Analysis of Corporate Governance and Going Concern in Islamic Banks in Indonesia

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Abstract. The aim of this research is to examine the impact of Institutional Ownership, Board of Commissioners, and Sharia Supervisory Board, on Going Concern. The population used is the Sharia Commercial Bank registered at Bank Indonesia in 2014-2018. The secondary data collection technique is done by searching the annual report data issued by each Islamic commercial bank. Research data comes from 60 observation samples. Multiple regression analysis is used in testing the effect of Institutional Ownership, the Board of Commissioners, and the Sharia Supervisory Board on Going Concern. Research Results Show that Institutional Ownership, the Board of Commissioners, and the Sharia Supervisory Board have no impact on the Going Concern of Islamic Commercial Banks.

Keywords: Shariah Supervisory Board, Corporate Governance, Going Concern

1. Introduction

The traditional economic view sees that companies are only oriented toward maximizing profits and prospering shareholders. In recent years the company's sustainability orientation is an important issue. Currently, the company's sustainability orientation is a trending issue. Currently, the company's sustainability orientation is a trending issue. Company sustainability refers to the goals of profit, care for the environment and care for the community, also known as triple bottom line (3P). The development of the business world has experienced a very rapid increase marked by increasingly intense business competition. The implementation of Good Corporate Governance (GCG) is a major concern to win business competition [14].

Corporate governance is an institutional management, decision-making mechanism and a company's design done by the company's management in the effort to create value for the shareholder with improved corporate performance. Good implementation of corporate governance is a prerequisite for the success of the company's financial performance that allows the cessation of arbitrariness in decision-making by both principals and agents. Companies that implement good corporate governance better, will produce positive information that will affect the performance of this company in accordance with the agency theory initiated by Jensen and Meckling in

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1976, this is because good corporate governance is able to overcome the problem of mistrust of Principal (shareholder) to the agent (management) [6].

GCG can be used to increase business value and accountability, thereby increasing the economic value of the company and the trust of stakeholders. The objective of implementing GCG is to provide a system of checks and balances in order to minimize potential fraud.

In Indonesia, in 2002 the Capital Market Supervisory Agency (BAPEPAM) issued P3LKE as a guide on what should be reported and disclosed in financial statements for companies traded on JSX, with the aim of improving the company's performance and the quality of financial statements that are made public. Based on Law Number 21 of 2011 the Financial Services Authority (OJK) as an institution that takes over the duties of BAPEPAM also seeks the application of good corporate governance (Good Corporate Goverance). This is indicated by the policy of issuing OJK Circular Letter Number 32 of 2015 which regulates Guidelines for Corporate Governance.

The implementation of GCG in Islamic banks begins with the issuance of Bank Indonesia Regulation No. 8/4 of 2006 concerning the Implementation of GCG for Commercial Banks and Islamic Banks. For the purposes of implementing sharia principles related to GCG, in 2010 the rules for implementing GCG in Islamic banks referred to Bank Indonesia regulation 11/33 of 2009. The implementation of GCG which complies with sharia principles requires Islamic banks to have a Sharia Supervisory Board in charge of supervising application of sharia principles. [14].

The role of corporate governance has been taught in Islam. GCG principles, namely transparency, accountability, responsibility, professionalism and fairness in accordance with Islamic teachings in the Islamic values, namely *adaalatun* (justice), *tawazun* (balance), *mas'uliyah* (accountability), *morality* (morality), *shiddiq* (honesty), *amanah* (fulfillment of mandate), *fathanah* (intelligence), *tabligh* (transparency, openness), *hurriya*h (freedom of freedom and responsibility), *ihsan* (professional), *wasathan* (justice), *ghirah* (syari'ah militancy), *idarah* (management), *khilafah* (leadership), *aqidah* (faith), *ijabiyah* (positive thinking), *raqabah* (supervision), and *qira'ah* and *ishlah* (organizations that continue to learn and always make improvements). [15].

Financial Distress is a problem that needs to be considered by the company. Financial Distress as a stage of declining financial conditions that is very significant so that it can be identified as the beginning of more serious financial problems such as liquidation or bankruptcy. Financial Distress occurs before bankruptcy and begins with the inability to fulfill its obligations in the category of solvency. Financial Distress is divided into two types, including liquidity obligations, and also includes obligations in the solvency category). the economy that occurs due to the failure of the company to cover the company's operating costs, second, financial failure caused by technical insolvency or a situation where the company fails to pay its obligations due but the assets owned are greater than the total debt held, and a bankruptcy situation where the company fails or not able to fulfill its obligations to debtors because the company experiences a lack or insufficient funds to continue its business so that the company's economic goals cannot be achieved.

Going concern of a company is the main goal of a business entity since the establishment of the business entity. Going concern is closely related to how management manages the company both from financial and non-financial factors. Doubt about the survival of the company is an indication of bankruptcy. Altman and McGough (1974) found that the prediction rate of bankruptcy using a prediction model reached an accuracy level of 82% and suggested the use of a bankruptcy prediction model as a tool to analyze the company's ability to maintain its survival. The study of going concern can be done by looking at the company's internal conditions and the company's prospects in the future. Prediction about the possibility of bankruptcy or not a company is included as one component of decisions about going concern [12].

2. Literatur Review

a. Agensy Theory

Perspectives of agency theory is the foundation used to understand the issues of corporate governance. This theory is the dominant theory to explain corporate governance. In this study using several variables that are elements of corporate governance, so this theory should be used as the foundation. Agency theory reveals the asymmetrical relationship between owner and manager, so that to avoid this the company must implement Good Corporate Governance. The implementation of GCG can make management, as an agent, morally responsible for optimizing principal profits and as an appreciation for management's performance, compensation is given in accordance with the agreed contract.

Agency problems were first expressed by Ross (1973). Jensen and Mecking (1976) explore in detail the agency theory to refer to managers of a company as "agents" and shareholders as "principal". The principal shareholder delegates business decision-making to managers as representatives or agents of shareholders. The problem that arises as a result of a company's proprietary system like this is that the agent does not always make decisions aimed at fulfilling the principal's best interests.

One of the main assumptions of agency theory is that different principal objectives and agency goals can lead to conflict because corporate managers tend to pursue personal interests, which can lead to a manager's tendency to focus on projects and investments that generate high profits in the short run rather than maximize Shareholders' welfare through investing in long-term profitable projects. The concept of Agency Theory is the relationship or contract between the principal and the agent. Principal employs agents to perform tasks in order to fulfill principal interests.

b. Institutional Ownership

Institutional ownership is ownership of company shares owned by institutional investors, for example, such as the government, companies, banks, financial companies, etc. The indicator used to measure institutional ownership is the percentage of the number of shares owned by the institution of all outstanding share capital [7].

c. Board of d of Commissioners

The board of commissioners ensures the implementation of the company's strategy, supervises management in the management of the company, and requires accountability, so that it becomes the main element in the implementation of Good Corporate Governance. Basically all commissioners are independent, meaning that they are expected to be able to carry out their duties independently, not influenced by parties who have an interest in the company [7].

d. Shariah Supervisory Board (SSB)

Shariah Supervisory Board is a body that is given the authority to supervise/supervise and closely look at the activities of sharia financial institutions so that these institutions always follow the rules and principles of sharia. SSB sees in broad terms the aspects of management and administration that must be following sharia, and most importantly, endorsing and supervising sharia banking products to comply with sharia provisions and applicable laws. One of the fundamental differences in the organizational structure of conventional banks and Islamic banks is the obligation to position the Sharia Supervisory Board in Islamic banking while in conventional banks there is no such regulation. The Sharia Supervisory Board is a council of economic experts and scholars who master the fiqh mu'amalah (Islamic commercial jurisprudence) which stands alone and is tasked with observing and overseeing the operations of the bank and all of its products to be following the provisions of Islamic Sharia. The Sharia Supervisory Board must look closely at the forms of agreements (agreements, appointments, and engagements) carried out by Islamic financial institutions [3].

3. Research Methodology

This study examine the going concern of Islamic commercial banks in Indonesia. Going concern is one of the basic assumptions used in preparing financial statements. This assumption requires that the company operationally has the ability to maintain its survival and will continue its business in the future. The sample of this research is the Islamic bank which is the Indonesian Financial Services Authority. The sampling technique used was saturated sampling. Saturated Sampling Technique is a sample determination technique that takes all members of a population as a sample. The number of samples is 12 Islamic banks, with total data (n) of 60 Islamic bank annual reports in 2014-2018.

The analytical method used is multiple regression analysis with the equation:

$$\mathbf{GC = \alpha + \beta_1 KI + \beta_2 DK + \beta_3 DPS + e}$$

GC : *Going Concern*
KI : Institutional Ownership
DK : Board of Commissioners
DPS : Sharia Supervisory Board

The dependent variable in this study is Going Concern. Going Concern is measured by Altman Zscore. The Z-score formula is as follows: [1]

$$\mathbf{Z = 1{,}2\,(X_1) + 1{,}4\,(X_2) + 3{,}3\,(X_3) + 0{,}6\,(X_4) + 1\,(X_5)}$$

X_1: *Working Capital / Total Assets*
X_2: *Retained Earnings / Total Assets*
X_3: *Earnings Before Interest and Taxes / Total Assets*
X_4: *Market Value of Equity / Book Value of Total Debt*
X_5: *Sales/ Total Assets*

4. Finding and Discussions

The sample in this study consisted of 12 Islamic Banks, because Bank Jabar Banten Syariah did not find the data needed in this study in its annual financial statements. The data needed is the Islamic Bank's annual financial report from 2014-2018.

Table 1.
Sample of Study

No	Islamic Bank	No	Islamic Bank
1	Bank Aceh Syariah	7	Bank Panin Syariah
2	Bank Bukopin Syariah	8	Bank Negara Indonesia Syariah
3	Bank Central Asia Syariah	9	Bank Panin Syariah
4	Bank Maybank Syariah	10	Bank Syariah Mandiri
5	Bank Mega Syariah	11	Bank BTPN Syariah
6	Bank Muamalat	12	Bank Rakyat Indonesia Syariah

Test results of multiple regression analysis:

Table 2.
F Model Test

Model		Sum of Squares	F	Sig.
1	Regression	14.321	2.481	.071[b]
	Residual	105.810		
	Total	120.131		

Based on table 2, it is known that the F value of 2.481 with a probability of 0.071 is greater than 0.05, but smaller than 0.10 which means that the regression test can be used to predict the effect of independent variables on the dependent variable with a 90% confidence level.
To test the hypothesis used t test.

Table 3.
Regression Test Result

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.764	4.399		.174	.863
	KI	2.384	3.779	.093	.631	.531
	DPS	-.248	0.513	-.076	-.482	.631
	DK	-.397	0.254	-.242	-1.566	.123

Based on table 3 it was noted that the t value was 0.631 with a probability of 0.531 at a significance of 0.05 and a coefficient value of 2.384 of Institutional

Ownership toward Going Concern. This means that the hypothesis stating that Institutional Ownership affects the Going Concern is rejected. The t value for the influence of the Sharia Supervisory Board on Going Concern is -0.482 with a probability of 0.631 at a significance of 0.05 and a coefficient value of -0.248. This means that the hypothesis stating that the Sharia Supervisory Board influences the Going Concern is rejected. The t value for the influence of the Board of Commissioners on the Going Concern is -1.566 with a probability of 0.123 at a significance of 0.05 and a coefficient value of 0.397. This means that the hypothesis stating that the Board of Commissioners influences the Going Concern is rejected.

Table. 4
Test results of R^2

Model	R	R^2	Adjusted R^2
1	.345[a]	.119	.071

From the results of the coefficient of determination (R^2) can be seen the value of R square of 0.119. This indicates that the strength between independent variables; Sharia Supervisory Board, Institutional Ownership, and Board of Commissioners, only affect the Going Concern by 11.9% and the remaining 88.1% is influenced by other variables.

5. Conclusion

Based on the analysis that has been done, it can be concluded that ownership of the Institution,Board of Commissioners, and Sharia Supervisory Board does not influence the Going Concern. The Institutional Ownership Variable has no effect on the Going Concern because it is possible that whoever owns the accounting system will continue to operate according to existing standards. Whereas the variables of the Board of Commissioners and the Sharia Supervisory Board still refer to the applicable rules.

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