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THE EFFECT OF GOOD CORPORATE GOVERNANCE ON RETURN ON EQUITY AT SHARIA BANK

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Abstract**:** *This research is motivated by the condition in which the implementation of Good Corporate Governance at Bank Panin Dubai Syariah has received favorable evaluations, yet has not been able to significantly boost the company's income generated from its own capital (Return on Equity/ROE). The purpose of this study is to analyze the influence of Good Corporate Governance on Return on Equity over the same period.This study employs a quantitative method with a descriptive approach. The object of the research is Bank Panin Dubai Syariah, and the data used are secondary data. Data collection techniques include literature review and documentation, using semi-annual financial reports published on the official website of Bank Panin Dubai Syariah. Data analysis techniques involve Classical Assumption Tests, Simple Linear Regression, Hypothesis Testing, and the Coefficient of Determination, using Eviews 12 software. The results of the study show that Good Corporate Governance has a significant partial influence with a negative direction on Return on Equity at Bank Panin Dubai Syariah during the period 2017–2024. The coefficient of determination test indicates that the independent variable explains 34.8816% of the variation in the dependent variable (ROE), while the remaining 65.1184% is explained by other variables outside the scope of this study. The implications of this study suggest that although Good Corporate Governance has been structurally well implemented, its effectiveness in enhancing Return on Equity still requires improvement. Within the context of Agency Theory, these findings reflect a potential misalignment of interests between management (agents) and shareholders (principals), where the existing GCG mechanisms have not yet been fully effective in aligning those interests to enhance company value. Therefore, a comprehensive evaluation of GCG implementation is necessary, not only to meet compliance standards but also to generate tangible impacts on the company's financial performance.*

Keywords: Good Corporate Governance, Return on Equity, Agency Theory

1. Introduction

Sharia banking has grown rapidly in recent decades as an alternative to conventional banking. The Sharia banking system is based on Islamic principles, such as the prohibition of riba (interest), gharar (uncertainty), and maysir (speculation), and emphasizes the principles of justice and partnership in economic activities. The presence of Sharia banks in Indonesia is further strengthened by regulatory support from the government and increasing public awareness of the importance of Sharia-compliant financial products. Along with this growth, Sharia banks are required to remain competitive and maintain their financial performance to survive in the increasingly competitive banking industry(Antonio, 2001).

One of the Sharia banks operating in Indonesia is PT Bank Panin Dubai Syariah Tbk (PNBS), a Sharia bank listed on the Indonesia Stock Exchange (IDX). As part of the Panin Bank group, Panin Dubai Syariah Bank continuously strives to improve operational performance and revenue through the implementation of Good Corporate Governance (GCG) principles. This bank adopts various strategies to ensure transparent, accountable, and Sharia-compliant corporate governance, under the supervision of the Sharia Supervisory Board (SSB). With the increasingly competitive banking industry, Panin Dubai Syariah Bank needs to ensure that GCG implementation positively contributes to financial performance, particularly in increasing Return on Equity (ROE).

Good Corporate Governance (GCG) plays a crucial role in ensuring transparent, accountable, and sustainable bank management. The implementation of GCG in Islamic banking aims to improve operational efficiency, reduce financial risk, and build investor and customer confidence. The principles of Good Corporate Governance (GCG), commonly known by the acronym TARIF (Transparency, Accountability, Responsibility, Independence, and Fairness), serve as the foundation for creating sound corporate governance and enhancing the competitiveness of Islamic banks in the financial market. In the banking industry, GCG implementation is crucial because it serves to improve financial performance, maintain public trust, and ensure compliance with applicable regulations. One of the main indicators for measuring a bank's financial performance is Return on Equity (ROE), which reflects the bank's effectiveness in managing its capital to generate profits(Suroso, 2022).

In recent years, Bank Panin Dubai Syariah's financial performance has experienced significant fluctuations, influenced by both internal and external factors. Although the Islamic banking sector continues to grow rapidly, the challenge of maintaining stable performance remains, and GCG implementation is a crucial aspect that determines how efficiently and transparently a bank manages its operations.

The graph below shows the Return on Equity of Bank Panin Dubai Syariah Indonesia for the 2017-2024 period.

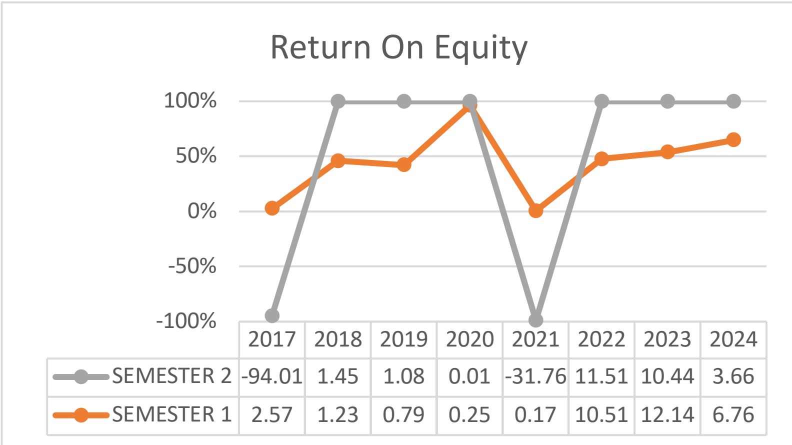


Figure 1.1 Financial Report of Panin Dubai Syariah Bank for the Period 2017-202

Based on the figure above, Bank Panin Dubai Syariah's ROE fluctuates significantly, even dropping drastically to a negative figure of -94.01% in 2017 and -31.76% in 2021. Return on Equity (ROE) is an important indicator in assessing a bank's financial performance, as it reflects the bank's ability to generate profits from shareholder capital. A negative ROE indicates a bank is experiencing losses, meaning that the invested capital is not generating profits and is even declining in value. Therefore, the purpose of this study is to analyze the effect of Good Corporate Governance on Return on Equity at Bank Panin Dubai Syariah Indonesia for the 2017-2024 period.

2. Literature review

GCG is a principle that guides and controls a company to achieve a balance between its power and authority in providing accountability to stakeholders(Suroso, 2022). The development of the corporate governance perspective stems from agency theory, which states that the separation of ownership and management has the potential to create agency problems, and that these agency problems can be addressed through the implementation of good corporate governance (GCG). The more complex a company's activities become, the greater the need for good corporate governance practices. Implementing GCG increases corporate management's accountability and efficiency, strengthens the organizational structure, reduces internal conflict, and enhances strategic decision-making. This ultimately increases profits and capital efficiency, which in turn increases Return on Equity (Effendi, 2009).

According to the Indonesian Institute for Corporate Governance (IICG), GCG is the structure, systems, and processes used by company organs to provide added value to the company in a sustainable, long-term manner while still considering the interests of other stakeholders based on applicable norms, ethics, culture, and regulations. The implementation of GCG itself has several benefits for companies, including maintaining corporate sustainability, increasing corporate value and market confidence, reducing agency costs and capital costs, improving performance, efficiency, and service to stakeholders, protecting the organization from political interference and lawsuits, and helping to establish good corporate citizenship. The existence of GCG is also believed to increase investor confidence, and companies that implement GCG have more efficient operational performance(Sutedi, 2011).

Good Corporate Governance is a system of good governance that requires the implementation of GCG principles in bank management processes. By recognizing universally applicable principles, it is hoped that banks can operate sustainably and provide benefits to stakeholders. GCG provides guidelines for agreements between stakeholders in identifying and formulating strategic decisions effectively and in a coordinated manner. The need for the implementation of Good Corporate Governance within an organization is an urgent need for bank management. Corporate Governance policies must have a broad, comprehensive, and integrated perspective to serve as reliable guidelines. The board of commissioners and the board of directors are responsible for managing organizational resources to achieve organizational goals in accordance with the principles of Corporate Governance(Amelinda et al., 2021).

3. Research methods

The author employed a quantitative research method in this study. This method was chosen because it aimed to examine the influence of independent variables, namely Good Corporate Governance, on the dependent variable, namely Return on Equity, at Panin Dubai Syariah Bank for the 2017-2024 period. Through a quantitative approach, numerical data will be statistically analyzed to test the formulated hypotheses.

This study employed time series data. The data sources used in this study were secondary data. The secondary data used in this study were quarterly financial reports and notes to the financial statements of Panin Dubai Syariah Bank, published and recognized by the Financial Services Authority (OJK) from 2017 to 2024. These financial reports served as the primary sources for obtaining GCG and ROE data. This study utilized the computer software program Econometric Views (Eviews) version 12.0 and Microsoft Excel to assist the researcher in obtaining accurate analysis results consistent with the research variable data. Simple regression analysis was also employed to examine the relationship or influence between variables.

The hypotheses formulated in this study are as follows:

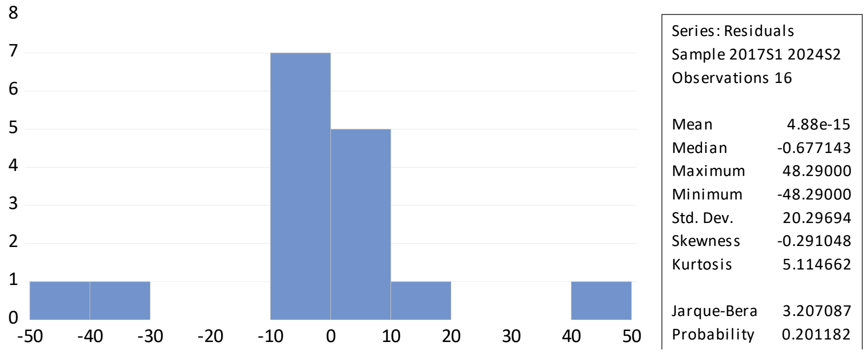
H0: There is no effect between Good Corporate Governance (GCG) and Return on Equity (ROE).
H1: There is an effect between Good Corporate Governance (GCG) and Return on Equity (ROE).

4. Results and Discussion

A normality test is performed to determine whether the data used is normally distributed. Good data is normally distributed. The normality test in this study uses a method developed by Jarque

Bella (JB). The JB test uses skewness and kurtosis calculations. The results of the normality test calculation using Eviews 12 can be seen in Table 1 below:

Table 1 Normality Test



Source: Data processing with Eviews 12, 2025

Based on the JB statistical test, the statistical value is 3.207087 with a probability value of 0.201182. Therefore, H0 is accepted and Ha is rejected, indicating that the residuals are normally distributed.

Heteroscedasticity testing was performed using the Park test method. The results of the heteroscedasticity test calculation using Eviews 12 can be seen in Table 2 below:

Table 2 Heteroscedasticity Test

Dependent Variable: LOG(RESID2)
Method: Least Squares
Date: 06/29/25 Time: 13:38
Sample: 2017S1 2024S2
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.209708	3.264038	-2.208831	0.0444
LOG(X)	13.62096	4.318534	3.154071	0.0070

R-squared	0.415404	Mean dependent var	2.921977
Adjusted R-squared	0.373647	S.D. dependent var	2.926843
S.E. of regression	2.316375	Akaike info criterion	4.634353
Sum squared resid	75.11831	Schwarz criterion	4.730926
Log likelihood	-35.07482	Hannan-Quinn criter.	4.639298
F-statistic	9.948162	Durbin-Watson stat	0.793072
Prob(F-statistic)	0.007034		

Source: Data processing with Eviews 12, 2025

The test results above show an R-squared value of 0.415404 and a probability value of 0.007034, indicating that the model's ability to explain the ROE variable is only 0.41%. Furthermore, the model's probability value of 0.007034 is less than the 0.05 significance level, thus concluding that this regression model is statistically significant. Therefore, it can be concluded that H0 (no heteroscedasticity) is accepted and Ha (heteroscedasticity is present) is rejected. The method used to test for autocorrelation is the Breusch-Godfrey (LM) method. The results of the multicollinearity test calculation using Eviews 12 can be seen in Table 3 below:

Table 3 Uji Autokorelasi

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	3.451249	Prob. F(2,12)	0.0655
Obs*R-squared	5.842613	Prob. Chi-Square(2)	0.0539

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 06/29/25 Time: 13:43
Sample: 2017S1 2024S2
Included observations: 16
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.137833	2.809705	-0.049056	0.9617
LOG(X)	0.125461	3.716967	0.033754	0.9736
RESID(-1)	0.547536	0.297569	1.840030	0.0906
RESID(-2)	0.094997	0.298949	0.317769	0.7561

R-squared	0.365163	Mean dependent var	-2.22E-16
Adjusted R-squared	0.206454	S.D. dependent var	2.237831
S.E. of regression	1.993486	Akaike info criterion	4.429965
Sum squared resid	47.68786	Schwarz criterion	4.623112
Log likelihood	-31.43972	Hannan-Quinn criter.	4.439856
F-statistic	2.300833	Durbin-Watson stat	1.906965
Prob(F-statistic)	0.129167		

Source: Data processing with Eviews 12, 2025

The test results above show an R-squared value of 0.365163 and an Adjusted R-squared value of 0.206454. The probability value of 0.129167 is greater than 0.05. Therefore, it can be concluded that the test results indicate no autocorrelation problem, or that H0 (no autocorrelation) is accepted and Ha (presence of autocorrelation) is rejected. This indicates that the model is statistically significant.

Hypothesis Testing

a. t-Test (Partial Test)

This test aims to measure the partial effect of GCG on ROE. Based on the test criteria, if the probability value is less than 0.05, it can be concluded that the independent variable has a significant effect on the dependent variable. The results of the t-test can be seen in Table 4 below:

Table 4 Uji t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	97.49143	34.15458	2.854417	0.0127
X	**-47.73714**	**15.88156**	**-3.005822**	**0.0094**

Source: Data processing with Eviews 12, 2025

Based on the results of a partial test (t-test) conducted using EViews 12 software, it was found that the Good Corporate Governance (GCG) variable had a t-statistic (t-count) of -3.005822 with a probability value (p-value) of 0.0094. Because this probability value is less than the significance level (α) of 0.05, statistically, it can be concluded that the GCG variable has a significant effect on Return on Equity (ROE).

Furthermore, to strengthen this conclusion, a comparison was made between the t-count and t-table values. At a significance level of 5% ($\alpha = 0.05$) and certain degrees of freedom (df), for example, df = n – k, where n is the number of observations and k is the number of independent variables. Since the t-count value of -3.005822 is absolutely greater than the t-table value, namely:

$|\text{t-count}| = 3.005822 > \text{t-table} \approx 2.977$

Therefore, the decision is to reject H_0 (null hypothesis) and accept H_1, which states that there is a significant effect between GCG and ROE.

1. Coefficient of Determination Test

The coefficient of determination is used to measure the contribution of the independent variable in explaining the dependent variable. If the coefficient of determination value is closer to 1, this indicates that the independent variable's influence on the dependent variable is greater, meaning the independent variable provides almost all the information needed to predict variations in the dependent variable. Conversely, if the coefficient of determination (adjusted R^2) value is small, then the independent variable's ability to explain variations in the dependent variable is relatively limited. The results of the coefficient of determination can be seen in Table 5 below:

Table 5 Uji Koefisien Determinasi

R-squared	**0.392228**	Mean dependent var	-3.950000
Adjusted R-squared	**0.348816**	S.D. dependent var	26.03516
S.E. of regression	21.00933	Akaike info criterion	9.044279
Sum squared resid	6179.486	Schwarz criterion	9.140852
Log likelihood	-70.35423	Hannan-Quinn criter.	9.049224
F-statistic	9.034968	Durbin-Watson stat	2.333410
Prob(F-statistic)	0.009442		

Source: Data processing with Eviews 12, 2025

Based on the results of the coefficient of determination test in Table 5, the Adjusted R-squared value is 0.348816, or 34.8816%. This means that the independent variable (GCG) can explain 34.8816% of the dependent variable (ROE), while the remaining 65.1184%.

5. Discussion of Research Results

The results of the hypothesis testing (partial test) using EViews 12 software revealed that the Good Corporate Governance (GCG) variable had a t-statistic of -3.005822 and a significance level of 0.0094. This significance level is well below the general threshold of 0.05, indicating that GCG significantly influences Return on Equity (ROE). Although the direction of the effect is negative, this opens up room for a deeper understanding of how GCG influences managerial strategy and the company's long-term policy direction.

These results statistically indicate that as the GCG score increases, ROE tends to decrease. This study's findings contradict the theory proposed by Muh Arief Effendi(Effendi, 2009), who stated that improving GCG quality should have a positive impact on ROE. In his view, companies that optimally implement GCG will be able to increase efficiency, transparency, and managerial accountability, thereby generating higher returns on their capital. In other words, good governance is believed to increase company profitability, as reflected in high ROE values.

Although statistically, the results show a decrease in ROE as the GCG score increases, this actually underscores that good governance remains optimally implemented despite the company facing significant challenges. In other words, a high GCG score reflects a company's commitment to maintaining transparency and accountability, even amidst less-than-ideal financial conditions.

This is evident in the condition of Panin Dubai Syariah Bank in 2017. Panin Dubai Syariah Bank experienced a drastic decline in ROE from 2.57% in the first semester to -94.01%

in the second semester. However, this decline was not caused by governance failures, but rather was triggered by various strategic internal factors, such as a comprehensive restructuring process following the acquisition by Dubai Islamic Bank, the transition of its operational system to full Sharia compliance, and a significant increase in operating expenses. This demonstrates that the company is undergoing a major transformation requiring financial adaptation and consolidation. Interestingly, at the same time, its GCG score remained at 3, or "fairly good," according to the Financial Services Authority (OJK), indicating that governance quality was maintained throughout the transition period.

A similar situation occurred in 2021, when the COVID-19 pandemic put significant pressure on the banking sector, including Islamic banking. Panin Dubai Syariah Bank's ROE was recorded at 0.17% in the first semester, but declined to -31.76% in the second semester. Despite this, the bank's GCG score remained strong at 2 (the "good" category), indicating that it maintained sound governance principles amidst global uncertainty. Pressure on ROE during this period was primarily due to a high non-performing financing (NPF) ratio, large-scale credit restructuring, increased asset impairment allowances, and the lack of a full recovery in operating income. All of these factors demonstrate that the decline in ROE was the result of the company's mitigative and prudent actions in facing the crisis, rather than weak governance.

In other words, although GCG statistically shows a negative correlation with ROE, this result does not indicate a detrimental causal relationship. Instead, it demonstrates that GCG is a crucial foundation for managing risk, maintaining stability, and ensuring the company's future sustainability. Strong GCG enables companies to continue operating with integrity and high accountability, even when profitability experiences temporary pressure due to unforeseen external conditions.

Therefore, this study's findings reinforce the view that GCG has a long-term strategic function, not simply as a short-term profitability driver. In the context of Panin Dubai Syariah Bank, sound GCG implementation is one factor that enables the company to continue transforming and resilient amidst significant challenges, as well as designing adaptive strategies such as revenue diversification, developing innovative sharia-compliant products, and channeling financing to crisis-resilient sectors such as healthcare, food, and education.

This discrepancy does not mean the theory is irrelevant, but rather demonstrates that in practice, the influence of GCG on ROE is highly dependent on the company's internal and external context. In the case of Bank Panin Dubai Syariah, the decline in ROE that occurred in 2017 and 2021 was not a direct result of poor GCG quality, but rather was caused by a number of complex structural and external factors.

Thus, this difference in results reflects that GCG is not the sole variable determining ROE, and that the positive influence of GCG on ROE, as explained in Muh Arief Effendi's theory(Effendi, 2009), is more long-term and conditional on the company's operational stability. In times of crisis or transition, GCG functions as a safeguard of stability and a prudent strategic policy director, rather than as an instrument for pursuing short-term profits.

In addition to not fully aligning with the theory put forward by Muh Arief Effendi(Effendi, 2009), the results of this study also show inconsistencies with the findings of previous research conducted by Putri Alma Gholy(Alma Gholy et al., 2020). In her research, Gholy stated that Good Corporate Governance (GCG) variables have a significant positive effect on Return on Equity (ROE) in Islamic commercial banks in Indonesia. The study concluded that the higher the quality of GCG implementation, the greater the company's ability to generate returns on invested capital.

However, contrary to these results, this study found that the relationship between GCG and ROE at Bank Panin Dubai Syariah actually showed a negative effect, although it remained statistically significant. This discrepancy does not indicate an absolute contradiction, but rather reflects differences in the empirical conditions and context of the companies studied.

Gholy's research was conducted with a broader scope, encompassing all Islamic commercial banks in Indonesia, thus reflecting a more general situation. Meanwhile, this study focuses specifically on Bank Panin Dubai Syariah, which from 2017 to 2021 faced a number of unique circumstances, such as a major restructuring following its acquisition by Dubai Islamic Bank and the significant impact of the COVID-19 pandemic. Both of these factors substantially impacted the company's financial performance, including ROE, despite continued good corporate governance practices in accordance with GCG principles.

6. Conclusion

Based on the research and analysis conducted on the influence of Good Corporate Governance (GCG) on Return on Equity (ROE) at Panin Dubai Syariah Bank, it can be concluded that GCG has an impact on ROE. This finding indicates that an increase in GCG scores does not necessarily result in an increase in ROE in the short term. This may be explained by the specific context faced by Panin Dubai Syariah Bank during the study period, such as the post-acquisition restructuring process and the impact of the COVID-19 pandemic. However, these results do not indicate a failure of governance, but rather reinforce the strategic role of GCG as a risk mitigation mechanism and long-term policy guide. Thus, GCG remains a key pillar in building a sustainable and value-driven business foundation, although this is not yet fully reflected in short-term profitability.

This study has several limitations that should be considered, including the limited observation period, which only covers 2017 to 2024, and the failure to include external variables that could potentially influence financial performance, such as macroeconomic conditions, monetary policy, and Islamic banking sector regulations. These limitations can impact the depth of the analysis and the comprehensiveness of the conclusions drawn. Therefore, it is recommended that future researchers use a longer research period and consider a broader range of external factors to gain a more comprehensive understanding of the influence of good corporate governance on return on equity in Islamic banks.

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