FINANCIAL RISK ANALYSIS FOR INCREASING FINANCIAL PERFORMANCE OF SHARIA BANKS IN INDONESIA

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Abstract. This study examined the effect of Islamic corporate governance on financial performance using financing risk as mediation, focusing on Sharia Banks in Indonesia. The researchers applied a multiple regression analysis on data collected from annual reports of the companies from 2013 to 2018. The Islamic corporate governance variable is calculated from the self-assessment of the Islamic corporate governance implementation in Sharia Banks. Meanwhile, the financial performance of Islamic banks is illustrated by the return on assets. Financing risk is measured by the ratio of non-performing financing. This study found that Islamic corporate governance cannot increase financial performance, but Islamic corporate governance can reduce financing risk. The decrease in financing risk can improve the financial performance of Sharia Banks, so it can be said that the financing risk variable can mediate the effect of Islamic corporate governance on financial performance.

Keywords: Islamic corporate governance, financial performance, financing risk, non-performing financing, Sharia Banks.

Abstrak. Penelitian ini menguji pengaruh *Islamic corporate gover*nance terhadap kinerja keuangan dengan menggunakan risiko pembiayaan sebagai mediasi, dengan fokus pada Bank Syariah di Indonesia. Kami menerapkan analisis regresi berganda pada data yang dikumpulkan dari laporan tahunan perusahaan untuk tahun 2013 - 2018. Variabel *Islamic corporate governance* dihitung dari *self assessment* penerapan *Islamic corporate governance* Bank Syariah, sedangkan kinerja keuangan Bank Syariah diilustrasikan dengan *return on assets*. Risiko pembiayaan diukur dengan rasio pembiayaan bermasalah. Hasil riset menemukan bahwa *Islamic corporate governance* tidak dapat meningkatkan kinerja keuangan, tetapi *Islamic corporate governance* mampu mengurangi risiko pembiayaan. Penurunan risiko pembiayaan ini mampu meningkatkan kinerja keuangan Bank Syariah, sehingga dapat dikatakan bahwa variabel risiko pembiayaan mampu memediasi pengaruh *Islamic corporate governance* dengan kinerja keuangan.

Kata Kunci: *Islamic corporate governance*, kinerja keuangan, risiko pembiayaan, pembiayaan bermasalah,, Bank Syariah.

INTRODUCTION

In 2017-2018, the performance of Sharia banking showed a significant increase, in the ratio of liquidity, efficiency, profitability, and capital. This indicates that Sharia Banks have better assets, financing, and third party funds. Sharia banking statistics released by the Financial Services Authority records that up to April 2018, the total financing of Sharia Banks grew up to 7.25% or becomes IDR 191.04 trillion. The financing growth also successfully lifts the assets of Sharia Banks to the level of IDR 290.36 trillion or increases 13.64% compared to April 2017 which amount is IDR 255.49 trillion. The performance and financing growth occurred at Sharia Banks can

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be seen from the assets increment by 19%, financing by 23% and third-party funds by 25%. In terms of financing quality, Sharia Banks are capable to maintain their financing risk as reflected in the ratio of non-performing financing (NPF) which kept low at the level of 0.6% up to the end of the first semester of 2018.

The same case happened to another Sharia Banks recording a positive growth up to May 2018, including in the net profit after tax which up to rises to 85.16% to IDR 96.31 billion compared to the same month of the previous which ia IDR 52.02 billion. The profit growth is supported by financing enhancement of 11.5% to IDR 20.42 trillion, whereas third party funds experienced improvement OF 13.62% from IDR 24.5 trillion in May 2017 to IDR 27.84 trillion. Sharia Banks assets achieved a significant growth as many as 21.41% in May 2018 which amount to IDR 35.72 trillion from the previous year of IDR 29.42 trillion. While in terms of financing, up to the end of 2018, Sharia Banks are able to distribute funds, amounting to IDR 22.68 trillion and third-party funds is pegged to the level of IDR 28.28 trillion. At the term of NPF ratio, Sharia Banks still records a high non performing financing at the level of 4.32% per May 2018 (Financial Services Authority, 2018). The impact of the positive performance growth results in the emergence of tight competition to maintain and even boost the bank performance. However, in fact, the performance of Sharia Banks is not easy. Why are Sharia Banks in Indonesia, when the majority of Indonesians are Muslims, totaling for 87.18 percent of the total population, yet not widely used? (www.bps.go.id). Unfortunately, only around 5.86% or 17 million of the total population of Indonesia have Sharia Banks accounts (www.bps.go.id). The number shows that the increasing number of Sharia Banks are not followed by many customers. This proves that people's interest in partnering with Sharia Banks are still very low. One of the causes is the lack of public understanding of Sharia banking (Grassa, 2016).

One of the predictors that can improve performance is the implementation of good corporate governance. The application of good corporate governance has the ability to minimize the harmful actions taken by the managers for personal interest (Suwarno & Muthohar, 2018), such as earning management actions, which can harm many parties even the company itself. Implementation of good corporate governance is an absolute requirement needed by a company to maintain the existence of the company, especially financial institutions, to develop better and healthily as stated in the regulation (Bank Indonesia, 2009). the implementation is not only intended for bank management in accordance with the five basic principles that have been established or in accordance with sharia principles, but also is aimed for wider interests. The implementation of good corporate governance in Sharia Banks are different from the principles of good corporate governance in Commercial Banks. Businesses based on sharia principles must be able to create a healthy and sustainable business climate with the realization of market discipline born from a good governance culture of sharia business. For this reason, good corporate governance in Islamic financial institutions must refer to Islamic principles referred to as Islamic corporate governance.

The results of the study conducted by Mollah et al., (2017) prove that Islamic corporate governance in Sharia Banks dare to take risk to achieve a better performance. This result consistent with Indriastuti & Najihah (2020); Puspasari (2017); Siswanti et al., (2017); Laeli & Yulianto (2016) stated that the Islamic corporate governance has a positive and significant influence on the company's financial performance. This shows that companies that implement Islamic corporate governance strategies can improve company’s financial performance, because sharia governance in Islamic financial institution covers accountability, transparency, competency, confidentiality and independency. Quttainah and Almutairi (2017) supported that Sharia Supervisory Board in Sharia Banks influence and form managerial behaviour and reduce agency cost. Besides, Sharia

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Supervisory Board strengthens the company ethics through management behaviour, corporate governance in Sharia Banks also builds up a good image of the institution. Noordin & Kassim (2017) also supported that there is a significant positive relationship between number of directors on the board and financial performance of listed construction companies in Malaysia. In contrast, the results of Risna (2018) research explain that Islamic corporate governance has a negative and significant effect on financial performance. Mansour and Bhatti (2018) found that Islamic corporate governance is no longer expected as the supervisor in sharia financing institution, except for other approach such as competition, the development of ethics, and new challenges. Golestani & Fallah (2019); Zuchruf et al., (2019) proved that the implementation of corporate governance does not affect financial performance.

In addition to the implementation of Islamic corporate governance, sharia banking must also pay attention to the risk of failure in returning the distributed financing. The sharia banks must be able to keep the Non-Performing Financing (NPF) level below 5%. The NPF ratio can be reduced through the application of good and true Islamic corporate governance. This is shown by the results of the study conducted by Grassa (2016) that the level of corporate governance in Sharia Banks in South East Asia is low. As consequence, it can affect the increment of financing risk. By using sharia-based system, financing risk will be lower because the implementation of Islamic corporate governance is more detail and self-assessment is tighter. Hence, the implementation of Islamic corporate governance is expected to be able to minimize financing risk so that it will affect the performance of Sharia Banks.

Most of the operational funds of each Sharia banks are circulated in the financing provided to the public. It illustrates that financing is the largest source of income, but at the same time, it is the largest source of risk in banking business operations. It results in financing problems and even non-performing, which will disrupt bank operations and liquidity (Triyuwono, 2015). The risk of financing distribution as measured by the NPF ratio indicates that the higher this ratio means the bank is not professional in managing its financing. The level of financing feasibility (NPF) also affects the achievement of Sharia Banks profit so that the relationship between NPF and ROA is negative. It is in line with the results of research conducted by Azhar & Nasim (2016); Azizah & Mukaromah (2020); Muksal et al., (2018); Setiawan & Indriani (2016). They pointed that NPF has a negative effect on financial performance as proxied by ROA. Some of these studies contrast to research conducted by Nuriyah et al., (2018), which shows that NPF positively affects ROA. Suwarno & Muthohar (2018) found that NPF does not affect ROA.

With the research gap from previous studies, therefore this study aims to examine financing risk as mediating variable on the correlation between Islamic corporate governance and financial performance. This study referenced the minimum requirements for reporting corporate governance according to PBI Number 11/33/PBI/2009 for Sharia Banks. The use of these regulations as benchmarks is considered more appropriate to the situation in Indonesia. It is deemed capable of reflecting the level of information expected by regulators compared to using other standards. This study ***contributes*** both theoretically and practically. Theoretically, this research adds knowledge and enriches references in the banking sector. In practical terms, for Sharia Banks, it can serve as guidelines in implementing Islamic corporate governance to control financing risks that impact improving financial performance. Meanwhile, for investors/customers, it can be as a reference for decision making related to saving, borrowing and investing.

LITERATURE REVIEW

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Stewardship Theory. Stewardship theory describes a situation where management is not motivated by individual goals but instead aimed at their main outcome goals for the organization's benefit (Davis et al., 1997). The theory assumes a strong relationship between satisfaction and organizational success. Organizational success illustrates the utility maximization of the principals and management group. Maximizing the utility of this group will ultimately optimize the interests of individuals in the organization.

Sharia Enterprise Theory. Sharia enterprise theory is a company theory internalized by Islamic values, where economic power is no longer in the hands of shareholders but also in the hands of stakeholders (Triyuwono, 2015). This theory can be said to be a social integration that starts from the existence of emancipatory interests to exempt knowledge that is always trapped in the material world into a knowledge that also considers non-material aspects.

Financial Performance. Performance is the achievement of an objective of a particular activity or work to achieve company goals measured by standards (Indriastuti and Kartika, 2018b). Financial performance is an indicator in assessing the financial condition of a company measured by profitability (Indriastuti and Kartika, 2018b). The profitability ratio used in this study is Return on Assets (ROA). ROA is a ratio that reflects the company's ability to generate profits based on certain total assets of the company (Kasmir, 2018). The choice of ROA is a proxy of a company's financial performance because ROA is used to measure the bank's management ability in obtaining overall profits.

Islamic Corporate Governance. Islamic corporate governance is corporate governance that is directed by moral and social values based on sharia law with the aim of prospering individuals and society as a whole (Bhatti and Bhatti, 2009). Therefore, it can be said that Islamic corporate governance is a derivative concept of good corporate governance and has the same objectives as commercial good corporate governance. Bank Indonesia to build a healthy and strong Sharia banking industry and as an effort to protect stakeholders and improve compliance to laws and regulations that are generally applied in Sharia banking (Bank Indonesia, 2009). The Islamic corporate governance in this study is illustrated by the implementation of Sharia Supervisor Board duties and responsibilities. These variables were measured based on the self-assessment on the implementation of good corporate governance in sharia bank with the predicate and interval scale as follows: (1) first rank ,predicate very well, scale five, (2) second rank, predicate good, scale four, (3) third rank ,rank fair, scale three, (4) fourth rank ,predicate less good, scale two, (5) fifth rank ,predicate not good, scale one (Bank Indonesia, 2013).

Financing Risk. Financing risk is used to measure the level of financing problems faced by Sharia Banks. Financing risk is measured by the ratio of Non-Performing Financing. Non-Performing Finance (NPF) is the ratio between problematic financing and total financing distributed by Sharia Banks (Kasmir, 2018). Based on the criteria set by Bank Indonesia, the categories included in the NPF are financing substandard, doubtful and loss. Business activities based on sharia principles article 9 paragraph (2), states that the quality of productive assets in the form of financing is divided into 5 groups such as: smooth, special attention, substandard, doubtful, and financing issues (Bank Indonesia, 2006).

Islamic Corporate Governance and Financing Risk. Risks in Sharia banking are more complex than Commercial banking, namely, fiduciary money, fluctuations in interest

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rates, defaults, operational errors, and others, also demanding that sharia financial business players be more prudent including good functioning supervision and control. This is where the need to improve the implementation of Islamic corporate governance in Sharia banking institutions. Financing risk is very important in the risk of Sharia Banks, because with the problems of borrowing customers, funds that fail to pay or in making payments that are not in accordance with the agreement will have an adverse effect on the bank (Indriastuti and Kartika, 2018b). Sharia Banks are required to have a reliable sharia management to minimize financing risk. If the portion of problem financing increases, this will ultimately affect the possibility of a decrease in the amount of profit / income obtained by the bank. This decrease in income will influence the profitability of Sharia Banks and in the end, will affect the amount of profitability which is reflected by the Return on Assets (ROA) obtained by Sharia Banks. The high failure rate in non-performing financing will have a negative impact on the bank, among others in the form of loss of opportunity to obtain income from disbursed financing, and adversely affect the bank's profitability in the form of a decrease in profitability. The ability of Sharia Banks to generate profits is an important indicator of business entity sustainability and the ability to compete with Sharia Banks in the long run. A reasonable profit is needed by each bank to attract the interest of the fund owners to deposit their money in the bank. Profits are also needed to fund the expansion of the business and to finance efforts to improve the quality of services. All of this tasks are possible to achieve If the bank can generate adequate profits, one of which is through a non-problematic financing system. Grassa (2016) argued that financing risk will be lower because the implementation of Islamic corporate governance.

H1: Islamic corporate governance has a negative effect on the financing risk of Sharia Banks.

Islamic Corporate Governance and Financial Performance. Islamic corporate governance in Sharia Banks dare to take risk to achieve a better performance, because the implementation of corporate governance can improve financial performance, reduce risk due to management actions that tend to benefit themselves (Mollah et al., 2017). The existence of Sharia Supervisory Board will make Sharia Banks in operational activities and in launching products more compliant with sharia principles. Therefore, the Islamic community has a new insight that they would prefer to invest in Sharia Banks because they believe the funds will be managed according to Islamic law. Hence, if many people automatically invest, the business activities in the bank will be more crowded. By the increasing business activities, in the end the bank will be able to improve the company performance. This is in line with the results of the study conducted by Quttainah and Almutairi (2017) that Sharia Supervisory Board in Sharia Banks influence and form managerial behavior and reduce agency cost. Besides, Sharia Supervisory Board strengthens the company ethics through management behavior, and it can builds up a good image of the institution. Indriastuti & Najihah (2020); Laeli & Yulianto (2016); Noordin & Kassim (2017); Puspasari (2017); Siswanti et al., (2017); Umiyati (2020) stated that the Islamic corporate governance has a positive and significant influence on the company's financial performance.

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H2: Islamic corporate governance has a positive effect on the financial performance of Sharia Banks.

Financing Risk and Financial Performance. Financing risk is used to measure the level of financing problems faced by Sharia Banks. Financing risk can be measured by Non-Performing Financing. Non-Performing Financing (NPF) is a ratio to measure the bank's ability to maintain the risk of failure of credit repayment by the debtor. The better the quality of financing channelled by banks, the smaller the NPF level (Indriastuti and Kartika, 2018a). The higher the Non-Performing Financing ratio, the worse the quality of Sharia Banks financing will be. This is because the ratio shows the amount of failure caused by the bank. If the bank has a high level of financing risk, it indicates that the bank's ability to generate income will decrease, and the profit sharing given to customers will be small. The results of the study conducted by Azhar & Nasim (2016); Azizah & Mukaromah (2020); Caesar (2020); Muksal et al., (2018); Setiawan & Indriani (2016) indicate that there is a negative influence between NPF and financial performance on Sharia Banks.
H3: Financing risks has a negative effect on the financial performance of Sharia Banks.

Based on in-depth literature review, the research is based on empirical model and its scheme can be seen in figure 1.

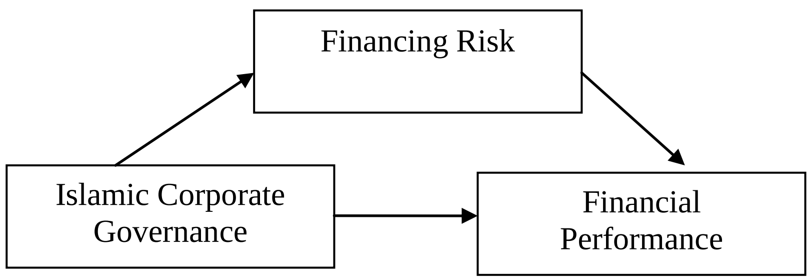

Figure 1. Framework

METHOD

The population in this study are all Sharia Banks in Indonesia that operate from 2013-2018 with total samples of 60 Sharia Banks. Samples were taken using purposive sampling technique with the following criteria: (1) Sharia Banks registered at Bank Indonesia during the 2013-2018 period; (2) Sharia Banks that present annual reports during the study period namely 2013-2018; (3) Sharia Banks disclose Islamic corporate governance reports in their annual reports; and (4) Sharia Banks have complete data related to the variables used in the study.

The financial performance in this study is illustrated by return on assets (ROA), a ratio that reflects a company's ability to generate profits based on certain total assets of the company (Kasmir, 2018). Islamic Corporate Governance is a system that regulates and controls companies in running their business to increase success and accountability based on Islamic laws. Islamic corporate governance is calculated from the implementation of sharia supervisory board duties and responsibilities as measured by the self-assessment of Islamic corporate governance implementation of Sharia Banks with the following predicate and interval scale: (1) first rank, predicate very well, scale five, (2) second rank, predicate good, scale four, (3) three rank, rank quite well, scale three, (4) four rank, predicate unfavourable, scale two, (5) five rank, predicate not good, scale one (Bank Indonesia, 2013). Financing risk is measured by the ratio of Non-Performing Financing (NPF), which is a measure of credit risk that is a parameter of the bank's health level.

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This NPF ratio is a comparison between the ratio of non-performing financing compared to the total financing (Kasmir, 2018).

All data in this study were analysed using regression analysis and Sobel test (Ghozali, 2016) with the following equation:

FR = $\alpha + \beta$ ICG + e……………………..model 1

FP = $\alpha + \beta_1$ ICG + β_2 FR + e……………model 2

RESULTS AND DISCUSSION

Descriptive Statistics. The descriptive statistical calculations result of Islamic corporate governance, financing risk, and financial performance are shown in table 1:

Table 1. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
ICG	60	1	5	2	1.955
NPF	60	2	5	3	1.514
ROA	60	0.0319	3.5275	0.5844	0.6927
Valid N (list wise)	60				

Table 1 shows the descriptive statistical data of each variable. The Islamic corporate governance shows an average value of 2, it means that Islamic corporate governance in sharia bank, which become research samples, is good. Financing risk is proxied by non-performing financing (NPF) has an average of 60 samples was 3 which showed that the average Sharia Banks has NPF items for 3% during 2013-2018 period. Financial performance that is proxied by return on assets (ROA) shows an average value of 0.5844 which means that financial performance in Sharia Banks used as research samples is quite high.

Classic Assumption Test. A good regression model must fulfill the absence of classic assumption problem. The results of classic assumption test are presented in table 2.

Table 2. The Results of Classic Assumption Test

Model	Dependent Variable	Independent Variable	Normality Test		Multicollinearity Test		Heteroscedasticity Test (Glejzer Test)		Auto Correlation Test (Run Test)
			K-S	Sig	Tolerance	VIF	T	Sig	Sig
Model 1	Financing Risk	ICG	.227	.340	.613	1.545	1.179	.511	.102
Model 2	Financial Performance	ICG	.256	.475	.833	1.663	2.092	.361	.216
		Financing Risk			.882	1.045	2.446	.328	

Table 2 shows the results of classic assumptions test for each variable. Kolmogorov Smirnov value of model 1 and 2 shows a figure of .227 and .256 with a significance value of .340 and .475, means

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that the data is normally distributed. Multicollinearity test results of model 1 and 2 showed that all variables have met the multicollinearity criteria with a tolerance value higher than the default standard value for 0.10 and the VIF value showed lower than 10. Therefore,it can be said that Islamic corporate governance (ICG) of financing risk and financial performance meet the requirements. In other words, there is no multicollinearity problem between the independent variables and the dependent variable. Heteroscedasticity test results of model 1 and 2 shows a significance value above 5%, it can be interpreted that the influence of independent variables (ICG) of financing risk and financial performance do not occur heteroscedasticity problems. The autocorrelation test results of model 1 and 2 shows that run test sig value of .102 and .216. This means that regression models 1 and 2 have no autocorrelation problem because the asym sig value is more than 5%.

Multiple Linier Regression Analysis. The results of multiple linear regression analysis tests that include the f test results, coefficient of determination test results and t test results can be seen in table 3.

Table 3. The Results of Multiple Linier Regression

Model	Dependent Variable	Independent Variable	β Unstandardized	t	Sig	Decision
Model 1	Financing Risk	Islamic Corporate Governance	-0.314	-4.818	.000	H1 Accepted
	F count	141.451			.000	
	Adj. R Square	0.58101				
Model 2	Financial Performance	Islamic Corporate Governance	0.152	0.488	.389	H2 Rejected
		Financing Risk	-0.868	-5.499	.000	H3 Accepted
	F count	43.676			.000	
	Adj. R square	0.53210				

Source: Regression estimation output, 2021

Table 1 shows that the first and second models have F values of 141,451 and 43,676 with a p-value of 0,000 and described the dependent variables of 58.10% and 53.21%, the rest are explained by other variables outside the model. The t test value shows that Islamic corporate governance has a negative and significant influence on financing risk (Non-Performing Financing) (β = -0.314, p-value < 0.05), Islamic corporate governance has a positive and insignificant influence on financial performance (Return on Assets) (β = 0.152, p-value> 0.05) and financing risk (Non Performing Financing) has a negative and significant influence on financial performance (Return on Assets) (β = -0.868, p-value <0.05). These results provide support for H1 and H3 and reject H2.

Sobel Test. The Sobel test aims to determine whether the reputation variable (the intervening variable) significantly mediates the effect between the Islamic corporate governance variable and the sharia governance variable (independent variable), financial performance (the dependent variable). The intervening variable can mediate if the z value is >1.96. It can be seen from the

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online Sobel calculator test results in the Sobel test statistic section, with a significance of <0.05 (5%) in the two-tailed probability section. Following are the results of the Sobel test:

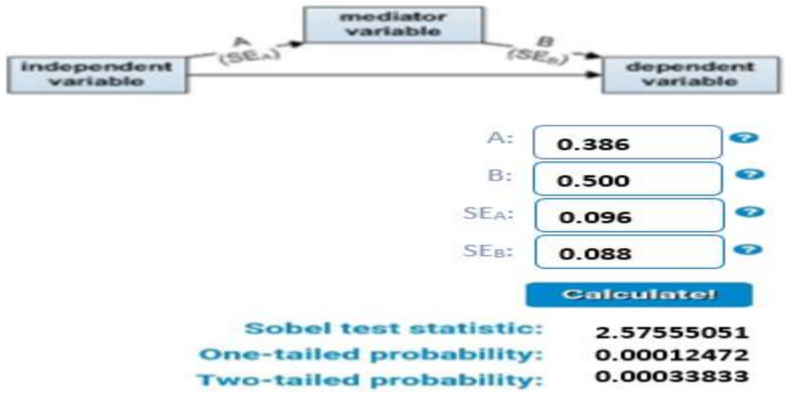

Figure 2. Sobel Test

Sobel Test for the Significance of Mediation Calculator above shows a value of 2.57 and a significance value on a two-tailed probability of 0.0003 (<0.05). In conclusion, there is a significant mediating effect of Islamic corporate governance (ICG) on financial performance through financing risk.

Islamic Corporate Governance and Financing Risk. The test results confirm that the Islamic corporate governance variable has a significant negative effect on financing risk. It means that the better the application of Islamic corporate governance can reduce the financing risk in Sharia Banks. Financing risk (which is seen by Non-Performing Financing) is still a scourge for all companies, especially companies engaged in banking, both Commercial and Sharia banking. However, this financing risk can be reduced if banks apply Islamic corporate governance that is good and right. On the contrary, if the implementation of Islamic corporate governance is not carried out properly, then it can increase the level of financing risk or Non-Performing Financing of Sharia Banks. In line with the sharia enterprise theory, the implementation of corporate governance in Sharia Banks has been internalized by Islamic values. In this case, the economic power is no longer in the hands of shareholders but also in the hands of stakeholders (Triyuwono, 2015). Specifically, the stakeholders are no longer oriented to material aspects that are worldly but also consider non-material aspects. The average composite value of Islamic corporate governance in Sharia Banks is good. It can be interpreted that the principles of Islamic corporate governance have been well implemented by each Sharia banks. The results of this study are in line with Asrori (2016) that good corporate governance affects profit sharing financing. In addition, Ahmed et al., (2018) show that the corporate governance has significantly and negatively related to risk-taking, so that it impacts the financing risk. However, the results of this study are not in line with the findings from Indriastuti and Kartika (2018a) which stated that the non performing financing had no effect on financing volume, but had an effect on performance. Indriastuti and Kartika (2018a) also stated that problem financing on Sharia Banks is worse than the problematic financing of Commercial Banks. The poor ratio of the NPF makes Sharia Banks more careful in distributing working capital financing. Like the case of two out of eight Sharia Banks that still have NPF levels above 5%. The cause of the high NPF was because the bank was too aggressive in channelling

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financing to the community and a lack of prudent level for the aspect of cost distribution and not prudent in channelling financing to customers.

Islamic Corporate Governance and Financial Performance. The test results explain that the Islamic corporate governance variable does not affect financial performance. In other words, whether the implementation of Islamic corporate governance is good or bad, it does not affect the increase in the financial performance of Sharia Banks. The performance conditions of Sharia Banks in this study are seen from the acquisition of the level of profitability, where the performance of the Sharia Banks will increase if they obtain a level of profitability with a positive number. Conversely, if the achievement of negative and low profitability rates will certainly affect the size s of the main income of Sharia Banks, namely income derived from financing disbursement. Thus, even though a bank's corporate governance application has been implemented according to the principle, it turns out that it cannot guarantee that it can improve the performance of a bank. This result is in line with the findings Mansour and Bhatti (2018); Golestani & Fallah (2019); Zuchruf et al., (2019) prove that Islamic corporate governance does not affect financial performance. Risna (2018) found that Islamic corporate governance has a negative and significant effect on financial performance. The results of this study were not in line with some of the previous findings. Mishari (2018) stated that corporate governance also able to improve the company's financial performance. Quttainah and Almutairi (2017) showed that Sharia Supervisory Board in Sharia Banks influence and form managerial behavior and reduce agency cost to improve financial performance. Indriastuti & Najihah (2020); Laeli & Yulianto (2016); Noordin & Kassim (2017); Puspasari (2017); Siswanti et al., (2017); Umiyati (2020) suggested that the Islamic corporate governance has a positive and significant influence on the company's financial performance.

Financing Risk and Financial Performance. The test results show that the financing risk variable has a significant negative effect on financial performance. It implies the smaller the risk of financing, the greater the financial performance of Sharia Banks. Non-Performing Financing (NPF) reflects the amount of non-performing loans in banks. The size of the non-performing loan results in a lost opportunity to obtain income from the loan. The size of non-performing loans faced by banks with prudential principles will make the banks more selective in channeling financing. A high NPF can also result in reduced bank capital, resulting in the emergence of larger supplies. A big loan will also affect the health of a bank's financial performance. The tendency to reduce funding to minimize risks and increase public confidence in the next period will undoubtedly have an impact on decreasing Return on Assets (ROA) (Setiawan & Indriani, 2016). In line with the stewardship theory, when a Sharia Banks manage its operational activities under sharia principles, it is expected that the steward, as the party trusted by the principal, can manage funds ideally. This theory is supported by the research results of Azhar & Nasim (2016); Azizah & Mukaromah (2020); Caesar (2020); Muksal et al., (2018); Setiawan & Indriani 2016) that NPF has a negative effect on financial performance as proxied by ROA. However, it is different from Nuriyah et al., (2018), who showed that NPF positively affects ROA. (Suwarno & Muthohar, 2018) found that NPF does not affect ROA.

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CONCLUSIONS

This study examined the impact of Islamic corporate governance on Sharia Banks during the period from 2013-2018 in Indonesia. The results show that first, the Islamic corporate governance on financing risk has a negative and significant influence. Second, a positive and insignificant influence between Islamic corporate governance on financial performance. Third, the financing risk on financial performance has a negative and significant influence. Fourth, the financing risk variable can mediate the effect of Islamic corporate governance and financial performance. This study has contributed to our theoretical understanding of the Islamic corporate governance and the influence between Islamic corporate governance and financial performance. Despite the contributions presented above, this research has limitations that should be taken into consideration. The first limitation is associated with the sample, only on Sharia Banks in Indonesia. The second limitation is that this study is limited to one independent variable. Therefore, the next research can observe the financing risk in conventional banks and BPRS and add several other independent variables such as Islamic corporate social responsibility.

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