

CHAPTER I

INTRODUCTION

A. Research Background

Islamic Bank is a considered a highly respected banking institution. The operational system of Islamic banks based on Islam is slowly becoming a solution to meet the needs of the community for banking in accordance with Sharia principles and matters related to the prohibition of usury, speculative and unproductive activities such as gambling, and violations of the principle of justice when transacting.¹ The difference between Islamic Banks and conventional banks are Islamic Banks is using sharia principles such as profit sharing (mudharabah), sale and purchase (ba'i), rental (ijarah) and interest free financing (murabahah), while conventional banks generally use an interest system.² The differences between Islamic Commercial Banks and Conventional Banks delineated as table below:

Table. 1 Differences Between Islamic Commercial Banks and Conventional Banks

Aspect	Islamic Commercial Banks	Conventional Banks
Basic Principle	Based on sharia principles	Based on interest system
Products	Mudharabah savings, mudharabah deposits, murabahah financing, ijarah, musyarakah	Term deposits, loans, credit cards
Object	In addition to seeking profit, it also aims to provide benefits to society and support a fair and sustainable economy	Mainly profit seeking
Accounting	Using sharia accounting standards	Using conventional accounting standards

¹ Ascarya, Diana Yumanita, *Kebanksentralan Bank Syariah : Gambaran Umum*, (Jakarta: Pusat Pendidikan dan Studi Kebanksentralan, 2005), p. 2.

² Muhammad, Syakhrun, Asbi, Amin, "Pengaruh CAR, BOPO, NPF dan FDR Terhadap Profitabilitas Pada Bank Umum Syariah di Indonesia", *Bongaya Journal of Research in Management*, Vol. 2 No. 1. (2019), p. 5

Supervision	Supervised by the Financial Services Authority (OJK) and the National Sharia Council (DSN-MUI)	Supervised by the Financial Services Authority (OJK)
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Source : Financial Services Authority, 2024

In the early 1990s, Bank Muamalat emerged as the first Islamic bank to successfully survive the 1998 monetary crisis.³ The monetary crisis made all conventional banks spin off except Bank Muamalat as the only bank that implement the sharia principle. Since then, recognition of the effectiveness of implementing Sharia principles has emerged, so the government and Bank Indonesia as the central bank have attempted to develop islamic banks, especially in Law No. 10 of 1998 concerning amendments to Law No. 7 of 1992.⁴ The policies implemented have had a significant influence on the demand and supply sides of the community for Islamic banking, resulting in a tremendous growth of Islamic banking in Indonesia. Until now, 14 Islamic Commercial Banks have been listed by OJK.

Table. 2 List of Names of Islamic Commercial Banks

No	Bank Name
1	Bank Muamalat Indonesia
2	BCA Syariah
3	Bank NTB Syariah
4	Bank Jabar Banten Syariah
5	Bank BTPN Syariah
6	Bank Aceh Syariah
7	Bank Panin Dubai Syariah
8	Bank Victoria Syariah
9	Bank Mega Syariah

³ Abdul Rachman, Dewi Putri, et al. "Tantangan Perkembangan Perbankan Syariah di Indonesia", *Jurnal Tabarru': Islamic Banking and Finance*, Vol. 5, No. 2 (2022), p. 353.

⁴ Otoritas Jasa Keuangan, *Regulasi Perbankan*, at (14.46), <https://www.ojk.go.id> viewed on 14 Mei 2023.

10	Bank Riau Kepri Syariah
11	Bank Aladin Syariah
12	Bank KB Bukopin Syariah
13	Bank Nano Syariah
14	Bank Syariah Indonesia

Source : Financial Services Authority, 2024

Islamic Commercial Banks still in existence today. This can be proven by the increasing achievement of assets, financing disbursed, and third party funds of Islamic Commercial Banks. It is recorded that the assets of Islamic Commercial Banks tend to increase significantly starting in 2019 and reaching Rp. 350,364,000,000,000, 2020 reached Rp. 397,073,000,000,000, in 2021, the assets of Islamic Commercial Banks reached Rp. 441,789,000,000,000, in 2022, the assets owned by Islamic Commercial Banks increased drastically to touch the figure of 531,860,000,000,000 until 2023. The assets of Islamic Commercial Banks touched the figure of Rp. 594,709,000,000,000. In addition to assets, financing distributed by Islamic Commercial Banks has also been recorded to have increased significantly for 5 years. In 2019 it was recorded that the PYD of Islamic Commercial Banks was 90,423,000,000,000, in 2020 there was an increase with a figure of 96,779,000,000,000, and continued to increase until in 2023 it reached 159,000,000,000. Third party funds also experienced a significant increase over five years until, in 2023 third party funds processed by Islamic Commercial Banks reached 465,932,000,000,000. The data published by the Financial Services Authority shows that the growth of Islamic Commercial Banks is stable and tends to increase from 2019 to February 2024.⁵

⁵ Otoritas Jasa Keuangan, *Statistika Perbankan Syariah*, at (14.46), <http://www.ojk.go.id> viewed on 5 May 2024.

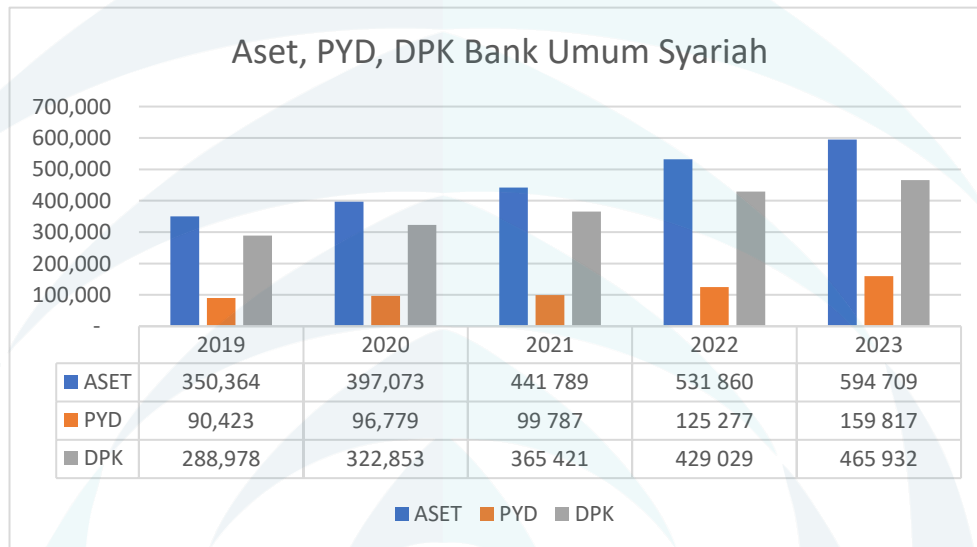


Figure. 1 Assets, PYD, DPK

Source: Financial Services Authority

The main objective of a company's operational activities is to generate maximum earnings to ensure its survival.⁶ Including at Islamic Commercial Banks, the earnings are used to increase core capital so that Islamic Commercial Banks become stronger and more resilient to risk. The amount of earnings is a picture of the success of the company's performance. Profit is also a tool of consideration in decision-making for shareholders and investors.⁷ Profit is used to measure the resource capability of a Company. Earnings determines the success or failure of a business in achieving its goals. Both conventional and Islamic banks need profits to survive, grow, and provide benefits to shareholders.

Earnings Quality is a measure used to see the earnings that have been achieved by the Company and the suitability of the earnings plan made by the Company.⁸

⁶ Ester, Wati Meafrida, Nanu, Hasanu, "Pengaruh Biaya Produksi dan Biaya Operasional Terhadap Laba Bersih", *COSTING: Journal of Economic, Business and Accounting*, Vol. 4, No. 2, (2021), p. 732.

⁷ Anggraini, Priyadi, M. P, Pengaruh Struktur Modal, Pertumbuhan Laba, Kualitas Audit, Dan Ukuran Perusahaan Terhadap Kualitas Laba, *Jurnal Ilmu dan Riset Akuntansi (JIRA)*, Vol. 8, No.6, (2019), p. 2.

⁸ Panjaitan, D.K., Muslih, M, "Manajemen Laba: Ukuran Perusahaan, Kepemilikan Manajerial dan Kompensasi Bonus", *Jurnal ASET*, Vol. 11, No. 1, (2019), p. 3.

A company's net profit can measure Earnings Quality.⁹ Net profit shows the total income of the Company after the Company has completed all liabilities, including those of banking companies. Earnings Quality is a consideration for investors in making decisions to invest. Information about a Company's profit is a picture of the Company's economic health; therefore, earnings quality is needed.¹⁰ However, there is still a possibility that the Company's management manipulates the discussion of the profit figures published in the financial statements. This happens because of the interests between the owners or shareholders and the company's management. This is the cause of opportunistic management that causes profit manipulation.¹¹ To overcome this problem is by implementing Good Corporate Governance (GCG). If the structure of corporate governance is good, it will increase the trust of stakeholders that the company's management has utilized existing resources well.¹²

Including Islamic Commercial Banks, To improve their performance, Islamic Commercial Banks are required to operate on the principles of Good Corporate Governance. The structure of Good Corporate Governance (GCG). Good corporate governance if applied consistently able to enhance public trust on islamic commercial banks because good GCG implementation demonstrates islamic commercial banks commitment to transparency, accountability and regulatory compliance. This will enhance public trust, including customers, investors and regulators, the implementation of Good Corporate Governance can also Prevent fraud and abuse of authority, Improve operational efficiency, reduce costs, and improve the quality of decision making. This will ultimately have a positive impact on the bank's financial performance, and able to face increasingly fierce competition and dynamic changes in the business

⁹ Alma, Daniatun, Nurlaila, "Pengaruh Presistensi Laba, Ukuran Perusahaan dan Good Corporate Governance Terhadap Kualitas Laba pada Perusahaan Perbankan Syariah di Indonesia Periode 2016-2020", *Syntax Literate: Jurnal Ilmiah Indonesia*, Vol. 7, No. 12, (2022), p. 18999.

¹⁰ Polimpung, L. J, "Pengaruh Good Corporate Governance Terhadap Kualitas Laba Perusahaan (Studi pada Perusahaan Sektor Consumer Goods dalam Bursa Efek Indonesia Periode 2016-2018)", *Jurnal Akuntansi*, Vol. 12 No. 2, (2020), p. 217.

¹¹ Nanang, A., Tanusdjaja, "Pengaruh Corporate Governance (CG) Terhadap Kualitas Laba dengan Manajemen Laba sebagai Variabel Intervening Pada Perusahaan Perbankan yang Terdaftar di BEI Periode 2015- 2017", *Jurnal Muara Ilmu Ekonomi dan Bisnis*, Vol. 3, No. 2, (2019), p. 16.

¹² Kurniawan, T., Yohana., dan D. K. I. R. Dewi, "Pengaruh Konservatisme Akuntansi Dan Good Corporate Governance Terhadap Kualitas Laba Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia Tahun 2012-2016", *SITRA*, Vol. 1, No. 2, (2019), p. 80.

environment. The implementation of Good Corporate Governance is a strong foundation for building a sustainable business. By implementing the GCG, the bank will be able to manage its risks effectively and ensure its long-term viability.¹³

The role of the Board of Directors, Independent Board of Commissioners, and Audit Committees creates total control in the company, thereby increasing the level of shareholder trust in stakeholders.¹⁴ The emergence of trust between the two parties has a positive effect on Islamic banks. Still, inconsistencies in the management of Islamic banks will cause financial risks and even bad reputation risks.¹⁵

Bank Indonesia's goal to build healthy and resilient Islamic banking is realized with the issuance of PBI No. 8/4/PBI 2006 concerning the obligation to implement Good Corporate Governance (GCG) for all commercial banks actively operating in Indonesia, applicable to all banks, both conventional commercial banks and Islamic Commercial Banks. However, after the issuance of PBI No. 11/33/PBI/2009 concerning the implementation of GCG for Islamic banking, the obligation of Islamic banks in the previous regulation was eliminated.¹⁶ This change occurred because Bank Indonesia saw that GCG applied to Islamic banks must consider Islamic principles, which are reflected in the fulfillment of the duties and responsibilities of the Islamic supervisory board in managing the operations of Islamic banks.

According to Bank Indonesia regulations, the implementation of GCG by Islamic banks in Indonesia consists of 5 indicators, namely transparency, accountability, responsibility, professionalism, and fairness.¹⁷ Islamic banks must

¹³ Devi, Zahrawani Rizki, Nining, Solikhah, "Analisis Penerapan Good Corporate Governance (GCG) dan Pengaruhnya Terhadap Kinerja Lembaga Bank Syariah", *JIEI: Jurnal Ilmiah Ekonomi Islam*, Vol. 7, No. 3, (2021), p. 186.

¹⁴ Edi, E., Suyadi, S, "Kemampuan Dewan Manajemen Dan Dewan Direksi Dalam Mempengaruhi Kualitas Laba" *Derema (Development Research Of Management): Jurnal Manajemen*, Vol. 13, No. 2, p. 258.

¹⁵ Putri Alma, Parameswara Samofa, "Pengaruh Penerapan Good Corporate Governance Terhadap Profitabilitas Pada Bank Umum Syariah Periode 2014-2018", *Jurnal Nisbah*, Vol. 6 No. 2 (2020), p. 109.

¹⁶ Inngamul Wafi, "Peranan Good Corporate Governance Dalam Perbankan Syariah", *SYARIATI: Jurnal Studi Al-Qur'an dan Hukum*, Vol. 4, No. 2 (2020), p. 185.

¹⁷ Bank Indonesia, *Regulasi Perbankan*, at (14.46), <https://www.bi.go.id> viewed on 2 November 2023

contain Islamic values, there are tauhid, taqwa, Ridho, balance, justice, and welfare. In recent years, Islamic banks in Indonesia have experienced rapid development, exceeding the growth of conventional banking.¹⁸ Good Corporate Governance is an important effort for improving the performance of Islamic banks which is carried out by monitoring management performance and ensuring management accountability to shareholders.¹⁹

This research projected Good Corporate Governance with an Independent Board of Commissioners, Board of Directors, Sharia Board of Supervisors and Audit Committee, and net profit that describes the Earnings Quality of the Company. In this research, researchers took a sample of 10 Islamic Commercial Banks registered with the Financial Services Authority in the period 2019-2023. So later researchers can reveal and find out the Influence of Good Corporate Governance on the Earnings Quality of Islamic Commercial Banks operating in Indonesia.

B. Research Question

Based on the research background of the academic problem above, the research question can be written as follows:

1. Is there an influence of the implementation of Good Corporate Governance (GCG) on the Independent Board of Commissioners variable on the Earnings Quality of Islamic Commercial Banks (BUS) for the 2019-2023 period?
2. Is there an influence of the implementation of Good Corporate Governance (GCG) on the Board of Directors variable on the Earnings Quality of Islamic Commercial Banks (BUS) for the 2019-2023 period?
3. Is there an influence of the implementation of Good Corporate Governance (GCG) on the Sharia Board of Supervisors variable on the Earnings Quality of Islamic Commercial Banks (BUS) for the 2019-2023 period?

¹⁸ Otoritas Jasa Keuangan, *Statistika Perbankan Syariah*, at (14.46), <http://www.ojk.go.id> viewed on 2 November 2023.

¹⁹ Triana Novitasari, Nur Hisamuddin, et al. "Pengaruh Tata Kelola Perusahaan dan Kualitas Auditor Terhadap Manajemen Laba pada Bank Umum Syariah di Indonesia", *JEAM*, Vol. 18, No. 2, (2019), p. 85.

4. Is there an influence of the implementation of Good Corporate Governance (GCG) on the Audit Committee variable on the Earnings Quality of Islamic Commercial Banks (BUS) for the 2019-2023 period?
5. Is there an influence of the implementation of Good Corporate Governance (GCG) on the variables of the Independent Board of Commissioners, Board of Directors, Sharia Board of Supervisors, and Audit Committee simultaneously on the Earnings Quality of Islamic Commercial Banks (BUS) for the period 2019-2023?

C. Research Objectives

Based on the research question above, this research has the following objectives:

1. To determine the effect of the implementation of Good Corporate Governance (GCG) on the Independent Board of Commissioners variable on the Earnings Quality of Islamic Commercial Banks (BUS) for the period 2019-2023.
2. To determine the effect of the implementation of Good Corporate Governance (GCG) on the Board of Directors variable on the Earnings Quality of Islamic Commercial Banks (BUS) for the period 2019-2023.
3. To determine the effect of the implementation of Good Corporate Governance (GCG) on the Sharia Board of Supervisors variable on the Earnings Quality of Islamic Commercial Banks (BUS) for the period 2019-2023.
4. To determine the effect of the implementation of Good Corporate Governance (GCG) on the Audit Committee variable on the Earnings Quality of Islamic Commercial Banks (BUS) for the period 2019-2023.
5. To determine the effect of the implementation of Good Corporate Governance (GCG) on the variables of the Independent Board of Commissioners, Board of Directors, Sharia Board of Supervisors, and Audit Committee simultaneously on the Earnings Quality of Islamic Commercial Banks (BUS) for the period 2019-2023.

D. Research Benefits

1. Academic Benefits

This research is expected to be a reference media for further researchers using the same concept and background. This research is also expected to be a media for exchanging ideas between students and students, lecturers and students, and between lecturers and lecturers.

2. Benefits for Practitioners

This research is expected to be a reference for analyzing the relationship between Good Corporate Governance and the Earnings Quality of Islamic Commercial Banks (BUS) in Indonesia so that later, Islamic Banks and Bank Indonesia as the owners of the rights to determine monetary policy in Indonesia can use this research as a consideration in deciding GCG operational steps so that it can improve the Earnings Quality of Islamic Commercial Banks operating in Indonesia.

3. Publik Benefits

Good Corporate Governance principle help investors make informed decisions, and high Earnings Quality provides a more accurate picture of a bank's financial health, reducing the risk of financial misrepresentation and fraud. This trust is necessary for making the decision to invest and leading to a more robust and trustworthy financial system.