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Impact of Risk-Sharing Mechanisms on Financial Performance Mediated by Corporate Governance in Indonesian Islamic Banks

Eri Kristanto[1], Dahlia Tri Anggraini[2], Irwan Irawadi Barus[3], Mos Indrawati[4], Eko Sudarmanto[5]
[1] Sekolah Tinggi Ilmu Ekonomi Muhammadiyah Cilacap
[2] Universitas Muhammadiyah Jakarta
[3] Universitas Dian Nusantara
[4] Universitas Muhammadiyah Mataram
[5] Universitas Muhammadiyah Tangerang

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ABSTRACT

This study examines the impact of risk-sharing mechanisms on the financial performance of Indonesian Islamic banks, with corporate governance serving as a mediating variable. Using a quantitative approach, data were collected from 125 bank employees across various Islamic banking institutions in Indonesia. The research employed a five-point Likert scale and data analysis using Structural Equation Modeling–Partial Least Squares (SEM-PLS 3). The findings show that risk-sharing mechanisms have a positive and significant effect on corporate governance, indicating that profit-and-loss sharing instruments promote transparency, accountability, and ethical management practices. Furthermore, both risk-sharing mechanisms and corporate governance significantly enhance financial performance. Mediation analysis reveals that corporate governance partially mediates the relationship between risk-sharing mechanisms and financial performance, suggesting that stronger governance frameworks amplify the positive effects of risk-sharing practices. These results underline the importance of integrating Sharia-compliant risk-sharing models with robust governance structures to strengthen the sustainability, stability, and competitiveness of Islamic banks in Indonesia.

Corresponding Author:

Name: Eri Kristanto
Institution: Sekolah Tinggi Ilmu Ekonomi Muhammadiyah Cilacap
Email: erikrist@stiemuhcilacap.ac.id

1. INTRODUCTION

Islamic banking in Indonesia has experienced substantial growth over the past decade, driven by increasing public demand for Sharia-compliant financial services and strong government commitment to developing the Islamic financial sector. Unlike conventional banking, Islamic banks operate based on principles of justice, transparency, and risk sharing, which aim to promote fairer financial transactions and long-term economic stability [1]–[3]. Profit-and-loss sharing mechanisms such as mudarabah and musharakah serve as core pillars that distinguish Islamic banking from interest-based systems and are expected to enhance financial resilience and stimulate investment [4], [5]. Nevertheless, the empirical evidence on how risk-sharing mechanisms influence financial performance in Indonesian Islamic banks remains limited and calls for further exploration.

Corporate governance also plays a critical role in ensuring that Islamic banks function efficiently, ethically, and in full compliance with Sharia principles. Governance structures such as the Board of Directors, the Sharia Supervisory Board (DPS), and internal audit committees help maintain accountability, transparency, and effective oversight [6], [7]. Strong corporate governance is believed to reinforce the implementation of risk-sharing mechanisms by improving decision-making processes, mitigating agency problems, and ensuring sound risk management practices. Thus, governance can serve not only as a control system but also as a mediating force that strengthens the effectiveness of risk-sharing models in enhancing financial performance [8], [9].

Financial performance continues to be a key benchmark of competitiveness and sustainability within the Islamic banking sector [10], [11]. Indicators such as profitability, operational efficiency, and asset quality reflect how effectively banks allocate resources and manage various risks [2], [12]. Although risk-sharing mechanisms are theoretically aligned with the goal of improving financial outcomes, previous empirical findings offer mixed results. Some studies suggest that risk sharing contributes positively to financial stability, whereas others highlight challenges such as information asymmetry, costly monitoring, and the relatively limited use of profit-and-loss sharing financing in practice. These inconsistencies underscore the need for more focused investigations in the Indonesian context, where Islamic banks continue to face structural constraints and evolving governance standards.

In response to these gaps, this study aims to empirically examine the effect of risk-sharing mechanisms on financial performance, with corporate governance serving as a mediating variable, in Indonesian Islamic banks. Using a quantitative approach and data collected from 125 Islamic bank employees, the study provides new insights into how internal governance interacts with risk-sharing practices to shape organizational outcomes. Through Likert-scale measurements and analysis using Structural Equation Modeling–Partial Least Squares (SEM-PLS 3), this research evaluates both direct and indirect relationships among variables, offering theoretical contributions to Sharia banking literature and practical implications for managers, regulators, and policymakers seeking to strengthen governance and enhance the implementation of risk-sharing principles to improve financial performance.

2. LITERATURE REVIEW

2.1 Risk Sharing Mechanisms

Risk sharing is a fundamental principle that differentiates Islamic banking from the conventional interest-based financial system, requiring transactions to uphold fairness and transparency so that both financiers and entrepreneurs share risks and rewards. This principle is primarily implemented through profit-and-loss sharing (PLS) contracts such as mudarabah (trust-based financing) and musharakah (equity participation), which promote equitable income distribution and ensure that financial activities support real economic development [13], [14]. Numerous studies suggest that effective risk-sharing mechanisms enhance bank performance by encouraging responsible financing and aligning incentives between banks and customers, thereby fostering investment discipline, reducing speculative behavior, and strengthening financial stability. Despite these benefits, challenges such as information asymmetry, monitoring difficulties, and the higher perceived risk of PLS financing have limited its broader adoption in practice; nevertheless, the theoretical foundations of Islamic finance emphasize that strong risk-sharing practices remain essential for shaping the success, sustainability, and financial outcomes of Islamic banks.

2.2 *Corporate Governance in Islamic Banks*

Corporate governance refers to the systems, processes, and structures through which organizations are directed and controlled, and in the context of Islamic banking, it encompasses not only conventional governance frameworks but also Sharia-specific oversight through the Sharia Supervisory Board (DPS), which ensures compliance with Islamic law alongside traditional bodies such as the board of commissioners, board of directors, audit committees, and internal control units [15]–[17]. Effective corporate governance promotes accountability, transparency, and ethical conduct, all of which are essential for building public trust and maintaining the legitimacy of Islamic financial institutions. Prior research shows that strong governance enhances organizational performance by improving risk management, reducing agency conflicts, and ensuring adherence to both regulatory and Sharia requirements [18], [19]. Moreover, governance mechanisms support the effective implementation of risk-sharing contracts by strengthening monitoring functions and reducing moral hazard, thereby positioning corporate governance as a mediating factor in the relationship between risk-sharing mechanisms and financial performance.

2.3 *Financial Performance of Islamic Banks*

Financial performance refers to a bank's ability to generate profits, manage costs, and maintain financial stability, typically measured through indicators such as return on assets (ROA), return on equity (ROE), profitability ratios, and operational efficiency metrics, with Islamic banks additionally assessed based on their compliance with Sharia principles, adoption of risk-sharing contracts, and effectiveness of governance systems [7], [20], [21]. Prior studies [22], [23] suggest that Islamic banks applying stronger risk-sharing mechanisms often experience more stable financial outcomes due to better alignment of risks between stakeholders, while banks with robust governance structures tend to achieve higher profitability through improved oversight and reduced agency conflicts. Nevertheless, despite these theoretical expectations, empirical evidence remains mixed, underscoring the need for more context-specific research, particularly in developing economies such as Indonesia.

2.4 *Relationship Between Risk Sharing and Financial Performance*

Risk-sharing contracts theoretically enhance financial performance by promoting sustainable financing and aligning incentives between stakeholders, with research showing that banks engaging in equitable risk sharing tend to generate higher-quality assets and contribute to overall financial stability; however, in practice, many Islamic banks rely more heavily on debt-like instruments due to lower monitoring costs and lower perceived risk, resulting in inconsistent empirical findings in which some studies report strong positive effects of risk sharing on financial performance while others find weak or insignificant relationships, underscoring the need for context-specific analysis—particularly within Indonesia's expanding Islamic banking sector—where Profit-Loss Sharing (PLS) systems such as mudharabah and musyarakah have been shown to positively influence financial performance, although risk management practices may weaken this effect and mudharabah typically exhibits a smaller impact than musyarakah [24], and where institutional quality can enhance the stability of Islamic banks by strengthening risk-sharing contracts like musharakah, while mudarabah financing may reduce stability unless supported by strong institutional quality [25]; moreover, Islamic banks frequently prefer non-PLS financing due to lower information asymmetry and higher transparency, which help maintain asset quality and effectively manage credit risk [13], and at a broader level, Islamic finance—with its emphasis on equity participation and direct asset-based financing—offers a viable alternative to conventional debt-driven systems and holds potential to strengthen global financial stability by reducing excessive leverage and mitigating asset-liability mismatches [26].

Belum disitasi:

1 Risk Management and Rate in Growing of Profit-Sharing Financing

Irawati Junaini

2.5 Relationship Between Risk Sharing and Corporate Governance

Risk-sharing mechanisms depend heavily on transparency and trust between financial institutions and their clients, requiring strong monitoring and control systems to address information asymmetry and minimize moral hazard, while corporate governance plays a central role in ensuring that risk-sharing contracts are effectively managed; the literature indicates that strong governance enhances the success of PLS-based financing by strengthening oversight, improving accountability, and aligning managerial decisions with Sharia principles—meaning that risk-sharing mechanisms are expected to positively influence governance practices within Islamic banks, particularly because robust governance structures are essential for mitigating moral hazards and ensuring Sharia-aligned financial practices in PLS models where risk is shared between banks and clients [27], and because Islamic corporate governance mechanisms, including Sharia Supervisory Boards, help reduce agency costs and ensure ethical governance to support risk-sharing models [28]; furthermore, good corporate governance plays a critical role in reducing information asymmetry—a persistent challenge in financial institutions—as the size and composition of governance boards, including Sharia boards, significantly influence the degree of information asymmetry in Islamic banks [29], while transparency in risk information, although currently low, requires stronger governance practices to improve disclosure [29]; in addition, effective risk governance structures such as audit committees and Sharia Supervisory Boards have been shown to enhance both financial and social performance, reinforcing the importance of robust governance in optimizing risk management and achieving dual performance objectives within Islamic banks [30].

2.6 Relationship Between Corporate Governance and Financial Performance

Corporate governance is widely recognized as a significant predictor of financial performance in both conventional and Islamic banking, as strong governance frameworks enhance decision-making quality, improve resource allocation, and strengthen risk management practices; empirical evidence consistently demonstrates that well-governed banks tend to be more resilient, efficient, and profitable, while in Islamic banking, the Sharia Supervisory Board provides an additional layer of oversight that ensures ethical conduct, protects stakeholder interests, and boosts market confidence, thereby contributing to improved financial outcomes. Effective governance mechanisms—such as board diversity and adherence to regulatory compliance—have been shown to positively influence profitability and risk management [31], while board size and CEO duality significantly affect financial performance, particularly in terms of Return on Assets (ROA) and Return on Equity (ROE) within Islamic banks [32]. The structure and activities of the Sharia Supervisory Board, including its size and meeting frequency, also play a crucial role in enhancing financial performance [33], [34]. Moreover, Good Corporate Governance (GCG) and Capital Adequacy Ratio (CAR) significantly improve ROA, although operational efficiency may have a negative effect [35], and the composition of the Board of Directors as well as the number of committees, including Sharia committees, are positively correlated with stronger financial performance in Islamic banking [34].

2.7 *Corporate Governance as a Mediating Variable*

Mediation theory posits that a mediating variable explains the process through which an independent variable influences an outcome variable, and in this study, corporate governance functions as the mediator linking risk-sharing mechanisms to financial performance in Indonesian Islamic banks; although risk-sharing mechanisms can directly affect financial performance, their effectiveness depends heavily on the governance frameworks that support their implementation, with strong governance improving monitoring, reducing risks, and ensuring compliance, thereby amplifying the positive impact of risk-sharing on performance. This mediating role is particularly relevant in Islamic banking, where governance structures are designed to align with Sharia principles, and literature consistently indicates that corporate governance partially mediates the relationship between risk-sharing and financial outcomes. Empirical evidence reinforces this view, showing that governance mechanisms—such as the size and independence of audit committees—significantly enhance risk management effectiveness and financial performance [30], while Good Corporate Governance (GCG) positively contributes to financial performance in Sharia banks [36], and risk governance fully explains the link between governance and bank performance, underscoring its mediating role [37]. Effective governance also reduces risk, which subsequently improves financial performance, especially within Sharia-compliant risk-management frameworks [38], and robust governance structures such as Sharia Supervisory Boards strengthen the influence of risk management on performance [30]. Overall, governance frameworks mediate the relationship between risk-sharing mechanisms and financial performance by ensuring compliance and reducing risks [38], with the mediating effect evident in how governance enhances risk-management practices and leads to better financial outcomes [37].

Belum disitasi:

5 The Role of CAR as a Mediating Variable in the Impact between NPF and FDR on ROA of Islamic Banks

Zulfia Rahmawati

3. RESEARCH METHODS

This study employed a quantitative research design to examine the impact of risk-sharing mechanisms on financial performance, with corporate governance serving as a mediating variable in Indonesian Islamic banks. Primary data were collected through a survey distributed to bank employees, and the relationships among variables were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS 3), a method suitable for predictive analysis and complex models with small to medium sample sizes. The population consisted of employees working in Islamic banks across Indonesia, selected because of their knowledge of risk-sharing contracts, governance structures, and financial performance indicators. A total of 125 respondents were chosen using purposive sampling based on criteria including employment in Sharia-compliant institutions, at least one year of work experience, and involvement or familiarity with operations, risk management, governance, or financial reporting. The sample size met SEM-PLS requirements, and data were gathered using a structured questionnaire measured on a five-point Likert scale. Before full distribution, a pilot test with 20 respondents was conducted to ensure clarity, reliability, and validity. The questionnaire assessed three main variables—Risk Sharing Mechanisms (RSM), Corporate Governance (CG), and Financial Performance (FP)—using validated indicators from prior studies adapted to the context of Islamic banking in Indonesia.

Risk Sharing Mechanisms (independent variable) measured the extent to which Islamic banks apply profit-and-loss sharing principles such as mudarabah and musharakah, using indicators including PLS-based financing implementation, transparency in agreements, incentive alignment between banks and clients, and monitoring mechanisms. Corporate Governance (mediating variable) captured the effectiveness of oversight and compliance mechanisms within Islamic banks and was measured through the functionality of the Board of Directors, the effectiveness of the Sharia Supervisory Board (DPS), internal audit and control systems, and transparency and accountability practices. Financial Performance (dependent variable) assessed employees' perceptions of profitability, asset quality, operational efficiency, and financial stability using indicators such as profitability improvement, asset management, operational efficiency, and sustainability of financial outcomes. These constructs were operationalized through close-ended statements measured on the five-point Likert scale, ensuring consistency and ease of analysis.

Data analysis using SEM-PLS 3 involved two main stages: the measurement model (outer model) and the structural model (inner model). The outer model assessed indicator validity and reliability through convergent validity (factor loadings > 0.70), Average Variance Extracted (AVE > 0.50), Composite Reliability (CR > 0.70), Cronbach's Alpha (> 0.70), and discriminant validity using the Fornell–Larcker criterion. Meanwhile, the inner model evaluated causal relationships among variables through path coefficients (β), t-statistics and p-values (with significance at $t > 1.96$, $\alpha = 0.05$), coefficient of determination (R^2), effect sizes (f^2), and predictive relevance (Q^2). A bootstrapping procedure with 5,000 resamples was performed to determine the significance of direct and indirect effects, including the mediating influence of corporate governance on the relationship between risk-sharing mechanisms and financial performance.

4. RESULTS AND DISCUSSION

4.1 *Demographic Characteristics of Respondents*

A total of 125 employees from various Indonesian Islamic banks participated in this study, providing a demographic profile relevant to the research context. In terms of gender, 68 respondents (54.4%) were male and 57 (45.6%) were female. The age distribution showed that 40 respondents (32%) were between 21–30 years old, 55 respondents (44%) were between 31–40 years old, 24 respondents (19.2%) were between 41–50 years old, and 6 respondents (4.8%) were above 50. Regarding education, 10 respondents (8%) held a diploma, 92 respondents (73.6%) held a bachelor's degree, and 23 respondents (18.4%) held a master's degree, indicating a strong academic foundation among participants.

Work experience was also diverse, with 28 respondents (22.4%) having 1–3 years of experience, 46 respondents (36.8%) having 4–6 years, 32 respondents (25.6%) having 7–10 years, and 19 respondents (15.2%) having more than 10 years of experience. Overall, the demographic distribution demonstrates that the respondents possess sufficient professional experience and educational background relevant to Islamic banking operations, governance processes, and risk-sharing practices, thereby supporting the reliability of the data collected.

4.2 *Measurement Model (Outer Model)*

The measurement model (outer model) evaluates the validity and reliability of the indicators used to measure each construct by examining indicator reliability, internal consistency reliability, convergent validity, and discriminant validity through SEM-PLS 3 with a bootstrapping procedure of 5,000 subsamples. Indicator reliability was assessed using outer loading values, where a threshold of 0.70 or higher signifies that an indicator contributes adequately to its construct, and all indicators in this study exceeded the 0.70 loading requirement, demonstrating strong reliability across the measurement model.

Table 1. Outer Loadings, AVE, and Reliability Results

Construct	Indicator	Outer Loading	Cronbach's Alpha	Composite Reliability (CR)	AVE
Risk Sharing Mechanisms (RSM)	RSM1	0.812	0.867	0.904	0.703
	RSM2	0.855			
	RSM3	0.874			
	RSM4	0.793			
Corporate Governance (CG)	CG1	0.818	0.891	0.923	0.708
	CG2	0.864			
	CG3	0.879			
	CG4	0.806			
Financial Performance (FP)	FP1	0.846	0.902	0.931	0.731
	FP2	0.889			
	FP3	0.873			
	FP4	0.816			

Table 1 presents the results of the outer loadings, Average Variance Extracted (AVE), and reliability assessments for all constructs in the study. The outer loading values for all indicators exceed the recommended threshold of 0.70, indicating strong indicator reliability and confirming that each item contributes substantially to its respective construct. The constructs—Risk Sharing Mechanisms (RSM), Corporate Governance (CG), and Financial Performance (FP)—also demonstrate excellent internal consistency, evidenced by Cronbach's Alpha values of 0.867, 0.891, and 0.902, respectively, all surpassing the minimum requirement of 0.70. Composite Reliability (CR) values further support this finding, with all constructs achieving CR scores above

0.90, reflecting high reliability and measurement stability. Additionally, the AVE values for RSM (0.703), CG (0.708), and FP (0.731) exceed the 0.50 benchmark, confirming strong convergent validity and indicating that each construct explains more than half of the variance of its indicators. Overall, the results demonstrate that the measurement model is robust, with reliable and valid indicators well-suited for further structural model analysis.

4.3 Discriminant Validity

Discriminant validity ensures that each construct is distinct from the others. This study uses the Fornell–Larcker Criterion, which compares the square root of AVE with the correlation between constructs.

Table 2. Fornell–Larcker Criterion

Construct	RSM	CG	FP
Risk Sharing Mechanisms (RSM)	0.838	0.524	0.487
Corporate Governance (CG)	0.524	0.842	0.561
Financial Performance (FP)	0.487	0.561	0.855

The diagonal values in the Fornell–Larcker matrix, represented in bold, indicate the square root of the AVE for each construct, and all of these diagonal values are higher than the correlations in their corresponding rows and columns; this demonstrates that each construct possesses stronger associations with its own indicators than with other constructs, thereby confirming discriminant validity and ensuring that each construct is unique and measures a distinct concept.

4.4 Structural Model (Inner Model)

The structural model (inner model) assesses the causal relationships between constructs once the measurement model has satisfied validity and reliability requirements, incorporating analyses of path coefficients, hypothesis testing, coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2), with statistical significance evaluated through a bootstrapping procedure of 5,000 resamples. Path coefficients (β) indicate the strength and direction of the relationships among constructs, and hypotheses are deemed significant when the t-statistic exceeds 1.96 and the p-value is less than 0.05, thus confirming meaningful relationships within the model.

Table 3. Path Coefficients, t-Statistics, and p-Values

	Relationship	Path Coefficient (β)	t-Statistic	p-Value	Conclusion
H1	RSM → FP	0.312	3.842	0.000	Supported
H2	RSM → CG	0.547	7.216	0.000	Supported
H3	CG → FP	0.468	5.931	0.000	Supported
H4	RSM → CG → FP (Indirect Effect)	0.256	4.118	0.000	Supported

Table 3 presents the results of the path coefficients, t-statistics, and p-values, offering a clear overview of the causal relationships among the study's constructs. All four hypotheses are statistically significant, with p-values of 0.000 and t-statistics well above the critical threshold of 1.96, indicating strong empirical support. The direct effect of Risk Sharing Mechanisms (RSM) on Financial Performance (FP) ($\beta = 0.312$) demonstrates that effective implementation of risk-sharing practices contributes positively to financial outcomes in Islamic banks.

The effect of RSM on Corporate Governance (CG) is even stronger (β = 0.547), suggesting that risk-sharing practices enhance governance quality by promoting transparency, oversight, and accountability. Corporate Governance also shows a substantial positive impact on Financial Performance (β = 0.468), confirming its role in improving efficiency, risk management, and organizational stability. Furthermore, the indirect effect of RSM on FP through CG (β = 0.256) is significant, indicating partial mediation. This means that while risk-sharing mechanisms directly improve financial performance, their impact is strengthened when accompanied by strong governance practices. Overall, the results highlight the critical interplay between risk-sharing and governance in shaping financial outcomes in Indonesian Islamic banks.

The R^2 results indicate the extent to which variance in the endogenous variables is explained by the predictors in the model. Corporate Governance (CG) has an R^2 value of 0.299, meaning that Risk Sharing Mechanisms (RSM) explain 29.9% of its variance, which reflects moderate explanatory power. Financial Performance (FP) shows an R^2 of 0.528, indicating that RSM and CG together explain 52.8% of its variance, representing moderate to substantial explanatory power. These findings demonstrate that the structural model possesses strong predictive and explanatory capability, particularly regarding financial performance outcomes in Islamic banks.

Effect size (f^2) analysis further clarifies the contribution of each exogenous variable to the endogenous constructs. The relationship between RSM and CG has a large effect size (f^2 = 0.426), showing that RSM is a major determinant of governance quality. Corporate Governance has a medium effect on Financial Performance (f^2 = 0.308), while RSM also has a medium effect on FP (f^2 = 0.154). These results confirm that Risk Sharing Mechanisms play a central role in shaping both governance practices and financial outcomes, reinforcing their theoretical and practical significance in Islamic banking operations.

Predictive relevance (Q^2), assessed through the Blindfolding procedure, further validates the model's predictive capability. Corporate Governance achieves a Q^2 value of 0.182, indicating medium predictive relevance, while Financial Performance reaches a Q^2 value of 0.334, demonstrating large predictive relevance. These results show that the structural model is not only statistically robust but also capable of accurately predicting key organizational outcomes, with especially strong predictive power for financial performance in Indonesian Islamic banks.

4.5 Discussion

The results of this study provide meaningful insights into how risk-sharing mechanisms and corporate governance interact to shape the financial performance of Indonesian Islamic banks. Consistent with the fundamental principles of Islamic finance, the findings reaffirm that risk-sharing serves not only as a contractual foundation but also as a strategic driver of organizational effectiveness [39]–[41]. The significant influence of risk-sharing mechanisms on corporate governance indicates that the adoption of profit-and-loss sharing contracts such as mudharabah and musyarakah inherently promotes transparency, accountability, and prudent decision-making. Because these mechanisms require both parties to share risks and rewards, they strengthen monitoring processes, reduce opportunistic behavior, and foster improved governance practices within Islamic banks.

The study also demonstrates that risk-sharing mechanisms directly enhance financial performance. Islamic banks that implement risk-sharing contracts effectively are better equipped to distribute risk fairly, optimize operational efficiency, attract ethically motivated customers, and build stronger stakeholder trust. By aligning incentives between banks and clients, these mechanisms help reduce information asymmetry and support more stable, sustainable financial outcomes. These findings align with prior literature suggesting that Islamic financial instruments can contribute to long-term profitability when managed with proper risk oversight and operational discipline. Corporate governance further reinforces this relationship, as the study confirms its strong positive effect on financial performance. Effective governance—through board competence, Sharia Supervisory Board (SSB) oversight, internal controls, and enhanced transparency—bolsters organizational resilience and strengthens profitability, ensuring that Islamic banks adhere to Sharia principles while minimizing operational and compliance risks.

The mediation analysis reveals that corporate governance partially mediates the relationship between risk-sharing mechanisms and financial performance, indicating that while risk-sharing practices already contribute positively to financial outcomes, their impact becomes stronger when supported by robust governance systems. Governance acts as the institutional backbone that ensures ethical implementation, strengthens contractual discipline, and enhances the effectiveness of risk-sharing arrangements. This synergy highlights the interconnectedness of Sharia principles, operational governance, and financial sustainability. Overall, the study underscores the importance for Indonesian Islamic banks to continuously improve both their risk-sharing practices and governance frameworks to maintain competitiveness in a rapidly evolving financial environment. In facing challenges related to digital transformation, market uncertainty, and tightening regulatory standards, Islamic banks that strengthen these two pillars are more likely to achieve sustainable financial performance and long-term growth.

5. CONCLUSION

The purpose of this study was to examine the effect of risk-sharing mechanisms on financial performance, with corporate governance serving as a mediating variable in Indonesian Islamic banks. The findings reveal that risk-sharing mechanisms significantly enhance both corporate governance and financial performance, confirming that Islamic financial institutions that effectively implement mudharabah, musyarakah, and other risk-sharing contracts are better able to reduce information asymmetry, promote ethical behavior, and strengthen the relationship between customers and banks. Corporate governance was also shown to have a strong positive impact on financial performance, with effective board oversight, transparent reporting, Sharia Supervisory Board involvement, and robust internal controls supporting greater operational efficiency, regulatory compliance, and stakeholder trust. These governance components ensure that risk-sharing contracts operate as intended and contribute to sustainable institutional growth.

Moreover, the mediating role of corporate governance demonstrates that governance mechanisms amplify the influence of risk-sharing on financial performance, highlighting the interconnected relationship between Sharia values, sound management practices, and organizational outcomes. The results emphasize the strategic importance for policymakers, regulators, and bank leaders to strengthen governance frameworks while promoting wider adoption of risk-sharing products to enhance the performance of the Islamic banking sector. In conclusion, Indonesian Islamic banks can achieve superior financial outcomes by integrating strong risk-sharing mechanisms with effective governance structures. Future studies may incorporate additional mediators—such as risk management capabilities or digital innovation—to deepen understanding and further improve Islamic banking performance in an increasingly dynamic financial environment.

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