Journal of Applied Management and Business
Vol. 7, No. 1, Page. 27 – 41, July 2026
e-ISSN : 2745 – 6382
DOI : 10.37802/jamb.v7i1.1375

Drivers of Financial Performance in Islamic Commercial Banks: The Role of GCG Mechanisms and Firm Size

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ARTICLE INFO

Keywords :
Firm Size; Financial Performance; GCG; Islamic Commercial Banks; ROE

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Received : February, 20 - 2026
Accepted : June, 30 - 2026
Published : July, 22 - 2026

10.37802/jamb.v7i1.1375

Journal of Applied Management and Business (JAMB)
https://e-journals.dinamika.ac.id/jamb/index

e-ISSN : 2745-6382

ABSTRACT

Aims :
This study aims to analyze the influence of internal Good Corporate Governance (GCG) mechanisms and firm size on the financial performance of Islamic Commercial Banks (Bank Umum Syariah) for the 2020–2024 period.

Design/Methodology/Approach :
A quantitative approach was employed using secondary data from annual reports of Islamic Commercial Banks registered with the Financial Servvoigtipohgzevices Authority (OJK). Internal GCG is proxied by institutional and managerial ownership, while financial performance is measured by Return on Equity (ROE). Data were analysed using multiple linear regression with Eviews 13 software.

Findings :
The regression results indicate that internal GCG has a positive and significant effect on ROE ($\beta = 0.6209$; $p < 0.000$), while firm size also shows a significant positive effect ($\beta = 0.0837$; $p < 0.000$). The overall model is statistically significant ($F = 72.30$; $p < 0.000$) with a strong explanatory power (Adjusted $R^2 = 0.9412$), suggesting that GCG mechanisms and firm size are key drivers of financial performance in Islamic commercial banks.

Research Limitations/Implications :
The study is limited to internal governance proxies and a specific time frame, future research could incorporate external governance variables or macroeconomic factors. Practically, this study encourages Islamic banks to optimize their ownership structures to strengthen financial stability.

Originality / Value :
This research provides updated empirical evidence on the resilience of Islamic banking performance during the 2020–2024 period, highlighting how internal governance serves as a strategic pillar amidst evolving economic challenges.

Introduction

The Islamic economic sector in Indonesia has demonstrated remarkable resilience since the 1998 economic crisis and the 2008 global financial meltdown, primarily due to its adherence to Sharia principles and fundamental anti-speculation laws [1]. As a strategic pillar of national financial stability, Islamic Commercial Banks (Bank Umum Syariah/BUS) have recorded significant growth, with total assets surpassing IDR 700 trillion by 2024 [2]. However, this rapid asset accumulation has not consistently translated into stable financial performance. Data from the Financial Services Authority (OJK) reveals that the Return on Equity (ROE) of BUS has exhibited a fluctuating and declining trend, dropping from 12% in 2020 to 7% in 2024 [2]. This phenomenon is critical, as financial performance, specifically ROE, serves as a primary indicator for potential investors to evaluate managerial efficiency in generating profits from equity [3], [4].

From the perspective of Agency Theory, financial performance stability depends heavily on oversight mechanisms to mitigate conflicts of interest between owners and managers [5]. Internal Good Corporate Governance (GCG) mechanisms, which in this study focus on institutional and managerial ownership, are believed to drive transparency and operational efficiency [6], [7]. Furthermore, firm size is a crucial factor, as larger companies tend to possess better resource access and economies of scale, which theoretically enhances profitability [8], [9].

Despite extensive research on this topic, a significant research gap remains. First, previous findings regarding the influence of institutional and managerial ownership on financial performance are inconclusive; some studies report a positive impact [10], [11], while others find no significant effect [12], [13]. Second, there is a critical debate regarding how ownership structures influence GCG effectiveness in emerging markets. Global evidence suggests that high ownership concentration tends to reduce GCG quality, as concentrated voting rights allow controlling shareholders to dominate boards and weaken independent oversight. Studies in Iran, for instance, demonstrate that high concentration is detrimental to GCG practices, as large blockholders diminish the role of independent boards [14]. Similarly, research in Saudi Arabia indicates that government-controlled ownership can negatively moderate the effectiveness of formal GCG structures [15]. This suggests a potential "governance paradox" in the Indonesian Islamic banking sector, where specific ownership structures, particularly those with high concentration or state influence, may inadvertently hinder the implementation of effective governance, thereby affecting financial stability. Third, there is limited literature evaluating Islamic banking performance specifically within the post-pandemic and banking consolidation era of 2020–2024.

Drawing upon the identified research gap and the observed phenomenon, this study seeks to address the following questions (1) How do internal GCG mechanisms (institutional and managerial ownership) influence financial performance within the context of Islamic Commercial Banks? (2) To what extent does firm size play a role in strengthening the financial performance of these banks? and (3) In what ways can Agency Theory explain the shifts in financial outcomes observed during the 2020–2024 period?

The novelty of this study lies in its specific timeframe (2020–2024), capturing the critical dynamics of economic recovery and major consolidations within the Indonesian Islamic banking sector. Theoretically, this research contributes to the body of knowledge by reinforcing Agency Theory within the non-conventional banking sector. Practically, the findings offer strategic insights for regulators (OJK) and management to optimize ownership structures and firm size to maintain competitiveness amidst global economic challenges.

Literature Review and Hypothesis Development

1. Theoretical Framework

This study employs *Agency Theory* as the primary grand theory to explain the relationship between internal GCG mechanisms and financial performance. *Agency Theory*, pioneered by Jensen and Meckling [16], highlights the conflicts of interest that arise when managers (agents) and shareholders (principals) pursue divergent goals. In the context of Islamic Commercial Banks, where ethical and Sharia compliance are paramount, agency costs can be more complex. Internal GCG mechanisms, such as institutional and managerial ownership, serve as monitoring and alignment tools to ensure that managers prioritize long-term profitability over personal gain. This theory provides the most appropriate lens because it offers a foundational logic for how ownership structures can reduce information asymmetry and optimize financial outcomes.

As complementary perspectives, the *Resource-Based View (RBV)* emphasizes that governance quality is a strategic resource that enhances organizational efficiency, while Signaling Theory explains how effective governance practices send positive signals to investors and other stakeholders. These theories do not stand as parallel frameworks but rather reinforce the central logic of *Agency Theory*.

2. Critical Review of Related Literature

Recent empirical literature on Islamic banking performance has shifted from emphasizing external market factors to focusing on internal governance quality. Prior studies highlight that governance is not merely a compliance requirement but a strategic driver of efficiency [6], [7]. However, a critical review of recent findings reveals a lack of consensus. Some studies argue that institutional monitoring effectively curbs managerial opportunism in emerging markets [10], [11], while others contend that high ownership concentration may lead to *managerial entrenchment*, where large blockholders prioritize their own agendas over overall bank performance [12], [13]. This study synthesizes these perspectives by positioning *Agency Theory* as the primary framework, while drawing on RBV and *Signaling Theory* as supporting lenses. The focus is on how ownership dynamics operate during the high-volatility period of 2020–2024, thereby enriching the ongoing debate on whether GCG functions as a catalyst for performance or merely as a formal structure.

3. Hypothesis Development

a) The Effect of Internal GCG Factors on Financial Performance

The internal GCG mechanism, represented by the synergy of institutional and managerial ownership, is a primary tool for reducing agency conflicts. According to Agency Theory, a high concentration of institutional ownership serves as an "active monitoring" mechanism. Institutional investors have the resources and expertise to oversee management's strategic decisions, ensuring they align with shareholder interests rather than opportunistic goals [10].

In the context of Islamic banking, governance mechanisms specifically aim to align operational activities with Sharia principles while enhancing efficiency. Empirical evidence from a study of 129 Islamic banks across 29 countries reveals that specific governance components, such as the Sharia board and audit committees, significantly bolster financial performance, including Return on Equity (ROE) [17]. Furthermore, research focusing on the Indonesian Islamic banking sector confirms that the disclosure of Islamic Corporate Governance (ICG) has a positive and significant effect on profitability [18]. These findings suggest that appropriate governance mechanisms reduce information asymmetry and operational risk, directly leading to improved financial outcomes.

H1: Internal GCG factors have a significant positive effect on the Financial Performance (ROE) of Islamic Commercial Banks

b) The Influence of Firm Size on Financial Performance

From a resource-based perspective within financial literature, larger firm size allows a bank to achieve *economies of scale* and better risk diversification. Research shows that larger banks typically have stronger capital structures and higher market trust, which leads to better profitability [19][20]. Larger Islamic banks can distribute fixed operational costs over a wider asset base, making them more efficient and profitable than smaller competitors.

H2: Firm size has a significant positive impact on the financial performance of Islamic Commercial Banks.

c) The Simultaneous Effect of Internal GCG Factors and Firm Size

The simultaneous influence of GCG mechanisms and firm size can be explained through the Resource-Based View (RBV) Theory. RBV posits that a firm's performance is determined by the synergy of its internal resources and capabilities. In this context, GCG acts as an intangible capability (oversight and transparency), while firm size represents a tangible resource (asset base). When a bank possesses large assets and governs them with robust internal mechanisms, it creates a competitive advantage that minimizes waste and maximizes returns [21].

Furthermore, according to Signaling Theory, the combination of high-quality governance and a large operational scale sends a strong signal of stability and credibility to the market [22]. Empirical evidence from studies in the Indonesian banking sector indicates that governance and firm size collectively determine the capacity of a bank to manage risks and exploit market opportunities, which in turn significantly impacts overall profitability [23]. Another study by Puspitasari et al. confirms that internal financial factors and Islamic governance disclosures work together as integrated determinants of a bank's Return on Assets (ROA) and ROE [18].

H3: Internal GCG factors and firm size simultaneously have a significant effect on the Financial Performance (ROE) of Islamic Commercial Banks.

Research Methods

1.) Research Design

This study employs a quantitative research approach with an explanatory design. This method is chosen because the primary objective is to test specific hypotheses and explain the causal relationships between Good Corporate Governance (GCG) mechanisms, firm size, and financial performance. By utilizing deductive logic, this research seeks to generalize findings from a representative sample of Islamic Commercial Banks to the broader industry context, ensuring predictive value regarding the factors that stabilize bank profitability.

2.) Population, Sample, and Sampling Technique

The target population consists of all Islamic Commercial Banks (Bank Umum Syariah/BUS) registered with the Financial Services Authority (OJK) during the 2020–2024 period. A purposive sampling technique was applied based on two criteria: (1) banks that consistently published complete annual reports and financial statements throughout the study period; and (2) banks that represent diverse ownership structures (state-owned, private, foreign, regional, and digital) to provide a comprehensive industry overview. Of the 14 BUS, four were excluded due to incomplete publication of annual financial reports, partly related to structural changes following major mergers (e.g., BRIS, BNIS, and BSM forming Bank Syariah Indonesia). Based on these criteria, 10 BUS were selected as the final sample, representing over 70% of total population assets, thereby ensuring theoretical and statistical adequacy.

3.) Data Collection and Instrumentation

This study relies on secondary data obtained through the documentation method. Data were extracted from audited annual financial reports, accessed via the official OJK website (www.ojk.go.id) and respective bank portals, ensuring reliability and consistency. The operational definitions of the variables are as follows:

a) Financial Performance (Dependent Variable, Y): Proxied by Return on Equity (ROE), calculated as the ratio of Net Income to Total Equity.
b) Measured by the percentage of Institutional Ownership and Managerial Ownership. Ownership structure is selected as the primary proxy for internal GCG because it directly reflects monitoring functions and alignment mechanisms emphasized in Agency Theory [24], [25], [26]. Institutional ownership is widely recognized as an external monitoring mechanism, while managerial ownership aligns managerial interests with those of shareholders, thereby reducing agency conflicts.

   Other governance indicators, such as Sharia Supervisory Boards and Independent Commissioners, were not included in this study because their composition tends to be homogeneous across Islamic banks and provides limited explanatory power in differentiating financial performance. While this operationalization of GCG is admittedly narrow, it remains theoretically relevant and consistent with prior corporate governance literature.

   As a limitation, the study acknowledges that GCG is multidimensional, and future research could expand the measurement by incorporating additional indicators such as board composition, audit committees, or Sharia supervisory boards. The current specification, however, is intentionally focused on ownership structure to highlight its role as a fundamental governance mechanism in Islamic banking.
c) Firm Size (Independent Variable, X2): Measured using the natural logarithm (Ln) of Total Assets to normalize the data scale

4.) Data Analysis Technique

The data are analyzed using Panel Data Regression processed through EViews 13 software. This technique is the most appropriate as it combines cross-sectional and time-series data, allowing for a more in-depth analysis of variations across different banks over five years. The analysis follows a rigorous four-step procedure:

a) Model Selection Tests: To determine the best estimation model Common Effect (CEM), Fixed Effect (FEM), or Random Effect (REM) the Chow Test and Hausman Test are performed.
b) Classical Assumption Tests: To ensure the Best Linear Unbiased Estimator (BLUE) properties, the model undergoes Normality (Jarque-Bera), Multicollinearity (VIF), Heteroskedasticity (Glejser), and Autocorrelation (Durbin-Watson) tests
c) Multiple Linear Regression Analysis: The relationship is estimated using the following formula:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Formula 1. Multiple Linear Regression Model

d) Hypothesis Testing: The t-test is used for partial significance, the F-test for simultaneous influence, and the Coefficient of Determination (R^2) to measure the model's overall explanatory power.

Result and Discussion

1.) Results

a) Descriptive Statistics

The descriptive statistics provide a comprehensive overview of the data distribution for all variables over 50 observations from 2020 to 2024.

Table 1. Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
ROE (Y)	0.0394	0.0907	0.2742	-0.6855	0.1539
Internal GCG (X1)	0.8551	0.937	1	0.445	0.1735
Firm Size (X2)	17.0174	16.875	19.83	13.49	1.1914

(Source : OJK, processed data)

The mean Return on Equity (ROE) of 3.94% indicates a moderate profitability level among Islamic Commercial Banks. The Internal GCG factors, dominated by institutional ownership, show a high average of 85.51%, while the firm size exhibits a significant gap between the smallest and largest banks in the sample. At the same time, the descriptive statistics reveal a minimum ROE value of -0.6855 (-68.55%), recorded by one Islamic bank that experienced severe losses during the pandemic period. This extreme figure reflects the residual impact of COVID-19 on financing quality and operational efficiency rather than data distortion. Including this observation is important to maintain the integrity of the dataset, as it illustrates the heterogeneity of financial performance among Islamic Commercial Banks. Nevertheless, readers should interpret this figure as an outlier that signals the need for stronger governance and risk management practices, rather than as a typical representation of the industry's overall performance.

Figure 1 presents the average ROE trend of Islamic Commercial Banks in Indonesia from 2020 to 2024. The chart shows a sharp decline in 2020 (-6.5%) due to the pandemic, recovery in 2021 (2.1%) and 2022 (5.3%), slight stabilization in 2023 (3.0%), and renewed growth in 2024 (6.8%). This visualization supports the "fluctuation phenomenon" highlighted in the introduction and provides a clearer picture of the dynamic financial performance during the post-pandemic recovery and consolidation era.

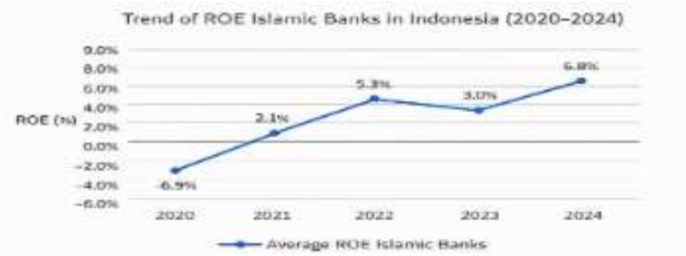

Figure 1. Average ROE Movement of Islamic Banks in Indonesia, 2020–2024
(Source: OJK, processed data)

b) Panel Data Model Selection and Diagnostic Tests

To ensure the robustness of the regression model, several selection tests and classical assumption tests were conducted.

Table 2. Model Selection and Diagnostic Test Results

Test Category	Method	Statistic	Prob.	Threshold	Result
Model Selection	Chow Test	5.8002	0.000	< 0.05	Fixed Effect (FEM)
Model Selection	Hausman Test	3.9534	0.1385	> 0.05	Random Effect (REM)
Model Selection	LM Test	16.5696	0.000	< 0.05	Random Effect (REM)
Classical Assumption	Jarque-Bera	2.5532	0.2788	> 0.05	Normality Met
Classical Assumption	Centered VIF	1.0208	-	< 10.0	No Multicollinearity
Classical Assumption	Glejser (Prob F)	0.4641	0.6315	> 0.05	Homoscedasticity
Classical Assumption	Durbin-Watson	2.8058	-	1.5 - 2.5	No Autocorrelation

(Source : OJK, processed data)

The tests conclude that the Random Effect Model (REM) is the most appropriate estimation method. Furthermore, the diagnostic tests confirm that the model is free from multicollinearity, heteroskedasticity, and autocorrelation issues.

c) Hypothesis Testing (Regression Analysis)

The regression analysis using the Random Effect Model (REM) was performed to examine the influence of Internal GCG Factors and Firm Size on Financial Performance.

Table 3. Panel Data Regression and Hypothesis Summary

Variabel	Coefficient	t-Statistic	Prob.	Conclusion
Konstanta (C)	-1.9169	-7.3872	0.0000	Significant
Internal GCG (X1)	0.6209	6.8928	0.0000	H1 Accepted
Firm Size (X2)	0.0837	7.1307	0.0000	H2 Accepted
F-Statistic	72.3029		0.0000	Simultaneous Sig. Strong (94.1%)
Prob (F-Stat)	0.0000			
Adjusted R2	0.9412			

(Source: OJK, processed data, 2025)

The t-test evaluates the individual effect of each independent variable on the dependent variable. Based on the regression results in Table 3, the following conclusions are drawn:

H1: The Effect of Internal GCG Factors on Financial Performance. The analysis shows that Internal GCG Factors (X1) have a coefficient of 0.6209 with a t-statistic of 6.8928 and a p-value of 0.0000. Since the p-value is less than 0.05, H1 is accepted. This indicates that Internal GCG factors have a significant positive effect on Return on Equity (ROE).

H2: The Effect of Firm Size on Financial Performance. The variable Firm Size (X2) yields a coefficient of 0.0837 with a t-statistic of 7.1307 and a p-value of 0.0000. Given that the p-value is below 0.05, H2 is accepted. This confirms that Firm Size has a significant positive impact on ROE.

H3: Simultaneous Influence of GCG and Firm Size. The F-statistic value is 72.3029 with a probability (Prob F-statistic) of 0.0000. Since the p-value is significantly lower than the 0.05 threshold, H3 is accepted. This demonstrates that Internal GCG factors and Firm Size simultaneously have a significant effect on the Financial Performance (ROE) of Islamic Commercial Banks.

Coefficient of Determination (R^2)

The Adjusted R^2 value of 0.9412 indicates that approximately 94.12% of the variance in the Financial Performance (ROE) of Islamic Commercial Banks in Indonesia (2020–2024) can be explained by Internal GCG factors and Firm Size within the scope of this model. The remaining 5.88% is attributed to other variables not included in the specification. While this high explanatory power suggests a strong relationship between ownership structure, firm size, and financial performance, the result should be interpreted with caution. Adjusted R^2 values above 90% are rare in profitability studies and may be influenced by the limited sample size (10 banks, 50 observations) or strong correlations between independent variables. Therefore, the reported Adjusted R^2 reflects the explanatory strength of the selected variables, but it does not imply that the model captures the entire variance in financial performance.

2.) Discussion

a. The Effect of Internal GCG Factors on Financial Performance

The results of this study indicate that Internal GCG factors have a significant positive impact on the Financial Performance (ROE) of Islamic Commercial Banks (p=0.0000), supporting H1. The regression coefficient of 0.6209 is the largest among the explanatory variables, underscoring the dominant role of governance in shaping profitability. Based on Agency Theory, these results indicate that internal governance mechanisms specifically the synergy between institutional and managerial ownership effectively serve as a monitoring tool. In the Indonesian Islamic banking landscape, high institutional ownership ensures that management's strategic directions are aligned with shareholder wealth maximization. By reducing agency costs and mitigating information asymmetry, robust GCG practices ensure that equity is utilized efficiently to generate profit [27].

The dominance of institutional ownership in Islamic Commercial Banks can also be explained by the parent–subsidiary relationship phenomenon. Most BUS in

Indonesia are subsidiaries of large conventional banks, which provide capital support, governance frameworks, and managerial oversight. This structural relationship strengthens monitoring effectiveness and explains why institutional ownership exerts a positive influence on ROE. In practice, parent institutions and government stakeholders exert pressure on their subsidiaries to recover quickly after the pandemic, enforce stricter risk management, and align operational strategies with shareholder expectations. This oversight effect explains why institutional ownership functions as a stabilizing mechanism in the Indonesian Islamic banking sector.

At first glance, this result appears to contradict the “Governance Paradox” mentioned in the introduction, which suggests that concentrated ownership can weaken governance quality and harm minority rights. However, in the Indonesian context, concentrated institutional ownership contributes positively to stability rather than expropriation. This is because parent banks and government shareholders operate under strong regulatory supervision by the Financial Services Authority (OJK) and Sharia compliance requirements, which limit opportunistic behavior. Instead of undermining governance, concentrated ownership strengthens monitoring effectiveness, accelerates post-pandemic recovery, and enhances resilience. Thus, the paradox is mitigated by the unique institutional and regulatory environment of Indonesian Islamic banking, where concentrated ownership translates into stronger discipline and improved financial performance.

This finding is consistent with Aslam and Haron [17], who conducted a multi-country study and found that governance mechanisms like audit committees and Sharia boards significantly bolster ROE. It also validates the findings of Puspitasari et al. [18], where Islamic Corporate Governance (ICG) disclosure was found to positively affect the profitability of Islamic banks in Indonesia. This suggests that the "oversight effect" of GCG is a universal driver of performance across different Islamic banking jurisdictions.

b. The Effect of Firm Size on Financial Performance

The statistical evidence demonstrates that Firm Size (X2) positively and significantly affects ROE ($p=0.0000$), thereby accepting H2. The regression coefficient of 0.0837 implies that for every one-point increase in company size (measured as the natural logarithm of total assets), ROE is predicted to increase by approximately 8.37%. This substantial effect highlights the importance of scale efficiency and asset strength in enhancing profitability among Islamic banks. Larger banks can distribute fixed operational and Sharia-compliance costs over a broader asset base, thereby achieving improved cost-to-income ratios and stronger resilience against external shocks.

This finding confirms the Economies of Scale perspective, where larger Islamic banks in Indonesia during the 2020–2024 period exhibited superior ability to manage cost structures and mobilize cheaper third-party funds (DPK). The consolidation era, such as the formation of Bank Syariah Indonesia (BSI), further illustrates how scale has become a primary determinant of profitability in the digital era. In practice, the pressure to achieve efficiency and resilience after the pandemic encouraged BUS to expand their asset base, integrate digital services, and strengthen capital structures, thereby amplifying the positive impact of firm size on ROE.

Taken together, the coefficient interpretation underscores that firm size is not merely a control variable but a strategic driver of profitability. The magnitude of the effect (8.37%) should be emphasized as an important finding, reinforcing the view that larger banks possess a superior ability to generate profit compared to small-scale banks [28][29]. This conclusion is further corroborated by Azizah and Firdayetti [30], who emphasize that firm size is a crucial determinant of financial performance and capital structure, as larger entities possess broader access to strategic resources and better market positioning. It also aligns with Teefani and Karya [31], who argue that profitability ratios are essential metrics for assessing efficiency and competitiveness, and with recent empirical evidence [32], [33] demonstrating that firm size and effective asset management significantly influence financial outcomes.

c. Simultaneous Influence of GCG and Firm Size

The simultaneous testing (F-test) demonstrates that Internal GCG factors and Firm Size collectively exert a significant influence on the Financial Performance (ROE) of Islamic Commercial Banks. This result is statistically proven by the F-statistic of 72.3029 with a probability of 0.0000, leading to the acceptance of H3. The Adjusted R^2 of 94.12% indicates a very strong explanatory power of the model. However, this figure should be interpreted with caution, as values approaching 100% are uncommon in profitability studies and may be influenced by the relatively small sample size (10 banks, 50 observations) or strong correlations between independent variables. Diagnostic tests confirmed no multicollinearity issues, but the disclaimer remains necessary to avoid overstating the explanatory strength.

From the Resource-Based View (RBV) perspective, the combination of intangible capabilities (GCG) and tangible resources (Firm Size) creates a competitive advantage that is difficult for competitors to replicate [34]. A large bank without strong GCG is prone to inefficiency, while a well-governed small bank may struggle with high overhead costs. In the Indonesian context, the synergy between concentrated institutional ownership and large-scale operations has proven particularly effective during the post-pandemic recovery, as parent banks and government stakeholders demanded both efficiency and resilience. As per Signaling Theory, the combination of being “large” and “well-governed” sends a powerful signal of stability to depositors and investors [35].

The results of this study are corroborated by the findings of Wijaya, Setyadi, and Yudaruddin [36], which indicates that governance practices and firm size are pivotal internal strategies that significantly enhance corporate outcomes in the Indonesian context. Their research aligns with the Trade-off and Agency Theories, highlighting that effective governance and strategic resource allocation (size) are fundamental to strengthening firm performance. Furthermore, this study aligns with the empirical evidence provided by Bellen, Muktiadji, and Pardede [37], who conducted a simultaneous analysis of banking companies listed on the Indonesia Stock Exchange. Their research confirms that while some variables may yield varying results partially, the collective implementation of Good Corporate Governance (GCG) mechanisms including ownership structures and firm size has a significant simultaneous impact on financial performance.

DOI : 10.37802/jamb.v7i1.1375 (e-ISSN 2745-6382)

Taken together, these findings emphasize that institutional monitoring combined with adequate operational scale is a critical determinant in maintaining business stability and achieving profitability targets. At the same time, the unusually high Adjusted R^2 observed in this study should be interpreted carefully, acknowledging the limitations of sample size and variable specification, and suggesting the need for further research with expanded datasets and additional control variables.

d. Theoretical and Practical Contributions

Theoretical Contribution. This study enriches the literature on Islamic finance by providing contemporary evidence (2020–2024) of how governance and scale interact in a post-pandemic recovery environment. It reinforces the applicability of Agency Theory and RBV in the Sharia-compliant financial sector. Practical Contribution for Managers. Bank executives should prioritize "Scale-Governance Synergy." Asset growth strategies must be accompanied by strengthening the role of internal auditors and Sharia supervisory boards to ensure that larger resources are managed with high transparency. Practical Contribution for Regulators. These results provide a strong empirical justification for the Indonesian government's policy of bank consolidation. Larger, well-governed Islamic banks are statistically proven to be more resilient and profitable, which is essential for national financial stability.

Conclusion

This research provides a comprehensive perspective on the determinants of financial performance within the Indonesian Islamic banking sector, specifically highlighting the critical roles of internal Good Corporate Governance (GCG) and operational scale. Narratively, the research objectives have been achieved: robust internal oversight, manifested through institutional and managerial ownership, serves as a primary driver in aligning management's strategic actions with shareholder interests, thereby enhancing overall profitability. Furthermore, the significant influence of firm size underscores the importance of economies of scale in the modern banking era, where larger asset bases allow for superior cost efficiency and greater market resilience. The consolidation of Islamic banks in Indonesia, such as the formation of Bank Syariah Indonesia (BSI), has empirically proven that increasing company size enhances profitability and resilience. Collectively, the synergy between strong governance capabilities and substantial firm scale explains nearly the entire variance in financial outcomes, suggesting that for Islamic banks to thrive in a competitive landscape, they must balance aggressive growth with disciplined internal monitoring. This study advances the Agency Theory and Resource-Based View by demonstrating that in a highly regulated and Sharia-compliant environment, the integration of tangible resources and intangible governance mechanisms creates a formidable competitive advantage.

From a practical standpoint, the findings suggest that small Islamic banks should immediately pursue collaboration or consolidation strategies to achieve economies of scale. By expanding asset bases and integrating governance frameworks, they can reduce overhead costs, improve efficiency, and strengthen resilience against external shocks. Regulators such as the Financial Services Authority (OJK) are encouraged to continue promoting consolidation policies and reinforcing governance standards, ensuring that institutional ownership translates into effective monitoring and long-term stability. These operational recommendations are particularly relevant in the post-pandemic era, where efficiency, resilience, and digital transformation are critical for sustaining competitiveness in the Islamic banking industry.

Despite these insights, several limitations must be acknowledged to guide future scholarly inquiries. This study focused exclusively on Islamic Commercial Banks in Indonesia within a specific five-year timeframe, which may limit the generalizability of the findings to different geographical contexts or diverse financial institutional types. Additionally, the variables employed were restricted to internal GCG factors and firm size, potentially overlooking external macroeconomic indicators or other governance dimensions such as the specific characteristics of the Sharia Supervisory Board. Future research should consider expanding the scope by incorporating cross-country analyses or adopting a more granular approach to governance metrics, such as board diversity and digital transformation readiness. Moreover, integrating qualitative methods or mixed-method approaches could provide a deeper understanding of how governance cultures evolve within Islamic financial institutions.

Importantly, this study did not include robustness checks such as alternative model estimations (e.g., Fixed Effects vs. Random Effects comparison), robust standard errors, or sensitivity analyses, which future research should employ to validate the stability of the results. In addition, potential endogeneity between GCG mechanisms and financial performance cannot be fully ruled out, as reverse causality may occur where profitable banks attract higher institutional ownership. Addressing these methodological issues through lagged variables or advanced econometric techniques (e.g., GMM, 2SLS) will enhance the reliability of causal inference. Furthermore, future researchers are advised to incorporate broader performance indicators beyond ROE. Variables such as Islamic Social Reporting (ISR) and intellectual efficiency (i-VAIC) would provide a more holistic measure of Islamic bank performance in line with Maqasid Shariah. By acknowledging these limitations and addressing them in subsequent studies, scholars can continue to refine the strategic roadmap for sustainable performance in the global Islamic finance industry.

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