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THE EFFECT OF THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE ON THE PERFORMACE OF SHARIA BANKING IN NORTH SUMATERA

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Abstract. *The banking industry in Indonesia is currently a relatively dynamic economic system and the most developed compared to other industries. The bank acts as a financial intermediary between those who have excess funds and those in need. The purpose of this study is to determine the impact of the implementation of good corporate governance on the performance of Islamic banking in Medan City. The purpose of GCG implementation is to encourage sustainable development of the company through management based on the principles of transparency, accountability, responsibility, independence, and fairness. This research is qualitative research, using interview and observation techniques to collect data. The type of data used is primary data obtained from the Bank Indonesia website and secondary data obtained from various journals related to GCG and Sharia Bank performance. The results of this study show that the implementation of Good Corporate Governance (GCG) in Indonesia is very important to support sustainable economic growth and to ensure the stability of banks in order to continue to operate well, especially in terms of profitability and high capacity. To meet banking regulatory requirements in providing comfort and security for customers and investors who invest in Islamic banking.*

Keywords: *Sharia Banking Performance, Good Corporate Governance*

1. INTRODUCTION

Economic development in the world is very rapid, this is marked by economic progress in developed and developing countries as experienced by Indonesia. Progress in the economic sector must be supported by adequate banking companies because banking affects a country's economy. Banks are industries that in their business activities rely on public trust so that the level of bank stability must be maintained.

According to Bank Indonesia Regulation Number 14/17/PBI/2012, one of the bank's business activities is trust, which is a bank's business activity in the form of custody with management. Therefore, banks are required to manage these funds professionally and reliably (agent of trust). In the Indonesian Banking GCG guidelines issued by the National Committee on Corporate Governance Policy in January 2004, it is stated that GCG contains five main principles, namely transparency, accountability, responsibility, independence, and fairness, and was created to protect the interests of all parties who Interested (Shareholders).

Banks as financial institutions as well as financial intermediary, are responsible for channeling the funds they obtain to customers who need funds to improve the national economy in the real sector (agent of development). In addition, the Bank is expected to assist in decentralizing its funds in order to create an agent of equality in order to create a concrete and stable economy (agent of stability). (Law No. 10 of 1998). To improve performance and maintain public trust, banks must have good management and maintain profitability in order to increase capital. Performance is the level of success over the implementation of certain tasks, in realizing the goals, objectives, mission and vision of the company. By knowing the performance achieved, the bank can assess the level of success in carrying out its activities so that the bank can determine strategies for the future.

2. LITERATURE REVIEW

2.1 Understanding Good Corporate Government

The term GCG today is very popular, but until now there is no standard definition that can be agreed upon by all parties. The term "corporate governance" was first introduced by the British Cadbury Committee in 1922 which used the term in its report which became known as the Cadbury Report (agoes, 2009). This term has now become very popular and given many definitions by various parties. Below are given some definitions from several sources that can be used as a reference.

a. Cadbury Committee of United Kingdom: "A set of rules that define the relationship between shareholders, managers, creditors, the government, employees, and other internal and external stakeholders in respect to their rights and responsibilities,or the system by which companies are directed and controlled."

   "A set of regulations governing the relationship between shareholders, company administrators, creditors, government, employees, and other internal and external stakeholders relating to their rights and obligations; or in other words a system that directs and controls the company."

b. Forum of Corporate Governance in Indonesia – FCGI (2006) – does not make a separate definition but takes the definition from the Cadbury Committee of the United Kingdom, which translates as: "a set of regulations governing the relationship between shareholders, company administrators, creditors, government, employees, and other internal and external stakeholders relating to their rights and obligations or in other words a The system that directs and controls the company."

c. (Agoes, 2009) defines good corporate governance as a system that regulates the relationship between the role of the Board of Commissioners, the role of the Board of Directors, shareholders, and other stakeholders. Good corporate governance is also referred to as a transparent process of determining company goals, achieving them, and evaluating their performance.

d. Organization for Economic Coorperation and Development – OECD (in tjager et al, 2004) – defines GCG as: "The structure through which shareholders, directors, managers, set of the board objectives of the company, the means of attaining those objectives and monitoring performance." "A structure consisting of shareholders, directors, managers, a set of goals that the company wants to achieve, and the tools used to achieve goals and monitor performance."

According to the World Bank, Good Corporate Governance is the rules, standards, and organizations in the economic field that govern the behavior of company owners, directors and managers as well as the breakdown and elaboration of their duties and authorities and accountability to investors (shareholders and creditors). The goal is to create a control and balance system in preventing misuse of company resources and still encourage company growth (Hamdani, 2016)

Banking Performance

Financial performance is basically the result achieved by a company by managing existing resources in the company as effectively and efficiently as possible in order to achieve the goals set by management (Desfian, 2005). Likewise, banking performance can be interpreted as the results achieved by a bank by managing the resources in the bank as effectively and efficiently as possible in order to achieve the goals set by management (Desfian, 2005). Assessment of banking performance is very important because banking operations are very sensitive to the back and forth of a country's economy (Setyani, 2002)

Banking performance can be assessed with a financial ratio analysis approach. The level of bank health is regulated by Bank Indonesia in Bank Indonesia Circular Letter Number 6/23/DPNP of 31 May 2004 to all commercial banks carrying out business activities conventionally regarding the health rating system of commercial banks and Bank Indonesia Regulation Number 6/10/PBI/2004 dated 12 April 2004 concerning the health rating system of commercial banks, banks are required to conduct quarterly bank health assessment for positions in March, June, September, and December. If necessary, Bank Indonesia requests the results of the assessment of the bank's health level periodically and at any time for the assessment position, especially to test the accuracy and adequacy of the bank's analysis results. The assessment of the health level of the bank is completed no later than 1 (one) month after the assessment position or within the period determined by the relevant bank supervisor. Assessment of the bank's soundness includes an assessment of capital factors, asset quality, management, profitability, liquidity, sensitivity to market risk.

2.2 Principles of Good Corporate Management (GCG)

The implementation of GCG principles is necessary to achieve the sustainability of Islamic banks while taking into account the interests of shareholders, customers and other stakeholders. The basic principles of GCG in Islamic banks as described, namely:

a. Transparency

Transparency is openness in expressing material and relevant information and openness in the decision-making process. This principle is necessary so that Islamic bank business activities run objectively, professionally, and to protect the interests of stakeholders.

b. Accountability

Accountability is the clarity of the function and implementation of accountability of bank organs so that their management runs effectively. Accountability contains elements of clarity of functions in the organization and how to account for them. Accountability is a necessary prerequisite to achieve sustainable business performance of Islamic banks.

c. Responsibility

Responsibility is the conformity of bank management with applicable laws and regulations and sound bank management principles. The principle of responsibility or accountability is needed in Islamic banks in order to ensure the long-term sustainability of the bank's business. In implementing the principle of responsibility, Islamic banks must comply with applicable laws and regulations and internal bank regulations and carry out responsibilities to the community and the environment so that business continuity can be maintained in the long term.

d. Professional

Professionals are competent, able to act objectively and free from influence or pressure from any party (independent) and have a high commitment to develop Islamic banks.

e. Fairness

Fairness is justice and equality in fulfilling the rights of stakeholders based on agreements and applicable laws and regulations. Islamic banks must always pay attention to the interests of shareholders and other stakeholders based on the principles of fairness and equality.

3. RESEARCH METHODS

Types of Research

This study used qualitative research. Qualitative research methods are research methods that are complex, intact, full of meaning used to examine the condition of objects neutrally or naturally and researchers in this study act as a key instrument (Sugiono, 2017). Data collection techniques in this study were carried out with a combination of observation, interviews, and documentation.

Object of Research

This research covers two main components, namely Good Corporate Governance and Islamic banking performance which further more broadly includes Asset equity, Liquidity, Profitability (earning), Return on Asset (ROA), and Return on Equity (ROE).

Research Subjects

In this study, the subject of research as the main data source is Islamic banking in Medan.

Data Sources

a. Primary Data

Primary data is a source of data that is directly provided to the data collector. Primary sources can be useful to answer questions (Sugiono, 2017). In this study, primary data collection on Islamic banking in Medan city and now known as Bank Syariah Indonesia (BSI).

b. Secondary Data

Secondary Data is data that indirectly provides its source to the data collector such as passing other people or documents (Sugiono, 2017). Secondary data in this study was obtained with data on company regulations, company profiles, company job descriptions found in all Islamic banking in Medan city or now better known as BSI.

Data Analysis Techniques

In analyzing qualitative research data obtained from research, there are several process activities when conducting data analysis, namely:

1. Collection
   Data Activities in qualitative data collection are generally carried out through observation, interviews, and documentation or a combination of these three things.
2. Data Reduction
   This activity is carried out by analyzing the data that has been obtained and summarizing, choosing things that are main or important and looking for patterns so as to get a clearer picture so that researchers are easier to collect data
3. Data Presentation
   The presentation of data in qualitative research usually uses pie charts, pictograms, tables, graphs and the like.
4. Conclusion Drawing / Verification

Conclusions will be provisional and change if there is no supporting evidence at the next stage of data collection. However, if the results are supported by valid evidence in the field, the conclusions expressed can be very clear conclusions

4. RESULTS AND DISCUSSION

The company's performance measurement is carried out to make improvements and control over its operational activities in order to compete with other companies. The performance assessment of Islamic banks in Medan City is very important for every Islamic bank stakeholder, namely bank management, customers, business partners and the government in a competitive financial market. Islamic banks that can always maintain their performance well, especially their high level of profitability and are able to distribute dividends well and their business prospects can always grow and can meet the provisions of prudential banking regulations well, then there is a possibility that the value of its shares and the amount of third party funds will increase. The increase in the value of shares and the amount of third party funds is one indicator of increasing public trust in the Islamic Bank concerned.

The assessment method is determined through BI regulation (PBI) No. 9 of 2007 concerning the Health Level Assessment System of Commercial Banks Based on Sharia Principles, which includes the following:

1. *Asset Quality*

   Asset quality assessment is intended to assess the condition of bank assets, including anticipation of the risk of default from financing (credit risk) that will arise. This asset quality assessment is carried out in two ways, namely through the quality of productive assets (KAP) and Non-Performing financing (NPF).

2. *Liquidity*

   Liquidity assessment is intended to assess the bank's ability to maintain an adequate level of liquidity, including anticipation of liquidity risks that will arise. Liquidity assessment is carried out in three ways, namely through the Short Term Mismatch (STM), Short Term Mismatch Plus (STMP), and Pasiva Interbank Ratio (RABP).

3. *Profitability (Earning)*

   Profitability assessment is intended to assess the ability of Islamic banks to generate profits. This profitability assessment is carried out in six ways, namely through Net Operating Margin (NOM), Return on Assets (ROA), Operational Activity Efficiency Ratio (REO), Income Deversification (DP), Return on Equity (ROE) and Composition of Fund Placement in Securities (IdFR).

4. *Return on Assets (ROA)*

   The performance of Islamic banking in this study is measured by Return On Asset (ROA) and Return On Equity (ROE). According to (praptiningsih, 2009) ROA is the ratio of earnings before interest and tax (EBIT) or net income divided by the book value of assets at the beginning of the fiscal year. Return on Assets measures a company's profit as it relates to all disposal resources (shareholders' capital plus short and long-term funds borrowed). ROA is therefore an excellent gauge in calculating returns for shareholders. If the company has no debt, then the return on assets and return on equity will be the same. ROA measures how a company's profit level relates to total assets. ROA provides an idea of how efficient management uses its assets to generate profits. In Bank Indonesia Circular Letter No. 9 of 2007 stated that Return On Asset is a supporting ratio in calculating profitability for Islamic banks. This ratio is used to measure the success of management in generating profits. ROA is calculated by dividing pretax profit by total assets. The smaller the ratio, it identifies the lack of ability of bank management in terms of managing assets to increase revenue and/or reduce costs. ROA is commonly used to measure a company's operational performance.

5. *Return on Equity (ROE)*

   (Van Horne, 2005) ROE is a ratio that compares net income after tax to the equity that shareholders invest in the company. This ratio tells the ability to generate returns at the book value of a shareholder's investments and is often used in comparing two or more companies in one industry. A high ROE often reflects a company's acceptance of strong investment opportunities and effective cost management. Management achievements in managing the company's operational activities in utilizing the resources owned. The company's operational performance is measured using return on equity (Nuswandari, 2009). In Bank Indonesia Circular Letter No. 9 of 2007 stated that Return On Equity is a supporting ratio in calculating profitability for Islamic banks. ROE is used to measure the ability of a bank's paid-up capital to generate profits. ROE is calculated by dividing profit after tax by paid-up capital. The scope of paid-up capital includes agio and disagio. The greater this ratio shows the ability of the bank's paid-up capital to generate profits for shareholders, the greater (Hisamuddin &; M Mayang, 2012)

CONCLUSION

Good corporate governance (GCG) is one of the pillars of the market economic system. It is closely related to trust both in the company that implements it and in the business climate in a country. The implementation of GCG encourages the creation of healthy competition and a conducive business climate.

The performance assessment of Islamic banks in Medan City is very important for every Islamic bank stakeholder, namely bank management, customers, business partners and the government in a competitive financial market. Islamic banks that can always maintain their performance well, especially their high level of profitability and are able to distribute dividends well and their business prospects can always grow and can meet the certainty of prudential banking regulation well, then there is a possibility that the value of its shares and the amount of third party funds will increase.

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