Islamic Governance for Managing Banking Performance Assessment

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ABSTRACT

This research developed the Islamic governance model for assessing sharia banking performance management. This research engaged with mixed methods by combining a positive or quantitative paradigm approach and an interpretive paradigm. The quantitative approach was carried out using Factor Analysis with Structural Equation Modeling. Data collection was executed using the observation technique, three in-depth interviews, documentation in building the sharia governance model, and questionnaires distributed to respondents to measure more dominant indicators in building the sharia governance model. The result of the analysis scores demonstrated that the moral and integrity variable exhibited the best goodness of fit model. It was followed by independence and responsible freedom; continuous improvements; honesty; positive thinking; balance, transparency and openness; belief and faith; accountability; professionalism; spirit; management; fulfilment of trust; intelligence; leadership; and justice.

Keywords: Islamic governance, Islamic banking, performance

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INTRODUCTION

Indonesia's growth in sharia banking is considered significant, indicated by the growth of sharia banking assets by 12.57% in 2018 (OJK, 2018). The Islamic Economic Forum for Indonesian Development (ISEFID) states that sharia banking is in need of service quality improvements and business networking expansion, in terms of either asset increases, funding, or the third party's funds so that sharia banking can continue to develop (Kinasih et al., 2019). The dawn of sharia banking was spurred by the modern Islamic renaissance movements, i.e., neo revivalism and modernism (Saeed, 1996). Islamic neo revivalism constitutes the development of revivalism as the foundation of a new world order based on Islamic fundamentals. The Islamic new world order is a substitute for the contemporary world order which orients to capitalism, modernism, humanism, and other Western secular values (Widodo, 2010). This backdrop becomes the base for establishing sharia banking as an effort made by Muslims to build an economic life adhering to the Quran and Sunnah.

Although sharia banking adheres to the Quran and Sunnah, fraudis still found. This issue encompasses the case in Bank Syariah Mandiri sub-branch office Bogor engaged the bank internal parties in distributing fictitious financing worth 102 billion Rupiahs to 197 fictitious customers with a potential loss of 59 billion Rupiahs (Najib & Rini, 2016). A sharia supervisory board (DPS) was then established to investigate this fraud. Article 19 (2) of Decree of the Board of Directors of Bank Indonesia Number 32/34/KEP/DIR dated 12 May 1999 concerning Commercial Banks Based on Sharia Principles states that a bank shall have a sharia supervisory board domiciled at the bank's head office (Anshori, 2018). The placement of the sharia supervisory board only at the bank's head office potentially brings on minimum supervision. Despite the establishment of the sharia supervisory board, fraudulent acts still take place as the sharia supervisory board is not domiciled in every branch office.

Thriving sharia banking causes an extension in the banking profession. The professions cover executives, commissioners, and managers, who are directly involved in sharia banking management. Management of Sharia banking should be done well. Sharia banking is not dishonest, even though it is seen as a "sacred" thing that follows the rules of God as Islamic governance is the most important thing.

Governance was introduced by the Western people as a concept which can effectively mitigate fraud and other issues occurring in an entity. The concept is deemed as an absolute requirement to manifest a well-developed institution. The concept of governance, according to the Organization for Economic Cooperation and Development (OECD), is a series of relationships, either indirect or direct, between the management, board of directors, and stakeholders. The key factors to good governance, according to the OECD, encompasses business ethic mechanisms, decision-making mechanisms, openness and transparency, and bookkeeping and final account mechanisms (Abu-Tapanjeh, 2009). To put it simply, governance in an entity is how the entity undertakes its responsibilities towards shareholders and stakeholders (Almqvist et al., 2013).

It is aligned with Elkington's triple bottom line concept (1997), which focuses on profits, planets or the environment, and people. Elkington's concept is better than the previous concept which only focussed on profits. However, Triyuwono (2016) identified a gap in Elkington's concept from the *ruhiyah* (spiritual) perspective and added a prophetic treatise, which was called the Pentuple Bottom Line concept. The former governance concept is materialistic or profit-oriented and hence contradicts the Islamic view of *rahmatan lil'alamin* (a mercy to all creation).

Empirical research of governance in banking has been carried out. Algaoud (1999) examined the difference between governance practised in sharia and conventional banking. This difference exists because sharia banking must comply with sharia principles (sharia compliance). Another research was conducted by Archer et al. (1998), which denoted higher asymmetrical information in sharia banking than that in conventional ones. Noianti et al. (2013) investigated sharia governance principles in the era of the Prophet Muhammad (PBUH) and the Rashidun Caliphates. As exhibited by the results, it is impossible to implement sharia governance in sharia banking using the common governance principles implemented in conventional banking. So, this research extended the work of Nofianti et al. (2013, 2018), Nofianti and Irfan (2014), and Rahmi et al. (2019) by creating a sharia governance model that is perfect for sharia banking and can be used to measure the performance of sharia banking.

LITERATURE REVIEW

Stoker (1998) defined governance as the development of a certain government style, in which the boundary between the public and private sectors is blurred. Governance focuses on a certain mechanism which does not build upon government authority and sanction. Governance is a new form of regulation leading to New Public Management (NPM). Governance consists of more than a single set of managerial tools to achieve more quality public service. Corporate governance is a broad theory which connects to a harmony between a company and stakeholders' interests (Grant, 2003). Governance experts have made a consensus upon the statement that Adam Smith is the pioneering philosopher who formalized the concept of governance in corporations (Lukviarman, 2004). The concept of governance has passed two generations. The first generation was pioneered by Barle and Means in 1932, whereas the second was marked by the work from La-Porta et al. in 1998 (Denis & McConnel, 2003).

The Organization for Economic Cooperation and Development (OECD) mentions four key principles for corporate governance, i.e., (1) Fairness: balanced treatments between shareholders, the management, and other stakeholders, (2) Transparency: disclosing information, financial reports, company performance, and other related information, which is relevant, accurate, and punctual, (3) Accountability: the management accountability to stakeholders through effective supervision and power equivalence between the manager, shareholders, board of directors, and auditors, and (4) Responsibility: social responsibility of the company as a member of society to the community. This responsibility includes the responsibility for legal compliance and recognition of social needs (Schleicher, 1999). The Bank Indonesia Regulation concerning Good Corporate Governance for Commercial Banks Number 8/4/PBI/2006 dated 30 January 2006 states that good corporate governance is governance which applies the principles of transparency, accountability, responsibility, independence, and fairness. These principles are the same as those described by the OECD (Indonesia, 2006).

The idea of "governance" came to Indonesia from outside of the country. Indonesia uses this idea due to the suggestion by IMF. When Indonesia was struck by the 1997 monetary crisis, IMF offered conditional assistance. IMF declared its willingness to confer loans but required the Indonesian government to meet several requirements, one of which was a commitment to improving the country's corporate governance system. Indonesia then adopted the IMF-styled corporate governance because there were no other options which could lead them out of the crisis (Kamal, 2011; Kurniawan, 2019).

Some studies of governance prove that the concept of governance possesses two "maladies", i.e., capitalism (materialism) and individualism (egoism). The "maladies" should be remedied to revitalize the concept of governance and make the concept as pure as the earlier, for the benefit of the world and the hereafter. Sharia governance was initiated by international institutions, e.g., AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (Islamic Financial Service Board) as a special governance system for sharia financial institutions. Sharia governance, according to IFSB, is "a set of institutional and organizational arrangements by which sharia financial institutions can ensure that there is an independent view on sharia compliance through the process of issuing relevant sharia fatwas, disseminating fatwa information, and carrying out internal reviews of sharia compliance." The definition is made up of three cardinal components in the 2009 IFSB, namely (1) the company's organizational structure which includes the sharia supervisory board and coherent functions, such as the sharia and internal audit division, (2) independent arguments or opinions regarding the fulfillment of sharia, and (3) the process of reviewing the fulfillment of sharia (Nofianti et al., 2018). Hassan et al. (2013) classified the aspects of sharia governance into four, which are regulation, organization structure, process, and function of a sharia supervisory board.

This section highlights the Islamic Governance dimensions as shown in Table 1. Seventeen items listed are explained by details in each dimension. The details that correspond with the study findings are discussed in the results and discussion section.

Table 1: The Dimensions of Islamic Governance

No.	Variable	Dimensions
1	***Shiddiq* (honesty)**	Speaking honestly Not stealing Willing to admit wrong doing Informing employees' rights to them (Nurul Zuriah)
2	***Amanah* (fulfillment of trust)**	Being trusted Keeping the trust of others Keeping promises Delivering messages well Keeping the items deposited as they are Finishing assignments on time Finishing assignments completely Doing prayers regularly and punctually Doing *sunnah* (Islamic habitual practices) regularly Being concerned about public welfare Not committing fraud (public fraud) Complying with regulations
3	*Tabligh* (transparency and openness)	Document availability and accessibility Information clarity and completeness Process transparency Regulation framework which ensures transparency
4	*Fathonah* (intelligence)	Intellectual intelligence Emotional intelligence Spiritual intelligence
5	*Tawazun* (balance)	*Ruhiyah* or spiritual power *Jasadiah* or physic or physical aspects of human personality *Fikriah* or mind or human knowledge and insights
6	*Mas'uliyah* (accountability)	Conformity between the operation and SOP Sanction imposed for misconduct or negligence in implementing an activity Measurable output and outcome
7	*Akhlaq* (moral and integrity)	Deeds instructed by God and the Prophet Muhammad (PBUH) and mentioned in the Quran and Sunnah Deeds which bring benefit to the world and the hereafter Deeds which elevate the dignity of human life in the eyes of God and others
8	'*Adalah* (justice)	Distributive justice Procedural justice
9	*Hurriyah* (independence and responsible freedom)	Free from pressure or managerial intervention Free from any intervention from uncooperative behaviors which are related to the implementation of the audit procedure selected Free from external parties' attempt which imposes over review exceeding the limits of reasonableness in the audit process upon audit work
10	*Ihsan* (professionalism)	Dedication to the profession Social obligation Self-independence and relationship with colleagues

11	*Ghirah* (spirit)	Having a passion for realizing the goals of sharia banks Having a passion for implementing banking activities following sharia principles Motivating employees to work in line with sharia principles Building a work atmosphere convenient for employees Appreciating employees and customers
12	*Idarah* (management)	Carrying out comprehensive planning for sustaining sharia bank businesses Constructing the structure of the organization commensurate with the condition and environment Placing human resources precisely Coordinating employees pursuant to the job description Supervising and evaluating sharia bank operations
13	*Khilafah* (leadership)	Being able to solve arguments among employees and customers Cultivating a futuristic mindset Being concerned about public welfare Accommodating all arguments Delegating tasks and authorities consistent with the interests
14	*Aqidah* (belief and faith)	Growing faith and belief in God Averting shirk (the sin of idolatry) Believing in God's determination of good and bad fates
15	*Ijabiyah* (positive thinking)	Perceiving that all employees give their best performance Responding advice nicely Demonstrating a positive attitude to each critique Being optimistic about any opportunity
16	*Qira'ah* (consistent learning)	Providing opportunities for employees to participate in training and workshops Keeping updated to science development for self-capacity building Conducting benchmarking with more developed companies Build cooperation to enhance sharia bank capability
17	*Islah* (consistent improvement)	Adapting to the latest technology in order to be more competitive in the market Learning from mistakes Making a continuous improvement

THEORETICAL FRAMEWORK OF ISLAMIC GOVERNANCE

Theories from various fields, including finance, economics, accounting, law, and management and organisational behavior, have influenced the evolution of corporate governance. Islamic jurists assert that Islamic law (Sharia) encompasses not just religious ceremonies but also other areas of social and economic life, as well as politics, business, and contract law. The Islamic principles of corporate governance determine the three dimensions of decision-making: a) by whom; with mutual consultation of Shura or Consultative Council; b) for whom; the ultimate goal of any corporate activity is to gain the grace of Almighty Allah, and the decision makers on earth are regarded as trustees of the given powers to take decisions in the best interests of His people, and c) with whom and to whom; the corporate governance decisions require effective communication with and accountability to the relevant parties. These pillars form the Islamic Governance concept to theories in the current study.

Indonesia's GCG is classified into two types of companies, i.e., conventional and sharia (GGBS-Good Governance for Sharia Business). As Indonesia is one of the OECD countries, the guideline arranged by the KNKG (the National Committee on Governance Policies) shall adhere to the OECD's Principle of Corporate Governance. The national guideline for GCG was first issued in 1999 and revised in 2001 and 2006. Meanwhile, GGBS is a guideline which is independently arranged in Indonesia. Observations on the guideline for GCG and GGBS are crucial to describe the concept of corporate governance applicable in Indonesia.

The framework (Figure 1) used to construct Islamic Governance here commences from the focus n the business entity, which is material and profit-oriented and therefore violates the Islamic view of "*rahmatan lil'alamin*" (a mercy to all creation).

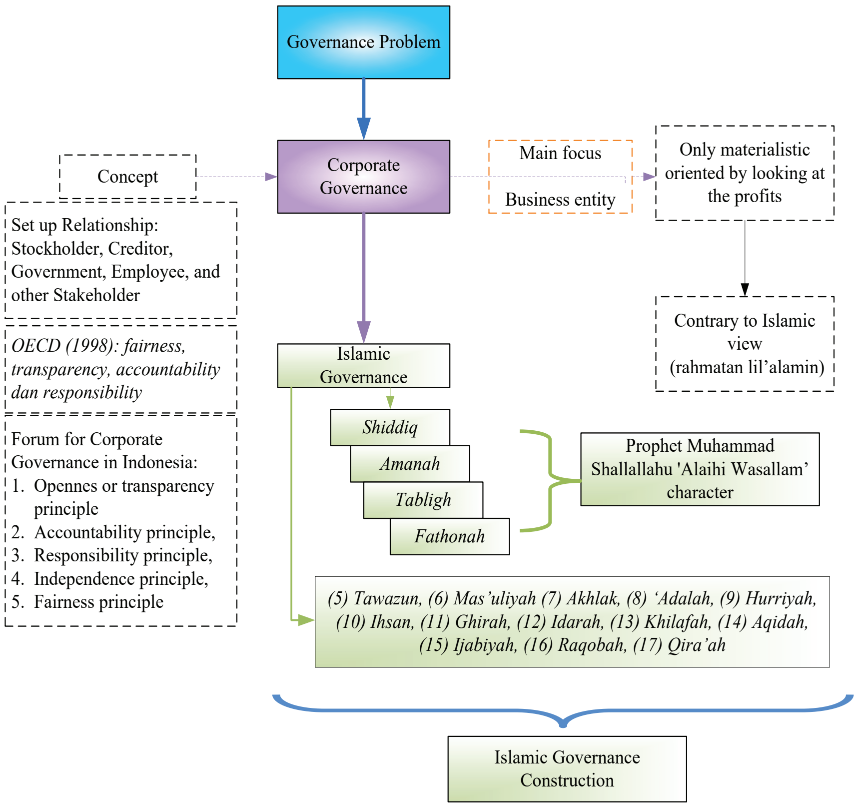

Figure 1: Islamic Governance Framework
Source: Nofianti, L. & Irfan, A. (2014)

RESEARCH METHODOLOGY

This research used a mixed method methodology. In the mixed methods are two approaches, namely the positive and non-positive paradigms. A researcher applying the mixed model will implement the two approaches in all his/her research stages (Tashakkori, 2010). A mixed method is ascribed as a methodology which delivers a philosophical assumption in orienting or guiding researchers when collecting and analyzing data. It is also considered as a combination of quantitative and qualitative approaches through several research process phases. A qualitative approach is performed within an interpretive paradigm. An interpretive paradigm adheres to the stance of the sociology of order, as functionalism does, but uses an objectivism approach in its social analysis, so its relationship with the sociology of order is implicit. Quantitative data analysis was undertaken by weighing each indicator using factor analysis with Structural Equation Modelling (SEM).

Data collection was conducted using the observation technique. First, three in-depth interviews were held for documentation to build a sharia governance model. Finally, three hundred questionnaires were conveniently and randomly distributed to Pekanbaru respondents to determine the predominating indicators for building the sharia governance model. The final questionnaires collected back were two hundred and forty-one. Pekanbaru was chosen as it is the capital of the Indonesian province of Riau and an essential economic center in the eastern part of Sumatra It has an area of 632.26 km^2 (244.12 sq mi), with a population of 997,767 in 2020.

Qualitative data collection was performed using the interview method with academicians and practitioners, namely IT as the sharia accounting experts, MM as the Islamic economy and sharia banking experts, and S as the Islam and sharia, Financial Services Authority, and Bank Indonesia experts.

Once data and information were gathered, the research instrument, made in the form of questionnaires, was designed. The questionnaires were purposively designed to unite the Islamic governance experts' points of view regarding the definition of measurement indicators using factor analysis with Structural Equation Modelling (SEM). Developing indicators as the key to a successful sharia bank performance measurement using the Islamic governance model is defined in detail. In this research, the technique used in data validation to build the indicators was source model triangulation. This technique was used because this research used interviews, documentation, and observations in sharia banking parties and customers for data collection. The indicators were then tested using factor analysis with Structural Equation Modelling (SEM).

Moreover, the model was evaluated using Goodness of Fit. Questionnaires were distributed to sharia banks in Pekanbaru and the customers. Using the accidental method applied in sharia banks in Pekanbaru, we acquired 82 respondents who were willing to fulfil the questionnaires for two weeks out of the total 241. The accidental method is a survey that randomly selects passers-by using a form of accidental sampling.

RESULT AND DISCUSSION

Three interviews regarding the principle of governance implemented by sharia banks theme were carried out with credible informants. Informant A (IT government officer with ten year's working experience in Financial Services Riau) argued:

> *The current principle of governance refers to the OECD, which measures goodness based on materials. However, this material-based measurement does not necessarily fit in certain communities. Governance for corporates is different from that for informal companies. We need to study the "substance" of the governance and distinguish a substance from a form. The substance is universal and applicable everywhere, while the form is temporary and local. For instance, in substance, accounting means recording and delivering information for all parties. However, in the form, in accounting, we do not pay much attention to what model is being used or where to record, be it in a book or computer. The determination depends on what we need at that moment. For example, the substance of worshipping is tawhid (the concept of monotheism in Islam), yet the forms may be different, such as salah (prayers performed by Moslems), fasting, zakat (alms), and others. Here, we orient our life to "God" and the art of eliciting His Blessings by consistent dhikr (remembrance in Islam) and mental and spiritual elevation. Sharia banks are managed in such a way to help their customers and the banks to attain His Blessings.*

Meanwhile, Informant B (Manager of Islamic bank in Riau with fifteen years' experience) contended:

> *Indonesia's sharia banks are thriving, as suggested by the increasing BUS (sharia business entities) and UUS (sharia business units). The government supports and the community demonstrates enthusiasm for the advance of sharia banking. Additionally, Islamic sharia-based services and products attract the community to use sharia bankings services.*

Informant C (academician in the field of Islamic Finance who served one of Riau public universities for almost twenty years) posited:

> *The current viewpoint deems sharia banks as being inseparable from the business world. There are the concept of human nature and the concept of nature. An object is considered as a sharia if containing one of the Islamic facets, e.g., fiqh (Islamic jurisprudence), which becomes a positive law.*

The argument proposed by Informant A emphasized the spirit of the governance which is more concerned about capitalists, capital owners, and materialists' interests and was aligned with the concept of governance contradicting that of Triyuwono (2016). Triyuwono (2016) found a gap in Elkington's concept from the spiritual side and concluded that it calls for a more serious effort to lift out sharia governance entirely from capitalism. Meanwhile, Informant B put much concern on sharia bank acceptability among the community, and Informant C emphasized the concept of the essence of human beings as *khalifatullah fil ardh* (chaliph on Earth) (Triyuwono, 2012). He also supported the notion of mercy to all by the generous services provided by Islamic Banking.

We ask the informants' responses to the construct variables of this research. Informant A states:

> *What governance is available now is of paramount importance, whether it adheres to the OECD or the Quran, God, and the Prophet Muhammad (PBUH). If OECD-based, that governance still wears the same cover with a slight difference. It is tailored to everyone's governance monitoring needs supporting mercy to all spirits.*

Moreover, according to Informant B:

> *To decide whether the principle of governance implemented by sharia banks is correct entails a serious investigation, for we all know that the current principle of governance still refers to the principle of conventional governance (OECD), while sharia banks do not share common characteristics with conventional ones.*

Informant C argued:

Establishing or developing a principle or value embarks upon a belief. This belief brings us to a value which can provide us "a price" and pleasure for everyone's harmonious state under rahmatan lil'alamin (a mercy to all creation), which in turn has an impact on the service delivered. Similarly, developing the principle of sharia governance should be predicated on spiritual and sharia values, creating a well-managed state orienting to the idea of rahmatan lil'alamin (a mercy to all creation).

Informants A, B, and C believed that sharia governance still adhered to capitalist interests. Meanwhile, the Prophet Muhammad (PBUH) desired Islamic governance, which supports the idea of *rahmatan lil'alamin* (a mercy to all creation) (Triyuwono, 2016).

The answers derived from the three interviewees, which were fundamentally centred on the Islamic Governance theme, confirmed the survey results as shown in Table 2, which are also based on the seventeen dimensions discussed below.

Table 2 exhibits the result of factor analysis using SEM.

Table 2: The Resume of the Goodness of Fit from CFA

No.	Variable	Indicator	Chi-squares (expected to be small)	Probability > 0.05	GFI > 0.90	AGFI > 0.90	TLI > 0.90	RMSEA < 0.08
1	Akhlak	Valid	Good	n/a	Good	n/a	n/a	n/a
2	Hurriyah	Valid	Good	n/a	Good	n/a	n/a	n/a
3	Islah	Valid	Good	n/a	Good	n/a	n/a	n/a
4	Qiraah	Valid	Good	Good	Good	Good	Good	Good
5	Shiddiq	Valid	Good	Good	Good	Marginal	Good	Poor
6	Ijabiah	Valid	Good	Good	Good	Marginal	Good	Poor
7	Tawazun	Valid	Good	Good	Good	Marginal	Good	Poor
8	Tabligh	Valid	Poor	Poor	Good	Marginal	Good	Poor
9	Aqidah	Valid	Poor	Poor	Good	Poor	Good	Poor
10	Mas'uliyah	Valid	Poor	Poor	Good	Poor	Marginal	Poor
11	Ihsan	Valid	Poor	Poor	Good	Poor	Marginal	Poor
12	Ghiroh	Valid	Poor	Poor	Marginal	Poor	Good	Poor

13	Idarah	Valid	Poor	Poor	Marginal	Poor	Marginal	Poor
14	Amanah	Valid	Poor	Poor	Poor	Poor	Marginal	Poor
15	Fathonah	Valid	Poor	Poor	Marginal	Poor	Poor	Poor
16	Khilafah	Valid	Poor	Poor	Marginal	Poor	Poor	Poor
17	‘Adalah	Valid	Poor	Poor	Marginal	Poor	Poor	Poor

Note: n/a = not available, indicating that the dimension has been fit

As shown in Table 2, all indicators were valid in measuring the variables researched. Nonetheless, model conformity varied. Using a Chi-squared test is greatly conservative and relies on the sample size, so we had to consider other indices. The Goodness of Fit Indices (GFI) is the conformity level of a model, identified by comparing the squared residual of the model predicted to the real observation data. The higher the GFI, the better the model specification. However, the GFI is inclined to be biased. It will be overestimated when the sample is large and underestimated if the sample is small. Similarly, AGFI also rests on the sample size used. TLI is one of the fit indices which are not affected by the sample size. Three variables of this research had a poor TLI. RMSEA of $\leq 0.06 - 0.08$ indicating acceptable goodness of fit model, and RMSEA of > 1.00 indicated that the model needed some improvements.

Table 2 demonstrates the highest/best GFI, AGFI, TLI, and RMSE to the smallest ones. The variable of *akhlak* (morals and integrity) had the best goodness of fit model and was followed by *hurriyah* (independence and responsible freedom), *islah* (consistent improvements), *qiraah* (consistent learning), shiddiq (honesty), *ijabiah* (positive thinking), *tawazun* (balance), tabliqh (transparency and openness), *aqidah* (belief and faith), *mas'uliyah* (accountability), ihsan (professionalism), *ghiroh* (spirit), *idarah* (management), *amanah* (fulfillment of trust)**,** fathonah (intelligence), *khilafah* (leadership), and ‘*adalah* (justice).

Akhlak or moral is an action which stimulates an individual to behave well. Sharia companies embody this goodness by emphasizing not only the optimization of company profits (shareholder value) but also another broader value system (stakeholder value). In other words, benefits earned do not focus on shareholders only but all parties who can also perceive benefits of the existence of the sharia economic activity units. This fuels the management to perform more efficiently, and hence makes it high in quality in the eyes of God and for human beings.

Hurriyah (independence and responsible freedom) is an attitude which ascribes humans as God's creation which possesses responsible freedom. Independence in a company indicates professional management of the organization or management without any clashing personal interests and pressures or interventions from any party which is contradictory with the regulations applicable. Every company department should be closely monitored as part of the firm's governance structure to run its functions optimally and without interference or dominance from other parties. The management should be responsible for the company's operations and thereby diminishing interventions which do not correspond with the corporate governance implementation.

Ishlah (consistent improvement) is procured from learning from the past in order to be better. A better outcome is reflected by the company's success in achieving its goals and maintaining its sustainability. *Qira'ah* (consistent learning) in the company management should be continuously executed to boost the company in a healthy competition and maintain its sustainability. *Shiddiq* (honesty) implies truth in every word and deed. *Shiddiq* is ensuring that sharia bank management adheres to morality which adheres to the value of honesty. Implementing this value will make community fund management undertaken using permissible manners by Islam (*halal*) and avert dubious (*subhat*) or even prohibited (*haram*) ones.

Ijabiyah is positive thinking and deeming that everything matters. *Ijabiyah* should always be applied, disallowing us to make prejudices over a certain work and allowing the work carried out to breed public welfare. *Tawazun* (balance) should be embodied in every aspect of life. *Tawazun* is a character of *ahlusunnah wal jamaah* the Prophet Muhammad (PBUH) and his colleagues teach invariably. In managing a sharia bank, the partiesconcerned need to also to consider a balance between customers, community, and the bank's interests.

Tabligh (transparency and openness) means delivering. There should be no secret, albeit irritating. Implementing sharia corporate governance needs communication. Implementing the principle of *tabligh*/transparency is implementing information openness or delivering information in the process of decision making or disclosing material and relevant information regarding the company activities. This information disclosure is in accordance with the character of *tabligh*. As information has a high potential for impacting different objects in corporate governance, it should meet the following requirements, i.e., true and not misleading and adequately and punctually delivered. Truth in information delivered by a company is a reflection of the character of *shiddiq* which was demonstrated by the Prophet Muhammad (PBUH).

Aqidah constitutes a belief and faith. Banking employees should have strong faith that sharia banking/sharia business activities carried out affords the benefits of existence for not only Moslems but also all human beings (*rahmatan lil 'alamin* – a mercy to all creation) and are accountable to God the Almighty. *Mas'uliyah* is a leadership principle, namely accountability. Trust is manifested by the company through sharia corporate accountability towards shareholders and stakeholders regarding its compliance with the applicable regulations. *Ihsan* (professionalism) is perfection or the best quality and professionalism in accomplishing tasks. Professionalism should also be indicated in the fulfillment of stakeholders' rights in conforming with the legislation applicable. Each stakeholder must have different interests and therefore require different treatments. The character of *ihsan* teaches us to apply professionalism in working and not to discredit any stakeholder's roles.

Ghirah is the spirit for defending what is right. Spirit for working should be manifested by all employees who work in sharia banks. Islamic characteristics and beliefs should be implemented to acquire God's blessings. The management plays a crucial role in maintaining employees' spirit for working and affording an optimal output. *Idarah* is the ability to good management. Here, the management also plays an imperative role in manifesting good governance which leads the company to success.

Amanah (fulfillment of trusts) means absolutely trustworthy. People with the character of *amanah* will make others trust them and believe that all matters left to them will be well carried out. "I convey to you the messages of my Lord, and I am to you a trustworthy adviser" (Al A'raaf:68). *Amanah* also means being subject to the principle of carefulness and honesty in managing funds from the fund owner (*shahibul maal*), building trust between the fund owner and investment fund management party (*mudharib*).

Fathonah means intelligently delivering, elucidating, setting, and managing something. *Fathonah* also means intelligence as competence which must be acknowledged by a company/management leader in running a sharia company. The management should be competent in charting functions, structures, and systems and carrying out accountability for company activities, allowing the company management to be effectively conducted. *Fathonah* also means ensuring that bank management is professionally and competitively executed and hence generates maximum profits, which are still within the risk level determined by the bank. *Fathonah* comprises some characteristics, *inter alia* careful and polite (*ri'ayah*) and responsible (*mas'uliyah*) service delivery.

Khilafah means leadership in Islam or the ability to lead. We can refer to the leadership of the Prophet Muhammad (PBUH) when seeking information regarding the best leadership. *'Adalah* means presenting justice in all behaviors. Infusing *'adalah* in the sharia financial mechanism will create more just and transparent economic activities. Justice should be equally conferred to all parties which can perceive the benefit of the existence of an economic activity unit. The sharia economic system emphasizes the benefits of broader economic activities, which are not only of when an activity ends but also of whenever transactions are made. Each activity, covering the process of transactions, should refer to the concept of *maslahat* and be subject to the principle of justice. This principle also demands all economic actors to always comply with legal ethics and norms in their economic activities.

Good corporate governance in a sharia financial institution is important to develop public trust and escalate sharia banking performance and drive its advancement. This matters as the term 'sharia' inserted in an institution's name does not necessarily indicate that the institution has implemented good corporate governance. Trust is considered as the key principle of development by financial institutions. However, investigations of corporate governance reveal that trusts are one of the principles which are frequently broken by irresponsible internal parties. This action is certainly detrimental for stakeholders. Consequently, it is noteworthy to have effective supervision and regulations, court system integration, and political good intention and ownership structure.

The mechanism of governance sharia within a sharia financial institution is obvious in the performance of shareholders and customers. Sharia governance should be implemented by not only sharia banks as a financial institution burgeoning with the principle of trust but also sharia micro-financial institutions, such as cooperations and BMTs which share a common core business.

Sharia governance systems in sharia banking are improved value-added services for stakeholders by 1) Increasing the efficiency, effectiveness, and sustainability of the organization. The brings on welfare for shareholders, employees, and other stakeholders and is an elegant solution to future challenges, 2) Promoting the legitimacy of the organization which is operated under the principle of openness, justice, and accountability, 3) Recognizing and protecting rights and responsibilities of stakeholders at all costs, 4) Applying integrated approaches based on the principles of democracy, management, and participation in an organization, 5) Controlling conflicts over interests which may arise between principal parties and agents, 6) Minimizing capital costs by imparting a positive signal to investors, 7 Elevating the company value produced from lower capital costs, and 8) Enhancing financial performance and better perceptions of the company's future performance from all stakeholders.

As such, implementing sharia governance is expected to be able to increase public trust in sharia banking, flourish the growth of Islamic financial service industries, and maintain financial system stability. Islamic financial service industries' success in implementing sharia governance will render Islamic financial institutions a commensurate place with international ones. Several basic requirements to establish sharia governance in sharia banks are an internal control system, risk management, bank transparency, accounting system, sharia audit and refinement, and external audit.

CONCLUSION

The success of a sharia company anchors on sharia good corporate governance (Islamic governance) and hence requires the principles of Islamic governance in correspondence with Islamic sharia. We use 17 principles of Islamic Governance to assess sharia bank performance.

Interview results showed that the spirit of governance towards capitalists, capital owners, and materialists' interests aligns with the concept of governance with the community's acceptance of sharia banks. The concept of khalifatullah fil ardh as the essence of human beings were supported in addition to the concept of mercy for all through the great services offered by Islamic Banking.

Survey results demonstrated that the variable of *akhlak* (moral and integrity) had the best goodness of fit model and was followed by *hurriyah* (independence and responsible freedom), *islah* (consistent improvement), *qiraah* (consistent learning), *shiddiq* (honesty), *ijabiah* (positive thinking), *tawazun* (balance), *tabliqh* (transparency and openness), *aqidah* (belief and faith), *mas'uilyah* (accountability), *ihsan* (professionalism), *ghiroh* (spirit), *idarah* (management), *amanah* (fulfillment of trust), *fathonah* (intelligence), *khilafah* (leadership), and *'adalah* (justice). We are fully aware of many weaknesses in this research and thereby suggest that future researchers re-observe the principles we have addressed but use a larger population.

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