROA) is one of the profitability ratios used to measure the effectiveness of a company in generating profits by utilizing the total that it has (Adyani, 2011: 24). Based on Bank Indonesia regulations, a good ROA standard is around 1.5%. The greater ROA shows the better company performance, because the greater the return. ROA can be calculated using the following formula:

$$\boxed{ROA = \frac{Laba\ bersih\ sebelum\ pajak}{Total\ aktiva}}$$

METHOD

Research variable

The dependent variable in this study is financial performance. Financial performance is a picture of the financial condition of a bank in a given period, including aspects of raising funds and channeling funds. Performance shows something related to the strengths and weaknesses of a company (Kusumo, 2008: 111). Financial performance in this study was measured using profitability with the ROA (Return On Assets) indicator.

Furthermore, the independent variable in this study is Sharia Compliance which is measured using three indicators, namely Islamic Income Ratio (IsIR), Profit Sharing Ratio (PSR), Islamic Investment Ratio (IIR). The independent variable in this study is Islamic Corporate Governance.

Determination of Population and Samples

The population in this study were all Sharia Commercial Banks (BUS) registered at Bank Indonesia in 2013 to 2017. The sampling technique used was purposive sampling. Based on the established criteria, the number of samples used in this study amounted to 8 banks.

Data analysis method

This study uses multiple regression analysis tools (multiple regression) to examine the effect of the dependent variable with the two independent variables.
The multiple regression equation is formulated:

$$\boxed{Y = a + b_1X_1 + b_2X_2 + e}$$

RESULTS AND DISCUSSION

Descriptive Statistics Test Results

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Kinerja Keuangan	40	-10.77	2.63	.5795	1.94137
Sharia Compliance	40	.367	.955	.75333	.107412
Islamic Corporate Governance	40	1.00	3.00	1.7447	.56051
Valid N (listwise)	40				

Table 1 shows the results of the analysis using descriptive statistics. The results of the analysis of financial performance variables in Islamic banks showed a minimum value of -10.77, a maximum value of 2.63 with an average of 0.5795 and a standard deviation of 1.94137. This shows that in the sample data which numbered 40, the financial performance of Islamic banks had the lowest value of -10.77, namely in Panin Syariah banks (in 2017) and the highest value of 2.63, namely in Mega Syariah banks (in 2016).

The Sharia Compliance variable after descriptive statistical testing obtained a minimum value of 0.367 and a maximum value of 0.955 with an average of 0.75333 and a standard deviation of 0.107412. This shows that the sample data which amounted to 40 Sharia Compliance value of Islamic banks has the lowest value of 0.367 and the highest value of 0.955.

The Islamic Corporate Governance (ICG) variable has a minimum value of 1 and a maximum of 3 with an average of 1.7447 and a standard deviation of 0.56051. This shows that in the sample data which amounted to 40 composite values the application of corporate governance in Islamic banks has the lowest value 1 and highest 3.

Classic Assumption Test Results

Normality Test

Table 2
Kolmogorov-Smirnov Statistical Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		40
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	1.65297669
Most Extreme Differences	Absolute	.192
	Positive	.134
	Negative	-.192
Kolmogorov-Smirnov Z		1.212
Asymp. Sig. (2-tailed)		.106

Based on the Kolmogorov-Smirnov statistical test the magnitude of the Kolmogorov-Smirnov value is 1.212 with a significance probability of 0.106 which is above 0.05, these results indicate that the residual data are normally distributed, so it can be concluded that the regression model meets the normality assumption.

Multicollinearity Test

Table 3
Multicollinearity Test Result

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Sharia Compliance	.995	1.005
	Islamic Corporate Governance	.995	1.005

a. Dependent Variable: Kinerja Keuangan

Berdasarkan hasil uji multikolonieritas pada tabel 3 *Tolerance* menunjukkan tidak ada variabel independen yang memiliki nilai *Tolerance* kurang dari 0,10 yang berarti tidak ada korelasi antar variabel independen yang nilainya lebih dari 95%. Hasil perhitungan nilai *Variance Inflation Factor* (VIF) juga menunjukkan hal yang sama yakni tidak ada variabel independen yang memiliki nilai VIF lebih dari 10. Sehingga dapat disimpulkan bahwa tidak ada multikolonieritas antar variabel independen dalam model regresi pada penelitian ini.

Autocorrelation Test

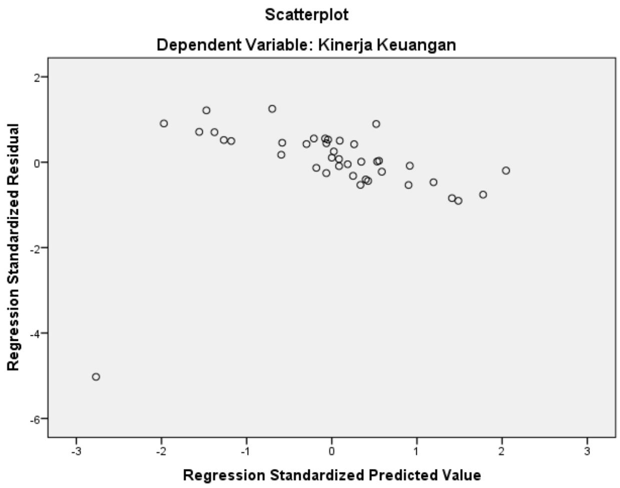
Table 4
Autocorrelation Test Results
Model Summary[b]

Model	R	Durbin-Watson
1	.152[a]	1.783

a. Predictors: (Constant), Islamic Corporate Governance, Sharia Compliance
b. Dependent Variable: Lag_Y

Based on table 4, the DurbinWatson (DW) value of 1,783 is then compared to the table value using a 5% significance value, the number of samples is 40 (n) and the number of independent variables is 2 (k = 2), so the values can be 1,391 and 1,600 . DW value 1,783 is greater than the upper limit (du) 1,600 and less than 4 - 1,600 (4-du), it can be concluded that there is no autocorrelation.

Heteroscedasticity Test



Picture 1
Scatterplot Test Results

Based on scatterplots graphs, it can be seen that the points spread randomly and are spread both above and below the number 0 on the Y axis and do not form certain patterns. It can be concluded that there was no heteroscedasticity in the regression model.

Table 5
Park Test Results
Coefficients[a]

	Model	T	Sig.
	(Constant)	-1.476	.148
1	Lnx1	.957	.345
	Lnx2	1.548	.130

a. Dependent Variable: Lnei2

Table 5 shows that no independent variable is statistically significant that influences the dependent variable. This can be seen from the probability of significance which indicates values above 0.05, it can be concluded that the regression model does not contain heteroscedasticity.

Hypothesis Test Results
Multiple Regression Analysis Test

Table 6
Regression Test Results
(Regression Coefficient)

Coefficients[a]

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	7.334	2.051
	Sharia Compliance	-5.833	2.537
	Islamic Corporate Governance	-1.353	.486

a. Dependent Variable: Kinerja Keuangan

Based on table 6 we get the multiple linear regression equation as follows:

Y=7,334-5,833X1-1,353X2+e

The results of statistical calculations show the presence of regression coefficient parameters that are negative, namely Sharia Compliance (X1) and Islamic Corporate Governance (X2). A negative sign means that any change in one of the independent variables will result in a change in the dependent variable in the opposite direction if the other variables are considered constant.

Determination Coefficient Test (R2 Test)

Table 7
Determination Coefficient Test Results (R2)
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.524[a]	.275	.236	1.69706

a. Predictors: (Constant), Islamic Corporate Governance, Sharia Compliance

Based on the R2 test results, the adjusted Rsquare size is 0.236, this means that 23.6% of the dependent variable variation in Financial Performance can be explained by variations of the two independent variables Sharia Compliance and Islamic Corporate

Governance while the rest (100% - 23.6% = 76, 4%) is explained by other variables outside this regression model.

Simultaneous Significance Test (Statistical Test F)

F statistical test is performed to see whether the independent variables simultaneously (together) affect the dependent variable or not.

Table 8
Simultaneous Significance Test Results (Statistical Test F)
ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	40.427	2	20.213	7.018	.003[b]
	Residual	106.561	37	2.880		
	Total	146.988	39			

a. Dependent Variable: Kinerja Keuangan
b. Predictors: (Constant), Islamic Corporate Governance, Sharia Compliance

Based on the results of the F test obtained a calculated F value of 7.018 with Sig 0.003. The calculated F value> F table is 7.018> 3.25 and the significant value is smaller than the probability value of 0.05 or 0.003 value <0.05; then Ha3 is accepted. This shows that the independent variables, namely Sharia Compliance and Islamic Corporate Governance simultaneously have a significant effect on the Financial Performance variable.

Significance Test of Individual Parameters (Statistical Test t)

Table 9
Significance Results of Individual Parameters (Statistical Test t)
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.334	2.051		3.575	.001
	Sharia Compliance	-5.833	2.537	-.323	-2.299	.027
	Islamic Corporate Governance	-1.353	.486	-.391	-2.784	.008

a. Dependent Variable: Kinerja Keuangan

Based on the results of the t statistical test, the two independent variables included in the Sharia Compliance and Islamic Corporate Governance variable regression models can be seen that:

a. Sharia Compliance (X1) on Financial Performance (Y)

Seen in the Coefficients model 1 column there is a sig value for Sharia Compliance of 0.027. The sig value is smaller than the probability value of 0.05, then Sharia Compliance has a significant effect on financial performance. Variable X1 has a t count of 2,299 with a t table of 2,02619. So it can be concluded that Sharia Compliance has a significant effect on financial performance.

b. Islamic Corporate Governance (X2) on Financial Performance (Y)

Seen in the Coefficients model 1 column there is a sig value for Islamic Corporate Governance of 0.008. The sig value is smaller than the probability value of 0.05, then Islamic Corporate Governance has a significant effect on financial performance. Variable X2 has a t count of 2.784 with a t table of 2.02619. So it can be concluded that Islamic Corporate Governance has a significant effect on financial performance.

Effect of Sharia Compliance on Financial Performance

The first hypothesis proposed states that Sharia Compliance has a significant effect on Financial Performance of Islamic commercial banks. Regression analysis results show the Sharia Compliance variable has a regression coefficient of -5.833 with a significance level of less than 0.05 which is equal to 0.027. Based on these results it can be concluded that Sharia Compliance has a significant effect on Financial Performance of Islamic commercial banks.

Based on the calculations that have been done in this study, the results show that Sharia Compliance has a significant effect on Financial Performance but the direction of influence is negative, it can be interpreted that when the Sharia Compliance value is high, the Financial Performance will be lower in Islamic commercial banks. This is due to the empirical evidence found in research (Syafi'i et al., 2004) in (Asrori, 2011: 2) that the practice of disclosure of Sharia Compliance in Islamic bank financial reporting in Indonesia is still low. Allegedly the confidence of sharia bank accountants and managers in the use of sharia compliance disclosure practices as the responsibility of sharia bank compliance with sharia principles is still low.

Likewise research conducted by Volker (2003) in (Asrori, 2014: 92) revealed two important issues related to weaknesses in the governance of Islamic banking companies. One of them concerns sharia compliance, where the management of sharia banks is unable to provide sharia compliance guarantees on every product and banking service provided.

The results of this study are consistent with research conducted by (Najib, 2016) which revealed that the Sharia Compliance proxied by the Islamic Income Ratio in fact there is still fraud that occurs in Islamic banks. This can be caused by the fact that income is an account that is vulnerable to manipulation and theft, this is evidenced in the COSO (2010) study in (Najib, 2016: 79) which found that the most common fraud technique was related to the recognition of improper income. Besides that, in Islamic banks there are still earnings management practices which involve income, earnings management for any reason can lead to the presentation of incorrect financial statements (miss leading) (Sula, Alim, & Prasetyono, 2014), whereas in Islamic principles there is an honest value. , transparency and openness that must be met, so that the income that has been obtained in accordance with the provisions of the sharia can not make a large contribution in improving the financial performance of Islamic banks.

The results of this study support the results of the study (Makmun, 2016: 93) stating that Sharia Compliance proxied by Profit Sharing Ratio has a significant negative effect on financial performance at Islamic commercial banks in Indonesia. This indicates that the cause of the negative relationship between profit-sharing based financing and financial performance because the provision of financing based on profit sharing requires high vigilance from the bank. Islamic banks are likely to improve the quality of their employees by employing technicians and management experts to evaluate the business projects lent to examine more closely than technical lending at conventional banks. This will increase the costs incurred by bankers in maintaining the efficiency of financial performance. Costs incurred in managing financing with profit sharing systems are also higher. Sharia commercial bank revenue-sharing income obtained from the distribution of profit-sharing financing may not be optimal so that it has not been able to offset the costs incurred.

Furthermore, the results of this study also support the results of the study (Budiman, 2017) which revealed that the Sharia Compliance proxied by the Islamic Investment Ratio did not significantly influence financial performance. Sharia investment is a benchmark for banks in seeing the compliance of sharia banks in carrying out their activities. With profit targets that have been set previously, it is not an impetus for Islamic banks to invest anywhere without seeing the system used by an agency, company or bank in managing its profits (Risda, 2016: 84).

Research conducted by Najib (2016) has the result that investments that have been carried out in accordance with Islamic regulations cannot provide a large contribution in reducing the amount of fraud that occurs in Islamic banks. Based on the explanation above, it can be concluded that the Islamic Investment Ratio that does not contribute to fraud also cannot contribute to the financial performance of the Islamic bank.

The Effect of Islamic Corporate Governance (ICG) on Financial Performance

The second hypothesis proposed states that Islamic Corporate Governance has a significant effect on financial performance of Islamic commercial banks. The results of the regression analysis showed the Islamic Corporate Governance (ICG) variable had a regression coefficient of -1.335 with a significance level of less than 0.05 which was 0.008. Based on these results it can be concluded that the Islamic Corporate Governance variable has a significant effect on Financial Performance of Islamic commercial banks.

Based on the calculations done in this study, the results show that Islamic Corporate Governance has a significant effect on Financial Performance but the direction of influence is negative, it can be interpreted that when the value of Islamic Corporate Governance is high the lower the Financial Performance of Islamic commercial banks.

The results of this study are consistent with research conducted by (Budiman, 2017). Implementation of corporate governance is a must for an institution including Islamic banks, this is more aimed at the existence of public responsibility related to bank operations that are expected to comply with the provisions outlined (Maradita, 2014: 193).

However, in its implementation it is very difficult to implement corporate governance to its full potential, especially for Islamic banks that use sharia or Islamic laws as their principles, which Islamic banks in Indonesia are still relatively new and are still in the stage of adjustment and development so that they cannot be said to have applied full Islamic principles.

In addition, the lack of understanding of Human Resources in Islamic banks on the mechanisms and principles of sharia causes the implementation of Islamic values that are not yet maximal in Islamic banks so that it produces an impression in the community that sharia banking practices are not different from conventional (Virgina Nur Rahmanti, 2013:63).

The Effect of Sharia Compliance and Islamic Corporate Governance on Financial Performance

The third hypothesis proposed states that Sharia Compiance and Islamic Corporate Governance together (simultaneously) have a significant effect on financial performance at Islamic Commercial Banks. The results of the regression analysis showed that the calculated F value (simultaneous) of 7.018 was greater than the F table of 3.25 with a significance level of 0.003 which was less than 0.05. Based on these results it can be concluded that Sharia Compliance and Islamic Corporate Governance have a significant effect on Financial Performance of Islamic commercial banks or in other words Ha3 is accepted.

Based on the calculations done in this study, the results show that Sharia Compliance and Islamic Corporate Governance have a significant effect on Financial Performance and the direction of its influence is positive, it can be interpreted that when the Sharia Compliance and Islamic Corporate Governance values are high, Financial Performance in Islamic banks will increase. Sharia Compliance and Islamic Corporate Governance are very important elements in Sharia Banking, because weak corporate governance and low sharia compliance can affect financial performance in Islamic banks.

Sharia compliance is a manifestation of the fulfillment of all sharia principles in institutions that have characteristics, integrity and credibility in Islamic banks. Where the compliance culture is the values, behaviors and actions that support the creation of sharia bank compliance with all Bank Indonesia regulations (Sukardi, 2012: 4-5).

Sharia compliance is an absolute requirement that must be met by financial institutions that conduct business activities based on sharia principles. It is explicitly stated that sharia compliance is the raison deter for the institution. Sharia compliance is the fulfillment of all sharia principles in all activities carried out as a manifestation of the characteristics of the institution itself, including in this case the Islamic Bank institution (Ilhami, 2009: 477).

Furthermore, Islamic corporate governance (ICG) is corporate governance based on Islamic principles. The business and operational activities carried out must be based on moral and sharia values, the purpose of ICG is the same as conventional corporate governance, but in a moral code based on the Islamic religion. This was done to be able to provide benefits for banks and stakeholders. Banks are required to carry out their business activities based on GCG principles in order to improve the Bank's performance, protect the interests of stakeholders, and increase compliance with applicable laws and regulations and ethical values that are generally accepted in the banking industry (Bhatti and Bhatti, 2010) in (Asrori, 2014: 93).

CONCLUSION

Based on the results of the analysis, hypothesis testing, discussion and research that has been carried out, it can be presented several research conclusions as follows:

1) Sharia Compliance has a significant effect on Financial Performance of Islamic commercial banks, but the direction of its influence is negative.
2) Islamic Corporate Governance has a significant effect on financial performance of Islamic commercial banks, but the direction of influence is negative.
3) Sharia Compliance and Islamic Corporate Governance have a significant effect on financial performance of Islamic commercial banks and the direction of their influence is positive.

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