

GOOD CORPORATE GOVERNANCE MODEL IN INDONESIAN
ISLAMIC BANKING

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Abstract

This study aims to examine the concept and implementation of Good Corporate Governance in Islamic banking in Indonesia. This research is a research field which is sharpened by the literature. This research is descriptive in nature, seeks to examine GCG policies and find ideas to strengthen regulations in compliance with sharia aspects and describes the implementation of GCG in Islamic banking in Indonesia. The method used in data analysis is a qualitative method, namely by presenting it in the form of descriptions and concepts. The performance of Islamic bank management, namely the implementation of GCG consisting of Transparency (Openness), Accountability, Responsibility, Professionalism, Independence, and Fairness, as well as being committed to Sharia Compliance, However, the author only focuses on Sharia Compliance. Then the assessment is carried out periodically and continuously and efforts are made so that it can be carried out properly in accordance with applicable regulations. This research focuses more on the concept and implementation of GCG in Islamic banking.

Keywords: Good Corporate Governance (GCG), Sharia Bank Management Performance, Sharia Compliance.

1. INTRODUCTION

Islamic economy is built on the basis of sharia, therefore it is an integral part of Islam. As a derivation from Islam, Islamic Economics will follow Islam in various aspects. Islam is a system of life (way of life), where Islam has provided a complete set of rules for human life, including in the field of Economics. Every human being aims to achieve prosperity in his life, but humans have different understandings about welfare. In various conventional economics literature it can be concluded that the goal of humans to meet their needs for goods and services is to achieve welfare (wellbeing). Man wants happiness and well-being in his life, and for this he strives at all costs to achieve it.

Human welfare as stated in the Qur'an relates to human enjoyment and misery in the hereafter, and objective criteria according to Economic needs such as food, education, other goods and services and non-material commodities such as immortality, love and affection between husband and wife. This concept prioritizes the gratification of "useful desires", rejects "useless desires, and encourages people to mobilize their human and material

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resources to fulfill the " desires of society ".

Banking corporate governance has become an important area that needs further attention at the global level, especially after the financial institution crisis in 2008 which affected banking stability around the world (Haan, 2016), financial institutions are closely related due to globalization and technological developments as well as Financial liberalization policies that undoubtedly trigger higher risks for the banking sector, effective corporate governance is essential to achieve and maintain public trust and confidence in the banking system, which is essential for the functioning of the banking sector and the economy as a whole. Corporate governance in Islamic banks is different from conventional banks, is unique and offers a specific structure that is guided by a Sharia supervisory board.

Corporate governance is not only one of the main principles in running a company successfully, but also ensures confidence in security by monitoring and controlling company operations. In today's business environment with diverse cultural backgrounds, the principles of corporate governance cannot be applied to all propositions. Therefore, it is necessary to strictly adopt and implement new, stronger company rules and regulations in the face of rapid financial innovation. This implies that good corporate governance not only complies with hard and fast rules but is also seen as a guideline for different environmental structure oversight frameworks. Corporate governance must be based on principles, not based on rules and regulations (OECD, 2004).

Based on the above background, the formulation of the problem can be formulated, namely: How is the governance model for Sharia banking companies in Indonesia in accordance with the principles of Islamic economics.

2. LITERATURE REVIEW

2.1 Good Corporate Governance

a. Definition of Good Corporate Governance

Good corporate governance (GCG) is a system used to manage a company with the aim of increasing shareholder value and allocating various parties with an interest in the company (stakeholders), such as creditors, suppliers, business associations, consumers, workers, government, and the wider community (Sula, 2004). Cadbury Committee defines (GCG) as a system that directs and controls a company (Muhammad, 2005).

b. Good Corporate Governance Principles

Basically, the main principles and Best Practices of Good Corporate Governance developed in conventional banks and Islamic banks are almost the same. This is because in general, the function of Islamic banks is the same as conventional banking (Endri, 2019). What distinguishes it is that Islamic banks have an obligation to comply with a set of sharia rules and principles. These sharia principles are part of the Sharia system (Rukmana, 2010). GCG principles in the world of Islamic banking, including:

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- 1) Transparency is openness in conveying material and relevant information, as well as openness in carrying out the decision-making process.
- 2) Accountability is clarity of functions and implementation of accountability of bank organs so that management runs effectively.
- 3) Responsibility is the conformity of bank management with the prevailing laws and regulations, the principles of sound bank management.
- 4) Independency is the professional management of a bank without any influence or pressure from any party.
- 5) Fairness is fairness and equality in fulfilling stakeholder rights that arise based on agreements and laws in force. (Abdullah, 2010).
- 6) Compliance, which means measuring the company's ability to comply with Islamic law and the principles of banking and Islamic economics (Othman, 2001).

c. Benefits of Good Corporate Governance

The benefits of implementing Good Corporate Governance (GCG) that will be obtained are as follows:

- 1) Improve company performance through the creation of a better decision-making process, increase the company's operational efficiency and further improve service to stakeholders.
- 2) Make it easier to obtain cheaper financing funds which in turn will increase corporate value.
- 3) Restoring investor confidence to invest in Indonesia.
- 4) Shareholders will be satisfied with the company's performance and will increase shareholders value and dividends (Zarkashi, 2008).

2.2 Previous Research

Previous research on good corporate governance or GCG in Islamic banking that is relevant to this research is as follows:

Karim Ginena researched Shariah risk and corporate governance of Islamic banks in Qatar, concluding that Sharia risk, operational risk poses a credible danger to Islamic banks and stakeholders. Possible impacts of non-compliance with Sharia include higher costs, financial losses, liquidity problems, bank failures, industrial pollution and financial instability. The implementation of GCG and the application of Sharia principles or in terms of Sharia governance are imperative for Islamic banking in improving reputation and trust, as well as protecting the interests of stakeholders which aim to image a healthy banking system (Ginena, 2014).

Imran Khan and Syeda Nitasha Zahid examined the impact of Shari'ah and corporate governance on Islamic banks performance: evidence from Asia. Revealed that the Sharia variables related to corporate governance are more influential in determining the financial performance of Islamic banks. As well as banks that have high total assets show the characteristics of good governance (Zahid, 2020).

Aishath Muneeza researched the Shari'ah Governance Applicable to Islamic Banks In Malaysia: Effect Of Islamic Financial Services Act 2013. Concluding that Sharia governance is a concept that has been developed and implemented gradually in Malaysia and the new 2013 Islamic Financial Services Law has made one level better than before. However, this does not mean that it has resolved the problems in Sharia governance that existed before the enactment of the law. This study shows that a regulation is needed to support the improvement of GCG in a country, which will make a company, especially Islamic banking, get the full trust of the public and have a positive impact on the company's development (Muneeza, 2013).

Khuram Shahzad Bukhari, Hayat M. Awan and Faareha Ahmed examined An evaluation of corporate governance practices of Islamic banks versus Islamic bank windows of conventional banks A case of Pakistan. This study reveals that the most significant dimensions affecting corporate governance in Islamic banking are the Sharia Supervisory Board (SSB) and the Board of Directors (BOD). whereas the significant factors for the Islamic banking window are almost all dimensions of corporate governance. This shows that good corporate governance greatly affects the improvement of a company, especially Islamic banking (Khuram Shahzad Bukhari, 2013).

Rohaida Basiruddin and Habib Ahmed researched Corporate governance and Shariah non-compliant risk in Islamic banks: evidence from Southeast Asia. This study reveals that banks with smaller board sizes and a higher proportion of independent board members tend to have lower SNCRs. The findings also show that financial expertise and a higher frequency of Sharia committee meetings reduce SNCR. Collectively, the analysis shows that banks with strong corporate governance environments reduce SNCR (Ahmed, 2019).

Mohd Shukor Harun, Khaled Hussainey, Khairul Ayuni Mohd Kharuddin and Omar Al Farooque researched CSR Disclosure, Corporate Governance and Firm Value: a study on GCC Islamic Bank. This study states that the level of Corporate Social Responsibility Disclosure (CSRD) is very low among the sample of Islamic banks in the Gulf Cooperation Council (GCC) countries. When using corporate governance characteristics to examine the determinants of CSRD, this study provides evidence of a significant positive relationship between board size and CSRD practice in Islamic banks and a significant negative relationship between the duality of chief executive officer (CEO) and CSRD, as expected. For the economic consequences of CSRD, the research documents the different performance effects of CSRD, chalkboard size, board composition.

3. RESEARCH METHODOLOGY

The method used in data analysis is a qualitative method, namely by presenting it in the form of descriptions and concepts

4. RESULT AND DISCUSSION

4.1 Review of Corporate Governance Policies in Indonesia

Corporate Governance Islamic economists are recognized as important by Islamic economists for all companies, but this is more important for Islamic financial institutions (Zahid, 2020). Islamic perspective GCG has a special meaning because Islamic financial institutions must be part of the paradigmatic development of an Islamic financial system that emphasizes moral content in all business behavior and transactions (Hayes, 2007). In this regard, the implementation of GCG has become the obligation of all banks operating in Indonesia. All of this is marked by the existence of Bank Indonesia (PBI) No. 8/14/2006 concerning the implementation of GCG for Commercial Banks, as well as the implementing regulations that must be improved.

The next development is PBI No. 11/33 / PBI / 2009 dated 7 December 2009 and BI Circular Letter (SE) No. 12/13 / DPbS dated 30 April 2010 concerning the Implementation of Good Corporate Governance for Sharia Commercial Banks (BUS) and Sharia Business Units (UUS), as well as the issuance of Financial Services Authority Regulation (POJK) No. 18 / POJK.03 / 2014 dated 18 November 2014 concerning the Implementation of Integrated Governance for Financial Conglomerates in Indonesia. What becomes is how a bank, especially a Sharia bank in Indonesia, can develop GCG that is truly in accordance with the needs and specific identities initiated by Islamic economic thinkers. This is very important to emphasize considering that Islamic banks have certain characteristics that require Corporate Governance in accordance with these characteristics (Bank Indonesia Regulation, 2009). The rapid development of Islamic banking in Indonesia today demands good and effective governance. Islamic Finance Development Report, ICD Tomson Reuters reported that Indonesia was ranked 11th out of 15 countries that entered the Top Performance Islamic Finance Development Indicators criteria in 2017. The assessment of indicators is calculated through an index approach by considering several assessment categories, namely, Quantitive Development, Knowledge, Governance, Corporate Social Responsibility (CSR) and Awareness. The development of Islamic banking and financial institutions in Indonesia is no less rapid than that of other Muslim countries, including Malaysia, Pakistan, Iran and Sudan. Islamic Finance Development Report, ICD Tomson Reuters reported that Indonesia was ranked 11th out of 15 countries that entered the Top Performance Islamic Finance Development Indicators criteria in 2017. The assessment of indicators is calculated through an index approach by considering several assessment categories, namely, Quantitive Development, Knowledge, Governance, Corporate Social Responsibility (CSR) and Awareness. The development of Islamic banking and financial institutions in Indonesia is no less rapid than that of other Muslim countries, including Malaysia, Pakistan, Iran and Sudan. Islamic Finance Development Report, ICD Tomson

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At the time of the financial crisis that hit Asian countries in 1997-1998, at that time the Indonesian state felt the impact and was very burdensome for all of its people. This tragedy is not only felt by the little people, but business people also feel it. Not to mention the impact of the political crisis in the form of the resignation of the Soeharto government in 1998 which worsened the Indonesian economy. At that time, the Indonesian state was not only experiencing a financial crisis but it was expanding into an economic crisis. All of this was marked by the shrinking gross domestic product (GDP) in 1998 to minus 13.68 percent compared to 4.65 percent in 1997, and followed by the inflation rate that swelled to 77.63 percent that year compared to only 11.05 percent in the previous year (Siamat, 2004). Thus, the devastation of the Indonesian state ahead of the reform era which is full of various social, economic, political and legal problems necessitates the urgency of fundamental changes in many fields of state administration.

According to Dorojatun Kuntjoro Djakti, no country is strong without a strong business world, at least as evidenced by the economic crisis mentioned above. As stated, one root cause of the economic crisis in Indonesia and also in various other Asian countries was the poor implementation of corporate governance in almost all existing companies, both government-owned (BUMN) and private companies (Baird). , 2000). Logically, with poor CG implementation, the level of confidence of the owners of capital will decrease because the investment they make is insecure. Of course, this will be followed by withdrawal of the investment that has been invested, while new investors are also not interested in investing.

Reluctance to implement GCG will certainly cause financial difficulties for the company, so that its activities decrease and in the next stage result in a slow turnaround of the economy as a whole. One of the important steps that must be taken is to improve the

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implementation of CG, this is in line with research conducted by (Khuram Shahzad Bukhari, 2013) which shows that good corporate governance greatly affects the improvement of a company, especially Islamic banking. In short, CG can be defined as a system that regulates and controls a company to create value added for all stakeholders (Wibisono, 2003).

4.2 Corporate Governance in Islamic Perspective

Good Corporate Governance (GCG) according to Islam, there are several studies that have been carried out especially on Islamic financial institutions and found alternative models of corporate governance. One of the studies in this study confirms that all stakeholders have the same goal, namely monotheism. Chaudhury and Hoque discussed the epistemological basis of tawhid as a reference for Islamic corporate governance models. The principle of tawhid derives the concept of caliphate and justice or balance. The stakeholders as the khalifah of Allah have the duty to uphold the principle of distributive justice through a deliberation process. The deliberation element provides the widest possible participation of stakeholders in state affairs, including companies either directly or through their representatives (Najmudin, 2011).

a. Tawhid

Tawhid is understood as an expression of a Muslim's belief (shahada) on the oneness of God. The concept of monotheism contains human submission to God, in a broader perspective, the concept reflects the existence of unity, namely the unity of human life demands (unity of guidance) and the unity of life goals (unit of purpose of life) (Muhammad, 2007).

This devotion in particular shows the vertical dimension of Islam which connects limited and imperfect social institutions with a perfect and infinite Essence. This relationship is affected by man's unconditional surrender before Him, by making his desires, ambitions, and actions subject to His commands. As Allah says in Surah Az-Zumar verse 38:

And really, if you ask them, "Who created the heavens and the earth?" Surely they answered, "Allah." Say, "Then do you know what you worship besides Allah, if Allah wants to bring disaster to me, will they be able to eliminate that disaster, or if Allah wants to give me mercy, can they prevent His mercy?" Say, "Allah is enough for me. It is to him that those who put their trusts surrender themselves. "

b. Takwa and Ridho

The principle or principle of piety and pleasure is the main principle of the establishment of an Islamic institution in any form of the principle of piety to Allah and His pleasure. Business governance in Islam must also be upheld on the foundation of piety to Allah and His pleasure in QS at-Taubah, verse 109, namely:

So are people who build buildings (mosques) on the basis of piety to Allah and (His) pleasure are better, or are those who build their buildings on the edge of a cliff that collapse, then (the building) collapses together with him into Hell? Allah does not give guidance to wrongdoers.

A business should be run on a consensual or voluntary basis. It is not justified that an act of contempt, for example trade and economic activity, is carried out by coercion or fraud. If this happens, it can cancel the act. This happy principle shows the sincerity and goodwill of the parties.

c. Benefit

Benefit, according to al-Syatibi, is anything that causes human life to be upright and its perfection and causes people to be guided by their desires and thoughts so that they are fully enjoyed. The most famous concept of al-Syatibi is Maqasid ash-Sharia which literally means the purpose of implementing law. With this purpose, humans are required to seek benefit in this world and the hereafter. In particular, among the scholars who are relatively discussed the most are Imam Ghazali, Imam Syatibi and Imam Izzuddin Abdus-Salam have classified this goal into three categories, namely primary or basic needs (dharuriyat), secondary needs (hajiyat) to make life more perfect, and the tertiary need for life to be beautiful (tahsiniyat) (Chapra, 2011).

According to the Islamic worldview, Islam teaches universal and comprehensive values. Universal means that Islam is a religion for all mankind regardless of position, color, ethnicity, and nation. Comprehensive means that Islam covers all aspects of human life (political, economic, socio-cultural, educational and so on) (Badreldin, 2009). The main goal of Islamic teachings is mercy for all mankind. This is the main goal of the Prophet Muhammad (peace be upon him) being sent to this world. Described in QS Al. Anbiya verse: 107, namely:

And We did not send you (Muhammad) but to (be) a mercy for all the worlds.

The important thing to realize this goal is to promote welfare (falah) for all mankind regardless of race, age, gender and nation. Falah, which means victory, prosperity with worldly and ukhrawi dimensions, must be used as the goal of all human life activities both in economic, political, educational, socio-cultural, and other activities carried out under the guidance of sharia. Likewise, in the practice of Islamic banking, it needs to be regulated in order to fulfill the values embedded in the Al-Qur'an and Hadith.

Islamic Bank as a business entity, is not only required as a company that seeks profit, but also has to carry out its functions and objectives as a business entity based on the maqashid Sharia concept. As an intermediary institution between parties with excess funds

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and parties with shortages of funds, Islamic banking plays a role in channeling the collected funds to the public, especially the real sector. The relationship between banks and customers of Islamic banks is more about the relationship between the owner of capital and the workforce (manager) compared to the relationship between debtors and creditors that exist in the conventional banking system. Islamic banking has a strategic role in improving the welfare of the people, through the intermediation process of collecting and channeling funds and providing other financial services. based on Sharia principles. When the conventional banking system is weak due to the monetary crisis and requires huge costs to maintain it, Islamic banking is actually required to be able to save part of the economy of the people.

4.3 The existence of the Sharia Supervisory Board (DPS) as an Element of the Governance Structure of Sharia Banks in Indonesia

The emergence of Islamic banking as a pioneer in GCG enforcement is more dominant than conventional banking, because governance issues in Islamic banking are very different from conventional banks. First, Islamic banks have an obligation to comply with the principles of sharia (sharia compliance) in running their business. The Sharia Supervisory Board (DPS) plays an important role in the governance structure of Islamic banking. Second, because the potential for asymmetry information is very high for Islamic banking, the problem of agency theory is very relevant. This is related to the level of accountability and transparency in the use of customer and shareholder funds. Therefore, The problem of representation of investment account holders in the GCG mechanism is a strategic problem that must also receive the attention of Islamic banks. Third, from the perspective of corporate culture, Islamic banking should carry out a cultural transformation so that the values of Islamic business ethics become an inherent character in Islamic banking business practices (Indonesia, 2008). The risks faced by Islamic banking are credit risk (non-profit sharing assets) and asset sharing systems or variable assets, market risk (equity price risk, exchange rate risk, commodity price risk, liquidity risk, operational risk, legal risk, reputation risk. and others). Islamic banking should carry out a cultural transformation so that the values of Islamic business ethics become an inherent character in Islamic banking business practices (Indonesia, 2008). The risks faced by Islamic banking are credit risk (non-profit sharing assets) and asset sharing systems or variable assets, market risk (equity price risk, exchange rate risk, commodity price risk, liquidity risk, operational risk, legal risk, reputation risk. and others). Islamic banking should carry out a cultural transformation so that the values of Islamic business ethics become an inherent character in Islamic banking business practices (Indonesia, 2008). The risks faced by Islamic banking are credit risk (non-profit sharing assets) and asset sharing systems or variable assets, market risk (equity price risk, exchange rate risk, commodity price risk, liquidity risk, operational risk, legal risk, reputation risk. and others).

These various risks must be minimized by management in order to improve the performance of Islamic banks (Khan, 2008). One thing that can be done is the implementation of GCG, this is in accordance with the results of research conducted by (Herianingrum, 2014) which states that good service quality or can be called GCG can increase customer satisfaction and loyalty in Islamic banking and this statement is also in line with research conducted by (Ahmed, 2019) the results of the analysis show that banks with a strong corporate governance environment reduce SNCR, this is what can minimize risk in a company, especially Islamic banking. Risk in Islamic banking is one of the factors that can encourage the implementation of corporate governance in Islamic banking. Sharia banking in Indonesia still adheres to Bank Indonesia circular letter number 12/13 / DPBs dated April 30, 2010 concerning the implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units. The principles of GCG in this regulation are still the same as the conventional Organization for Economic Cooperation and Development (OECD). Even though Islamic banks have different characteristics from conventional banks.

5. CONCLUSION

Sharia banking governance implemented in Indonesia consists of the General Meeting of Shareholders (GMS), the Board of Commissioners, the Sharia Supervisory Board (DPS), the Board of Directors and Committees under the Board of Commissioners and Directors. All departments strive to apply the principles of GCG and become a role model for all company organs. Because with the implementation of good GCG in a company, it can guarantee justice and the implementation of the interests of various parties (Stakeholders). The implementation of GCG can also minimize the risks faced by Islamic banking, such as credit risk and profit sharing system assets and market risk.

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