

# THE APPLICATION OF THE PRINCIPLE ISLAMIC CORPORATE GOVERNANCE IN BNI SYARIAH BANK

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## ABSTRACT:

**This study aims to determine and analyze the application of the principles of Islamic Corporate Governance at BNI Syariah Bank. This study uses qualitative prophetic research methods with data collection techniques through primary data and secondary data. The data collected was then analyzed by qualitatively descriptive, the sample of this study was the BNI Syariah Bank Yogyakarta branch applying ICG principles well. The application of the principles - Transparency, Accountability, Responsibility, Independence and Fairness supported by policies, code of ethics, and corporate values owned by the Bank. The application of each ICG principle also refers to Islamic values, namely Shiddiq, Amanah, Fathanah, Tabligh, Mas'ulliyah, Istiqomah and fair.**

**KEYWORDS: Islamic Perspective, Corporate Governance, Financial Institutions, Islamic Banking.**

## INTRODUCTION:

Lippo Bank is a Bank that went bankrupt due the poor Good Corporate Governance. Lippo Bank published unaudited financial statements and has information that is

different from financial statements submitted to the stock exchange (syahrul, 2003). The existence of this case proves that the implementation of GCG in Indonesia is still poor. Therefore, understanding of GCG is an absolute requirement is establishing companies, especially financial institutions, where each transactions is a based on trust. The Government will also pay special attention to the implementation to the implementation of the existing Corporate Governance system in Indonesia by issuing a coordinating Ministerial Decree of Republic of Indonesia number : KEP-49/M.EKON/11/2014 and finally updated with the decision of the coordinating minister for the economy of The Republic of Indonesia, number : 117 Tahun 2016 about the National Committee on Governance “ Komite Nasional Kebijakan Governance (KNKG) regarding the expansion of the KKNKG task of continuing to assist the implementation of Good Corporate Governance principles in the Company. Bank of Indonesia also issued Bank Indonesia regulations, number : 8/4/PBI/2006 and Bank Indonesia regulations number : 11/33/PBI/2009 about implementation of Good Corporate Governance at conventional commercial banks, Islamic Commercial Banks, and sharia business units to

strengthen the basis for implementing Good Corporate Governance in banks to adhere to risk management in order to protect stakeholders. Indonesia moslem community makes the Sharia System can develop easily including the management system of Islamic Financial institutions and Islamic banking. Data recorded in the OJK (Financial services Authority) to date there are 199 Islamic Financial institutions in Indonesia, there are 14 Islamic Commercial Bank (Keuangan, 2019). The Development of Islamic bank is increasing, then needed a system that supports Islamic banking professional. Islamic Corporate Governance . Islamic Corporate Governance is a System of Corporate Governance based on Islamic law. Islamic Corporate Governance is a derivative of conventional science Islamic Corporate Governance which aims not only to increase the value of the company, but the “Maqashid Shariah” which reefers to the benefit of humanity. The Islamic Corporate Governance principles are generally the same as the ICG principles in conventional science, but these principles are internalized with Islamic value. The principles consist of Transparency, Accountability, Responsibility, Professionalism, Equality and fairness. The main difference between Islamic Corporate Governance and Good Corporate Governance is a sharia compliance. (Rini 2018).

Islamic Banking in Indonesia does not use Islamic Corporate Governance officially, but they apply the principles of Good Corporate Governance which are supported by Islamic Values. This Research aims to determine and analyze the application of the principles of Islamic Corporate Governance in Islamic Bank in Yogyakarta Indonesia, namely BNI Sharia Bank, which since its establishment has continuously refined of Good Corporate Governance practices.

Islamic Corporate Governance is a System that directs and controls a company to

fulfill its objectives, by protecting the interst of the stakeholders by using the concept of decision making in God’s rules (Endraswati, 2015). Islamic Corporate Governance seeks to desing ways in which economic agents, legal system and Corporate governance can be directed by moral and social values based on sharia law, the aim of which is to prosper individuals and society as a whole ( Siswanti, Salim, Sukoharsono & Aisyah, 2017). The Islamic Corporate Governance model is related to “ Sharia Enterprise Theory” (SET) which means God as the center.. Triyuwono said that the applicable SET was God as the main source of amanah (trust). The main principle of SET is to responsible to God, then to responsible to humanity and responsible to the environment (rini, 2018). Muhamad said in his book Sharia Bank Management in Islamic Corporate Governance the concept of stakeholders was divided into three, first is God as the absolute owner of all that exists on earth, and the resources possessed are mandates from God, in which there is a responsibility to use resources properly. The second Stakeholders are people who are divided into two groups, namely Direct Stakeholder and Indirect Stakeholders. Direct Stakeholders are those who contribute directly to the company both financially and non financially, whereas indirect stakeholders are parties who do not contribute directly to company but legally sharia they have the right to prosperity. The last stakeholder are nature, nature contributes directly to the company. The Physical of company was founded on earth, producing raw materials from nature. Nature is different from humans, because nature doesn’t want welfare from company, a human responsibility to nature is to preserve nature (Muhamad, 2011).

El Junusi’s research results mention the difference in the implementation of GCG in Islamic Banks and Conventional Banks lies in Sharia Compliance. ICG principles are universal

principles that also contained in conventional GCG rules. One of the main pillars of sharia financial institution operations is compliance, to the sharia principles in banking institutions, supervision is required by DPS (Sharia Supervisory Board). Islamic teachings mention five principle that are in line with Islamic norms and values, namely : adl, tawazun, mas'uliyah, akhlaq, shidiq, amanah, fathanah, tablig, wasatan, ihsan, idarah, ghirah, khilafah, qira'ah and Islah (Junusi, 2012)

The principles consist of transparency, accountability, responsibility, professionalism, equality and fairness, each of the principles refers to the values in Islam as follows :

### **1. Transparency**

Transparency is openness in presenting material and relevant information and openness in presenting material and relevant information and openness in the decision making proses (Faozan, 2013). The principles of Transparency in the field of sharia based regulated in the Qur'an Surah Al-Baqarah verse 282 which means ....(concealing information needed in transactions) is not in include in our community. This principles is also in line with Islamic values namely Shidiq and Tabligh (Endraswati, 2015)

### **2. Accountability**

Accountability is the clarity of functions and implementation of organizational responsibility, so that management can run effectively (Faozan, 2013). The principles of accountability is found in sharia which regulated based on the Qur'an surah Al Isra verse 84, which means " Say each person does according to his own circumstances, then Your God knows far more the right way . The application of this principle refers to the value of Amanah and Fathonah (shodiq, 2017)

### **3. Responsibility**

Responsibility is the suitability of the management of bank regulations with applicable laws and principles of bank regulations that are declared healthy (Faozan, 2013). The responsibility set in the Quran surah Annisa verse 59 : O ye believe, obey Allah and his prophet, and the leaders among you, then if you have different opinions about something, thtn return it to Allah (the Quran) and the prophet (Sunnah), if you truly believe in Allah and the next day, that is more important to you and better consequences. The application of this principles refers to the Islamic values of Mas'uliyah and Fathonah ( Shodiq, 2017)

### **4. Independency**

Independency is a professional that is competent, capable of acting objectively and free from influence or pressure of other parties, and has a high commitment to develop Islamic Bank (Faozan, 2013). The implementations of principles of independency is regulated in the Quran surah Fushilat verse 30 : Indeed whose say " Our Lord is Allah, then confirm their faith and conviction, then angels will descend on them..." The application of this principles is in line with Islamic principles namely Shidiq, Amanah, and Fathonah (Endraswati, 2015).

### **5. Fairness**

Fairness is justice and equality in fulfilling the rights of stakeholders based on agreements and applicable laws (Faozan, 2013). The implementation of this principles is regulated in the Quran Surah verse 8 : O you who believe, you should be the ones who always uphold the truth because of Allah, be a fair witness, and Don't your hate to people will make you not have justice, and fear to Allah, verily Allah knows what you are doing. This

application refers to the Islamic values , namely Adil ( Al junusi, 2012).

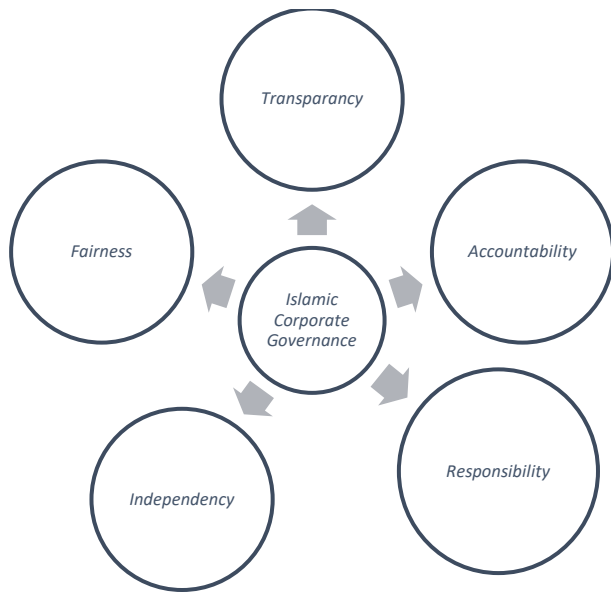


Image 1 : Mindset

## RESEARCH METHODS:

The design of this research is Fields Research type, which can be considered abroad approach in qualitative research (Moleong, 2017). The approach taken in this research is qualitative prophetic. This research aims to understand the phenomena of what experienced by the research subject. Prophetic paradigm according to (Nugroho, 2015) is a science based on God's revelation and nature the prophetic. The human midis not the source of truth and the source of ultimate truth is based on the Quran and Assunah. The prophetic research is full of values, because they are influenced by the values adopted.

The object of the research is one of the Islamic Banks in Yogyakarta, BNI Sharia. The sampling technique used to determine the informant is Purpose Sampling, which is a technique to determine the research sample with certain considerations aimed at making the data more representative (Moleong, 2017). The sample is this research is the operational manager of several employees and customers

of BNI Sharia Yogyakarta Branch. This research sample uses the consideration of Islamic Banks that implement the principles of Islamic Corporate Governance (ICG). Data collection techniques in this research use primary data, used interviews with predetermined informants. Secondary data taken from the BNI Sharia business activity reports that have been audited.

Table 1. Respondent Data

N	Name	Respondent	Profession
1	A	Operational Manager	BNI Sharia Yogyakarta branch employees
2	P	Back Office Unit	BNI Sharia Yogyakarta branch employees
3	G	New saver Customers	College Student
4	R	Old saver customers	College Student
5	RZ	Customers financing	Entrepreneur

Data processed,2019

Islamic Corporate Governance is a combination of Good Corporate Governance concepts and sharia compliance (Rini, 2018). ICG is a corporate governance system that is implemented with sharia principles. The purpose of implementing GCG is not only to achieve corporate goals but also to achieve Sharia Maqhasid that is beneficial to the people. Islam teaches that all activities carried out by humans should provide benefits, not only for themselves but also for others. The basis of the practice of ICG implementation is in the Quran , surah Hud verse 61 :

﴿وَالَّذِي نَمُودَ أَخَاهُمْ صَالِحًا قَالَ يَفْقَهُمَ أَعْبُدُوا اللَّهَ مَا لَكُمْ مِنْ إِلَهٍ غَيْرُهُ هُوَ أَنْشَأَكُمْ مِنَ الْأَرْضِ وَاسْتَعْمَرَكُمْ فِيهَا فَاسْتَغْفِرُوهُ ثُمَّ تُوبُوا إِلَيْهِ إِنَّ رَبِّي قَرِيبٌ مُجِيبٌ﴾

That means :

And to Tsamud (we sent) their brother Salih. He Said : "O my people, worship Allah ; you have no other deity than Him. He has produced you from the earth and settle you in it, so ask

forgiveness of Him and then repent to Him. Indeed my Lord is near and responsive.

BNI Sharia Bank Always tries to perfect ICG practices, BNI Sharia states that there are four benefits obtained from the implementation of GCG. First the company will have solid foundation and corporate governance mechanism in terms of adequate structure and infrastructure of quality corporate governance. Second, increasing the value of company which is indicated by increasing financial performance to the shareholders. Third, form good image for BNI Sharia. Fourth, carry out Islamic business (BNI Sharia Bank, 2018). All Business activities carried out by BNI Sharia are always based on sharia provisions including ICG implementation. BNI Sharia applies five principles namely, Transparency, Accountability, Responsibility, Independence and fairness, and there are Islamic values in its implementation.

The principle of transparency implemented by BNI Sahria based on Quran verse 282, which means ..... if among you debt for a specified time, you should write it down. And let a writer write correctly . The result of research conducted on the principle of transparency are reviewed from four aspects, from the availability of information and the ease of accessing information. BNI Sharia Yogyakarta branch, does not provide information about its business activities. All business activities have been carried out by the system. So information is delivered directly to the center in real-time. The head office will produced a comprehensive activity report. The report will be published after going through an audit process and can be accessed in all information storage media facilities owned by BNI Sharia Bank. BNI Sharia Bank has always tried to facilitate customers, stakeholders or the community, until now BNI sharia has several means of information, including, newspaper, magazine, e-mails, websites, social

media, etc. The next aspect is the confidentiality of the organization, in addition to referring to the applicable rues, it has also been regulated in the BNI sharia code of ethics, while the aspect of policy delivery is communicated publicly through the mass media.

The implementation of the Accountability in BNI Sharia is based the Quran surah Al-Isra verse 14 , which means “it will be said ; Read your record, sufficient yourself against you this day as accountant. The results of research conducted on the principles of accountability are reviewed from three aspects. The first aspects is implementation of task. Each party in BNI Sharia has been given a guideline that can be accessed by the job descriptions. One of the guideline that can be accessed is the Board of Director’s contained in the implementation of GCG and annual report. The second aspects the competence of each party in BNI Sharia as seen from the level of employee education, supported by work experience to be placed on accordance with the needs of the bank. The last aspect in performance measurement an achievement of vision and mission, BNI Sharia Yogyakarta branch only carry out the mission and vision and targets decided by the head office and if the target is achieved there will be a reward and if does not meet the target it will be subject to punishment, but this system only done in several parts.

The principle of Responsibility in BNI sharia is implemented based on the Quran surah Annisa verse 59, which means “O you have believed, obey Allah and obey the messenger and those in authority among you. And you if you disagree over anything, refer it to Allah and The Messenger, if you should believe in Allah and the last day. That is the best (way) and best result. The result of research conducted with the principle of responsibility can be reviewed from three

aspect. The first aspects is legal compliance, BNI sharia has string regulations, its operations are not only based on applicable laws and regulations but also must comply with sharia provisions in accordance with the Quran and Hadith. BNI Sharia continuously holds a program to implement compliance function. The second aspect is social responsibility, BNI Sharia manages benevolence funds through the BNI Sharia Independent Foundation, namely The Hasanah Foundation, so that these benevolent funds can be distributed well. The last aspect is the principle of prudence is BNI sharia is very careful in the collecting and managing funds, because it involves the risk that must be faced by the Bank. Implementation of the principle of independence of BNI Sharia is based on the Quran surah Azzumar verse 18, which means : " who listen to speech and follow the best of it. Those are the ones Allah has guided, and those are people of understanding. The result of the research of principle of independence can be assessed from two aspect. The First aspect is dominance and influence, BNI sharia prohibits family relations or any relationship between employees, because it will be taken and avoid conflict or interest. The aspect of decision making mechanism at BNI sharia is to be very objective and consider everything that will affect the outcome of the decision.

The Principle of fairness and Equality that is carried out by BNI Sharia is based on the Quran surah Almaidah Verse 8, which means : O you who have believed ,be persistently standing firm for Allah, witness in justice, and do not let the hatred of a people prevent you from being just. Be just, that is nearer to righteousness. And fear Allah; indeed, Allah is acquainted with what you do. The result of research conducted on the principle of fairness can be seen from two aspect. The first aspect is justice of the Bank, BNI sharia tries to fair, not only in terms of business but also on terms of

service. The principle aspect of the mechanism, BNI sharia Yogyakarta branch does something with the SOP ( Standard Operating Company) that has been set.

The successful implementation of CGG can be seen from the result of BNI sharia fi financial report and operational performance. Total Asset achieved in 2018 were Rp. 41,05 Trillion. Total financing reached Rp. 4,24 trillion, Total DPK ( Third party Funds) reaching Rp 35, 50 trillion , total Equity reached Rp. 4,24 trillion, and seen from the ratio calculation, CAR Ratio 19,31%, NPF gross Ratio 2,93%, ROE 10, 53% , ROA 1,43%, FDR 79, 62% , Imbalan bersih (great rewards) 7,16%, BOPO 85, 37% and Coverage 97, 36%.

The result of the research above, the evaluation of the implementation of the principle is quite good, but there are some aspect that need to be considered for implementation, such as the table below :

Table 2. The application of Islamic corporate Governance principles Islamic Corporate Governance in BNI Sharia Yogyakarta Branch

Principles	Indicator	Information
Transparency	Information availability	Enough
	Ease of accessing	Good
	Information Confidentiality of the organization	Good
	Submission of policies	Enough
	Execution of tasks according to guidelines	Good
Accountability	Competency of each party in carrying out their duties	Enough
	Performance measurement and achievement of vision and	Good

	mission	
Responsibility	Legal compliance	Good
	Social responsibility	Enough
	The precautionary principle	Good
Independency	Domination and influence	Good
	Decision making mechanism	Good
	Bank Justice System	Good
Fairness	Problem solving mechanism	Enough

(Data processed,2019)

The implementation of GCG in BNI Sharia is good from GCG implementation. The application of GCG principles has been implemented well, but there are several aspects whose implementation can still to maximized, namely aspect of information availability, policy delivery, competence of each party, social responsibility and problem solving mechanism. BNI Sharia Yogyakarta Branch does not provide any information about business activities that have been carried out such as financial reports, CSR report or other Reports. The aspect of delivering policies at BNI Sharia needs to be improved, because there are some customers who are not aware of the new policies that apply at the bank. The competency aspects of each party in BNI Sharia Yogyakarta branch is not optimal, because they don't have employees with sharia background. The principle of social responsibility aspect or CSR activities should not only at the center of Bank. Branch of bank also require routine CSR activities. The last aspect is the mechanism of problem solving, BNI Sharia Yogyakarta branch seen problems with customers related to collateral so they must use a solution through by legal. BNI Sharia needs to be careful in

managing its collateral, in order to avoid existing legal cases because it will have impact on the risk that must be faced.

### CONCLUSION:

Islamic Banking in Indonesia is increasing rapidly, so a support system is needed in accordance with Islamic Banking operations. Islamic Corporate Governance is a corporate governance system that is implemented with Islamic values, globally the principles of ICG are the same as the principle of GCG namely Transparency, Accountability. Responsibility, Independence and Fairness, but in application of ICG there are Islamic values. Islamic values contained in this research are : Shiddiq, Fathanah, Amanah, Tabligh, Istiqomah and Mas'ulliyah. BNI Sharia Yogyakarta Branch has implemented these principles well, although there are several aspects that must do considered and improved again. The application of ICG principles in the BNI Sharia Yogyakarta brach , besides referring to the Islamic values above, is also supported by others values, namely values : Amanah, Jamah, Hasanah, and the last value is Maqhasid Sharia.

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