

EFFECT OF COMPANY GOVERNANCE ON REPUTATION OF SYARIAH BANKING IN INDONESIA PERIOD 2017-2022

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ABSTRAK

The purpose of this study is to present empirical data on the impact of corporate governance implementation, namely the number of audit committees, sharia supervisory boards, board of directors, and commissioners, on Indonesia's reputation for Islamic banking. This study uses census approaches for quantitative data collection. The data utilized includes secondary data from each bank's annual report for the years 2017-2022 that is listed in the Indonesian Banking Directory. Multiple linear regression data analysis methods using SPSS 20 software. The study's findings demonstrate that the number of audit committees, sharia supervisory board of commissioners, and board of directors has no bearing on the standing of Islamic banks.

Kata kunci : Location, Service Quality, Purchasing Decisions.

INTRODUCTION

Islamic banking is a new type of financial sector that follows the development of the banking industry (Goaied and Sassi, 2010). The growth of Islamic banking has increased significantly over the past five years as a result of positive public response. The number of BUSs of 11 in 2013 increased to 13 in 2017. In addition to BUS, BPRS, which totaled 163 in 2013, also increased to 167 in 2017.

Furthermore, the worldwide assets of the Islamic banking industry in 2015 reached \$1,451 billion, and are expected to increase to \$2,176 billion by 2021 (Reuters, 2016). Islamic banking will face many challenges as a result of this development. One of the most difficult is maintaining the image of Islamic banks and maintaining customer trust (Falikhatun, 2012: 2).

Reputation can be used as a measure of the success of Islamic banking progress and as a measure of the stability of the governance that exists in it (Yuraida, 2016). Failure to implement sharia principles or sharia corporate governance systems can lead to fraud in the Islamic banking industry (Fajar, 2017). Chapra and Ahmed (2002) argue that 85% of customer switching outside the bank is caused by failure to apply sharia principles.

Rosa (2012) showed that cases of banking crime that occurred in several banks in Indonesia put the bank's reputation in jeopardy and could reduce the trust and number of customers. The following data on fraud in Indonesian Islamic Commercial Banks: 83 cases of fraud occurred at Bank Muamalat Indonesia in 2016.

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the trust and number of customers. The following is information about fraud that occurred in Indonesian Islamic Commercial Banks.

Bank supervision is part of implementing corporate governance to address corporate governance issues. Bank supervision helps prevent and combat banking crime around the world. Internal supervision by management, directors, commissioners, external supervision by regulators, and public supervision are the three components that support this supervisory system (Nasution and Kurniawan, 2007).

This study aims to show how the implementation of corporate governance, which consists of metrics such as the number of board of directors, board of commissioners, audit committee, and Islamic supervisory board, impacts the reputation of Islamic banking in Indonesia from 2013 to 2017.

METODE PENELITIAN

Jenis Penelitian

This research is quantitative in nature. This research involves all Islamic Commercial Banks (BUS) in Indonesia from 2013 to 2017. This study uses census data to collect samples, reviewing each annual report of Islamic banking.

A combined type of secondary data was used in this study. Furthermore, the data sources for this study came from the annual reports published on the official websites of each of the sampled banks, statistical data from the Financial Services Authority (OJK) website, and other sources relevant to the study.

In this study, the dependent variable is reputation, which is measured by the amount of fraud that occurs in Islamic Commercial Banks. In contrast,

the independent variable is the company's management system, which is measured by the number of boards of commissioners, boards of directors, audit committees, and sharia supervisory boards (DPS).

Reputation Variable (REP)

The reputation of a bank can be measured based on how much fraud occurs in it (Rosa, 2012).

Variable Number of Board of Commissioners (BOC)

The board of commissioners is defined as a corporate organ according to Law No. 40 of 2007, which has the responsibility to conduct general and/or special supervision in accordance with the articles of association as well as to advise the board of directors (OECD, 2004). In this case, the number of board members, both independent commissioners and board members, determines the size of the board of commissioners (Megasari, 2010).

Variable Number of Board of Directors (BOD)

The board of directors is a company organ that has full authority and responsibility for the management of the company. They do this for the benefit of the company both in and out of court, in accordance with the articles of association of Law No. 40 of 2007 (Rustam, 2013). In this case, the size of the board of directors-consisting of the chairman and members of each area of the bank's board of directors-is calculated as the size of the board of directors (Kartika, 2014).

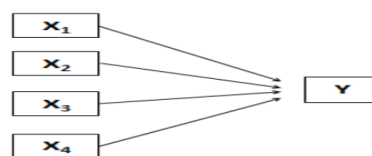
Variable Number of Audit Committee (CA)

One of the committees that helps the board of commissioners carry out its duties and responsibilities is the audit committee. The capacity of the audit committee is determined by the number of members and chairman of the audit committee in a bank (Sunjaya, 2005).

Variable Number of Sharia Supervisory Board (DPS)

The sharia supervisory board is an independent body responsible for directing, consulting, assessing, and supervising banking operations in order to ensure compliance with sharia principles (Dewayanto, 2010). In this case, the number of sharia supervisory boards in a bank is calculated (Megasari, 2010).

Kerangka Pemikiran



Description

X1 = Number of Board of Commissioners

X2 = Number of Board of Directors

X3 = Number of Audit Committee

X4 = Number of Sharia Supervisory Board

Y = Reputation

Hypothesis development

Based on the results of the framework above, the following hypothesis is formulated:

H1: The number of board of commissioners has an effect on the reputation of Islamic banking.

H2 : The number of board of directors affects the reputation of Islamic banking.

H3 : The number of audit committees affects the reputation of Islamic banking.

H4 : Number of supervisory boards sharia supervisory board affects Islamic banking performance.

RESULTS & DISCUSSION

Analysis of Results

1) Descriptive Statistics

For this sample, the statistical description starts with the variable number of board of commissioners (DK) with a minimum value of 2 people, which was found in Maybank Syariah in 2017 and Bank Panin Dubai Syariah in 2018. In 2019, BRI Syariah had a maximum number of 10 people, with an average value of 4 people and a standard deviation of 1.256.

Furthermore, the variable number of board of directors (DIR) has a minimum value of 0 or no board members in Maybank Syariah 2018. In 2019, Bank Muamalat Indonesia had a maximum value of 8 people, with an average value of 4 people and a standard deviation of 1.247.

The number of audit committees (CA) has a standard deviation of 1.274, with a minimum value of 2 people at Bank Bukopin Syariah in 2017 and 2018, and a maximum value of 9 people at Bank Syariah Mandiri in 2018. The average value of CA is 4 people, and the standard deviation is 1.274.

Most of the banks in the observation sample have a minimum value of 2 people as sharia supervisory board (DPS). This includes BCA Syariah, BNI Syariah, BRI Syariah, Bukopin Syariah, Maybank Syariah from 2017 to 2022; Bank Panin Dubai Syariah from 2018 to 2022, Bank Aceh Syariah

from 2020-2021, and Bank Mega Syariah from 2019. In 2019, Bank Muamalat Indonesia had a maximum value of 5 people, with an average value of 2 people and a standard deviation of 0.603.

For the dependent variable of reputation calculated by the number of cases of fraud or fraud, the value of the number of boards of at least 1 case was recorded in Bank Muamalat Indonesia in 2017; Bank Jabar Banten Syariah in 2017; Bank Victoria Syariah in 2017; Maybank Syariah in 2017 and 2020; BCA Syariah in 2019, 2020, 2022, and Bank Mega Syariah Thun in 2019; and Bank Aceh Syariah in 2020.

2) Normality Test

The results of the one-sample Kolmogrov-Smirnov normality test show the coefficient of Asymmetric Sig. (2-tailed) coefficient of 0.249, which is greater than the specified significance level of 0.05, indicating that the data used is normally distributed.

3) Multicollinearity Test

The multicollinearity test results show that each independent variable has a tolerance value greater than 0.10 and that none of the VIF values exceed 10. These results indicate that there is no correlation between the independent variables in the regression model, or more precisely, there is no multicollinearity.

4) Heteroscedasticity Test

The heteroscedasticity test results show that the DPS variable, which has a significance value of 0.000, is the only variable that experiences heteroscedasticity symptoms. Therefore, to eliminate this symptom from all variables, a natural logarithm (Ln) treatment is required.

5) Hypothesis testing

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	-1.812	0.784		-2.310	0.025
LN DK	-0.271	0.574	-0.068	-0.471	0.639
LN DIR	2.214	0.739	0.485	2.995	0.004*
LN KA	-0.383	0.484	-0.099	-0.729	0.432
LN DPS	1.215	0.685	0.237	1.773	0.082***
R ²	0.326				
Adjusted R ²	0.278				
F _{hitung}	6.770				
F _{sig}	0.000				

Source: data processed by researchers

The F test result is 6,770 and a significant value of 0.000. The independent variables DK, DIR, KA, and DPS affect reputation simultaneously. The variable regression model can predict the dependent

variable because the significance value is smaller than 0.05.

Furthermore, the Adjusted Rsquare coefficient of determination test shows a result of 0.326, or 32.6%. These results indicate that all independent variables, consisting of DK, DIR, KA, and DPS, can explain the dependent variable, namely reputation, by 32.6%. Other factors outside the model explain the remaining 67.4%.

DISCUSSION

Effect of Number of Board of Commissioners (DK) on Islamic Banking Reputation

The results showed that the t count was 0.471 and the significance level was 0.639 greater than 0.10. This indicates that the number of board of commissioners (DK) does not affect reputation, so H1 is rejected.

The number of commissioners has no effect on reputation, the above statement can be interpreted that the size of the board of commissioners does not have a significant impact on the reputation of a company. This finding is in line with the research of Einsberg et al. (1998) in Wardhani (2006), who found that the proportion of the board of commissioners has no impact on the reputation of a company.

Actually, the size of the board of commissioners is not the main factor that determines how effective the supervision of company management is. One of the responsibilities of the board of commissioners is to oversee management behavior and provide advice if needed (Rahmatika, 2017). Because the board of commissioners only functions as a supervisor and is not directly involved with the company's operations, its size is considered to have no effect on company value and reputation. According to Dalton et al. (1999), poor performance levels are caused by a lack of communication and coordination, which includes the number of meetings, differences in member characteristics, and a lack of effectiveness in carrying out work.

The Effect of the Number of Board of Directors (DIR) on Islamic Banking Reputation

The results of Islamic Banking research on Reputation show t count of 2.995 and a significance level of 0.004 < 0.01, which indicates that the number of board of directors (DIR) has an influence on reputation, so H2 is accepted.

The number of boards of directors can affect the level of fraud. One evidence that the number of boards of directors can affect the level of fraud is because they make policies for the company's long-term and short-term strategies (Kartika, 2014).

The proportion of the board of directors plays a very important role in minimising opportunities for agency problems that can affect the company's reputation (Hartono and Nugrahati, 2014). This is in line with the results of Eksandy's research (2018) which states that the number of boards of directors affects performance in maintaining the company's reputation. If the company has a high level of need for a board of directors, the more effective the external relationship will be because within the company there are parties who supervise and protect the rights of external parties. The party that carries out this task is the board of directors (Hasanah, 2013).

The Influence of the Number of Audit Committees (AC) on the Reputation of Sharia Banking.

The results show that the t count is -0.792 and the significance level is 0.432. This indicates that the number of audit committees (AC) does not affect reputation, so H3 is rejected.

There is no real relationship between audit committee and banking reputation. This is the conclusion of the partial test of the variable number of audit committees (AC) conducted in this study. This result is in line with the findings of Achmadani (2015) which shows that the number of audit committees does not affect reputation, and contradicts the findings of Putra (2017), Al-Matari (2012), and Eksandy (2018) which found that the number of audit committees affects performance and reputation.

The low number of audit committees has no impact on corporate reputation (Achmadani, 2015). This is because the proportion of the audit committee does not allow optimal performance to carry out the function of supervision and control over company management, resulting in a lot of fraud (Diadono, 2012).

In addition, the findings of this study suggest that there are differences in understanding of the functions, duties, and responsibilities of audit committees, leading to ineffective execution of duties, which in turn results in a decline in the quality of the company's performance and loss of its reputation. According to Muhammad Idris (2015), most corporate audit committees in Indonesia continue to do the same work for other companies. This can lead to a split focus on performance and fraud that can damage reputation.

The Influence of the Number of Sharia Supervisory Boards (DPS) on the Reputation of Sharia Banking.

The results show that the t count is 1.773 and the significance level is 0.082, which is equal to 0.10.

This indicates that the number of sharia supervisory boards (DPS) affects reputation, so H4 is accepted.

The partial test results of multiple regression show that the number of sharia supervisory boards (DPS) really affects reputation. The sharia supervisory board is the representation of sharia compliance, and they are authorised and responsible for running good corporate governance in banking in accordance with the principles of sharia principles.

The role of the sharia supervisory board is very influential on the stability of the performance and reputation of Islamic banking (Megasari, 2010). Many sharia supervisory boards with various skills and experience of its members will encourage better interpretation of banking products and operational processes.

According to research by Muttakin and Ullah (2012), more Islamic supervisory boards will encourage better banking performance because banks will have more expertise, experience, and professional and social networks. A larger number of Islamic supervisory boards will also help optimise supervision of fraud, especially fraud.

CONCLUSIONS AND SUGGESTIONS

Based on the test results and analysis of the research, the following conclusions can be drawn:

- 1) The number of commissioners has no effect on the reputation of Islamic banking.
- 2) The number of board of directors affects the reputation of Islamic banking.
- 3) The number of audit committees has no effect on the reputation of Islamic banking.
- 4) The number of sharia supervisory boards has an effect on Islamic banking reputation.

This study only examined four variables: the number of boards of commissioners, boards of directors, audit committees, and sharia supervisory boards, and the reputational level of the number of frauds. Therefore, it is expected that future research will use new, more efficient variables to measure the level of reputation by using other factors such as the number of customers.

It is expected that the results of future research will be better in terms of quality and coverage. To maintain banking reputation and reduce fraud, banks must pay attention to the role of the board of commissioners, board of directors, audit committee, and sharia supervisory board in supervision and performance.

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