

Islamic Banking Governance: A Conceptual Analysis of Good Corporate Governance and Sharia Governance

Abdullah Jimly Hasanah Adhim^{a,1*}

¹ Universitas Negeri Surabaya, Indonesia
Email: ^aabdullah.19204@mhs.unesa.ac.id

DOI: [xxxx](#)



ABSTRACT

Keywords:
*Good
Corporate
Governance;
Sharia
Governance;
Sharia
Banking.*

This article analyzes the concepts of Good Corporate Governance (GCG) and Sharia Governance (SG) in Islamic banking through a literature review approach. GCG focuses on corporate governance principles that include transparency, accountability, responsibility, independence, and fairness. Meanwhile, Sharia Governance emphasizes a supervisory mechanism involving the Sharia Supervisory Board (SSB) to ensure bank operations comply with Islamic law. The integration of GCG and SSB in Islamic banking is a crucial factor in building public trust and increasing the competitiveness of the Islamic banking industry globally. The study results indicate that although many Islamic banks have implemented GCG and SSB, challenges remain in their implementation, such as differences in regulations across countries, the effectiveness of SSB supervision, and limited human resources competent in the fields of sharia and governance.

Article Info:

Submitted:
01/12/2024
Revised:
01/01/2025
Published:
30/04/2025



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INTRODUCTION

Good governance is a crucial element in the banking system, including Islamic banking, to ensure stability, transparency, and accountability in its operations. In Islamic banking, governance not only serves to increase efficiency and competitiveness but also aims to maintain compliance with the Sharia principles that underlie its operations (Hadi, 2011). With effective governance, Islamic banking can build public trust and make a greater contribution to the economy, especially in countries with Muslim-majority populations. However, in practice, the implementation of ideal governance still faces various challenges, such as differences in regulations, a lack of uniform standards, and limited human resources competent in Sharia and governance.

Despite sharing the same basic principles of prioritizing transparency and accountability, there are fundamental differences between conventional and Islamic banking governance. Conventional banking is based solely on profit and follows general banking regulations, while Islamic banking has the additional obligation to comply with Islamic law in all its transactions and policies (Citra and Verawaty, 2016). Furthermore, Islamic banking has a Sharia Supervisory Board (SSB) whose role is to ensure the bank's operational compliance with Sharia principles, something not found in conventional banking governance. This difference makes Islamic banking more complex, as it must not only implement Good Corporate Governance principles but also ensure that Sharia Governance is effectively implemented in every aspect of its business.

The urgency of implementing GCG and SG in Islamic banking is growing given the growing demands for transparency and accountability from various stakeholders (Anwar, 2018). GCG aims to optimize company value by implementing the principles of fairness, responsibility, independence, and accountability, while SG acts as an additional oversight system that ensures all banking products and policies comply with Islamic law. The synergy between the two is a key factor in maintaining the credibility and sustainability of Islamic banking amidst global competition. Therefore, the implementation of strong governance not only increases investor and customer confidence but also strengthens the competitiveness of the Islamic banking industry internationally.

Based on these issues, this study aims to analyze the concepts of GCG and SG in Islamic banking and identify challenges and opportunities in their implementation. This study was conducted using a literature review approach to gain a deeper understanding of the ideal governance mechanisms for Islamic banking. The results are expected to provide insights for regulators, academics, and Islamic banking practitioners in developing more effective policies to strengthen governance and enhance the stability of the Islamic banking sector in a sustainable manner.

The Concept of Good Corporate Governance in Islamic Banking

Good Corporate Governance (GCG) is a corporate governance concept that aims to increase transparency, accountability, and integrity in the operations of a business entity, including Islamic banking (Anton, 2010). GCG is based on key principles such as transparency, accountability, responsibility, independence, and fairness, which serve to protect stakeholder interests and increase public trust at all. In the context of Islamic banking, the implementation of GCG not only aims to achieve business efficiency but also ensures that every decision and policy taken is in accordance with Islamic principles, thereby strengthening the integrity and competitiveness of the Islamic banking industry globally.

To optimize the implementation of GCG, various international standards have been developed by global institutions such as the Organization for Economic Co-operation and Development (OECD) and the Islamic Financial Services Board (IFSB). The OECD establishes five main pillars in GCG, namely the protection of shareholder rights, fair treatment of shareholders, the role of stakeholders in corporate governance, transparency and disclosure of information, and the responsibility of the board of directors in company management. Meanwhile, the IFSB as the authority that regulates the Islamic financial sector emphasizes that GCG in Islamic banking must be aligned with Islamic principles, by adding the aspect of Sharia Governance as a key element that distinguishes it from conventional banking (Hamdani, 2016).

The integration of GCG principles adopted from international standards and the implementation of Sharia Governance presents both a challenge and an opportunity for Islamic banks in building a strong and sustainable governance system. By consistently implementing the pillars of GCG, Islamic banks can increase their transparency and accountability, while ensuring that all business activities remain in accordance with Sharia principles. Therefore, stricter regulations, increased human resource capacity, and effective oversight by the Sharia Supervisory Board are strategic steps in strengthening Islamic banking governance, enabling them to compete with the conventional banking industry globally.

The Concept of Sharia Governance in Islamic Banking

Sharia Governance is a governance system in Islamic banking that aims to ensure all banking operations, products, and services comply with Sharia principles. Unlike Good Corporate Governance, which focuses more on efficiency and transparency in business, Sharia Governance (SG) has an additional dimension that emphasizes adherence to Islamic law. The main principles of SG include Sharia compliance, transparency, accountability, independence, and fairness, which aim to maintain the trust of customers and other stakeholders (Bella, 2014). With a strong Sharia governance system, Islamic banking can operate more credibly and competitively in the global financial industry.

One key element in the implementation of Sharia Governance is the existence of a Sharia Supervisory Board, which acts as an independent institution to ensure that Islamic banking policies, products, and operations comply with Islamic principles. The Sharia Supervisory Board (SSB) is primarily responsible for supervising, evaluating, and issuing fatwas and recommendations regarding Sharia compliance in banking operations. Furthermore, the SSB is also responsible for ensuring that all bank employees and management understand and apply Sharia principles in their business activities. The existence of the SSB is a key differentiating factor between Islamic banking and conventional banking, where supervision in Islamic banking is not only based on general banking regulations but also on Islamic law (Indra, 2016).

To increase its effectiveness, the Sharia Supervisory Board (SSB) needs to maintain a high degree of independence and collaborate with regulators such as the National Sharia Council (DSN) and the Financial Services Authority (OJK) in establishing Sharia compliance standards. Furthermore, challenges in implementing Sharia Governance include limited human resources competent in finance and Sharia, as well as the need to harmonize Sharia regulations across countries. Therefore, strengthening the role of the SSB, improving human resource competency, and harmonizing regulations are crucial steps in strengthening the Sharia Governance system, enabling Islamic banking to continue to grow and compete with conventional banking globally.

Integration of GCG and Sharia Governance in Islamic Banking

Good Corporate Governance and Sharia Governance are closely related in Islamic banking, as both serve to ensure bank operations are transparent, accountable, and in accordance with Sharia principles (Wulandari, 2011). GCG focuses on governance principles commonly applied in the financial industry, such as transparency, accountability, and protection of stakeholder rights. Meanwhile, Sharia Governance (SG) adds the dimension of compliance with Islamic law, which includes supervision by the Sharia Supervisory Board and the application of Sharia principles in every transaction. In other words, SG strengthens the implementation of GCG in Islamic banking by ensuring that governance practices not only meet conventional banking standards but also align with Islamic values.

To ensure effective governance in Islamic banking, various countries have developed standards and regulations governing the implementation of GCG and SG. International institutions such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have formulated guidelines covering governance standards, sharia supervision, and accounting in Islamic banking. In Indonesia, Islamic banking governance is regulated by the Financial Services Authority (OJK) and the

National Sharia Council-Indonesian Ulema Council (DSN-MUI), which are responsible for establishing policies and issuing fatwas (religious edicts) on Islamic banking products and services. Meanwhile, in countries such as Malaysia and the United Arab Emirates, Islamic banking regulations have become more integrated with the national financial system, providing stronger legal certainty for the Islamic banking industry (Tandelilin, 2010).

Although various countries have implemented Islamic banking governance regulations, challenges remain in harmonizing GCG and SG standards globally. Differences in interpretation of Islamic law, variations in regulatory policies across countries, and the availability of human resources with a thorough understanding of both financial aspects and Islamic law are factors that influence governance effectiveness. Therefore, international collaboration between regulators, academics, and banking practitioners is needed to create more uniform and globally applicable governance standards. With more integrated standards, Islamic banking can develop more stably and competitively on the international stage while maintaining compliance with Islamic principles.

RESEARCH METHOD

This study employed a library research method focused on analyzing various academic sources and regulations related to Islamic banking governance (Sujarweni, 2015). Data sources included books, scientific journals, and official reports from the national Islamic banking authority discussing the concepts of Good Corporate Governance and Sharia Governance (Sugiarto, 2017). The data obtained were analyzed qualitatively using a descriptive approach to understand the theory and practice of Islamic banking governance and to explore the challenges and opportunities in its implementation (Sugiyono, 2006). This method allows the study to provide a more comprehensive picture of the effectiveness of governance in enhancing the stability and competitiveness of Islamic banking.

RESULT AND DISCUSSION

Implementation of Good Corporate Governance in Islamic Banking

The implementation of Good Corporate Governance in Islamic banking is a fundamental aspect in maintaining transparency, accountability, and stakeholder trust. Unlike conventional banking, Islamic banking not only adheres to general governance standards but also ensures compliance with Islamic principles (Mahardhika and Rizal, 2017). Therefore, the implementation of GCG in Islamic banks aims to create a balance between business interests and adherence to Islamic values, thereby enhancing financial stability and the global competitiveness of the Islamic banking industry.

To achieve good corporate governance, Islamic banks must implement mechanisms that encompass various important aspects, such as a transparent

leadership structure, a robust oversight system, and compliance with Islamic regulations and standards. One key element of this mechanism is the Sharia Supervisory Board (SSB), which is tasked with ensuring that Islamic banks' policies, products, and services comply with Islamic principles (Simamora, 2000). Furthermore, Islamic banks must also have an effective internal control system, with regular internal and external audits conducted to ensure compliance with Islamic accounting standards and prevent practices that could harm customers and investors.

However, in practice, the implementation of GCG in Islamic banking still faces various challenges, both at the national and global levels. One major challenge is the difference in regulations across countries, which leads to a lack of uniform standards for Islamic bank governance (Hanafi, 2004). Furthermore, limited human resources who understand both financial aspects and Islamic principles also hinder the effectiveness of GCG supervision and implementation. Another challenge is the lack of awareness and understanding among customers and investors regarding the importance of good governance in Islamic banking, which often results in low levels of transparency and accountability in some Islamic financial institutions.

Despite facing various challenges, there are significant opportunities in implementing GCG in Islamic banking, particularly with the growing demand for financial services based on ethics and Islamic principles (Alimatul, 2013). Evolving regulations, such as standards issued by the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), provide clearer guidance for Islamic banks in adopting better governance practices. Furthermore, technological advances in digital banking and Islamic fintech open up opportunities for Islamic banks to improve the transparency, efficiency, and accessibility of Islamic banking services in various countries.

So, it is hoped that Islamic banks will continue to strengthen their GCG implementation by improving regulations, enhancing human resource competencies, and adopting technology in their Islamic supervision and audit systems. If these challenges can be overcome, Islamic banks will not only grow sustainably but also become a model for more transparent, ethical, and inclusive banking globally. Therefore, the synergy between conventional governance principles and Islamic principles must be continuously enhanced to achieve the goal of a just Islamic economy.

The Role of Sharia Governance in Maintaining Sharia Compliance

Sharia Governance plays a crucial role in maintaining Sharia compliance in Islamic banking, ensuring that every aspect of operations and financial products are in accordance with Islamic principles (Yuliani, 2016). Unlike

governance in conventional banking, Sharia Governance in Islamic banking focuses not only on transparency and accountability but also emphasizes compliance with Islamic law, which prohibits *riba* (usury), *gharar* (gharar), and *maysir* (gambling). With a strong Sharia governance system, Islamic banks can increase public and regulatory trust, as well as encourage the growth of a more stable and sustainable Islamic financial industry.

One of the key elements of Sharia Governance is the role of the Sharia Supervisory Board (SSB) in ensuring that all products and operations of Islamic banks comply with Sharia principles. The SSB is tasked with reviewing and issuing fatwas (religious edicts) on financial products issued by the bank, overseeing the implementation of Sharia principles in daily operations, and conducting regular Sharia audits (Ghozali, 2011). Furthermore, the SSB also plays an important role in educating bank management and employees regarding Sharia implementation, ensuring that all business decisions remain in line with Islamic principles. With strict oversight by the SSB, Islamic banks can mitigate the risk of product and service non-compliance with applicable Sharia standards.

The implementation of Sharia Governance in Indonesia demonstrates how regulation and oversight of Sharia compliance are carried out systematically (Hafiez, Ihyaul, and Daniel, 2012). Indonesia has the National Sharia Council-Indonesian Ulema Council (DSN-MUI) as the authority responsible for issuing fatwas and Sharia guidelines for Islamic banking. Furthermore, further oversight is carried out by the Financial Services Authority (OJK), which ensures that every Islamic bank adheres to established governance standards. With this structure, the Sharia Supervisory Board (SSB) at each Islamic bank must refer to the DSN-MUI fatwas in formulating internal policies and ensuring that all banking activities are carried out in accordance with applicable Sharia provisions.

Several case studies in Indonesia demonstrate the effectiveness of Sharia Governance in maintaining Sharia compliance in Islamic banking (Sujarweni, 2015). For example, Bank Syariah Indonesia (BSI), as the largest Islamic bank in Indonesia, has implemented a strict supervisory system involving the Sharia Supervisory Board (SSB) in all its strategic decisions. Furthermore, other Islamic banks, such as Bank Muamalat and Bank Mega Syariah, also implement regular Sharia audit mechanisms to ensure compliance with Islamic principles. However, ongoing challenges include the need to improve the competency of the SSB and strengthen regulations to better adapt to the increasingly complex development of Islamic financial products.

With the growing growth of the Islamic finance industry in Indonesia, the implementation of Sharia Governance needs to be continuously strengthened through improved compliance standards, stricter oversight, and collaboration between regulators, academics, and industry players. Improving human resource capacity in the Islamic finance sector is also a crucial factor in ensuring the effectiveness of the Sharia Supervisory Board (SPS) in carrying out its duties. If

these challenges can be overcome, Islamic banking in Indonesia can not only grow sustainably but also become a model for other countries in implementing effective and reliable Sharia governance.

Synergy of GCG and Sharia Governance to Improve Sharia Banking Performance

The synergy between Good Corporate Governance and Sharia Governance is a key factor in improving the performance of Islamic banking. GCG plays a role in creating a transparent, accountable, and efficient bank management system, while Sharia Governance ensures that all bank activities and products remain in accordance with Sharia principles. The combination of these two aspects not only increases public and investor trust but also helps Islamic banks manage risks more effectively (Hamidah, 2017). With good governance, Islamic banks can compete more effectively with conventional banks and expand their share of the Islamic financial market in Indonesia.

Table 1. Synergy of Good Corporate Governance (GCG) and Sharia Governance (SG) to Improve Sharia Banking Performance			
Aspect	Good Corporate Governance (GCG)	Syariah Governance (SG)	Impact on Islamic Banking Performance
Basic Principles	Transparency, accountability, responsibility, independence, fairness	Sharia compliance, integrity, sharia transparency	Increase public and investor confidence
Supervision Structure	Commissioner, Audit Committee, Risk Committee, OJK	Sharia Supervisory Board (DPS), DSN-MUI Fatwa	Ensuring balance between business and sharia aspects
Governing Regulations	POJK No. 17/POJK.03/2014 concerning GCG for Sharia Banking	DSN-MUI Fatwa, Sharia Governance Framework (SGF)	Ensuring operations comply with national and global standards
Role in Risk Management	Identify, measure, monitor and control risks	Ensure that the risks that arise do not conflict with sharia	Reducing reputational and legal risks

Contribution to Financial Stability	Increase efficiency, competitiveness and product innovation	Ensuring products and operations are in accordance with Sharia	Long-term financial stability
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Based on the table above, the implementation of good governance has a significant impact on the stability and growth of Islamic banking. With strict regulations and strong supervisory mechanisms, Islamic banks can maintain financial stability and mitigate potential risks such as non-performing loans or non-compliance with Sharia principles. Furthermore, a good governance system encourages the growth of the Islamic banking industry by increasing depositor and investor confidence, thereby attracting more funds into the Islamic financial system. Another positive impact is the increased competitiveness of Islamic banking in facing global challenges, particularly in the face of economic integration and the development of banking digitalization.

Indonesia has developed several best practices in Islamic banking governance, which can serve as models for improving governance quality in this sector (Sugiyono, 2006). One important step is the implementation of the Sharia Governance Framework (SGF), which regulates the roles and responsibilities of the Sharia Supervisory Board (SPS) in ensuring sharia compliance in each bank. Furthermore, Bank Indonesia and the Financial Services Authority (OJK) have issued various regulations related to GCG and SG, including mandatory transparency in financial reporting and strengthening internal and external oversight functions. These steps have helped Islamic banking in Indonesia build a stronger and more reliable governance system.

Despite the existence of various regulations and best practices in Islamic banking governance, several challenges remain that need to be addressed. One is the lack of harmonization between banking regulations and Islamic fatwas, which sometimes creates uncertainty in the implementation of Islamic products and services (Hastuti, 2005). Furthermore, there are still gaps in the quality of human resources, particularly in understanding the concept of good governance and the application of international standards in Islamic banking. Therefore, efforts are needed to improve human resource capacity and foster closer synergy between regulators, academics, and practitioners in the Islamic banking industry.

By continuously strengthening the synergy between GCG and SG, Islamic banking in Indonesia has a significant opportunity for rapid and sustainable growth. Improving the quality of governance will not only strengthen the industry's competitiveness nationally but also open up opportunities for expansion into the global market. Therefore, collaboration between regulators, the banking industry, and educational institutions is essential to ensure that the implemented governance system is truly effective and able to meet future

challenges. With the right strategy, Indonesia can become a strong Islamic financial center with a credible and internationally recognized governance system.

CONCLUSION

Key findings regarding Good Corporate Governance and Sharia Governance in Islamic banking indicate that synergy between the two is crucial for enhancing transparency, accountability, and compliance with Sharia principles. The implementation of good corporate governance has contributed to improving the stability and growth of Islamic banking, strengthening customer trust, and enhancing the industry's global competitiveness. However, challenges remain, such as a lack of regulatory harmonization, differing interpretations of Sharia fatwas, and limited human resources with a deep understanding of Sharia governance and compliance.

Therefore, to strengthen Islamic banking governance going forward, human resource capacity building is needed through specialized training and certification, regulatory harmonization between financial authorities and fatwa institutions, and the use of digital technology to improve operational efficiency and transparency. Furthermore, collaboration between regulators, academics, and industry practitioners needs to be continuously strengthened to create a more adaptive, innovative, and responsive governance system.

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