

REVIEW OF GOOD CORPORATE GOVERNANCE AND BUSINESS ETHICS ISLAMIC BANKING IN INDONESIA

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Abstract

Healthy and well-operated banking is a real need of the community. Therefore, to realize a healthy, resilient, and efficient Sharia bank, it must have business characteristics based on Sharia principles. The business character that Islamic banking institutions need to pay attention to is GCG. The research aims to help Islamic banks pay more attention to good corporate governance through sharia business ethics. Researchers use qualitative methods, namely research procedures that produce descriptive data. The results of this study stated that GCG may be a bank administration that applies the standards of openness, responsibility, responsibility, independence, and fairness. The urgency of implementing GCG in Islamic banks is anticipated to extend open believe in Islamic banks. In Islamic banking, Sharia standards back the execution of GCG standards, namely the obligation for legal subjects, including banks, to apply the principles of honesty, education, trust, and professional management. With this value, the administration of open reserves will be carried out by prioritizing what is permitted and avoiding dubious methods, especially those that are prohibited.

Keyword: *Islamic Banking; GCG; Business Morals*

A. INTRODUCTION

As the millennial era changes, banking service institutions, like financial institutions, play an essential role in the Indonesian economy. The mechanism of banking financial institutions is closely related to the circulation of money, starting from all public financial activities. The development of banking institutions will always experience various risks and business failures. In particular, banking institutions in Indonesia are divided into two types of banking institutions: conventional banks (marked by the element of interest) and Islamic banks (marked outside the elements of *riba*, *maisir*, *gharar*, and others), which have caused fierce competition between banks. Healthy and well-functioning banking is a real need of the community, especially Islamic banking because most Muslim people adhere to Islam. Therefore, to achieve a healthy, reliable, and efficient Islamic bank, it must have business characteristics based on Sharia principles. As Islam has taught about manners or ethics in the Qur'an and Hadith, it is included in the hadith narrated by Abdullah bin Amr Ra. Muhammad said, "Indeed, those among you are the best in ethics and morals" (HR. Muslim). [1]

Applying Sharia business ethics principles in Islamic banking practices is an absolute requirement, which must be used as a unique identity between conventional banks under the guidance of Islamic law. So, the Islamic banking industry fully implements the principles of Islamic business ethics. In that case, it will retain its advantages compared to conventional banks and ultimately threaten the survival of Islamic banks in the future. Good corporate governance aims to improve welfare and provide prosperity value, and it is expected to overcome risks in management governance. It is essential to have a system to monitor activities at all times using the institution's strategies to conceptualize them correctly and precisely. [2] Due to the lack of awareness of the correct management of banking institutions by all internal parties, the implementation of good corporate governance has yet to reach the target. If a banking institution is in good governance, it will improve financially, and a suitable corporate governance mechanism will provide a plus value. [3]

Good corporate governance practices are carried out by improving company performance and reducing risks that may arise by making decisions that are beneficial to oneself. Researchers are motivated to conduct this research to find out what kind of urgency there is after the implementation of GCG in Islamic banking institutions. Will implementing GCG create business ethics that follow Sharia principles? Sharia here means that the business activities of Islamic banks must be based on Sharia principles contained in good governance (GCG) and based on the provisions of Islam. Therefore, banking business ethics

prioritizing Sharia principles are expected to maintain economic, business, and social relations to operate according to the game's rules and ongoing practices.[4] Based on the description that has been explained, the author's purpose is to help Islamic banking institutions always pay attention to good corporate governance in their business activities in creating a banking business that is based on Islamic business ethics.

B. LITERATURE REVIEW

2.1 Definition of Business Ethics

Ethics are the premise of great and terrible and are a reference for person decision-making some time recently carrying out a arrangement of exercises.[5] Ethics can be incorporated into values and moral norms that guide a person or a group to regulate behavior.[6] In the book *Ihya 'Ullumuddin* by Al-Ghazali, he explained that the concept of 'khuluq' is a permanent property in the soul, from which actions can be quickly produced without thinking. Therefore, business ethics in Sharia law are the ethics of running a business according to Islamic values, so there is no need to worry about doing business because it is considered good and right. [7]

In the book on business ethics, Muhammad Djakafar said that Islamic business ethics is based on the Qur'an and Sunnah ethics, which anyone must use as reference material in business activities. [8] Islamic trade is a series of business activities not limited by quantity, goods, or services but limited to obtaining and using their property and haram.[9] Etymologically, business means a person or group is busy making profits for themselves or others.

2.2 Principles of Business Ethics

According to the Qur'an, the principles of business ethics are divided into several parts, namely as follows:

- a. Doing business by staying away from falsehood (vain).
- b. Businesses that contain *riba* are not allowed.
- c. Businesses that have a functional role as correctional services in the form of *zakat* and *alms*

2.3 Definition of Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a scheme that works on the management and supervision of a company's business and regulates everything regarding the rights and obligations of related parties (directors, shareholders, and other stakeholders), including regulations, procedures, and formulating company-level policies, and setting goals to achieve a *goal*, as well as all procedures that must be followed in supervising work.[10] PBI Regulation Number 11/33/PBI/2009 states that GCG may be a sort of bank administration that actualizes the standards of straightforwardness, responsibility, obligation, polished skill, and reasonableness.[4] Corporate governance (GCG) is a procedure accompanied by a form of managing a company that aims to increase investor value and accommodate all parties (*stakeholders*) related to the interests of the company, such as creditors, suppliers, business partners, customers, workers, the government, and others.

2.4 Legal Basis of Good Corporate Governance

It is recorded in 34 chapter Paragraph 1 of Law No. 21 of 2008 concerning Sharia Banking that "Sharia Commercial Banks and UUS are obliged to implement good governance including the principles of transparency, accountability, accountability, professionalism, and fairness in carrying out their business activities." [11]

2.5 Principles of Good Corporate Governance

In terms of principle, it means a principle which means a principle as the basis or truth of thinking, acting, and so on. Asas in Arabic is "asasun," which means foundation, foundation, and foundation. Terminologically, principles are the basis or foundation of ideas or opinions. The principles of corporate governance have been applied for in Islamic teachings which have strong sharia values, including *adaalatun* (equality), *tawazun* (equivalence), *mas'uliyah* (accountability), *akhlaq* (adab), *Siddiq* (credibility), *Amanah* (trustworthy), *fathanah* (ingenuity), *tabligh* (frankly without any deception), *Hurriyat* (sovereign freedom), *Ihsan* (competent), *was then* (customary), *perimeter* (sharia fighter), *Sarah* (sharia warrior), *caliphate* (military expert), *aqidah* (faith), *ijabiyah* (active thinking), *raqabah* (control), *qira'ah*, and *islah* (an organization that continues to learn and grow). As stated in *Good Corporate Governance in the Indonesian Banking Industry*, published by the National Committee for Corporate Governance Policy on October 17, 2016, governance includes five (5) principles that have been perfected: transparency, accountability, responsibility, sovereign freedom, and equality.

2.6 Good Corporate Governance Mechanism

The existing mechanism of *good corporate governance* must be established to harmonize the different interests between the two as a reference for the decisions to be taken. Islamic banks must form a

supervisory board to adjust financial instruments with sharia provisions. [12] The GCG mechanism indicators are divided into benchmarks of the board of directors, the board of commissioners, the sharia supervisory board, the review committee, the autonomous committee, and institutional ownership.

C. METHOD

In maintaining objectivity and academics, researchers use scientific methods in this work. In contrast, the method used in this study is a descriptive research method that focuses on symptoms, facts, and events reasonably and accurately. [13] Descriptive research is a part of qualitative research that aims to conduct high-quality research. This research is designed clearly and in detail from information supported by theories about good corporate governance and business ethics for bank business activities, especially Islamic banking institutions, and serves as a reference material for researchers to answer these problems. The data collection technique obtained in this study is documentation data, which comes from the word "document," meaning written goods taken from books, journals, scientific articles, regulations, and websites.

D. RESULTS AND DISCUSSION

Applying GCG principles is an obligation for institutions, including Islamic bank institutions. This is more aimed at public *accountability* related to bank operational activities, which are expected to comply strictly with the existing regulations in positive law. In addition, it is also associated with the compliance of Islamic banks with Sharia principles as outlined in the Qur'an, Hadith, and Ijmak of scholars. [14]

It is known that great corporate administration is bank administration that applies the standards of straightforwardness, responsibility, duty, autonomy, and reasonableness. In a broad sense, the function of Islamic banks is similar to conventional banking, namely as a liaison institution that collects funds from the community and channels them back to people in need through financing facilities. Therefore, the basic principles of GCG generally extended to the banking system are also applied to Islamic banks.

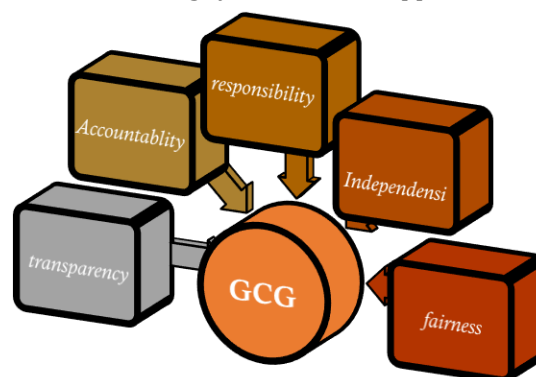


Figure 1. Corporate Governance (GCG) Principles

Source: processed by Researcher

Especially in Islamic banking, there are sharia principles that help the implementation of this GCG principle, which is an obligation for legal subjects, including banks, to apply the principles of honesty (Siddiq), education to the public (tabligh), trust (amanah), and professional management (fathanah). Siddiq implies that the administration of Islamic banks must be carried out with a ethical quality that maintains the esteem of genuineness. With the value of honesty, the management of public funds will be carried out in ways that are required (halal) and stay away from dubious methods (*subhat*), especially those that are prohibited (haram).

Thus, through some of the goals above, the usage of GCG in Islamic banks is anticipated to extend open believe in Islamic banks, the development of the Islamic money related administrations industry and the steadiness of the financial framework as a entire will continuously be kept up, and the victory of the Islamic budgetary administrations industry in executing GCG will put Islamic money related teach on the same level as other international financial institutions. Several essential tools to form GCG in Islamic banks include internal control systems, risk management, bank transparency, accounting systems, sharia refining and auditing, and external audits. [14]

4.1 GCG Implementation Steps

Several steps can be taken to implement GCG. Firstly, GCG principles must have a clear vision and mission. Second, the accuracy of the preparation of the GCG structure was carried out. She was third, applying Islamic culture in banking activities. Fourth, providing information about the Bank to the general public is done correctly. Fifth, review and revise existing policies to be by sharia principles. However, something that must be underlined is that GCG is the forerunner of the vision and mission of Islamic banking. The vision is the principle of prudence, and the mission is to regulate the supervision mechanism of Islamic banks related to risk management so that the business of Islamic banks can continue to run with its inherent characteristics. The implementation of GCG can be maximized if all parties have a contribution, not only to the Islamic Bank but also to the outside community. Synchronization between internal parties, namely banks, and external parties, namely the wider community, can provide a good image for the Islamic banks, which are seen as good role models and participate in growing community welfare, minimizing poverty, and reducing unemployment. [14]

The next step taken by Islamic banks in implementing GCG lies in Sharia compliance, namely Sharia fulfillment or compliance. Implementing Islamic principles and its culture in every financial transaction in Islamic banks and other businesses that continuously make Islam the basis for regulating resources, production, distribution management, and others is referred to as sharia compliance. The qualitative aspects that are an assessment of Sharia compliance consist of:

- 1) The implementation of contracts or contracts regarding the distribution of funds must be by Sharia;
- 2) Management of zakat funds in terms of leadership and payment by sharia provisions;
- 3) Transparency regarding all economic transactions must be accurately reported with Islamic financial recording standards;
- 4) Corporate culture and community environment that are by Sharia;
- 5) Approved financing, both for business and business purposes, does not conflict with Sharia;
- 6) The existence of DPS as the one who directs the management of Islamic banks;
- 7) The funds collected are sourced from everything halal, according to Islam.

From the mentioned aspects, the implementation of Islamic banking GCG prioritizes the Islamic element as an indicator of the quality assessment of Islamic banks, looking at their compliance with Islamic laws. This is also, of course, one of the differentiators from conventional banks.

4.2 Implementation of Business Ethics in Sharia Banking in Indonesia

Islamic banks are different from conventional banks; among the many differentiators, one of the things that stands out is Sharia's implementation of business ethics. Muslim business is even referred to as the identity of Islamic banking. Suppose Islamic banks fail to implement Islamic business ethics. In that case, the value of Islamic banks will be much worse than that of conventional banks, and in the end, this can impact the existence of Islamic banks in the future. As a business that carries out its activities by Sharia or instead by the Qur'an and Sunnah, Sharia banks strongly prioritize implementing behavior by Islamic morals in all aspects of human life, including the economy. [15]

The governance standards that AAOIFI has made regarding Islamic banks are used as guidelines. Standards that must be applied in several countries, including Indonesia. AAOIFI is also the initiator of the realization of the *Certified Islamic Public Accountant* (CIPA) certification program to improve internal and external audits of Islamic banking. The next institution that is one of the biggest supporters of implementing Islamic business ethics is *the Islamic Development Bank* (IDB), an institution resulting from a conference of finance ministers of Muslim countries. This institution aims to build economic and social development for people in Muslim-majority countries. The most critical role that IDB has played is to facilitate economic research, both in finance and Islamic banks, by establishing the *Islamic Research And Training Institute* (IRTI); IDB has also made investments and distributed capital to Islamic banks in various countries. [16] In this case, the development of Islamic banking is inseparable from the support of multiple parties, such as the financial institutions mentioned above; the role given has a significant impact on the progress of Islamic banking in the future.

In economic activities, Islam also regulates how Sharia carries out activities; in doing business, some limits are applied so that they are something that distinguishes them from others. For example, in doing business according to Islamic morals, a person is prohibited from doing *riswyah* or *riba*, there is a prohibition on usury, a ban on making transactions that are still doubtful (*gharar*), and others. In addition to transaction activities, the behavior or ethics of Muslims towards others must also be good; if we take an example in Islamic banking, good morals can be applied to the relationship between customers and bank employees.

E. CONCLUSION

By applying the principles of openness, accountability, responsibility, independence, and fairness, bank governance is known as GCG or Good Corporate Governance. Islamic banks must implement GCG to increase public confidence in Islamic banks regarding the growth of the Islamic financial services industry and the smooth running of the economic system so that it is always maintained. The urgent thing to have in this implementation is the existence of internal control of Islamic banks, regulations regarding risk management, bank accountability, recording, and financial transaction systems, examination and improvement of sharia law, and external audits from the implementation of this good GCG; it is possible that one day the GCG of Islamic banks can be on par with international banks. In the Islamic banking industry itself, it is known that there are Sharia legal principles that support the application of GCG principles, namely legal entities, including banks, apply the principles of honesty (Siddiq), educating the public (tabligh), the principle of trust (amanah) and professional management (fathanah). With this value, the management of public funds will be carried out by prioritizing what is permitted and avoiding dubious methods, especially those that are prohibited.

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