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# Good Corporate Governance, Capital Adequacy, Financing Risk, Profitability and Islamic Social Reporting (ISR) of Sharia Commercial Banks in Indonesia

**Dwi Indriani Fidiastutik Wijaya[1*], Agung Budi Sulistyo[1] and Ahmad Roziq[1]**

*[1]Department of Accounting, Faculty of Economics and Business, University of Jember, P. O. Box 159-68121, Jember, Indonesia.*

***Authors' contributions***

*This work was carried out in collaboration among all authors. Author DIFW designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Authors ABS and AR managed the analyses of the study. All authors read and approved the final manuscript.*

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## ABSTRACT

**Aims:** To empirically evaluate Sharia commercial banks in Indonesia for good corporate governance, capital adequacy, financing risk, profitability, and Islamic Social Reporting (ISR).
**Study Design:** Explanatory research with a quantitative approach and using secondary data.
**Place and Duration of Study:** Sharia commercial banks registered with the Financial Services Authority in the period 2015-2019.
**Methodology:** The sample selection used a purposive sampling technique and resulted in 7 Sharia commercial banks. Data analyzed using path analysis with SmartPLS 3.0. The analysis only uses the inner model evaluation because each variable in this study only uses one proxy or one indicator.
**Results:** Good corporate governance and capital adequacy affects financing risk, good corporate governance, capital adequacy, and financing risk affects profitability, financing risk affects Islamic

**Corresponding author: E-mail: dwindriani20@gmail.com;*

Social Reporting (ISR), while good corporate governance, capital adequacy, and profitability do not affect Islamic Social Reporting (ISR).
**Conclusions:** Management should be able to create good corporate governance, manage capital adequacy to mitigate financing risk so that it can generate optimal profits for conducting sharia-based social activities and express it using the Islamic Social Reporting (ISR) as business transparency for stakeholders, thus increasing stakeholder confidence in the existence of Islamic commercial banks.

*Keywords: Good corporate governance; capital adequacy; financing risk; profitability; Islamic Social Reporting (ISR).*

## 1. INTRODUCTION

Indonesia's Sharia banking industry started with the establishment of Bank Muamalat in 1991. The government began to legally regulate the sharia banking industry in Law No. 10 of 1998 concerning Banking which stipulates that banks can operate using sharia principles. This law allows banks to work with a dual banking system, namely a license for conventional banks to provide sharia services with the initial provision of establishing sharia units. The Islamic banking industry's legal framework is getting more robust due to Law No 21 of 2008.

Law No. 40 of 2007 concerning Limited Liability Companies regulates corporate social responsibility (CSR) while in Islamic banking is regulated through Law no. 21 of 2008 that this sector has a business role and social function. Corporate Social Responsibility (CSR) reporting was developed by Global Reporting Project (GRI). The concept of social responsibility reporting has limitations because it does not include the fulfilment of spiritual aspects. Haniffa created the idea of reporting social responsibility based on sharia provisions called Islamic Social Reporting (ISR) [1].

Previous studies have found that corporate governance affects social responsibility disclosure [2,3]. Good corporate governance can increase corporate social responsibility exposure and promote increased corporate accountability and transparency to stakeholders [4] and improve company performance through monitoring management performance, and influence managers to consider the publication of social activities [5]. In addition, social responsibility activities and disclosures also depend on company capital [6]. The risk of financing in the business process is one of the causes for companies to reduce their social responsibility activities and disclosures [7,8] because companies will focus more on using their funds to minimise losses. However, companies with high profitability will carry out activities and social responsibility disclosures because they have sufficient financial resources to carry out these activities. Previous studies have shown that profitability affects social responsibility disclosure [9-11].

Fig. 1 shows that sharia commercial banks' profitability tends to increase. The management has successfully managed its assets, resulting in an increasing net profit from year to year. The principles of transparency, accountability, responsibility, independence, and fairness, also known as good corporate governance can encourage profitability growth because all decisions are made effectively and efficiently [12]. Capital adequacy is a crucial factor in business expansion and overcoming the risk of loss from various company activities [13]. However, the high risk of financing has resulted in a deterioration in banking conditions due to the increase in the cost of inventories of productive assets [14], the risk of financing reduces the resulting profit [15-17].

The financing risk for sharia commercial banks in Indonesia shows a fluctuating trend and has decreased in the last three years. This shows the success of management in reducing financing risk. Islamic banks in their activities face the risk of financing caused by customer fails to pay back within a predetermined time [18]. Financing risk can be overcome with good corporate governance because when evaluating corporate governance, this risk becomes one of the focuses of improvement. In addition, capital adequacy affects financing risk [19,20] because the greater the capital adequacy, the lower the risk of financing.

This study is development research [10]. The difference in research lies in the use of the variable good corporate governance, capital adequacy, as well as items of the Islamic Social

Reporting (ISR) variable. The reason for using the variables of good corporate governance and capital adequacy is agency theory, which explains that there is an information gap in the principal and agent contract relationship so that the company owner has to pay agency fees to supervise and control the agent's actions [21]. Several previous research results show that good corporate governance can minimize agent actions not to harm the principal when managing the company [22,23]. Previous studies show that capital adequacy can reduce the risk of financing loss [24] and increase profitability [25]. The Islamic Social Responsibility (ISR) item used in this study is classified as Cahya [26] because it has been tested on companies recorded in the Jakarta Islamic Index (JII). However, this is still a little applied, especially in Islamic commercial banks.

The use of these variables is very interesting because good corporate governance is a system that can help companies achieve and maintain business continuity, capital adequacy will protect the company from potential crises due to a decline in asset value caused by financial losses, and Islamic Social Responsibility (ISR) will be a solution for the limitations of conventional reporting. The gap in research results between previous studies is also a reason for examining the variables used in this study. So it is hoped that this research can fulfill the research gap.

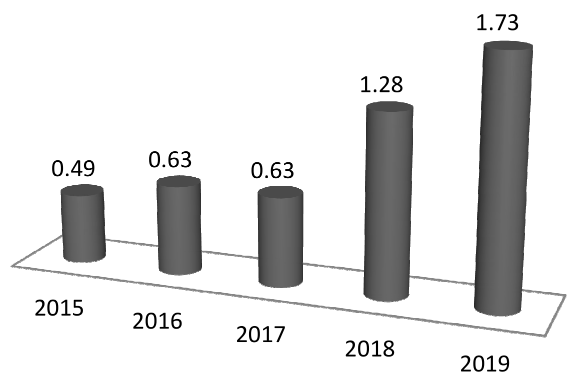


**Fig. 1. Profitability (Return on Asset) of Indonesian Sharia Commercial Banks for the period 2015-2019**

*Source: Sharia banking Statistics, Financial Services Authority (2019)*

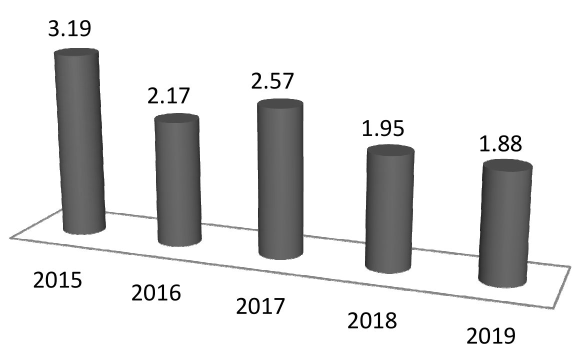


**Fig. 2. Financing risk (non-performing financing - nett) of Indonesian Sharia Commercial Banks for the period of 2015-2019**

*Source: Sharia banking Statistics, Financial Services Authority (2019)*

## 2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### 2.1 Sharia Bank

According to the Indonesian Ministry of Religion, sharia banks are financial institutions that offer financial services for Islamic reasons and charge compensation based on Islamic law. The purpose is to encourage national growth to enhance justice, unity, and fair allocation of people's welfare. Sharia banking is strictly prohibited from carrying out transactions if there is an element of *gharar*, namely the part of uncertainty or deception in the transaction, the *maysir* element, which is the element of gambling whose transactions are speculative which can cause losses to one party and profit to other parties, and the element of usury, namely transactions using the interest system.

### 2.2 Agency Theory

Agency theory is a contractual arrangement in which the principal delegates its duties to an agent, and the agent decides to accept and execute specific responsibilities [21]. Agency theory is concerned with solving agency problems that arise when there is a conflict of desire or purpose between the principal and the agent where the principal does not believe in what the agent does [27]. Agency problems in Islamic financial institutions can occur due to bank agents or management not carrying out fiduciary obligations by the sharia principles stated in the contract [8], managers take actions that against the rules by not placing funds provided in Islamic investments [28]. The problems in this agency relationship lead to agency costs, including monitoring expenditures, bonding expenditures, and residual loss [21].

### 2.3 Legitimacy Theory

Parsons first put forward the theory of legitimacy in Dowling & Pfeffer 1975, which states that organizations use resources in a social system. Therefore, their activities must be aligned and must get recognition from the social system to maintain the organization's continuity. Companies involved in social responsibility activities can strengthen the legitimacy and increase their reputation in society [29]. Annual reports can enhance public perceptions of the company's responsiveness to some environmental issues [30].

### 2.4 Islamic Social Reporting (ISR)

This is the widening of sharia-based social responsibility as a form of corporate responsibility from an economic perspective, including a commitment to God, humans and the environment [1]. This reporting emerged due to the community's strong desire towards the company to open up its social activities and the public awareness of the importance of reporting on social activities [26]. Islamic Social Responsibility (ISR) item used in this study belongs to Cahya [26]. Islamic Social Reporting Ratio (ISRR) is calculated by Number of Items Disclosed / Maximum Number Of Items x 100%. Several factors that influence Islamic Social Reporting (ISR) are good corporate governance [3,2,4], capital adequacy [6] financing risk [7,8], profitability [9-11].

### 2.5 Profitability

Profitability is measured using Return on Assets (ROA) is often a major concern because its ability to project the company's past earnings to be used as an evaluation in the future [31]. Banks' ability to create income from total assets is launched with Return on Assets (ROA) [32]. If this is more significant, a company's possibility in a problematic condition is less because the resulting profit increases. Return on Asset Ratio (ROA) is calculated by Profit Before Tax / Total Assets x 100%. Several factors that affect profitability are Good Corporate Governance [12,23,33], capital adequacy [34,35,25], and financing risks [15-17].

### 2.6 Financing Risk

Financing risk is often associated with default risk, which refers to banks' potential loss when debtors' financing is terrible [20]. Financing risk occurs in financing whose collectability falls into substandard financing, doubtful financing, and non-performing financing. Bank Indonesia explained that substandard financing occurs when the principal loan repayment and interest payment have been delayed for three months from the agreed time, doubtful financing happens when the repayment of the loan principal and interest payments have been postponed for six months, non-performing financing occurs when the repayment of the principal and interest payments has been delayed for more than one year since the due date contains the agreed schedule in Regulation No. 8/2/ PBI / 2006. Bank Indonesia sets the maximum financing risk at

5%. Total Non Performing Financing / Total Financing x 100% is a formula used to determine the value financing risk. Several factors that affect the risk of financing are good corporate governance [36,37,22] and capital adequacy [20,19].

## 2.7 Good Corporate Governance

Sharia-based corporate governance uses the basis of the Al-Qur'an and Hadith in their activities [38]. Bank Indonesia explains good corporate governance principles consisting of transparency, accountability, responsibility, independence, and fairness in provisions No.11/33/PBI/2009. The bank has a self-assessment obligation. Self-assessment includes 11 factors, namely actions of the board of commissioners, actions of the board of directors, actions of the committee, actions of the sharia supervisory board, sharia principles' application, conflict control over objectives, bank compliance, internal audit activities, external audit activities, limits on the disbursement of funds, and disclosure of financial reports and non-finance, Good Corporate Governance reports and internal conditions. Financial Services Authority Regulation Number 8 /POJK.03/2014 determines the ranking for the practice of Good Corporate Governance, namely the first rank means excellent, second means good, third means quite good, fourth means less good, and fifth means not good.

## 2.8 Capital Adequacy

The regulation Number 21/POJK.03/2014 describes the function of Islamic commercial banks' capital adequacy, which is to protect companies from losses caused by various types of company activity risks including credit threat, market threat, and operational threat. In addition, this regulation states that banks are prohibited from sharing profits if the distribution results in the bank's capital not meeting the minimum capital requirement. Furthermore, if there is a violation, the Financial Services Authority will impose a written warning, prohibition on expansion of business activities, suspension of certain business activities, the prohibition of opening office networks, lowering the soundness of banks, and inclusion of management in the records of persons who are not allowed to be shareholders and managers of banks. Capital adequacy is calculated by Bank Capital/RWA X 100%.

## 2.9 Research Conceptual Framework and Hypothesis

Agency theory explains that there is a contractual relationship within the company [26]. Principals leave the company's management to agents to maximize company performance for the company owners' benefit. Agent as the party who knows more about the company has a lot of information than the principal, causing information asymmetry. One way to reduce the problems that arise is by implementing good corporate governance. Thus stakeholders get adequate protection, and management can act as well as possible for the company's benefit.

Adequacy of capital provides a buffer for the company facing a decline in assets caused by losses from problem assets. Bank Indonesia regulates the maximum amount of financing risk. If the financing risk exceeds the maximum limit, the bank is considered to have a high risk of financing. Management as a company manager is responsible for maintaining its capital adequacy and maintaining business risk value through effective and efficient management, control, and supervision to minimize business losses. The company's goal of reducing business losses is to increase profitability because it will not last long without profitability. Profitability also represents management's ability to manage company resources to generate profits.

Legitimacy theory explains that one way to get legitimacy from the environment is to pay attention to environmental problems by protecting the environment from all possible damage caused by company operations or other causes. Annual reports can convince the public that the company is responsive to several environmental problems [30]. Islamic Social Reporting (ISR) provides disclosure items for sharia-based social activities because it involves social responsibility items compiled to meet Muslim stakeholders' spiritual needs or sharia compliance.

Based on the theoretical analysis results, previous research on Islamic Social Reporting (ISR) disclosure factors, the conceptual framework and hypothesis of this study is as follows.

# 3. RESEARCH METHODOLOGY

This research is an explanatory type using a quantitative approach. The purposive sampling method was used to produce samples. The sample selection criteria is that Islamic commercial banks are included in the financial services authority which has an annual report and contains complete research data for 2015-2019. Finally, seven samples were obtained from fourteen banks for the 2015-2019 observation period. The data to be processed is secondary data from the publication of a Sharia Commercial Bank's annual report, accessed from the company portal. The data collection method uses documentation.

Independent variables consist of good corporate governance and capital adequacy. Each variable's definition is as follows: Good Corporate Governance is a governance-based implementation on transparency, accountability, responsibility, independence, and fairness following statutory regulations and assessed according to the composite ranking of the results self-assessment. Meanwhile, capital adequacy is the amount of capital compared to assets that contain credit, market, and operational threat. Bank capital/RWA X 100% is used to determine the Capital Adequacy Ratio (CAR) proxy for capital adequacy.

Intervening variables consist of financing risk and profitability. Each variable's definition is as follows: Financing Risk is the possibility of a bank's losses from financing activities. Financing risk is proxied by the Non-performing Ratio (NPF). The formula used to calculate the variable risk financing is Total Non-Performing Financing / Total financing x 100%. Meanwhile, profitability is the amount of profit generated by a company for managing all of its assets. Profitability variable is calculated by Profit Before Tax / Total Assets x100%.

The dependent variable consists of Islamic Social Reporting (ISR), a social disclosure linking aspects of sharia and is calculated by comparing the number of items disclosed with the maximum number of items X 100%.

The data in this study will be processed using the SmartPLS 3 statistical tool using the Partial Least Square approach. Conditions support the Partial Least Square method are complex structural models and include many relationship models, the path model has only one or a number of constructs, the research is based on secondary data, a minimum population that limits the sample size [39]. The path analysis model in Partial Least Square (PLS) consists of an inner model that explains the affiliation between latent variables, external models which explains the relationship between latent variables and their indicators or manifestation variables, the weight of the relation is used to calculate latent variable data [40]. In this study, the analysis only uses the inner model evaluation. The outer model analysis was not carried out because each variable in this study only used one proxy or one indicator [41,10,42,43].

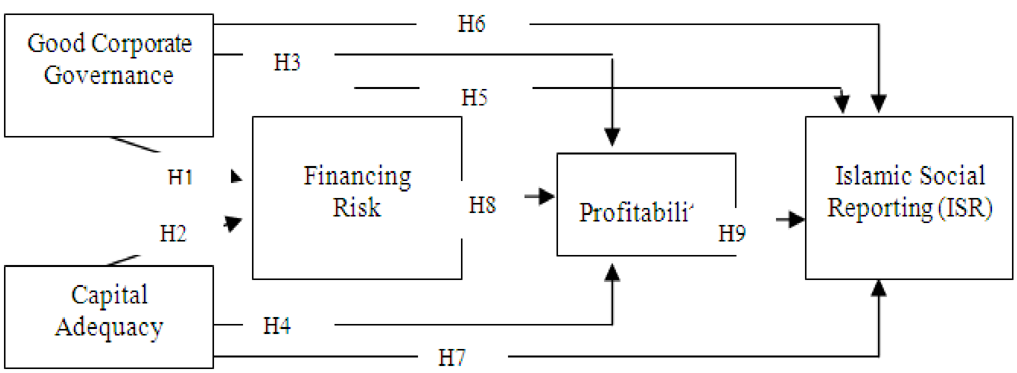


**Fig. 3. Research conceptual framework**

*H1: Good Corporate Governance effects on financing risk*
*H2: Capital adequacy effects on financing risk*
*H3: Good Corporate Governance effects on profitability*
*H4: Capital adequacy effects on profitability*
*H5: Financing risk effects on profitability*
*H6: Good Corporate Governance effects on Islamic Social Reporting (ISR)*
*H7: Capital adequacy effects on Islamic Social Reporting (ISR)*
*H8: Financing risk effects on Islamic Social Reporting (ISR)*
*H9: Profitability effects on Islamic Social Reporting (ISR)*

# 4. RESULTS AND DISCUSSION

## 4.1 Testing the Partial Least Square (PLS) Model

Model testing includes the collinearity test (VIF) to see multicollinearity in the model, the coefficient of determination (R Square) to determine the ability of exogenous or independent variables to explain endogenous or dependent variables, predictive relevance (Q Square) to see the power of the model to explain data diversity, test significance (t statistic) to see the significant effect between variables [39].

Table 1. Shows the value of Variance Inflation Factor (VIF) < 5, so there is no multicollinearity. Table 2 shows the financing risk variable's value, indicating that this variable is influenced by good corporate governance and capital adequacy of 0.334. The profitability variable's value indicates that this variable is affected by good corporate governance, capital adequacy, and financing risk of 0.463. The value of the Islamic Social Reporting (ISR) variable indicates that this variable is influenced by good corporate governance, the capital adequacy of financing risk, and profitability of 0.235. Predictive relevance (Q Square) is calculated by:

Q Square = 1 - (1 - R1 Square) (1-R2 Square) (1-R3 Square)
Q Square = 1 - (1 – 0.334) (1- 0.463) (1- 0.235)
Q Square = 1 - (0.666) (0.537) (0.765)
Q Square = 1 – 0.274
Q Square = 0.726

The predictive relevance (Q Square) value shows the data's diversity in this model of 0.726 or 72%

## 4.2 Hypothesis Testing

It can be seen in the statistical value or *p*-value, for 5% alpha the statistical value used is 1.64 (t-table). The decision to accept / reject is if the t-statistic is > 1.64 (t-table) or if the *p*-value is > 0.05. The results of the following data processing are as follows.

## 4.3 Discussion

### 4.3.1 Good corporate governance affects financing risk

Table 3 shows the path coefficient value of 0.223, the T statistic > 1.64 which is 1.954, and the *p*-value < 0.05 which is 0.026 so that the first hypothesis in this study is accepted. Financial Services Authority Circular Letter Number 8 / POJK.03 / 2014 states that the smaller the ranking, the better corporate governance. Sharia Commercial Banks of management has made efforts to meet the 11 assessment factors of good corporate governance. It can monitor management actions in managing the risk of financing in company activities because good corporate governance applies transparency, accountability, responsibility, independence, and fairness to minimize risks. This study results support previous research [22,37,36] that good corporate governance affects financing risk.

### 4.3.2 Capital adequacy affects financing risk

Table 3 shows the path coefficient value of -0.485, the T statistical value > 1.64 which is 3.449, and the *p*-value < 0.05 which is 0.000, so that the second hypothesis in this study is accepted. The bank is committed to maintaining capital adequacy not to exceed the minimum limit required by Bank Indonesia. This increases the bank's ability to anticipate business losses arising from financing risks. This study supports the results of previous studies [24], which state that capital adequacy affects financing risk. This is due to the fulfillment of sufficient capital for Islamic commercial banks, thereby improving the bank's ability to accommodate loss' risk due to non-performing financing. The capital adequacy value shows the amount of capital used to accommodate the risk of default. Adequacy is a comparison of the company's capital with risk-weighted asset value. A larger company capital value results in lower financing risk.

### 4.3.3 Good corporate governance affects profitability

Table 3 shows the path coefficient value of 0.282, T statistic > 1.64 which is 2.458, and the *p*-value < 0.05 which is 0.007 so that the third hypothesis is accepted. Good corporate governance affects profitability [23,33,12]. Good corporate governance practices can create a system to direct, control, and improve all company resources efficiently and effectively because good corporate governance adheres to the principles of transparency, accountability, responsibility, independence, and fairness. The bank periodically evaluates Board of Commissioners' activities, Board of Directors' activities and Sharia Supervisory Board's activities, application of sharia principles, the role of internal and external audits, and the transparency of company activities. Practising good corporate governance principles in company operations increases stakeholder trust because all company decisions are made clearer. This will increase the company's profitability. Better Good Corporate Governance practices will increase its profitability.

### 4.3.4 Capital adequacy affects profitability

Table 3 shows the path coefficient value of 0.416, T statistics > 1.64 which is 2.102, and *p*-values < 0.05 which is 0.018 so that the fourth hypothesis in this study is accepted. Capital adequacy affects profitability [35,25,34]. Adequacy of capital protects against losses due to risks that arise in company activities. The bank carries out business activities by applying the precautionary principle and is guided by regulators. Banks have implemented good risk management according to regulatory requirements. The fulfilled capital adequacy enables the bank to make financing, thereby affecting the increase in profitability. Strong capital adequacy indicates an indication for placing funds in productive assets. The higher the capital adequacy, the stronger the bank's ability to temporarily produce productive assets, thereby increasing profitability.

### 4.3.5 Financing risk affects profitability

Table 3 shows the path coefficient value -0.400, T statistic > 1.64 which is 3.121, and *p*-value < 0.05 which is 0.001, so that the fifth hypothesis in this study is accepted. Indonesia determines the maximum financing risk. If a bank's Non Performing Financing (NPF) is above the maximum limit, the bank is considered to have a high risk of financing. During the observation period, Islamic Commercial Banks are in a safe condition as indicated by the average level of financing risk that does not exceed the maximum limit of Bank Indonesia, so management success in managing problem financing. Bank's success in managing financing risk affects its ability to make financing decisions and restructure financing to increase profitability. This study supports the previous research [44] that the risk of financing affects profitability. The negative effect shown by the risk of financing explains that the lower the financing problem, the higher its income is reflected in profitability.

### 4.3.6 Good corporate governance does not affect Islamic Social Reporting (ISR)

Table 3 shows the path coefficient value of -0.100, the T statistical value < 1.64 which is 0.725 and the *p*-value > 0.05 which is 0.234. Good corporate governance does not affect Islamic social reporting because social activities have become the company's commitment to act ethically within social responsibility framework to stakeholders related to company activities. In addition, the implementation of social activities and their disclosures creates a balance between business actors, stakeholders, and regulators. Legitimacy theory clearly explains that social activities carried out by companies are based on obedience to community regulations by paying attention to environmental problems and protecting the environment from all possibilities damage caused by company operations.

### 4.3.7 Capital adequacy does not affect Islamic Social Reporting (ISR)

Table 3 shows the path coefficient value of -0.018, the T statistic value < 1.64, which is 0.108, and the *p*-value > 0.05, which is 0.457. The test results show that capital adequacy does not significantly affect Islamic social reporting, so the seventh hypothesis in this study is rejected. Capital adequacy does not affect sharia social reporting, possibly because banks are more focus on meeting or maintaining the amount of capital adequacy required by Bank Indonesia, if capital adequacy is not met, it will be subject to restrictions on business activities. This study supports previous research [45] that capital adequacy does not affect Islamic Social Reporting. Companies mainly manage their capital to meet customer financing needs or operational needs. As a result, banks that manage their capital do not focus too much on disclosing their social responsibilities.

### 4.3.8 Financing risk affects Islamic Social Reporting (ISR)

Table 3 shows the path coefficient value of 0.545, T statistics > 1.64 which is 4.281, and *p*-values < 0.05, which is 0.000 so that the eighth hypothesis in this study is accepted. Bank Indonesia regulates the maximum level of financing risk as proxied by Non-Performing Finance at 5%. During the study period, the company's non-performing finance average value was less than 5%. So that all companies are in a safe condition during the research period. This enables the company to operate and carry out activities and disclosure of social responsibilities. Thus, the increasing value of Islamic banking Non-Performing Finance during the research period will increase its social activities and be disclosed in the social responsibility report. This research supports previous studies [38,8] that the risk of financing affects Islamic Social Reporting. This is because the bank wants to fulfill its stakeholders' wishes by showing good financial performance, bank does social activities, and discloses the social responsibility report.

### 4.3.9 Profitability Does Not Affect Islamic Social Reporting (ISR)

Table 3 shows the path coefficient value of 0.087, the statistical T value <1.64, namely 0.511, the *p*-value > 0.05, namely 0.305, so the ninth hypothesis in this study is rejected. Sharia companies consider Islamic Social Reporting (ISR) a necessity for stakeholders, especially Muslim stakeholders. The company takes social action to carry out obedience to God and accountability to the community and fulfill the interests of Muslim stakeholders in decision making. So that in the financial condition the company experiences profit or not, the company will continue to carry out Islamic social reporting. This research supports the results of previous researches [17,46] that social responsibility disclosure is not influenced by profitability. In the Islamic view, when a company intends to make full disclosure, the favourable conditions or the loss conditions are not an obstacle. This is done to fulfil the responsibilities of stakeholders.

**Table 1. Collinearity Statistics (Inner VIF values)**

| Variable | Financing Risk | Profitability | Islamic Social Reporting |
|---|---|---|---|
| Good Corporate Governance | 1.053 | 1.127 | 1.275 |
| Capital Adequacy | 1.053 | 1.406 | 1.728 |
| Financing Risk | | 1.500 | 1.798 |
| Profitability | | | 1.861 |

*Source: results of SmartPLS 3 data processing (2020)*

**Table 2. Coefficient of Determination (R Square)**

| Variable | R Square |
|---|---|
| Financing Risk | 0.334 |
| Profitability | 0.463 |
| Islamic Social Reporting (ISR) | 0.235 |

*Source: the result of SmartPLS 3 data processing*

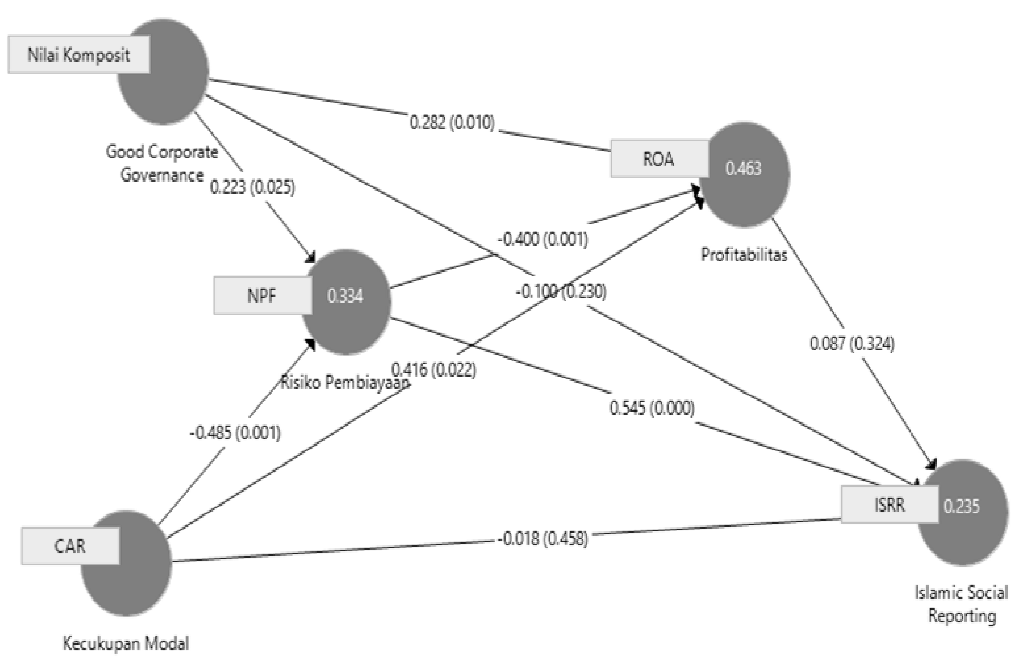


**Fig. 4. Path analysis**

**Table 3. Results of direct relationship testing**

| | Original Sample | T Statistics | P Values | Desc. |
|---|---|---|---|---|
| Good Corporate Governance -> Financing Risk | 0.223 | 1.966 | 0.025 | Sig. |
| Capital Adequacy -> Financing Risk | -0.485 | 3.273 | 0.001 | Sig. |
| Good Corporate Governance -> Profitability | 0.282 | 2.345 | 0.010 | Sig. |
| Capital Adequacy -> Profitability | 0.416 | 2.013 | 0.022 | Sig. |
| Financing Risk -> Profitability | -0.400 | 3.016 | 0.001 | Sig. |
| Good Corporate Governance -> Islamic Social Reporting | -0.100 | 0.738 | 0.230 | No Sig. |
| Capital Adequacy -> Islamic Social Reporting | -0.018 | 0.105 | 0.458 | No Sig. |
| Financing Risk -> Islamic Social Reporting | 0.545 | 4.064 | 0.000 | Sig. |
| Profitability -> Islamic Social Reporting | 0.087 | 0.457 | 0.324 | No Sig. |

*Source: results of SmartPLS 3 data processing (2020)*

## 5. CONCLUSION

This study aims to test and obtain empirical results on Islamic commercial banks in Indonesia in 2015 - 2019 using variables of good corporate governance, capital adequacy, financing risk, profitability, and Islamic Social Reporting (ISR). Sourced from research purposes, the test results show that good corporate governance and capital adequacy affects financing risk, good corporate governance, capital adequacy, and financing risk affects profitability, financing risk affects Islamic Social Reporting (ISR), good corporate governance, profitability, and capital adequacy does not affect on Islamic Social Reporting (ISR).

This study's limitation is that the research sample is small, amounting to 35 data from 7 companies during the 2015-2019 period. So that researchers in the future can increase the number of samples from 2015 to 2020, and the types of companies are also added. In addition, further researchers are advised to use other variables such as intellectual capital and firm value, using different measurements such as Good corporate governance as measured by the Corporate Governance Perception Index (CGPI), Profitability as measured by Return of Equity (ROE), Return of Assets. (ROI) and Risk as measured by Non-Performing Loans (NPL) as well as developing Islamic Social Reporting measurement items.

The implication of this research results is information and evaluation for Islamic commercial banks regarding the practice and management of good corporate governance, the level of capital adequacy, and financing risk. By treating these factors effectively and efficiently, companies can generate and manage profits optimally and carry out sharia-based social activities as obedience to Allah SWT, society, and the environment. In addition, the Islamic Social Reporting (ISR) reference is used to increase the openness of business practices, in particular, to answer the moral desires of Muslim stakeholders and increase stakeholder confidence in Islamic commercial bank activities.

## DISCLAIMER

The products used for this research are commonly and predominantly use products in our area of research and country. There is absolutely no conflict of interest between the authors and producers of the products because we do not intend to use these products as an avenue for any litigation but for the advancement of knowledge. Also, the research was not funded by the producing company rather it was funded by personal efforts of the authors.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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