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# The Effect of Good Corporate Governence Implementation on Profit Sharing Financing through Banking Risk

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## Article History

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***Abstrak***

*Penelitian ini bertujuan untuk menganalisis pengaruh pelaksanaan GCG terhadap pembiayaan profit sharing dengan risiko perbankan sebagai variabel intervening. Populasi dalam penelitian ini adalah BUS yang memenuhi kriteria. Metode penelitian menggunakan analisis regresi linier dan analisis jalur (path). Hasil penelitian menunjukkan bahwa variabel pelaksanaan GCG tidak berpengaruh terhadap risiko perbankan, variabel risiko perbankan yang terdiri dari risiko pembiayaan, risiko likuiditas dan risiko operasional berpengaruh terhadap pembiayaan profit sharing, variabel pelaksanaan GCG berpengaruh langsung terhadap pembiayaan profit sharing, namun melalui risiko perbankan tidak berpengaruh.*

**Abstract**

This research is intended to analyze the effect of GCG implementation to profit sharing financing with banking risk as intervening variable. The population of this research is Islamic Banks that meet the criteria. The research methods use linier regression analysis and path analysis. Research results showed that GCG implementation variable did not have effect to banking risk, banking risk variables which consisted of financing risk, liquidity risk and operational risk had effect on profit sharing financing, GCG implementation directly had effect on profit sharing financing, but through banking risk did not have effect.



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## INTRODUCTION

Profit sharing financing is the most ideal financing agreement for Islamic banks due to it can realize the Islamic economic spirit, create social welfare associated with the real sector in order to encourage productive economic activities through the use of resources as well as create job opportunities. Therefore, it is expected that this financing has a larger portion compared to other financing. Nevertheless, in fact, data as of June 2015 shows that murabaha financing more dominates Islamic bank financing in Indonesia.

**Table 1**. The Composition of Islamic Bank and Islamic Business Unit Financing Year 2011-2015 by Type of Agreement

| Agreement | 2011 | | 2012 | | 2013 | | 2014 | | 2015 (June) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Rp | % | Rp | % | Rp | % | Rp | % | Rp | % |
| Murabahah | 56.365 | 55 | 88.004 | 60 | 110.565 | 60 | 117.371 | 59 | 117.777 | 58 |
| Mudaraba | 10.229 | 10 | 12.023 | 8 | 13.625 | 7 | 14.354 | 7 | 14.906 | 7 |
| Musharakah | 18.96 | 19 | 27.667 | 18 | 39.874 | 22 | 49.387 | 25 | 54.033 | 27 |
| Others | 17.101 | 16 | 19.811 | 14 | 20.058 | 11 | 18.018 | 9 | 17.178 | 8 |
| Total | 102.655 | 100 | 147.505 | 100 | 184.122 | 100 | 199.13 | 100 | 203.894 | 100 |

Source: www.bi.go.id (Stastical Data of Islamic Banking), data processed

The data above shows that Islamic banking has not been able to channel profit sharing financing with higher portion and this is not in accordance with the purpose of establishment of Islamic bank. It is also supported by Sharia enterprise theory (Triyuwono, 2007). This theory places God as the centre of everything and the treasure belongs to God as a deposit for man, so the treasure is a mandate that will be asked an accountability. Thus, stakeholders must utilize their wealth well and in accordance with God's command. Utilization of such property can be done through the financing existing in Islamic banking in which Islamic banking as an intermediary agency that role to collect and distribute public funds in accordance with the principles of sharia which is in the form of profit sharing financing that is with mudarabah and musharakah agreement.

Research of Deviani (2013) with one of the indicators of GCG implementation variable, only the duties and responsibilities of director that affect profit sharing financing, while Arifni (2015) shows Sharia compliance affects on profit sharing financing. Diallo (2015) and Nugraha (2015) in their research show that variable of banking risk has an effect on financing. Based on the background above, the following framework is developed:

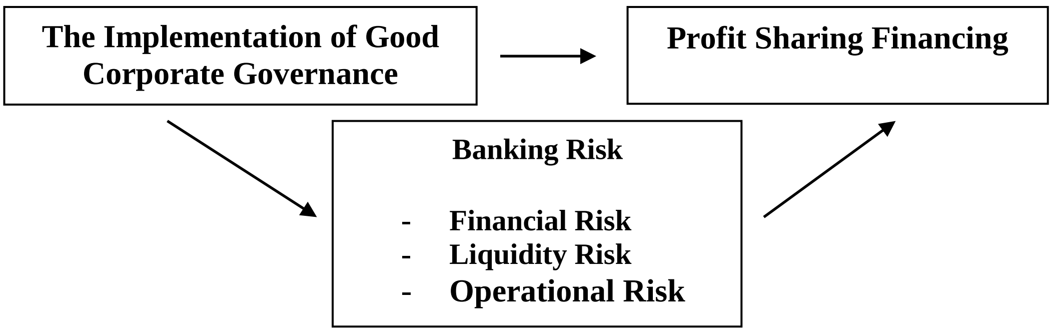


**Figure 1.**Thinking Framework Model

Hypothesis based on Figure 1. The model of Thinking Framework is as follows:
H1: The implementation of GCG has a negative effect on financing risk
H2: The implementation of GCG has a positive effect on liquidity risk
H3: The implementation of GCG has a negative effect on operational risk
H4: The implementation of GCG has a positive effect on profit sharing financing
H5: Financing risk has a negative effect on profit sharing financing
H6: Liquidity risk has a positive effect on profit sharing financing
H7: Operational risk has a negative effect on profit sharing financing
H8: The implementation of GCG has a positive effect on profit sharing financing through financing risk
H9: The implementation of GCG has a positive effect on profit sharing financing through liquidity risk
H10:The implementation of GCG has a positive effect on profit sharing financing through operational risk

## METHODS

This study used target population as the object of the research with several criteria, namely (1) Islamic Banks registered in Bank Indonesia in 2010-2014; (2) Islamic Bank which published a complete annual report in the form of financial statements in 2010-2014 and (3) Islamic Bank which published a complete annual report in the form of corporate governance report in 2010-2014. The objective of target population was to make this research comprehensive. Type of the data used in this study was secondary data with techniques of documentation and literature review. Data analysis techniques used descriptive statistical analysis, normality test, classical assumption test, linear regression analysis and path analysis. The summary of the variables used in this study was described in Table 2.

**Table 2**. Summary of Research Variables

| Variables | Definition | Measurement | Scale |
|---|---|---|---|
| Profit Sharing Financing | Cooperation agreement in the form of shirkah between two or more parties with the sharing of profit and loss between the two. | Mudaraba Financing + Musharakah Financing): Total Financing | Ratio |
| GCG Implementation | A set of rules that define the relationship between shareholders, managers, creditors, governments, employees and others internal and external stakeholders in relation to rights and responsibilities, or systems in which banking is directed and controlled. | Self assessment composite value of GCG on the report of GCG implementation | Interval |
| Financing Risk | Risks arising from the failure of the opposing party or counterparty to fulfil its obligations. | NPF = Troubled Financing: Total Financing x 100% | Ratio |
| Liquidity Risk | Risks resulting from the inability of the banks to meet due date obligations from sources of cash flow funding and / or from high qualified liquid assets that can be mortgaged, without disrupting the activities and financial | FDR = Total Financing: Third Party Fund x 100% | Ratio |

| | | | |
|---|---|---|---|
| | condition of the bank. | | |
| Operational Risk | Risks due to inadequacy and / or malfunction of internal processes, human error, system failure, and / or external events affecting bank operations | BOPO = Operating Expenses: Operating Income x 100% | Ratio |

Source: SE BI No. 12/13/DPBS and SE OJK No. 18/SEOJK.03/2015.

## RESULTS AND DISCUSSIONS

The result of descriptive statistics from data processing with SPSS statistics 21.0 for windows was as follows:

**Table 3**. Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| PS | 50 | 0.01 | 0.87 | 0.31 | 0.18 |
| P.GCG | 50 | 4.00 | 5.00 | 4.28 | 0.45 |
| RP | 50 | 0.00% | 8.56% | 2.83% | 1.89% |
| RL | 50 | 16.93% | 162.97% | 88.41% | 19.13% |
| RO | 50 | 50.76% | 182.31% | 88.49% | 18.17% |
| Valid N (listwise) | 50 | | | | |

Source: Secondary Data Processed, 2016

Hypothesis Test in this study used linear regression analysis and path analysis as follows:

**Table 4**. Result of Individual Parameter Regression Coefficient Testing (Model 1)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 4.817 | 2.580 | | 1.867 | 0.068 |
| | P.GCG | -0.464 | 0.600 | -0.111 | -0.774 | 0.443 |

a. Dependent Variable: RP

Source: Secondary data processed, 2016

The result of regression analysis in Table 4 showed that GCG implementation variable did not have effect on financing risk because significance value was more than 5% (**H1 was Rejected**).

**Table 5**. Result of Individual Parameter Regression Coefficient Testing (Model 2)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 64.289 | 25.969 | | 2.476 | 0.017 |
| | P.GCG | 5.637 | 6.035 | 0.134 | 0.934 | 0.355 |

a. Dependent Variable: RL

Source: Secondary data processed, 2016

The result of regression analysis in Table 5 showed that GCG implementation variable did not have effect on liquidity risk because significance value was more than 5% (**H2 was Rejected**).

**Table 6**. Result of Partial Regression Coefficient Testing (Model 3)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 127.765 | 24.225 | | 5.274 | 0.000 |
| | P.GCG | -9.175 | 5.629 | -0.229 | -1.630 | 0.110 |

a. Dependent Variable: RO
Source: Secondary data processed, 2016

The result of regression analysis in Table 6 showed that variable of GCG implementation did not have effect on operational risk because significance value was more than 5% (**H3 was Rejected**).

**Table 7**. Result of Partial Regression Coefficient Testing (Model 4)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| | (Constant) | -0.941 | 0.262 | | -3.591 | 0.001 |
| | P.GCG | 0.160 | 0.047 | 0.402 | 3.420 | 0.001 |
| 1 | RP | -0.030 | 0.011 | -0.313 | -2.655 | 0.011 |
| | RL | 0.003 | 0.001 | 0.297 | 2.566 | 0.014 |
| | RO | 0.005 | 0.001 | 0.462 | 3.801 | 0.000 |

a. Dependent Variable: PS
Source: Secondary Data Processed, 2016

The result of regression analysis in Table 7 showed that the implementation of GCG had a positive effect on profit sharing financing (H4 was Accepted). Financing risk had a negative effect on profit sharing financing (H5 was Accepted). Liquidity risk had a positive effect on profit sharing financing (H6 was Accepted). Operational risk had a positive effect on profit sharing financing, but because of its positive effect then (H7 was Rejected). The result of path analysis showed that direct effect of GCG variable on profit sharing was greater than indirect effect namely through variables of financing risk, liquidity risk with significance value of 5% meant that H8, H9 and H10 were rejected. It could be seen in Figures 1, 2 and 3 as follows:

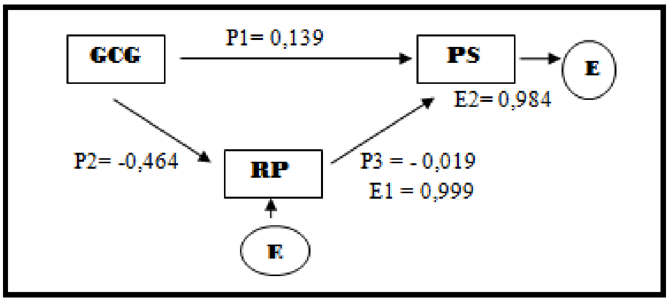


**Figure 2.** Path analysis result of GCG Implementation on Profit Sharing Financing with Financing Risk as Intervening Variable
Source: Secondary Data Processed, 2016

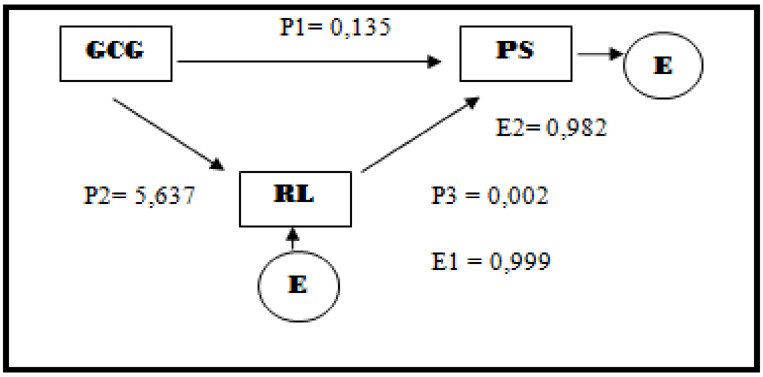


**Figure 3.** Path analysis result of GCG Implementation on Profit Sharing Financing with Liquidity Risk as Intervening Variable
Source: Secondary Data Processed, 2016

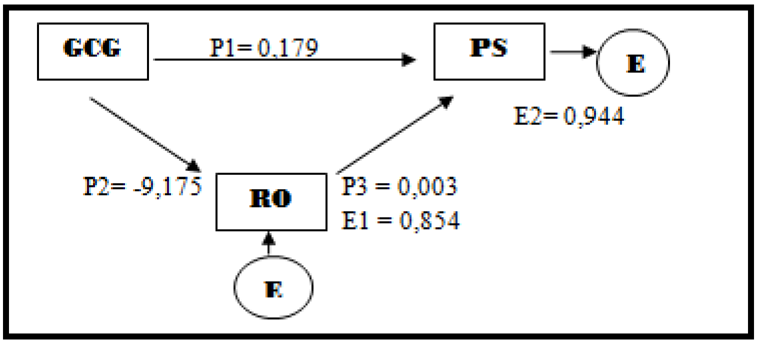


**Figure 4.** Path analysis result of GCG Implementation on Profit Sharing Financing with Operational Risk as Intervening Variable
Source: Secondary Data Processed, 2016

**Table 8**. Result of Determinant Coefficient Testing ($R^2$) Model 4

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0,647a | 0,419 | 0,367 | 0,143938 |

Source: Secondary Data Processed,2016

The result of linear regression analysis using SPSS 21.0 calculation program Table 8 obtained value of adjusted R square of 0.367. It meant that 36.7 % of profit sharing financing variable was influenced by GCG implementation and banking risk variables (financing risk, liquidity risk and operational risk), while the remaining 63.3% was influenced by other variables that was not used in this study.

The variable of GCG implementation did not affect on financing risk (H1 was rejected). It was due to the supervision of financing risk management has not been fully effective seen from there was still high financing risks such as Bank Muamalat in 2014 at 8.56% and Bank Syariah Mandiri in 2014 at 6.84%. This research was in accordance with research conducted by Lina (2013). The variable of GCG implementation did not affect on liquidity risk (H2 was rejected). It was due to the implementation of GCG has not been effective to encourage financing, so it did not affect on liquidity risk. This study was in accordance with research conducted by Sari (2010).

The variable of GCG implementation did not affect on operational risk (H3 was rejected). This was due to the average Operating Expenses to Operating Income (BOPO) was 88.49%. This indicated that between operating expenses and operating income had a small difference, even though good BOPO ratio according to Financial Services Authority (OJK) Regulation no. 6 / POJK.03 / 2016 on Bank's Business Activities and Core Capital was less than 85%, so it could be said that the supervision of operational risk management was not efficient yet. This study was in accordance with research conducted by Habibah (2014). Variable of good corporate governance implementation had a positive effect on profit sharing financing (H4 was accepted). This meant that stewardship theory was in accordance with this study and the result of this study was in accordance with research of Arifni (2015). Variable of financing risk negatively affected on profit sharing financing (H5 was accepted). This meant the concept of risk management was in accordance with this study and the result of this study was in accordance with research of Diallo (2015) and Nugraha (2015). Variable of liquidity risk positively affected on profit sharing financing (H5 was accepted). This meant the concept of risk management was in accordance with this study and the result of this study was in accordance with research of Diallo (2015) and Nugraha (2015).

Operational risk variable had a positive effect on profit sharing financing (H7 was rejected). This was because the average BOPO of 88.49% indicated that between operating expenses and operating income had a small difference, besides good BOPO ratio according to OJK Regulation no. 6 / POJK.03 / 2016 on Bank’s Business Activities and the Core Capital was less than 85%, so it could be said that operational risk management was not efficient yet. This study was in accordance with research conducted by Aisyiah (2010). Financing risk in this study proved unable to mediate the effect of GCG implementation on profit sharing financing (H8 was rejected). This was allegedly because Islamic banks have not paid attention to financing risks in decision-making related to profit sharing financing seen from there ws still high financing risk experienced by Bank Muamalat in 2014.

Liquidity risk in this study proved unable to mediate the effect of GCG implementation on profit sharing financing (H9 was rejected). This was allegedly because Islamic banking has not paid attention to liquidity risk in decision making related to profit sharing financing seen from average liquidity ratio of 88.41% which was not ideal. Operational risk in this research proved unable to mediate the effect of GCG implementation on profit sharing financing (H10 was rejected). This was assumed due to Islamic banking has not considered operational risk in decision making related to profit sharing financing seen from the average ratio of BOPO in Islamic Bank equal to 88,49% which was not effective.

## CONCLUSION

The implementation of GCG does not affect on banking risk (financing risk, liquidity risk and operational risk). Banking risk (financing risk, liquidity risk and operational risk) affect on profit sharing financing. The implementation of GCG has a direct effect on profit sharing financing, but indirectly through banking risk does not have effect. The result of the research shows that banking risk cannot be used as an intervening between GCG implementation and profit sharing financing, so Islamic banks are suggested to pay more attention to banking risk in decision making related to intervening variable. Future research is expected to use one of the indicators of GCG implementation in accordance with sharia values as research variables, such as duties and responsibilities of DPS, sharia compliance, and maximum limit of fund distribution, and to perform self-calculation on banking risk with formula determined by Bank Indonesia.

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