

THE INFLUENCE OF GOOD CORPORATE GOVERNANCE IMPLEMENTATION TO THE FINANCING QUALITY, EFFICIENCY AND PROFITABILITY OF SYARIAH BANK IN INDONESIA (INFLATION AS MODERATING VARIABLE)

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Abstract

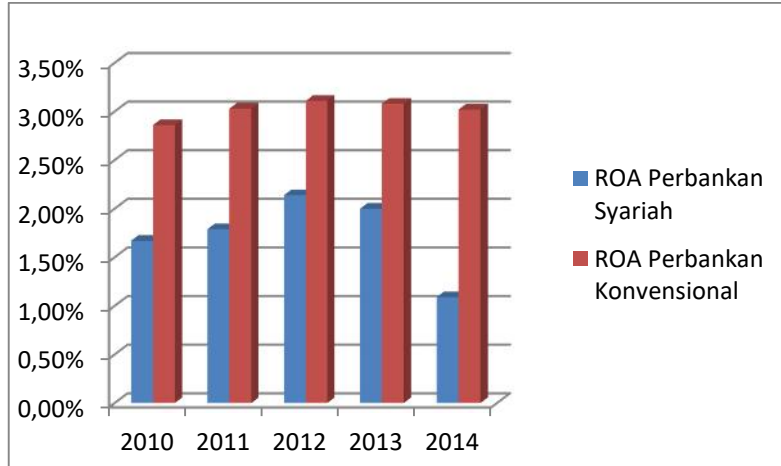
The research back ground was provided by the gap in between performance and good governance Syariah Bank in Indonesia. Since the year 2010, whether Good Corporate Governance (GCG) has applied, the profitability, the efficiency and the financing quality even decreased. Purpose - The purpose of this research is to find out how GCG implementation is influencing the profitability, efficiency and financing quality of Syariah Bank. And whether the inflation is influencing the relationship between GCG and performance of Syariah Bank. Design/methodology/approach – The study was conducted Using Quantitative Associative Causal research methods with the Ordinary Least Square (OLS) as Estimator. The object of this research is the performance report and GCG report represented by BRI Syariah, Bank Mandiri Syariah and BNI Syariah. Findings - There is a significant relationship between good corporate governance (GCG) Islamic Bank with financing quality and level of profitability of Islamic Bank. 28.3% of Bank Syariah financing quality is affected by the implementation of GCG; 5.2% profit Islamic Bank influenced by GCG implementation. however GCG does not affect the efficiency of Islamic Bank (BOPO). Inflation strengthen relationships between GCG with the NPF, and made a negative effect. Inflation also made GCG had weak relationship affect to ROE. Inflation does not strengthen or weaken the effect of the implementation of GCG against BOPO. Conclusion - although the implementation of the syariah system have not applied perfectly, but GCG have affected to performance and financing quality of Syariah Bank in Indonesia.

Keywords: *Good Corporate Governance, Inflation, Profitability, Efficiency, and Financing Quality.*

INTRODUCTION

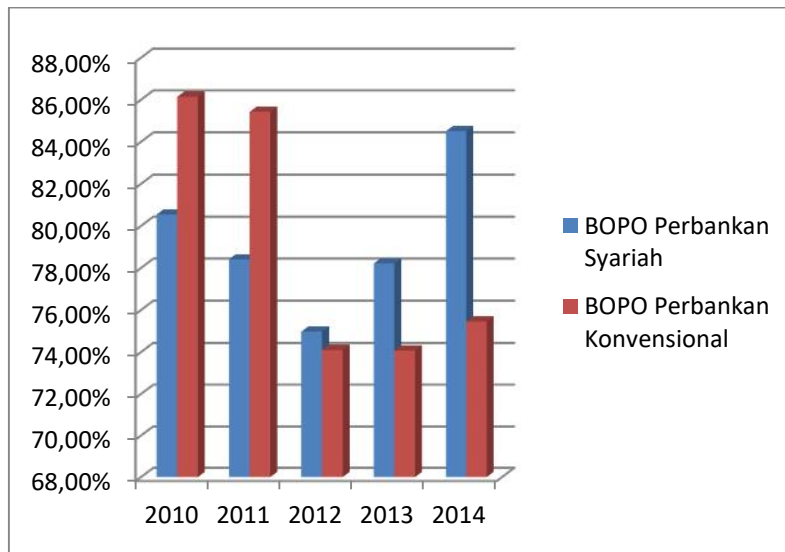
The presence of the Asean economic community (MEA) is a reality that can not be avoided, potential market Indonesia will be competing with other countries. Indonesia Islamic banking should be able and prepared to face its competitors. Islamic banks must be healthy and able to maintain the trust of the community. In accordance with the regulations of Bank Indonesia number 11/33/PBI/2009 on the implementation of good Corporate Governanace for public Bank Syariah (BUS) and Syariah Business Units (UUS). In order to establish Islamic banking industry is healthy and resilient, required the implementation of good corporate governance for commercial banks and Islamic Syariah Business Unit that is effective and must meet the principles of syariah buyers (accordance of Islamic principle) (Indonesia, 2009). Some earlier research claimed that application of GCG is proven to increase reputation and public confidence to the Islamic bank.

Chart-1a
Progression of Profitability
Islamic banking and conventional



Source: Islamic Banking Statistics of OJK Processed

Chart-1b
Progression of Efficiency
Islamic Banking and Conventional



Source: Islamic Banking Statistics of OJK Processed

In reality, since 2010 GCG implemented but the profitability of Islamic banks experiencing fluctuating tends to decline and was lower when compared to conventional banks. Likewise, the Islamic bank efficiency graph shows a higher and tend to increase compared to conventional banks, which means that banks are still more efficient than conventional Islamic banks. This condition is exacerbated by the many financing jammed, it shows the quality of Islamic financing is increasingly alarming. Based on data from the Financial Services Authority (FSA/OJK), the ratio of bank financing problems (Non Performing Financing / NPF) increased from 3.90% in June 2014 to 4.76% in June 2015. In nominal terms, Islamic banking financing with the status of non-performing loans increased amounting to 28.71% of Rp7,54 trillion to Rp9,71 trillion. To the researchers want to know whether the implementation of Good Corporate Governance affect the level of profitability, efficiency and

financing in Islamic banks, and whether inflationary effect that weaken or strengthen the implementation of GCG on profitability, efficiency and Islamic bank financing?

Research Purpose

The purpose of this research is know the level of implementation of Good Corporate Governance in Islamic banks. Knowing the influence of GCG implementation on profitability, efficiency and financing Islamic bank jammed. Knowing whether the inflation rate affecting the implementation of GCG in profitability, efficiency and financing jammed Islamic bank

Data

The data in this research is secondary data drawn from statistical data of Bank Indonesia, the data collection methods used were documentation. The independent variables in this study is a composite score GCG (X1). The dependent variable consists of NPF (Y1), ROE (Y2), ROA (Y3). Moderating variables are variables that strengthen or weaken the relationship between a dependent variable and independent variables. In this study the moderating variable is the rate of inflation (X2). The sample in this study is the Islamic bank with the following criteria; 1) Bank Syariah implement and report each year on Good Corporate Governance, 2) Bank financial data Sharia Islamic banking statistics published in Bank Indonesia. 3) Has a quarterly financial statement data cover the period 2011 - 2015 is represented by the Islamic Bank BRI Syariah, Bank Syariah Mandiri and BNI Syariah.

RESEARCH METHODE

Based on the existing problems, we used quantitative research methods Associative Causal. Causal associative method is a method of research that is the relationship between two or more variables, where the association is causal (Muslich & Sri, 2009). Relations influence of two or more independent variables on the dependent variable was obtained through multiple regression analysis (multiple regression). Estimation methods used in this research is Ordinary Least Square (OLS). Regression analysis was used to determine how the pattern of dependent variables (criteria) can be predicted by independent variables (predictors) (Supardi, 2013). There are two regression equations on research with moderating variables, namely:

$$Y = a + b1X1..... (1)$$

$$Y = a + b1X1 + b2X2 + b3X1X2 (2)$$

Processing and analysis of data using tools IBM SPSS Statistics 20 and Microsoft Excel. SPSS data processing is done with two tahapan. Untuk regression equation (1), data processing using simple regression analysis. For the regression equation (2), data processing using multiple regression analysis. All hypothesis testing using $\alpha = 0.05$ significance. After the data processing is done, then compare output "model summary" R Square of simple regression analysis and regression. From this comparison is unknown how much influence moderating variables on the relationship between independent variables with the dependent variable.

Literature Review

Research related to the application of Good Corporate Governance in Islamic banks have been done by previous researchers with the following results: (Ghaffar, 2014), Corporate Governance and Profitability of Islamic Banks Operating in Pakistan, Is there any impact of corporate governance on the profitability of Islamic banks in Pakistan. The independent variable was the implementation of Good Corporate Governance Bank and the dependent variable consists of ROE, ROA. This research is a quantitative analysis of regression, as the object is the Islamic Bank in Pakistan, the research concludes that the variable GCG has a significant relationship. with the implementation of GCG, Pakistan Islamic banks' profitability is likely to increase.

(Permatasari, 2006), Effect of Implementation of Good Corporate Governance to Capital and Performance Banking in Indonesia: the independent variable is the GCG implementation, the dependent variable is the Capital Bank and Banking Performance. Is GCG implementation influence on risk management, bank capital, the performance of banks in Indonesia, risk management as an intervening variable. data samples are 119 banks in the period 2006-2013. the following results; 1) The value of GCG composite positive effect terhadap NPL, the better the composite GCG good smkin NPL, 2) Value Composite GCG no effect on CAR. 3) Value Composite GCG has no effect on the bank's performance, 4) NPL has no effect on CAR, 5) NPL negative effect on ROE.

(EL JUNUSI, 2012), Implementation of Shariah Governance and Its Implication Reputation and Trust Bank Syariah. formulation of the problem is how the implementation of Shariah Governance and Its Implication Reputation and Trust in Bank Syariah. the independent variable is the GCG implementation, the dependent variable is the reputation and trust of Islamic banks. Descriptive analysis method using mean, sem, goodness of fit, regression weight, research sample is Bank Muamalat, respondents consisted of 200 customers of Bank Muamalat. The results showed that the implementation of GCG Bank Muamalat has been good, sharia compliant is an indicator of the most influential in the implementation of GCG.

(Nur & Tirta, 2014), GCG influence on Islamic Banks Financial Performance, the independent variable is the GCG implementation, the dependent variable is the Bank Performance, PLS SEM quantitative research methods, sample research are all Islamic Banks BI Directory 2008-2010. The results showed that the GCG affect the financial performance proxied by the ROA and ROE

Several previous studies average about GCG implementation influence on the performance of the banking, capital and risk management of conventional banks and Islamic banks. The difference with previous studies is the researcher wants to reveal how the average value of GCG implementation of Islamic banks as a whole, and how did they affect the profitability, efficiency and quality of financing, Is inflation factors influencing GCG relation to these three variables.

RESULT AND ANALYSIS

Classic Assumption Test

This test is to determine whether an estimate has the properties required such as unbiasedness, consistency, sufficiency and others.

Normality Test, Based on the test results output one-sample Kolmogorov-Smirnov, the significance value $0.938 > 0.05$. concluded that the data we are testing is a normal distribution;

Multikolinieritas test, to determine whether or not multikolinieritas, which is a linear relationship between the independent variables in the regression model, Based on the output coefficients, the value of the variable tolerance GCG (X1) and inflation (X2) is greater than 0.10 0.957 ($0.957 > 0.10$), VIF GCG variable (X1) and inflation (X2) is 1,045 less than 10, concluded not happen multicollinearity

Heteroskedastic test, to test whether there is inequality residual variance of the observations to other observations. If the variance of the observations to other observations is fixed, then called homoskedastisitas. If there is a difference, it is called heteroscedasticity. A good regression is regression homoskedastisitas. For the significance of > 0.05 is homoskedastisitas regression, whereas the significance < 0.05 means there heteroscedasticity regression.

With SPSS Glejser gained significance independent variable (GCG) 0,105 greater than 0.05. It was therefore concluded regression homoskedastisitas manifold. From the classical assumption can be inferred that the regression estimates to be generated can be accounted for in accordance with statistical criteria.

a. Regression Analysis

to examine the relationship between independent variables and the dependent variable, used a simple linear regression. While the partial regression test to determine the effect of moderating variables on any relationship between the dependent and independent variables.

1.a Test the effect of GCG (X1) to NPF (Y1)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.563 ^a	.317	.305	.0120171

Predictors: (Constant), GCG

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.004	1	.004	26.938	.000 ^b
	Residual	.008	58	.000		
	Total	.012	59			

Dependent Variable: NPF ; Predictors: (Constant), GCG

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.023	.011		-1.994	.051
	GCG	3.642	.702	.563	5.190	.000

Dependent Variable: NPF

1.b Test the Effect of Inflation (X2) to GCG (X1) dan NPF (Y1)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.565 ^a	.320	.283	.0122070

Predictors: (Constant), GCG*INFLASI, GCG, INFLASI

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.004	3	.001	8.772	.000 ^b
	Residual	.008	56	.000		
	Total	.012	59			

Dependent Variable: NPF
 Predictors: (Constant), GCG*INFLASI, GCG, INFLASI

Coefficients^a						
Model	Unstandardized Coefficients			Standardized	t	Sig.
	B	Std. Error	Beta	Coefficients		
1	(Constant)	-.027	.033		-.819	.416
	GCG	3.727	2.104	.576	1.771	.082
	INFLASI	.091	.543	.093	.168	.867
	GCG*INFLASI	-2.657	34.183	-.053	-.078	.938

a. Dependent Variable: NPF

$$Y = -0,027 + 3,727X1 + 0,091X2 - 2,657X1X2$$

1a of output, value table ANOVA sig = 0,000. This means that there is a real effect (significant) GCG variable to variable NPF. Adjusted R Square 0,305, meaning that 30.5% of Islamic bank financing quality is affected by the implementation of GCG, while the remaining 69.5% is influenced by other variables. This means that every increase in the value of GCG implementation at Bank Syariah, it will raise the quality of Islamic bank financing amounted to 30.5%.

ANOVA tables sig = 0.000 (0.000 < 0.05), then Ho is rejected, meaning that there is the influence of inflation on the relationship GCG and NPF.

The R2 in the first regression of 0.317 or 31.7% and the value of R2 in the second regression of 0.320 or 32%, with an increase of R2 indicates that inflation will strengthen the relationship between GCG with the NPF.

The constant negative at GCG * INFLASI (-2.657) indicates that the moderating effects given is negative, meaning that inflation is giving the effect of reducing the influence of GCG implementation of the quality of financing (NPF). The higher the inflation, the effect of GCG terhadap NPF will be no effect.

INFLATION coefficient significance (sig 0.867) indicates that this variable is a pure moderator variable and can not be positioned as an independent variable

Conclusion Partially, implementation of sharia bank governance (GCG) significantly affects the quality of financing (NPF) Islamic banks, whereas only 0.3% INFLATION though, will strengthen the relationship between corporate governance and the NPF. This means that although the governance of Islamic banks has been implemented well, but inflation remains a negative effect on the quality of Islamic financing (NPF). 2a. Pengujian pengaruh GCG terhadap ROE

2a. Test the effect of GCG (X1) to ROE (Y2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.262 ^a	.069	.053	.2253741

Predictors: (Constant), GCG

ANOVA^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.217	1	.217	4.281	.043 ^b
	Residual	2.946	58	.051		
	Total	3.163	59			

a. Dependent Variable: ROE

b. Predictors: (Constant), GCG

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	-.235	.215		-1.093	.279
	GCG	27.230	13.161	.262	2.069	.043

a. Dependent Variable: ROE

2b. Test the Effect of Inflation (X2) to GCG (X1) and ROE (Y2)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.316 ^a	.100	.052	.2254662

Predictors: (Constant), GCG*INFLASI, GCG, INFLASI

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.317	3	.106	2.077	.114 ^b
	Residual	2.847	56	.051		
	Total	3.163	59			

Dependent Variable: ROE

Predictors: (Constant), GCG*INFLASI, GCG, INFLASI

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	-.322	.609		-.528	.599
	GCG	43.153	38.868	.415	1.110	.272
	INFLASI	.502	10.022	.032	.050	.960
	GCG*INFLASI	-209.970	631.365	-.262	-.333	.741

Dependent Variable: ROE

output 2a, in the Anova table sig = 0.043 (0.043 < 0.05), meaning that the implementation of GCG significant effect on profitability (ROE). Adjusted R Square of 0.052 means that 5.2% profit Islamic banks affected by the application of GCG, while the remaining 94.8% is influenced by other variables. This means that every increase in the value of GCG implementation of Islamic banks, Islamic banks profitability (ROE) will increase by 5.2%.

From the output 2b, in the Anova table sig = 0.114 (0.114 > 0.05), meaning that there is no inflation effect on the relationship GCG and ROE. The R2 in the first regression of 0.69 or 69% and the value of R2 in the second regression of 0,100 or 10%, with a decrease in R2 indicates that inflation will weaken the relationship between GCG with ROE. The constant negative at GCG * INFLASI (-209 970) indicates that the moderating effects given is negative, meaning that inflation is giving the effect of reducing the effect of profitability (ROE) of Islamic banks. INFLATION coefficient significance (sig 0.960) indicates that this variable is a pure moderator variable and can not be positioned as an independent variable

Conclusion Partially, implementation of sharia bank governance (GCG) significantly affect the profitability (ROE) of Islamic banks. Inflation does not strengthen or weaken the effect of the implementation of GCG to profitability. even so inflation will affect the decreasing probability. Suppose affect the inflation will weaken the influence.

3a. Test the effect of GCG against BOPO

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.032 ^a	.001	-.016	.0912202

a. Predictors: (Constant), GCG

ANOVA^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.060	.808 ^b
	Residual	.483	58	.008		
	Total	.483	59			

Dependent Variable: BOPO

Predictors: (Constant), GCG

Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.855	.087		9.831	.000
	GCG	1.301	5.327	.032	.244	.808

Dependent Variable: BOPO

3b. Test the effect of inflation (X2) to GCG (X1) and ROA (Y3)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.154 ^a	.024	-.028	.0917687

Predictors: (Constant), GCG*INFLASI, GCG, INFLASI

ANOVA^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.012	3	.004	.456	.714 ^b
	Residual	.472	56	.008		
	Total	.483	59			

Dependent Variable: BOPO

Predictors: (Constant), GCG*INFLASI, GCG, INFLASI

Coefficients^a						
Model	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Coefficients Beta			
	(Constant)	.934	.248		3.766	.000
1	GCG	-7.031	15.820	-.173	-.444	.658
	INFLASI	-1.065	4.079	-.174	-.261	.795
	GCG*INFLA SI	123.821	256.977	.396	.482	.632

Dependent Variable: BOPO

Output 3a, in the Anova table sig = 0.808 (0.808 > 0.05), means there is no significant impact on the efficiency of GCG implementation of Islamic banks (BOPO). Adjusted R Square -0.028 means that the governance of Islamic banks langsung effect on the efficiency of the bank sharia of negative 2.8%, meaning that every increase in the value of GCG implementation will lower the value of ROA, meaning that islamic banks will increasingly efisien by 2.8%

Output 3b. From the results above all the significance of > 0.05, which means that Ho is accepted. Proven moderator variable is not significant in influencing GCG implementation of the efficiency of Islamic banks (ROA). Positive predictive value indicates that the moderating effects given are positive, meaning that if inflation influences, such as the effect of adding to the efficiency effect of GCG implementation.

Conclusion Partially, implementation of sharia bank governance (GCG) did not significantly affect the efficiency (ROA) Islamic banks, while INFLATION not strengthen or weaken the effect of the implementation of GCG against BOPO. Suppose affect the inflation will give the effect of reinforcing the efficiency of GCG implementation of Islamic banks

c. Syar'i Analysis

Implementation of Good Corporate Governance in Islamic banks in Indonesia, has been implemented in accordance with the Qur'an Surah (Al-Maidah: 48) of the Quran as the Guide of Life, (An-Nisa: 58) justice, (Al-Baqarah: 282) on transparency and accountability, (Al-Anfal: 27) about responsibility. (Ash-Shura: 38) on consultation and (Ali-Imran: 159) on consultation and trust. Also in accordance with the Sunnah which is reflected in the nature of the Prophet, Siddiq, amanah, tabligh, fathanah. In addition to the Qur'an and Sunnah, Empirically governance of Islamic banks Indonesia is also based on the rules of the National Islamic Council (DSN MUI), Authorization Financial Services (OJK), Bank Indonesia (BI), Islamic Financial Services Board (IFSB) and the Accounting and auditing Organization for Islamic Financial Institution (AAOIFI).

In connection with the implementation of the governance of banks syariah today, Surah Al-Maidah 48, provide guidance, awareness and stability in the Islamic banking manager. to manage and transact with the rest of the Quran and Sunna. Sunnah of the Prophet sallallahu 'alaihi wa sallam is a measure of whether or not we understand the Qur'an. Business values prevailing at the Islamic Syariah Bank in Indonesia at this time, supported the implementation of Good Corporate Governance is concentrated on transparency, accountability, responsibility, independence and fairness have shown the implementation of appropriate governance with backrest Quran and Hadith.

Q.S: An-Nisa: 58, On justice. From the commands of God and the Word of the Prophet, one of the components of the GCG is keadilan. Keadilan is an effort to be able to provide and carry out the mandate in accordance with the capacity and responsibility. Justice (Fairness), is the fulfillment of the rights of stakeholders arising on the basis of laws and agreements. To ensure the application of justice, then there is an annual assessment of each Islamic bank.

(Al-Baqarah: 282), on Transparency and Accountability and (Al-Anfal: 27) about responsibility. Transparency, Accountability and Responsibility, is an obligation ordered by Allah, God forbid something that is not clear, doubt, and disappointment in muamalah. For the operational effectiveness of Islamic banks need for transparency or openness in delivering material and relevant information, as well as the lack of clarity on the duties and responsibilities of each party in accordance with the mandate bearers legislation. For that in the implementation of GCG, Islamic banking required to disclose information in a clear, accurate, timely and can be easily compared. Though obliged to uphold transparency and accountability, confidentiality and customer's identity must be maintained in accordance with applicable laws. Banks are required to have performance measures and business targets are agreed upon and in accordance with the value of the company, especially the values contained in the Qur'an and Hadith. Islamic banking should also uphold environmental awareness and implement social responsibility.

QS. Ash-Shura: 38 and QS. Ali-Imran; 159, on consultation and trust. Hinting attitude that should be done by Muslims in relate with others. In business there is no doubt many of the problems that occur between fellow leaders, between leaders and subordinates, between consumers and suppliers, and so forth. Likewise, the management of Islamic banking, not every problem the solution is explicitly mentioned in the Quran and Hadith, so it needs to be a discussion to resolve any issues. A leader to be a good role model and all of its programs can be implemented properly and successfully should avoid harsh words said, not stubborn and should be able to read the situation and spoke gently. In deliberation no doubt the emergence of debating ideas, then by always willing to give forgiveness will purify the hearts of anger over the debate, so it will reappear solid cooperation without heartache. In the verse also mentioned to my trust, so that in the management of Islamic banks if it had been sought as much as possible in accordance with the provisions of the Koran and Hadith, then let rest put their trust.

CONCLUSION

Quantitative Analysis:

Based on the results Hypothesis Testing with Partial Simple Linear Regression, concluded that: There is a significant relationship between governance by Islamic banks to finance quality and level of profitability of Islamic banks. 28.3% of Islamic bank financing quality is affected by the implementation of GCG, while the remaining 71.7% is influenced by other variables. 5.2% profit Islamic banks affected by the application of GCG, while the remaining 94.8% is influenced by other variables. However, the governance of Islamic banks does not affect the efficiency of Islamic banks (ROA).

Based on Hypothesis Testing with Multiple Regression, it can be concluded that: 1) the variable inflation a pure moderator variable and can not be positioned as an independent variable. 2) variable inflation gives the effect of reinforcing the relationship between GCG with NPF, inflation is a negative effect, reduce the influence of corporate governance on the quality of Islamic bank financing (NPF). 3) Inflation variable effect weakens the relationship between GCG with ROE. Inflation gives the effect of reducing the profitability of Bank Syariah. 4) Inflation variable does not strengthen or weaken the effect of the implementation of GCG against BOPO.

Syar'i Analysis

Bank Syariah governance mechanisms in this study include the Board of Directors and the Sharia Supervisory Board in its task of implementing the principles of transparency, accountability, responsibility, independence, fairness and competence. Bank Syariah governance implementation in realizing health fanatic Bank concluded yet, which indicated the influence of the unreal (significant) between GCG variable to variable efficiency. Although the implementation syar'i not kaffah, Bank Syariah governance still has a role and influence on the performance and health of Islamic Banking in Indonesia. General concluded that Bank Syariah Governance nice and Kaffah accordance Quran and Hadith, would provide financing and health impact of the bank increased.

RECOMMENDATION

1. Banking Regulatory Sharia, such as Bank Indonesia (BI), Financial Services Authority (FSA), and the National Sharia Council (DSN) MUI, to further improve supervision for more shar' both real technical and through policies made in the enactment Acts
2. Islamic and conventional banking, can use this research as an evaluation and correction of the implementation of the Bank's governance, so that the purpose of improvement of health financing policy and the Bank can be achieved.
3. For the practitioners in the field of banking and non banks, this study can be used as reference material in the implementation of corporate governance in the company
4. For Academics, can do similar research more widely, both in banking and non banks.
5. For the Community, this experiment will serve as a source of information and steadiness that Islamic Banking has implemented Islamic Governance fine.

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