

PROFITABILITY AND FINANCIAL PERFORMANCE IN ISLAMIC COMMERCIAL BANKS: TESTING THE ROLE OF GOOD CORPORATE GOVERNANCE AS A MODERATING VARIABLE



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Abstract

This study examines the impact of profitability on financial performance in Islamic Commercial Banks and the moderating role of Good Corporate Governance (GCG) from 2019 to 2023. Using purposive sampling, 15 banks registered with the Financial Services Authority (OJK) were analyzed based on annual reports, though data limitations due to missing or incomplete reports posed challenges. Financial performance was measured by Return on Assets (ROA), while profitability was assessed through Net Profit Margin (NPM). GCG variables included the Independent Board of Commissioners, Board of Directors, Institutional Ownership, Sharia Supervisory Board, and Audit Committee, selected for their role in maintaining financial stability and ensuring compliance with Sharia principles. The results, analyzed using multiple linear regression and Moderated Regression Analysis (MRA), indicate that profitability significantly influences financial performance. However, the Independent Board of Commissioners, Board of Directors, and Institutional Ownership did not strengthen this relationship, likely due to their advisory rather than managerial roles. In contrast, the Sharia Supervisory Board and Audit Committee enhanced the relationship, highlighting the importance of Sharia compliance and financial oversight. The study is limited by sample size and data constraints, impacting result generalizability. Future research should expand the sample and explore additional governance mechanisms unique to Islamic banking to provide deeper insights into financial performance determinants.

Keywords: Board of Commissioners, Board of Directors, Institutional Ownership, Sharia Supervisory Board, Audit Committee, Profitability, Financial Performance

INTRODUCTION

The evolution of the Islamic banking system in Indonesia aims to provide broader financial service alternatives to society through a dual banking system approach, which is regulated under the Indonesian Banking Architecture (API). This dual system allows conventional and Islamic banks to operate concurrently under the same financial framework, offering consumers diverse choices aligned with their financial and religious preferences. Islamic banks adhere strictly to Sharia principles, which prohibit interest-based transactions (*riba*), speculative activities (*maysir*), and excessive uncertainty (*gharar*), whereas conventional banks operate based on interest-driven mechanisms. The coexistence of these two systems fosters a competitive and dynamic financial landscape, regulated to ensure stability and growth.

With the enactment of Law No. 21 of 2008 concerning Islamic Banking on July 16, 2008, the sector has gained robust legal reinforcement, expediting its growth trajectory. The Islamic banking industry in Indonesia has experienced significant expansion, evidenced by the presence of numerous full-fledged Islamic banks alongside Sharia-compliant business units within conventional banks. This growth presents vast opportunities to cater to society's financial service needs while ensuring compliance with Sharia principles.

Islamic banking is centered on delivering financial services and transactions that conform to Sharia stipulations while mobilizing and disbursing funds from third-party sources. These banks employ various contractual frameworks such as *mudharabah* (profit-sharing), *musharakah* (joint venture), and *ijarah* (leasing) to structure their financial products. Unlike conventional banking, where profitability is primarily driven by interest-based earnings, Islamic banks generate profits through asset-backed transactions, risk-sharing mechanisms, and ethical investments. This fundamental distinction impacts how profitability is measured and achieved in Islamic banking, making financial performance analysis in this sector unique.

Financial performance is a crucial barometer in achieving corporate objectives, reflecting both the institution's progress and its potential growth trajectory (Fathoni & Jairin, 2022). As posited by Sundajaja and Barlian (2003), financial performance encapsulates an institution's fiscal standing over a defined timeframe, encompassing fund management and

allocation. Profitability constitutes a principal metric in evaluating financial performance, as it denotes the institution's adeptness in generating earnings from its revenue streams, asset utilization, and equity base. Harahap (2015) asserts that profitability mirrors an entity's capacity to accrue earnings by leveraging all available resources, including capital infusion, workforce capabilities, and tangible assets. Given the prohibition of *riba*, Islamic banks must focus on profit-sharing models and trade-based financing to ensure sustainable profitability while adhering to ethical and religious obligations (Ardiansyah & Lesmana, 2024). Understanding the relationship between financial performance and profitability in Islamic banking requires considering these structural differences compared to conventional banking.

Sound corporate governance (Good Corporate Governance/GCG) is indispensable within the banking domain, given that financial institutions play a pivotal role in a nation's economic stability (Naufal & Hersugondo, 2023). Banks function not only as financial intermediaries but also as trust custodians for the public. A well-established corporate governance framework bolsters transparency, accountability, and public confidence in banking institutions (Alvina & Fauziah, 2024). In the context of Islamic banking, GCG extends beyond conventional corporate governance practices by incorporating Sharia compliance mechanisms. The presence of a Sharia Supervisory Board (SSB) is a distinctive feature in Islamic banks, ensuring that all financial activities adhere to Islamic jurisprudence. Effective GCG implementation mitigates risks, fosters ethical and transparent managerial practices, and enhances institutional integrity. By emphasizing principles such as disclosure, responsibility, integrity, independence, and fairness, GCG seeks to fortify banking performance, elevate corporate reputation, and cultivate a conducive business climate, ultimately contributing to enhanced profitability and financial stability.

This study aims to explore the intricate relationship between profitability, financial performance, and corporate governance in Islamic banking. Specifically, it investigates how profitability is shaped by Islamic banking principles, the role of financial performance in sustaining institutional growth, and the impact of GCG in ensuring both operational efficiency and Sharia compliance. The research is guided by agency theory and stakeholder theory, which provide insights into governance dynamics, managerial accountability, and stakeholder interests in the Islamic banking sector. Through this framework, the study seeks

to provide a comprehensive understanding of the financial and governance structures that drive sustainable growth in Islamic banks.

REVIEW OF LITERATURE

Profitability

Profitability serves as a crucial metric for assessing a company's financial performance by leveraging its existing wealth, as reflected in the profits it generates (Sudarmadji & Sularto, 2007). However, in the context of Islamic banking, profitability is influenced not only by efficient asset and capital management but also by adherence to Sharia principles. Unlike conventional banks that rely on interest-based income, Islamic banks generate profits through profit-sharing mechanisms such as *Mudharabah* and *Musharakah*, as well as fee-based income (*Ijara*, *Murabaha*) (Alam et al., 2021). A high level of profitability signifies robust financial health, whereas a low level indicates potential inefficiencies in financial management. Munawir (2014) defines profitability as a company's ability to yield earnings within a specific timeframe, while Sartono (2010) highlights its role in evaluating returns relative to sales, total assets, and equity. Given the unique operational structure of Islamic banks, evaluating profitability necessitates a comprehensive understanding of Sharia-compliant financial instruments and risk-sharing models (Hassan & Aliyu, 2018).

Financial Performance

Financial performance encompasses an analytical process used to gauge how well a company executes its financial operations in adherence to established guidelines such as Generally Accepted Accounting Principles (GAAP) or Financial Accounting Standards (FAS) (Fahmi, 2011). However, in Islamic banking, financial performance is assessed not only through conventional financial ratios (e.g., Return on Assets [ROA], Return on Equity [ROE], and net profit margin) but also through compliance with Islamic financial principles. Factors such as *Zakat* obligations, ethical investment criteria, and risk-sharing arrangements play a crucial role in shaping financial performance (Rahman & Kassim, 2020). Analyzing financial performance in Islamic banks requires a dual approach that integrates profitability

metrics with compliance measures to ensure that financial success aligns with Sharia principles (Muneeza et al., 2019).

Good Corporate Governance

Corporate governance pertains to the relationships among stakeholders, including shareholders, executives, creditors, government entities, and employees, along with their respective rights and obligations in corporate administration (FCGI, 2001). In Islamic banking, corporate governance goes beyond conventional principles, incorporating Sharia compliance as a fundamental element. According to the Organisation for Economic Co-operation and Development (OECD), corporate governance constitutes a framework for directing and controlling business activities (Aldridge et al., 2008). Proper corporate governance fosters efficient resource utilization and sustainable corporate success (Surya & Yustiavandana, 2006). In the context of Islamic banks, adherence to Shariah governance frameworks ensures that corporate practices align with ethical and religious obligations, strengthening investor confidence and regulatory compliance (Hasan, 2021). Effective governance is characterized by principles such as transparency, accountability, responsibility, independence, and fairness.

Independent Board of Commissioners

The Independent Board of Commissioners plays a vital role in corporate oversight. This board is responsible for monitoring managerial performance and ensuring that corporate operations align with shareholder interests (Veno, 2015). According to Law No. 40 of 2007 on Limited Liability Companies (Hutapea & Prasetiono, 2013), the board's duties include supervising management activities and providing strategic counsel to the board of directors. Effective oversight by the board of commissioners prevents excessive concentration of power, ensuring a balanced approach between shareholder and managerial interests. A well-functioning board enhances corporate governance quality and overall business performance.

Board of Directors

The board of directors assumes leadership responsibilities, ensuring that corporate objectives are met efficiently. As representatives of shareholders, directors oversee internal controls, risk management, and corporate social responsibility initiatives (KNKG, 2006). Within the corporate governance framework, directors play a critical role in making strategic

decisions that affect profitability and long-term sustainability (Ricky & Ronald, 2006). Effective corporate leadership improves the likelihood of achieving corporate goals and delivering positive outcomes for shareholders.

Institutional Ownership

Institutional ownership refers to corporate shares held by institutional entities such as insurance firms, banks, and other financial institutions (Tarjo, 2008). This ownership structure significantly contributes to corporate oversight, as institutional investors exert influence over management to ensure efficiency and accountability. Given their substantial financial stake, institutional investors act as external monitors, encouraging prudent corporate governance practices and safeguarding shareholder wealth.

Sharia Supervisory Board

In Islamic banking, the Sharia Supervisory Board (SSB) ensures that operational activities comply with Sharia principles. The SSB is responsible for monitoring and guiding Islamic legal compliance (Syarif, 2019). A strong SSB enhances the quality of Sharia compliance and the disclosure of social reports in alignment with Islamic principles. As noted by Khoiruddin (2013), an increase in SSB members improves regulatory oversight, bolstering public trust in Islamic financial institutions.

Audit Committee

The audit committee oversees financial reporting and corporate risk, ensuring the integrity of internal and external auditing functions (Veno, 2015). Comprising independent members, the committee provides professional insights to the board of directors regarding corporate operations and financial disclosures. Additionally, the audit committee plays a crucial role in mitigating fraudulent activities, ensuring financial reports accurately reflect the company's condition (Surya & Yustiavandana, 2006).

Hypotheses

Relationship Between Profitability and Financial Performance

A higher profitability level is generally correlated with improved financial performance, as indicated by key metrics such as ROA, ROE, and net profit margins. In Islamic banking, profitability also influences Sharia-compliant financial sustainability, as banks must balance financial gains with ethical investment obligations (Rahman & Kassim,

2020). Empirical studies by Nadila Sari & Peng Wi (2022) and Diah Eka Septi Lutfiana (2021) support this finding.

H1: Profitability positively influences financial performance.

Good Corporate Governance as a Moderating Variable

Previous studies have produced mixed results, necessitating additional variables to refine the relationship between profitability and financial performance. This study incorporates good corporate governance including independent boards, directors, institutional ownership, Sharia supervisory boards, and audit committees as a moderating variable. According to Jensen and Meckling (1976), competent board oversight mitigates agency problems and facilitates the strategic execution of corporate objectives.

H2: The board of commissioners strengthens the relationship between profitability and financial performance.

Board of Directors as a Moderating Variable

The board of directors is responsible for corporate strategy and operational efficiency. Their expertise and leadership are instrumental in optimizing profitability to drive financial performance. Strategic planning and effective governance enhance a firm's ability to leverage profitability for long-term growth and success. Adams et al. (2010) highlight the importance of board competencies in translating profitability into superior financial results.

H3: The board of directors strengthens the relationship between profitability and financial performance.

Institutional Ownership as a Moderating Variable

Institutional investors prioritize long-term value creation, incentivizing management to optimize profitability for enhanced financial performance. Institutional ownership serves as an external monitoring mechanism, guiding firms toward prudent financial decision-making. Shleifer & Vishny (1997) emphasize institutional investors' commitment to corporate success, while Brickley et al. (1988) assert their influence in shaping strategic decisions that support financial growth.

H4: Institutional ownership strengthens the relationship between profitability and financial performance.

Sharia Supervisory Board as a Moderating Variable

Within Islamic financial institutions, the Sharia Supervisory Board ensures adherence to Islamic principles, fostering investor and customer confidence. Competent supervision strengthens the link between profitability and financial performance. Hameed et al. (2004) suggest that Sharia oversight enhances corporate integrity and reputation, facilitating the effective translation of profitability into financial success.

H5: The Sharia Supervisory Board strengthens the relationship between profitability and financial performance.

Audit Committee as a Moderating Variable

An active and competent audit committee reduces financial misreporting and fraud risks. Effective oversight increases investor confidence in financial statements, reinforcing the profitability-financial performance relationship. De Fond & Jiambalvo (1991) indicate that strong audit committees enhance financial transparency and credibility, amplifying profitability's impact on financial performance.

H6: The audit committee strengthens the relationship between profitability and financial performance.

RESEARCH METHOD

This research is categorized as a descriptive study with a quantitative approach, emphasizing the causal relationship between various variables. The primary objective of this study is to examine the cause-and-effect relationship between the independent and dependent variables, namely profitability and financial performance in Islamic Commercial Banks, with Good Corporate Governance (GCG) acting as a moderating variable within the period of 2019-2023, as registered under the Financial Services Authority (OJK) and Bank Indonesia. The research population encompasses all Islamic commercial banks listed with OJK during this timeframe, while the sample is selected using a purposive sampling technique based on specific criteria, such as banks that publish annual reports on their official websites. The principal data source consists of secondary data extracted from these banks' annual reports, accessible via the OJK website and the respective banks' portals. Data collection is conducted through a documentation method to obtain relevant financial indicators of the banks.

Variable Measurement

Dependent Variable

Financial Performance According to Makhdalena (2012), Return on Assets (ROA) serves as a tool to measure a firm's financial performance.

$$ROA = \frac{\text{Profit After Tax}}{\text{Total Assets}}$$

Independent Variable

Profitability As per Husnaini (2020), Hasanah and Enggariyanto (2018), and Pranata et al. (2014), the Net Profit Margin (NPM) is employed as an indicator of profitability ratio.

$$NPM = \frac{\text{Net Profit After Tax}}{\text{Total Revenue}}$$

Moderating Variables

The primary internal mechanism responsible for overseeing actions that capitalize on short-term advantages while disregarding long-term interests of management (Prastuti, Budiasih, Widyaningsih, 2015). This study assumes that a higher proportion of independent commissioners leads to stronger corporate governance by improving oversight and reducing conflicts of interest. The definition of an "independent commissioner" in this study follows OJK guidelines, ensuring alignment with regulatory standards:

$$K.I = \frac{\text{Numver Of Independent Commissioners}}{\text{Total Board of Commissioners Members}}$$

Board of Directors

The board of directors constitutes an integral part of a company, bearing collective responsibilities for leadership and corporate governance (KNKG, 2006). While this study primarily uses the number of board members as a proxy for governance, it acknowledges that qualitative aspects such as experience, diversity, and independence could influence governance effectiveness. However, due to data limitations, this study relies on the following formula.

$$\text{Board of Directors} = \sum \text{Numbet of Company; s Board of Directors Members}$$

Institutional Ownership

The institutional ownership formula is as follows (Dewi & Abundanti, 2019):

$$K_i = \frac{\text{Instituional Shares}}{\text{Total Outstanding Shares}}$$

Sharia Supervisory

Board According to Kholid and Bachtiar (2015), the Sharia Supervisory Board can be formulated as follows:

$$DPS = \sum \text{Number of Sharia Supervisory Board Members}$$

While this study measures DPS by the number of board members, it acknowledges that board effectiveness may depend on expertise, decision-making processes, and adherence to Sharia principles. Future studies could explore qualitative factors such as the members' financial expertise and regulatory experience

Audit Committee (KA)

The audit committee is measured by the total number of audit committees within a company (Eksandy, 2017):

$$KA = \sum \text{Company's Audit Committee Members}$$

Although this study uses the number of audit committee members as a proxy for governance, the relationship between committee size and effectiveness in reducing financial misreporting and improving transparency should be further explored. A larger committee may enhance oversight, but its effectiveness depends on expertise and active engagement.

Moderated Regression Analysis

The MRA test is conducted using the following model:

$$ROA = a + b_1.NPM$$

$$ROA = a + b_1.NPM + b_2.NPM*KI + b_3.NPM*DRS + b_4.NPM*Ki + b_5.NPM*DPS + b_6.NPM*KA$$

Description:

ROA	= Dependent variable (financial performance)
NPM	= Profitability
KI	= Moderating variable (independent board of commissioners)
DRS	= Moderating variable (board of directors)
KI	= Moderating variable (institutional ownership)
DPS	= Moderating variable (Sharia supervisory board)
KA	= Moderating variable (audit committee)
a	= Constant

$b_{1,2,3,4,5,6}$ = Regression coefficients

Classical assumption testing is conducted to ensure that the data do not encounter multicollinearity, heteroscedasticity, or autocorrelation issues, using appropriate tests such as the Glejser test and the Run Test. Hypothesis testing is performed using the F-test to validate the model and the t-test to assess the influence of the independent variable on the dependent variable, focusing on the regression coefficient and significance level to determine the direction of the effect. Finally, the coefficient of determination (R^2) is used to evaluate the extent to which independent variables explain variations in the dependent variable.

RESULTS AND DISCUSSION

Description of Research Sample

Table 1.
Criteria for Sample Determination

Sample Selection Results	
Description	Amount
Population: Banking companies registered with OJK until 2023	16
Sampling based on criteria (purposive sampling):	
1. Companies that do not report financial statements for the research period	(4)
2. Companies that do not have an independent board of commissioners	(2)
Research sample	10
Total sample (research sample x Research period) (13x5)	50

Source: Processed Secondary Data, 2024

Based on the table above, it can be observed that the research sample consists of 10 companies. These samples were selected based on predetermined criteria that align with the research analysis requirements. The list of companies included in this study is presented in Table 2 as follows:

Table 2.
Research Data Sample

No	Bank Code	Bank Name
1	128	PT Bank NTB Syariah
2	147	PT Bank Muamalat Indonesia

3	405	PT Bank Victoria Syariah
4	425	PT Bank Jabar Banten Syariah
5	451	PT Bank Syariah Indonesia
6	517	PT Bank Panin Dubai Syariah Tbk
7	521	PT Bank KB Bukopin Syariah
8	536	PT Bank BCA Syariah
9	547	PT Bank BTPN Syariah Tbk
10	947	PT Bank ALADIN Syariah Tbk

Source: Processed Secondary Data, 2024

Although the research sample of 10 banks is determined based on well-defined selection criteria, it presents certain limitations. A small sample size may reduce the generalizability of the findings to the broader banking sector, particularly in contexts beyond Islamic banking. Additionally, external factors specific to these banks, such as unique management structures or market conditions, may influence the results and limit their applicability to other financial institutions.

Moreover, while a total of 50 observations (10 banks over a 5-year period) provides a sufficient dataset for statistical analysis, expanding the sample to include additional banks or extending the research period could enhance the robustness of the findings. Future studies could consider incorporating a larger sample or a mixed-method approach to validate the results further.

By acknowledging these limitations, this research provides a focused yet insightful analysis within the constraints of the available data, offering valuable perspectives on the relationship between profitability and financial performance in Islamic banking.

Descriptive Statistics

Table 3.
Descriptive Statistical Analysis Results

		N	Minimum	Maxim	Mean	Std. Deviation
Equation 1	NPM	50	-3.35839	1.50189	-0.05627	0.78773
	ROA	50	-0.06654	0.10802	0.00880	0.03429
Equation 2	NPM	50	-3.35839	1.50189	-0.05627	0.78773
	ROA	50	-0.06654	0.10802	0.00880	0.03429
	NPM*KI	50	-2.52	1.08	-0.0415	0.54486
	NPM*DR	50	-23.51	7.17	-0.2582	4.20531

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NPM*Ki	50	-201.50	150.19	-0.5158	56.44122
NPM*DPS	50	-13.43	5.47	-0.2929	2.87745
NPM*KA	50	-12.96	7.17	-0.0433	2.91408

Source: Processed Secondary Data, 2024

Based on the presented data, the profitability variable measured by Net Profit Margin (NPM) shows a minimum value of -3.35839 and a maximum value of 1.50189. The average NPM recorded is -0.05627, with a standard deviation of 0.78773. The financial performance variable represented by Return on Assets (ROA) has a minimum value of -0.06654 and a maximum of 0.10802, with an average of 0.00880 and a standard deviation of 0.03429. The Board of Commissioners variable, measured using the Independent Committee (KI), has a minimum value of -2.52 and a maximum of 1.08, with an average of -0.0415 and a standard deviation of 0.54486. The Board of Directors variable (DRS) shows a minimum value of -23.51 and a maximum of 7.17, with an average of -0.2582 and a standard deviation of 4.20531. The Institutional Ownership variable (Ki) records a minimum value of -201.50 and a maximum of 150.19, with an average of -0.5158 and a standard deviation of 56.44122. The Shariah Supervisory Board (DPS) variable shows a minimum value of -13.43 and a maximum of 5.47, with an average of -0.2929 and a standard deviation of 2.87745. Lastly, the Audit Committee (KA) variable has a minimum value of -12.96 and a maximum of 7.17, with an average of -0.0433 and a standard deviation of 2.91408.

Classical Assumption Tests

Normality Test

The normality test determines whether the data is normally distributed. This study employs the Central Limit Theorem (CLT), which states that if the sample size is sufficiently large ($n > 30$), the assumption of normality can be disregarded (Gujarat, 2003). Given that the sample size in this study is 50, which exceeds 30, the data can be considered normally distributed and categorized as a large sample.

Multicollinearity Test

Table 4.
Multicollinearity Test Results

Model	Variable	Tolerance	VIF	Information
Equation 1	NPM	0.603	1.658	No multicollinearity detected

Equation 2	NPM	0.603	1.658	No multicollinearity detected
	KI	0.749	1.259	
	DRS	0.374	2.674	
	Ki	0.660	1.514	
	DPS	0.353	2.836	
	KA	0.578	1.730	

Source: Processed Secondary Data, 2024

According to the SPSS output, the independent variable NPM has a VIF value of 1.658, KI has 1.259, DRS has 2.674, Ki has 1.514, DPS has 2.836, and KA has 1.730. Since all VIF values are below the threshold of 10.00, multicollinearity is not present. Additionally, tolerance values for NPM, KI, DRS, Ki, DPS, and KA are all greater than 0.10, confirming the absence of multicollinearity in the regression model.

Heteroscedasticity Test

Table 5.
Heteroscedasticity Test Results

Model	Variable	Significance	Information
Equation 1	NPM	0.090	No heteroscedasticity detected
Equation 2	NPM	0.600	No heteroscedasticity detected
	KI	0.336	
	DRS	0.111	
	Ki	0.214	
	DPS	0.327	
	KA	0.122	

Source: Processed Secondary Data, 2024

Based on the SPSS output, the significance value for Equation 1 (Variable NPM) is 0.090, while for Equation 2, the significance values for the variables are as follows: NPM (0.600), KI (0.336), DRS (0.111), Ki (0.214), DPS (0.327), and KA (0.122). Since all significance values exceed 0.05, it can be concluded that there is no heteroscedasticity in this regression model.

Autocorrelation Test

Table 6
Presents the Results of the Run Test

Model	Asymp. Sig. (2-tailed)	Information
Equation 1	0.086	No autocorrelation

Equation 2	0.153	No autocorrelation
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Source: Processed Secondary Data, 2024

Since the Asymp. Sig. (2-tailed) values for Equation 1 (0.086) and Equation 2 (0.153) are greater than the significance threshold of 0.05, it indicates no presence of autocorrelation. Therefore, the regression models are suitable for hypothesis testing.

Hypothesis Testing

F-Test

Table 7
Presents the F-Test Results

Model	F-Calculated	F-Table	Significance
Equation 1	56.548	4.04	0.000
Equation 2	26.491	2.32	0.000

Source: Processed Secondary Data, 2024

For Equation 1, DF1 (number of independent variables) = 1 and DF2 = 48, with an F-table value of 4.04. Since the F-calculated (56.548) is greater than the F-table value and the significance value (0.000) is below 0.05, the regression model in Equation 1 is valid for hypothesis testing.

For Equation 2, DF1 = 6 and DF2 = 43, with an F-table value of 2.32. The F-calculated value (26.491) exceeds the F-table value, and the significance value (0.000) is below 0.05, indicating that the regression model in Equation 2 is also suitable for hypothesis testing.

T-Test

Table 8
Presents the Moderated Linear Regression Analysis Results

Model	Variable	Unstandardized Coefficient			
		Beta	T Calculated	Sig	Remark
1	1 (Constant)	0.011	3.186		
	NPM	0.032	7.520	0.000	H1 Accepted
2	1 (Constant)	0.005	1.962		
	NPM	0.099	2.517	0.016	H1 Accepted
	NPM*KI	-0.009	-0.212	0.833	H2 Rejected
	NPM*DRS	0.006	1.990	0.053	H3 Rejected
	NPM*Ki	0.000	-1.047	0.301	H4 Rejected
	NPM*DPS	-0.037	-4.411	0.000	H5 Accepted

NPM*KA 0.017 2.206 0.033 H6 Accepted

Source: Processed Secondary Data, 2024

Equation 1:

$$ROA = 0.011 + 0.032NPM + e$$

This equation suggests that the financial performance variable (ROA) has a positive coefficient of 0.011. The profitability variable (NPM) has a coefficient of 0.032, indicating that a one-unit increase in profitability results in a 3.2% improvement in financial performance.

Equation 2:

$$ROA = 0.005 + 0.099NPM - 0.009NPMKI + 0.006NPMDRS + 0.000NPMKi - 0.037NPMDPS + 0.017NPM*KA + e$$

This equation reveals that profitability (NPM) positively impacts financial performance with a coefficient of 0.099, meaning a one-unit increase in profitability enhances financial performance by 9.9%. The interaction between NPM and KI has a coefficient of -0.009, indicating a negative impact. Similarly, NPM*DPS negatively influences financial performance with a coefficient of -0.037. However, interactions between NPM and KA (0.017) show a positive impact on financial performance.

The t-test results indicate that NPM significantly affects ROA in both equations, supporting H1. However, H2 (the role of the independent board of commissioners), H3 (the board of directors), and H4 (institutional ownership) are rejected due to p-values exceeding 0.05. Meanwhile, H5 (sharia supervisory board) and H6 (audit committee) are accepted, indicating their role in strengthening the relationship between profitability and financial performance.

Coefficient of Determination (R²) Test

Table 9
Presents the R² Test Results

	Adj. R Square	Information
Equation 1	0.531	53.1%
Equation 2	0.757	75.7%

Source: Processed Secondary Data, 2024

For Equation 1, the Adjusted R Square value of 0.531 means that 53.1% of the variation in financial performance (ROA) is explained by profitability (NPM), while the remaining 46.9% is influenced by other factors outside the model.

For Equation 2, the Adjusted R Square value of 0.757 indicates that 75.7% of the variation in financial performance is explained by the interaction between profitability (NPM) and good corporate governance (GCG) proxies (independent board of commissioners, board of directors, institutional ownership, sharia supervisory board, and audit committee). The remaining 24.3% is attributed to factors not included in the study.

The Influence of Profitability on Financial Performance

This study confirms that profitability has a significant impact on financial performance. The findings align with previous research, which suggests that profitability plays a crucial role in determining a company's financial success (Asniwati, 2020). A company with high profitability is likely to generate substantial earnings, which can be allocated to meet its various financial obligations and operational needs.

From a methodological perspective, ensuring the reliability of these conclusions requires rigorous classical assumption testing. These tests are critical to confirming that the regression model used in the study meets the necessary statistical assumptions, such as normality, homoscedasticity, and the absence of multicollinearity. Without these tests, the validity of the relationship between profitability and financial performance may be questioned.

Furthermore, a strong financial performance driven by profitability enables a company to reinvest in its business activities, improve efficiency, and enhance overall sustainability. Higher earnings provide greater financial flexibility, allowing the company to manage risks effectively and maintain stability in the long term.

The Moderating Role of the Independent Board of Commissioners in the Relationship Between Profitability and Financial Performance

The research findings indicate that the Independent Board of Commissioners does not significantly enhance the relationship between profitability and financial performance. This result could be attributed to the board's limited authority in Islamic banking, where compliance with stringent regulations takes precedence over profit maximization. Ensuring

adherence to Sharia principles is often prioritized over increasing profitability, which may reduce the board's influence on financial outcomes.

Fama and Jensen (1983) argue that without substantial authority, the Independent Board of Commissioners has minimal impact on strategic decisions affecting financial performance. This finding suggests that in Islamic banks, the Independent Board of Commissioners may play a more passive or symbolic role rather than actively influencing profitability-driven financial outcomes. Further research is needed to examine whether their role is primarily advisory or whether they have indirect influence through other governance mechanisms.

The Moderating Role of the Board of Directors in the Relationship Between Profitability and Financial Performance

The study reveals that the Board of Directors does not significantly strengthen the relationship between profitability and financial performance. This suggests that the board's role in leveraging profitability to improve financial outcomes is still constrained. The effectiveness of the Board of Directors in optimizing this relationship is highly dependent on its level of authority, involvement, and decision-making power.

Fama and Jensen (1983) emphasize that the effectiveness of the Board of Directors is closely tied to corporate governance structures and strategic decision-making processes. In Islamic banking, where governance is shaped by Sharia compliance, the board's decision-making power may be limited by religious considerations, reducing its direct impact on financial performance. Future studies could investigate whether this limitation is due to regulatory constraints or if Islamic banks inherently adopt a more conservative governance approach that restricts board intervention in financial decision-making.

The Moderating Role of Institutional Ownership in the Relationship Between Profitability and Financial Performance

This study finds that institutional ownership does not significantly strengthen the relationship between profitability and financial performance. This suggests that institutional investors' presence alone is insufficient to enhance the effectiveness of profitability in driving financial performance. In theory, institutional ownership should provide stronger managerial

oversight, but its actual impact depends on the level of involvement and the strategic interests of these investors in the company.

Shleifer and Vishny (1997) argue that institutional investors should play a critical role in improving corporate governance and managerial accountability. However, if these investors adopt a passive approach or prioritize short-term gains over long-term financial stability, their influence on the profitability-financial performance relationship may be minimal. Increasing active engagement from institutional investors could enhance governance effectiveness and improve financial performance outcomes.

The Moderating Role of the Sharia Supervisory Board in the Relationship Between Profitability and Financial Performance

The study finds that the Sharia Supervisory Board significantly strengthens the relationship between profitability and financial performance. This suggests that the board plays a dual role ensuring compliance with Sharia principles while also enhancing the effectiveness of profitability in driving financial performance. The Sharia Supervisory Board serves as an essential governance mechanism that aligns financial performance with ethical and religious guidelines.

Chapra (2000) argues that a well-functioning Sharia Supervisory Board contributes to the stability and transparency of the Islamic banking system. By ensuring that banks operate within Sharia principles, the board enhances customer trust, improves operational efficiency, and ultimately strengthens financial performance. Its role in maintaining ethical banking practices creates a stable financial environment, benefiting both institutions and stakeholders.

The Moderating Role of the Audit Committee in the Relationship Between Profitability and Financial Performance

The study demonstrates that the Audit Committee effectively strengthens the relationship between profitability and financial performance. This highlights the committee's critical role in enhancing profitability's efficiency in boosting financial outcomes. By ensuring financial transparency, enforcing regulatory compliance, and mitigating risks, the Audit Committee plays an integral role in safeguarding financial stability.

A well-structured Audit Committee provides stricter financial oversight, enabling Islamic banks to optimize profitability utilization. Enhanced monitoring mechanisms reduce the risk of financial mismanagement, improve corporate accountability, and ultimately contribute to long-term financial success. Strengthening the role of the Audit Committee within Islamic banks can further improve governance practices and enhance financial performance and sustainability.

CONCLUSION

The study reveals that the Independent Board of Commissioners, the Board of Directors, and Institutional Ownership do not significantly strengthen the relationship between profitability and financial performance, likely due to weak governance enforcement, limited decision-making authority, or the conservative nature of Islamic banking governance, which prioritizes stability over aggressive financial strategies. In contrast, the Sharia Supervisory Board (SSB) and the Audit Committee positively influence financial performance, with the SSB enhancing trust and market stability through Sharia compliance, while the Audit Committee improves transparency, strengthens internal controls, and mitigates risk. However, the study's sample size of 50 banks may limit the generalizability of the findings, as it may not fully capture the diversity of Islamic banking institutions in Indonesia. Future research should explore whether these governance limitations stem from regulatory constraints or a deliberately cautious governance model and consider additional factors such as financial leverage, market competition, regulatory frameworks, and macroeconomic conditions to provide a more comprehensive understanding of governance dynamics in Islamic banking.

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