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THE EFFECT OF GOOD CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF SHARIA BANK

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Abstract

This study aims to analyze the influence of Good Corporate Governance, Corporate Social Responsibility on Financial Performance. This type of research is included in the causal research type using quantitative approach design. The population used in this study is sharia commercial banks registered at the Financial Services Authority (OJK) for the period 2014-2018. In the determination of samples used purposive sampling techniques. The analysis technique chosen to analyze the data and test the hypothesis in this study is the structural equation model (SEM) using Partial Least Square (PLS). In the determination of samples, used purposive sampling technique, where the criteria used are banks that are sharia commercial banks registered at the OJK in the period 2014-2019, publishing annual reports in the period 2014-2019, and annual reports that have been audited. The analysis technique chosen to analyze the data and test the hypothesis in this study is the structural equation model (SEM) using Partial Least Square (PLS). This study shows that: (1) Good Corporate Governance has a positive and significant effect on Financial Performance; (2) Corporate Social Responsibility negatively but insignificantly affects Financial Performance. This research is expected to contribute knowledge about the influence of corporate social responsibility and good corporate governance on financial performance. The strength of this study can measure matters related to Sharia banking, especially for variable good corporate governance, corporate social responsibility, and financial performance, while the weakness of the research is a sample for banking that is measured still need to be added in the following study.

Keywords: Good Corporate Governance, Corporate Social Responsibility, Financial Performance

1. Introduction

The role of Sharia banking in particular, among others, as an adhesive of the new nationalism, meaning to be a facilitator of populist economic business networks, empower the people's economy, encourage decreased speculation in financial markets, encourage income equality, and improve the efficiency of fund mobility (Muhammad, 2005). Cashmere in Kaligis (2013) defines a bank as a financial company engaged in providing financial services that rely on the public's trust in managing its funds.

The concept of good corporate governance (GCG) has been conducted much research, especially related to the relationship with the company's performance (firm performance) in a company. In a company, GCG is a set of regulations governing the relationships of shareholders, company managers, creditors, governments, employees, and internal and external stakeholders relating to their rights and obligations (Ahmed & Che-Ahmad, 2016).

Corporate Governance is becoming one of the increasingly popular issues in Indonesia. Many companies have used Corporate Governance as a reference in running their companies. In today's globalized world, where increasingly intense competition levels require companies to manage their companies professionally. Similarly, investors in search of alternatives to invest, always looking for a professionally managed company. The number of scandals that have occurred in the company shows that the company is not managed professionally.

Corporate social responsibility (CSR) has recently become more popular with the increasing practice of corporate social responsibility and global, regional, and national discussions on CSR (Hardiansyah et al., 2008). The strengthening of applied principles of good corporate governance such as fairness, transparency, accountability, and responsibility has encouraged CSR to touch the business world (Mansur, 2012) increasingly.

Based on the signaling theory, the company can utilize information as an instrument that provides positive and negative signals to investors and stakeholders. CSR disclosure in the annual report makes investors interested in investing because they think that the company is in a favorable condition and has fulfilled its responsibilities. Along with the increasing number of sharia bank customers, banks need to have good governance (GCG), corporate responsibility (CSR), and financial performance. Considering these three components are things that investors consider before investing in a bank.

2. Library Review

2.1 Good Corporate Governance

According to Sutedi (2011), corporate governance is a process and structure used by corporate organs (Shareholders/Owners of Capital, Commissioners/Supervisory Board and Board of Directors) to improve the company's business success and accountability. GCG also helps to realize shareholder values in the long term while paying attention to other stakeholders' interests, based on legislation and ethical values. Corporate Governance is a series of mechanisms consisting of structures, systems and processes used by the organs in banking to control banking operations so that they can work in accordance with the objectives (Aldalayeen, 2017).

The purpose of corporate governance is to create value-added for all stakeholders. This can be seen if, with good corporate governance, banks can run their business efficiently to achieve the banking objectives, namely maximum profit. Good corporate governance can occur if the agent can manage the banking well according to what has been set by the regulator to improve the profitability of the banking, which is the main objective of banking and principles (N. B. Sianipar et al., 2018).

2.2 Corporate Social Responsibility

CSR is the company's commitment to ethical behavior and contributing to sustainable economic development by improving employees' quality of life and their families, local communities, and

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communities at large (Suhartono et al., 2019). According to Untung (2009), Corporate Social Responsibility is the company's commitment or the business world to contribute to sustainable economic development by paying attention to its side responsibilities and focusing on the balance between attention to economic, social, and environmental aspects.

Wibisono (2007) defines CSR as the company's responsibility to stakeholders to be ethical, minimize negative impacts and maximize positive impacts covering social and environmental economic aspects (triple bottom line). In order to achieve sustainable development goals. Meanwhile, according to Suharto (2013), CSR is a business operation committed to increasing financial benefits and building socio-economic friends holistically, institutionally, and sustainably. (Verma & Kumar, 2012) define CSR as a form of corporate social responsibility to improve social and environmental problems that occur due to banking operational activities

2.3 Financial Performance

According to the Financial Accounting Standard, the definition of financial performance is the relationship between income and expenses of the entity presented in the income statement. This profit is used as a measure of performance or as a basis for other measurements (R. H. Sianipar & Wiksuana, 2019). Maharani dan Soewarno (2018) explaining that financial performance is an essential element for management. This is because financial performance is the result of hard work achieved by individuals or groups in institutions, organizations, and institutions.

To know the company's financial performance, it is generally necessary to analyze the financial statements, which according to Brigham and Houston (2017), include (1) comparing the company's performance with other companies in the same industry and (2) evaluating the tendency of the company's financial position over time. The company's financial statements report both its position at a particular time and its operations over several periods ago.

According to Jallo, Mus, Mursalim, and Suryanti (2017) Financial performance is an analysis used to see the extent to which a bank has implemented the rules of financial implementation properly and correctly. Whereas according to the Muhammad, Nurdin, Haris, dan Miru (2017), financial performance is an activity to conduct financial reporting according to the financial standards set forth in the.

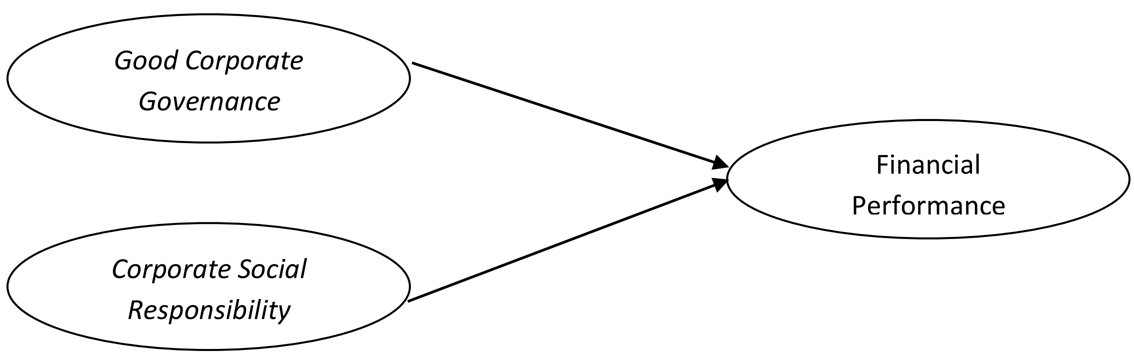

Figure 1. Framework

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2.9 Research Hypotheses

1. H1: Good Corporate Governance has a significant impact on financial performance of Sharia Bank.

2. H2: Corporate Social Responsibility has a significant impact on financial performance of Sharia Bank.

3. Method

This research type is included in the causal research type, which examines the causal relationship between two or more variables to explain the impact of changes in value variation in a variable to changes in value variation in one or more other variables (Silalahi, 2015). This study uses a quantitative approach design, where the data is obtained later in the form of numbers and further analyzed in statistical data analysis. The quantitative research method can also be interpreted as a research method based on the philosophy of positivism, used to research specific populations or samples, data collection using research instruments, and quantitative /statistical data analysis to test the established hypothesis (Sugiyono, 2016).

3.1 Population and Samples

The population is a generalized area consisting of objects or subjects with specific qualities and characteristics applied by researchers to be studied and then drawn conclusions (Sugiyono, 2016). The population used in this study is sharia commercial banks registered at the OJK for the period 2014-2018.

In the determination of samples, purposive sampling techniques are used, namely determining samples from a population-based on specific criteria. The criteria determined by the researchers in determining the samples to be used include, as follows:

1. Banking is a sharia commercial bank registered with the OJK in the period 2014-2018.
2. Sharia commercial banks that publish annual reports in 2014-2018.
3. Sharia commercial banks with audited annual reports.

The following sharia commercial banks will be analyzed in this study:

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Table 1.
Research Samples

No	Nama Perbankan
1	PT. Bank BCA Syariah
2	PT. Bank BNI Syariah
3	PT. Bank BRI Syariah
4	PT. Bank Jabar Banten Syariah
5	PT. Bank Maybank Syariah
6	PT. Bank Muamalat Indonesia
7	PT. Bank Panin Syariah
8	PT. Bank Bukopin Syariah
9	PT. Bank Mandiri Syariah
10	PT. Bank Mega Syariah
11	PT. Bank Victoria Syariah
12	PT. Bank Tabungan Pensiunan Nasional Syariah

3.2 Operational Variables Definition

This study consists of 2 (two) free variables and 1 (one) bound variable, among others:

a) Independent Variables (X)

a. Good Corporate Governance (X_1)

Good Corporate Governance is a system that directs and controls banking intending to achieve continuity between the power of authority required by banks to ensure the continuity of its existence and accountability to shareholders. The indicator is:

1. Sharia Supervisory Board (DPS) size, as measured by formula, as follows (Hendra, 2017:149):

$$\Sigma\ Member\ of\ Sharia\ Supervisor\ Board$$

2. The size of the board of directors, as measured by the formula, is as follows (Rashid, 2018):

$$Ln\ (Total\ board\ of\ director)$$

3. The independence of the commissioner, as measured by the formula, as follows (Nurdin et al., 2018):

$$\frac{Number\ of\ Independent\ Commissioners}{Number\ of\ members\ of\ the\ board\ of\ Commissioners} \text{x100\%}$$

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4. Audit committee measured by formula, as follows (Al-Mamun et al., 2014):

$$\Sigma \, Audit\ Comitee\ Member$$

b. Corporate Social Responsibility (X_2)
Corporate Social Responsibility is the commitment of banks or businesses to contribute to sustainable economic development by paying attention to banking's social responsibility and balancing attention to economic, social, and environmental aspects. The indicator is (Zalloum, 2016):

$$CSRI\text{j} = \frac{\sum \text{Xij}}{\text{Nj}}$$

b) Dependent Variables (Y)

a. Financial Performance (Y)
Financial performance is the determination of specific measures that can measure a bank's success in generating profit. Return measured this study's financial performance on Equity (ROE), the return on equity measuring net profit after tax with its capital. Return on Equity (ROE) is measured using the following equation:

$$\frac{profit\ after\ tax}{total\ equity} \text{ x } 100\%$$

3. 3 Sampling Techniques
The data used is the bank's annual financial statements. Secondary data collection is done by documentation study method, which is obtained and collected through literature books, documents, and data related to the problem faced to be used as a theoretical basis in solving problems.

3.4 Data Analysis Techniques
The analysis technique chosen to analyze the data and test the hypothesis in this study is The Structural Equation Model (SEM). To answer the hypothesis, the author used Partial Least Square (PLS). According to Ghozali (2016), the calculation was done using Smart Partial Least Square (PLS) tool because it is multi-lane and the model used is reflective. The calculation model is done using Smart PLS tools because it has a multi-track relationship and is formative and reflective.

4. Results

4. 1 Inner Model Evaluation
Inner models that sometimes specify the influence between research variables (structural models).

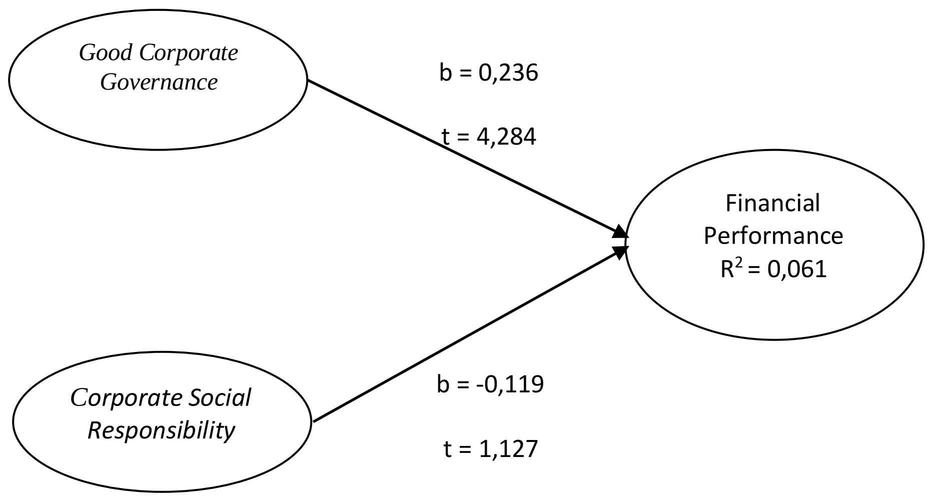

Figure 1. PLS Inner Model

For endogenous latent variables in structural models that have an R^2 yield of 0.67 indicating that the model is "good," R^2 of 0.33 indicates that the model is "moderate," R^2 of 0.19 indicates that the model is "weak" (Ghozali, 2012). Based on R Square's value, the variable Good Corporate Governance and Corporate Social Responsibility that affects Financial Performance in the structural model has an R^2 of 0.061, indicating that the model is "Weak."

Exogenous variables in the inner model studied, namely Good Corporate Governance and Corporate Social Responsibility, then endogenous variables in the inner model studied are Financial Performance. The result of the inner weight value in figure 1 above shows that Good Corporate Governance influences the Financial Performance variable, and Corporate Social Responsibility is shown in the following equation:

$Y = 0.236\ X_1 - 0.119\ X_2$

4.2 Hypothesis Test

4.2.1 Hypothesis 1(H_1)

The first hypothesis in the study proved correct. This is known from the value of t 4,284, which means greater than 1.96, which means Good Corporate Governance (GCG) has a significant effect on Financial Performance. The direction of the two variables' relationship is positive, which means that better good corporate governance will improve financial performance by having a considerable influence of 0.236.

4.2.2 Hypothesis 2 (H_2)

The second hypothesis in the study is not proven to be accurate. This is known from the value of t of 1,127, which means smaller than 1.96. This means corporate social responsibility has no significant effect on Financial Performance. The direction of the relationship between the two variables is negative with a magnitude of -0.119.

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5. Discussion

5. 1 The Effect of Good Corporate Governance (GCG) on Financial Performance

Sem analysis shows that there is an influence of good corporate governance on financial performance. This can be seen from the T-Statistic value of 4,284, which is more significant than 1.96, which means good corporate governance will affect financial performance. The relationship of the two variables of good corporate governance to financial performance is positive, which shows the better the good corporate governance owned by a company, the higher the financial performance. In other words, the improvement of the company's financial performance can be formed by implementing good corporate governance.

The positive and significant influence of good corporate governance on the company's financial performance shows the importance of good corporate governance in improving its financial performance. Such as Wahyudin and Solikhah 2017) opinion states that GCG can maintain banking credibility, which in line with the improvement of GCG, will improve financial performance.

This study's results are in line with Bhatt and Bhatt (2017) in Malaysia and Wahyudin and Solikhah (2017) in Indonesia, which show that the banking governance index affects banking performance and financial performance. The results of this study also support the findings of research conducted by Savitri (2016), Hidayat & Firmansyah (2017), as well as Outa & Waweru (2016), which proves that good corporate governance has a positive and significant influence on financial performance. This result also agreed with Mahrani and Soewarno (2018), which found that the GCG mechanism had a significant positive effect on financial performance. The results in this study also support Aryani and Niron's (2018) findings, which prove that Good Corporate Governance has a significant impact on CSR.

5.2 The Effect of Corporate Social Responsibility (CSR) on Financial Performance

SEM analysis shows corporate social responsibility has no significant effect on financial performance. This can be seen from the T-Statistic value of 1,127, which is smaller than 1.96, which means corporate social responsibility will affect financial performance. The relationship of the two variables of corporate social responsibility to financial performance is negative, which indicates the company's better corporate social responsibility, the higher the financial performance. In other words, financial performance improvement can be formed through the implementation of corporate social responsibility.

Corporate Social Responsibility (CSR) is a form of commitment given by banks to the surrounding community to contribute to sustainable economic development by paying attention to social responsibility in a balanced manner (Jallo et al., 2017). The implementation of corporate social responsibility is believed to improve the company's performance, where investors tend to invest in companies that conduct CSR activities. Therefore, companies with social care can use social responsibility information (CSR activities) as one of the company's competitive advantages (Zuhroh & Sukmawati, 2003). However, this study found the opposite, which the better Corporate Social Responsibility can decrease the company's financial performance, but the influence is not significant.

This study's results are not in line with research conducted by Cherian et al (2019), which found that CSR had a significant effect on ROE. These results also do not support Matuszak and Różańska (2017) findings, which found that CSR had a significant positive effect on Financial Performance as measured by profitability.

6. Conclusion

The results of this study can be concluded:

1. Directly, Corporate Governance (GCG) is known to have a significant influence on the Financial Performance of Sharia banking in Indonesia in the period 2014-2019.
2. Directly, Corporate Governance (GCG) is known to have no significant influence on the disclosure of Corporate Social Responsibility (CSR) in Sharia banking in Indonesia for the period 2014-2019.
3. Directly, Corporate Social Responsibility Disclosure (CSR) is known to have no significant influence on the Financial Performance of Sharia banking in Indonesia in the period 2014-2019.
4. In an indirect influence test, The Disclosure of Corporate Social Responsibility (CSR) was found to have no role in mediating Corporate Governance (GCG) with the Financial Performance of Sharia banking in Indonesia for the period 2014-2019.

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