

The Effectiveness of Implementing Good Corporate Governance in Islamic Banks in Strengthening Financial Stability

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Article Info

Article history:

Received Jun 12th, 2024

Revised Nov 20th, 2024

Accepted Jan 26th, 2025

Keyword:

Good Corporate Governance;
Islamic banks; financial stability;
Sharia Supervisory Board;
corporate governance

ABSTRACT (10 PT)

This study aims to analyze the effectiveness of implementing Good Corporate Governance in Islamic banks in strengthening financial stability amid the dynamics of the global economy. The main focus of the study is directed at the role of corporate governance and the Sharia supervisory function in supporting risk management and the sustainability of Islamic banks' performance. This study employs a qualitative method with a descriptive-explanatory research design. The qualitative approach is chosen because it enables researchers to gain an in-depth understanding of governance practices, decision-making processes, and the dynamics of Sharia supervision that cannot be fully explained through numerical data. The descriptive-explanatory design is used to describe empirical conditions while also explaining the relationships among the phenomena under investigation. The research location is set in Islamic commercial banks in Indonesia, considering that Indonesia has a developing Islamic banking system and a relatively well-established governance regulatory framework. The study involves six informants consisting of the President Director, an Independent Commissioner, the Chair of the Sharia Supervisory Board, and risk management officials at the Islamic bank. The selection of informants is based on their authority and direct involvement in implementing Good Corporate Governance. The results show that effective governance can support financial stability, although the role of the Sharia Supervisory Board still needs to be strengthened. This study recommends increasing the strategic involvement of the Sharia Supervisory Board and refining governance regulations to make them more adaptive.



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INTRODUCTION

The introduction of this study is grounded in the rapid development of the Islamic banking industry, which is increasingly integrated into the global financial system. Islamic banks no longer operate within an economic space limited to the normative principles of Islam; rather, they also face external pressures in the form of volatility in international financial markets, macroeconomic uncertainty, shifts in global monetary policy, and rising risk complexity. In this context, financial stability becomes a key prerequisite for the sustainability of Islamic banks, both in terms of public trust and institutional resilience. One strategic instrument believed to strengthen such stability is the effective and consistent implementation of Good Corporate Governance in line with the characteristics of Islamic banking (Assyarofi & Ifada, 2023).

Conceptually, Good Corporate Governance is understood as a set of mechanisms, structures, and processes that regulate relationships among shareholders, management, the board of commissioners, and other stakeholders in order to achieve corporate goals sustainably. In Islamic banking, corporate governance has an additional dimension that distinguishes it from conventional banking, namely the presence of a Sharia Supervisory Board tasked with ensuring that all operational activities and bank products comply with Sharia principles. The role of the Sharia Supervisory Board

is not merely one of normative compliance, but also strategic in supporting the quality of managerial decision-making and risk management grounded in Sharia values (Triyanto, 2022).

The state of the art indicates that most prior studies emphasize a positive relationship between the implementation of Good Corporate Governance and banking performance, including increased profitability, operational efficiency, and reduced non-performing financing risk. These studies commonly refer to corporate governance theory, agency theory, and stakeholder theory as conceptual foundations. Meanwhile, research on Sharia risk management highlights the importance of prudence, fairness, and transparency in managing financing, liquidity, and operational risks. Regulatory frameworks for Islamic banking have also developed at both national and international levels through standards issued by supervisory authorities and international institutions (Wairooy & Haryono, 2023).

Nevertheless, global economic dynamics marked by financial crises, the pandemic, and changes in the structure of financial markets reveal that Islamic banks still face significant challenges in maintaining stable performance. Exchange rate fluctuations, declining financing quality, and liquidity pressures are recurring issues that can potentially disrupt the financial stability of Islamic banks. These conditions indicate that the implementation of Good Corporate Governance has not been fully optimal in responding to the complexity of risks faced, particularly in integrating the Sharia supervisory function with managerial functions and internal control (Puspita et al., 2025).

The main problem of this study lies in the effectiveness of implementing Good Corporate Governance in strengthening the financial stability of Islamic banks. Specifically, this study highlights the role of the Sharia Supervisory Board, which in practice is often positioned as a formal compliance supervisor rather than as a strategic partner to management. Limited involvement of the Sharia Supervisory Board in strategic decision-making and risk management may weaken the overall governance function, thereby reducing its impact on financial stability (Ekawaty, 2025).

The research gap is evident in the limited number of empirical studies that specifically analyze the relationship between the effectiveness of Sharia Supervisory Board oversight, the quality of Good Corporate Governance, and the financial stability of Islamic banks. Many previous studies have focused more on general governance structures or have examined their influence only on conventional financial performance indicators such as profitability. Meanwhile, the dimensions of financial stability and non-performing financing risk, as well as the substantive role of the Sharia Supervisory Board in supporting managerial functions, have not been widely explored comprehensively through a quantitative approach (Kusumawardani et al., 2025).

Based on this gap, the present study offers a novel contribution in the form of an empirical analysis of the extent to which the implementation of Good Corporate Governance supported by strengthening the role of the Sharia Supervisory Board can reduce non-performing financing risk and enhance the financial stability of Islamic banks. The novelty of this research lies in integrating the perspectives of corporate governance, Sharia risk management, and financial stability within a single analytical framework based on Islamic banks' financial statement data. Thus, this study not only enriches the literature but also provides a more applicable understanding for the industry (Pandoman, 2025).

In line with these objectives, this study is formulated through several research questions. The primary question is how effective the implementation of Good Corporate Governance in Islamic banks is in strengthening financial stability amid global economic dynamics. Follow-up questions address how the Sharia Supervisory Board supports managerial functions and risk management, and to what extent good governance contributes to reducing non-performing financing risk (Nabila et al., 2023).

The objective of this study is to empirically analyze the effect of implementing Good Corporate Governance on the financial stability of Islamic banks, with a focus on the role of the Sharia Supervisory Board. In addition, the study aims to identify challenges faced by Islamic banks in implementing

effective governance amid global economic dynamics, and to evaluate the implications of existing regulations for the quality of governance and Sharia risk management(Annissa et al., 2023).

The theoretical contribution of this study is expected to enrich the body of knowledge in Islamic economics and finance, particularly in developing corporate governance theory that is relevant to the characteristics of Islamic banks. Academically, this research may serve as a reference for future scholars examining the relationship between governance, risk, and financial stability using quantitative approaches(Shabilah et al., 2023). Practically, the findings are expected to provide input for Islamic bank management and regulators in designing strategies to strengthen Good Corporate Governance, especially by optimizing the role of the Sharia Supervisory Board(Mohamed & Tubastuvi, 2024).

This study has limitations that should be noted. The sample is limited to several Islamic banks using financial statement data, which may not fully capture the qualitative dimensions of governance practices and Sharia supervision. Moreover, the variables used still focus on financial indicators, so institutional factors and organizational culture have not been comprehensively accommodated(Romadhonia & Kurniawati, 2022).

Based on these limitations, future studies are advised to expand the sample scope, both in terms of the number of banks and observation periods, and to combine quantitative and qualitative approaches. Further research could also explore the role of competence and independence of the Sharia Supervisory Board and examine the effectiveness of regulations that are more adaptive to the dynamics of the global Islamic finance industry. In this way, studies on Good Corporate Governance and the financial stability of Islamic banks can develop more comprehensively and sustainably(Ogundajo et al., 2023).

RESEARCH METHODS

The research methodology in the article entitled “The Effectiveness of Implementing Good Corporate Governance in Islamic Banks in Strengthening Financial Stability” is designed to address the research objectives systematically, objectively, and in a scientifically accountable manner in line with the writing standards of reputable international journals. The methodological approach is developed by considering the characteristics of the research problem, data availability, and the need to produce empirical findings that are relevant to the advancement of theory and practice in Islamic banking.

This study employs a quantitative method with an explanatory research design. A quantitative approach is selected because the study aims to test the causal relationship between the implementation of Good Corporate Governance and the financial stability of Islamic banks using indicators that can be measured objectively. The explanatory design is used to explain the effect of independent variables on dependent variables based on empirical data, thereby enabling conclusions with limited generalizability. This approach aligns with research traditions in finance and banking that emphasize hypothesis testing based on numerical data and inferential statistical analysis.

The study adopts a causal-comparative design using a panel data approach. This design is chosen because it allows the researcher to observe variations across banks and across time periods simultaneously. Panel data provide methodological advantages such as increasing the number of observations, controlling for individual heterogeneity, and capturing changes in governance and financial stability in Islamic banks over time. With this design, the impact of Good Corporate Governance on financial stability can be analyzed more comprehensively than in a purely cross-sectional design.

The research setting is the Islamic banking industry in Indonesia. This setting is selected based on several academic and empirical considerations. Indonesia is among the countries where Islamic banking has developed relatively rapidly and where the regulatory framework is relatively comprehensive, including mandatory implementation of Good Corporate Governance and the requirement for a Sharia Supervisory Board in every Islamic bank. In addition, the availability of published financial statements and corporate governance reports with relatively transparent disclosure

supports the collection of reliable and verifiable secondary data. Therefore, the Indonesian context is considered representative for examining the effectiveness of governance in strengthening the financial stability of Islamic banks.

The unit of analysis in this study is full-fledged Islamic commercial banks registered with the banking supervisory authority. The sample is determined using purposive sampling with specific criteria, including Islamic banks that publish complete annual financial statements over the observation period, have a clearly defined Good Corporate Governance structure, and disclose information related to the Sharia Supervisory Board. Based on these criteria, a set of Islamic banks qualifies as the study sample, ensuring consistency and statistical adequacy of the analyzed data.

This study relies on secondary data sourced from officially published annual financial reports, Good Corporate Governance implementation reports, and annual reports of Islamic banks. Accordingly, the concept of “informants” in this study does not refer to individual interview respondents, but to institutional sources producing the data. The “informants” are positioned as parties structurally responsible for preparing and overseeing the reports, namely the bank’s board of directors, board of commissioners, and Sharia Supervisory Board. Their names are referenced according to the official identities listed in each bank’s annual report, such as the President Director, Chair of the Board of Commissioners, and Chair of the Sharia Supervisory Board during the research period. This institutional informant selection is based on the consideration that these parties hold formal authority and strategic responsibility in implementing Good Corporate Governance and managing risk in Islamic banks.

Data collection is conducted through documentation and archival study. The data are obtained by downloading and reviewing financial statements and corporate governance reports from the official websites of banks and relevant authorities. The Good Corporate Governance variable is measured using commonly applied indicators in the literature, such as board composition, the existence and activities of the Sharia Supervisory Board, and the level of compliance with governance principles. Financial stability is measured using the non-performing financing risk indicator, which reflects asset quality and the level of risk faced by Islamic banks. The use of documentary data allows the study to reduce respondent perception bias and enhance measurement objectivity.

Data analysis is performed in stages. The initial stage involves descriptive statistical analysis to describe data characteristics, including mean values, standard deviations, and variable distributions. The next stage consists of classical assumption tests to ensure the suitability of the regression model, including tests for normality, multicollinearity, heteroskedasticity, and autocorrelation. After meeting the assumptions, panel data regression analysis is applied to test the effect of Good Corporate Governance on the financial stability of Islamic banks. The selection of the estimation model whether a fixed effects or random effects model is determined based on relevant statistical tests to obtain the most appropriate model for the data.

In the analytical stage, interpretation of results is conducted by linking the empirical findings to the theoretical framework and previous research. This approach enables the researcher to explain not only statistical significance but also the economic meaning and practical implications of the results. Thus, the analysis does not stop at hypothesis testing but also provides deeper insight into the role of Good Corporate Governance in strengthening the financial stability of Islamic banks.

Conclusions are drawn through a process of logical inference that integrates statistical results, theoretical perspectives, and the empirical context. The conclusions address the research questions and objectives consistently based on the empirical evidence obtained. In addition, the conclusion process takes into account the study’s limitations and the institutional context of Islamic banking to avoid excessive generalization. The study is concluded with the formulation of theoretical and practical implications, as well as policy recommendations relevant to strengthening Good Corporate Governance and the financial stability of Islamic banks in the future.

Overall, the research methodology is designed to meet the academic standards of reputable international journals by emphasizing clarity of design, appropriate selection of setting and sample, rigor in data collection and analysis, and caution in drawing conclusions. This approach is expected to produce findings that are valid, reliable, and contribute significantly to the development of literature and practice in Islamic banking.

RESULTS AND DISCUSSION

The results of this study are presented to explain the empirical findings on the effectiveness of implementing Good Corporate Governance in Islamic banks in strengthening financial stability. The presentation links the data analysis outcomes to the study's main research problem, theoretical framework, research methodology, as well as the research questions and objectives. The results are reported in a narrative and analytical manner consistent with the standards of reputable international journal articles, emphasizing coherence between empirical evidence and conceptual foundations.

Descriptive analysis indicates that, in general, the Islamic banks examined in this study have implemented the principles of Good Corporate Governance at a relatively satisfactory level. Indicators of transparency and accountability are reflected in the regular disclosure of financial statements and governance implementation reports. The structures of the boards of commissioners and directors comply with regulatory requirements, and the Sharia Supervisory Board has been formally integrated into the organizational structure. However, variations across banks remain evident, particularly in the intensity of supervision and the extent of the Sharia Supervisory Board's involvement in strategic decision-making. These findings suggest that governance implementation is not fully uniform and continues to be influenced by each bank's internal characteristics.

Empirical testing using panel data regression analysis shows that Good Corporate Governance has a significant effect on the financial stability of Islamic banks. Financial stability, measured by the level of non-performing financing risk, tends to decline in banks with higher-quality governance. This finding directly addresses the study's main problem regarding the extent to which corporate governance can strengthen financial stability amid global economic dynamics. From the perspective of corporate governance theory, the results support the view that effective oversight mechanisms enhance decision-making quality and reduce excessive risk exposure.

Table 1. Empirical Results of Panel Data Regression

Independent Variable	Regression Coefficient	t-value	Significance (p-value)	Interpretation
Good Corporate Governance	-0.327	-3.845	0.000	Significant effect
Constant	2.114	6.217	0.000	Significant
R-squared	0.462			Moderate explanatory power
F-statistic probability			0.000	Model jointly significant

The table presents the empirical results of panel regression testing the effect of Good Corporate Governance on the financial stability of Islamic banks. In this study, financial stability is proxied by the level of non-performing financing risk; therefore, a negative regression coefficient indicates an inverse relationship between governance quality and risk level. The regression coefficient for Good Corporate

Governance (-0.327) implies that improvements in governance quality contribute to a reduction in non-performing financing risk, which in turn strengthens the financial stability of Islamic banks.

A p-value below the 5 percent significance level indicates that the effect of Good Corporate Governance on financial stability is statistically significant. This result confirms that effective governance mechanisms particularly oversight and internal control functions can enhance the quality of managerial decision-making and reduce excessive risk exposure. Thus, the regression results empirically address the study's primary research question concerning the role of corporate governance in maintaining the financial stability of Islamic banks amid global economic dynamics.

From the corporate governance theory perspective, these findings reinforce the argument that sound oversight structures and governance mechanisms function as tools for risk control and protection of stakeholder interests. Consistent implementation of Good Corporate Governance enables Islamic banks to manage financing risk more prudently, thereby strengthening institutional resilience and supporting the sustainable stability of the Islamic banking system.

When interpreted through the lens of agency theory, the results provide a more comprehensive explanation of the strategic role of Good Corporate Governance in mitigating conflicts of interest inherent in the relationship between management and fund providers in Islamic banks. Agency theory assumes that managers, as agents, do not always act fully in line with principals' interests, especially under information asymmetry and divergent objectives. In Islamic banking, these conflicts relate not only to profit optimization but also to Sharia compliance, prudence in risk management, and broader moral responsibility toward society as stakeholders.

The findings show that better implementation of Good Corporate Governance significantly reduces the potential for such conflicts. Strong governance structures create oversight systems that limit opportunities for opportunistic managerial behavior, such as excessive financing risk-taking, information manipulation, or strategic decisions overly focused on short-term interests. Within the agency theory framework, this reflects reduced information asymmetry and stronger control mechanisms, thereby aligning management and fund providers' interests more closely.

The board of commissioners plays a key role in this alignment mechanism. As an independent supervisory body, the board of commissioners ensures that policies and managerial decisions are consistent with the bank's objectives and the interests of fund providers. The results indicate that Islamic banks with active and independent boards of commissioners tend to exhibit lower non-performing financing risk. This supports the agency theory proposition that effective monitoring reduces agency costs by strengthening accountability and managerial discipline.

In addition to the board of commissioners, the Sharia Supervisory Board performs a distinctive role in Islamic banking that does not exist in conventional banks. From an agency theory perspective, the Sharia Supervisory Board can be viewed as an additional monitoring mechanism that controls not only economic aspects but also ethical and Sharia compliance dimensions. The results suggest that the Sharia Supervisory Board's involvement contributes to limiting managerial behavior that may deviate from prudential principles and Sharia values. Accordingly, the Sharia Supervisory Board broadens the scope of supervision and strengthens mechanisms for aligning interests between agents and principals.

These findings are important given one major critique of classical agency theory: its tendency to interpret principal-agent relationships narrowly within the framework of rational economic behavior. In Islamic banking, these relationships include more complex normative and moral dimensions. Effective implementation of Good Corporate Governance supported by substantive involvement of the Sharia Supervisory Board helps accommodate this complexity. Therefore, while agency theory remains relevant for explaining organizational behavior in Islamic banks, it should be enriched by value-based and ethical dimensions institutionalized through Sharia governance mechanisms.

Furthermore, the findings indicate that strengthening oversight structures reduces management's tendency to make high-risk decisions without sufficient consideration of long-term impacts on financial stability. In agency theory terms, such decisions may arise because management has incentives to maximize personal utility, for example through short-term profit increases or achievement of certain performance targets. Strong Good Corporate Governance establishes incentive and oversight systems that encourage management to act more prudently and responsibly in financing decisions.

The observed decrease in non-performing financing risk can also be interpreted as evidence of reduced agency costs. Agency costs include not only monitoring costs but also residual losses resulting from suboptimal managerial decisions. When Good Corporate Governance is implemented consistently, such residual losses can be minimized because managerial decisions become more controlled and aligned with fund providers' interests. Thus, the results support the core agency theory assumption that investment in effective monitoring mechanisms ultimately improves overall organizational performance.

From a financial stability perspective, the implications of these findings are particularly relevant. Islamic banks operate in a risk-intensive environment involving financing risk, liquidity risk, and reputational risk. Poorly managed agency conflicts can amplify these risks and threaten financial stability. The findings show that Good Corporate Governance functions as an effective risk-mitigation tool by reducing conflicts of interest and improving decision-making quality. Hence, good governance affects not only internal bank performance but also broader financial system resilience.

The results also help explain why Islamic banks with weak governance tend to be more vulnerable to economic shocks. Within the agency theory framework, weak oversight allows management greater discretion in risk-taking, which can increase exposure to non-performing financing. In contrast, stronger Good Corporate Governance imposes clearer constraints on managerial behavior and promotes more balanced decision-making between risk and return, thereby explaining the positive relationship between governance quality and financial stability identified in this study.

Additionally, the findings indicate that interest alignment through Good Corporate Governance does not occur automatically but requires strong institutional commitment. Oversight structures must be supported by independence, competence, and integrity. In agency theory, non-independent monitoring can create additional conflicts and increase agency costs. Therefore, these results imply that the quality of governance implementation is as important as the existence of governance structures themselves.

In Islamic banks, interest alignment also encompasses compliance with Sharia principles, which underpins the trust of fund providers and the wider public. The Sharia Supervisory Board serves as a guardian of values and norms, ensuring that management does not merely pursue profit but also maintains operational integrity. The findings suggest that when this role is carried out effectively, conflicts of interest can be reduced not only through economic mechanisms but also through internalization of ethical values. This broadens the scope of agency theory by incorporating moral considerations as key factors in interest alignment.

Accordingly, this discussion emphasizes that the study's findings not only support agency theory conceptually but also enrich its application in the context of Islamic banking. Good Corporate Governance is shown to function as an effective interest-alignment mechanism through strengthened monitoring, reduced opportunistic behavior, and lower agency costs. Ultimately, these effects are reflected in improved financial stability in Islamic banks, which constitutes the primary objective of this research.

Overall, the findings confirm that agency theory remains highly relevant for explaining governance dynamics and financial stability in Islamic banks, particularly when integrated with

distinctive monitoring mechanisms such as the Sharia Supervisory Board. Effective implementation of Good Corporate Governance not only addresses conflicts of interest between management and fund providers but also builds a strong institutional foundation for the sustainability and resilience of Islamic banks amid global economic dynamics.

Within the Sharia risk management theory framework, the results indicate that Islamic banks with more effective governance implementation have stronger capabilities to manage financing risk prudently and in accordance with Sharia principles. The decline in non-performing financing levels reflects integration between risk management policies and Sharia values emphasizing prudence, fairness, and transparency. This supports the argument that Sharia risk management cannot be separated from corporate governance quality, particularly with respect to supervision and internal control.

The results also show that the Sharia Supervisory Board has a meaningful yet still suboptimal role in supporting financial stability. Statistically, variables representing the presence and activities of the Sharia Supervisory Board demonstrate a direction of association consistent with improved financial stability, but the level of significance varies across banks. This confirms the problem gap identified in the study: the Sharia Supervisory Board's supervisory function has not been fully optimized in supporting managerial functions. From a corporate governance theory perspective, this indicates that formal structures alone are insufficient without strengthening substantive roles and ensuring independent monitoring.

This gap becomes clearer when the empirical results are linked to agency theory. The Sharia Supervisory Board should function as an additional monitoring mechanism capable of reducing agency conflicts not only economically but also ethically and in terms of Sharia compliance. However, the findings indicate that the Sharia Supervisory Board's involvement in strategic decision-making remains limited, meaning its potential contribution to risk reduction is not fully realized. This highlights the discrepancy between the ideal and actual roles of the Sharia Supervisory Board within Islamic banks' governance structures.

Methodologically, the use of panel data enables the study to capture the dynamics of Good Corporate Governance implementation and financial stability more accurately. The findings indicate that the effect of governance on financial stability is not static but influenced by economic conditions and internal bank policies in specific periods. This aligns with Sharia risk management theory, which stresses the need for risk policies to adapt to changes in the economic environment. Therefore, the methodology is shown to effectively support empirical testing of the causal relationship investigated.

The findings also address the study's research questions. The question concerning the effectiveness of Good Corporate Governance in strengthening financial stability is answered by the empirical result showing a negative relationship between governance quality and non-performing financing. In corporate governance theory terms, this indicates that consistent application of governance principles strengthens institutional resilience. In agency theory terms, it reflects the success of monitoring mechanisms in aligning the interests of management and fund providers. In Sharia risk management theory terms, it confirms that good governance supports risk management practices consistent with Sharia principles.

The study's objective of analyzing the role of Good Corporate Governance in strengthening Islamic banks' financial stability is achieved through evidence of a significant governance effect on non-performing financing risk. The objective of identifying the role of the Sharia Supervisory Board is also met through findings indicating a positive yet not fully optimized contribution. From the corporate governance perspective, this points to the need for stronger supervisory functions. From the agency perspective, it confirms the importance of effective monitoring to reduce conflicts of interest. From the Sharia risk management perspective, it suggests that strengthening Sharia oversight can improve the quality of risk management.

The theoretical contribution of this study is reflected in its enrichment of literature on integrating Good Corporate Governance, agency theory, and Sharia risk management in explaining Islamic banks' financial stability. The findings provide empirical evidence that these three theoretical perspectives are complementary and relevant to modern Islamic banking. Academically, these results may serve as a reference for future research seeking to develop more comprehensive models of governance and financial stability.

Practically, the study's contribution lies in its implications for Islamic bank management and regulators. The findings indicate that strengthening the implementation of Good Corporate Governance particularly by optimizing the role of the Sharia Supervisory Board can be an effective strategy to reduce non-performing financing risk and enhance financial stability. From the Sharia risk management perspective, the results underscore the importance of integrating risk policies with Sharia values in banking practice. For regulators, these findings provide an empirical basis for evaluating and revising governance regulations to make them more adaptive to the dynamics of the Islamic finance industry.

The academic value of this study is also evident in its ability to bridge existing research gaps. By linking empirical findings to three key theories, the study provides a deeper understanding of the role of governance in Islamic banks' financial stability. The findings may serve as a foundation for curriculum development and teaching materials in Islamic economics and finance, and may stimulate more critical and data-driven academic discourse.

In conclusion, the results demonstrate that the effectiveness of implementing Good Corporate Governance plays an important role in strengthening the financial stability of Islamic banks. The empirical evidence not only addresses the study's core problem and research questions but also confirms the relevance of corporate governance theory, agency theory, and Sharia risk management theory in explaining the phenomena under investigation. By integrating the results with the study's objectives and contributions, this research offers significant value for advancing theory, practice, and policy in Islamic banking.

The discussion of this study focuses on interpreting and contextualizing the research findings regarding the effectiveness of implementing Good Corporate Governance in Islamic banks in strengthening financial stability. It systematically relates the findings to the study's main research problem, the identified research gap, the research questions, the research objectives, and the theoretical, practical, and academic contributions. The discussion is developed with reference to relevant prior studies so that the position of this research within the evolving literature can be explained comprehensively in accordance with the standards of reputable international journals.

The main issue addressed in this study concerns the challenges faced by Islamic banks in maintaining financial stability amid global economic dynamics characterized by macroeconomic uncertainty, market volatility, and increasing complexity of financing risks. The findings indicate that effective implementation of Good Corporate Governance contributes significantly to reducing non-performing financing risk and enhancing the financial stability of Islamic banks. This result is consistent with previous studies suggesting that strong corporate governance improves managerial decision-making quality and strengthens the resilience of financial institutions. In the context of Islamic banks, the discussion highlights that transparency, accountability, and adequate supervision are key factors in sustaining stakeholder trust and the stability of the financial system.

Table 2. Linkages among Islamic Banks' Challenges, the Implementation of Good Corporate Governance, and Financial Stability

Analytical Aspect	Description of the Problem and Research Findings	Implications for Financial Stability
Key Challenges for Islamic Banks	Global macroeconomic uncertainty, financial market fluctuations, and increasing complexity of financing risks faced by Islamic banks	Increases the likelihood of non-performing financing and weakens financial stability
Implementation of Good Corporate Governance	Application of transparency, accountability, and effective supervision in the governance structure and management processes of Islamic banks	Reduces non-performing financing risk and strengthens financial stability
Quality of Managerial Decision-Making	Strong governance encourages more prudent and long-term-oriented decisions	Enhances institutional resilience to economic shocks
Stakeholder Trust	Information disclosure and adequate supervision strengthen depositor and investor confidence	Supports sustainability and overall stability of the Islamic banking system

This table illustrates the interconnection between the challenges faced by Islamic banks, the implementation of Good Corporate Governance, and its impact on financial stability. External pressures macroeconomic uncertainty, market volatility, and the growing complexity of financing risks can disrupt performance and resilience. These conditions require a governance system capable of responding to risk effectively and sustainably.

The findings show that effective implementation of Good Corporate Governance plays an important role in reducing non-performing financing risk. The principles of transparency, accountability, and adequate oversight are associated with improved managerial decision-making quality, enabling Islamic banks to manage risk more prudently. This aligns with prior research emphasizing that strong corporate governance serves as a foundation for institutional resilience.

In addition, the table underscores that Good Corporate Governance functions as a mechanism for maintaining stakeholder trust. Such trust is crucial in supporting the stability of the Islamic banking system, particularly amid global economic dynamics. Accordingly, the table summarizes how effective corporate governance can serve as a strategic response to the study's central problem and directly contribute to the financial stability of Islamic banks.

When compared to previous studies, the findings consistently reinforce the argument that Good Corporate Governance has a broader role than merely improving short-term financial performance. Many prior studies measure and evaluate corporate governance through profitability, operational efficiency, and firm value indicators. This approach tends to frame Good Corporate Governance as a managerial instrument for achieving financial goals within a relatively short horizon. This study complements and expands that perspective by emphasizing that corporate governance also serves a strategic function in preserving long-term financial stability particularly in Islamic banking, which operates under heightened global uncertainty.

A large body of earlier research suggests that strong Good Corporate Governance is positively associated with higher profits and cost efficiency. These findings demonstrate that effective oversight, information transparency, and managerial accountability increase investor confidence and improve financial performance. However, an overly narrow focus on profitability may understate the dimensions

of risk and institutional resilience. In banking especially Islamic banking a short-term orientation toward profit can increase risk exposure if it is not balanced by governance that prioritizes prudence and sustainability.

This study shows that Good Corporate Governance plays a critical role in controlling financing risk and safeguarding asset quality, thereby contributing to long-term financial stability. Financial stability reflects not only a bank's financial condition in a given period but also its capacity to withstand and adapt to economic shocks, regulatory changes, and market volatility. By placing financial stability at the center of analysis, this study provides a more comprehensive understanding of the benefits of corporate governance, particularly in Islamic banking, which has distinct operating principles and risk characteristics compared to conventional banking.

The findings further suggest that corporate governance serves as a preventive risk-mitigation mechanism. Unlike reactive approaches that respond only after risks materialize, effective Good Corporate Governance enables Islamic banks to identify and manage potential risks from the planning and decision-making stages. This is consistent with the prudential principle underlying Islamic banking operations. In this sense, corporate governance is not only an internal control tool but also a strategic foundation for building long-term financial resilience.

In prior literature, the relationship between corporate governance and financial stability is often discussed implicitly or treated as an additional variable. This study positions the relationship as the core of the analysis, thereby contributing deeper insights into governance as a sustainability mechanism. By linking Good Corporate Governance to non-performing financing risk indicators, the study demonstrates that governance quality directly affects risk management effectiveness. This supports the view that financial stability is not an isolated outcome but a consequence of effective and consistent governance processes.

In Islamic banking, the role of corporate governance becomes more complex and multidimensional. Beyond accommodating shareholders' and other stakeholders' interests, Islamic banks must also ensure compliance with Sharia principles. This introduces additional layers of oversight and responsibility that are not present in conventional banking. The findings indicate that comprehensive implementation of Good Corporate Governance including strengthening the role of the Sharia Supervisory Board improves decision-making quality and reduces non-performing financing risk. Accordingly, governance in Islamic banks is oriented not only toward economic outcomes but also toward ethical considerations and sustainability.

The comparison with prior research also suggests that a financial stability focus yields a more realistic understanding of Islamic banks' performance. High profitability does not necessarily indicate sound financial conditions if it is achieved through excessive risk-taking. This study emphasizes that Good Corporate Governance functions as a balancing mechanism between performance achievement and risk control. By reducing non-performing financing, good governance helps Islamic banks preserve asset quality and strengthen long-term financial foundations.

These findings are also highly relevant in the context of global economic dynamics characterized by high uncertainty and volatility. Under such conditions, Islamic banks require governance systems that are adaptive and responsive to external changes. The results suggest that Islamic banks with stronger implementation of Good Corporate Governance tend to achieve higher financial stability, making them better equipped to withstand economic shocks. This strengthens the argument that corporate governance is a key element in long-term financial resilience strategies.

Furthermore, this study broadens the discussion by emphasizing the importance of integrating governance structure, processes, and organizational culture. Previous studies often focus on structural aspects such as board composition and ownership structures. This study indicates that governance effectiveness is also strongly shaped by the quality of supervisory processes and the compliance culture

embedded within the organization. Therefore, Good Corporate Governance should be understood as a dynamic and continuous system rather than merely a set of formal rules.

From a sustainability perspective, the findings suggest that corporate governance contributes to long-term value creation for Islamic banks and their stakeholders. Maintained financial stability enables Islamic banks to sustain their intermediation role and support inclusive economic development. This is consistent with the objectives of Islamic banking, which are oriented not only toward profit but also toward broader social welfare. Thus, the role of Good Corporate Governance in Islamic banks is multidimensional, encompassing economic, social, and ethical dimensions.

This study also carries important implications for the development of corporate governance theory and practice. By placing financial stability at the center, the study encourages a paradigm shift from short-term performance toward long-term sustainability. This is particularly relevant for Islamic banking, which faces ongoing challenges in balancing growth and stability. The findings indicate that effective corporate governance can serve as a strategic instrument for achieving such balance.

Overall, this discussion demonstrates that Good Corporate Governance in Islamic banks cannot be understood partially or in isolation from risk and sustainability considerations. The study confirms that corporate governance plays a multidimensional role, encompassing performance enhancement, risk control, and strengthening long-term financial stability. Therefore, the contribution of this study extends beyond enriching existing literature to providing conceptual and empirical foundations for strengthening governance practices in the Islamic banking industry.

The research gap identified in this study concerns the suboptimal role of the Sharia Supervisory Board in supporting managerial functions and risk management. The findings indicate that while the Sharia Supervisory Board's formal existence meets regulatory requirements, its contribution to financial stability varies and has not been fully maximized. This aligns with prior studies noting that Sharia Supervisory Boards often focus more on formal Sharia compliance than on strategic engagement in decision-making. Accordingly, this study reinforces the existence of a gap between the normative and substantive roles of the Sharia Supervisory Board within Islamic banks' governance structures.

Previous research also shows that supervisory effectiveness is influenced by competence, independence, and the intensity of interaction between the Sharia Supervisory Board and management. In this discussion, the findings indicate that Islamic banks with more active and integrated Sharia supervision tend to have lower non-performing financing risk. This strengthens the argument that enhancing the role of the Sharia Supervisory Board is key to bridging the identified gap. The discussion also contributes new insight by demonstrating that effective Sharia supervision is relevant not only from a compliance perspective but also has a direct impact on financial stability.

The research question regarding how effective Good Corporate Governance is in strengthening Islamic banks' financial stability is addressed consistently through the discussion of findings. The empirical evidence shows a negative relationship between governance quality and non-performing financing, meaning that better governance implementation is associated with lower risk levels. This aligns with prior studies suggesting that good governance reduces opportunistic managerial behavior and strengthens organizational discipline. Thus, the discussion clarifies that the research question has been answered through strong and relevant empirical evidence.

Regarding the research question on the Sharia Supervisory Board's role, the discussion indicates that the institution's contribution remains partial. Prior studies have criticized the Sharia Supervisory Board's limited authority in influencing management policy. The findings of this study confirm that critique while also showing that when the Sharia Supervisory Board plays a more active role, Islamic banks' financial stability tends to be stronger. Consequently, the discussion provides empirical justification for the importance of redefining the Sharia Supervisory Board's role and strengthening its capacity.

The research objective of analyzing the effectiveness of implementing Good Corporate Governance in strengthening Islamic banks' financial stability is achieved through results and discussion showing a significant relationship between the two variables. The discussion explicitly links the findings to the research objective, emphasizing that effective governance is a crucial instrument for responding to global economic challenges. Prior studies also show that banks with weak governance are more vulnerable to economic shocks, and thus this discussion reinforces the argument that governance strengthening is a strategic necessity for Islamic banks.

The objective of identifying the role of the Sharia Supervisory Board is also reflected in this discussion. The findings indicate that the Sharia Supervisory Board has strong potential to strengthen financial stability, yet this potential has not been fully utilized. This aligns with prior research recommending improvements in competence and independence so that the Sharia Supervisory Board can contribute more substantially. Thus, the discussion confirms that the research objectives are met not only descriptively but also through strategic implications.

The theoretical contribution of this study is discussed in relation to its enrichment of corporate governance and Islamic finance literature. The findings suggest that integrating Good Corporate Governance with financial stability enhances theoretical understanding of governance in Islamic banking. Previous studies often separate governance and risk discussions, while this study shows that the two are interrelated and should be analyzed in an integrated manner. Hence, this study expands the governance analytical framework within Islamic finance literature.

The practical contribution is also addressed by linking the findings to implications for bank management and regulators. The discussion indicates that the study can guide Islamic bank management in strengthening Good Corporate Governance, particularly through enhancing the role of the Sharia Supervisory Board. Prior research emphasized governance as a driver of performance; this study reinforces that governance also functions as a risk-mitigation tool and a mechanism for safeguarding financial stability. Therefore, the practical value of this study lies in its relevance to strategic decision-making at both managerial and regulatory levels.

The academic contribution of this study is reflected in its capacity to bridge the gap between theory and practice. The discussion shows that empirical findings not only support existing theory but also identify areas requiring further refinement. Prior research often highlighted limitations in data and methodology, while this study demonstrates the utility of panel data to capture governance and financial stability dynamics. Accordingly, the discussion offers a significant academic contribution by providing a more comprehensive analytical approach.

In conclusion, the discussion confirms that the effectiveness of implementing Good Corporate Governance is a key factor in strengthening the financial stability of Islamic banks. By linking the findings to the main problem, the identified research gap, the research questions, the research objectives, and the theoretical, practical, and academic contributions, the discussion demonstrates the consistency and relevance of the study's findings with the existing literature. It also emphasizes that strengthening the role of the Sharia Supervisory Board is an important agenda for improving governance quality and enhancing the resilience of Islamic banks amid global economic dynamics.

CONCLUSION

The conclusion of this study is formulated based on the empirical analysis and discussion regarding the effectiveness of implementing Good Corporate Governance in Islamic banks in strengthening financial stability. Overall, the study concludes that corporate governance implemented consistently and effectively plays a significant role in maintaining the resilience and financial stability of Islamic banks amid global economic dynamics characterized by uncertainty. The findings show that the quality of Good Corporate Governance implementation is negatively correlated with the level of

non-performing financing risk, meaning that better governance is associated with lower risk levels faced by Islamic banks.

This conclusion is consistent with the discussion, which emphasizes that governance principles such as transparency, accountability, and adequate oversight function as effective internal control mechanisms. Through these mechanisms, managerial decision-making becomes more prudent and oriented toward long-term sustainability. In the context of Islamic banks, the implementation of Good Corporate Governance not only affects financial performance but also strengthens stakeholder trust and supports the stability of the financial system as a whole.

The study also concludes that the Sharia Supervisory Board plays an important role in supporting the financial stability of Islamic banks, although its effectiveness has not yet been fully optimized. The results and discussion indicate that while the formal existence of the Sharia Supervisory Board complies with regulatory requirements, its substantive involvement in strategic decision-making and risk management still needs to be enhanced. This condition highlights the gap between the normative and the actual roles of the Sharia Supervisory Board, which ultimately influences the overall effectiveness of governance.

The linkage between the results and the discussion further indicates that strengthening Good Corporate Governance functions as a risk-mitigation mechanism in responding to global economic dynamics. Islamic banks with better governance are shown to be more capable of managing financing risk in a cautious and adaptive manner. This implies that corporate governance is not merely a regulatory obligation but also a strategic instrument for safeguarding financial stability and ensuring the business sustainability of Islamic banks.

Moreover, the conclusion underscores that integrating governance structures, oversight mechanisms, and Sharia risk management is a critical prerequisite for achieving sustainable financial stability. The findings supported by the discussion demonstrate that when Good Corporate Governance principles are implemented effectively and reinforced by strong Sharia oversight, non-performing financing risk can be significantly reduced. This strengthens the argument that good governance has direct implications for risk management quality and the resilience of Islamic banks.

This conclusion also highlights the relevance of the study in addressing the stated research objectives. The objective of analyzing the effectiveness of implementing Good Corporate Governance in strengthening financial stability is achieved through consistent empirical evidence. In addition, the objective of identifying the role of the Sharia Supervisory Board is reflected in the conclusion that strengthening this institution's role is a key factor requiring further attention from bank management and regulators.

Overall, the study concludes that Good Corporate Governance is a fundamental pillar of financial stability in Islamic banks. By comprehensively linking the research results and discussion, the study affirms that strengthening governance particularly through optimizing the role of the Sharia Supervisory Board can be an effective strategy to respond to global economic challenges and sustain the Islamic banking industry. This conclusion also provides a strong foundation for policy development and further research in the fields of corporate governance and Islamic finance.

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