

Disclosure of Islamic Corporate Governance of Sharia Bank in Indonesia

(Explores the Disclosure Practices of Islamic Corporate Governance in State-owned Sharia Banks and Private Sharia Banks in Indonesia)

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Abstract:- This study explores the disclosure practices of Islamic Corporate Governance of state-owned Sharia banks and private Sharia banks in Indonesia. This research is quantitative with the content analysis method on disclosing Islamic Corporate Governance practices of state-owned Sharia banks and private Sharia banks in Indonesia during 2015-2019. The results showed that ICG disclosure in state-owned Sharia banks has a higher level of disclosure than private Sharia bank. The results of this study are indicated by the greater average disclosure values of state-owned Sharia banks in four dimensions, namely the dimensions of Sharia Supervisory Board, Directors Board, Committee Board, and Internal Control and External Audit dimensions, while private Sharia bank only has a disclosure value that is better on the dimension of Commissioners Board.

Keywords:- Islamic Corporate Governance; Sharia Bank; Disclosure; State-Owned Sharia Bank; Private Sharia Bank.

I. INTRODUCTION

In general, Sharia bank carries out activities similar to conventional bank, which act as intermediary institutions that collect funds from parties with surpluses and those with deficits [1]. As a fundraiser, Sharia banks are very dependent on third party funds from their customers. In Indonesia, the amount of third-party funds is the main source of funding for Sharia banks compared to other funding sources. By the end of 2020, the growth of third-party funds from Sharia banks in Indonesia had reached Rp.322.85 trillion, while the funding channeled was Rp.246.53 trillion [2]. The amount of fundraising from the public to third-party funds shows the amount of contribution made by clients of Sharia banks to the growth and development of Sharia banks [3]. Therefore, customer trust needs to be maintained and even needs to be improved by improving good corporate governance practices as part of an effort to maintain the trust of various customers and stakeholders [4].

In Sharia bank, corporate governance practices differ from corporate governance practices in conventional banks or other entities [5]. As a Sharia-based bank, management practices should be much better, safer and more trustworthy,

but that doesn't mean the potential for bad corporate governance practices can't happen. In Sharia bank, more attention should be paid, as Sharia banks are more prone to the risk of non-compliance in the institutional environment in which they operate. Implementing weak corporate governance can be seen from the failure of several Sharia banks abroad, one of which comes from the Ihlal Finance House (IFH) in 2001 in Turkey, which is the most phenomenal case of Islamic financial institutions [6].

This study explores the corporate governance disclosure practices of state-owned Sharia banks and private Sharia banks in Indonesia. Currently, the number of Sharia banks in Indonesia is 14 Sharia banks. There are three Islamic commercial banks owned by state-owned Sharia banks, two owned by local governments and the private. The practice and disclosure of corporate governance in Sharia banks is essential for Sharia banks to confide to the various stakeholders that Sharia banks have implemented their practices and disclose to the public.

II. LITERATURE REVIEW

Corporate governance is defined as a set of relationships between the company's management, the board of directors, shareholders and other stakeholders. The goal of corporate governance itself is justice for all stakeholders [7]. To achieve this goal, companies must apply transparency, accountability, accountability, professionalism and fairness [8]. AAOIFI [9] provides standards for corporate governance of Sharia, namely, providing guidelines for the appointment and composition of Sharia board members, discussing temporary Sharia reviews, describing the internal Shariah review, describing the audit committee and corporate governance, presenting an important role for the independence of the Sharia supervisory board, statements on the principles of corporate governance and the behaviour and disclosure of corporate social responsibility for Islamic financial institutions [10].

Ahmad and Chapra [7] argue that Islamic corporate governance emphasizes justice for all stakeholders by increasing transparency and accountability by Islamic teachings. Transparency and accountability are also put

forward in conventional corporate governance. Still, for the advancement of shareholders, while corporate governance conforms to Islamic teachings, it is addressed to all stakeholders.

Bank of Indonesia's regulations regarding the implementation of good corporate governance for Islamic commercial banks and sharia business units require every commercial bank or sharia business unit to disclose corporate governance, which was carried out annually in the company's annual report [8]. The elements of disclosure of the ICG, according to [4] are as follows:

➤ *Dimensions of Shariah Supervisory Board*

One of the fundamental elements that distinguish Sharia banks from conventional banks is a Sharia supervisory board in Sharia bank. The Sharia Supervisory Board is responsible for overseeing compliance with Sharia principles to Sharia bank activities such as compliance with the ban on usury, gambling, speculation and others. The pieces of information in the dimensions of the Sharia Supervisory Board are the name of the member, the function of the member, the member's photo, the member's profile, the number of meetings held, the member's attendance at the meeting, the remuneration of the member, the duties and responsibilities of the board of directors, the conformity of products and services to justice, the respect of profit and loss audit procedures and recommendations to management.

➤ *Dimensions of Commissioners Board*

The Board of Commissioners has power to monitor and supervise the compliance of Sharia bank employees with previously established rules, policies and procedures. The information elements contained in the dimension of the Council of Commissioners are Names of members, Positions of members, Pictures of members, Profiles of members, Independence of members, At least 50 per cent of members being independent, Number of meetings held, Members' attendance in meetings, Remuneration of members, duties and responsibilities of the board, Shareholdings of members, Recommendation to management.

➤ *Dimensions of Directors Board*

Bank of Indonesia regulation number 11/33 / PBI / 2009 explains that the board of directors is part of a company that has full authority and full responsibility for the company's management for the interests of the business by the goals and objectives of the company business. The Sharia bank board will receive advice and suggestions from the Sharia supervisory board to ensure that bank activities comply with Sharia principles. The elements of information in the dimension of the board of directors are Names of members, Positions of members, Pictures of members, Profiles of members, Number of meetings held, Members' attendance in meetings, Remuneration Duties and responsibilities of the board, Shareholdings of members.

➤ *Dimensions of Committee Board*

The presence of committees of the board of directors of the Sharia bank is a requirement of by-law no. 11/33 / PBI / 2009. The committees that the board of auditors must set up

are the risk monitoring committee, the remuneration and nomination committee, and the audit committee. Information in the dimensions of the board committee, namely the existence of the audit committee, the existence of the remuneration and appointments committee, the existence of the risk monitoring committee, the existence of the corporate governance, the duties and responsibilities of each committee, the committee reports in the annual report, the names of the members, the functions of the members, the photos of the members, the profiles of the members, most of the members are independent, the number of meetings held, attendance of members at meetings, remuneration of members and performance of each committee.

➤ *Dimensions of Internal Control and External Audit*

Internal control and external audit are very important in the application and disclosure of Islamic corporate governance. Internal control and external audit are the responsibility of the audit committee. In this case, the audit committee is responsible for evaluating the implementation of internal audit to assess the adequacy of internal control, including the adequacy of the financial reporting process and coordination with the accounting firm in the context of the effectiveness of the external audit. Information in the dimensions of internal control and external audit, namely the internal control report in the annual report, the existence of the internal audit department, the internal audit framework, the missions and responsibilities of internal audit.

III. RESEARCH METHOD

This research is quantitative. The sample used in this study is the state-owned Sharia banks and the private Sharia bank with the highest number of branches from 2015 to 2019. The number of branches is the sample selection criteria because the number of branches shows the size of the division of roles and the working environment of an Sharia bank. The sample selection criteria are as follows;

Description	Amount
State-owned Sharia banks	3
Private Sharia bank has the highest number of branches	4
Total sharia bank operations as samples	7
5-year observation period (2015-2019)	35

Table 4.1. Sample Selection Criteria

Islamic corporate governance disclosure data is obtained from the annual reports published by the Sharia bank on the websites of each bank. Disclosure of Islamic corporate governance is measured using elements of disclosure that have been developed from previous research. The method used is content analysis. In content analysis, each disclosure will have a value of 1 is disclosed in the annual report, and if it does not disclose, it will get a value of 0. Data is then collected and observed regarding disclosures from

Islamic corporate governance between state-owned Sharia banks and private Sharia banks.

IV. RESEARCH RESULTS AND DISCUSSION

This study shows 7 Sharia banks of 2 categories, namely state-owned Sharia banks and private Sharia banks. The list of banks which are the samples of this research is as follows.

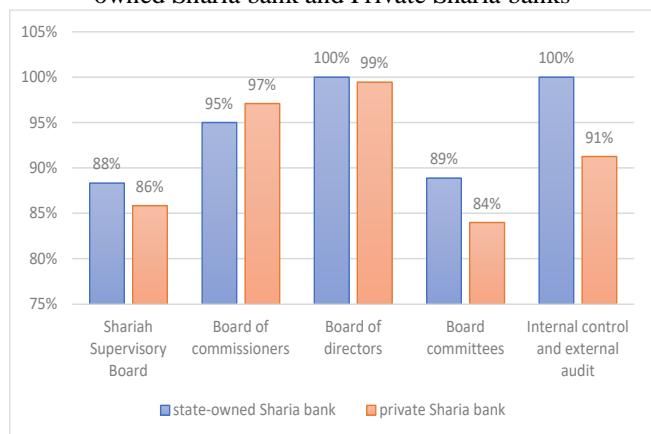
Table.4.2 Sharia Bank

State-owned Sharia banks	Number of branches until 2019	Private Sharia banks	Number of branches until 2019
Mandiri Syariah	129	Muamalat	83
BNI Syariah	201	BCA Ssyariah	13
BRI Syariah	57	Mega Syariah	30
		Bukopin Syariah	10

We can see the research results related to the comparison of ICG disclosure on state-owned Sharia banks and private Sharia banks in diagram 4.1. The diagram shows that the disclosure of state-owned Sharia banks sharia banks is higher in the dimensions of the sharia supervisory board, board of directors, board and internal control committee, and external audit. While in the Council of Commissioners dimension, the disclosure of private Sharia banks is higher.

In Diagram 4.1. we can see that the state-owned Sharia bank did well in disclosure, as evidenced by the 100% disclosed dimensions, namely board dimensions and internal control dimensions. And external audit. Meanwhile, the private Sharia bank never discloses 100% in all dimensions. The highest average Shariah private bank disclosure value is the board size of 99%, and the smallest is the board committee size of 84%.

Diagram 4.1 Comparison of ICG Disclosure on state-owned Sharia bank and Private Sharia banks



➤ **Dimension of Shariah Supervisory Board**

The information provided by the ICG in the dimension of the Sharia Supervisory Board is presented in table 4.3. Through this table, it can be seen that there is not a single Sharia bank company, whether state-owned Sharia bank or private, that discloses the dimensions of Islamic corporate governance of the Sharia Supervisory Board in its together. The largest disclosure of the dimensions of the Sharia Supervisory Board was disclosed by BNI Syariah and Muamalat, which was 92%. And the average disclosure by the Sharia Supervisory Board in state-owned Sharia bank is higher at 88% compared to private banks, which disclose 86%.

Regarding the disclosure of member compensation, only Mega Syariah Bank only has an average disclosure of 80%. In 2015 Bank Mega Syariah did not disclose the compensation of members of the Sharia Supervisory Board. In addition, the disclosure of recommendations for the management of state-owned Sharia bank is fully carried out only by BNI Syariah. Bank Syariah Mandiri did not disclose any management recommendations at all. In contrast, BRI Syariah did not disclose any management recommendations in 2015, so the average disclosure of recommendations for the management of BRI Syariah was only by 80%.

Meanwhile, in private Sharia banks, only Bank Muamalat fully disclosed management recommendations. BCA Syariah did not disclose any recommendations to management in 2015-2017, so the average disclosure was only 40%. And Bank Mega Syariah and Bank Bukopin Syariah did not disclose management recommendations.

Overall, we can see that both state-owned Sharia bank and private Sharia banks have disclosed the dimensions of the Sharia Supervisory Board. However, this differs from the results of research conducted by Zaifullah (2018). Zaifullah's (2018) research found that the Sharia Supervisory Board has not fulfilled its role and function to its full potential, particularly in overseeing the application of Syariah principles to products offered by the bank. Islamic. However, the subject of this research is only one Sharia bank, while this research uses seven Sharia banks.

Table 4.3. The average value of the ICG disclosure dimensions of the Sharia Supervisory Board for state-owned Sharia banks and private Sharia banks 2015-2019 (in percentage)

Shariah Supervisory Board Dimensions

A. Dimension: Shariah Supervisory Board		BNIS	BSM	BRIS	MMLT	BCAS	MEGAS	BKPS
1	Names of members.	100	100	100	100	100	100	100
2	Positions of members.	100	100	100	100	100	100	100
3	Pictures of members.	100	100	100	100	100	100	100
4	Profiles of members.	100	100	100	100	100	100	100
5	Number of meetings held.	100	100	100	100	100	100	100
6	Members' attendance in meetings.	100	100	100	100	100	100	100
7	Remuneration of members.	100	100	100	100	100	80	100
8	Duties and responsibilities of the board.	100	100	100	100	100	100	100
9	Compliance of products and services with shariah.	100	100	100	100	100	100	100
10	Compliance of profit or loss with shariah.	0	0	0	0	0	0	0
11	Examination procedures.	100	100	100	100	100	100	100
12	Recommendation to management.	100	0	80	100	40	0	0
Average Number of Disclosures		92	83	90	92	87	82	83
Average Number of Disclosures state- owned Sharia bank		88						
Average Number of Private Sharia bank					86			

➤ Dimension of Commissioners Board

In Table 4.4, we can see the results of the ICG disclosure in the dimensions of the Board of Commissioners of the Islamic Private Bank, namely Bank Muamalat, BCA Syariah and Bank Bukopin Syariah, which disclose this dimension in its entirety, namely 100%. The ICG disclosure in the private bank is much better than disclosures made by state-owned Sharia bank, where the average disclosure value of BNI Syariah is 97%, Bank Syariah Mandiri is 97%, and BRI Syariah is 92%.

Table 4.4 also shows that BNI Syariah and Bank Syariah Mandiri only disclose 60% of management recommendations, while BRI Syariah does not disclose management recommendations. Bank Mega Syariah itself is the only private Sharia bank that does not fully disclose the dimensions of the Board of Commissioners. Bank Mega Syariah only has an average disclosure value of 88%. In 2015, Bank Mega Syariah did not disclose member requirements at meetings and member compensation and did not disclose any recommendations from the Sharia Supervisory Board for management.

Table 4.4. The average value of ICG disclosure dimensions for the board of commissioners state-owned Sharia bank and Private Sharia Bank 2015-2019 (in percentage)

B. Dimension: Commissioners Board		BNIS	BSM	BRIS	MMLT	BCAS	MEGAS	BKPS
1	Names of members.	100	100	100	100	100	100	100
2	Positions of members.	100	100	100	100	100	100	100
3	Pictures of members.	100	100	100	100	100	100	100
4	Profiles of members.	100	100	100	100	100	100	100
5	Independence of members.	100	100	100	100	100	100	100
6	At least 50 percent of members being independent.	100	100	100	100	100	100	100
7	Number of meetings held.	100	100	100	100	100	100	100
8	Members' attendance in meetings.	100	100	100	100	100	80	100
9	Remuneration of members.	100	100	100	100	100	80	100
10	Duties and responsibilities of the board.	100	100	100	100	100	100	100
11	Shareholdings of members.	100	100	100	100	100	100	100
12	Recommendation to management.	60	60	0	100	100	0	100
Average Number of Disclosures		97	97	92	100	100	88	100
Average Number of Disclosures state- owned Sharia bank		95						
Average Number of Private Sharia bank					97			

➤ *Dimension: Directors Board*

The disclosure of the ICG on board of director dimension has been done very well by the state-owned Sharia bank. Table 4.5 shows that the average disclosure value of state-owned Sharia bank is 100%, which means that the three state-owned Sharia bank, namely BRI Syariah, Mandiri Syariah and BNI Syariah, fully disclose the dimensions of the Elements of the board.

The disclosure of the dimensions of the board of directors of the Islamic private bank went well. However, there is one piece of information that does not have a 100% value, member compensation. Bank Mega Syariah did not disclose disclosure material in 2015. Sharia banks that do not disclose such material have not fully stated that they do not pay compensation to their board of directors. But let them report this year's annual report.

Table 4.5. The average value of ICG disclosure dimensions for the board of directors of state-owned Sharia bank and private Sharia banks 2015-2019 (in percentage)

C. Dimension: Directors Board		BNI S	BS M	BRI S	MML T	BCA S	MEGA S	BKP S
1	Names of members.	100	100	100	100	100	100	100
2	Positions of members.	100	100	100	100	100	100	100
3	Pictures of members.	100	100	100	100	100	100	100
4	Profiles of members.	100	100	100	100	100	100	100
5	Number of meetings held.	100	100	100	100	100	100	100
6	Members' attendance in meetings.	100	100	100	100	100	100	100
7	Remuneration of members.	100	100	100	100	100	80	100
8	Duties and responsibilities of the board.	100	100	100	100	100	100	100
9	Shareholdings of members.	100	100	100	100	100	100	100
Average Number of Disclosures		100	100	100	100	100	98	100
Average Number of Disclosures state- owned Sharia bank		100						
Average Number of Private Sharia bank					99			

➤ *Dimensions of Committee Board*

State-owned Sharia bank and private Sharia banks have implemented the obligation to have three committees in the organizational structure of Sharia bank. We can see this in Table 4.6. The availability of the three committees was fully disclosed (100%) by the Sharia bank as a research sample. However, for the existence of a corporate governance committee that does not require GCG sharia bank rules, only Bank Syariah Mandiri and Bank Muamalat disclose 100%. For state-owned Sharia bank, BNI Syariah did not disclose the corporate governance committee of the company in 2015, and BRI Syariah did not disclose the corporate governance committee at all. Business. For private Sharia banks, the existence of the corporate governance committee was only disclosed at 40% by BCA Syariah and Bank Mega Syariah, namely disclosures in 2018 and 2019. Meanwhile, the Bukopin Syariah did not disclose the existence of the corporate governance committee at all. state-owned Sharia banks and private Sharia banks have implemented the obligation to have three committees in the organizational structure of Sharia bank. We can see this in Table 4.6. The availability of the three committees was fully disclosed (100%) by the Sharia bank as a research sample. However, for the existence of a corporate governance committee that does not require GCG sharia bank rules, only Bank Syariah Mandiri and Bank Muamalat disclose 100%. For State-owned Sharia bank, BNI Syariah did not disclose

the corporate governance committee of the company in 2015, and BRI Syariah did not disclose the corporate governance committee at all. Business. For private Sharia banks, the existence of the corporate governance committee was only disclosed at 40% by BCA Syariah and Bank Mega Syariah, namely disclosures in 2018 and 2019. Meanwhile, the Bukopin Syariah did not disclose the existence of the corporate governance committee at all.

Table 4.5 shows the results that out of the 15 disclosure elements of the ICG board committee dimension, the one with the lowest disclosure value for state-owned Sharia banks and private Sharia banks is the disclosure of member compensation. Failure to disclose member compensation may indicate the non-transparency of bank operations in the disclosure of salaries and allowances paid to members of board committees. One of the committees that must exist is that the remuneration and nomination committee has one task of paying attention to financial matters.

Overall, the average disclosure value of the Board dimension of the Government-owned Sharia Bank Committee is higher at 89% compared to the average disclosure value of the Board dimension of State-owned Sharia bank Committee. Private sharia bank, which is only 84%.

Table 4.5. The average value of the ICG disclosure dimensions of State-owned Sharia bank and Private Sharia Banks Committee 2015-2019 (in percentage)

D. Dimension: Committees Board		BNI S	BS M	BRI S	MML T	BCA S	MEGA S	BKP S
1	Existence of an audit committee.	100	100	100	100	100	100	100
2	Existence of a remuneration and nomination committee.	100	100	100	100	100	100	100
3	Existence of a risk-monitoring committee.	100	100	100	100	100	100	100
4	Existence of a corporate governance committee.	80	100	0	100	40	40	0
5	Duties and responsibilities of each committee.	100	100	100	100	100	100	100
6	Committee reports in the annual report.	100	100	100	100	100	80	100
7	Names of members.	100	100	100	100	100	80	100
8	Positions of members.	100	100	100	100	100	80	100
9	Pictures of members.	20	100	40	0	100	0	0,8
8	Profiles of members.	100	100	80	100	100	0	100
1	Most members being independent.	100	100	100	100	100	100	100
1	Number of meetings held.	100	100	100	100	100	100	100
1	Members' attendance in meetings.	100	100	100	100	100	80	100
1	Remuneration of members.	80	0	0	60	20	0	0
1	Performance of each committee.	100	100	100	100	100	80	100
Average Number of Disclosures		92	93	81	91	91	69	85
Average Number of Disclosures state- owned Sharia bank		89						
Average Number of Private Sharia bank					84			

➤ *Dimensions of Internal Control And External Audit*

Internal control and external audit are part of the disclosure requirements of GCG by Bank Indonesia. The search results are shown in Table 4.6. shows that the state-owned Sharia bank fully (100%) disclosed the elements of the internal control and external audit dimensions. Meanwhile, in private Sharia banks, only Muamalat Bank has an average disclosure value of 100%. BCA Syariah only has a value of 80% because, in 2015, BCA Syariah did not

disclose all the elements of the internal control and external audit dimension in its annual report. Bank Mega Syariah also did not disclose the internal control and external audit reports in the 2015 annual report but fully disclosed other items. Bank Bukopin Syariah did not disclose its external audit framework in 2015 and 2016 but disclosed all internal control and external audit dimensions in the 205-2019 annual report.

Table 4.6. The average value of the ICG disclosure dimensions of State-owned Sharia bank and Private Sharia Banks Committee 2015-2019 (in percentage)

E. Dimension: Internal Control And External Audit		BNI S	BS M	BRI S	MML T	BCA S	MEGA S	BKP S
1	Internal control report in the annual report.	100	100	100	100	80	80	100
2	Existence of an internal audit division.	100	100	100	100	80	100	100
3	Internal audit framework.	100	100	100	100	80	100	60
4	Duties and responsibilities of internal audit division.	100	100	100	100	80	100	100
Average Number of Disclosures		100	100	100	100	80	95	90
Average Number of Disclosures state- owned Sharia bank		100						
Average Number of Private Sharia bank					91			

V. CONCLUSION

Based on the research results, we can conclude that state-owned Sharia banks perform better ICG disclosure than private Sharia banks. We can see from the higher average disclosure values of State-owned Sharia bank in four dimensions, including sharia supervisory board, directors board, committee board and and Internal Control and External Audit dimensions, while private Sharia bank only has a disclosure value that is better on the dimension of Commissioners Board.

It has a disclosure value that is better on the size of the Council of Commissioners. State-owned Sharia bank also fully (100%) disclosed the dimensions of directorsboard and internal control and external audits. However, sharia private bank does not have an average disclosure value of 100%. And of the five dimensions that become the item with the highest level of ICG disclosure, the Directors Board dimension is the most widely disclosed by both state-owned Sharia banks and private Sharia banks. Although the least disclosed is the dimension of the Sharia Supervisory Board in state-owned Sharia banks and private Sharia banks.

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