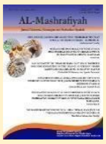

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Governance Dynamics and Financial Risk in Islamic Rural Banks: Assessing the Influence of Board Structures on Financial Performance and Financing Risk

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ABSTRACT

The growing prominence of the Islamic finance sector underscores the necessity for effective governance practices to address challenges in managing financial risks and enhancing asset performance, particularly within Sharia-compliant banking institutions such as Sharia Financing Banks (BPRS). This study aims to analyze the effects of the board of directors, board of commissioners, Sharia supervisory board, and Non-Performing Financing (NPF) on Return on Assets (ROA) on BPRS in Indonesia. Additionally, it investigates the influence of the board of directors, board of commissioners, and Sharia supervisory board on NPF. Annual data from 18 BPRS listed in the OJK directory from 2019 to 2021, including board size, ROA, and NPF, were analyzed using the Common Effect Model. The results indicate that board size negatively and significantly affects ROA but not NPF, while board size, board of commissioners, and Sharia supervisory board insignificantly influence ROA and NPF. However, NPF significantly impacts ROA negatively. These results underscore the importance of board composition in financial performance and asset quality within BPRS, providing valuable insights for stakeholders and policymakers in enhancing governance practices and mitigating financial risks.

Kata Kunci: Dewan Direksi; Dewan Komisaris; Dewan Pengawas Syariah; Kinerja Keuangan, Risiko Pembiayaan

ABSTRAK

Semakin berkembangnya sektor keuangan syariah, menyoroti kebutuhan akan praktik tata kelola yang efektif untuk mengatasi tantangan dalam mengelola risiko keuangan dan meningkatkan kinerja aset di sektor perbankan syariah khususnya Bank Pembiayaan Syariah (BPRS). Studi ini bertujuan untuk menganalisis pengaruh dewan direksi, dewan komisaris, dewan pengawas syariah, dan Pembiayaan Bermasalah (NPF) terhadap Return on Assets (ROA) pada BPRS di Indonesia. Selain itu, studi ini juga menyelidiki pengaruh dewan direksi, dewan komisaris, dan dewan pengawas syariah terhadap NPF. Data tahunan dari 18 BPRS yang terdaftar dalam direktori OJK dari tahun 2019 hingga 2021, termasuk ukuran dewan, ROA, dan NPF, dianalisis menggunakan Model Efek Umum. Hasil analisis menunjukkan bahwa ukuran dewan secara negatif dan signifikan memengaruhi ROA namun tidak memengaruhi NPF, sedangkan ukuran dewan, dewan komisaris, dan dewan pengawas syariah tidak berpengaruh secara signifikan terhadap ROA dan NPF. Namun demikian, NPF berdampak negatif dan signifikan terhadap ROA. Temuan ini menegaskan pentingnya komposisi dewan dalam kinerja keuangan dan kualitas aset di BPRS, memberikan wawasan berharga bagi para pemangku kepentingan dan pembuat kebijakan dalam meningkatkan praktik tata kelola dan mengurangi risiko keuangan.

INTRODUCTION

Banking as a financial intermediary institution is essential in the modern economic system (Destiana, 2016). Banking is described as an institution that carries 3 (three) main functions, namely collecting or receiving money deposits, lending money, and money transfer services ((PKES Publishing, 2008). As an intermediary institution, banks must have qualified financial performance to maintain and increase public trust to support and facilitate their activities. One type of bank based on its function is an Islamic bank, which, according to the law Article 2 PBI No. 6/24 / PBI / 2004 concerning the Islamic banking system in Indonesia, defines Islamic banks as banks that carry out all their business activities based on Islamic sharia law. If based on their type, Islamic banks can be divided into 2 (two), namely Islamic Commercial Banks (BUS) and Islamic People's Financing Banks (BPRS) (Ikatan Bankir Indonesia, 2014).

BPRS is one of the financial institutions that prioritizes the service system in the distribution of financing, which is fast and easy for the community to use in any circle for the sake of business operations being run. In this case, BPRS plays an essential role in increasing community productivity, especially for Micro, Small and Medium Enterprises (MSMEs), considering that MSMEs are the backbone of the Indonesian economy even according to data from the Ministry of Cooperatives, Small and Medium Enterprises (KUKM), in 2018 the number of MSME actors was recorded at 64.2 million. Meanwhile, the contribution of MSMEs to the national economy / Gross Domestic Income (GDP) is 61.1% (Nainggolan, 2020). Therefore, it is essential for MSME players to get access to capital through easy financing, one of which is through BPRS (Trimulato, 2017). By optimizing capital through BPRS, it is hoped that MSMEs will be able to maximize their role as drivers of economic stability, absorbing labour, developing the business world, and increasing the state and regional budgets through taxation in growing the national economy (Amah, 2013; Kara, 2013)

In 2020 (December), in the Financial Services Authority (OJK), there were 163 BPRS in Indonesia. This BPRS is dominated on the island of Java, where West Java occupies the first position for the province with the most BPRS, namely, there are 28 BPRS, and Central Java occupies the second position with 26 BPRS (www.ojk.co). It encourages each BPRS to improve its financial performance and continue attracting and retaining customers amid competition with fellow BPRS and similar institutions. Financial performance is a specific measure that can be used to see the success of an organization/institution in generating profits (Makatita, 2016). Improving the quality of financial performance is the most crucial part in the development of company operations, so stakeholders are required to understand the financial performance of the company.

It relates to the management of Financing Risk, which indirectly depends on financial performance. When the financial performance of a company is good, it is expected to prevent and reduce the level of Financing Risk so that the company's credibility remains good.

In 2019 to 2021, there are many data changes, especially in financial ratios in various companies/institutions. It is due to a global phenomenon in the form of the COVID-19 pandemic that occurred worldwide and affected all aspects of life, especially the global economy. As well as the financial performance and Financing Risk of companies affected by the pandemic. In maintaining its existence, BPRS must be able to maintain or improve its corporate capabilities through maximizing financial performance, which can be seen in terms of Return on Asset (ROA) and emphasis on Financing Risk / financing risk, which can be seen from the bank's Non-Performing Financing (NPF) (Sudirman, Kamaruddin, & Possumah, 2020). When these two things can be adequately managed, public trust will be formed, which is the most crucial aspect that can easily encourage the development of a bank. The following is statistical data on changes in ROA and NPF from 2019 to 2021;

Table 1. Statistical Data on ROA and NPF of BPRS in Indonesia

No	Year	ROA	NPF
1	2019	2.61%	7.05%
2	2020	2.01%	7.24%
3	2021	1.73%	6.95%

Source: Financial Service Authority (2022)

The data in the table above shows that ROA decreased by 0.6% in 2020 and 0.28% in 2021, which means that BPRS profitability has decreased. Meanwhile, NPF increased by 0.19% in 2020 and decreased in 2021 by 0.29%, which can be concluded that problematic financing in BPRS experienced an increase and decrease over the 2-year period, namely 2020 and 2021. Factors certainly influence the statistical changes in these two ratios. Several factors influence the financial performance or financing risk of a bank, some of which are influenced by the size of the Board of Directors (BoD) / Board of Directors (DD), which is a company position that is tasked with and is responsible collegiately in managing the company (Rahmawati, Rikumahu, & Dillak, 2017), the size of the Board of Commissioners (BoC) / Board of Commissioners (DK) which is tasked with supervising company management, and also the size of the Sharia Supervisory Board (SSB) / Sharia Supervisory Board (DPS) which is tasked with monitoring whether sharia banks are operating in sharia compliance or not (Rini, 2014).

In previous research regarding the relationship between these variables, there were data inconsistencies in the research results. As with the influence of BoD size on ROA in the research of Mustaghfiroh (2016) and Ariandhini (2019), it is explained that BoD has a positive and significant effect on ROA, while research results from Budiman (2017) and Sunarwan (2015) state that BoD has no significant effect on ROA. In other research regarding the influence of DK size on ROA, Erfina (2014) and Budiman (2017) in their research stated that the size of the BoC has a significant effect on ROA, different results from research from Eksandy (2018) which explains that the size of the BoC does not influence ROA. Furthermore, regarding the size of DPS on ROA Lukman (2019) it was stated that SSB had a positive effect on ROA, contrary to the research results of Zuliana & Aliamin (2019), which explained that SSB had a negative effect on ROA. Then regarding the size of NPF on ROA by Almunawwaroh & Marliana (2018)(Lukman, 2019)(Lukman, 2019)(Lukman, 2019)(Lukman, 2019); Lukman (2019), and Setiawan & Indriani (2016) stated that NPF has a negative effect on ROA, contrary to the research results of Izzah et al. (2019) and Karno et al. (2020) which explains that NPF has a positive effect on ROA.

In terms of the relationship between the three independent variables and Y2 or NPF, there are also many different results from previous studies. For example, in research regarding the influence of BoD size on NPF, in the research of Sa'diyah (2020) and Nanda et al. (2021)showed that BoD harmed NPF, different from the results of research by Fakhrunnas & Ramly (2017) which proved that BoD had a positive effect on NPF. Then, regarding research on the relationship between BoC size and NPF, Mubarok (2016) and Sa'diyah (2020) concluded that BoC hurt NPF, while the results of research by Atika et al. (2020) is different because it proves that the BoC does not influence the NPF. Furthermore, differences in results also occurred in research on the relationship between SSB and NPF conducted by Sa'diyah (2020), which showed negative results while other results by Nugroho (2020) and Nanda et al. (2021) show that there is no relationship between SSB size and NPF in a company.

Based on the explanation above, this research is expected to be able to answer various problem formulations in order to answer how the Board of Directors, Board of Commissioners, and Sharia Supervisory Board influence the Financial Performance (ROA) and Financing Risk (NPF) of BPRS. This research has important significance in the context of Islamic banking in Indonesia. By investigating the influence of internal governance on Financial Performance (ROA) and Financing Risk (NPF) at Sharia Rural Banks (BPRS), the results can provide a deeper understanding of the factors that influence performance and risk in Sharia-based financial institutions. The implications of this research can guide decision makers and policymakers in increasing the effectiveness of supervision and risk management in BPRS, to improve the sustainability and health of Sharia financial institutions and increase public trust in the Sharia-based financial system.

LITERATURE REVIEW

1. Agency Theory

One of the theories underlying this research is agency theory. Michael C. Jensen and William H. Meckling (1976) interpret agency theory as a contract/agreement which states that one person/more asks another person to perform certain services for their benefit. This theory states that there are different interests between management and owners. It is assumed that an owner is only interested in the profits obtained, while management prioritizes satisfaction in the form of compensation or rewards for company management activities. Therefore, to avoid conflicts of interest between owners and management, management is given the power to make decisions for the good and interests of the owners. So, this theory is used to separate owners and managers to avoid conflicts resulting from uncertain conditions and information.

This theory aims to make a company healthier and can be used to convince investors that they will get a return on what they have invested in the company. This theory can be used in various aspects, especially in this research regarding Financial Performance and Financing Risk and the influencing factors, namely DD size, DK size, and DPS in BPRS, which are expected to supervise company management so that it remains within the rules. applicable. Correct application of this theory can impact superior Financial Performance along with reduced Financing Risk in the company due to good management collaboration between owners and managers.

2. Islamic Rural Bank

BPRS or Islamic Rural Bank is a Sharia bank which does not provide payment traffic services (Ikatan Bankir Indonesia, 2014) and is a People's Credit Bank which carries out its activities based on sharia principles (Wiroso, SE, 2011). BPRS can be a Limited Liability Company (PT), Regional Company, or Cooperative (Yumanita, Pendidikan, Studi, & Ppsk, 2005). BPRS operations take the form of activities to collect funds from the public (savings), deposits or other forms similar to that, providing financing and fund placement services by sharia principles, positioning the funds in the form of Bank Indonesia Wadiah Certificates (SWBI), deposit certificates, time deposits or savings in other banks. Therefore, it is essential for BPRS to maintain and improve company performance and minimize the level of problematic financing or financing risk to ensure smooth operations. Profitability or ROA is a ratio used to represent financial performance which is helpful in assessing management's ability to manage the profits earned by the bank. ROA is used to read the bank's ability to manage its assets in order to generate maximum profits, or in other words, the company's ability to manage its assets. The higher the ROA value of a bank, the more it has worked well/effectively, namely by maximizing the management of its assets/assets to obtain maximum profits (Suryani, 2012).

3. Research Hypotheses

Cited from Almunawwaroh & Marliana (2018), NPF, which is also used to symbolize financing risk, is defined as the level/percentage of returns on financing by savers, which is the level/percentage of problem/non-performing financing at the bank. NPF can be found by calculating non-current financing against total financing. If the NPF percentage is decreasing, then the bank has the potential to make a profit because it has fewer financing problems. Therefore, the hypothesis (H1) in this study states that NPF has a significant negative effect on ROA, which means that if the NPF level increases, this will have the potential to cause the company/bank to experience losses. In line with this description, according to research by Almunawwaroh & Marliana (2018) and from Setiawan & Indriani (2016), NPF has a significant negative influence on ROA. This relationship runs in a unidirectional manner so that the higher the NPF level, the lower the level of profitability (ROA); conversely, if the NPF level decreases, the bank will experience an increase in its profitability (ROA).

Financial performance and financing risks in banking are influenced by several factors, some of which are the size of the board of directors, which is a structural part of an institution that is entirely responsible and authorized for the management of the company for the interests of the company (Eksandy, 2018). Law no. 33/POJK.04/2014 article 2 (1) concerning Directors states that the board of directors consists of a minimum of 2 people, one of whom is appointed as principal director or president director. It is assumed that the more boards of directors in an institution, the more mature the policies or decisions taken regarding a condition will be. This will certainly impact financial performance, which will improve, and the management of problematic financing will be controlled in line with the precise policies chosen. So H2 in this study states that the relationship between the board of directors and ROA is significantly positive, which was also found by Deb et al. (2017), Rahman & Islam (2018), Wilar et al. (2018) and Darwanto & Chariri (2019). In contrast to this, Dogan & Yildiz (2013) prove that there is a negative influence between the board of directors and ROA. Meanwhile, H3 regarding the relationship between the board of directors and the NPF has a negative and significant influence, which is also supported by Nanda et al. (2021), Silmi et al. (2021) and Aryani (2019), however it contradicts the findings of Fakhrunnas & Ramly (2017) which proves that the board of directors has a significant positive effect on NPF.

The Board of Commissioners or Board of Commissioners in an institution is tasked with supervising the operational governance of the company, especially the directors. In OJK regulation no. 33/POJK.04/2014 explains that the minimum number of commissioners in an institution is two people. It is assumed that the more commissioners there are, the more thorough supervision within a company will be and can minimize the NPF percentage. With this, H4 in this research is that the board of commissioners has a significant positive relationship with ROA, while H5 states that there is a significant negative relationship between the board of commissioners and NPF. It is in line with the results of research from Wijayanti et al. (2020), Wilar et al. (2018) and Hendratni et al. (2018) which state that the board of commissioners and ROA have a significant positive relationship. However, the results from Azizah & NR (2020), Effendi (2019), and Putra (2015) show different results, namely the board of commissioners has a significant negative effect on ROA. Meanwhile, about NPF, the board of commissioners, according to the results of Chasanah & Fithria (2021) and Widiastuty (2018) has a significant negative influence on NPF. However, this is different from Mubarok (2016), who states that the board of commissioners and the NPF have a significant positive relationship.

DPS has the task of supervising bank business activities to ensure they continue to run by Sharia principles. PBI No. 11/3/PBI/2009 states that the DPS consists of at least 2 (two) people with a maximum of 50% of the total number of members of the board of directors. Likewise, with the board of commissioners, the greater the number of DPS members, the better the impact on company performance, which will also help reduce the NPF percentage because DPS performance will be more comprehensive with the more significant number of members. Therefore, H6 states that there is a significant favourable influence between DPS and ROA, and H7 states that DPS has a significant negative relationship with NPF. The relationship with ROA is in line with the findings of Darwanto & Chariri (2019) and contrary to the findings of Zuliana & Aliamin (2019) Azizah & NR, (2020), which stated the opposite, significantly negative. Meanwhile, the relationship between DPS and NPF has a significant negative effect, the same as Darwanto & Chariri (2019), but it is considered not to have a significant effect in the findings of Nanda et al. (2021).

Thus, the hypothesis for this research was formulated below:

1. NPF has a significant effect on ROA
2. Board of directors has a significant effect on ROA
3. Board of directors has a significant effect on NPF
4. Board of commissioners has a significant effect on ROA
5. Board of commissioners has a significant effect on NPF
6. Shariah Board has a significant effect on ROA
7. Shariah Board has a significant effect on NPF

METHOD

This type of research is research with a quantitative system using annual BPRS data registered in the OJK list in 2019-2021 in the form of DD size, DK size, DPS size, ROA and NPF, which are processed using a static Data Panel. The use of panel data is an ideal choice in this research because it allows us to overcome the problems of endogeneity, heterogeneity and autocorrelation, as well as taking into account individual effects and time effects, which can provide more consistent and efficient parameter estimates. Selecting the best model on panel data uses several testing stages, namely the Chow test, Hausman test and Lagrange multiplier test, which are used to select the most relevant model between common effect, fixed effect or random effect. Considering the limitations and accessibility of the data, the sample used in this research was 18 BPRS whose selection used a purposive sampling method with criteria; BPRS that are registered with the Financial Services Authority in the period 2019 to 2021 and have publications in the form of financial reports and other information on the OJK channel or the respective BPRS websites.

This data was processed using panel regression analysis using common effect and random effect methods. Before entering regression testing, the data will first be tested for descriptive statistics to analyze the mean, median, maximum and minimum values of variables, as well as a stationarity test to analyze the appropriateness of variables then the results of the regression test will be analyzed using the coefficient of determination test which aims to find out how much far variation from the independent variable in explaining the consequent variable. The F test is used to see whether variable X simultaneously influences the consequent variable (Y). Finally, the hypothesis test (T) is carried out to analyze the results of the regression test. The following is the regression equation used in this research;

$$ROA = \alpha + \beta 1DD + \beta 2DK + \beta 3DPS + \beta 4NPF + e$$

$$NPF = \alpha + \beta 1DD + \beta 2DK + \beta 3DPS + e$$

Where:

ROA : *Financial Performance*
NPF : *Financing Risk/Non-Performing Financing* (NPF)
α : Constanta
DD : Board of Director
DK : Board of Commissioner
DPS : Shariah Supervisory Board
β : Coefficient *Standardized Regression*
e : *Error of Term*

RESULTS AND DISCUSSIONS

1. Descriptive Analysis Results

Descriptive analysis is defined as a method for finding out the mean or average value, smallest value, most significant value and standard deviation of all the variables analyzed, which in this observation are the variables Board of Directors, Board of Commissioners, Sharia Supervisory Board, Return On Assets and Non-Performing Financing from BPRS in Central Java in 2019 and 2021.

Table 2. Descriptive Statistical Test Results

	BoD	BoC	SSB	ROA	NPF
Mean	1.962963	1.962963	1.870370	0.026896	0.053919
Median	2.000000	2.000000	2.000000	0.018800	0.052450
Maximum	3.000000	3.000000	3.000000	0.617700	0.231800
Minimum	1.000000	1.000000	1.000000	-0.058300	0.000000
Std. Dev.	0.272166	0.334380	0.477663	0.084604	0.038615
Skewness	-1.474682	-0.682001	-0.380903	6.433432	1.823267
Kurtosis	13.09042	8.846250	3.927405	45.76208	9.397402
Jarque-Bera	248.6597	81.08806	3.240964	4486.842	122.0039
Probability	0.000000	0.000000	0.197803	0.000000	0.000000

Sum	106.0000	106.0000	101.0000	1.452400	2.911600
Sum Sq. Dev.	3.925926	5.925926	12.09259	0.379367	0.079027
Observations	54	54	54	54	54

Source: data processed 2023

Table 2 shows that the BoD has a mean of 1.962963, a median of 2, a maximum of 3 members and a minimum of 1 member. The BoC has a mean of 1.962963 a median of 2, with a maximum of 3 members and a minimum of 2 members. SSB has a median of 1.870370, a median of 2, a maximum of 3 members and a minimum of 2. ROA has a mean of 0.026896, a median of 0.018800, a maximum value of 0.617700 and a minimum value of -0.058300. NPF has a mean of 0.053919, a median of 0.052450, a maximum value of 0.231800 and a minimum of 0.00.

2. Stasionary Test Result

Because the data in this research is secondary and panel data, a stationary Root Test method with the Augmented-Dickey-Fuller (ADF) test method is needed to determine whether or not something is suitable to be used as a variable in this research. The following are the results of the stationarity test;

3. **Table 3.** Stationarity test results

No	**Variable**	***Probability zUnit Root Test***	
1	BoD	0.0000	Stationary at level
2	BoC	0.0001	Stationary at level
3	SSB	0.0000	Stationary at level
4	ROA	0.0000	Stationary at level
5	NPF	0.0000	Stationary at level

Source: data processed 2023

From Table 3 it can be seen that overall, all the variables used in this research are stationary at the level stage, which means that the variables BoD (0.0000), BoC (0.0001), SSB (0.0000), ROA (0.0 000) and NPF (0.0000) are suitable to be used. as a research variable that is proven to have a unit root test probability value < 0.05.

3. Panel Data Regression Test Results (Testing X and Y2 against Y1 (ROA)

From the results of panel data regression testing using the Chow test, Hausman test and Lagrange multiplier test, a standard effect method or system was chosen with the following final results;

Table 4. Panel Data Regression Results (Y1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.346082	0.099511	3.477816	0.0011
X1	-0.152259	0.037194	-4.093692	0.0002
X2	-0.008963	0.033796	-0.265218	0.7920
X3	0.014736	0.024197	0.609009	0.5453
Y2_NPF	-0.561482	0.269052	-2.086891	0.0421

R-squared	0.304263	Mean dependent var	0.026896
Adjusted R-squared	0.247468	S.D. dependent var	0.084604
S.E. of regression	0.073393	Akaike info criterion	-2.297956
Sum squared resid	0.263940	Schwarz criterion	-2.113791
Log likelihood	67.04481	Hannan-Quinn criter.	-2.226931
F-statistic	5.357236	Durbin-Watson stat	3.253996
Prob(F-statistic)	0.001167		

Source: data processed 2023

The R-squared value is 0.304263 or 30.42%, which means that variable. The remaining 69.58% was explained by variables other than those in this study. Then, looking at the F-statistic probability value of 0.001167 (below 0.05) proves that simultaneously variable.

In the test results, BoD was found to have a negative influence on ROA. This is proven by the BoD regression coefficient value -0.152259 with a probability value of 0.0002 (< 0.05). It means that BoD has a significant negative effect on ROA, and the higher the size of the BoD in a BPRS will have the potential to reduce the ROA of that BPRS and vice versa. In this case, when the size of the BoD increases by 1 unit, it decreases ROA by -0.152259 and vice versa, provided that other variables are considered constant. Because the larger the board of directors, the more it will influence the effectiveness of a decision. The more people occupy the seats on the board of directors, the decision-making process on something will take longer because it involves many parties.

In the test results, BoC was found not to significantly influence ROA in a negative direction and proven by the BoC regression coefficient value -0.008963 with a probability value of 0.7920 (> 0.05). This means that the BoC has a negative but insignificant effect on ROA. The quantity of BoC does not influence ROA statistics in a BPRS. In the test results, it was found that SSB did not have a significant influence on ROA in a positive direction. This is proven by the SSB regression coefficient value of 0.014736 with a probability value of 0.5453 (> 0.05). It means that increasing the number of SSBs only has a small scale in influencing the increase in ROA because it relies on a probability outcome of less than 0.05. The quantity of SSB does not influence ROA statistics in a BPRS.

NPF In the test results it was found to influence ROA in a negative direction. This is proven by the NPF regression coefficient value -0.561482 with a probability value of 0.0421 (< 0.05). Itmeans that NPF has a significant negative effect on ROA, and the higher the NPF size in a BPRS will have the potential to reduce the ROA of that BPRS because it has high problematic financing, and vice versa. In this case, when the NPF size increases by 1 unit, it decreases ROA by -0.561482 and vice versa, provided that other variables are considered constant.

4. Panel Data Regression Test Results (Testing X against Y2 (NPF))

From the results of panel data regression testing using the Chow test, Hausman test and Lagrange multiplier test, a random effect method or system was chosen with the following final results;

Table 5. Panel Data Regression Results (Y2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.103859	0.052980	1.960342	0.0555
X1	-0.019827	0.019264	-1.029245	0.3083

X2	0.006056	0.017340	0.349233	0.7284
X3	-0.012247	0.012106	-1.011659	0.3166
		Effects Specification		
			S.D.	Rho
Cross-section random			0.020145	0.2767
Idiosyncratic random			0.032574	0.7233
		Weighted Statistics		
R-squared	0.039641	Mean dependent var		0.036795
Adjusted R-squared	-0.017980	S.D. dependent var		0.032812
S.E. of regression	0.033105	Sum squared resid		0.054799
F-statistic	0.687962	Durbin-Watson stat		1.236941
Prob(F-statistic)	0.563650			
		Unweighted Statistics		
R-squared	0.045284	Mean dependent var		0.053919
Sum squared resid	0.075449	Durbin-Watson stat		0.898394

Source: data processed 2023

From Table 5 of the regression test results, the R-squared value is 0.039641 or 3.96%, which means that variable Then the remaining 96.04% was explained by variables other than those in this study. Furthermore, looking at the F-statistic probability value of 0.563650 (above 0.05), it proves that simultaneously variable.

BoD In the test results, it was found that it did not have a significant influence on NPF in a negative direction. It is proven by the BoD regression coefficient value -0.019827 with a probability value of 0.3083 (> 0.05). It means that increasing the number of BoDs has the potential to reduce the amount of NPF and vice versa, but on a tiny scale, because it relies on a probability outcome of less than 0.05. The BoD quantity does not influence the NPF statistics in a BPRS.

In the test results, it was found that BoC did not significantly influence NPF in a positive direction. It was proven by the BoC regression coefficient value of 0.006056 with a probability value of 0.7284 (> 0.05). It means that increasing the number of BoCs can also increase the size of the NPF and vice versa, but on a tiny scale because it relies on a probability outcome of less than 0.05. The quantity of BoC does not influence the NPF statistics in a BPRS.

In the test results, it was found that SSB did not have a significant influence on NPF in a negative direction. It is proven by the SSB regression coefficient value -0.012247 with a probability value of 0.3166 (> 0.05). It means that increasing the number of BoCs can also reduce the size of the NPF and vice versa, but on a tiny scale because it relies on a probability outcome of less than 0.05. The quantity of SSB does not influence the NPF statistics in a BPRS. In this case, hypothesis 7 is rejected.

5. Discussion

In hypothesis testing, it is known that BoD size influences ROA in a negative direction. It means that BoD has a significant negative effect on ROA, and the higher the BoD size in a BPRS will have the potential to reduce the ROA of that BPRS and vice versa. BoD is defined as a position in a company that has the authority to regulate and control its internal control system so that it runs according to what is intended (Wijayati, 2015). Even though its role is fundamental, maximizing the number of the Board of Directors provides a less favourable position within a company, especially in the research object in this case, namely the BPRS. Because the larger the board of directors, the more it will influence the effectiveness of a decision; the more people occupy the seats on the board of directors, the decision-making process on something will take longer because it involves many parties. However, on the contrary, the smaller the number of BoDs, the more this can help maximize profitability in a BPRS, which in this research is proxied by ROA. The results of this research are in contrast to the research results of Deb et al. (2017) and Wilar et al. (2018) but are supported by research from Dogan & Yildiz (2013). From this review, it can be seen that the board of directors, which plays an essential role in the management of BPRS, especially in terms of financing, the quantity or number of members of the board of directors, does not have a significant influence in reducing the percentage rate of financing risk, or in this research, it is proxied by the NPF. This result contrasts the research results from Nanda et al. (2021) and Silmi et al. (2021).

Furthermore, this research shows that the size of the BoC does not significantly influence ROA in a negative direction. Thus, the quantity of BoC does not influence ROA statistics in a BPRS. The BoC or Board of Commissioners acts as a supervisor over all activities within a BPRS, both in terms of business, compliance with laws and morals/ethics in its management. It is even referred to as business oversight because it is directly related to supervision and monitoring of the company's ability to survive (Wijayati, 2015). Even though the board of commissioners has a reasonably complex role, quantitatively, this does not have much influence on ROA statistics in BPRS. The results of this test are supported by research results from Sukmaji & Sudrajat (2018) but contradict the findings or research from Wijayanti et al. (2020) and Hendratni et al. (2018). The board of commissioners has the authority and obligation to supervise management policies regarding the company and the company's business and provide advice to the board of directors (Wijayati, 2015). However, in terms of supervision, commissioners are prohibited from interfering in the company's operational interventions. It has the potential to cause the quantity or size of the BoC to not significantly influence the NPF percentage rate. The results of this test are in line with previous research from Atika et al. (2020) but contradict the research results from Mubarok (2016) and Sa'diyah (2020).

Meanwhile, SSB size does not significantly influence ROA in a positive direction. Even though the Sharia supervisory board has quite an important role in supervising the operations or management of the company so that it remains within Sharia corridors, in fact, according to the results of this research, it proves that the large number of SSBs which are considered capable of increasing the quality of supervision do not have much influence on the financial performance of the BPRS as seen in this research. In terms of ROA percentage. The results of this test are in line with the results of research from Magdalena et al. (2017) and Sukmaji & Sudrajat (2018), but this contradicts the research results from Darwanto & Chariri (2019). Apart from that, in its role, DPS does not have the authority to manage any internal activities, especially in terms of bank business activities. Therefore, this has the potential to prevent DPS from having a significant influence on financing, especially in the NPF ratio. These results align with the results of research from Nanda et al. (2021), but contradict the results of research from Darwanto & Chariri (2019).

On the other hand, the size of the NPF affects ROA in a negative direction. In this case, when the NPF size increases by 1 unit, it has the effect of decreasing and vice versa, provided that other variables are considered constant. From the description above, it can be explained that the high and low NPF influence the rise and fall of ROA. In this case, if NPF increases, ROA will decrease, and vice versa. When financing problems in a BPRS are high, this has the potential to reduce the ROA level in that period, and vice versa. These results are in line with previous research from Almunawwaroh & Marliana (2018)(Lukman, 2019)(Lukman, 2019)(Lukman, 2019)(Lukman, 2019) and Setiawan & Indriani (2016), which proves that NPF has a significant negative effect on ROA.

CONCLUSION

Based on data analysis regarding the influence of the Board of Directors (BoD), Board of Commissioners (BoC), and Sharia Supervisory Board (SSB) on the Financial Performance and Financing Risk of Sharia Rural Banks, several significant findings were found. First, BoD significantly negatively influences Return On Assets (ROA) but not significantly on Non-Performing Financing (NPF). Second, BoC does not have a significant effect on ROA but has an insignificant positive effect on NPF. Third, SSB does not significantly affect ROA but has an insignificant positive effect on NPF. Finally, NPF has a significant negative influence on ROA.

The implication of these findings is the importance of the role and composition of the BoD, BoC, and SSB in influencing financial performance and financing risk in Islamic banks. The limitation of this research may lie in the limited area coverage of only BPRS, so the generalization of the findings needs to be considered with caution. Future research is expected to use several broader and more varied variables and a longer and more recent research period to determine the influence of the board of directors, board of Commissioners, and sharia supervisory board on the financial performance and financing risk of BPRS. Apart from that, suggestions for further research are to pay attention to other aspects of governance, such as board size, competency of board members, and information transparency, as well as expand the analysis of external factors that might influence the financial performance of Islamic banks.

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