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Effect of Quality of Good Corporate Governance Disclosure, Leverage and Firm Size on Profitability of Islamic Commercial Banks

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ABSTRACT

The purpose of this study was to determine the effect of the quality of disclosure of good corporate governance (GCG), leverage, and firm size on profitability in Islamic commercial banks in Indonesia and Malaysia. The data used in this study were obtained from the website of each bank in the period 2011-2017 with a total sample of 16 Islamic commercial banks. The data analysis technique used in this study is panel data regression analysis. The results showed that the quality of GCG disclosure and leverage had an effect on profitability while the firm size variable had an effect on profitability.

Keywords: Islamic Commercial Bank, Quality of Good Corporate Governance Disclosure, Leverage, Firm Size, Profitability
JEL Classifications: M4, G38, G2, G3

1. INTRODUCTION

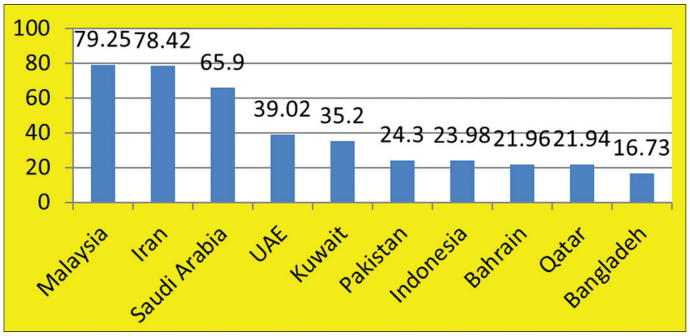
The growth of Islamic banking has increased rapidly from year to year. The development of Islamic banking globally occurred in 2008. Enactment of Law No. 21 of 2008 concerning Islamic banking is a legal basis that will encourage the growth of Islamic banking more quickly. The desire to run an economic system based on Islamic values and principles are a fundamental factor in the formation of Islamic banks (Meutia, 2010). Moreover, philosophy underlying Islamic banks aims to distribute justice that is free from all forms of exploitation (Ningsih and Atmadja, 2015) Ifham (2015) explains that basically, Islamic banks are formed as a substitute for usury-based banking systems. Usury is one form of transaction that is prohibited in Islamic Islamic. Riba has several negative effects on society such as seizing the wealth of others, destroying morality, giving birth to seeds of hatred, hostility, making the rich richer and poorer poorer.

Indonesia is one of the largest Muslim-majority countries in the world so that the existence and development of Islamic banking is very important. The development of Islamic banks in Indonesia itself began in 1992 where Muamalat became the first bank in Indonesia. Besides Indonesia, Malaysia also has Islamic-based banking in its financial operations activities. Malaysian Islamic banks began in 1983 where Islamic banks became the first Islamic banks in Malaysia. That means Malaysia has been implementing the Islamic banking system for 9 years longer than Indonesia.

Malaysia is an allied country with Indonesia, in its economic development currently has excellent potential capabilities in the ASEAN region and globally this can be seen from the Islamic Finance Country Index (2017) as follows in Figure 1.

From the Islamic Finance Country Index 2017 report, Malaysia ranked first in 2017 with a value of 79.25, while Indonesia ranked seventh with a value of 23.98. This shows that Malaysia has a higher rating compared to Indonesia. The assessment aspects of the calculation of the index are the number of Islamic banks, the number of Islamic or Islamic financial industry institutions, the

Figure 1: Islamic Finance Country Index, 2017



size of Islamic financial assets, the number of sizes of interest, Muslim populations, education and culture, regulation and official infrastructure.

Now the competition between Islamic commercial banks is getting tougher, direct or indirect, this will affect the profitability of Islamic banking. According to Brigham and Houston (2009), profitability reflects the end result of all financial policies and operational decisions. Although the purpose of Islamic banks is not only to generate profits but the ability of Islamic banks in an effort to gain profits is an important indicator for the sustainability of Islamic banks. Prihadi (2012) states that companies are established to gain profits. The ability of Islamic banks to generate profits is also an important indicator to measure the competitiveness of Islamic banks in the long run. Every company will try to improve company performance in order to increase productivity and profitability of the company. One indicator that can be used to see profitability is return on asset (ROA). Syamsuddin (2013) proves that ROA describes the overall ability of a company to generate profits with the total assets available. The lower the ROA, the lower the probability of a bank experiencing bankruptcy, while the greater the ROA, the greater the bank's profitability.

Thus, ROA can be used as a measure of the right of profitability because it can determine the soundness of the bank. The factors suspected of influencing the profitability of Islamic banking companies are the application of good corporate governance (GCG). Along with this, what needs to be considered in the implementation of GCG is the GCG aspect because it is related to various types of loss risks which if not considered will damage the image of Islamic banks in the future and plunge Islamic banks into the brink of collapse. Effendi (2016) states that the application of GCG in the Islamic banking industry is based on five basic principles. (1) Transparency, (2) accountability, (3) accountability, (4) professionals and (5) justice. GCG implementation is a key element in creating a conducive relationship between company organizations to improve performance.

Chapra and Habib (2014) prove that the application of GCG can increase profitability in several Islamic financial institutions and increase public trust in Islamic banks. Conversely, failure to implement GCG will make customers move to another bank by 85%. This means that the transparency of GCG disclosure is the main principle for financial institutions to develop. Halimatusadiah et al. (2015) found that the good level of GCG implementation had a positive effect on the company's profitability which reached 19.8%.

The legal basis of Islamic banking in Indonesia based on a bank Indonesia circular letter (2011) states that disclosure of GCG can be known through the composite self-assessment value in the GCG report which is implemented into eleven assessment factors. While the legal basis of Islamic banking in Malaysia is the 2013 IFSA Law, which in detail mentions the term Islamic government (Islamic government) and provides an explanation of the scope of the Islamic government system. Therefore, Malaysia has embraced a comprehensive Islamic governance system, namely a Islamic governance system that not only emphasizes the role of SC in relation to the fulfillment of Islamic but is a shared responsibility of all organs (board of directors, directors, SCs, management, and units) within the organization through details of their respective roles and functions in relation to the fulfillment of Islamic banking.

Thus it can be concluded that the Sharia governance of banks in each country both in Indonesia and Malaysia are both regulated in regulations that generally have similarities in terms of management. The next factor that is thought to influence profitability is leverage. According to Pranjoto (2013) leverage is a fixed burden borne by the company in order to increase the profitability of the company. Leverage is used to measure the extent to which a company's assets are financed by debt.

According to Nuraina (2012) stating the greater leverage means the greater the company's assets or funding obtained from debt. The greater the leverage, the greater the likelihood of the company's failure to not be able to pay its debt, so that it has the risk of bankruptcy. Furthermore, Margaritis and Maria (2010) explain that the existence of too much leverage in the company can affect company performance both positively and negatively. Large leverage can cause managers to always try to work optimally so that the company is able to pay off debt so that the company's performance increases and can also be interpreted that the company's performance is not good because some of the company's capital comes from debt.

Muthmainnah (2017) states that leverage ratios have a positive effect on the level of profitability. Whereas the research conducted by Mangondu and Yossi, (2016) said that leverage has a significant negative effect on the company's financial performance. While different things are conveyed by Fachrudin (2011) which states that leverage does not affect the company's performance. Leverage has several ratios, but in this study the ratio used is the debt to equity ratio (DER) because the DER ratio is sufficiently representative to know the leverage ratio that affects the profitability of a company. This is evidenced by the research conducted by Krishnan and Mohandas (2013) and Mareta et al. (2013) which revealed that DER had a significant positive effect on profitability.

The last factor that is thought to affect profitability is firm size. Dogan (2013) and Mule and Mukras (2015) state that companies with large total assets reflect the reliability of the company. However, the firm size can have positive and negative effects on profitability. This is evidenced by the research of AlGhusin (2015) and Akbar (2013) which revealed that firm size has a positive effect on profitability. On the other hand, Kosmidou's research, et al. (2008) and Dietrich and Wanzenried (2009) which revealed that firm size has a negative effect on profitability. In this study firm size is measured using Ln of total company assets. Hasnawati and Sawir (2015) stated that total assets were relatively more stable than the total market capitalized and sold.

From the three factors, GCG, leverage and firm size can have a positive, negative effect and not even have an effect on profitability in Indonesian and Malaysian Islamic banks from 2016 to 2017. This can be evidenced from the annual reports from several banks from 2014 to 2017. BCA Syariah Bank in Indonesia received excellent GCG predicate from 2014 to 2017 and when viewed the income performance (ROA) also increased from 0.80% to 1.10%, which means that the better Corporate Governance can improve performance seen from income (ROA). Whereas if at Bank BNI Syariah obtained a good GCG predicate from 2014 to 2017 and if seen from its income performance (ROA) from 2014 to 2017 it is greater than BCA Syariah Bank which is equal to 1.27%, 1.43% and 1.44%. Which means that the better corporate governance can improve performance seen from income (ROA). And this also indicates that the results of the value of disclosure of GCG implementation are not necessarily able to increase the value of income (ROA), because the value of the GCG predicate is very good is still less the ROA value with good GCG predicate.

The total leverage of DER Bank BCA Syariah in 2016 is greater than Bank BNI Syariah, which means that the capital in BCA Syariah Bank is 26.60% funded by a third party and with a ROA of 1.1%, while Bank BNI Syariah in 2016 amounting to 10.42% was funded by third parties with a value of ROA of 1.43%, which means that the smaller the value of income can increase the performance seen from income (ROA). Furthermore, if the firm size value is seen from Ln. The total assets of Bank BCA Syariah have a greater value than Bank BNI Syariah, which means that with a greater total asset value it can improve performance seen from income (ROA).

For Islamic commercial banks in Malaysia, such as Bank Affin Islamic Berhad and Bank Al Rajhi Malaysia, they received good GCG titles from 2014 to 2016 and when viewed from the income performance (ROA) for Affin Islamic Berhad Bank it also increased from 1.63% to 1.83%. Which means that the better Corporate Governance can improve performance seen from income (ROA). Whereas for Bank Al Rajhi Malaysia experienced an increase and decrease from 2014 to 2017 from 2.29% increasing to 2.48% in 2015 and in 2016 it decreased to 2.17. This also indicates that the results of the disclosure value of GCG implementation may not necessarily increase the value of the income (ROA).

The total DER leverage of Affin Islamic Berhad Bank in 2016 is smaller than that of Bank Al Rajhi Malaysia, which means that the capital at Affin Islamic Berhad Bank is 7.68% funded by a third party and with a ROA of 1.73%, whereas Bank Al Rajhi Malaysia in 2016 amounted to 11.13% funded by third parties with a ROA of 2.48%, which means that the greater leverage value can increase the performance seen from income (ROA). If the firm size value seen from Ln Affin Islamic Berhad Bank's total assets has a greater value than Bank Al Rajhi Malaysia, which means that with a greater total asset value it can improve performance seen from income (ROA).

Based on the description above, the purpose of this study is to examine the effect of the quality of disclosure of good corporate governance, leverage and firm size on profitability in Islamic commercial banks in Indonesia and Malaysia in 2011-2017.

2. LITERATURE REVIEW

2.1. Quality of Good Corporate Governance Disclosure

The quality of GCG disclosure is very important because without this it would be very difficult for shareholders to get the right and reliable information, and the information asymmetry that occurs any activities and the financial condition of the company, especially regarding corporate governance, shareholders will lead to moral hazard and adverse selection problems (Solomon, 2007). By publishing information about command other stakeholders will be able to monitor company performance and make better decisions in disclosing information about good governance in annual reports.

The different interests and needs of stakeholders for good governance information make the company must disclose information on good governance that can accommodate all interests and needs of stakeholders, so that it will affect the quality of disclosure of a company's good governance. The quality of GCG disclosure is measured by composite value based on the suitability of the implementation of GCG aspects by banks with predetermined assessment factors. To find out the quality of GCG disclosure in Islamic commercial banks is done through data analysis. Data analysis carried out there is two stages, namely:

1. Analyzing the ranking of implementation of each GCG Factor. Analysis is done with content analysis. Indicators are made specifically for evaluating the quality of GCG disclosures at Islamic Commercial Banks
2. Analyzing the quality of GCG disclosures. After obtaining data regarding the quality of the implementation of each GCG factor, then it is to analyze the quality of GCG implementation in Islamic banks by multiplying the rank of each factor with the weight determined by Bank Indonesia which then produces a composite value based on the rules.

2.2. Concept of Leverage

According to Tampubolon (2013) the leverage ratio is used to explain the use of debt to finance a portion of corporate assets. According to Syamsuddin (2013) leverage is usually used to describe the company's ability to use assets or funds that have fixed costs (fixed cost assets or funds) to increase the level of income (return) for the owner of the company.

2.3. Leverage Ratio

According to Fahmi (2014) leverage ratios are classified as follows:

1. Debt to assets ratio (DAR) is a debt ratio used to measure the ratio between total debt and total assets. In other words, how much the company's assets are financed by debt or how much the company's debt affects the management of assets. Debt to assets ratio (debt ratio) can be formulated as follows:

$$\text{DAR} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

2. Long term LDER is the ratio between long-term debt and equity. The goal is to measure how much of each rupiah is used as collateral for long-term debt by comparing the long-term debt with the capital provided by the company

$$\text{LDER} = \frac{\text{Long} - \text{term Debt}}{\text{Own Capital}}$$

3. Times interest earned times interest earned (TIE) is a ratio to measure the extent to which income can decrease without making the company feel ashamed for not being able to pay the annual interest fee
4. DER is the ratio used to assess debt with equity. This ratio is sought by comparing all debt, including current debt with all equity. This ratio is useful to find out the amount of funds provided by the borrower (creditor) with the owner of the company

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Own Capital}}$$

5. Fixed charge coverage or fixed cost scope is a ratio that resembles times interest earned ratio. It's just that the difference is this ratio is carried out if the company obtains long-term debt or rents an asset based on a lease contract. Fixed costs are interest costs plus annual or long-term lease obligations.

2.4. Concept of Firm Size

Firm size is a scale, which can be classified as the size of the company according to various ways, including: total assets, log size, stock market value, and others. Basically the size of the company is only divided into three categories based on the company's total assets, namely large companies, medium companies, and small companies (Machfoedz, 1994). According to Seftianne and Handayani (2011) firm size describes the size of the company. The size of the business is reviewed from the business field that is run.

Determination of the scale of the company can be determined based on total sales, total assets, average sales level. Firm variable is measured by natural logarithm (Ln) of total assets. This is because the magnitude of the total assets of each different company even has a large difference, so that it can cause extreme values. To avoid the existence of abnormal data, the total asset data needs to be carried out. The use of total assets as a tool of company size is based on the research of AlGhusin (2015), Arif et al. (2013), variable size of the company can be expressed as follows: Firm size = LnTotalAset Total assets are chosen as proxy for firm size by considering that asset value is relatively more stable compared to market value capitalized and sales (Wuryatiningsih, 2014).

2.5. Effect of Quality of GCG Disclosure on Profitability

The company's financial performance is determined by the extent to which the company is serious in carrying out good corporate governance, the more serious the company implements GCG, the higher the company's financial performance (Hamdani, 2016). Good sales or net income will affect the company's financial performance seen from the increase in the ROA ratio. ROA shows the ability of bank management to generate income from the management of assets owned. ROA describes the ability of the company as a whole to generate profits with the total amount of assets available. The higher the ROA, the lower the probability of the bank experiencing bankruptcy, while the greater the ROA the greater the level of bank profits (Syamsuddin, 2013).

Htay et al. (2013) found a relationship between corporate governance and the quality of disclosures from banks listed on Bursa Malaysia. Furthermore, the research conducted by Pratiwi (2016), Trinanda (2010) and Yantiningsih et al. (2016) found that the quality of GCG implementation had a significant positive effect on profitability. Based on the description, the researchers assume that:

H_1: The quality of GCG disclosure has an effect on profitability in Islamic Commercial Commercial banks in Indonesia and Malaysia.

2.6. Effect of Leverage on Profitability

DER is a ratio that measures the level of use of debt (leverage) against total equity. A high low DER will affect the level of achievement of ROA achieved by the company. If the cost of debt is smaller than the cost of equity, then the source of funds originating from loans or debt will be more effective in generating profits (increasing ROAs) and vice versa (Brigham and Houston, 2009). Margaritis and Maria (2010) explain that the existence of too much leverage in the company can affect company performance both positively and negatively.

Large leverage can cause managers to always try to work optimally so that the company is able to pay off debt so that the company's performance increases and can also be interpreted that the company's performance is not good because some of the company's capital comes from debt. This is supported by Research conducted by Alarussi (2017) and Muthmainnah (2017) states that leverage ratios have a positive effect on the level of profitability. Based on the description, the hypothesis is as follows:

H_2: Leverage affects profitability in Islamic commercial banks in Indonesia and Malaysia.

Effect of firm size on profitability Firm size can be seen from the total assets of the company. According to Seftianne and Handayani (2011) companies with a large total asset reflect the reliability of the company. Companies that are already established are usually in a stable financial condition. This is supported by research conducted by AlGhusin (2015) and Arif et al. (2013) which revealed that firm size has a positive effect on profitability. Based on this, the following hypothesis can be formulated:

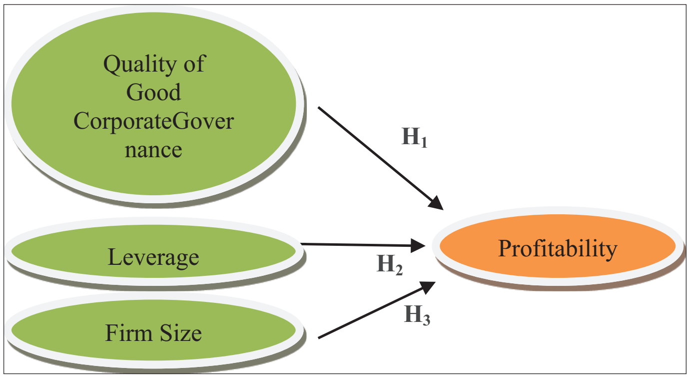
H_3: Firm size affects the profitability of Islamic commercial banks in Indonesia and Malaysia.

Based on the development of the hypothesis above, this research model is formulated as shown in Figure 2.

3. METHODOLOGY

This research used quantitative method; this method is used because the research calculates how much influence the quality of Good Corporate Governance, leverage and firm size disclosure

Figure 2: Research model



on profitability in Islamic Commercial Banks in Indonesia and Malaysia. The data used in this study are secondary data, namely annual reports and GCG reports from Islamic commercial banks in 2011-2017 on the official website of Bank Indonesia and Bank Negara Malaysia, and specifically display reports relating to disclosure of good corporate governance, leverage, firm size and profitability.

The population used in this study was all 29 Islamic commercial banks in Indonesia and Malaysia. In determining the sample, the researcher used a purposive sampling technique. The criteria used in determining the sample of this study are as follows: (1). Islamic financial bank financial statements that experience annualprofits (2). Islamic public banks have been operating for more than 5 years (Table 1).

Data collection techniques in this study are documentation, namely in the form of annual reports and GCG reports on Islamic commercial banks 2011-2017. Meanwhile, to determine the quality of GCG disclosure can be measured using composite values based on the Table 2.

To get the composite value in this study, the data analysis carried out is in two stages, namely (1) using indicators based on existing regulations in each country. After that, analyzing content using the corporate governance disclosure index (CGDI) is a value of 1 for items disclosed and a value of 0 for items not disclosed. Furthermore, CGDI is calculated by the formula:

$$\text{CGDI} = \frac{\text{Total score of items disclosed}}{\text{Maximum score that should be disclosed}}$$

After being assigned a value to each indicator of GCG disclosure, then ranking the GCG disclosure factor for Islamic commercial banks.

Ranking of factors for disclosure of GCG for Islamic commercial banks such as the Table 3 applies in terms of ranking factors based on the results of content analysis with factor ratings based on the results of the assessment of the Islamic commercial banks themselves. In terms of ranking the results of content analysis higher than ranking factors based on self-assessment, the assessment of the results of self-assessment of Islamic commercial banks is used, and (2) analyzing the quality of GCG implementation in Islamic banks by multiplying the weight of each factor determined by the Bank of Indonesia which then produces composite values based on rules.

Table 1: Sampel of Islamic Commercial Bank in Indonesia and Malaysia

No.	Islamic Commercial bank in Indonesia	No.	Islamic Commercial bank in Malaysia
1.	Bank Muamalat Syariah	1.	Affin Islamic Bank Berhad
2.	Bank Syariah Mandiri	2.	Al Rajhi Bank Malaysia
3.	Bank BNI Syariah	3.	Bank Islam Malaysia Berhad
4.	Bank BCA Syariah	4.	Alliance Islamic Bank Berhad
5.	Bank Bukopin Syariah	5.	HSBC Amanah Malaysia Berhad
6.	Bank Mega Syariah	6.	Kuwait Finance House (Malaysia)
7.	Bank Panin Syariah	7.	OCBC Al-Amin Bank Berhad
8.	Bank Aceh Syariah	8.	RHB Islamic Bank
9.	Bank BRI Syariah	9.	Standard Chartered Saadiq Berhad

Table 2: Composite value of factors in good corporate governance

No.	Composite value	Category
1.	< 1.5	Very good
2.	1.5 – 2.4	Good
3.	2.5 – 3.4	Good enough
4.	3.5 – 4.4	Worse
5.	4.5 – 5.0	Very worse

Table 3: Rating of good corporate governance disclosure factors

No.	Rating	Category
1.	1	Meet 87.5-100% of total indicator
2.	2	Meet 62.5-87.4% of total indicator
3.	3	Meet 37.5-62.4% of total indicator
4.	4	Meet 12.5-37.4% of total indicator
5.	5	Meet 0-12.4% of total indicator

To find out the effect of leverage, researchers used DER. DER is the ratio used to measure how much total capital is financed by total debt (Brigham and Houston, 2009). According to Fahmi (2014) the DER ratio can be formulated as follows:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Own Capital}}$$

Firm size is one of the benchmarks that show the size of the company. The firm size formula used in this study is the natural logarithm of total assets (TA Log), this is used to reduce significant differences between the size of the company that is too large and the parameters that are too small. Meanwhile, to measure profitability, researchers use ROAs which is formulated as follows:

$$\text{ROA} = \frac{\text{Profit Before Tax}}{\text{Total Aset}} \times 100\%$$

4. RESULTS

4.1. Determination Coefficient Test (R^2) in Islamic Commercial Banks in Indonesia and Malaysia

The magnitude of the contribution of the quality of GCG disclosure, leverage and confirmation size on profitability in Islamic banks in Indonesia and Malaysia can be seen from the coefficient of determination (R^2) as in Table 4 below:

Table 4: Value of R-square

Variable	Adjusted R-square
Profitability	0.285547

Based on Table 4 above, it appears that the value of R-square profitability is 0.285547. Thus it can be concluded that the variables of GCG disclosure, leverage and firm size are able to explain the 29% ROA variable while the remaining 71% are contributions from other variables not explained in this study.

4.2. Feasibility Test Model (F Statistical Test) of Islamic Commercial Banks in Indonesia and Malaysia

Simultaneous significance testing aims to show whether all the independent variables included in the model have a joint effect on the dependent variable. With the testing criteria if the f-statistic test with probability <level of significance ($\alpha = 5\%$). The following are the results of the F statistical test in this study:

Table 5: Model feasibility test results (test statistic F)

Cross-section fixed (dummy variables)	Value
F-statistic	3.497946
Prob (F-statistic)	0.000000

Based on Table 5 above, it can be seen that the significance value is 0.000000. This shows a significance value smaller than $\alpha = 0.05$ ($0.000000 < 0.05$) which means that the regression model is feasible to use so that the significance of individual parameters can be carried out (statistical test t).

4.3. Partial Significance Test (Test t) Islamic Commercial Banks in Indonesia and Malaysia

Partial significance testing is used to determine whether there is an influence of independent variables on the dependent variable. The testing criteria imply if the probability < level of significance ($\alpha = 5\%$) then there is the effect of the quality of GCG disclosure, leverage and firm size on profitability. The following are the results of testing the significance of individual parameters (statistical tests) of Islamic commercial banks in Indonesia and Malaysia in this study.

Table 6: Statistical t-test results

Variable	Coefficient	Standard Error	t-Statistic	Prob.
Quality of GCG Disclosure	0.007468	0.006275	1.190065	0.2367
Leverage	−0.001195	0.001143	−1.045245	0.2983
Firm size	−0.029967	0.005580	−5.370014	0.0000
C	0.809225	0.152103	5.320232	0.0000

Based on Table 6 above, it can be concluded that the quality coefficient of disclosure of GCG in Islamic commercial banks in Indonesia and Malaysia shows a positive direction of 0.007468 and the significance value of GCG disclosure is 0.2367 which means it is greater than the value of significance (α) = 0.05 ($0.2367 > 0.05$), then H_1 was rejected and it can be concluded that the quality of GCG disclosure partially has a negative effect on profitability.

On the other hand, for the leverage coefficient shows a negative direction −0.001195 and the significance value of leverage is 0.2983 which means that it is greater than the value of $\alpha = 0.05$ ($0.2983 > 0.05$), then H_2 was rejected and it could be concluded that partial leverage negatively affects profitability. The coefficient of firm size shows a negative direction −0.029967 and the significance value of leverage is 0.0000 which means it is smaller than the value of $\alpha = 0.05$ ($0.0000 < 0.05$), so H_3 was accepted, so it could be concluded that firm size is partial positive effect on profitability.

5. DISCUSSION

The test results on the estimation of profitability models with panel data regression show that simultaneously the variable quality of GCG disclosure, leverage and firm size significantly influence profitability. The results of this study support the theory used in this study. The theory is agency theory. Agency theory explains that agency relations arise when one person or more (principal) employs another person (agent) to provide a service and then delegate's decision-making authority to the agent (Jensen and Meckling, 1976).

In this study, the capital owners who invest their wealth, in the form of capital and funds from third parties, of course, hope that managers can process the company's finances as effectively and efficiently as possible so that they can produce high profitability. This theory views principals as capital owners to include agents to carry out several tasks for their interests which include delegates to decision-making power to agents. According to agency theory, if both parties together want to maximize their satisfaction, it is very likely that there will be a conflict of interest between the two parties.

In GCG disclosure, managers have the responsibility to provide information to shareholders and companies regarding corporate GCG reporting. While companies think that disclosure of GCG is not profitable for the company and only feels burdensome to the company's finances. The shareholders provide facilities and funds to run the company, while management has an obligation to manage what the shareholders mandate to him. Here If the cost of debt is smaller than the cost of equity, then the source of funds originating from loans or debt will be more effective in generating profitability.

If viewed from the point of view of agency theory, the influence of the independent variables on the dependent variable together illustrates the need for a conflict of interest between the principal and the agent. Where parties involved in the company (manager and owner of the company) in behaving, have different interests. Managers have a responsibility to be able to improve the welfare of their shareholders, while managers also have the desire to improve their welfare.

5.1. Effect of Quality of GCG Disclosure on Profitability in Islamic Commercial Banks in Indonesia and Malaysia

The results of hypothesis testing regarding the effect of the quality of GCG disclosure on profitability proxied by ROA show results those are not in accordance with the proposed hypothesis. In this study, the quality of GCG disclosure did not affect profitability. Where based on the test results t test has a statistic greater than t-table. Thus the quality of GCG disclosures at Islamic commercial banks in Indonesia and Malaysia does not affect profitability.

This result stated that there was no significant difference between the quality of GCG disclosures that obtain a poor, sufficient, good and excellent composite value that can increase the profitability of Islamic banking in Indonesia and Malaysia. This happened because companies that had a composite assessment of good GCG disclosure did not always disclose the company's GCG report, because the company had difficulty understanding in the disclosure of GCG itself and the company felt that GCG confirmation only burdened the company's finances and was not profitable for the company. This is in line with the research conducted by Paul et al. (2015) which states that there is no significant relationship between disclosures of GCG to profitability that is proxied by ROA.

5.2. Effects of Leverage on Profitability of Islamic Commercial Banks in Indonesia and Malaysia

The results of hypothesis testing indicate that the leverage variable that is proxied by the DER shows insignificant results. Thus the leverage on Islamic banking in Indonesia and Malaysia has no effect on profitability. This means that in this study cannot prove empirically that leverage has an influence on profitability. In other words, the value of profitability is not determined by the value of leverage. This can also explain that the greater the value of leverage does not always cause the smaller the value of profitability.

In the issue of leverage that wasis proxied by DER, it should be understood that there is no limit on what DER is safe for a company, but for conservatives, usually DER that passes 66% or 2/3 is considered risky. DER is a financial ratio that describes the ability of a company to repay existing debt using existing capital/equity, the higher the value, of course, the more risky the company's finances, the maximum DER value is 150% and for multi-finance companies is 600%.

This insignificant research result is likely to occur because the average leverage value of the general Islamic leveragebank variable in Indonesia and Malaysia in 2011-2017 was 7.36, which means it is still a small category so that leverage does not affect profitability. The results of this study support the findings of Fachrudin (2011) that leverage does not affect profitability.

5.3. Effect of Firm Size on the Profitability of Islamic Commercial Banks in Indonesia and Malaysia

The results of hypothesis testing indicate that the firm size variable shows significant results. This means that in this study can prove empirically that firm size has an influence on profitability. In other words, high or low profitability is determined by the size or size of the company. The results of this study are in line with Dogan (2013) and Mule and Mukras (2015) which state that companies with large total assets reflect the reliability of the company. This is also reinforced by AlGhusin (2015) and Akbar (2013) research which revealed that firm size has a positive effect on profitability.

6. CONCLUSION

Based on the results of analysis and testing which examined the effect of the quality of disclosure of Good Corporate Governance (GCG), leverage, and firm size on profitability in Islamic commercial banks in Indonesia and Malaysia listed on the websites of each of the Islamic general banking in Indonesia and Malaysia in the 2011 observation period - 2017. Then the empirical results are obtained as follows:

1. The quality of GCG disclosure does not affect the profitability of Indonesian and Malaysian Islamic banks, this is because companies find it difficult to understand and feel that they only burden the company's finances and think that disclosure is not profitable for the company.
2. Leverage did not affect profitability because the Islamic banks in Indonesia and Malaysia have a leverage value of 2011-2017 for an average of 7.36%, which means it is still a small category where the maximum leverage value is 150% and for multifinance companies is 600%. So that the leverage variables of each Indonesian and Malaysian Islamic banking have no effect on profitability.
3. Firm size influenced the profitability of Islamic commercial banking in Indonesia and Malaysia because this is because the larger the company's assets can increase the value of profitability.

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