



RESEARCH ARTICLE

Improving Risk Management in Islamic Law Banking: The Role of Islamic Law Societal Reporting in Shaping Firm Policy-Making and Profitability in Indonesia

Zulpahmi^{1*}, Muhammad Tamul Fikri², Sumardi³, Fikri Hidayat⁴, Arif Widodo Nugroho⁵, Meita Larasati⁶

^{1,2,3,4,5,6} Faculty of Economics and Business, University of Muhammadiyah Prof. DR. HAMKA

ARTICLE INFO	ABSTRACT
Received: Jul 29, 2024 Accepted: Sep 15, 2024	This study investigates the Implication of Firm policy-making and profitability on the risk of Islamic law banks, with Islamic law Societal Reporting (ISR) serving as a moderating factor, on the Indonesia Holdings Exchange. We utilized data from Islamic law banks spanning the years 2017 to 2021. The factors examined include the Council of Representatives' Compensation (FRDK), the Council of Directors' Compensation (RDD), the Prevalence of Council Conferences (FRDD), the Islamic law Regulatory Council's Compensation (RDPS), and the Prevalence of Islamic law Regulatory Council Conferences (FRDPS). The findings indicate that the factors FRDD, FRDPS, and RDPS have a notable and positive Implication on risk, whereas FRDK and RDD do not have any Meaningful influence. Furthermore, the Implication of ISR on these factors is enhanced, underscoring the need for transparency through ISR reports in risk management within Islamic law institutions. This study suggests that adopting more effective Firm policy-making methods and increasing transparency through the use of ISR reports may enhance the risk management of Islamic law banks. This document offers guidance to Islamic law banks on how to enhance their continuity and functioning in a competitive market
<p>Keywords</p> Firm Governance Profitability Risk Management Islamic Law Societal Report Islamic Law Bank	
<p>*Corresponding Author: zulpahmi@uhamka.ac.id</p>	

INTRODUCTION

In Islamic law banks, Investment operations are closely related to banking functioning and stakeholder trust. Investment operations in Islamic law banks are one of the main business operations (Zulpahmi, 2020; Sumardi 2022). The amount of Investment provided will determine the bank's profit. If an Islamic law bank is unable to manage its Investment operations effectively while the funds raised from deposits are always increasing, it is certain that the bank will incur losses (Indra Jaya and Rasuli, 2021). According to Munir, Islamic law bank Investment operations can be measured by Non Executing Finance (NPF) (Munir, 2018). NPF is a proportion that techniques the level of Investment problems, which is the percentage of Investment categorized as substandard, doubtful, and loss evaluated to the total Investment disbursed by the bank. A higher NPF proportion indicates that the bank has failed to manage its Investment activities. Contrarily, the to down the NPF ratio, the better the bank manages its Investment activities, and it is certain that the bank will generate more profit (Isnaini, 2021; Maulidar and Majid 2020; Munir 2018).

In this study, Investment risk is measured using the Non-Executing Finance (NPF) ratio. Data on NPF from the Laporan Perkembangan Keuangan Syariah Indonesia (LPKSI) 2021 shows that NPF

(gross) for Bank Umum Syariah (BUS) and Unit Usaha Syariah (UUS) decreased from 3.08% in 2020 to 2.61% in 2021, and from 3.11% in 2019 to 3.08% in 2020. In 2018, it decreased from 3.87% in 2017 to 2.85%. These fluctuations indicate a phenomenon in Investment activities, prompting Islamic law banks in Indonesia to exercise caution in channeling Investment (OJK, 2021).

The above NPF proportion data indicates that from 2017 to 2021, Islamic law banking has experienced (credit-related health improvements in its Investment activities. This progress is closely linked to the role of banking executives who have properly implemented the Firm policy-making mechanism. Firm policy-making mechanisms are systems designed to control a company in order to create added worth for all beneficiaries and achieve a balance of good Firm governance. (Rachmania and Alviana, 2020).

Study shows that Firm policy-making procedures affect Non-Executing Finance (NPF), a key indicator of a bank's health (Fithria et al., 2021). According to study, Firm policy-making procedures influence company functioning (Cahyaningtyas, 2017). This contradicts evidence suggesting that Firm policy-making structure does not significantly Implication lending operations within companies.

According to the study, Firm policy-making structure may or may not have an Implication on Investment risk. The study presented above suggests that Firm policy-making techniques should be studied further to provide comparison data for other studies. This also motivates the author to develop Firm policy-making methods on study factors (Alam & Miah, 2021). The Council of Representatives, Council of Directors, Islamic law Regulatory Council, and other layers of bank management are crucial to Firm governance. These structures are key constructors of excellent Firm policy-making (Alam & Miah, 2021).

Bank health can be measured by profitability. A profitable bank can ensure that its business operations align with its policies and objectives (Munir, 2018). Good profitability signals to investors and beneficiaries that the bank is trustworthy, thereby boosts profits. Conversely, deteriorating profitability, as evaluated by the NPF ratio, implies errors and mismanagement of Investment operations which leads to a loss of trust among investors and stakeholders, as well as banking losses (Fithria et al., 2021).

Munir (2018) and Padoli (2019), found that profitability affects non-Executing financing, while Isnaini (2021) found no effect. Study linking ISR and NPF is missing. Susbiyani, Halim and Animah, (2023) found that the GCG mechanism, as assessed by Council of Representatives actions, improves ISR implication and banking performance. Found that the Firm policy-making mechanism, as measured by the Council of Representatives has no Meaningful implication on ISR disclosure, so that banking policy-making conditions do not affect ISR disclosure.

THEORETICAL FRAMEWORK

Firm Policy-making and Risk Management

Firm Policy-making has a affiliation in Risk Management. According to Permatasari (2020), (Alam & Miah, 2021), Munir (2018), Fithria et al., (2021), Padoli (2019), Isnaini (2021), Susbiyani, Halim and Animah, (2023), Sheikh dan Kareem (2015), Cybinski, Windsor (2013), Kang, L, Nanda (2017), Ammarwaty, Zulpahmi and Sumardi, (2021), Musleh Alsartawi (2019). The Implication of Firm policy-making on risk management is influenced by factors such as business models, operational strategies, and contractual duties (Rashid et al., 2024). Furthermore, the studies mentioned earlier done by Alhammadi et al., (2020) Fithria et al., (2021), Cahyaningtyas (2017), Azid, (2019) have also shown that even in an apparently stable organization, the implementation of Firm Policy-making recommendations is necessary.

Profitability and Risk Management

In (credit-related performance, risk management has an indirect Implication (Rangkuti, 2020).

Risk has a huge Implication on (credit-related functioning such as profit efficiency and return on equity of the Company (Duho et al., 2020) Studies supervised by cSaif-Alyousfi and Saha, (2021), Gray dan Nowland (2018), Musleh Alsartawi (2019), have shown that many banks experience (credit-related shocks during crises. This is inseparable from Firm governance, as the affiliation between risk and (credit-related functioning involves the policy-making factors of the company itself (Rajverma et al., 2019).

LITERATURE REVIEW

In ISR, the Theory that supports this role is Sharia Enterprise Theory (SET). In this theory, banking is emphasized to have a responsibility not only to stakeholders, but also to Allah SWT (Minaryanti et al., 2024). If the profitability of a (credit-related institution declines, it is certain that all aspects of its business operations would encounter difficulties (Isnaini et al., 2021). The affiliation between Firm policy-making procedures, profitability, and the risk of banking Investment is closely tied to bank management and administration. Bank management must provide effective resolution and adequate control of all occurring risks. Agency theory is a fundamental component in comprehending the operational aspects of banking operations. The theory of agency is commonly seen as having a broader perspective, as it is believed to more accurately represent the current state of affairs. Agent theory has given rise to several perspectives on Firm governance. One important aspect is the need for effective supervision and control of banking management to guarantee strict adherence to relevant norms and regulations (Siska et al., 2021).

Agency theory refers to the dynamic between an agent and a principle. The rights of each party are governed by a mutually agreed upon joint labor contract. The accepted contract must include effective strategic planning. Effective employment contract planning requires the synchronization of the shared interests of managers and investors. If there is a divergence of interests between management and investors, it might lead to unforeseen expenses that need to be managed. The agency theory discussed by Indra Jaya and Rasuli (2021) centers around this particular topic. The execution of an effective Firm policy-making system requires robust governance, while the soundness of the banking sector needs to achieve optimal profitability levels. These dual objectives are pursued exclusively to gain the trust of stakeholders, including investors (Khalil, 2021).

In addition, academics from the IIUM Institute of Islamic law Banking and Finance in Kuala Lumpur, Malaysia According to Sheila Nu Nu Htay, Syed Ahmed Salman, and Ahamed Kameel Mydin Meera (2013), stewardship theory is a psychological and sociological theory. The psychological trust that company owners place in Chiefs is expected to be reciprocated. However, in reality, directors, acting as stewards often exert Meaningful control over company management and may prioritize their personal interests over those of the company and its owners. The Council of Chiefs is entrusted with the care of the firm owner, which involves a high level of trust. This is in contrast to the affiliation based on contract in agency theory.

Construct

The factors used in this analysis include of Compensation and conferences of the Council of Representatives, directors, and Islamic law supervisors then profitability for the independent factor while Investment risk is measured using Non-Executing Finance (NPF) as the dependent variable, then the two factors are moderated by the Islamic law Societal Report (ISR) index, The period of years taken is from 2017 – 2021

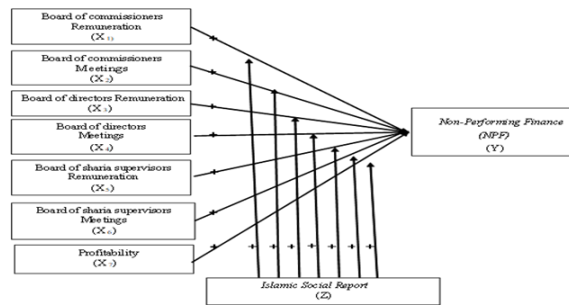


Figure 1. Framework

Based on this description of the introduction and construct, the hypotheses that will be tested in this study are:

H1: Council of Representatives Compensation has a positive implication on Investment risk

Within the organizational framework of a bank, the Council of Representatives assumes the responsibility of overseeing all banking operations, assessing and endorsing strategic initiatives, and ensuring the effectiveness of the Council of directors. The provision of Compensation is thought to enhance the motivation of the Council and mitigate the expenses associated with agency problems, hence reducing conflicts of interest (Muslih, 2018; Sheikh and Kareem, 2015). Various studies have found a correlation between the compensation provided by the Council of Representatives and the functioning of banks, as indicated by the non-Executing Investment proportion and return on assets (ROA). For instance, Azid (2019), Sheikh and Kareem (2015), and Smirnova and Zavertiaeva (2017) all supervised study that supports the notion that Council of Representatives' Compensation has a positive Implication on company performance, as measured by ROA and non-Executing financing. This study diverges with the findings of ((2013) Cybinski, Windsor), (Kang, L., and Nanda (2017)), (Muslih,2018) (CybinskiWindsor,2013), (KanL,Nanda,2017), (Muslih,2018), which concluded that Council Compensation does not Implication firm profitability and non-Executing loans.

H2: The prevalence of Council of Representatives Conferences has a positive implication on Investment risk

The purpose of the Council of Representatives meeting is to set policies for handling any situation, issue, advancement, or plan that the bank may have. The Council of Representatives is required to convene frequent sessions in order to provide oversight and fulfill its obligations and duties. Increasing the prevalence of conferences enhances the effectiveness of monitoring operations and the fulfillment of duties. Consequently, all Firm activities, including Investment activities, may operate optimally. The study supervised by Nadila and Annisa (2021) demonstrates that the Council of Representatives, as assessed by the quantity and prevalence of conferences, has a favorable Implication on (credit-related functioning and non-Executing loan policies. This finding aligns with the study supervised by Gray and Nowland (2018), Azid (2019), Prasetio and Rinova (2021). Contrary to the findings of Rahayuningtias and Juan Suam Toro (2016), Musleh Alsartawi (2019) argues that the Council Meeting does not have any Implication on company performance, as indicated by "Non-Executing Finance "reserves and loan losses.

H3: Council Compensation has a positive implication on Investment risk

The Council of Chiefs is the Council responsible for the business operational operations of an entity (Hendratni, 2018). In Investment activities, the Council of Chiefs plays an important role in deciding Investment operational policies, all managers will carry out according to the orders of the Chiefs relating to distribution policies, profit utilization, and non-Executing Investment policies.

The Council of Chiefs must ensure that these operations are carried out properly with very minimal risk, while not incurring agent costs for conflicts of interest.

Study supervised by (Pangestu,2019), Praanda and (Khairusoalihin,2021), (Sheikh and Kareem,2015), Smirnova and (Zavertiaeva,2017), states that the Compensation of the Council of Chiefs has a Meaningful implication on the company functioning as measured by non-Executing loan proportion and Return on Assets (ROA) ratio. In contrast to study stating that Council Compensation does not affect non-Executing loan policy and profitability (Kang and Nanda (2017), Azid (2019), Cybinski and Windsor (2013).

H4: The prevalence of Council Conferences has a positive implication on Investment risks

The meeting will discuss all conflicts of interest that arise. The more frequent the meeting, the more conflicts will be resolved. Resolved conflicts of interest will minimize agent costs incurred, which leads to banking effectiveness and efficiency (Prasetio and Rinova, 2021). Study supervised by Gray and Nowland (2018) states that the prevalence of Council of Chiefs conferences affects (credit-related functioning and non-Executing loans. In contrast, study states that the prevalence of Council of Chiefs conferences does not affect (credit-related functioning and non-Executing loans (Azid et al.,2019) (Musleh Alsartawi,2019) (Prasetio and Rinova,2021) (Rahayuningtias and Juan Suam Toro, 2016; Widiastuty,2018).

H5: Islamic law Regulatory Council Compensation has a positive implication on Investment risk

The Islamic law supervisors (DPS) is a Council that has the responsibility to ensure that all Islamic law banking business operations are by Islamic law principles (Hendratni,2018). DPS can support banks in complying with these applicable laws and regulations, non-compliance with Islamic law banking on Islamic law principles that are regulated and applied can repercussion in banking functioning which ends in losing trust from beneficiaries (Hendratni et al.,2018; Indra Jaya and Rasuli, 2021; Sa'diyah,2020). Furthermore, DPS whose functioning is not good will repercussion in banking non-compliance, Non-compliance will lead to conflicts of interest and unstable banking business management which leads to agent costs for conflicts of interest that occur (Sa'diyah,2020). Therefore, all forms of rewards that can support and increase DPS work motivation must be given (OJK,2015), so that the stability of DPS functioning is maintained and conflicts of interest do not occur due to the disappearing Regulatory function (Khalil,2021). Not many studies directly link DPS Compensation to Investment activities, some previous studies link CEO Compensation to banking functioning and have a Meaningful implication (Sheikh & Kareem,2015; Smirnova & Zavertiaeva, 2017). The opposite is done by (Azid,2019), (Cybinski and Windsor,2013), (Kang and Nanda,2017) that Council Compensation has no implication on non-Executing loans and profitability.

H6: The prevalence of Islamic law Regulatory Council Conferences has a positive implication on Investment risk

Islamic law Regulatory Council conferences are held at least once a month (OJK,2014). These conferences are documented in minutes, which contain recommendations and Regulatory records for the entire implementation of banking products, banking policies, and banking policy-making in accordance with or deviating from Islamic law principles (Azizah and NR,2020 and K, 2020; Khalil, 2021) Study supervised by states that the Islamic law Regulatory Council Meeting affects company functioning and non-Executing financing, in contrast to study which states that the Islamic law Regulatory Council Meeting has no Meaningful implication on profitability and non-Executing Investment (Khalil, 2021; Nugroho, 2020).

H7: Profitability has a positive implication on Investment risk

Good profitability indicates that banks gain the trust of investors and stakeholders, which of course, has an Implication on increasing profits. Conversely, declining profitability, in this case increasing non-Executing Investment as measured by the NPF ratio, indicates that there are mistakes and mismanagement of Investment operations that lead to investor and stakeholder distrust and consequently banking losses (Fithria et al., 2021). Therefore, it can be concluded from this description that higher profitability will reduce a bank's NPF ratio. Study stating that profitability affects non-Executing Investment is study study ed by Munir (2018) and Padoli (2019), in contrast to those study ed by Isnaini (2021) which state that profitability does not affect non-Executing financing, indicating that any increase in a bank's profitability level will not Implication the rise or fall of the non-Executing Investment ratio.

H8: Islamic law Societal Reporting can strengthen the affiliation between the Compensation of the Council of Representatives on Investment risk.

The Compensation of the Council of Representatives is expected to motivate the work of the Council, thereby fulfilling stakeholders' need for company information through the policies they decide (Pranata, 2021). The higher the Compensation, the better the banking performance, which in turn supports more detailed and comprehensive banking information disclosure. Thus, the bank's responsibility to disclose the Islamic law Societal Report (ISR) can be met. High Compensation improves performance, and the ISR is fully disclosed (Susbiyani et al., 2023).

Study that directly links Compensation to ISR implication is still lacking. Relevant study related to ISR is the study supervised by (Susbiyani, Halim and Animah,2023), which states that GCG mechanisms, as measured by the operations of the Council of Representatives , have a positive implication on ISR disclosure.

H9: Islamic law Societal Reporting can strengthen the affiliation between the Council of Representatives Meeting on Investment risk.

The more conferences the better the disclosed reports. Study states that the prevalence of Council of Representatives conferences affects ISR disclosure, which then affects banking functioning and increases stakeholder trust (Khalid,2020). In contrast, found that the Firm policy-making mechanism as measured by the operations of the Council of Representatives has no Meaningful implication on ISR disclosure.

H10: Islamic law Societal Reporting can strengthen the affiliation between the Council of Chiefs Compensation and Investment risk.

Banking operations are closely tied to banking governance. Poor policy-making will inevitably lead to conflicts, resulting in banking losses. The Council of Chiefs is primarily responsible as the frontline for all strategic actions taken by the bank. In this context, the Council must be compensated with appropriate Compensation. Higher Compensation enhances work motivation, improves operational activities, and leads to stable banking performance, reduced non-Executing financing, and increased profits, all of which promote full disclosure.

Similar to the Compensation of the Council of Representatives, study directly linking the Compensation of Chiefs to ISR implication is still lacking. Relevant study related to ISR is study supervised by Susbiyani, Halim and Animah, (2023) which states that the GCG mechanism as measured by the operations of the Council of Chiefs has a positive implication on ISR disclosure. That the Firm policy-making mechanism, as measured by the activity of the Council of directors, do not have a Meaningful implication on ISR disclosure.

H11: Islamic law Societal Reporting can strengthen the affiliation between the Council of Chiefs

Meeting and Investment risk.

A higher level of ISR implication indicates improved banking performance. The Council of Directors, in managing the bank, always responds to all developments, problems, and operational dynamics that occur by holding a Council of Chiefs Conferences. In these conferences, the Council sets the bank's strategic direction to be communicated to managers for implementation. Subsequently, the results of banking business operations are evaluated and reported. These reports must be disclosed comprehensively and informatively (full disclosure). Comprehensive reporting is linked to the banking policies and strategic directions outlined in the minutes of the conferences with the directors.

Study by (Khalid,2020) states that the prevalence of Council conferences has a positive implication on ISR disclosure. That Firm policy-making mechanisms, as measured by the operations of the directors, do not have a Meaningful implication on ISR disclosure.

H12: Islamic law Societal Reporting can strengthen the affiliation between Islamic law Regulatory Council Compensation and Investment risk.

ISR implication is closely related to the duties and responsibilities of the Islamic law Regulatory Council. This is because all information disclosed in ISR is closely related to Islamic law principles on all banking business activities. Comprehensive ISR implication can instill trust in stakeholders, leading to improved performance, profits, and other business implications. Conversely, poor functioning by the Islamic law Regulatory Council will repercussion in non-compliance by the bank. Non-compliance will cause conflicts of interest and unstable banking business management, leading to agency costs associated with these conflicts.

Study on the Compensation of the Islamic law Regulatory Council in relation to ISR implication is still lacking. Study on the Compensation of the Islamic law Regulatory Council can be observed from the operations of the Islamic law Regulatory Council that affect ISR (Raharja and Peranda,2014; Siska et al.,2021).

H13: Islamic law Societal Reporting can strengthen the affiliation between Islamic law Regulatory Council Conferences on Investment risk.

ISR implication is closely related to the results of the Islamic law Regulatory Council conferences, as documented in the minutes of these conferences. The implementation of the Islamic law Regulatory Council conferences serves as oversight of the bank's performance. Conferences held by the Islamic law Regulatory Council typically contain policies on banking products that must then be disclosed in the annual report, including ISR (Nugraheni and Yuliani, 2017). Empirical studies indicate that the Islamic law Regulatory Council meeting affects ISR implication (Alam & Miah, 2021; Khalid, 2020; Khalil, 2021). In contrast, study states that the Islamic law Regulatory Council meeting does not affect ISR (Nugraheni and Yuliani, 2017).

H14: Islamic law Societal Reporting can strengthen the affiliation between profitability and Investment risk.

Increased profitability indicates that all policy-making mechanisms are functioning well and the bank is achieving maximum profit for the current period. Banks with high profitability tend to make more efforts to disclose their societal functioning by disclosing ISR items. These banks aim to reduce political costs by demonstrating better functioning to the public, thereby gaining influence in policy-making and building stakeholder trust. Based on this explanation, higher bank profitability is associated with more comprehensive ISR disclosure.

Study supervised by Alam and Miah, (2021) states that profitability affects ISR disclosure. In contrast to study stating that profitability has no implication on ISR disclosure, suggesting that fluctuations in banking profitability are not related to the ISR disclosed In 2020.

METHOD

Sample

The data collecting approach in this study uses the documentation method. This dataset utilizes existing data sourced from audited (credit-related statements, annual reports, GCG (Good Firm Governance) reports, and CSR (Firm Societal Responsibility) reports published by Islamic law banks on holdings market websites and separate banking websites. The study includes a total of 9 variables, comprising 7 independent factors, 1 dependent factor, and 1 moderating factor.

Variable

The study investigates the following independent variables: Compensation of the Council of Representatives (RDK), Prevalence of Council of Representatives Conferences (FRDK), Compensation of the Council of Chiefs (RDD), Prevalence of Council of Chiefs Conferences (FRDD), Compensation of the Islamic law Regulatory Council (RDPS), Prevalence of Islamic law Regulatory Council Conferences (FRDPS), and Profitability (ROA). The factor used for moderation is the Islamic law Societal Report (ISR). The study focuses on the dependent factor of Investment risk (Y). The assessment of Investment risk may be derived from the Non-Executing Finance (NPF) ratio, as shown by (Fithria et al., 2021; Maulidar & Majid, 2020).

Analysis

The study ers apply panel data reversion analysis to examine the existing data in this study. Panel data reversion analysis is a data-based method that is applicable to both cross-sectional and time series data. Measurements of the identical cross-sectional unit are taken at several points in time (Ekananda, 2016). The study encompasses three estimation models: the "Common Implication Model (CEM), Fixed Implication Scheme (FEM), and Random Implication Scheme (REM) (Ghozali, 2018).

In addition, panel data reversion analysis requires the selection of one of the three models. Scheme selection may be performed using many tests, including the Chow test, Hausman test, and Lagrange multiplier test. When evaluating the ability of each independent factor to explain the dependent variable, the analysis involves examining the adjusted R2 worth as a measure of the factor of determination. An analytical approach to quantify the Implication of dependent and independent factors. The study used panel data reversion analysis to test the affiliation between variables. The data-based equation used is as follows:

$$NPF_i = \beta_i + \alpha_0 + \beta_1 RDK_{1t} + \beta_2 FRDK_{2t} + \beta_3 RDD_{3t} + \beta_4 FRDD_{4t} + \beta_5 RDPS_{5t} + \beta_6 FRDPS_{6t} + \beta_7 ROA_{7t} + \beta_8 ISR_{8t} + e$$

Where: NPF = Non Executing Finance (Y), β_i = individual effects that vary for each i-th individual, α_0 = Constant of the reversion equation, β_1 = Estimation parameter of the RDK variable, β_2 = Estimation parameter of the FRDK variable, β_3 = Estimation parameter of the RDD variable, β_4 = Estimation parameter of FRDD variable, β_5 = Estimation parameter of RDPS variable, β_6 = Estimation parameter of FRDPS variable, β_7 = Estimation parameter of ROA variable, β_8 = Estimation parameter of ISR variable, t = Time (Period), i = Banking, e = error

RESULT AND DISCUSSION

Table 1. Panel Data Reversion Scheme Specification Test Results

Chow Test		
Description	Prob Value	Conclusion
<i>Cross-sectional cut F</i>	0.4743	$\alpha > 0.05$ then the selected scheme "Common Implication Model" (CEM)
Lagrange Multiplier Test		
	Prob Value	Conclusion
<i>Both</i>	0.2357	$\alpha > 0.05$ then the selected scheme "Common Implication Model" (CEM)

Based on table 1 above, the chow test shows that the probability worth is $0.4743 > 0.05$, so the scheme chosen is the CEM model. Then after the chow test, the Lagrange multiplier test is carried out to test the feasibility of the scheme between CEM and REM, table 1 shows that the probability worth for both is $0.2357 > 0.05$, which means that the most feasible scheme in this panel data reversion is the common implication model.

Table 2. Hypothesis Test Results

Determination Factor Test				
Scheme	<i>R-squared</i>	<i>Adjusted R-squared</i>	Description	
Panel Data Regression	0.745682	0.689167	Able to explain the variation of the dependent factor by 68.91%	
Uji t				
Variable	Predicted Direction on Hypothesis	Factor	Probability	Description
Konstanta	(+)	6.3135420	0.18870	Not Significant
RDK	(+)	0.2768280	0.09600	Ha ₁ Not Significant
FRDK	(+)	-0.1382010	0.00180	Ha ₂ accepted
RDD	(+)	-0.0732910	0.01060	Ha ₃ accepted
FRDD	(+)	0.4868110	0.00000	Ha ₄ accepted
RDPS	(+)	0.1620690	0.03140	Ha ₅ accepted
FRDPS	(+)	0.2420490	0.00000	Ha ₆ accepted
ROA	(+)	-0.0586400	0.52890	Ha ₇ rejected not significant
ISR*RDK	(+)	0.4138420	0.03830	Ha ₈ accepted strengthens
ISR*FRDK	(+)	0.0378800	0.77640	Ha ₉ rejected not significant
ISR*RDD	(+)	0.1003210	0.03300	Ha ₁₀ accepted strengthens
ISR*FRDD	(+)	0.8399050	0.00650	Ha ₁₁ accepted strengthens
ISR*RDPS	(+)	0.4574630	0.00030	Ha ₁₂ accepted strengthens
ISR*FRDPS	(+)	0.4576810	0.00030	Ha ₁₃ accepted strengthens
ISR*ROA	(+)	0.1336280	0.00070	Ha ₁₄ accepted strengthens

With an adjusted R² worth near to 0, it indicates that the dependent factor has a very limited ability to explain the variation in the dependent factor. On the other hand, if the worth is near to 1 or exactly 1, it indicates that the independent factor has a Meaningful Implication on explaining the dependent variable. Referring to the table 2 provided, the modified R² worth is 0.689167, which is

equivalent to 68.91%. The study found that the Compensation factors of the Council of Representatives, Directors, Islamic law Supervisors, and the Prevalence of Conferences of the Council of Representatives, Directors, Islamic law Supervisors, as well as the Return on Asset (ROA), have a Meaningful influence of 68.91% on the Non-Executing Finance (NPF) variable. The remaining 31.09% of the influence on NPF is attributed to other factors that were not included in this study. According to Table 2, the constant worth is 6.313. The factor worth for the Compensation of the Council of Representatives is 0.276. The factor worth for the Prevalence of the Council of Representatives Meeting is -0.138. The factor worth for the Compensation of the Council of Chiefs is -0.073. The factor worth for the Prevalence of the Council of Representatives Meeting is 0.486. The factor worth for the Compensation of the Islamic law Regulatory Council is 0.162. The factor worth for the Prevalence of the Islamic law Regulatory Council Meeting is 0.242. The factor worth for Profitability is 0.058. The factor worth for the Islamic law Societal report (ISR) is -2.300. so that the panel data reversion equation in this study can be known:

$$NPF = bi - 6.3130 + 0.2760 RDK1ti - 0.1380 FRDK2 ti - 0.0730 RDD3 ti + 0.486 FRDD4 ti + 0.1620 RDPS5 ti + 0.2420 FRDPS6 ti + 0.0580 ROA7 ti - 2.3000 ISR8 ti + e$$

The initial test of factor 1 indicate a significance level of 0.0960, which surpasses the alpha worth of 0.05. This suggests that the salary of the Council of Representatives does not have an Implication on Investment risk. The first hypothesis suggesting that the compensation of the Council of Representatives had a favorable Implication on Investment risk has not been substantiated. Although the payment is substantial, it does not have any implication on the amount of non-Executing financing. The salary offered does not Implication the responsibility of the Council of Representatives in overseeing Chiefs and mitigating conflicts of interest. The findings align with prior studies supervised by Cybinski and Windsor (2013), Kang, L and Nanda (2017), Muslih (2018), which indicate that Council Compensation does not affect business profitability and credit risk.

The initial test of factor 2 indicated a level of significance of 0.0018, along with a beta factor of -0.1382. The p-worth is less than the alpha level of 0.05, suggesting that the prevalence of Council conferences has a negative Implication on Investment risk. Despite the second hypothesis proposing positive effects, the results validate the presence of negative effects. There is a positive correlation between the frequent occurrence of conferences and an elevated level of Investment risk, as measured by the NPF. Nevertheless, conferences that surpass the boundaries established by the OJK through prolonged debates might give rise to inefficiencies, hence amplifying (credit-related concerns. The Council of Representatives' conferences serve as a crucial mechanism for supervising the directors' policies and addressing any developments within the bank. Increasing the prevalence of conferences enhances the efficacy of monitoring Firm activities, particularly (credit-related issues. While these conferences may not explicitly address financing, they significantly influence the company's performance. The results are consistent with prior study supervised by Gray and Nowland (2018), Azid (2019), which concluded that the prevalence of Council conferences has an Implication on both (credit-related functioning and Investment risk. In contrast to the findings of Rahayuningtias and Juan Suam Toro (2016), the study supervised Musleh Alsartawi (2019) and Nadila and Annisa (2021), yield divergent results regarding the Implication of Council conferences on firm success.

The initial testing of factor 3 indicated a data-based significance of 0.0106, along with a beta factor of -0.0732. The p-worth is less than the predetermined significance level of 0.05, suggesting that the salary of the Council has a detrimental Implication on the Investment risk. The notion proposing a favorable influence remains unverified. Although the Compensation worth is high, it is directly related to an elevated Investment risk, which is quantified using the NPF. Nevertheless, in this study, excessive compensation did not have an Implication on the Council's functioning in terms of mitigating Investment risk. However, it is crucial that the compensation offered adheres to the limits and specifications set by the (credit-related services authority rules. As a result, disparities in

compensation can cause a fall in performance, which in turn Implications the stability of banks and leads to a reduction in business activity, ultimately increasing the risks associated with financing. The findings of this study align with the previous study supervised by Pangestu (2019), Praanda and Khairusoalihin (2021), Sheikh and Kareem (2015), Smirnova and Zavertiaeva (2017). These studies have demonstrated that Council Compensation has a substantial Implication on company performance, as measured by non-Executing loan ratios and asset return ratios.

The factor 4 has a significance worth of 0.0000 and a beta factor of 0.4868, as determined by study supervised using incomplete trials. The p-worth ($0.0000 < 0.05$) is statistically Meaningful at the 0.05 or 5% level of significance. The fourth hypothesis is that an increase in the prevalence of Council conferences leads to a higher level of Investment risk. The frequent Council conferences will have an Implication on the low risk associated with a bank's financing. The bank's ability to handle the proportion of any risk Investment issue, as defined by the NPF, declines with higher meeting frequency. The Council of Chiefs is accountable for resolving all banking issues, including funding concerns. The Council has the authority to resolve disputes and provide guidance on conflicts of interest in formal forums that should be held at least every four months. Our meeting prevalence is positively correlated with conflict resolution. Resolving conflicts of interest will reduce agency costs, thereby enhancing the effectiveness and efficiency of banking operations (Prasetio dan Rinova, 2021). The findings support the assertions made by Gray dan Nowland (2018) that the prevalence of Council conferences affects credit issues and credit-related performance.

Factor 5 in this study has a Meaningful worth of 0.0314 and a beta factor of 0.1620, both of which are less than alpha 0.05. These results suggest that Investment risk is positively Implication ed by the Islamic law Regulatory Council 's compensation. This data supports the premise that a higher Islamic law Regulatory Council salary has a good Implication on reducing the Investment risk of a bank. As the level of compensation increases, the bank's capacity to withstand Investment risk, as indicated by NPF, decreases. The compensation provided to the Islamic law Regulatory Council has a Meaningful influence on its performance. The findings of this study suggest that the compensation provided to the Islamic law Regulatory Council significantly influences the Regulatory role in all aspects of product, policy, and policy-making in banking operations supervised by the Islamic law Regulatory Council, resulting in effective performance. Consequently, the potential for risk associated with Islamic law banking Investment can be reduced. There is a scarcity of studies that establish a direct correlation between DPS compensation and funding activity. Nevertheless, the findings of this study are consistent with prior study that establishes a correlation between CEO compensation and banking functioning Sheikh & Kareem, 2015; Smirnova & Zavertiaeva, 2017).

An analysis supervised with a partialawl test indicates that factor 6 has a significance level of 0.0000 and a beta factor of 0.2420. The significance worth (0.0000) is smaller than the alpha worth (0.05) when evaluated with an alpha of 0.05 or 5%. These findings suggest that increasing the prevalence of Islamic law Regulatory Council conferences has a beneficial Implication on mitigating Investment risk. The sixth hypothesis posits that an increase in the prevalence of Islamic law Regulatory Council conferences leads to a rise in Investment risk. The findings also indicate that the prevalence of Islamic law Regulatory Council conferences has a beneficial Implication on Investment risk. The frequent occurrence of Islamic law Regulatory Council conferences will directly affect the bank's minimal Investment risk. As the prevalence of conferences increases, a bank's capacity to handle the proportion of each risky Investment concern, as assessed by NPF, decreases. The Islamic law Regulatory Council convenes sessions on a monthly basis, as reported by the OJK in 2014. The meeting minutes include recommendations and Regulatory minutes for the complete implementation of banking products, banking regulations, and banking governance, both in compliance with and in violation of Islamic law principles (Khalil, 2021). The outcomes of the Islamic law Regulatory Council meeting are an integral component of the banking policy-making mechanism. Increasing the prevalence of conferences improves the Regulatory role of all banking business activities. The Islamic law Regulatory Council has a role in guiding and advising the

Council of Chiefs in Investment operations to ensure that the calculation mechanism, distribution, and Investment policies align with Islamic law principles. Which shown that the Islamic law Regulatory Council Meeting had a Meaningful Implication on both Firm functioning and non-Executing finance.

Based on study that has been tested with a partial test, it is found that the significance worth of factor 7 is 0.5289. When evaluated with alpha of 0.05 or 5%, the significance worth is greater than the alpha worth ($0.5289 > 0.05$). This means that profitability has no implication on Investment risk. The seventh hypothesis states that profitability has a positive implication on Investment risk. However, the study results show that profitability does not Implication Investment risk. Bank profitability is a measure of the bank's health. A bank with strong profitability can ensure that its business operations align with the bank's policies and objectives. Good profitability indicates that the bank gains the trust of investors and beneficiaries which of course has an Implication on increasing profits earned. Conversely, declining profitability, in this case increasing non-Executing Investment as measured by the NPF ratio, indicates that there are mistakes and mismanagement of Investment operations that lead to investor and stakeholder distrust and then repercussion in banking losses (Fithria et al., 2021). The greater the level of profitability owned by a bank, the more efficient the use of assets will be, resulting in increased profits. Large profits will attract investors because the company has a good rate of return. This repercussion is in line with the study of Isnaini (2021), which states that although the results are not significant, it does not mean that banks can ignore the level of profitability in channeling financing, because the greater the level of profitability obtained by the bank, the greater the management's efforts to invest these profits in various operations that benefit management, especially by channeling financing. The Investment channeled by the bank is based on the health level of the bank. If the bank is unable to distribute financing, it will repercussion in losses or no profit, which will disrupt the bank's overall activities, including the increasing proportion of non-Executing financing.

Study using partial tests has determined that the factor 8 has a Meaningful worth of 0.0383. When evaluated with an alpha level of 0.05 or 5%, the p-worth is lower than the alpha worth ($0.0383 < 0.05$). The Islamic law societal reporting factor has the ability to control the link between the Council of Representatives pay and Investment risk. The eighth hypothesis posits that the Islamic law societal report has the capacity to mitigate the correlation between the compensation of the Council of Representatives and the level of Investment risk. The findings also indicate that the Islamic law societal report has the capacity to mitigate the association between the compensation of the Council of Representatives and Investment risk. The bank's compensation for the Council of Representatives will encourage them to operate effectively. If the tasks and operations of the Council of Representatives operate seamlessly, it will lead to enhanced stability and more efficient governance. Banks will achieve maximum profitability if they execute all policy-making well. Optimizing bank functioning ensures effective control and regulation of all banking risks, minimizing the potential for losses. Optimizing banking functioning also facilitates the provision of comprehensive and intricate information. In order to satisfy the obligation of providing Islamic law societal or ISR reports, the (credit-related sector must take responsibility (Susbiyani et al., 2023). This study 's findings are consistent with Susbiyani, Halim and Animah, (2023) study , which posits that the Council of Representatives ' actions evaluate the Firm policy-making system and positively influence the implication of environmental, social, and policy-making (ESG) information. Contrary to the findings Raharja and Peranda (2014) argue that the actions of the Council of Representatives , which serve as a measure of the Firm policy-making system, do not have a substantial Implication on ISR disclosure.

Based on the study tested with partial testing, it is found that the significance worth of factor 9 is 0.7764. When evaluated with an alpha of 0.05 or 5%, the significance worth is greater than the alpha worth ($0.7764 > 0.05$). This means that the Islamic law societal report factor cannot controlled the affiliation between the prevalence of Council of commissioner conferences and Investment risk. The ninth hypothesis states that the Islamic law societal report is able to controlled

the affiliation between the prevalence of Council of commissioner conferences and Investment risk. However, the results showed that the Islamic law societal report was able to controlled the affiliation between the prevalence of Council of commissioner conferences and Investment risk. Conferences held by the Council of Representatives are more focused on policy-making and supervision of the implementation of directors' policies. These conferences are efforts by the Council of Representatives to respond to all obstacles, circumstances, and information obtained. Information implication depends on each policy implemented by the Council of Chiefs (Susbiyani et al., 2023). For this reason, the implication of information contained in the annual report and the continuity of Islamic law banking also depend on the policies set by the Council of directors. ISR is a form of banking societal responsibility in the form of implication of Firm societal responsibility (CSR) standard items set by AAOIFI that are developed and contain Islamic law principles (Susbiyani et al., 2023). This implication is closely related to the banking functioning of operational business activities, which is also associated with the function of the Council of Chiefs rather than the Council of Representatives.

Based on the study tested with partial testing, it is found that the significance worth of factor 10 is 0.0330. When evaluated with an alpha of 0.05 or 5%, the significance worth is smaller than the alpha worth ($0.0330 < 0.05$). This means that the Islamic law societal report factor can controlled the affiliation between Council Compensation and Investment risk. The tenth hypothesis states that the Islamic law societal report is able to controlled the affiliation between the Compensation of the Council of Chiefs and Investment risk. The results also show that the Islamic law societal report is able to controlled the affiliation between the Compensation of the Council of Chiefs and Investment risk. Providing appropriate Compensation will improve Council performance, which is associated with increased company functioning (Sheikh and Kareem, 2015). Increased company functioning will support more detailed and comprehensive banking information disclosure. Thus, the banking responsibility to disclose the Islamic law societal report, or ISR, can be fulfilled. High Compensation improves performance, and ISR is disclosed completely (Susbiyani et al., 2023). The results in this study are in line with Susbiyani, Halim and Animah, (2023), who state that the GCG mechanism, as measured by the activity of the Council of Directors, has a positive implication on ISR disclosure.

Study using partial tests has determined that factor 11 has a Meaningful worth of 0.0065. The significance worth (0.0065) is less than the alpha worth (0.05) when evaluated with an alpha of 0.05 or 5%. This suggests that the Islamic law societal report might act as a moderating factor in the association between the prevalence of Council conferences and Investment risk. The eleventh hypothesis posits that the Islamic law societal report has the capacity to mitigate the correlation between the prevalence of Council of Chiefs conferences and Investment risk. The findings also indicate that the Islamic law societal report has the potential to reduce the correlation between the prevalence of Council of Chiefs conferences and Investment risk. The Council of Chiefs meeting serves as a platform for the Council members to engage, communicate, and collaborate in order to achieve a unified approach to addressing and handling all situations related to banking operations. Increasing the prevalence of conferences improves the effectiveness of monitoring operations and responsibilities, enabling banking operations to accomplish their objectives and maximize profitability. According to the aforementioned argument, Islamic law banking would achieve optimal profitability due to the Council of directors' regular conferences. Optimal banking functioning will improve investor trust as well as that of other stakeholders, including the public. (credit-related institutions are required to meet their societal obligations. The Annual report documents both banking societal responsibility and banking sustainability. The report must include ISR components. The operational business operations of the banking sector heavily rely on the implication of these items. These operations are also connected to the roles, obligations, and responsibilities of the Council of directors, who are required to have conferences at least once every four months (OJK, 2014). Consequently, increasing the prevalence of Council conferences reveals more information in the ISR. This is intended to build trust among investors and other stakeholders, including the (Gray and Nowland, 2018). These results are similar to those of studies

by (Alam & Miah, 2021; Rashid et al., 2024), which found that having more Council of Chiefs conferences makes it easier for companies to report on their ISR (Islamic law Continuity Report).

Based on the study tested with partial testing, it is found that the significance worth of factor 12 is 0.0003. When evaluated with an alpha of 0.05 or 5%, the significance worth is smaller than the alpha worth ($0.0003 < 0.05$). This indicates that the Islamic law societal report can controlled the affiliation between the Compensation of the Islamic law Regulatory Council and Investment risk. The twelfth hypothesis states that the Islamic law societal report is able to controlled the affiliation between the Compensation of the Islamic law Regulatory Council and Investment risk. The results also show that the Islamic law societal report is able to controlled the affiliation between the Compensation of the Islamic law Regulatory Council and Investment risk. In this regard, the Compensation given to the Islamic law Regulatory Council has a Meaningful Implication on its performance. The functioning of the Regulatory Council will affect the overall functioning of Islamic law banking. So that all information disclosed on ISR items that are closely related to Islamic law principles in all banking business operations can be more comprehensively disclosed. The results of this study are in line with those studied by Raharja and Peranda (2014) and Siska (2021), which state that the Firm policy-making mechanism as measured using the operations of the Islamic law Regulatory Council, including the measurement of the Compensation of the Islamic law Regulatory Council, has a positive implication on the implication of Islamic law societal reports.

Based on the study tested with partial testing, it is found that the significance worth of factor 13 is 0.0003. When evaluated with an alpha of 0.05 or 5%, the significance worth is smaller than the alpha worth ($0.0003 < 0.05$). This indicates that the Islamic law societal report can controlled the affiliation between the prevalence of Islamic law Regulatory Council conferences and Investment risk. The thirteenth hypothesis states that the Islamic law societal report is able to controlled the affiliation between the prevalence of Islamic law Regulatory Council conferences and Investment risk. The results also show that the Islamic law societal report is able to controlled the affiliation between the prevalence of Islamic law Regulatory Council conferences and Investment risk. ISR implication is closely related to the results of the Islamic law Regulatory Council meeting written in the minutes of the meeting. The implementation of the Islamic law Regulatory Council meeting involves supervision of banking performance. The results of this study are in line with those supervised by (Alam & Miah, 2021; Duho et al., 2020; Hasan & Mehmet, 2019), which state that the Islamic law Regulatory Council Meeting has an implication on ISR disclosure.

According to the supervised study, partial testing has found that factor 14 has a Meaningful worth of 0.0007. The p-worth (0.0007) is statistically Meaningful at 0.05 or 5% significance level. This implies that the Islamic law societal report has the capacity to govern the affiliation between profitability and Investment risk. The fourteenth hypothesis suggests that the Islamic law societal report can reduce the affiliation between profitability and Investment risk. The results also suggest that the Islamic law Societal Report can reduce the correlation between profitability and Investment risk. Hence, the ongoing survival of Islamic law finance relies on its societal influence. This contribution exemplifies the demonstration of societal responsibility within the banking industry and is a fundamental component of banking activities. Alam and Miah (2021) argue that Islamic law banking has a societal responsibility to fulfill its obligations to society. However, society also relies on Islamic law banking's contributions. The size of the donation is dependent on both the bank's level of profitability and the proportion of the company's profit designated for societal activities. Participating in community societal events may successfully alleviate conflicts of interest between the community and the bank while also diminishing the role of regular intermediaries. According to Alam and Miah (2021), profitability has an Implication on the implication of the ISR (Islamic law Continuity Report), which aligns with the results of this study.

CONCLUSION

In this study, we focused on Indonesian Islamic law banks listed on the Indonesia Holdings Exchange,

examining the Implication of Firm policy-making and profitability on risk. The factors assessed consist of the Council of Representatives' Compensation (FRDK), the Council of Directors Compensation (RDD), the Prevalence of Council Conferences (FRDD), the Islamic law Regulatory Council's Compensation (RDPS), and the Prevalence of Islamic law Regulatory Council Conferences (FRDPS). Furthermore, this study investigates the Implication of Islamic law Societal Reporting (ISR) on the link between Firm governance, profitability, and bank risk, as evaluated by Non-Executing Investment (NPF). The investigation reveals that various Firm policy-making and profitability factors exert a substantial Implication on NPF, an indication of bank risk. The correlation between ISR and these factors further amplifies their Implication on NPF, indicating that ISR reports improved openness and accountability can mitigate the connection between Firm policy-making practices, profitability, and credit risk in Islamic law banks. These findings significantly contribute to our understanding of the factors that Implication Islamic law banks risk in Indonesia. They also highlight the crucial role of openness and accountability in reducing these risks. However, this study has numerous limitations, such as its exclusive focus on Islamic law banks listed on the Indonesia Holdings Exchange. Consequently, these findings may not represent the entire population of Islamic law banks in Indonesia. Additionally, the approach relies on existing data and may not encompass all factors affecting bank risk. Therefore, more study with a broader scope and using more comprehensive methodologies is needed to validate these findings. As per suggestions, Islamic law banks should enhance their Firm policy-making and operational efficiency in order to mitigate credit risk. Furthermore, increasing transparency and accountability through ISR reports can be a successful approach to reducing risk and bolstering investor and stakeholder trust. Within this framework, participants in the Islamic law banking sector must collaborate with regulatory bodies and industry groups to establish guidelines and optimal methods for Firm policy-making and Islamic law societal reporting.

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