
FINANCIAL STABILITY IN ISLAMIC BANKS: DOES CORPORATE GOVERNANCE MATTER?

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ABSTRACT

This study aims to determine the effect of corporate governance on the financial stability of Islamic banks in Indonesia. Corporate governance is proxied by the sharia supervisory board, board of director, independent board of commissioners, board of commissioners and audit committee size. This study analyzes Islamic commercial banks registered with the Financial Services Authority. The data used is secondary data from the annual financial statements of Islamic commercial banks listed on the Financial Services Authority in 2018-2022. The sampling technique used was purposive sampling technique and obtained a final sample of 11 Islamic commercial banks. The analysis technique used is panel data regression analysis. The results showed that the audit committee has a positive and significant effect on the financial stability of Islamic banks, the sharia supervisory board and the board of directors has a negative and significant effect on the financial stability of Islamic banks, and the independent board of commissioners and the board of commissioners have no significant effect on the financial stability of Islamic banks.

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1. INTRODUCTION

The financial sector represents the movement of economic activity with Islamic banking institutions being the entities that channel funds from surplus units to those in need through a profit-sharing system. The success of a financial system can be assessed from several perspectives, including its performance in allocating economic resources and its stability in the face of shocks (Alima, 2020).

Financial stability is one of the key factors for a country's economic sustainability. Financial system stability refers to the condition where the financial system can minimize obstacles in the financial intermediation process, function effectively and efficiently in allocating financing, and absorb shocks. This occurs to prevent damage to physical sector activities and the financial system

(Hudaya & Firmansyah, 2023). Financial instability has an adverse impact on the economy and can lead to a financial crisis (Hudaya & Firmansyah, 2023).

The Islamic banking sector refers to a situation in which the sector is able to carry out its financial intermediation role efficiently and cope with the impact of shocks from both internal and external sources (Ali & Puah, 2018). The success of the intermediary function of Islamic banks is closely related to the level of trust gained from the public. Islamic banks are often referred to as "*agents of trust*" indicating that their operational continuity is highly dependent on public trust as a source of funds (Sofiasani & Gautama, 2016).

At the beginning of the COVID-19 pandemic in Indonesia, both Islamic banks and conventional banks experienced a decrease in the *return on assets* (ROA) ratio. This decline is more pronounced in Islamic banks which tend to produce a *return on assets* (ROA) below conventional banks. As explained in research Azmi *et al.*, (2021) who found a significant difference in the *return on assets* (ROA) of Islamic banks before and during the COVID-19 pandemic. This decrease in *return on assets* (ROA) shows the significant impact of the COVID-19 pandemic that occurred in Indonesia on the financial stability of banks, especially Islamic banks. Ali & Puah (2018) said that *return on assets* (ROA) is an indicator that has an influence on financial stability because *return on assets* (ROA) has a significant influence in investigating the ability of bank management to manage existing assets to generate profits.

One of the main causes of the decline in *return on assets* (ROA) in Islamic banks is the profit-sharing system implemented. The profit earned by Islamic banks from the financing channeled depends on the ability of entrepreneurs to make a profit. During the COVID-19 pandemic, many entrepreneurs experienced a decline in income which directly reduced the profit sharing earned by Islamic banks. In addition, government stimulus designed to support the economy also has the potential to reduce the ability of banks to earn profits (Azmi *et al.*, 2021). In addition to that Elnahass *et al.*, (2021) also observed that the pandemic had an adverse impact on the financial performance of banks globally, including on other financial indicators.

According to an Islamic economist, Adiwarman Karim, the condition of Islamic banking is deteriorating faster than conventional banks. This is due to several risks such as bad financing risk, market risk, and liquidity risk. The instability caused by these risks can result in *financial distress* for Islamic banks and even lead to bankruptcy. This situation not only harms the bank itself but also affects other parties, including lenders and investors. Therefore, it is important to have a financial distress prediction model for Islamic banks. This model is indispensable for various parties such as lenders, investors, government, auditors, management, and customers to mitigate risks and prevent potentially greater losses in the future (Ilhami & Thamrin, 2021).

Financial distress or insolvency is defined when a bank's losses exceed its total capital. Given a bank's capital position and the characteristics of its asset portfolio, which are determined by expected returns and their variance, an upper bound on the probability of failure can be estimated. If a bank experiences such severe losses that the value of its asset portfolio falls below the level of its debt to depositors, then the bank has a negative capital position and subsequently experiences massive withdrawals, and the bank may become insolvent. Insolvency risk can be caused by factors internal and external to the bank, such as macroeconomic factors, market structure, institutional factors such as regulations and governance indicators (Lassoued, 2018). Corporate governance in the context of Islamic banks has a crucial role as a basis for maintaining a balance between quality growth and financial stability (Amine, 2018; Kacanski, 2020). In the context of this study, corporate governance

is proxied by the sharia supervisory board, board of directors, independent board of commissioners, board of commissioners, and audit committee.

The role of the sharia supervisory board is very important in the advancement of Islamic banking, especially in terms of supervision and review of the activities of Islamic banks, as well as the responsibility to ensure operational compliance with sharia principles to prevent banks from engaging in prohibited and harmful transactions that can lead to a decrease in financial stability (Isdayanti, 2021). In the context of management, the board of directors has a major role in setting the principles and strategic objectives that will form the operational basis for the bank (Effendi, 2017). The large number of members of the board of directors makes Islamic banks stable because the large number of board members and in accordance with their respective fields bring benefits to the banking sector. The board of directors will determine the decisions and policies that will be taken.

According to corporate governance regulations, it is required that the number of independent commissioners should account for one-third of the total number of commissioners on a banking board. When the percentage of independent directors is higher, the potential for financial fraud is likely to be reduced due to the higher relative weight of independent directors, providing assurance of more effective control (Romano & Guerrini, 2012). Therefore, an increase in the number of independent commissioners is considered to have a positive impact on banking stability. The greater the number of commissioners will have a positive effect on the financial stability of Islamic banks due to the diversity of views, experience, and expertise brought by each board member (Shungu *et al.*, 2014). By having a diverse panel in terms of knowledge of sharia, finance, risk management, and the banking industry, the board of commissioners can provide more comprehensive insights in identifying, evaluating, and managing the risks faced by the bank.

The audit committee is responsible for ensuring the transparency, compliance, and financial soundness of the bank. They conduct independent audits of financial statements, identify financial risks, and ensure that the bank operates in accordance with Shariah principles and applicable financial standards. By ensuring adherence to these principles and spotting and addressing potential financial issues, audit committees help maintain customer confidence and the financial stability of Islamic banks. Overall, the large number of audit committee members in Islamic banks can strengthen the supervisory mechanism, improve the quality of governance and promote greater financial stability (Yunina & Nisa (2019).

The research gap related to corporate governance proxies in the research to be carried out is research conducted by Jamaluddin (2020) which states that the sharia supervisory board has a positive effect on financial stability, while the research of Khalil & Taktak (2020) states that the sharia supervisory board has a negative effect on financial stability. Furthermore, research conducted by Nugroho & Anisa (2018) stated that the board of directors has a positive effect on the stability of Islamic banks, while in research conducted by Lassoued (2018) stated that the board of directors has a negative effect on financial stability. Furthermore, research conducted by Amine (2018) stated that the independence of commissioners has a positive effect on the financial stability and health of Islamic banks, while in research by Susanto & Walyoto (2023) the independent board of commissioners has no effect on the financial stability and health of Islamic banks.

Literature Review

Agency Theory

Agency theory is the basis for explaining corporate governance. This theory outlines the relationship between the agent, which in this case is the manager, and the principal, which is the owner or shareholder. Within the framework of agency theory, the main focus is on the agency problems that arise when managers' interests do not always align with those of the owners. In other words, agency theory details how effective management and supervision can overcome conflicts of interest with the aim of achieving overall company goals (Wijayanti & Mutmainah, 2012).

According to Eisenhardt (1989), there are two problems in the relationship between principals and agents. First, there are differences in interests or goals between principals and agents. Second, principals face difficulties and high costs to verify company management activities due to information asymmetry. *Good corporate governance* is a concept based on agency theory that aims to minimize agency conflicts and is expected to reduce agency costs.

In relation to this research, agency problems can occur in all business industries if there is a binding contractual agreement between the principal and the agent. Agency conflicts cannot be prevented or eliminated, but minimizing agency conflicts can be done. Efforts to reduce agency can be done by supervising by issuing *monitoring costs* for actions taken by agents. This theory is that the more business fields a company has, the more supervision must be carried out and the greater the *monitoring cost* incurred for the supervision. The number of business fields owned by the company is considered to lead to a lack of supervisory efficiency (Claessens & Fan, 2002).

Hypotheses Development

The Effect of the Sharia Supervisory Board on the Financial Stability of Islamic Banks

According to the *Accounting and Auditing Organization for Islamic Financial Institutions* (AAOIFI) in Sunandar (2005) The sharia supervisory board is an entity that has the authority to supervise the activities of Islamic financial institutions with the aim of ensuring that these institutions always comply with the provisions and principles of sharia. According to Kholid & Bachtiar (2015) Agency theory views the sharia supervisory board as an important internal control mechanism in reducing agency conflicts between shareholders and Islamic bank management. Through its monitoring, supervision and advice, the sharia supervisory board can ensure that banks operate in accordance with sharia principles and maintain financial integrity and stability. Research Jamaluddin (2019); Ekasari & Deni (2019); Isdayanti (2019) suggested that the sharia supervisory board has a positive influence on the stability of Islamic banks.

H1 : Sharia Supervisory Board Positively Affects the Financial Stability of Islamic Banks

The Influence of the Board of Directors on the Financial Stability of Islamic Banks

The board of directors is one of the crucial parameters in the implementation of corporate governance that has the responsibility of managing the company. The board of directors is in charge of setting policies and strategies for managing the company's resources, both in the short and long term. The size of the board of directors may vary from country to country as it is influenced by cultural differences in each country (Zabri *et al.*, 2016).

Agency theory suggests that boards of directors have a key role in reducing agency conflicts between shareholders and management, as well as ensuring that corporate decisions are taken with the interests of all stakeholders in mind. In the Indonesian context, it is thought that a large board of directors may provide benefits to the banking sector, especially from a *resource dependency* perspective, which means that banks depend on the board of directors to manage their resources effectively. The existence of a board of directors consisting of individuals with expertise and in-depth

understanding in their fields is expected to improve management and supervision so as to have a positive impact on the financial stability of Islamic banks (Azizah & Erinos, 2020). Research Isdayanti (2021); Nugroho & Anisa (2018); Eksandy (2018) shows that board performance contributes positively to bank stability and bank financial performance.

H2 : Board of Directors Positively Affects the Financial Stability of Islamic Banks

The Effect of the Independent Board of Commissioners on the Financial Stability of Islamic Banks

Independent commissioners refer to commissioners who have no relationship or affiliation with other commissioners, acting as a neutral entity tasked with ensuring that company management operates in accordance with applicable rules and regulations. The existence of independent commissioners is considered to reduce the risk of conflicts of interest between the company owner (principal) and the party assigned to run the company (agent) (Lassoued, 2018).

In research Amine (2018) and Lassoued (2018) stated that independent commissioners have a positive impact on the financial stability and health of Islamic banks. Barnhart & Rosenstein (1998) in Lastanti (2004) where if a larger number of independent commissioners will encourage the board of commissioners to act objectively and try to protect the interests of all banking *stakeholders*. The existence of a large number of independent commissioners can have a positive impact on the financial stability of Islamic banks because they tend to provide an independent perspective and stronger oversight of policies and practices in the banking sector.

H3 : Independent Board of Commissioners Positively Affects the Financial Stability of Islamic Banks

The Effect of the Board of Commissioners on the Financial Stability of Islamic Banks

The board of commissioners is tasked with overseeing and advising the board of directors, this indirectly makes the board of commissioners have an important position and authority to connect the interests of the principal and improve financial performance in a company. The larger the number of commissioners will increase the management *monitoring* mechanism because the size of the board of commissioners determines the level of effectiveness of monitoring the company's financial performance (Fakhrudin & Fatoni, 2023).

The important role of the board of commissioners in overcoming conflicts of interest between the owners of capital and bank management. As representatives of capital owners, the board of commissioners has the responsibility to ensure that bank management acts in accordance with the interests of capital owners and minimizes risks arising from potential adverse agent behavior, such as uncontrolled risk taking or unethical practices. Research Shungu *et al.*, (2014) found the results that the board of commissioners has a positive influence on banking performance. namely the greater the size of the board of commissioners, there is an increase in banking financial performance due to the *resource dependency theory*, namely the large number of commissioners will have a positive impact on banking financial performance and increase access to various resources to the external environment.

H4 : The Board of Commissioners Positively Affects the Financial Stability of Islamic Banks

The Effect of the Audit Committee on the Financial Stability of Islamic Banks

According to Bapepam LK (Now OJK) regulation Number IX 1.5 explains the audit committee which is an obligation that must exist in every public company. Bapepam Regulation Number IX.1.5 explains the number of audit committees, which is at least 3 (three) people consisting of independent commissioners and outsiders. The audit committee is responsible to the board of commissioners to

ensure the quality of the disclosed financial statements and perform supervisory duties on financial information.

This hypothesis is based on agency theory which states that audit committees play an important role in supervising management, reducing conflicts of interest and increasing the transparency of financial statements. Agency theory explains the relationship between the owner (*principal*) and the agent, where the owner authorizes the agent to make decisions and carry out tasks on behalf of the owner (Linda, 2012). Research Yunina & Nisa (2019); Riawati Utami & Priantinah (2019) found that the positive results of the audit committee on financial stability and health.

H5 : Audit Committee Positively Affects the Financial Stability of Islamic Banks

2. METHOD

Research Design

This study uses quantitative research methods. Quantitative research is research used to examine populations or samples, data collection using a research measuring instrument, data analysis is statistical, the data analysis aims to test a predetermined hypothesis. The tool used to process data in this study is using EVIEWS. Below is the research model of this study.

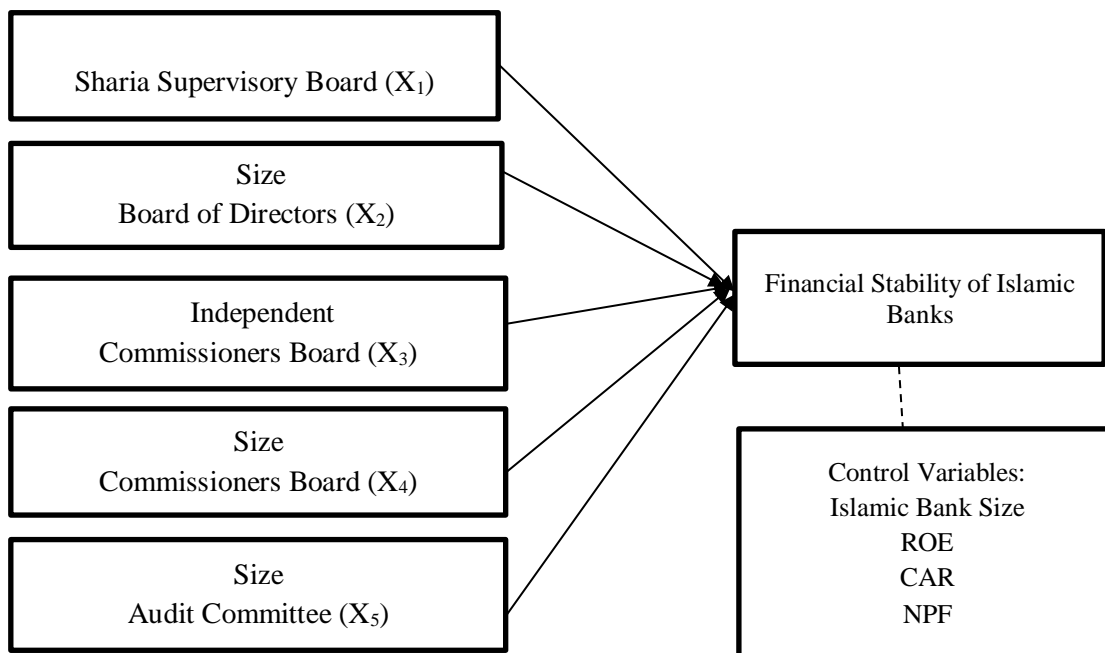


Figure 1. Research Model

Sample Selection and Data Sources

This study uses a population of Islamic commercial banks registered with the Financial Services Authority for the period 2018-2022. The sample in this study was taken using purposive sampling

Financial Stability In Islamic Banks: Does Corporate Governance Matter? (Meylinda Ferniawati, Dita Andraeny)

method so that the number of Islamic commercial banks was adjusted to the availability of data, from 13 Islamic commercial banks as a population, 11 Islamic commercial banks were selected that met these criteria and were used as samples.

The data source utilized in this research is secondary data. Secondary data is information obtained by researchers from other sources or documents, not through direct collection. This type of data can be accessed easily (Sugiyono, 2017). The financial report data used in the study comes from the official website of the Financial Services Authority (OJK), namely <http://www.ojk.co.id> to access the annual reports of Islamic Commercial Banks from 2018 to 2022.

Instrumentation/Data Collection

The sampling method used is purposive sampling, where the sample selection is based on certain objectives and criteria without involving random elements (Sugiyono, 2017). Some of the criteria used in sample selection include:

1. Islamic Commercial Banks registered with the Financial Services Authority (OJK) during the period 2018-2022.
2. Islamic Commercial Banks that have annual financial reports for the 2018-2022 period at Financial Services Authority (OJK) or the official website of each Islamic bank.
3. Islamic Commercial Banks that issue reports on the implementation of corporate governance on the website of each bank from 2018 to 2022.
4. Annual financial statements for the period 2018-2022 which contain data on variables relevant for research.

Data Analysis/Estimating Model/Variable Measurement

Variable Measurement

- a. The sharia supervisory board (X1), which is often abbreviated as DPS, has a key role in providing advice and recommendations to the board of directors, and is responsible for supervising the activities of Islamic Commercial Banks (BUS) to be in line with sharia principles. According to Lassoued (2018) DPS measurement is carried out by considering the number of members in the banking company:

$$\text{DPS Size} = \text{Number of Sharia Supervisory Board Members}$$

- b. The board of directors (X2) according to the Financial Services Authority (OJK) Regulation Number 32 / SEOJKT.04 / 2015 issued by OJK (2015), the board of directors is a company institution that has the authority to manage the company and is responsible for fulfilling the interests and objectives of the company. The determination of members of the board of directors is carried out at the General Meeting of Shareholders (GMS), although the board of commissioners has the authority to dismiss members of the board of directors with disclosed reasons (Financial Services Authority, 2014). Measurement of the board of directors can be done using an indicator of the number of members of the board of directors in the company, in accordance with the research of Lassoued (2018), using:

$$\text{Size of the Board of Directors} = \text{Number of Members of the Board of Directors.}$$

- c. An independent board of commissioners (X3) is someone who has no business attachment or family relationship in the company (Pratomo & Havivah, 2021). Independent commissioners have a role as mediators in resolving conflicts between managers and overseeing management policies, as well as providing advice to management. In this study, the measurement of the variable

proportion of independent commissioners refers to the method used in research by Lassoued (2018) which is calculated using the formula:

$$\text{Independent Commissioners Board} = \frac{\text{Number of Independent commissioners}}{\text{Total board of Commissioners}}$$

- d. The board of commissioners (X4) is part of the company as a representative of shareholders whose job is to monitor and run the corporate governance system. The size of the number of commissioners can make an effective contribution in the event of fraudulent financial statements. The size of the board of commissioners variable refers to the method used in research by Susanto & Walyoto (2023), which is calculated using the formula:

$$\text{Board of Commissioners Size} = \text{Number of Board of Commissioners Members.}$$

- e. Audit committee (X5) based on the decision of the chairman of BAPEPAM-LK No. IX: Kep643/BL/2012 the definition of an audit committee is a committee formed by the board of commissioners responsible for supporting the implementation of the duties and functions of the board of commissioners. The size of the audit committee is measured using an indicator of the number of members of the audit committee of an Islamic bank in accordance with the research of Eksandy (2018), using:

$$\text{Audit Committee Size} = \text{Number of Audit Committee Members.}$$

- f. Financial Stability (Y) measures financial stability using the Z-score. The Z-score has a negative correlation with the risk of bankruptcy of financial institutions, which indicates the potential value of assets is lower than the value of debt. A higher Z-score value indicates a lower probability of bankruptcy. Thus, the Z-score acts as an indicator of a bank's overall risk, incorporating the dimensions of profitability, leverage, and volatility of bank profits Čihák & Hesse (2010) dan Čihák *et al.*, (2012) as well as research Lassoued (2018) use the Z-score model to see the stability of the bank. Z-score calculation can be calculated by the formula:

$$Z - \text{Score} = \frac{ROA + (EQ/TA)}{\sigma (ROA)}$$

Z-Score	: Financial stability of Islamic banks
ROA	: <i>Return On Assets</i>
EQ	: Total equity or capital of Islamic banks
TA	: Total assets of Islamic banks
$\sigma (ROA)$: Standard Deviation of ROA

- g. Islamic bank size (Z1) is measured using the total assets of Islamic banks. Based on research Susanto & Walyoto (2023), the size of Islamic banks can be measured using the formula:

$$\text{SIZE} = \text{Ln (Total Assets)}$$

- h. *Return on equity* (ROE) (Z2) Ardimas & Wardoyo (2014) stated that *return on equity* (ROE) is the ratio between net income and total equity. The higher the *return on equity* (ROE), the more efficiently the bank uses its own capital to generate net income or profit. *Return on equity* (ROE) can be measured using the formula:

$$ROE = \frac{\text{Net Profit}}{\text{Total Equity}} \times 100\%$$

- i. *Capital adequacy ratio* (CAR) (Z3) is a ratio that measures the extent to which the bank's risky assets, such as loans, investments, securities, and claims on other banks are funded by the bank's own capital. In addition, this ratio also considers funds obtained from external sources such as

public funds, loans, and others. According to, Fatimah & Sholihah (2023) CAR can be calculated by the formula:

$$CAR = \frac{\text{Bank Modal}}{\text{ATMR(Activities Weighted According to Risk)}} \times 100\%$$

- j. *Non performing financing* (NPF) (Z4) is the amount of non-performing financing in Islamic banks. According to Susanto & Walyoto (2023) NPF can be calculated using the formula:

$$NPF = \frac{\text{Amount of Problematic Financing}}{\text{Total Sharia Bank Financing}}$$

Data Analysis Method

- a. Descriptive statistical analysis

Descriptive statistics provide an overview or description of the data based on the amount of data, minimum value, maximum value, difference between the largest and smallest values, average, and standard deviation of each research variable (Ghozali, 2011).

- b. Panel data regression model selection

In this study, panel data regression analysis was used as an analytical tool. The panel data regression model is used to measure how strong the relationship is between two or more variables and shows the direction of the relationship with the dependent variable. The regression equation used in this study is as follows:

$$\text{ZSCORE}_{it} = \beta_0 + \beta_1 \text{DPS}_{it} + \beta_2 \text{DD}_{it} + \beta_3 \text{DKI}_{it} + \beta_4 \text{DK}_{it} + \beta_5 \text{KA}_{it} + \beta_6 \text{SIZE}_{it} + \beta_7 \text{ROE}_{it} + \beta_8 \text{CAR}_{it} + \beta_9 \text{NPF}_{it} + \varepsilon_{it}$$

Description:

ZSCORE	: Financial Stability of Islamic Banks
B	: Constant
β_1 - β_9	: Regression Coefficient
DPS	: Sharia Supervisory Board
DD	: Board of Directors
DKI	: Independent Commissioner
DK	: Board of Commissioners
KA	: Audit Committee
SIZE	: Size of Islamic Bank
ROE	: <i>Return On Equity</i>
CAR	: <i>Capital Adequacy Ratio</i>
NPF	: <i>Non Performing Financing</i>
I	: Sample
T	: Year
ε	: Error

- c. Classical Assumption Test

1. Normality Test

The normality test aims to determine whether the regression model, confounding or residual variables have a normal distribution. To test the normality of the residual distribution, the Jarque-Bera Test statistical test can be carried out. The Jarque-Bera Test serves as a statistical tool to determine whether the data follows a normal distribution (Algifari, 2021).

2. Multicollinearity Test

Multicollinearity test is a method to evaluate whether there is a high correlation between independent variables in a multiple linear regression model. If there is a high correlation between the independent variables, the relationship between the independent variable and the dependent variable may be disrupted (Algifari, 2021).

3. Heteroscedasticity Test

Algifari (2021) explains that the heteroscedasticity test aims to evaluate whether there is diversity in variance or residuals between different observation data. In the context of this study, the heteroscedasticity test uses the Glejser test.

4. Autocorrelation Test

The autocorrelation test is used to evaluate whether there is a relationship between confounding errors in period t and confounding errors in the previous period, namely $t-1$. This study did not conduct an autocorrelation test because the data in this study used panel data. According to Basuki & Nano (2017) autocorrelation test is not needed for cross section data research and panel data because autocorrelation will only occur in testing time series data.

d. Hypothesis Test

1. Coefficient of Determination (R^2)

The coefficient of determination (R^2) is a measure of the extent to which the model is able to explain the variation in the dependent variable (Algifari, 2021).

2. F test

Simultaneous Significance Test (F Statistical Test) is used to determine whether all independent variables in the regression model together have an influence on the dependent variable (Algifari, 2021).

3. T test

In regression analysis, the t test is a statistical tool used to test the effect of each independent variable on the dependent variable individual (Algifari, 2021).

3. RESULTS AND DISCUSSION

Results

Data Analysis

a. Descriptive Statistical Analysis

Table 1 is a table presented from the results of descriptive statistical tests.

Table 1. Descriptive Statistical Analysis

	ZSCORE	DPS	DD	DKI	DK	KA	SIZE	ROE	CAR	NPF
Mean	74.90758	2.072727	4.054545	0.678182	3.490909	3.745455	32.22337	7.570182	50.67545	2.313636
Median	38.60816	2.000000	4.000000	0.666667	3.000000	4.000000	30.86895	4.270000	24.30000	1.690000
Maximum	351.5584	3.000000	6.000000	1.000000	6.000000	5.000000	37.31871	31.20000	390.5000	9.540000
Minimum	2.763318	1.000000	3.000000	0.250000	3.000000	2.000000	27.21840	-31.76000	12.34000	0.000000
Std. Dev.	103.1184	0.424026	0.970265	0.142864	0.766733	0.821430	3.135337	10.66414	75.04834	1.836696
Skewness	1.558765	0.456081	0.627577	0.532630	1.398990	0.294411	0.456129	-0.235850	3.178389	1.206852
Kurtosis	3.899016	5.338068	2.455947	4.779764	4.019432	1.926151	1.790131	5.418896	12.68521	5.437864
Jarque-Bera	24.12489	14.43429	4.288642	9.859523	20.32236	3.437190	5.261658	13.91858	307.5688	26.97097
Probability	0.000006	0.000734	0.117148	0.007228	0.000039	0.179318	0.072019	0.000950	0.000000	0.000001
Sum	4119.917	114.0000	223.0000	37.30000	192.0000	206.0000	1772.286	416.3600	2787.150	127.2500
Sum Sq. Dev.	574203.4	9.709091	50.83636	1.102152	31.74545	36.43636	530.8381	6141.085	304141.6	182.1665
Observations	55	55	55	55	55	55	55	55	55	55

Source: Eviews 12 output, 2024

Based on the output results in table 1, the descriptive statistical test results of this study used a sample of 55 data, this observation was carried out at 11 Islamic commercial banks with a period of 5 years starting from 2018 to 2022.

b. Panel Data Regression Model Selection

The panel data regression model that is selected and feasible to use is the fixed effect model.

Table 2. Fixed Effect Panel Data Regression Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	46.41472	41.45515	1.119637	0.2705
DPS	-7.065887	3.134394	-2.254307	0.0305
DD	-7.889231	1.746977	-4.515932	0.0001
DKI	19.07754	17.43350	1.094304	0.2813
DK	6.244825	4.160078	1.501132	0.1423
KA	11.17288	2.830857	3.946817	0.0004
SIZE	-0.395343	1.260668	-0.313598	0.7557
ROE	-0.124652	0.187934	-0.663274	0.5115
CAR	0.265778	0.097993	2.712223	0.0103
NPF	-0.538275	1.650824	-0.326065	0.7463
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.975334	Mean dependent var	89.96173	
Adjusted R-squared	0.961944	S.D. dependent var	88.80349	
S.E. of regression	18.29055	Sum squared resid	11709.05	
F-statistic	72.83917	Durbin-Watson stat	1.839478	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.967868	Mean dependent var	74.90758	
Sum squared resid	18450.12	Durbin-Watson stat	1.491229	

Source: Eviews 12 output, 2024

c. Panel Data Regression Analysis Results

$$\text{ZSCORE} = 46.414 - 7.065\text{DPS} - 7.889\text{DD} + 19.077\text{DKI} + 6.244\text{DK} + 11.172\text{KA} - 0.395\text{SIZE} - 0.124\text{ROE} + 0.265\text{CAR} - 0.538\text{NPF} + \varepsilon$$

The regression equation above can be interpreted as follows:

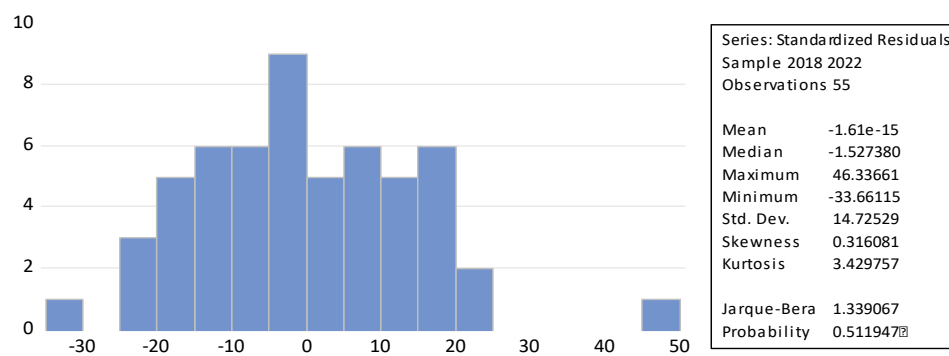
1. The constant value (a) in this regression model is 46,414. This value indicates that if the independent variables in this study are 0, then the value of Islamic bank financial stability is 46,414.
2. The regression coefficient value of the sharia supervisory board variable is -7.065. This value indicates that the greater the number of sharia supervisory boards will be followed by a decrease in financial stability by -7.065.
3. The regression coefficient value of the board of directors variable is -7.889 This value indicates that the greater the number of boards of directors will be followed by a decrease in financial stability of -7.889.
4. The regression coefficient value of the independent board of commissioners variable is 19.077. This value indicates that the higher the proportion of independent commissioners will be followed by an increase in financial stability of 19.077.
5. The regression coefficient value of the board of commissioners variable is 6.244. This value indicates that the greater the number of boards of commissioners will be followed by an increase in financial stability of 6.244.

6. The regression coefficient value of the audit committee variable is 11.172. This value indicates that the more the number of audit committees will be followed by an increase in financial stability of 11,172.
 7. The regression coefficient value of the Islamic bank size variable is -0.395. This value indicates that the higher the size value of Islamic banks will be followed by a decrease in financial stability of -0.395.
 8. The regression coefficient value of the ROE variable is -0.124. This value indicates that the higher the ROE value will be followed by a decrease in financial stability of -0.124.
 9. The regression coefficient value of the CAR variable is 0.265. This value indicates that the higher the CAR value will be followed by an increase in financial stability of 0.265.
 10. The regression coefficient value of the NPF variable is -0.538. This value indicates that the higher the NPF value will be followed by a decrease in financial stability of -0.538.
- d. Classical Assumption Test

1. Normality Test

Table 3 shows the results of the Normality Test in this study

Table 3. Normality Test Result



Source : Output Eviews 12, 2024

Based on table 3 above, the results of the normality test with the jarque-bera test obtained a probability of $0.511947 > 0.05$. Thus, it can be concluded that the data in this study are normally distributed.

2. Multicollinearity Test

Table 4 shows the results of the Multicollinearity Test in this study

Table 4. Multicollinearity Test Result

	DPS	DD	DKI	DK	KA	SIZE	ROE	CAR	NPF
DPS	1.000000	0.170225	-0.149938	0.457751	0.213635	-0.059688	-0.164512	-0.074535	-0.004302
DD	0.170225	1.000000	-0.358386	0.660335	-0.075197	-0.317076	0.196459	0.079366	-0.290892
DKI	-0.149938	-0.358386	1.000000	-0.382447	-0.165854	0.321615	-0.113060	-0.131293	-0.071890
DK	0.457751	0.660335	-0.382447	1.000000	0.055064	-0.274845	0.061162	0.016475	-0.189810
KA	0.213635	-0.075197	-0.165854	0.055064	1.000000	-0.434601	0.120610	0.049708	-0.031893
SIZE	-0.059688	-0.317076	0.321615	-0.274845	-0.434601	1.000000	-0.201913	-0.411027	0.541283
ROE	-0.164512	0.196459	-0.113060	0.061162	0.120610	-0.201913	1.000000	0.023138	-0.153828
CAR	-0.074535	0.079366	-0.131293	0.016475	0.049708	-0.411027	0.023138	1.000000	-0.381087
NPF	-0.004302	-0.290892	-0.071890	-0.189810	-0.031893	0.541283	-0.153828	-0.381087	1.000000

Source : Output Eviews 12, 2024

Table 4 describes the correlation between independent variables and it is known if each variable is far below 0.8. Therefore, it can be concluded that there is no multicollinearity in this study.

3. Heteroscedasticity Test

Table 5 shows the results of the Heteroscedasticity Test in this study

Table 5. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	26.39536	28.00590	0.942493	0.3524
DPS	0.524511	2.075086	0.252766	0.8019
DD	-1.678387	1.060976	-1.581927	0.1227
DKI	-4.743739	10.25316	-0.462661	0.6465
DK	-0.510418	1.710080	-0.298476	0.7671
KA	-1.193362	1.380443	-0.864477	0.3932
SIZE	-0.183216	0.833200	-0.219894	0.8272
ROE	0.080763	0.100286	0.805327	0.4261
CAR	0.000570	0.023101	0.024672	0.9805
NPF	-0.438605	0.617672	-0.710094	0.4824

Source : Output Eviews 12, 2024

From the results of the heteroscedasticity test in table 5, it can be seen that the independent variables are free from heteroscedasticity problems. It can be seen that the table, the probability of the sharia supervisory board variable (X1) is $0.8019 > 0.05$, the probability of the board of directors variable (X2) is $0.1227 > 0.05$, the probability of the independent board of commissioners variable (X3) is $0.6465 > 0.05$, the probability of the board of commissioners variable (X4) is $0.7671 > 0.05$ and the probability of the audit committee variable (X5) is $0.3932 > 0.05$.

e. Hypothesis Test

1. Test Coefficient of Determination (R^2)

Table 6 shows the results of the Determination Test in this study

Table 6. Determination Test Results

R-squared	0.975334	Mean dependent var	89.96173
Adjusted R-squared	0.961944	S.D. dependent var	88.80349
S.E. of regression	18.29055	Sum squared resid	11709.05
F-statistic	72.83917	Durbin-Watson stat	1.839478
Prob(F-statistic)	0.000000		

Source : Output Eviews 12, 2024

Based on table 6 shows that the coefficient of determination generated in the adjusted r-squared test is 0.96. from the result obtained, it shows that the sharia supervisory board, board of directors, independent board of commissioners, board of commissioners, audit committee, Islamic bank size, ROE, CAR, and NPF are able to contribute in influencing the financial stability of Islamic banks by 96%, while the remaining 4% is influenced by other variables.

2. Simultaneous Significant Test Results (F-Test)

Tabel 7 shows the results of the F test in this study

Tabel 7. F-Test Results

R-squared	0.975334	Mean dependent var	89.96173
Adjusted R-squared	0.961944	S.D. dependent var	88.80349
S.E. of regression	18.29055	Sum squared resid	11709.05
F-statistic	72.83917	Durbin-Watson stat	1.839478
Prob(F-statistic)	0.000000		

Source : Output Eviews 12, 2024

Based on the results of the F test in table 7, it shows that the Prob (F-statistic) value of $0.000000 < 0.05$, it can be said that the sharia supervisory board, board of directors, independent board of commissioners, board of commissioners, audit committee, Islamic bank size, ROE, CAR dan NPF simultaneously affect the financial stability of Islamic banks.

3. Hypothesis Test (T Test)

Tabel 8 shows the results of the T test in this study

Tabel 8. Results of the t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	46.41472	41.45515	1.119637	0.2705
DPS	-7.065887	3.134394	-2.254307	0.0305
DD	-7.889231	1.746977	-4.515932	0.0001
DKI	19.07754	17.43350	1.094304	0.2813
DK	6.244825	4.160078	1.501132	0.1423
KA	11.17288	2.830857	3.946817	0.0004
SIZE	-0.395343	1.260668	-0.313598	0.7557
ROE	-0.124652	0.187934	-0.663274	0.5115
CAR	0.265778	0.097993	2.712223	0.0103
NPF	-0.538275	1.650824	-0.326065	0.7463

Source : Output Eviews 12, 2024

1. The sharia supervisory board variable (X1) has a regression coefficient of -7.065887 and a t-statistic of -2.254307 with a probability value of $0.0305 < 0.05$, so it can be said concluded that the sharia supervisory board has a negative and significant effect on the financial stability of Islamic banks. Therefore, the first hypothesis (H1) is not accepted/rejected.
2. The board of directors variable (X2) has a regression coefficient of -7.889231 and a t-statistic of -4.515932 with a probability value of $0.0001 < 0.05$, so it can be said concluded that the board of directors has a negative and significant effect on the financial stability of Islamic banks. Therefore, the second hypothesis (H2) is not accepted/rejected.
3. The independent board of commissioners variable (X3) has a regression coefficient of 19.07754 and a t-statistic of 1.0943046 with a probability value of $0.2813 > 0.05$, so it can be said that the independent board of commissioners has no effect on the financial stability of Islamic banks. Therefore, the third hypothesis (H3) is not accepted/rejected.
4. The board of commissioners variable (X4) has a regression coefficient of 6.244825 and a t-statistic of 1.501132 with a probability value of $0.1423 > 0.05$, so it can be said that the board of commissioners has no effect on the financial stability of Islamic banks. Therefore, the fourth hypothesis (H4) is not accepted/rejected.

5. The audit committee variable (X5) has a regression coefficient of 11.17288 and a t-statistic of 3.946817 with a probability value of $0.0004 < 0.05$, it can be said that the audit committee has a positive and significant effect on the financial stability of Islamic banks. Therefore, the fifth hypothesis (H5) is accepted.

Discussion

The Effect of the Sharia Supervisory Board on the Financial Stability of Islamic Banks

The results of this study indicate that the number of sharia supervisory board members cannot guarantee the financial stability of Islamic banks. This is because the sharia supervisory board that serves in an Islamic commercial bank sometimes has other positions in other banks / companies, resulting in less than optimal supervision by members of the sharia supervisory board (Eksandy, 2018). These results are also in line with research conducted by Khalil & Taktak (2020); Lassoued (2018); Fitri & Afriyenti (2021) which states that the sharia supervisory board has a negative and significant effect on the financial stability of Islamic banks.

The Influence of the Board of Directors on the Financial Stability of Islamic Banks

According to Fakhrudin & Fatoni (2023) research a board size that is too large can have a negative impact on bank stability. The reason why this can happen is that the greater the number of members on the board of directors, the more difficult it is to reach consensus and effective coordination. The decision-making process becomes more complicated and time-consuming, which can hamper responsiveness in the face of crisis situations or rapid changes in the market. In a large board of directors, there may be conflicts of interest between board members. Some members may represent individual or group interests rather than the interests of the bank as a whole. This can compromise the stability of the bank and lead to higher risk taking. The results of this study support research conducted by Lassoued (2018); Fakhrudin & Fatoni (2023) which states that the board of directors has a negative and significant effect on the financial stability of Islamic banks.

The Effect of the Independent Board of Commissioners on the Financial Stability of Islamic Banks

According to Sondokan *et al.*, (2019) the existence of an independent board of commissioners in the company is only a formality to fulfill existing regulations and the existence of independent commissioners cannot increase the effectiveness of monitoring carried out by commissioners to the board of directors in carrying out company operations. This causes that independent commissioners have no effect on the financial stability of Islamic banks. These results support research conducted by Susanto & Walyoto (2023) which states that the independent board of commissioners has no effect on the financial stability of Islamic banks

The Effect of the Board of Commissioners on the Financial Stability of Islamic Banks

The number of board members does not contribute to the financial stability of Islamic banks. The addition of board members does not always have a positive impact on the quality of supervision. The success of supervision depends more on the quality of the board members, who must have sufficient competence, experience and knowledge to provide effective supervision. If additional members do not meet these requirements, then increasing the number of members will not automatically improve the

quality of supervision, which in turn will not provide anything to the operational effectiveness of Islamic commercial banks in terms of profit optimization (Marini & Marina, 2017). According to agency theory, having a large board of commissioners can exacerbate communication problems and present difficulties in coordination efforts between commissioners (Jensen, 1993). Amine (2018) adds that boards with a large number of directors are often associated with higher financial risk. These results also support research conducted by Susanto & Walyoto (2023); Erkens *et al.*, (2012); Khalil & Slimene (2021) who found that board size has no effect on financial stability

The Effect of the Audit Committee on the Financial Stability of Islamic Banks

The audit committee plays an important role in the banking world, especially because the supervision carried out by the audit committee can affect the financial stability of Islamic banks. According to Anderson *et al.*, (2004) the more members in the audit committee in a bank, the better the level of protection and supervision of better financial and accounting processes. In the end, it will have a positive influence on the financial stability of Islamic banks. This research is in line with agency theory which suggests that audit committee size has a significant impact on the financial stability of Islamic banks. The main reason is that larger audit committees tend to conduct more intensive supervision of financial statements. The results of this study support the results of the study Riawati Utami & Priantinah (2019); Yunina & Nisa (2019) which states that the audit committee has a positive effect on the financial stability of Islamic banks

4. CONCLUSION

This study aims to determine the significant influence between corporate governance mechanisms proxied by the sharia supervisory board, board of directors, independent board of commissioners, board of commissioners and audit committee on the financial stability of Islamic banks proxied by Z-score at Islamic Commercial Banks in 2018-2022. By using panel data regression analysis on 11 Islamic Commercial Banks.

There is a positive and significant effect of the audit committee on the financial stability of Islamic banks in Islamic Commercial Banks in 2018-2022, this means that the more members in the audit committee who are in a bank, the better the level of protection and supervision of better financial and accounting processes. In the end, it will have a positive influence on the financial stability of Islamic banks.

There is a negative and significant effect of the Islamic supervisory board on the financial stability of Islamic banks at Islamic Commercial Banks in 2018-2022, this is because the large number of members of the Islamic supervisory board cannot guarantee the financial stability of Islamic banks. This is because the sharia supervisory board that serves in an Islamic commercial bank sometimes has other positions in other banks / companies, resulting in less than optimal supervision carried out by members of the sharia supervisory board so that it does not affect the financial stability of Islamic banks. There is a negative and significant influence of the board of directors on the financial stability of Islamic banks at Islamic Commercial Banks in 2018-2022, this is because the more the number of members in the board of directors, the more difficult it is to reach consensus and effective coordination. The decision-making process becomes more complicated and time consuming, which can hamper responsiveness in dealing with crisis situations or rapid changes in the market so that it does not affect the financial stability of Islamic banks.

There is no significant effect of the independent board of commissioners on the financial stability of Islamic banks in Islamic Commercial Banks in 2018-2022, this is because the existence of an

independent board of commissioners in the company is only a formality to fulfill existing regulations. This causes that independent commissioners have no effect on the financial stability of Islamic banks. There is no significant effect of the board of commissioners on the financial stability of Islamic banks in Islamic Commercial Banks in 2018-2022, this is because according to agency theory, having a board of commissioners with many members can exacerbate communication problems and present difficulties in coordination efforts between commissioners (Jensen, 1993). The success of supervision depends more on the quality of the board members, who must have sufficient competence, experience and knowledge to provide effective supervision. If the additional members do not meet these requirements, then an increase in the number of members will not automatically improve the quality of supervision, which in turn will not provide anything to the operational effectiveness of Islamic commercial banks in terms of profit optimization so as not to affect the financial stability of Islamic banks.

Limitations of this study include:

1. This study uses five independent variables that proxy corporate governance, namely the sharia supervisory board, board of directors, independent board of commissioners, board of commissioners and audit committee. While there are still many other variables that can affect the financial stability of Islamic banks.
2. This study only uses an observation period of 5 years, so the results given will be different with a longer period of time than 5 years.

Suggestions :

Based on the results of the discussion analysis, conclusions and limitations in this study. Suggestions that can be given to further researchers are as follows:

1. Future researchers use similar research with a longer observation period so that it can provide more definitive results because it has a larger number of samples.

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