International Journal of
Entrepreneurship and Business Management

Vol.3 No.2, 2024
e-ISSN: 2808-716X
pp. 91-104

The Effect of Corporate Governance on Financial Performance With CSR as A Moderating Variable

Musdalifa [1], Afrizal[2], Wirmie Eka Putra[3], Riko Wijaya[4]
[1,2,3,4] Universitas Jambi
musdalifa@yahoo.com

DOI: https://doi.org/10.54099/ijebm.v3i2.1152

ARTICLE INFO

Research Paper

Article history:
Received: 13 October 2024
Revised: 5 November 2024
Accepted: 29 November 2024

Keywords – corporate governance, return on assets, corporate social responsibility

ABSTRACT

This study aims to provide new evidence on the comparison of the implementation of Corporate governance on the financial performance of Indonesian and Malaysian Islamic banking from 2016 to 2020. The authors uses multiple regression analysis with samples of Indonesian and Malaysian Islamic banks from 2016 to 2020. The data used are obtained from the financial statements of Indonesian and Malaysian Islamic banks from 2016 to 2020. Financial performance is measured by profitability ratios using return on assets (ROA). CSR from the test results were not able to moderate the financial performance of Indonesian and Malaysian Islamic companies from 2016 to 2020. This study is a comparative study of the effect of the implementation of Corporate governance on the financial performance of Islamic banking companies in Indonesia and Malaysia with CSR as the moderating variable.

1. Introduction

Islamic banks are financial institutions whose main business is to provide financing and other services, or the circulation of money whose implementation is adjusted to Islamic principles (Iska, 2012). Islamic banks operate without relying on interest whose main business is to provide financing and other services in financing traffic and money circulation whose operations are adjusted to Islamic sharia principles (Rusby, 2017).

The Southeast Asia region is currently a growing region as a center for the development of the Islamic finance industry in the world. ASEAN countries have diverse variations in the development of Islamic banking. Indonesia and Malaysia are the two countries in the region that are driving the development of the Islamic finance industry in Southeast Asia (M. Ghozali et al., 2019).

Malaysia is the fastest growing country in the industry. Historically, Malaysia has developed the concept of sharia finance since 1963 through the establishment of Tabung Haji Malaysia. The presence of the sharia banking law (IBA 1983) became the basis for the establishment of Malaysian Islamic banks in 1983. The sharia banking system then developed rapidly through the liberalization policy of the sharia financial sector by inviting foreign parties to open sharia banks in Malaysia. (Rama, 2015).

The development of Malaysian Islamic banking continues to show a positive trend. In 2017, the total assets of Malaysian Islamic banks were recorded at 653,315, 6 RM. This figure has increased in 2018 with a total of 771,807.6 RM. In 2019 assets were recorded at 834,947.5 RM, in 2020 891,506.40 RM. In 2021 the total assets reported are at the position of 949,589.4 RM as of September 2021 (Malaysia, 2021).

Islamic banking in Malaysia makes a significant and positive contribution to Malaysia's economic growth. The amount of deposits and financing provided by Islamic banking institutions in Malaysia is proven to increase the level of economic activity in Malaysia, by further improving the Islamic financial infrastructure, increasing human resources in the Islamic banking industry and providing a conducive legal environment for Islamic financial institutions (Kassim, 2015).

Indonesia is the next country in the ASEAN region to be aggressive in developing Islamic banking, although its development is slow when compared to Malaysia, because the approaches used by the two countries are different. The approach used by Malaysia is a state driven approach, while Islamic banking in Indonesia is more community driven or market driven (Chemala, 2019). The Indonesian Islamic banking industry continues to show strong growth. Assets recorded in 2017 Rp. 9.91 trillion, total financing Rp. 7.496 trillion. This figure has increased in 2021 where assets are reported to be recorded at 15.507 trillion and financing of Rp. 9.035 trillion (Islamic Banking Statistics, 2021).

The initiative regarding the establishment of Islamic banks in Indonesia began in 1990 by the Indonesian Ulema Council, which was realized with the establishment of Bank Muamalat Indonesia on November 1, 1991. The initial development of Islamic banking in the national banking system was responded quickly by the government with the passage of Law Number 7 1992 concerning Banking, which was later amended by Law Number 10 of 1998. Apart from being a disaster for the national banking system, the economic crisis that occurred in 1998 was also the starting point for the development of Islamic banking in Indonesia. Several conventional banks began to develop their business by establishing Islamic banks. Responding to the significant development of Islamic banking in the national banking system,

Islamic banking in Indonesia, with the percentage of Muslim population reaching 87% and being the country with the largest number of Muslims in the world, is expected to contribute significantly to Indonesia's economic growth. Research (Supriani et al., 2021) reveals that in the short term, Islamic banking does not contribute significantly to economic growth. One of the factors causing the low role of Islamic banking in the short term is the low market share of Islamic banking to total banking in Indonesia, which only reached 5%. In line with this, Bank Indonesia (BI) in 2020 stated that the biggest challenge for Islamic banking over the next 10 years is to increase market share and contribute more to economic growth (Islamic banking statistics, 2021).

Emerging markets tend to display weak measures of corporate governance, corporate social responsibility, protection of property rights of investors and minority shareholders. Thus, improving governance and CSR practices in emerging markets can be of great benefit to shareholders especially minority shareholders (Peters et al., 2011).

Corporate governance in Islamic banking is of greater concern because Islamic banks must comply with sharia law where most depositors and sharia investors are very worried that their funds are managed in accordance with sharia principles, so that these banks are vulnerable to the risk of non-compliance. In addition, Islamic banks holding unlimited investment accounts are vulnerable to agency conflicts because they do not participate in shareholder profits and losses, even though they have large shares, they do not have a voice in shareholder meetings. Finally, most Islamic banks are in developing countries where the institutional environment tends to be weak, where high levels of ownership concentration and family control are more prevalent, lack of transparency,

Corporate governance is one of the increasingly popular issues in Indonesia. Many companies have used corporate governance as a reference in running their companies. In a globalized world like today, where the level of competition is getting tougher, companies must manage their companies professionally. Likewise, investors in looking for alternatives to invest, always look for companies that are managed professionally (Nasrum, 2018).

Good bank governance tends to result in efficient capital allocation by managers. It also allows managers to carefully observe the companies they finance. Islamic banks are not inferior to conventional banks in terms of losses, or even failures, that can result from violations of corporate governance. The collapse of the Islamic Bank of South Africa in 1997, the collapse of the Ihlas Finance House in Turkey in 2001, and the numerous fraud cases that caused losses at the Dubai Islamic Bank between 2004 and 2007 serve as reminders of the importance of corporate governance (Ginena, 2014).

The implementation of corporate governance can create a system to direct, control, and supervise all resources efficiently and effectively. Good Corporate Governance is assumed to be able to maintain a balance of various interests that can provide benefits to the company. The implementation of Good Corporate Governance has a vital and strategic role in maintaining the credibility of the company's business processes and company supervision. Therefore, with good corporate governance and operational advisory functional companies, financial performance can be improved (Solikhah, 2017).

Corporate governance can be taken as a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides a structure within which corporate goals are set, and the means for achieving those goals and monitoring performance are determined. Good corporate governance should provide appropriate incentives for the board and management to pursue goals that are in the interest of the company and shareholders and should facilitate effective monitoring, thereby encouraging companies to use resources more efficiently (Ahmed, 2013).

Companies with good corporate governance can protect the interests of shareholders, minimize agency problems and achieve superior organizational performance. Although agency theory only recognizes the shareholders or owners of the organization, stakeholder theory takes care of the interests of all stakeholders. In the case of Islamic banking, stakeholder interests are not limited to achieving profit or maximizing wealth but also include ethical aspects, CG in relation to stakeholder theory is considered to align the desired bank performance goals with the interests of the environment and society (Ajili & Bouri, 2018).

Islamic banking is a particular financial institution that presents different corporate governance challenges, where information asymmetry is higher which requires a more specialized corporate governance mechanism that emphasizes transparency and trust based on Islamic law. An inefficient Islamic banking system will lead to economic depression and lower financial growth. To achieve efficiency, management is required to manage effectively (Ben Zeineb & Mensi, 2018).

Sharia banking corporate governance has its own characteristics, namely that it must be carried out in accordance with Islamic sharia law. The significant differences and differences of the corporate governance structure of Islamic banking in the GCC countries and in Southeast Asian countries recognize that there are deficiencies in the existing governance framework for IBs that require further improvement and standardization (Grassa & Matoussi, 2014) . That it is very important to consider corporate governance in Islamic banks as it may help to portray a proper image about the organization. Specifically, how does the Sharia Supervisory Board function and how it can be linked to the Islamic banking process (Alnasser & Muhammed, 2012)

The increasing number of Islamic companies in Malaysia has made a major contribution to stabilizing the Islamic Capital Market (ICM). of 53 Sharia companies listed on the ACE Market Bursa Malaysia during the three-year period 2015-2017 showed a significant relationship between the attributes of corporate governance, board size, audit quality and audit committee, and ISR (Mazri et al., 2018).

Governance mechanisms in the Malaysian business environment have gone through a series of improvements since the introduction of the Malaysian Code of Corporate Governance (MCCG) in 2000. The MCCG, which was the result of consultations between various parties in response to the need to restore investor confidence in the Malaysian market due to the economic collapse caused by the 1997/98 financial crisis, revised in 2007 and 2012 to further clarify the roles and responsibilities of the board of directors. The essence of MCCG is the importance of increasing corporate transparency and accountability (Mohd Ghazali, 2020).

The company's financial performance is positively and significantly related to corporate governance. This study used a sample of 113 companies registered in Malaysia. This study combines the endogenous relationship between corporate governance, firm performance and leverage. Agency theory and resource dependence theory suggest that firms with strong corporate governance outperform firms with weaker governance (Bhatt & Bhatt, 2017).

The company's financial performance is not influenced by the quality of corporate governance, based on the results of statistical tests conducted between the quality of corporate governance and financial performance implying that there is no significant relationship. This study took a sample of 44 Islamic banks that are members of the Gulf Cooperation Council (GCC). The measure of the quality of corporate governance used in this study is the size of the board of directors, the size of the audit committee and the size of the sharia supervisory board (Ajili & Bouri, 2018)

The company's performance is not influenced by the company's managerial ownership. This study took a sample of Malaysian public companies in 2010 (Ghazali, 2014). This result is in line with research which states that managerial ownership destroys company performance (FAUZI, 2015). However, other studies have observed a significant positive relationship between managerial ownership and financial performance in companies listed in Jordan (Alabdullah, 2018). The results of research conducted in 743 companies registered in Malaysia in 2013 showed that the number of board meetings held throughout the year, separation of roles and board size had a significant effect on company performance, while company size as a control variable was slightly significant. On the other hand, independent directors

The sharia supervisory board is an important mechanism in the corporate governance structure of Islamic banks. Basically, the sharia supervisory board ensures that Islamic banks carry out their functions in accordance with sharia. In addition, the sharia supervisory board also ensures that the management and products provided comply with sharia guidelines (Alam & Miah, 2019). However, the failure of the sharia supervisory board to confirm sharia principles can increase the overall reputation risk of Islamic banks (Darmadi, 2013). The composition of the larger sharia supervisory board contains scholars with various experiences and skills from different schools and leads to better interpretation of products and operations which results in increased performance of the sharia supervisory board (Nomran, 2016).

The number of board meetings held throughout the year, the separation of roles and the size of the board have a significant influence on the company's performance. On the other hand, independent directors, government ownership and director ownership have no effect on company performance. firms with fewer board meetings during the year, different individuals holding the titles of chairman and CEO and larger board size is associated with higher firm performance. It seems that regulatory efforts to improve corporate governance are proving to be beneficial in terms of promoting greater corporate accountability and hence better performance (Mohd Ghazali, 2020).

The presence of a larger company board size and independent directors is able to put proper management and control in place and improve company performance. This study was conducted on 10 financial institutions registered in Malaysia in 2011 (Shukeri et al., 2012).

The results of this study do not support research which states that companies with larger board sizes have the opportunity to manipulate accounting numbers by placing additional emphasis on company management to report lower amounts of debt to report higher company performance. This study took a sample of publicly listed companies in 2012 – 2015 which were officially registered in Burma Malaysia Berhad (mohd Faizal, 2018). The size of the board of directors is negatively related to the performance of Islamic banks, which was carried out on 90 Islamic banks in GCC countries and Southeast Asia (Grassa & Matoussi, 2014).

This research is interesting because it takes samples in two countries, namely Indonesia and Malaysia. In addition, the Islamic banking sector is an area of research that is still little researched, especially in Indonesia and Malaysia. Furthermore, previous studies have shown inconsistent results, so this research is expected tocan be used as management considerations in implementing corporate governance mechanisms in company activities. Further contribution, the results of this research are expected to increase investors' knowledge in making investment decisions seen from the influence of corporate governance on the financial performance of banking companies moderated by Corporate Social Responsibility.

1.1. Formulation of research question

Responding to criticism and concerns about fraud and prevention, this study poses five research questions as follows:

RQ 1. What is the impact of implementationcorporate governanceon the financial performance of sharia banking companies in Indonesia

RQ 2. What is the impact of implementationcorporate governanceon the financial performance of sharia banking companies in Malaysia

RQ 3. What is the impact of implementationcorporate governanceon the financial performance of sharia banking companies in Indonesia withcorporate social responsibilityas a moderating variable

RQ 4. What is the impact of implementationcorporate governanceon the financial performance of sharia banking companies in Malaysia withcorporate social responsibilityas a moderating variable

RQ 5. What is the impact of implementationcorporate governancesimultaneously on the financial performance of sharia banking companies in Indonesia

RQ 6. What is the impact of implementationcorporate governancesimultaneously on the financial performance of sharia banking companies in Malaysia

RQ 7. How is it different?corporate governanceon financial performance sharia banking companies in Indonesia and Malaysia withcorporate social responsibilityas a moderating variable

2. Method

This research utilizes research published in various journals. This aims to provide a narrative regarding the importance of implementing corporate governance in the company's operational implementation mechanism in accordance with the research results, namely Corporate governance is a series of processes, customs, policies, rules, and institutions that influence the direction, management, and control of a company or corporation. Corporate governance also includes the relationship between the stakeholders involved and the objectives of the company's management. The main parties in corporate governance are shareholders, management, and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other creditors, regulators, the environment, and the outside community (Darmadi, 2013). Penelitian ini bertujuan menguji bagaimana pentingnya penerapan good corporate governance terhadap kinerja keuangan. Financial performance is the determination of certain measures that can measure the success of a company in generating profits (Prasinta, 2012). Financial performance is a bank's financial condition at a certain period, information on financial position and financial performance is commonly used to predict financial position and performance in the future. Financial performance assessment is assessed using a ratio approach (Chemala, 2019). The company's performance is not influenced by the company's managerial ownership. This study took a sample of Malaysian public companies in 2010 (Ghazali, 2014). This result is in line with research which states that managerial ownership destroys company performance (Fauzi, 2015). However, other studies have observed a significant positive relationship between managerial ownership and financial performance in companies listed in Jordan (Alabdullah, 2018). Rooted management may be involved in takeovers leading to poorer company performance, so that board ownership destroys company performance (Fauzi, 2015). The results of other studies show a significant negative relationship between managerial ownership and firm performance in companies listed in China (Shao, 2019).

3. Results and Discussion

3.1 Theoretical Framework

1. *Corporate Governance*

Corporate governance (CG) is the organization of a company in doing business and using various required resources that are oriented towards creating value for all stakeholders in a sustainable manner. The implementation of corporate governance is very closely related to the triple bottom line concept in an effort to maintain balance and sustainability. Short-term and long-term balance is important in managing the company. The sustainability aspect is a concern for all stakeholders in maintaining the interests and getting added value from the company's presence (Wibowo, 2016).

*Corporate governance*can be defined as a process and structure used by companies (shareholders/capital owners, commissioners/supervisory boards and directors) to improve business success and corporate accountability in order to realize shareholder value in the long term while taking into account the interests of other stakeholders, based on laws and regulations. -invitation and ethical values (Sutedi, 2011)

Corporate governance is a series of processes, customs, policies, rules, and institutions that influence the direction, management, and control of a company or corporation. Corporate governance also includes the relationship between the stakeholders involved and the objectives of the company's management. The main parties in corporate governance are shareholders, management, and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other creditors, regulators, the environment, and the outside community (Darmadi, 2013).

*Corporate governance*is a process and structure used by company organs (shareholders or capital owners, board of commissioners or supervisory boards, and directors) to improve business success and corporate accountability in order to realize or increase long-term shareholder value while taking into account the interests of other stakeholders, based on on legislation and ethical values (Savitri, 2019).

2. Financial Performance

Performance is a description of the achievement of the implementation of an activity or program or policy in realizing the goals, objectives, mission, and vision of the organization. Performance reporting is a reflection of the obligation to present and report the performance of all activities and all resources that need to be accounted for (Iswara et al., 2014).

Financial performance is the determination of certain measures that can measure the success of a company in generating profits (Prasinta, 2012). Financial performance is a bank's financial condition at a certain period, information on financial position and financial performance is commonly used to predict financial position and performance in the future. Financial performance assessment is assessed using a ratio approach (Chemala, 2019).

Financial performance is an analysis conducted to see the extent to which a company has implemented it by using financial implementation rules properly and correctly. The report must meet the applicable financial accounting standards that have been set by IAI. To decide that a company has good quality, there are two dominant assessments that can be used as a reference, namely the financial performance and non-financial performance. Financial performance looks at the financial statements owned by the company that reflect the company's financial condition and other things that support strengthening the assessment of the report (Fahmi, 2011).

Performance is a description of the achievement of the implementation of an activity or program or policy in realizing the goals, objectives, mission, and vision of the organization. Performance reporting is a reflection of the obligation to present and report the performance of all activities and all resources that need to be accounted for. Company assessments, especially performance, are often carried out to obtain a fair opinion on participation in a company or show that the company is worth more than what is on the balance sheet and for the purposes of mergers and acquisitions (Iswara et al., 2014).

Financial performance can be measured by several approaches to financial ratios, including liquidity, profitability, solvency, activity and market ratios. The policies and decisions of investors in investing their capital into the company are more influenced by the profitability ratios owned by a company compared to other ratios, because investors assume that the profitability ratios can provide an overview of the rate of return or profits that investors will receive from their investments (Prasinta, 2008). 2012).

3. *Corporate Social Responsibility*

Corporate Social Responsibility(CSR) is the commitment of the company or the business world to contribute to sustainable economic development by paying attention to corporate social responsibility and emphasizing the balance between attention to economic, social and environmental aspects. CSR is the obligation of entrepreneurs to formulate policies, make decisions or follow the desired line of action in terms of community goals and values (Manfarisyah, 2018).

*Corporate Social Responsibility*is a concept that organizations, especially companies, have various forms of responsibility to all their stakeholders, which include consumers, employees, shareholders, communities and the environment in all aspects of the company's operations which include economic, social and environmental aspects. CSR can be said as the company's contribution to sustainable development goals by means of impact management (minimizing negative impacts and maximizing positive impacts) on all stakeholders (Radyati, 2015).

*Corporate Social Responsibility*Islamic financial institutions are understood as all forms of activities of Islamic financial institutions to perfect the obligations of the relationship with Allah, the relationship with humans and the relationship with the natural environment in order to produce economic development in order to improve the quality of life for the company, the community in the surrounding environment (Yusuf, 2007). 2017).

3.2 Relationship between variables

1. Corporate Governance Affects Financial Performance

The composition of managerial share ownership in a company can indicate a congruence of interests between management and shareholders. Managers who have share ownership in the company will tend to act in accordance with the interests of shareholders because there are similarities between the interests of the two and a sense of belonging to the company (Munisi et al., 2014). The more managerial ownership in a company indicates the smaller the board of directors and commissioners and independent commissioners needed by the company. Because the similarity of goals between managerial and shareholders prevents managers from behavior that is concerned with their own interests (Budiarti & Chorry Sulistyowati, 2014).

The company's performance is not influenced by the company's managerial ownership. This study took a sample of Malaysian public companies in 2010 (Ghazali, 2014). This result is in line with research which states that managerial ownership destroys company performance (Fauzi, 2015). However, other studies have observed a significant positive relationship between managerial ownership and financial performance in companies listed in Jordan (Alabdullah, 2018). Rooted management may be involved in takeovers leading to poorer company performance, so that board ownership destroys company performance (Fauzi, 2015). The results of other studies show a significant negative relationship between managerial ownership and firm performance in companies listed in China (Shao, 2019).

Institutional ownership is ownership of company shares owned by institutions or institutions such as insurance companies, banks, investment companies, and other institutional ownership. Institutional ownership is the percentage of shares owned by people outside the company to the company's total shares (Wibowo, 2016). Institutional ownership does not affect the company's performance (Darko et al., 2016). The greater institutional ownership will result in greater external control within the company. In addition, institutional ownership which is the majority shareholder can ignore the interests of minority shareholders. The greater the external control, the policy will tend to follow the policies of external institutions. This will reduce stock prices in the capital market and result in a decline in company performance (Listyo Bambang, 2013). This is in line with the results of research which states that there is a negative relationship between institutional ownership and company performance, linking these findings to the government's preference for social and political goals as opposed to shareholder wealth (Muhammad, 2013).

The results of research conducted on 452 companies listed on the Thailand Stock Exchange for the period 2000-2016 ownership structure, institutional ownership, does not seem to have a significant effect on the performance of market-based companies, while managerial ownership has a positive effect on performance. In addition, as expected, board structure variables such as board independence; size; meetings and dual roles; and audit committee influence on the performance of market-based firms in Thai firms (Al Farooque et al., 2020)

The audit committee is responsible for monitoring and evaluating the planning and implementation of internal audits in order to assess the adequacy of financial reporting and coordinating with public accounting firms in the context of implementing internal audits (MA Abdullah, 2011).

The number of members of the board of directors must be adjusted to the complexity of the company while taking into account effectiveness in decision making. Members of the board of directors are elected and dismissed by the GMS through a transparent process. Members of the board of directors must meet the requirements of ability and integrity so that the implementation of the management function can be carried out properly (Budiarti & Chorry Sulistyowati, 2014). The members of the board of directors are determined by at least three people with one of them carrying out the duties as Director of Compliance. The Board of Directors is led by the President Director or President Director who comes from a party that is independent of the controlling shareholder (MA Abdullah, 2011).

The size of the board of directors varies in different countries. A smaller board of directors than a larger board of directors will take on the responsibility of monitoring the company's operations, in fact smaller boards prove to be more efficient at increasing bank value. Larger boards are less efficient because they will bring about problems of coordination, control and flexibility in the decision-making process (Ben Zeineb & Mensi, 2018). The presence of a larger company board size and independent directors is able to put proper management and control in place and improve company performance. This study was conducted on 10 financial institutions registered in Malaysia in 2011 (Shukeri et al., 2012). The results of this study do not support research which states that companies with larger board sizes have the opportunity to manipulate accounting numbers by placing additional emphasis on company management to report lower amounts of debt to report higher company performance. This study took a sample of publicly listed companies in 2012 – 2015 which were officially registered in Burma Malaysia Berhad (mohd Faizal, 2018).

Independent Commissioner is a member of the Board of Commissioners who comes from outside the Issuer or Public Company and fulfills the requirements as referred to in the Financial Services Authority Regulation. The number of commissioners is at least 3 (three) people, consisting of a main commissioner and 2 (two) or more as commissioners. At least 50% (fifty percent) of the total members of the board of commissioners are independent commissioners. Independent commissioners have a significant impact on the disclosure of information reported by the company (Neifar & Jarboui, 2018)

One of the problems in implementing CG is that there is a CEO who has greater power than the board of commissioners. Whereas the function of the board of commissioners is to oversee the performance of the board of directors led by the CEO. The effectiveness of the board of commissioners in balancing the power of the CEO is strongly influenced by the level of independence of the board of commissioners. The proportion of independent commissioners in a company must be such that it allows for effective, precise and fast decision making and can act independently (Nasrum, 2018).

The sharia supervisory board is a typical mechanism of Islamic banking which has the role of consulting, controlling and certainty. The most important role of the sharia supervisory board is to ensure compliance with the products and services offered to customers in accordance with Islamic sharia. If the sharia supervisory board issues an opinion on non-compliance with sharia, Islamic banking quickly loses the trust of the majority of investors and customers which results in declining company performance. Thus, the sharia supervisory board is seen as a generator of stakeholder confidence and therefore can drive market performance and development. (Ajili & Bouri, 2018)

The most significant dimensions affecting corporate governance in Islamic banks are the BOD (bord of directors) and the Sharia Supervisory Board (Ahmed, 2013). The Sharia Supervisory Board has a role in increasing the company's trust to shareholders and other stakeholders (investors and customers) through the control mechanism owned by the Sharia Supervisory Board in supervising and ensuring that sharia banks carry out their operational functions in accordance with sharia and all of their products are sharia compliant (Karbhari et al. ., 2020).

The Sharia Supervisory Board is a unique characteristic of corporate governance in Islamic banking which concerns the religious aspects of Islamic banking activities. The sharia supervisory board consists of sharia advisors who are employed by sharia banking. The sharia supervisory board is very important because stakeholders related to sharia banking must feel confident that they are transacting in accordance with established sharia law (Grassa & Matoussi, 2014).

2. Corporate Social Responsibility as Moderating Variable

*Corporate Social Responsibility (CSR)*is the commitment of the company or the business world to contribute to sustainable economic development by paying attention to corporate social responsibility and emphasizing the balance between attention to economic, social and environmental aspects. CSR is the obligation of entrepreneurs to formulate policies, make decisions or follow the desired line of action in terms of community goals and values (Manfarisyah, 2018).

*Corporate Social Responsibility*is a concept that organizations, especially companies, have various forms of responsibility to all of their stakeholders, which include consumers, employees, shareholders, communities and the environment in all aspects of the company's operations which include economic, social, and environmental aspects. CSR can be said as the company's contribution to sustainable development goals by means of impact management (minimizing negative impacts and maximizing positive impacts) on all stakeholders (Radyati, 2015).

Emerging markets tend to display weak measures of corporate governance, corporate social responsibility, protection of property rights of investors and minority shareholders(Peters et al., 2011). Corporate social responsibility (CSR) has become an important aspect of the business community(Zainudin et al., 2017) (Menne, 2016). The results of other studies show that there is no relationship between CSR and financial performance, they only find a relationship between firm size and CSR(Aras, 2010). The results of this study are in line with research conducted in Bangladesh which stated that there was no significant relationship between performance and CSR reporting carried out by companies(Khan, 2010).

*Corporate Social Responsibility*Islamic financial institutions are understood as all forms of activities of Islamic financial institutions to perfect the obligations of the relationship with Allah, the relationship with humans and the relationship with the natural environment in order to produce economic development in order to improve the quality of life for the company, the community in the surrounding environment (Yusuf, 2007).

3. The influence of corporate governance simultaneously on the company's financial performance

Banks in developing countries have higher levels of voluntary corporate governance disclosures while voluntary disclosures are negatively associated with levels of political and civil repression(WAW Abdullah et al., 2015). Strong and positive relationship between corporate-level corporate governance and corporate valuation and between corporate social behavior and corporate values(Ammann et al., 2011).

*Corporate governance*effect on operational performance, but the achievement of corporate profits and market response to the implementation of good corporate governance is still lacking(Prasinta, 2012). Good bank governance tends to result in efficient capital allocation by managers (Ginena, 2014).

4. Differences in the Effect of Corporate Governance on Financial Performance Moderated by Corporate Social Responsibility

Corporate governance is the basic framework for monitoring corporate behavior, especially in financial institutions. This is due to the existence of funds managed by banks that are different from shareholders and customers. Poor management will have an impact on stakeholders which may lead to agency problems and conflicts of interest between managers (Ahmed, 2013).

4. Conclusion

Corporate Social Responsibility (CSR)is a company or business world's commitment to contribute to sustainable economic development by paying attention to corporate social responsibility and emphasizing a balance between attention to economic, social and environmental aspects. CSR is an obligation for entrepreneurs to formulate policies, make decisions, or follow a desired line of action in terms of the goals and values of Society. CSR can be said to be a company's contribution to sustainable development goals by managing impacts (minimizing negative impacts and maximizing positive impacts) on all stakeholders.

Banks in developing countries have higher levels of voluntary corporate governance disclosure, while voluntary disclosure is negatively related to levels of political and civil repression. There is a positive and strong relationship between corporate governance at the company level and company valuation as well as between corporate social behavior and company value. Corporate governance has an impact on operational performance, but the achievement of corporate profits and market response to the implementation of good corporate governance are still lacking. Good bank governance tends to result in efficient capital allocation by managers.

Several previous studies show that there is no relationship between CSR and financial performance, only finding a relationship between company size and CSR. Islamic financial institutions understand CSR as all forms of activities of Islamic financial institutions to perfect the obligations of relationships with Allah, relationships with humans, and relationships with the natural environment to produce economic development. Thus, it can be concluded that CSR and corporate governance have a significant role in influencing company financial performance, but there are differences in their impact which can be moderated by CSR. These conclusions demonstrate the complexity of the relationship between CSR, corporate governance, and financial performance, as well as the importance of considering these factors simultaneously in the modern business context

References

Abdullah, M. A. (2011). *Corporate Governance Perbankan Syariah di Indonesia*. Ar Ruzz Media Grup.

Abdullah, W. A. W., Percy, M., & Stewart, J. (2015). Determinants of voluntary corporate governance disclosure: Evidence from Islamic banks in the Southeast Asian and the Gulf Cooperation Council regions. *Journal of Contemporary Accounting and Economics*, *11*(3), 262–279. https://doi.org/10.1016/j.jcae.2015.10.001

Afrifa, G. A., & Tauringana, V. (2015). Corporate governance and performance of UK listed small and medium enterprises. *Corporate Governance (Bingley)*, *15*(5), 719–733. https://doi.org/10.1108/CG-03-2015-0029

Ahmed, K. S. B. H. M. A. F. (2013). *An evaluation of corporate governance practices of Islamic banks versus Islamic bank windows of conventional banks A case of Pakistan*. https://doi.org/10.1108/01409171311315003

Ajili, H., & Bouri, A. (2018). Corporate governance quality of Islamic banks: measurement and effect on financial performance. *International Journal of Islamic and Middle Eastern Finance and Management*, *11*(3), 470–487. https://doi.org/10.1108/IMEFM-05-2017-0131

Al Farooque, O., Buachoom, W., & Sun, L. (2020). Board, audit committee, ownership and financial performance – emerging trends from Thailand. *Pacific Accounting Review*, *32*(1), 54–81. https://doi.org/10.1108/PAR-10-2018-0079

Alabdullah. (2018). *The relationship between ownership structure and firm financial performance: Evidence from Jordan"*.

Alam Choudhury, M., & Nurul Alam, M. (2013). Corporate governance in Islamic perspective. *International Journal of Islamic and Middle Eastern Finance and Management*, *6*(3), 180–199. https://doi.org/10.1108/IMEFM-10-2012-0101

Alam, K., & Miah, M. S. (2019). *The in fl uences of board of directors and management in Shariah governance guidelines of the Islamic banks in Bangladesh*. https://doi.org/10.1108/JIABR-08-2019-0155

Alnasser, S. A. S., & Muhammed, J. (2012). Introduction to corporate governance from Islamic perspective. *Humanomics*, *28*(3), 220–231. https://doi.org/10.1108/08288661211258110

Ammann, M., Oesch, D., & Schmid, M. M. (2011). Corporate governance and firm value: International evidence. *Journal of Empirical Finance*, *18*(1), 36–55. https://doi.org/10.1016/j.jempfin.2010.10.003

Aras. (2010). Managing corporate performance Investigating the relationship between corporate social responsibility and financial performance in emerging markets. *Emerald*. https://doi.org/http://dx.doi.org/10.1108/17410401011023573

Baydoun, N., Maguire, W., Ryan, N., & Willett, R. (2012). Corporate governance in five Arabian Gulf countries. *Managerial Auditing Journal*, *28*(1), 7–22. https://doi.org/10.1108/02686901311282470

Ben Zeineb, G., & Mensi, S. (2018). Corporate governance, risk and efficiency: evidence from GCC Islamic banks. *Managerial Finance*, *44*(5), 551–569. https://doi.org/10.1108/MF-05-2017-0186

Bhatt, P. R., & Bhatt, R. R. (2017). Corporate governance and firm performance in Malaysia. *Corporate Governance (Bingley)*, *17*(5), 896–912. https://doi.org/10.1108/CG-03-2016-0054

Budiarti, E., & Chorry Sulistyowati. (2014). *Struktur kepemilikan dan struktur dewan perusahaan*. *3*, 161–177.

Chemala, M. Y. R. (2019). *Determinan, Analisis Bank, Profitabilitas Di, Syariah*. *3*(1), 101–114.

Chen, Y., Eshleman, J. D., & Soileau, J. S. (2017). Business Strategy and Auditor Reporting. *Emerald*, *36*(2), 63–86. https://doi.org/10.2308/ajpt-51574

Darko, J., Aribi, Z. A., & Uzonwanne, G. C. (2016). Corporate governance: the impact of director and board structure, ownership structure and corporate control on the performance of listed companies on the Ghana stock exchange. *Corporate Governance (Bingley)*, *16*(2), 259–277. https://doi.org/10.1108/CG-11-2014-0133

Darmadi, S. (2013). Corporate governance disclosure in the annual report: An exploratory study on Indonesian Islamic banks. *Humanomics*, *29*(1), 4–23. https://doi.org/10.1108/08288661311299295

Elamer, A. A., Ntim, C. G., & Abdou, H. A. (2019). Jo na l P. *Global Finance Journal*, 100488. https://doi.org/10.1016/j.gfj.2019.100488

Fahmi, I. (2011). *Analisis Kinerja Keuangan* (1st ed.). CV. ALFABETA.

FAUZI, H. (2015). *Corporate ownership and company performance : a study of Malaysian listed companies*. https://doi.org/10.1108/SRJ-05-2014-0064

Ghazali, N. A. M. (2014). *Board of directors and performance of Malaysian companies*. *6*(2), 12–14.

Ghozali, I. (2018). *Aplikasi Analisis Multivirate dengan Program IBM SPSS 25* (9th ed.). Badan Penerbit Universitas Diponegoro.

Ghozali, M., Azmi, M. U., & Nugroho, W. (2019). *Perkembangan Bank Syariah Di Asia Tenggara : Sebuah Kajian Historis*. *4*(1), 44–55. https://doi.org/10.22219/jes.v4i.8700

Ginena, K. (2014). *Sharı ¯ ʻ ah risk and corporate governance of Islamic banks*. *14*(1), 86–103. https://doi.org/10.1108/CG-03-2013-0038

Global Sustainability Standards Board. (2013). Pedoman Pelaporan Keberlanjutan G4. *Global Reporting Initiative*, 1–97. www.globalreporting.org

Grassa, R., & Matoussi, H. (2014). Corporate governance of Islamic banks: A comparative study between GCC and Southeast Asia countries. *International Journal of Islamic and Middle Eastern Finance and Management*, *7*(3), 346–362. https://doi.org/10.1108/IMEFM-01-2013-0001

Hanindra, A. R. (2014). Studi Komparatif Pengaruh Mekanisme Good Corporate Governance Terhadap Kinerja Perbankan. *Universitas Muhammadiyah Yogyakarta*, 1–33.

Hansen, K., & Seierstad, C. (2017). *Introduction: CSR and Diversity Management*. https://doi.org/10.1007/978-3-319-43564-0_1

Hayat, R., & Kabir Hassan, M. (2017). Does an Islamic label indicate good corporate governance? *Journal of Corporate Finance*, *43*, 159–174. https://doi.org/10.1016/j.jcorpfin.2016.12.012

IICG. (2016). *Laporan Program Riset dan Pemeringkatan Corporate Governance Perception Index 2015*.

Iska, S. (2012). *Sistem perbankan syariah di Indonesia dalam perspektif fikih ekonomi*.

Iswara, P. W., Polytechnics, B., Study, A., & Parkway, P. (2014). *Jurnal Akuntansi , Ekonomi Dan Manajemen Bisnis ISSN : 2337-7887 (print version)*. *2*(2), 121–131.

Karbhari, Y., Alam, M. K., & Rahman, M. M. (2020). Relevance of the application of institutional theory in Shariah governance of Islamic banks. *PSU Research Review*, *5*(1), 1–15. https://doi.org/10.1108/prr-05-2020-0015

Kassim, M. S. A. M. S. H. (2015). Assessing the contribution of Islamic finance to economic growth: Empirical evidence from Malaysia. *Journal of Islamic Accounting and Business Research, Vol. 6 Edisi 2 Hal. 292 - 310*, *34*(1), 1–5. https://doi.org/http://dx.doi.org/10.1108/JIABR-07-2012-0059

Keuangan, P. O. J. (2017). *PENERAPAN TATA KELOLA PERUSAHAAN EFEK YANG MELAKUKAN KEGIATAN USAHA SEBAGAI PENJAMIN EMISI EFEK DAN PERANTARA PEDAGANG EFEK*.

Khan, H. U. Z. (2010). The effect of corporate governance elements on corporate social responsibility (CSR); reporting: Empirical evidence from private commercial banks of Bangladesh. *International Journal of Law and Management*, *52*(2), 82–109. https://doi.org/10.1108/17542431011029406

Lin, J. W., & Hwang, M. I. (2010). Audit Quality , Corporate Governance , and Earnings Management : A Meta-Analysis. *Emerald*, *77*, 57–77. https://doi.org/10.1111/j.1099-1123.2009.00403.x

listyo bambang, khafid muhammad. (2013). Analisa Pengaruh Mekanisme Corporate Governance terhadap Kinerja Perbankan. *Simposium Nasional Akuntansi XVI Makassar 26-28 September 2013*.

Magalhães, R., & Al-Saad, S. (2013). Corporate governance in Islamic financial institutions: The issues surrounding unrestricted investment account holders. *Corporate Governance (Bingley)*, *13*(1), 39–57. https://doi.org/10.1108/14720701311302404

Malaysia, B. N. (2021). *Sistem Perbankan Islam: Penyata Aset Islamic Banking System: Statement of Assets*.

Manfarisyah, J. M. S. H. (2018). *CORPORATE SOCIAL* (Pertama). Unimal Press.

Mardnly, S. (2018). International Journal of Islamic and Middle Eastern Finance and Management. *Managerial Finance*, *34*(10). https://doi.org/10.1108/mf.2008.00934jaa.001

Mazri, K. F., Ismail, R. F., Arshad, R., & Kamaruzaman, S. A. (2018). Corporate governance attributes as determinants of the Islamic Social Reporting of Shariah-compliant companies in Malaysia. *International Journal of Economics and Management*, *12*(Special Issue 1), 169–180.

Menne, F. (2016). Evidence of CSR Practices of Islamic Financial Institutions in Indonesia. *Advances in Islamic Finance, Marketing, and Management*, 341–362. https://doi.org/10.1108/978-1-78635-899-820161018

Mersni, H., & Ben, H. (2016). *Jurnal Akuntansi Islam dan Penelitian Bisnis Tentang Emerald www.emeraldinsight.com Dampak dari mekanisme tata kelola perusahaan pada manajemen laba di bank-bank Islam di Timur Tengah wilayah*.

mohd Faizal, J. (2018). Corporate Governance and Firm Performance in Malaysia. *Jm*, *4*(April), 1–55.

Mohd Ghazali, N. A. (2020). Governance and ownership in Malaysia: their impacts on corporate performance. *Asian Journal of Accounting Research*, *5*(2), 285–298. https://doi.org/10.1108/AJAR-03-2020-0017

Muhammad, A. (2013). An investigation of the association between ownership structure and corporate performance Empirical evidence from Tehran Stock. *Management Research Review*, *36*(11), 1137–1166. https://doi.org/10.1108/MRR-08-2012-0188

Munisi, G., Hermes, N., & Randøy, T. (2014). Corporate boards and ownership structure : Evidence from Sub-Saharan Africa. *International Business Review*. https://doi.org/10.1016/j.ibusrev.2013.12.001

Nasrum, M. (2018). *Corporate Governance (Konsep, Teori dan Aplikasi di Beberapa Negara Asia)*. 1–162. https://doi.org/10.31227/osf.io/zpfnx

Nations, U. (2010). *UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT CORPORATE GOVERNANCE*.

Neifar, S., & Jarboui, A. (2018). Corporate governance and operational risk voluntary disclosure: Evidence from Islamic banks. *Research in International Business and Finance*, *46*, 43–54.

https://doi.org/10.1016/j.ribaf.2017.09.006

Nomran, naji mansour. (2016). Shari ' ah Supervisory Board Characteristics Effects On Islamic Banks ' Performance : Evidence from Malaysia. *International Journal of Bank Marketing*. https://doi.org/https://doi.org/10.1108/IJBM-12-2016-0197

Peters, S., Miller, M., & Kusyk, S. (2011). How relevant is corporate governance and corporate social responsibility in emerging markets? *Corporate Governance*, *11*(4), 429–445. https://doi.org/10.1108/14720701111159262

Prasinta, D. (2012). Accounting Analysis Journal PENGARUH GOOD CORPORATE GOVERNANCE TERHADAP KINERJA KEUANGAN. *Accounting Analysis Journal*, *1*(2), 1–7. http://journal.unnes.ac.id/sju/index.php/aaj

Pratiwi, A. (2016). ISLAMIC BANKING CONTRIBUTION IN SUSTAINABLE SOCIOECONOMIC DEVELOPMENT IN INDONESIA: AN EPISTIMOLOGICAL APPROACH. *International Journal of Commerce and Management*, *32*(2). https://doi.org/http://dx.doi.org/10.1108/H-12-2015-0085

Publik, B. T. (2015). *Corporate Social Responsibility: Konsep, Strategi, dan Perusahaan*. Pusat Pengkajian, Pengolahan Data dan Informasi (P3DI) Sekretariat Jenderal DPR RI.

R. Cooper, D., & S. Schindler, P. (2014). *Business Research Methods*.

Radyati, M. R. N. (2015). *Pedoman K ADIN Tentang Tanggung - Jawab Sosial Perusahaan (CSR) Untuk Mendukung Pembangunan Berkelanjutan Daf tar Isi*.

Rama, A. (2015). Analisis Sistem Tata Kelola Syariah Bagi Perbankan Syariah di Indonesia dan Malaysia. *Jurnal Bimas Islam*, *8*(1), 87–120. http://simbi.kemenag.go.id/pustaka/images/materibuku/Vol 8 no 1.pdf

Rusby, Z. (2017). *Manajemen Perbankan Syariah* (M. S. Dr. Nurman (ed.); peRTAMA). Perpustakaan Nasional.

Safiullah, M., & Shamsuddin, A. (2018). Risk in Islamic banking and corporate governance. *Pacific Basin Finance Journal*, *47*, 129–149. https://doi.org/10.1016/j.pacfin.2017.12.008

Santoso, S. (2020). *Panduan Lengkap SPSS 26*. PT. Gramedia Jakarta.

Savitri, E. (2019). *Tata Kelola Perusahaan (Tinjauan Teori dan Studi Empiris)* (Pertama). UR Press.

Sawir, A. (2020). *Analisis Kinerja Keuangan dan Perencanaan Keuangan Perusahaan* (Ketiga). PT Gramedia Pustaka UMUM.

Sekaran, U. (2011). *Research Methods for Business: A Skill-Building Approach*. John Wiley & Sons, Inc.

Shao, L. (2019). Dynamic study of corporate governance structure and firm performance in China: Evidence from 2001-2015. *Chinese Management Studies*, *13*(2), 299–317. https://doi.org/10.1108/CMS-08-2017-0217

Shibani, O., & De Fuentes, C. (2017). Differences and similaritites between corporate governance principles in Islamic banks and Conventional banks. *Research in International Business and Finance*, *42*, 1005–1010. https://doi.org/10.1016/j.ribaf.2017.07.036

Shukeri, S. N., Shin, O. W., & Shaari, M. S. (2012). Does Board of Director's Characteristics Affect Firm

Performance? Evidence from Malaysian Public Listed Companies. *International Business Research*, *5*(9), 120–127. https://doi.org/10.5539/ibr.v5n9p120

Solikhah, A. W. B. (2017). *Corporate Governance : The International Journal of Business in Society Article information : The International Journal of Business in Society, Vol. 17 Edisi 2 hal - Tautan permanen ke dokumen ini: http://dx.doi.org/10.1108/CG-02-2016-0034*.

statistik perbankan Syariah. (2021). statistik perbankan syariah. *Otoritasa Jasa Keuangan*, 5–24.

Sunaryo. (2015). *Tanggung Jawab Sosial (Corporate Social Responsibility) Perusahaan Dalam Berbagai Perspektif Kajian* (Pertama). CV. Anugrah Utama Raharja (AURA).

Supriani, I., Fianto, B. A., Fauziah, N. N., & Maulayati, R. R. (2021). Revisiting the Contribution of Islamic Banks' Financing to Economic Growth: The Indonesian Experience. *Shirkah: Journal of Economics and Business*, *6*(1), 18–37. https://doi.org/10.22515/shirkah.v6i1.383

Sutedi, A. (2011). *Good Corporate Governance* (1st ed.). Perpustakaan Nasional.

Utama, A. S. (2020). *Perkembangan Perbankan Syariah di Indonesia*. *2*(3), 290–298.

Wahlen, J. M. (2015). *Financial Reporting , Financial Statement Analysis , and Valuation*. Cengage Learning.

Wahlen, J. M. et all. (2010). *l reporting, financial statement analysis, and valuation_ a strategic perspective*. Cengage Learning.

Wibowo, S. (2016). *PENGARUH KEPEMILIKAN MANAJERIAL, KEPEMILIKAN INSTITUSIONAL, KEBIJAKAN DEVIDEN DAN KEBIJAKAN HUTANG TERHADAP NILAI PERUSAHAAN*. Universitas Airlangga Surabaya.

Yusuf, M. Y. (2017). *Islamic Corporate Social Responsibility (I-CSR) Pada Lembaga Keuangan Syariah Teori dan Praktik* (Pertama). Kencana.

Zainudin, E. F., Hashim, H. A., Zainudin, E. F., Hashim, H. A., & Journal, M. A. (2017). Social Responsibility Disclosure in Islamic Banks: A Comparative Study of Indonesia and Malaysia. *Journal of Financial Reporting and Accounting Emerald*. https://doi.org/http://dx.doi.org/10.1108/JFRA-01-2015-0016