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The Effect of Islamic Corporate Governance, Firm Characteristic on Capital Structure and Financial Performance of Sharia Commercial Banks Registered the Financial Services Authority

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Abstract

This study examines the relationship between Islamic corporate governance, firm characteristics on capital structure and financial performance in Islamic Commercial Banks. The data analysis technique uses Partial Least Square (PLS), with structural equations (SEM) based on components or variants, on annual data from 2017 to 2021. The findings show that three determinants significantly affect the financial performance of the five hypotheses proposed. Islamic corporate governance has a significant effect on financial performance in a negative direction, and a significant positive effect on capital structure Firm characteristic has no significant effect on capital structure and financial performance. Capital structure factors influence financial performance. The practical implications of this study emphasize the important role of the sharia supervisory board and independent commissioners in improving the financial performance of Islamic commercial banks.

Keywords*: Capital Structur; Financial Performance; Firm Characteristic; Islamic Corporate Governance.*

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1. Introduction

Sharia Banks in Indonesia are currently experiencing rapid development, one of the factors that support the development of Islamic Banks is regulations issued by the government through Law no. 21 of 2008 concerning Islamic banking (Fajriah & Jumady, 2021). However, despite the rapid development of Islamic banking, it turns out that the performance of Islamic banking is still below that of conventional banks. Islamic banks still have several problems in their development, where these problems come from internal Islamic banks themselves. The problem is that Islamic bank employees still lack knowledge and understanding of Islamic banking and Islamic economics. Thus, there is a public opinion that the performance of Islamic banks is not as good as that of conventional banks (Hasan, 2009).

Table 1. Development of Sharia Commercial Bank Assets (BUS) and Profitability in 2017-2022

Year	Total Assets (In billion IDR)	Number of Offices	ROA (%)
2017	288.027	1.825	0,63
2018	316.691	1 875	1,28
2019	350.364	1 919	1,73
2020	397.073	2 034	1,40
2021	441.789	2 035	1,55
2022	494.947	1 972	2 ,07

Source: Sharia banking statistics, 2022

Based on Table 1, it shows that the development of Islamic Commercial Banks has increased in terms of the number of offices, the number of assets. Based on the development of its Return on Assets, the performance of Islamic Commercial Banks is still not good. According to Bank Indonesia Regulation No. 6/9/PBI/2004 the minimum ROA standard set for each bank is 1.5%. If seen in table 1, the ROA of Islamic Commercial Banks from 2017-2022, there are still several years below the minimum standards set by Bank Indonesia. Based on a low ROA, this can indicate that the level of profit obtained by Islamic Commercial Banks is experiencing a decline, which means that the financial performance of Islamic Commercial Banks is in a weakened state.

Bank performance is one of the important factors that must be considered by banks to continue to survive (Putri et al., 2015). The bank's financial performance is part of the bank's overall performance. Financial performance is an illustration of the achievement of economic results from operational activities carried out by sharia banks to gain benefits effectively and efficiently within a certain time. Financial performance is a significant consideration for parties with an interest in banks (Muchlish & Umardani, 2016).

For banks, financial performance is used by management to conduct periodic assessments of a bank's operations based on predetermined performance standards. Measuring a bank's financial performance is useful as a means of controlling and evaluating bank operational activities. In addition, measurement of financial performance is also useful for establishing the right strategy to achieve bank goals (Prasetyo, 2008).

Several factors such as corporate governance, company characteristics and capital structure are factors that can affect the financial performance of Islamic banks. Several empirical studies that examined the relationship between corporate governance on capital structure and financial performance found different evidence. Research by Falikhatun et al. (2020), Nomran et al. (2018) and Nugraheni (2018) found evidence that Sharia Governance as measured using the Sharia supervisory board has a significant positive effect on ROA. This means that the greater the number of sharia supervisory boards, the greater the opportunity to carry out supervision and monitoring, to be able to encourage companies to increase transparency which in turn will increase customer confidence, and ultimately will improve the financial performance of Islamic Banks. Research Hartono et al. (2021) found evidence that corporate governance in Islamic companies has a positive effect on shareholder trust which is manifested by return on equity, stock returns and earnings per share. In contrast to the research findings of Maharani and Sixpria (2022) it shows that Good Corporate Governance in Sharia Business as measured using independent commissioners has no statistical effect on financial performance. Shittu et al. (2016), which shows the size of the Sharia

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Supervisory Board has a negative effect on the performance of Islamic Commercial Banks. Bhatti & Bhatti (2010) states that Islamic corporate governance (ICG) seeks to devise ways in which economic agent, the legal system, and corporate governance can be directed by moral and social values based on Sharia laws. Its supporters believe that all economic, corporate, and business activities should be based on an ethareligious paradigm, with the sole aim being the welfare of individuals and society.

The causal relationship between corporate governance and capital structure also shows conflicting results. Research by Wahidah & Ardiansari (2019) found that the results of the independent board of commissioners had a positive and significant or significant impact on the company's debt ratio variables. Research by Mai et al. (2021) explains all proxies of the corporate governance variable negatively affect financial leverage variable, except for the Independent Board of Commissioners (ICB) which has a positive effect on book leverage (BLEV). Research by Agyei & Owusu (2014) found that the results of the board of directors positively and significantly affect the company's debt ratio. In contrast to the research by Shakri et al. (2017) found the results of the independent board of commissioners did not have a significant impact but had a negative relationship to the company's debt ratio. Ihza and Bawono's research (2022) found evidence that Islamic Corporate Governance as measured using an Independent Board of Commissioners significantly affects the Debt Ratio (Leverage) and the effect is negative. Meanwhile, the Sharia Supervisory Board variable has a negative impact, but the impact is not significant or insignificant.

Several empirical studies that have been conducted regarding the relationship between bank characteristics and capital structure and financial performance have also shown different results. Research by Muslih and Marbun (2020) found evidence that company size has a significant positive effect on company performance, company age does not have a significant effect on company performance. Research by Helliana and Gunawan (2023) found evidence that company size has a sizeable impact on financial performance. Megawati and Dermawan (2019) in their research stated that firm size has a significant effect on firm performance, while the firm age variable has an insignificant effect on firm performance. Nawaiseh (2020) in his research stated that there was an insignificant effect of company age and company size on profitability.

Empirical studies conducted by Alipour et al. (2015) use of total assets as a measure of Firm Size has a negative effect on Capital Structure, Harc (2015) found evidence that there is a negative relationship between firm size and leverage. The relationship between firm size and short-term leverage is negative but not statistically significant. The relationship between firm size and long-term leverage is positive in all years observed but not statistically significant. Furthermore, Lim (2012) in his research on the Determinants of Capital Structure Empirical Evidence from Financial Services Listed Firms in China found evidence that profitability, company size, non-debt tax, income and stock volatility are determinant factors in determining capital structure. In addition, firm size has a positive relationship with the firm's leverage ratio.

The inconsistent results of previous research motivated researchers to re-examine corporate governance, firm characteristics, capital structure and financial performance in one research model. The aim is to contribute to the treasury of empirical findings to test existing financial theory explanation models and to test the consistency of previous findings. Furthermore, this study specifically aims to test and explain the effect of firm corporate governance characteristics on capital structure and financial performance in Islamic commercial banks registered with the Financial Services Authority.

2. Literature Review

Integration of Islamic Corporate Governance/ICG with Capital Structure and Financial Performance.

Endraswati (2017) explains that Islamic corporate governance is a system that directs and controls companies so that they can achieve goals by providing protection for the interests and rights of each stakeholder, which is based on monotheistic views and Islamic epistemology in the mechanism of policy creation. Bhatti & Bhatti (2009) explains that Islamic corporate governance mechanisms place primary consideration on sharia law and Islamic finance principles in the process of making policies and practices. According to Mardian (2015), one of the main differences in the concept of Islamic corporate governance (ICG) in companies or Islamic banking with conventional concepts is the existence of a Sharia Supervisory Board in its governance structure. This council ensures that policymaking and sharia banking practices are in line with the teachings of the Al-Quran and sunnah rosul.

Agency theory states that management has indications to act for their own benefit, not for the benefit of stakeholders, which in turn can harm the company and ultimately reduce the company's performance. The application of Islamic Corporate Governance is needed to overcome this and is needed to be able to ensure the rights and relationships between all stakeholders are guaranteed (Anugerah, 2015). The application of Islamic Corporate Governance can realize the expectations of these stakeholders, so that when all the expectations of the stakeholders are achieved it will be able to create extraordinary corporate performance.

Corporate governance has a close influence on capital structure. Corporate governance and capital structure are the two components that form the basis of a company's economic stability. Without these two things, the economic condition of a company will be lame. If both can be maintained properly, it will eliminate the bad controls that exist in the company, bad culture, even failures that lead to bankruptcy. Because after all, a company must be controlled by competent people who are able to take policies within the company appropriately (Monks & Minow, 2003).

Leverage is a means or tool for measuring how much assets are financed with debt/loans when compared to the company's internal capital (Ihza & Bawono, 2022). One important thing to note is that the higher the leverage ratio, which means that the proportion of debt in the company's capital structure also increases, the result is that the fixed costs borne by the company increase. Thus, the proportion of financial risks faced also increases (Magdalena et al., 2017). So, it becomes important for Islamic banks to form a board of directors who have a balanced ability between financial capabilities and have Islamic morality. Because directors have a strong role in the formation of capital structure.

Research by Yadiat et al. (2017) shows that Islamic Corporate Governance has a positive effect on the performance of sharia banking. Ananda & Nr. (2020) prove that Islamic Corporate Governance has a positive and significant effect on the performance of Sharia Commercial Banks, meaning that the implementation of Islamic Corporate Governance will be able to improve the performance of Sharia Commercial Banks. Company organs consisting of shareholders, the board of commissioners and directors, the sharia supervisory board and committee boards have an important role in implementing ICG. ICG implementation will be able to have a good impact on company performance, including reducing agent costs, increasing the value of company shares, creating stakeholder support, maintaining the welfare of stakeholders and principals, and building good relationships between stakeholders and principals. Hartono (2018) in his research proved that the implementation of ICG had a positive influence on the performance of sharia banks. Rahman & Haron (2019) examined the impact of implementing Corporate Governance on Sharia banking performance, the result is that the characteristics of the Sharia Supervisory Board and the structure of the board have an influence on improving Islamic banking performance.

Based on above literature and arguments, following hypotheses are generated

H1 : Islamic Corporate Governance has a significant effect on Financial Performance.

H2 : Islamic Corporate Governance has a significant effect on Capital Structure

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Integration of firm characteristics with Capital Structure and Performance

Firm Characteristic is conceptualized differently by various studies depending on the criteria used to define it. However, most studies seem to agree in the position that firm characteristics are related to firm resources and organizational goals. Companies that have resources and objectives can be analyzed using three criteria, namely structure, market and capital related to Firm Characteristics (Kisengo & Kombo, 2014). Characteristic Firm Structure includes company size, ownership, and age. In fact, market-related variables include industry type, uncertainty environment and market environment while capital-related variables consist of liquidity and capital intensity (Kisengo & Kombo, 2014). Most of the research has focused on structural criteria related to Firm Characteristics because these are more related to organizational performance than others (Kipesha, 2013).

Companies that have had more experience for a long time will better understand the needs of their users and more detailed information about the company must be disclosed transparently to parties outside management who have an interest in the company. On the other hand, company size is a scale that can classify companies into large and small companies according to various ways such as total assets or total assets of the company, share market value, average level of sales and number of sales. The larger a company, the greater the tendency to use funds (Suwito & Herawaty, 2005).

Bank characteristics such as bank age, bank size, and bank reputation can provide a signal to shareholders about the performance of a bank. Companies that have been operating longer will be more numerous and extensive in providing company information than companies that have just been established so that there will be less information asymmetry. The larger a company, the greater the assets owned. That way it will be easier for companies to get loans because creditors will easily give credit to companies (Halim, 2007).

Hananto and Amijaya (2021) found evidence that company size or total assets and capital adequacy (CAR) have a positive effect on the rate of return on assets or ROA, that the greater the assets managed will affect the performance of bank management more efficiently in managing Islamic banks. Furthermore, Iskandar and Zulhilmi (2021) in their research found evidence that company size has a significant effect on financial performance, the size of the financial performance received by Islamic commercial banks in Indonesia is influenced by the size of the company size of Islamic commercial banks in Indonesia. Research by Nurwati et al. (2014) shows that bank age has a significant effect on the performance of Islamic Commercial Banks, with increasing age the company also increases the company's ability to generate profits compared to expenses and other related costs that occur during a certain period.

Research by Listyawati et al. (2017) shows that company size has a positive contribution to the capital structure of Islamic banking. These results indicate that the larger the size of the company, it can have a more stable cash flow and can reduce the risk of using debt. Wardana and Sudiartha (2015) found evidence that there is a negative and significant relationship between company age and company capital structure. This negative relationship indicates that if the age of the company increases, the company's capital structure will decrease.

Based on above literature and arguments, following hypotheses are generated

H3 : firm characteristics have a significant effect on Financial Performance.

H4 : firm characteristics have a significant effect on Capital Structure

Integration of Capital Structure with Performance

Jensen & Meckling (1976) link agency costs to debt in the Capital Structure. Agency theory states that in determining the Capital Structure it is necessary to also consider the costs incurred by the difference in interests between the owners and the management of the company. Based on this theory, Capital Structure has a positive effect on the possibility of bankruptcy, liquidation value, and manager's reputation. The Capital Structure has a greater effect on lenders, so the cost of debt becomes even greater.

Brigham & Gapenski (1997) which says that the greater the financing from debt, and the greater the fixed interest expense, the greater the probability that a decrease in earnings will lead to financial difficulties, therefore the higher the probability that financial distress costs will be imposed. So, debt can also cause financial difficulties and reduce the company's financial performance.

Capital structure theory has several different views regarding the effect of debt levels on company performance. The trade off theory (Miller, 1977) explains that debt levels have a positive effect on company performance. Debt funding is expected to increase the company's production capacity and can provide tax savings benefits. In contrast, the pecking order theory explains that the level of debt has a negative effect on company performance because of the accompanying risks.

Simanjuntak and Marlan (2021) in their research found evidence that the debt ratio proxied by leverage has a significant positive effect on profitability. Research by Anthonie et al. (2018) found evidence that capital structure as measured using times interest earned (TIE), debt to equity ratio (DER) has a significant effect on finance in banks listed on the Indonesia Stock Exchange.

Based on above literature and arguments, following hypotheses are generated

H5 : Capital Structure has a significant effect on Financial Performance

3. Methodology

Research This research uses a quantitative approach with the type of explanatory research with the intention of explanation which provides a causal explanation or influence between variables through hypothesis testing. The population in this study is the total number of Islamic Commercial Banks registered with The Financial Services Authority, totaling 12 using data from five years of financial reports. To obtain the final sample, using the following criteria: Islamic Commercial Banks registered with The Financial Services Authority; the bank provides sustainability and annual reports.

This study employed Structural Equation Model (SEM) using Partial Least Square (PLS) with component- or variance-based structural equations (SEM). In the analysis using PLS there are 2 things to do, namely: First, Assessing the outer model or measurement model. Second, assess the Inner Model or Structural Model

This study uses the indicators of the Proportion of Independent Commissioners and the Number of Sharia Supervisory Boards as proxies for Islamic Corporate Governance (Endraswati, 2017; Ihza & Bawono, 2022). The indicators for Bank Age and Bank Size (Total assets) are proxies for Bank Characteristics (Hananto & Amijaya, 2021; Iskandar & Zulhilmi, 2021). Debt to equity ratio (DER) and debt to assets ratio (DAR) indicators as proxies for capital structure (Anthonie et al., 2018; Simanjuntak & Marlan, 2021) Return on Assets and Return Indicators on Equity as a proxy for Financial Performance (Hananto & Amijaya, 2021; Simanjuntak & Marlan, 2021).

4. Results And Discussion

Evaluation of the Measurement Model (Outer Model)

The measurement model (outer model) defines how each indicator block relates to its latent variables. The measurement model is used to test the validity and reliability of constructs. The validity results are presented in Table 2 as follows.

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Table 2. Combined Loading dan Cross Loading

	ICG	FC	CS	FP	Type (a	SE	P value
IC	0.703	-0.221	-0.298	-0.385	Reflect	0.101	<0.001
SSB	0.703	0.221	0.298	0.385	Reflect	0.101	<0.001
AGE	-0.287	0.706	-0.366	-0.493	Formati	0.101	<0.001
SIZE	0.287	0.706	0.366	0.493	Formati	0.101	<0.001
DER	-0.029	-0.003	0.928	-0.039	Formati	0.093	<0.001
DAR	0.029	0.003	0.928	0.039	Formati	0.093	<0.001
ROA	-0.035	-0.151	0.013	0.938	Formati	0.093	<0.001
ROE	0.035	0.151	-0.013	0.938	Formati	0.093	<0.001

From the results of data analysis, it is known that all indicators have a factor value greater than 0.30 (Hair et al., 2010), with a significant value of P value <0.001 so that overall these indicators are able to represent the Islamic Corporate Governance construct, Firm Characteristic, Capital structure, and Financial performance. These criteria can assess the validity that the indicator proves to be a valid construct. Discriminant validity testing can be seen from the loading and cross loading values. If the loading value of each indicator on the variable concerned is greater than the cross loading on other latent variables, then it is said to meet discriminant validity. The IC indicator with a loading of 0.703 is greater than the cross loading of -0.221(FC), -0.29 (CS) and -0.385 (FV). So that the IC indicator is discriminant valid.

The next test to evaluate the outer model is to test the reliability of the latent constructs as measured by Cronbach's alpha and composite reliability. The construct is declared reliable if the value is above 0.60.

Table 3. Cronbach's Alpha and Composite Reliability Test Results

	Cronbachs Alpha	**Composite Reliability**
ICG	0.621	0.662
FC	0.6006	0.665
CS	0.839	0.925
FP	0.863	0.936

Evaluation of the Structure Model (Inner Model)

The suitability test between the theoretical model and the empirical system can be seen at the level of Goodness-of-fit statistics. A model is said to be fit if the covariance matrix of a model is the same as the covariance matrix of the data (observed). The fit indices and P values model displays the results of the ten fit indicators.

Table 4. Model Fit and Quality Indices

Model Fit and Quality Indices	Fit Criteria	Result	Explanation
Average path coefficient (APC)	P<0.05	0.258, P=0.008	good
Average R-Squared (ARS)	P<0.05	0.228, P=0.015	good
Average Adjusted R-Squared (AARS)	P<0.05	0.195, P=0.028	good
Average block VIF (AVIF)	acceptable if <= 5, ideally <= 3.3	0.195, P=0.028	ideal

Average full collinearity VIF (AFVIF)	acceptable if <= 5, ideally <= 3.3	1.204	ideal
Tenenhaus GoF (GoF)	small >= 0.1, medium >= 0.25, large >= 0.36	0.395	good
Sympson's paradox ratio (SPR)	acceptable if >= 0.7, ideally = 1	1.000	good
R-squared contribution ratio (RSCR)	acceptable if >= 0.9, ideally = 1	1.000,	good
Statistical suppression ratio (SSR)	acceptable if >= 0.7	1,000	good
Nonlinear bivariate causality direction ratio (NLBCDR)	acceptable if >= 0.7	0.700	good

Table 5. R-Square

	R Square
Capital Structure	0.122
Financial Performance	0.335

The R-square value of Capital structure is 0.122, this means that the contribution of Islamic Corporate Governance and Firm Characteristics to the Capital Structure is 12.2%, the R-square value of Financial Performance is 0.335, this means that the contribution of Islamic Corporate Governance, Firm Characteristics and Capital Structure to Financial Performance of 33.5%

Table 6. Hypothesis Testing

Relationship between Variables (Explanatory Variable → Response Variable)		Path Coefficient	*p-value*	Explanation
Islamic Corporate Governance	Financial Performance	-0.371	<0.001	Significant
Islamic Corporate Governance	Capital Structure	0.283	0.009	Significant
Firm Characteristisc	Financial Performance	0.134	0.141	Non-Significant
Firm Characteristisc	Capital Structure	0.181	0.070	Non-Significant
Capital Structure	Financial Performance	-0.319	0.004	Significant

Hypothesis 1: Islamic Corporate Governance has a significant effect on Financial Performance

The direct influence of Islamic Corporate Governance on Financial Performance produces a path coefficient of -0.371 with a p-value <0.001. This effect is statistically significant with a negative sign which means that an increase in Islamic Corporate Governance will decrease Financial Performance. These results indicate that Islamic corporate governance is a determining factor in financial performance.

Hypothesis 2: Islamic Corporate Governance has a significant effect on Capital Structure

The direct influence of Islamic Corporate Governance on Capital Structure produces a path coefficient of 0.283 with a p-value of 0.009. This effect is statistically significant with a positive sign which means that increasing Islamic Corporate Governance will increase Capital Structure. These results indicate that Islamic corporate governance is a determining factor in capital structure.

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Hypothesis 3: Firm Characteristics has a significant effect on Financial Performance

The direct effect of Firm Characteristics on financial performance produces a path coefficient of 0.134 with a p-value of 0.141. This effect is not statistically significant with a positive sign which means that increasing Firm Characteristics will increase financial performance. These results indicate that Firm Characteristic is not a determining factor of financial performance.

Hypothesis 4: Firm Characteristics has a significant effect on Capital Structure

The direct influence of Firm Characteristics on capital structure produces a path coefficient of 0.181 with a p-value of 0.070. This effect is not statistically significant with a positive sign which means that increasing Firm Characteristics will increase capital structure. These results indicate that Firm Characteristic is a determining factor of Capital structure.

Hypothesis 5: Capital Structure has a significant effect on Financial Performance

The direct effect of Capital Structure on Financial Performance produces a path coefficient of -0.319 with a p-value of 0.004. This effect is statistically significant with a negative sign which means that an increase in capital structure will decrease financial performance. These results indicate that capital structure is a determining factor in financial performance.

Discussion

The study findings show that Islamic Corporate Governance has a significant effect on the Financial Performance of Sharia Commercial Banks. The direction of the negative coefficient of the effect of Corporate Governance on Financial Performance, is corroborated by past studies done by Shittu et al. (2016) which shows Good Corporate Governance of Sharia Business as measured using DPS has a negative effect on BUS performance, which found that an increase in board independence and the sharia supervisory board will reduce Return on Assets and Return on Equity. The research findings indicate that the practice of Islamic corporate governance is only a form of compliance with regulations or provisions and not as a system needed by companies to improve performance. This results in the application of good corporate governance not being fully implemented, so that its effectiveness is reduced. Leuz and Oberholzer-Gee (2006) state that companies in Indonesia in developing competitive strategies tend to seek and take advantage of opportunities in the business environment, one of which is through political connections. Issues that arise related to weak Good Corporate Governance in sharia banking can threaten the business continuity and credibility of sharia banks, so that Good Corporate Governance that is implemented has a very negative effect on performance. (Asrori, 2014).

Findings prove that Islamic Corporate Governance has a significant influence on capital structure. These findings are consistent with previous research by Ihza and Bawono (2022) which found evidence that Islamic Corporate Governance as measured using the Independent Board of Commissioners significantly influences the Debt Ratio (Leverage). The research findings are in line with the opinion of Monks & Minow (2003) that corporate governance (CG) has a close relationship with capital structure. Corporate governance and capital structure are the two components that form the basis of a company's economic stability. Without these two things, the economic condition of a company will become lame. If both can be maintained properly, it will eliminate the bad controls that exist in the company, bad culture, even failures that lead to bankruptcy. Because after all, a company must be controlled by competent people who are able to make the right policies within the company.

The study found that Firm Chaecteristic has an insignificant effect on Financial Performance, is corroborated by past studies done by Megawati and Dermawan (2019) in their research stated that firm age has an insignificant effect on firm performance. Nawaiseh (2020) in his research stated that there was an insignificant effect of company age and company size on profitability. The findings of this study indicate that the age and size of the company is not a guarantee that the company will have good performance. The greater the assets owned by the company, the more complex the agency problems it faces, thereby increasing the burden incurred for the company's operations, thereby reducing the profits generated by the company and the resulting ROA will also be smaller. The larger the size of the company causes the discretionary expense to decrease.

The study found that Firm Chaecteristic has no significant effect on Capital Structure, is corroborated by past studies done by Muhammad and Azmiana (2021) who found evidence that company size as measured using asset structure does not have a significant effect on the Capital Structure of Asian and European Islamic Banking. The research findings indicate that Islamic banks are quite effective in managing funds and utilizing their assets. The biggest fixed assets that are usually owned by Islamic banks are property assets for office buildings which are usually in strategic locations with high investment value. If it is related to the trade off theory, this is also not fully in line with the assumption that fixed asset ownership indicates that a company has high debt. This condition may occur because the source of procurement of fixed assets for Islamic banks tends to use the owner's capital due to consideration of the limitations of the regulator related to the source of funding for the procurement of assets for Islamic banks. On the other hand, Islamic banks will fulfill sharia requirements by financing in the form of partnerships such as mudharabah or musyarakah through the procurement of assets that are real in nature to avoid elements of gharar (obscurity).

Capital Structure has a significant effect on Financial Performance. This result is corroborated by the studies done by Simanjuntak and Marlan (2021), Anthonie et al. (2018) who found evidence that the debt ratio proxied by leverage has a significant positive effect on profitability. debt to equity ratio (DER) has a significant effect on the financial performance of banks listed on the Indonesia Stock Exchange. Research findings The findings of this study are in line with the opinion (Modigliani & Miller, 1963) Capital structure decisions will affect the company's financial performance. Increasing the level of use of debt at a certain point (optimal limit) in capital structure decisions will have a positive effect on the company's financial performance because the amount of profit available to shareholders has increased due to tax savings due to the use of debt. Capital structure is an aspect that plays an important role in company financial management. If the proportion of debt is not proportional to the level of profit, for example due to a high NPF level at a sharia bank, this will increase the financial risk for the sharia bank itself in the future (Magdalena, 2012). Debt can increase the level of assets and development of Islamic banks, but it is necessary to improve performance so that there is an increase in net profit to pay the debt burden. So, a mature mechanism is needed so that the leverage value or debt ratio is not too high.

Theory Implication

This research is in accordance with stakeholder theory where the application of ICG will be able to have a good impact on company performance, including reducing agent costs, increasing the value of company shares, creating support from stakeholders, maintaining the welfare of stakeholders and principals, and building good relationships between stakeholders and principals.

Managerial and Practical Implications

The implications of the results of this research provide empirical support: First, a recommendation for Sharia Banking Managers, sharia economics and finance experts that the implementation of Islamic Corporate governance in carrying out the duties and responsibilities of the Sharia Supervisory Board as a sharia advisory and supervisory board, in carrying out operational activities and banking business will improve performance. Second, the implementation of Islamic corporate governance through the implementation and regulation of the duties and responsibilities of the Sharia Supervisory

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Board as a sharia advisory and supervisory board in collecting and distributing funds and banking services will improve the performance of sharia banking companies as Islamic financial institutions.

5. Conclusion

This study explores the influence of Islamic Corporate governance, Firm Characteristics on Capital structure and Financial Performance in Sharia Commercial Banks based on data from 2017 to 2021. The results of the research show that Islamic Corporate governance has a significant negative effect on Financial Performance and a significant positive effect on Capital structure of Commercial Banks. Sharia. Further findings show that Firm Characteristics has an insignificant influence on Financial Performance and Capital Structure. Finally, our research proves that Capital Structure has a significant effect on the Financial Performance of Sharia Commercial Banks

Future researchers can use samples other than Sharia Commercial Banks, namely by including Sharia Business Units and Sharia People's Financing Banks. Future researchers can add other independent variables which are considered to have a greater influence on the performance of Sharia Commercial Banks such as financing risk, bank health ratios, capital structure, Intellectual Capital, etc.

Author contribution statement

Author 1 carried out variable development, introduction, and theoretical framework, as well as statistical analysis. Author 2 assisted with statistical data analysis, article formatting, and translation. Author 3 assisted with substantive and statistical analysis.

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