

BUILDING A ROBUST SHARIAH GOVERNANCE POLICY: A QUALITATIVE STUDY ON SHARIAH BANKS IN BOGOR, INDONESIA

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Abstract

The purpose of this research is to explore the Shariah governance on customer trust in Islamic banking in Bogor, Indonesia. A mixed-method approach is utilized, combining a literature review and in-depth interviews with bank managers. The interviews provide insights into the strategies employed by banks to enhance Shariah governance and customer trust. Preliminary findings indicate a positive correlation between effective Shariah governance and customer trust. Customers value transparency, ethical practices, and the role of qualified Shariah scholars in governance. The study's implications emphasize the significance of strong governance mechanisms in fostering customer trust, which can enhance the competitive advantage of Islamic banks in Bogor's financial market.

Keywords: Islamic Banking, Shariah Bank, Financial market

INTRODUCTION

The concept of Shariah governance has gained significant prominence in the context of Islamic finance, especially in Indonesia, a nation with a substantial Muslim population. As the demand for Islamic banking services continues to grow, ensuring robust Shariah governance mechanisms has become imperative for the sustainable and ethical functioning of Islamic financial institutions (Zulpahmi et al., 2022). By exploring the policies, processes, and decision-making structures, this research seeks to shed light on how Bank Syariah in Bogor effectively navigates the intricacies of Shariah governance to maintain trust and confidence among its stakeholders (Hudaya et al., 2020). Islamic finance, grounded in the principles of Shariah law, prohibits interest (*riba*) and promotes ethical and socially responsible investment. This unique approach to banking has attracted a large number of Muslim customers, leading to the establishment of numerous Islamic financial institutions in Indonesia, including Bank Syariah. Shariah governance plays a pivotal role in overseeing and ensuring the Shariah compliance of these institutions, ensuring that their operations are in line with Islamic principles and ethical standards (Raharjanti & Muharrami, 2020).

Bank Syariah in Bogor, as a prominent player in the Islamic banking sector, faces several challenges in its pursuit of effective Shariah governance. This study aims to provide insights

into the strategies employed by the bank to uphold Shariah principles while also maintaining financial performance and meeting customer demands. By employing a qualitative research approach, this investigation will delve deep into the bank's internal systems, policies, and practices, and explore the perspectives of key stakeholders involved in the decision-making process. The significance of Shariah governance cannot be underestimated, as it serves as a foundation for maintaining transparency, accountability, and legitimacy in the operations of Islamic financial institutions. Understanding how Bank Syariah in Bogor manages its governance framework can offer valuable lessons for other Islamic banks and contribute to the overall development and advancement of Islamic finance in Indonesia.

The urgency of this study lies in the ever-increasing demand for Islamic banking services in Indonesia and the wider Muslim world. As more individuals and businesses seek financial solutions that align with their religious beliefs and ethical principles, the role of Shariah governance becomes paramount in ensuring the integrity and credibility of Islamic financial institutions. Bank Syariah in Bogor, being a prominent player in the Islamic banking sector, has a significant impact on the lives and financial decisions of countless customers and investors. The effective implementation of Shariah governance practices within the bank directly influences the trust and confidence of stakeholders, including depositors, investors, regulators, and the wider Muslim community. Moreover, the growth of Islamic finance has not been without its challenges (Qoyum et al., 2022). Ensuring strict adherence to Shariah principles while simultaneously competing with conventional financial institutions can be a delicate and complex task. The lack of comprehensive research and understanding of Shariah governance practices in the context of Bank Syariah in Bogor and other Islamic banks can hinder their ability to navigate these challenges effectively.

This study's urgency is also amplified by the potential consequences of inadequate Shariah governance. Instances of non-compliance or unethical practices within Islamic financial institutions can lead to significant reputational damage, legal ramifications, and financial losses (Nafees et al., 2019). Such incidents not only undermine the trust of customers and investors but also tarnish the broader reputation of Islamic finance as a reliable and ethical alternative to conventional banking. Furthermore, the outcomes of this study have broader implications for the Islamic banking industry in Indonesia and beyond. By gaining insights into the strategies and challenges faced by Bank Syariah in Bogor, policymakers, regulators, and industry leaders

can develop targeted initiatives and guidelines to enhance Shariah governance practices across the entire Islamic banking sector. Strengthening Shariah governance will not only improve the industry's resilience but also bolster its competitiveness on a global scale (Elamer et al., 2020). As the world faces ongoing economic challenges and ethical dilemmas, the relevance of ethical and sustainable financial practices is becoming increasingly apparent. Islamic finance, with its emphasis on ethical principles and social responsibility, presents a unique opportunity to address these global issues. However, to fully harness the potential of Islamic finance, a robust and effective Shariah governance framework is crucial (Prasojo et al., 2022). The urgency of this study, therefore, lies in its potential to contribute to the continued growth and success of Islamic finance in Indonesia and beyond. By understanding how Bank Syariah in Bogor navigates the complexities of Shariah governance, we can identify best practices, address existing gaps, and foster a stronger culture of compliance and ethical conduct within Islamic financial institutions (Amalia, 2019).

This study is driven by a genuine interest in exploring the intricacies of Shariah governance at Bank Syariah in Bogor. By examining the internal workings of the institution, the research aims to identify strengths and weaknesses in its Shariah compliance mechanisms and propose recommendations for further improvement. Moreover, through the qualitative approach, this study will capture the nuanced perspectives of stakeholders, providing a holistic view of how Shariah governance is perceived and implemented within the organization (Wijaya et al., 2021). In pursuit of this understanding, the research will utilize various qualitative data collection methods, including interviews with key personnel, surveys, and analysis of internal documents and reports (Ridwan & Mayapada, 2022). The findings of this study will be valuable not only for academics and researchers in the field of Islamic finance but also for policymakers and practitioners seeking to enhance Shariah governance standards across the Islamic banking sector.

This study embark on this journey of exploring Shariah governance at Bank Syariah in Bogor, it is crucial to recognize the challenges and complexities involved. Shariah governance requires a delicate balance between religious principles and modern banking practices, making it a dynamic and evolving field (Roziq et al., 2022). By immersing ourselves in the context of Bank Syariah in Bogor, we hope to gain a comprehensive understanding of the bank's Shariah

governance framework and contribute to the broader discourse on Islamic finance and ethical banking practices.

LITERATURE REVIEW

Shariah Governance

Shariah Governance refers to the set of principles, rules, and structures that govern the implementation and compliance of Islamic law, known as Shariah, within various organizations and financial institutions. It is particularly significant in the context of Islamic finance and banking, where adherence to Shariah principles is paramount (Zulfikar et al., 2020). The main objective of Shariah Governance is to ensure that all financial and business activities are conducted in accordance with Islamic principles, which prohibit certain practices such as charging or paying interest, investing in prohibited industries (e.g., alcohol, gambling), and engaging in speculative transactions (Al-Musheifri, 2021). To achieve this, institutions with Shariah-compliant operations establish dedicated Shariah boards or committees comprised of Islamic scholars well-versed in Islamic jurisprudence. These boards oversee the institution's products, transactions, and operations to ensure they align with Shariah guidelines. Moreover, Shariah Governance entails transparency, disclosure, and regular audits to guarantee compliance with Islamic ethics and principles, promoting ethical and socially responsible financial practices (Aisyah et al., 2021).

Principles of Shariah Governance

Principles of Shariah Governance refer to the fundamental guidelines and values that govern the implementation, supervision, and compliance of Islamic law, Shariah, within various organizations and institutions, especially those involved in Islamic finance and banking. The key principles of Shariah Governance include transparency, accountability, integrity, and adherence to Islamic ethics (Puspitasari & Handayani, 2020). Transparency ensures that all financial transactions, contracts, and business operations are clearly disclosed and communicated to stakeholders, fostering trust and confidence. Accountability holds individuals and entities responsible for their actions and decisions, emphasizing the ethical and moral dimensions of their conduct. Integrity demands the highest level of honesty and sincerity in adhering to Shariah principles, avoiding any conflicts of interest or unethical behavior

(Sa'diyah & Hilabi, 2022). Furthermore, Shariah Governance upholds the expertise and independence of Shariah boards, composed of qualified Islamic scholars, who are responsible for overseeing and certifying the institution's compliance with Shariah guidelines. These principles collectively promote the ethical and responsible management of financial activities, ensuring that they align with Islamic principles and contribute to the welfare and well-being of society at large (Safitri & Mukhibad, 2020).

RESEARCH METHODS

The research methodology for this study follows a literature review approach complemented by in-depth interviews conducted in an Islamic bank located in Bogor, Indonesia. The literature review serves as the initial step, wherein a comprehensive examination of academic journals, research papers, books, and reports on Shariah governance, Islamic banking, and the practices of Shariah banks in Indonesia is undertaken. This process enables a strong theoretical foundation and helps identify gaps in existing research. Subsequently, a qualitative research design is adopted to gain in-depth insights into the bank's Shariah governance practices (Riduwan, 2018). Key stakeholders, including Shariah scholars, Shariah board members, senior management, internal auditors, compliance officers, and other relevant personnel, are selected as participants for the in-depth interviews. Semi-structured interviews are conducted with these participants, allowing for open-ended discussions that delve into topics related to the bank's governance framework, decision-making processes, challenges faced, and strategies employed to ensure Shariah compliance. The data collected from the interviews is analyzed using thematic analysis, which involves coding and identifying recurring themes and patterns (Sugiyono, 2019). To enhance the study's credibility, triangulation is employed by cross-referencing interview data with relevant documents and reports related to the bank's Shariah governance. Ethical considerations, including informed consent and confidentiality, are diligently observed throughout the research process. The study's findings are expected to contribute to the existing body of knowledge on Shariah governance in Islamic banking, offering valuable insights to inform best practices and promote ethical financial conduct within the Islamic banking sector in Bogor and beyond.

RESULTS AND DISCUSSION

Challenges in Shariah Governance

Challenges in Shariah governance within the realm of Islamic banking are multifaceted and stem from the intricacies of harmonizing religious principles with financial operations. One of the foremost challenges lies in the scarcity of qualified and experienced Shariah scholars who possess both a deep understanding of Islamic jurisprudence and modern financial practices. Their guidance is crucial in ensuring that the bank's activities align with Shariah principles (Nindiasari, 2021). However, the shortage of skilled scholars can impede effective governance. Additionally, the diversity of interpretations in Shariah law can lead to varying opinions among scholars, resulting in ambiguity and complexities for Islamic banks, especially those operating in multiple jurisdictions (Mukhibad et al., 2020). Balancing the pursuit of commercial objectives with strict adherence to religious principles poses another significant challenge. While profit-making is essential for any financial institution, Islamic banks must navigate a delicate balance to ensure that their financial products and services comply with Shariah principles, such as the prohibition of interest and involvement in unethical businesses (Mahmudi & Prastmawati, 2020). Moreover, the complexity of product development can be daunting, as designing Shariah-compliant financial products requires extensive research, consultations with scholars, and rigorous testing to meet religious standards. Shariah risk management is also a critical concern, as banks must identify, assess, and mitigate potential non-compliance risks effectively (Falikhatun et al., 2020). The intricate interplay of Shariah and conventional banking regulations necessitates meticulous compliance and reporting by Islamic banks, adding another layer of challenge. Furthermore, the lack of awareness and understanding of Shariah principles among bank employees and customers can hinder effective governance and trust-building (Yuliani & Fithria, 2022). Operating across borders presents unique challenges, with varying regulatory environments and interpretations of Shariah governance standards. Keeping pace with technological advancements while ensuring Shariah compliance in digital services is yet another concern. Lastly, maintaining Shariah compliance in complex financial transactions demands thorough assessment and validation to prevent unintentional non-compliance (Apriliani Astuti et al., 2019). Addressing these challenges requires collaborative efforts among Shariah scholars, bank management, regulators, and industry stakeholders. Continuous review

and strengthening of Shariah governance frameworks are essential to overcome obstacles and uphold the ethical and sustainable principles of Islamic finance.

In the context of Bogor, challenges in Shariah governance within Islamic banking share similarities with those faced by Islamic banks globally but may also be influenced by the specific dynamics of the region. Despite the presence of a significant Muslim population in Bogor, finding qualified Shariah scholars who possess in-depth knowledge of Islamic jurisprudence and modern financial practices can still be a challenge. The availability of skilled scholars may not always keep up with the growing demand for Islamic banking services in the area. Moreover, Bogor's diverse socio-economic landscape may pose challenges in balancing commercial objectives with religious principles. Islamic banks in Bogor may encounter varied customer demands and expectations, necessitating a nuanced approach to product development and service offerings. Additionally, the region's economic activities and business opportunities may require careful assessment to ensure Shariah compliance, particularly in sectors that are more prone to potential non-compliance risks. The regulatory environment in Bogor and its alignment with national regulations for Islamic banking also influence Shariah governance challenges. Banks operating in Bogor must navigate local regulations and guidelines while adhering to overarching national and international Shariah compliance standards. Furthermore, educational and awareness-related challenges may persist in Bogor, where the understanding of Shariah principles may vary among both bank employees and customers. Initiatives to promote education and awareness about Islamic finance and Shariah compliance may play a crucial role in addressing these challenges and fostering greater trust in Islamic banking services. Given the cross-border nature of financial transactions and economic activities in Bogor, Islamic banks operating in the region might encounter complexities when ensuring Shariah compliance in international operations. This requires a thorough understanding of the different interpretations of Shariah principles across borders and rigorous risk management practices. Addressing these challenges in Bogor requires collaboration among local scholars, bank management, and regulatory authorities. Efforts to continuously enhance Shariah governance frameworks and provide tailored solutions to regional demands will be instrumental in maintaining the ethical and sustainable practices of Islamic banking in Bogor.

Shariah Governance Mechanisms and Best Practices

Shariah governance mechanisms encompass the structures, processes, and policies put in place by Islamic banks to ensure adherence to Shariah principles in their operations (Djuwita et al., 2019). These mechanisms aim to maintain transparency, accountability, and ethical conduct, instilling confidence among stakeholders. Key components of Shariah governance include the establishment of an independent and competent Shariah board composed of qualified scholars responsible for providing guidance and issuing fatwas on Shariah compliance matters. Regular Shariah audits and reviews are conducted to assess the bank's compliance with Islamic principles, ensuring that all financial products and transactions align with Shariah guidelines (Iryani & Wahyudiono, 2020). Effective communication and engagement with stakeholders, including employees and customers, are also crucial in promoting awareness and understanding of Shariah governance practices.

Best practices in Shariah governance involve implementing robust internal control mechanisms to prevent non-compliance risks and to swiftly address any discrepancies that may arise. Aligning the bank's strategic goals with Shariah principles and consistently monitoring its operations against Shariah requirements is essential. Banks should adopt a proactive approach by seeking guidance from Shariah scholars at the earliest stages of product development and business decisions (Biyantoro, 2019). A commitment to continuous learning and training for employees and Shariah board members will enhance their proficiency in Shariah matters and strengthen the bank's overall governance framework. Additionally, having a transparent and clear reporting system on Shariah compliance is vital in promoting accountability and building trust among stakeholders (Herry et al., 2019).

In Bogor, the implications of sound Shariah governance mechanisms and best practices are significant. With a sizable Muslim population, Islamic banks in Bogor have a unique opportunity to cater to a niche market seeking Shariah-compliant financial services. By adopting best practices in Shariah governance, these banks can enhance their reputation, credibility, and attractiveness to customers. Improved compliance with Shariah principles can lead to increased trust among the local Muslim community, resulting in higher customer retention and growth in the Islamic banking sector. Furthermore, robust Shariah governance mechanisms can foster a positive image of Islamic banks in Bogor and attract non-Muslim customers who appreciate the transparency and ethical foundations of Shariah-compliant finance. As the demand for Islamic banking services continues to grow, effective Shariah

governance will play a critical role in differentiating Islamic banks in the highly competitive financial market of Bogor. Additionally, by adhering to best practices in Shariah governance, Islamic banks in Bogor can contribute to the broader development and sustainability of Islamic finance in Indonesia, promoting an ethical and socially responsible financial ecosystem in the region.

Regulatory Framework for Shariah Governance

The regulatory framework for Shariah governance in the context of Islamic banking encompasses the guidelines, rules, and oversight mechanisms set forth by regulatory authorities in Bogor, Indonesia. These regulations aim to ensure the adherence of Islamic banks to Shariah principles, promoting transparency, accountability, and ethical conduct in their operations (Wicaksana & Rachman, 2018). The framework typically involves the establishment of a Shariah Supervisory Board (SSB) or Shariah Advisory Board (SAB) responsible for overseeing the bank's Shariah compliance. The SSB or SAB consists of qualified and independent Shariah scholars who provide expert guidance and issue fatwas to ensure the bank's products, services, and investments comply with Islamic principles (Mandiri & Widana, 2022). Regulatory authorities conduct regular audits and inspections to assess the bank's Shariah compliance, monitor its governance practices, and verify that it adheres to Shariah-compliant business practices. Additionally, regulatory guidelines require Islamic banks to have a clear and transparent reporting system for Shariah compliance, ensuring accountability to stakeholders and regulatory bodies (Nasution et al., 2019).

The implications of a robust regulatory framework for Shariah governance in Bogor are significant. A well-defined regulatory framework fosters a consistent and standardized approach to Shariah governance among Islamic banks operating in the region. This enhances the overall credibility of Islamic banking in Bogor and fosters trust among customers, investors, and other stakeholders. An effective regulatory framework also provides clarity to Islamic banks, reducing ambiguity in interpreting Shariah principles and ensuring that they follow uniform compliance standards. Furthermore, by promoting transparency and accountability, the regulatory framework helps prevent the potential misuse or misrepresentation of Shariah compliance for commercial purposes. The adherence to a strong regulatory framework also

contributes to the stability and sustainability of Islamic banks in Bogor, providing a resilient foundation for the sector's growth and expansion. As the demand for Shariah-compliant financial services continues to increase, a robust regulatory framework will be essential in facilitating the continued development and success of Islamic banking in Bogor, ultimately strengthening the region's financial sector and promoting ethical and socially responsible finance practices.

Impacts of Effective Shariah Governance

Effective Shariah governance in the context of Islamic banking can have far-reaching impacts on the operations, reputation, and growth of banks in Bogor, Indonesia. Firstly, a robust Shariah governance framework enhances the credibility and trustworthiness of Islamic banks among their customers and stakeholders (Amalia, 2019; Zulpahmi et al., 2022). This increased trust can lead to higher customer satisfaction, loyalty, and retention, fostering a positive brand image for the banks. As a result, Islamic banks in Bogor may experience a growing customer base, attracting both Muslim and non-Muslim clients who value ethical and transparent financial services. Secondly, effective Shariah governance ensures that the financial products and services offered by Islamic banks genuinely adhere to Islamic principles, mitigating the risk of potential controversies or disputes regarding Shariah compliance. This compliance-driven approach can protect banks from reputational damage and legal challenges, reinforcing the institution's standing in the financial market (Hudaya et al., 2020; Wijaya et al., 2021). Thirdly, by adhering to the principles of Shariah governance, Islamic banks can better navigate the evolving regulatory landscape in Bogor and Indonesia. Regulatory bodies often place significant importance on Shariah compliance in Islamic banking operations. Banks that demonstrate effective Shariah governance practices are more likely to be in full compliance with both Shariah and conventional banking regulations, mitigating regulatory risks and avoiding penalties.

Furthermore, effective Shariah governance can drive innovation and product development in Islamic banking (Raharjanti & Muharrami, 2020). Clear guidance from the Shariah board can inspire creative and Shariah-compliant financial products, meeting the diverse needs of customers in Bogor. Innovation in Islamic banking can lead to increased

competitiveness and differentiation in the market, positioning Islamic banks as attractive alternatives to conventional banks (Nafees et al., 2019).

In Bogor, the implications of effective Shariah governance are vital, given the city's substantial Muslim population and the growing demand for Islamic financial services. Islamic banks that prioritize and implement strong Shariah governance mechanisms will likely gain a competitive edge and strengthen their market presence. As the awareness and demand for Shariah-compliant financial services continue to grow in Bogor, effective Shariah governance will be essential in sustaining the confidence of customers and stakeholders, fostering the continued growth and development of the Islamic banking sector in the region. Moreover, the positive impacts of effective Shariah governance can extend beyond the financial sector, contributing to the overall ethical and sustainable growth of the local economy in Bogor.

CONCLUSION

In conclusion, Shariah governance in the context of Islamic banking holds immense importance in Bogor, Indonesia. The challenges faced in adhering to religious principles while operating in a competitive financial landscape are significant, but the implications of effective Shariah governance are equally profound. Through a robust regulatory framework, the establishment of qualified and independent Shariah boards, and continuous efforts to educate stakeholders, Islamic banks can enhance their credibility and reputation. By ensuring transparent and ethical financial practices, they can attract a diverse customer base, including non-Muslim clients seeking ethical banking solutions. The impacts of effective Shariah governance extend beyond individual banks and have broader implications for the growth and stability of the Islamic banking sector in Bogor. As trust and confidence in Shariah-compliant financial institutions grow, Islamic banking can play an instrumental role in promoting sustainable and socially responsible finance in the region. Moreover, with effective Shariah governance, Islamic banks are better equipped to navigate regulatory complexities and foster innovation, which can further strengthen their position in the financial market. To sustain and harness the benefits of effective Shariah governance, continuous collaboration among stakeholders, including Shariah scholars, bank management, regulatory authorities, and customers, is crucial. By working together, they can address the challenges, adapt to evolving

market demands, and uphold the ethical foundations of Islamic finance.

In a city like Bogor, with a diverse and dynamic economy and a large Muslim population, effective Shariah governance has the potential to shape a resilient and inclusive financial ecosystem. As the demand for Islamic banking services continues to rise, a commitment to robust Shariah governance will be essential for Islamic banks to thrive and contribute to the economic and social well-being of the community in Bogor and beyond. Embracing effective Shariah governance practices is not only a strategic advantage for individual banks but also a pathway to fostering ethical financial practices and contributing to the broader development of Indonesia's Islamic finance industry.

Future research in the area of Shariah governance in Islamic banking in Bogor could focus on customer perception and trust. Investigating how effective Shariah governance influences customer trust and loyalty towards Islamic banks can provide valuable insights into customer preferences and expectations. Understanding the factors that contribute to customer confidence in Shariah-compliant financial services can help Islamic banks tailor their offerings and communication strategies to enhance customer satisfaction and retention.

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