International Journal of Innovative Research and Scientific Studies, 8(2) 2025, pages: 3906-3916

IJIRSS
International Journal of Innovative Research & Scientific Studies

ISSN: 2617-6548

URL: www.ijirss.com

Strategy and optimization of good corporate governance function toward Islamic bank credibility in Indonesia: An ANP approach

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Abstract

Good Corporate Governance (GCG) in banking is an important part of producing optimal performance and creating sustainable, healthy banking conditions. The aim of this research is to optimize the GCG function in Islamic banking operations. This study uses the Analytical Network Process (ANP) and Focus Group Discussions (FGD) with relevant respondents such as the board of commissioners, board of directors of Islamic banks, and regulators. The results of this study indicate that transparency issues are the main criteria in Islamic bank governance, with agency problems being the highest priority. In addition, responsibility issues related to weaknesses in internal control, lack of independence of the Board of Commissioners, and conflicts of interest in the aspect of fairness are also major concerns. This study provides several strategies offered to Islamic Bank stakeholders. The results of this study guide Islamic bank management to focus on strengthening transparency, internal supervision, and the independence of the Board of Commissioners. By improving these aspects, Islamic banks can increase customer credibility, minimize operational risks, and achieve a balance between profitability and compliance with Islamic principles.

Keywords: Analytic Network Process, Good Corporate Governance, Islamic Banking.

DOI: 10.53894/ijirss.v8i2.6179
Funding: This study received no specific financial support.
History: Received: 18 February 2025 / **Revised:** 21 March 2025 / **Accepted:** 24 March 2025 / **Published:** 14 April 2025

Competing Interests: The authors declare that they have no competing interests.
Authors' Contributions: All authors contributed equally to the conception and design of the study. All authors have read and agreed to the published version of the manuscript.
Transparency: The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.
Publisher: Innovative Research Publishing

1. Introduction

Banking governance, or Good Corporate Governance (GCG), is very important for banking because it is an implementation in bank management and supervision. The importance of banking governance lies in the principles of governance, which consist of transparency, accountability, responsibility, independence, and fairness. Banks, as intermediary institutions that consider and prioritize public trust, can manage risks well, comply with regulations, and maintain stability and trust in the banking system, which is an important component of banking.

Good Corporate Governance (GCG) began to be known in Indonesia in 1997 when the economic crisis occurred due to irresponsible corporate management and many cases of corruption, collusion, and nepotism (KKN) [1]. Poor GCG was one of the main causes of the economic crisis at that time. Therefore, the government introduced the concept of GCG starting from the State-Owned Enterprises (BUMN) environment, then the National Committee for Governance Policy (KNKG). Lukas [2] also published and refined the GCG Guidelines [3, 4]. The implementation of GCG is expected to improve banking governance by providing optimal performance [4, 5]. The problem of suboptimal GCG is caused by the following constraints: (a) internal constraints include culture, lack of commitment and level of understanding from leaders and human resources, the absence of a corporate culture, and the ineffectiveness of the internal control system; (b) external constraints include legal and banking instruments that do not supervise the company resulting in losses Suroto and Nugraha [3] (c) constraints originating from the ownership structure due to the absence of the principle of justice which can reduce the value of the company; (d) political constraints Hosking [6] (e) constraints of the business environment dominated by family-owned companies due to family interests [7-9].

Islamic banks, as intermediary institutions that prioritize the principles of trust, transparency and are based on sharia principles, Rahmayati [10] and Kurnia and Khaira [11] must prioritize the implementation of sharia governance as the main standard in the sharia banking business. Because the implementation of governance to monitor banking functions, eliminate misunderstandings between management and supervisors, ensure accountability, and protect customers, depositors, stakeholders, and shareholders [12]. The implementation of optimal governance principles is a concern for Islamic banking as an intermediary institution [7]. Several studies show that the existence of GCG has a positive impact on banking performance [13-17]. However, in its implementation, many Islamic banks have poor GCG implementation, such as the failure of Ikhlas Finance House in Turkey, the Dubai Islamic Bank financial scandal, the closure of the South African Islamic Bank and Islamic investment companies in Egypt [18]. Islamic banks in the Southeast Asian region, such as Malaysia, have also experienced bad things due to mismanagement due to poor corporate governance, and weak internal control mechanisms [19]. Failure in Islamic Bank governance was also experienced by Bank Muamalat in Indonesia. Fictitious financing to weak internal controls were the main causes of the collapse of Bank Muamalat in Indonesia, CNBC [20].

Wahyudin and Solikah [21] said that scandals that occurred in banking were caused by poor governance, weak regulatory and supervisory frameworks, wasteful managerial monitoring, inadequate accounting and audit standards to the failure of the internal control system. Failures in audit and accounting functions could be caused by the same perpetrators, manipulating financial data, non-compliance with international standards, conflicts of interest, to imperfect information between principals and agents [21]. Banks that are managed with more ambiguity are one of the bank attributes that require different treatment of corporate governance [22]. This study aims to formulate which priorities of GCG components must be carried out by Islamic bank managers so that Islamic bank operations are in accordance with what they should be. This research is important to do because the existence of Islamic banking has a significant impact on economic growth in a country [23-26]. Arun and Turner [27] argue that in a developing financial market, banks have a crucial role, especially in financing companies and also for people who want to save their money. As a newcomer in the banking industry, Islamic banking requires the adoption and adaptation of GCG implementation so that this industry can grow and develop rapidly.

2. Literature Review

2.1. Good Corporate Governance in the Banking Industry

The financial industry plays an important role in the economy. Ziemnowicz [28] said that banking is an important financial system for economic growth because of its role in allocating and encouraging the real sector through savings allocation, investment incentives and productive investment funding. Masrizal et al. [23] said that Islamic banking has the potential to do the same and even better in encouraging the real sector. However, the success of a bank depends on corporate governance. Governance mechanisms can reduce the plunder of bank resources and increase efficiency [29]. The plunder could be in the form of theft, transfer pricing, asset seizure, recruitment of family members, and allocation of financing that enriches bank people and harms the bank [29].

The concept of efficiency can be seen from the flow of funds in the form of debt or equity to companies that produce goods and services in the most efficient way, with a high rate of return. For that, a good mechanism is needed to create banking health. Good governance mechanisms will reduce the risks that occur, such as conflicts between shareholders and the board of directors [30]. Conflict often arises in the banking industry is between shareholders and depositors. Shareholders tend to take high-risk projects by maximizing shareholder wealth at the expense of savings value, Crespí, et al. [31]. Hadi Zulkafli and Abdul Samad [30] added that these activities will not benefit depositors and can even harm them because they have to bear part of the bank's losses when they fail in the project. In a situation like this, regulations are needed to protect depositors.

For this reason, banking must adopt corporate governance to protect each party [32]. Agency theory explains that both parties try to protect their own interests and agents may not always work according to the wishes of the principal [16]. Furthermore, the agency problems occur when the goals of both parties are not aligned, so that agents will make various efforts to protect their own interests rather than the principal's [16]. For this reason, it is important for the banking industry to implement good corporate governance properly. The main purpose of a good corporate governance mechanism is to protect the interests of shareholders, minimize and manage agency problems, support ownership sharing, and various supervisory checks to improve company performance [33]. There are at least several components in a good corporate governance system, namely Ownership Monitoring Mechanism, Internal Control Monitoring Mechanism, Regulatory Monitoring Mechanism, and Disclosure Monitoring Mechanism [30]. The failure of banks to manage companies not only impacts public trust but also has an impact on the financial health of a country [34].

2.2. Islamic Banking Concept

Islamic banking began to develop well in the early 2000s with various achievements. Islamic finance has developed in various parts of the world to finance development, including in non-Muslim countries. Major financial markets found strong evidence that Islamic finance has become mainstream in the global financial system - and that Islamic finance has the potential to help address the challenges of ending extreme poverty and improving shared prosperity [35]. The Islamic Financial Services Board (IFSB) reported that in 2023, global financial assets reached USD 3.38 trillion, growing by 4% from the previous year (YoY). Islamic banks saw continued global growth, which was also reflected in improvements across profitability and asset quality indicators.

Islamic banking works on the basis of Sharia compliance, such as the prohibition of usury, gharar, and prioritizing the values of justice and openness [23, 36, 37]. Several scholars [38-41] have stated that profit and loss sharing (PLS) is one of the basic principles in developing Islamic banking. PLS is a business financing scheme where, if the business generates a profit, the profit will be shared according to the agreement of the parties. However, if the business experiences a loss, the parties will also bear the loss according to their respective portions. The PLS concept is more ideal to implement because it prioritizes the principles of economic justice and social justice [42]. The application of the PLS principle in Islamic banking will increase efficiency and also optimize company resources compared to banks with an interest-based system [43].

Musyarakah and mudharabah are two business cooperation concepts that exist in the PLS principle. Musyarakah and mudharabah are ideal business cooperation concepts to be applied to Islamic banking. Musyarakah: A contract between two parties whereby both parties provide capital, and both may be active in managing the venture. Losses are shared based on how much capital has been contributed [44-47]. Profits are shared in any way the partners decide. While mudharabah is a contract between a capital provider and an entrepreneur or a fund manager, whereby the entrepreneur or fund manager can mobilize the funds of the former for its business activity within the Sharia guidelines. Profits made are shared between the parties according to a mutually agreed ratio [48].

3. Research Methods

The research method uses a mixed method with the Analytical Network Process (ANP), then creates stages of literature studies on relevant sources and formulates questions used for interviews regarding agency problems and asymmetric information. The results of the interviews were used to design the ANP network framework model and to create a questionnaire to obtain the required data. Respondents who filled out the questionnaire were at the Commissioner, Director, and Executive Officer levels from PT. Bank Syariah Indonesia, PT. Bank Muamalat, PT. Bank Aceh Syariah, and PT. Bank Sumut Syariah, as well as from regulators, namely Bank Indonesia (BI) and the Financial Services Authority (OJK). Figure 1 shows the research stages in the ANP method as follows:

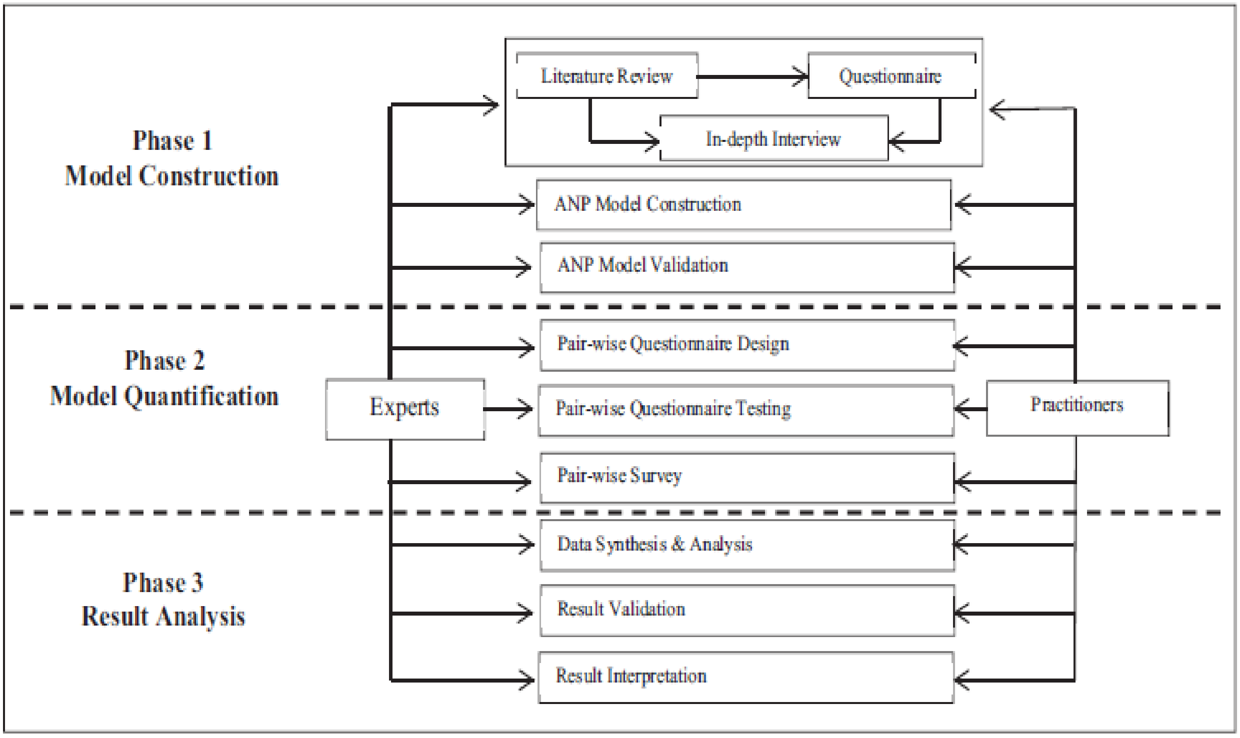

Figure 1.
ANP process Ascarya [49].

Table 1.
ANP respondent profile.

No	Name	Institution	Remarks
Expert Respondent of focus group discussion			
1	FA	BSI	Board of directors
2	DN	Bank Aceh Syariah	Board of directors
3	SS	Bank Sumut Syariah	Lecturer and committee risk management
4	MAT	Regulator	Regulator
5	FFA	Bank Aceh Syariah	Lecturer and Committee Audit
6	ZF	Bank Sumut	Lecturer and committee risk management
7	TG	BSI	Board of directors
8	RI	Regulator	Regulator
9	BK	Bank Sumut	Board of Commissioners
Expert respondents of the ANP pair-wise comparison questionnaire			
1	FA	BSI	Board of directors
2	DN	Bank Aceh Syariah	Board of directors
3	SS	Bank Sumut Syariah	Lecturer and committee risk management
4	MAT	Regulator	Regulator
5	FFA	Bank Aceh Syariah	Lecturer and committee audit
6	ZF	Bank Sumut	Lecturer and committee risk management
7	TG	BSI	Board of directors
8	RI	Regulator	Regulator
9	BK	Bank Sumut	Board of Commissioner

4. Results and Discussions

4.1. Analytic Network Process Result

Table 2 shows the ANP results for the main criteria for selecting the best governance model for Islamic banking in Indonesia. Saaty [50] stated that the inconsistency value should be below 10% and does not require rater agreement (Kendall's W). According to all respondents, transparency issues (0.381) are the most important issues in the main criteria, followed by fairness issues (0.209), responsibility issues (0.148), and independence issues. These results are supported by the board of commissioners, board of directors, and also regulators.

Table 2
ANP results of main criteria.

Criteria	Respondent			
	Commissioners	Director	Regulator	All
Transparency issues	0.356	0.354	0.450	0.381
Accountability issues	0.083	0.080	0.116	0.115
Responsibility issues	0.194	0.185	0.108	0.148
Independence issues	0.194	0.185	0.108	0.148
Fairness issues	0.174	0.196	0.170	0.209
Inconsistency issues				*0.000*
Kendall's W				*0.678*
X^2				*13.56*
P-value				*0.01*

Table 3 shows more detailed ANP results for each element criteria. For transparency issues, lack of disclosure (0.407) received the highest score from regulators. The board of commissioners also considered lack of disclosure (0.249) to be an important issue that must be resolved. Meanwhile, the board of directors considered weak GCG and Agnecy problem (0.294) to be the main components to be resolved. Meanwhile, agency problem (0.274) was the main issue for respondents as a whole. In accountability issues, regulators considered that government mechanism and moral hazard received the highest scores (0.338). The board of commissioners also considered that government mechanism received the main attention (0.296). Meanwhile, the board of directors considered that moral hazard and asymmetric information (0.281) should be the main concerns in Islamic banking. For respondents as a whole, moral hazard (0.316) was the main concern to be solved. Table 3 also shows that internal control (0.302) is in the first position in the view of the board of commissioners, followed by internal fraud (0.268 and 0.241) in the view of the regulator and the board of directors. Overall, respondents for the element responsibility issue, internal control is the element criteria that must be prioritized (0.239). Table 3 shows that the independence of the board of commissioners (0.348) from the element independence issues is the main priority to be resolved, then followed by oversight function (0.343) and financial resources (0.254). Meanwhile, for fairness issues, the element of conflict of internal (0.236) is in the first position, then followed by fraud (0.269) in the second position and business opportunity (0.179) in the third position.

Table 3.
ANP results of element criteria.

Criteria	Respondent			
	Commissioners	Director	Regulator	All
Transparency issues				
Lack of disclosure	0.249	0.163	0.407	0.213
Inadequate	0.248	0.125	0.189	0.173
OJK supervision	0.138	0.125	0.129	0.128
Weak GCG	0.138	0.294	0.087	0.212
Agency Problem	0.227	0.294	0.188	0.274
Accountability issues				
Government mechanism	0.296	0.223	0.338	0.263
Moral hazard	0.284	0.281	0.338	0.316
Asymmetric information	0.275	0.281	0.128	0.217
Compensation	0.145	0.215	0.197	0.204
Responsibility issues				
Corporate culture	0.198	0.098	0.157	0.186
Internal control	0.302	0.179	0.271	0.239
Internal fraud	0.197	0.241	0.268	0.232
HR training and education	0.197	0.241	0.152	0.182
Risk management	0.104	0.241	0.152	0.161
Independent issues				
Independence of commissioners	0.344	0.348	0.319	0.336
Business model	0.104	0.144	0.110	0.135
Financial resources	0.103	0.257	0.106	0.179
Coordination	0.105	0.108	0.151	0.137
Oversight function	0.343	0.142	0.314	0.213
Fairness issues				
Fraud	0.176	0.259	0.197	0.236
Business opportunities	0.180	0.142	0.192	0.179
Excessive risk-taking	0.143	0.109	0.089	0.139
Conflict of interest	0.327	0.350	0.329	0.269
Lack of diversity and inclusion	0.173	0.141	0.193	0.177
Inconsistency				0.000
Kendall's W				0.480
X^2				9.60
P-value				0.05

4.2. Strategy Formulation

In facing various challenges, Islamic banks need to formulate appropriate solutions to ensure good governance, optimal performance, and compliance with Islamic principles. These solution criteria are important because Islamic banks not only operate under general banking regulations but also adhere to the principles of Islamic finance that prioritize fairness, transparency, and social responsibility. An effective solution must include internal and external aspects that contribute to the stability and sustainability of bank operations. Table 4 shows the internal solutions that must be implemented by Islamic banks. The first solution that must be implemented by Islamic banks is maximizing the three lines of defense (0.105), followed by enhancing internal control (0.101) and establishing effective performance evaluation mechanisms (0.100).

Table 4.
ANP results of internal solutions.

Solution Criteria	Respondent			
	Commissioners	Director	Regulator	All
Strengthening Internal Governance	0.102	0.096	0.053	0.087
Enhancing risk management	0.086	0.096	0.053	0.084
Cultivating an organizational culture of integrity	0.086	0.096	0.076	0.091
Enhancing the Internal control	0.102	0.137	0.078	0.101
Diversity and inclusion campaign	0.052	0.042	0.037	0.053
Improving transparency and reporting	0.102	0.067	0.106	0.083
Establish effective performance evaluation mechanisms	0.102	0.096	0.106	0.100
Strengthening regulation and compliance	0.102	0.067	0.140	0.098
Promote whistleblowing and protection mechanisms	0.087	0.067	0.076	0.075
Maximizing the three lines of defense	0.102	0.096	0.139	0.105
Continuous training and development	0.035	0.067	0.053	0.059
Implementing rewards and punishments	0.036	0.067	0.077	0.064
Inconsistency issues				*0.000*
Kendall's W				*0.554*
X^2				*30.49*
P-value				*0.00*

Meanwhile, Table 5 explains the external solutions that must be taken by bank managers, where stakeholder engagement (0.142) is in first place, followed by increased transparency (0.137) in second place and independent audit (0.137) in third place.

Table 5.
ANP results of external solutions.

Solution Criteria	Respondent			
	Commissioners	Director	Regulator	All
Regulatory Oversight	0.140	0.159	0.117	0.122
Audit Independent	0.166	0.159	0.116	0.126
Strengthening the legal framework	0.084	0.057	0.087	0.086
Increased transparency	0.139	0.119	0.153	0.137
Stakeholder engagement	0.164	0.159	0.217	0.142
Enhance international cooperation	0.046	0.043	0.047	0.055
Whistleblower protection	0.084	0.087	0.062	0.087
Peer Review	0.045	0.043	0.063	0.067
Strengthening OJK supervision	0.080	0.119	0.086	0.110
Public Awareness Campaign	0.047	0.057	0.046	0.067
Inconsistency issues				0.000
Kendall's W				0.469
X^2				21.10
P-value				0.01

Table 6 explains the strategies that can be taken by bank managers in implementing GCG in Islamic banks, where the first strategy that must be carried out is improvement of human resources competency (0.109), the second strategy is improving risk management practices (0.101) and the third strategy is implementing effective banking governance structure.

Table 6.
ANP results of strategy solutions.

Solution criteria	Respondent			
	Commissioners	Director	Regulator	All
Implementation of effective banking governance structure	0.098	0.085	0.090	0.100
Improvement of risk management practices	0.099	0.085	0.090	0.101
Improvement of human resource competency	0.099	0.124	0.091	0.109
Strengthening infrastructure and technology	0.059	0.123	0.059	0.079
Improving the quality of credit portfolio management	0.058	0.084	0.059	0.083
Development of effective governance mechanisms	0.099	0.085	0.126	0.107
Promotion and instillation of sustainable financial culture	0.059	0.059	0.043	0.064
Strengthening organizational capacity	0.042	0.059	0.059	0.064
Improvement of transparency and financial systems	0.127	0.085	0.126	0.099
Collaboration between stakeholders	0.128	0.122	0.126	0.094
Implementation of regular internal audits	0.128	0.085	0.126	0.099
Inconsistency issues				0.000
Kendall's W				0.355
X^2				17.77
P-value				0.06

4.3. Discussion

To improve the sustainability and performance of Islamic banking, bank managers must make various efforts. The results of this study recommend that Islamic banking management be sustainable and have good performance. Transparency issues are the main issue in Islamic banking in Indonesia today, according to respondents. Transparency issues in Islamic banking are a significant challenge that affects the credibility and operational efficiency of Islamic financial institutions. These challenges stem from various factors, including inadequate disclosure practices, governance complexity, and the role of the Sharia Supervisory Board (SSB). This lack of transparency can lead to perceived asymmetry in financial information, which undermines stakeholder trust and can exacerbate agency problems in Islamic banks [51]. In addition, research shows that Islamic banks have lower information transparency scores compared to ethical banks, indicating a significant gap in the quality of information disclosed to stakeholders [52]. The governance structure of Islamic banks also contributes to transparency issues. The presence of a complex governance framework, including the role of the Sharia Supervisory Board and investment account holders, complicates the transparency landscape [53]. Furthermore, governance issues may arise due to the lack of transparency in the SSB decision-making process and the overall governance structure. Stakeholders, including depositors and investors, may have difficulty in assessing the effectiveness of governance practices, leading to a lack of trust [54].

In terms of transparency, agency problems are a priority issue for respondents. One of the main sources of agency problems in Indonesian Islamic banks is the conflict between controlling shareholders and minority shareholders. In many cases, Islamic banks in Indonesia show a high concentration of ownership, which can result in decisions that favor the interests of controlling shareholders at the expense of minority shareholders [55]. This situation is made worse because of the lack of effective governance mechanisms, which are essential to align the interests of all stakeholders. The need for strong corporate governance is essential to protect the interests of minority shareholders and ensure that banks operate under Sharia principles [56]. In addition, the relationship between depositors and managers in Islamic banks also presents significant agency challenges. Depositors expect their funds to be managed following Islamic ethical standards, which emphasize fairness and transparency. However, managers may prioritize their interests or the interests of controlling shareholders, potentially leading to mismanagement of funds and breach of trust in depositors [57]. This misalignment leads to a lack of trust among depositors, which is detrimental to the stability and reputation of Islamic banks.

In addition, the issue of fairness is also very important in Islamic banks. The issue of fairness in Islamic banks refers to issues related to equality, fairness, and ethical considerations in the operations and governance of Islamic banks. Decisions taken by the Sharia Supervisory Board (SSB) can give rise to perceptions of unfairness, especially if stakeholders believe that the SSB's decisions are not in line with their interests or are inconsistent (Haron). This can affect customer trust and confidence in bank operations. Service quality and responsiveness affect customers' perceptions of fairness. If customers feel they are not being treated fairly compared to others, this can lead to dissatisfaction and unfairness [58]. In the aspect of fairness, the issue of conflict of interest is a major concern to be resolved, according to respondents. One of the main sources of conflict of interest in Islamic banks is the relationship between shareholders and management. In many cases, Islamic banks in Indonesia are characterized by concentrated ownership, where a small group of shareholders holds significant power in the decision-making process. This concentration can create a situation where the interests of controlling shareholders are not aligned with the interests of minority shareholders or depositors. Studies show that this misalignment can result in decisions that prioritize short-term profits over long-term sustainability and ethical considerations, thereby undermining the core principles of Islamic finance [59, 60]. The lack of effective governance [59, 60]. Mechanisms make these conflicts worse because there are no checks and balances to ensure that management acts in the interests of all stakeholders [61, 62].

In Islamic banks in Indonesia, the issue of responsibility refers to several issues related to how well the institution fulfills its obligations to stakeholders, including customers, regulators, and society. According to respondents, internal control is a major issue in Islamic banks. Internal control is a significant issue in Islamic banks in Indonesia, primarily due to the unique challenges caused by the need to comply with Shariah principles while maintaining effective governance and operational efficiency. Internal control systems in Islamic banks are critical to ensuring compliance with Shariah legal and regulatory requirements; however, many institutions are weak in this area. One key issue is the integration of Shariah compliance into the internal control framework. Research shows that many Islamic financial institutions (IFIs) do not incorporate Shariah elements into their internal control and audit processes [62].

In Islamic banks, the roles and responsibilities of Islamic auditors are often not clearly defined. This results in ineffective supervision and potential violations of Islamic law. In addition, many banks rely on existing internal auditors rather than employing experienced Islamic auditors, which can reduce the quality of Islamic compliance [63]. Furthermore, the Sharia Supervisory Board (SSB) was created to make sure that Islamic law is applied; its lack of independence and enforcement power may make it less effective [64]. This situation can lead to conflicts of interest and failure to adequately monitor bank activities, thereby compromising the integrity of the internal control system.

In terms of independence issues, the lack of independence of the Board of Commissioners is a major problem in Islamic banks in Indonesia. One of the main concerns regarding the independence of the Board of Commissioners is the many overlapping interests and dual positions held by board members. Research shows that many members of the Board of Commissioners of Islamic banks also own significant shares in the bank or are involved in other companies, which can lead to conflicts of interest [65]. This dual role can reduce their ability to make impartial decisions and prioritize the interests of the bank and stakeholders over personal or external business interests. The presence of such conflicts can reduce the effectiveness of the board in overseeing management and ensuring compliance with Sharia principles [66].

In addition, the governance structure of Islamic banks reflects the governance structure of conventional banks, which may not adequately meet Sharia requirements. The Board of Commissioners is expected to provide oversight and guidance; however, if they are not fully independent, their ability to perform these roles will be significantly reduced [67]. Research has shown that the effectiveness of corporate governance in Islamic banks is closely related to board independence, as independent directors are in a better position to make management decisions and ensure compliance with ethical standards [66].

In terms of accountability, moral hazard is a point that needs attention in Islamic banks, according to respondents. The existence of moral hazard can damage the principles of trust, transparency, and ethical behavior that are the basis of Islamic finance. One of the main causes of moral hazard lies in the relationship between Islamic banks and their customers, especially in profit-sharing contracts such as Mudharabah and Musyarakah. In these contracts, the bank provides capital while the client manages the investment. If the customer does not fully disclose the risks or takes reckless actions, the bank can suffer losses while the customer benefits without facing the same level of risk. This asymmetry can lead to a lack of accountability and can result in customers taking undue risks, knowing that the bank will bear some of the losses [68]. In addition, the governance structure in Islamic banks can deteriorate due to moral hazard problems. The effectiveness of the Sharia Supervisory Board (SSB) is critical in ensuring compliance with Islamic principles and monitoring the ethical behavior of management. However, if SSB members are not independent or do not have the necessary expertise, they may fail to adequately oversee management decisions, potentially creating a moral hazard situation [67].

Improving human resource competency is the main thing to improve the development of Islamic banks. To improve human resource competency in Islamic banks in Indonesia, a multifaceted strategy is needed. This strategy should focus on education and training, recruitment practices, performance management, and a good service culture improvement. Developing comprehensive education and training programs is essential to improve the competency of human resources in Islamic banks. These programs should focus on Islamic finance principles, Sharia compliance, risk management, and customer service skills. Collaborating with universities and educational institutions to create specific Islamic banking courses can help bridge the knowledge gap among employees [69]. In addition, professional development opportunities, such as workshops and seminars, can improve employee skills and keep them updated with industry trends and regulatory changes [70].

Islamic banks should also implement strategic recruitment practices to attract qualified candidates with the right skills and values that are aligned with Islamic principles. This includes partnering with educational institutions that offer Islamic finance programs to create a talent pipeline [71]. Implementing a rigorous selection process that assesses candidates' competency in Islamic finance and law can help ensure that new employees are well-equipped to contribute to the bank's goals [72].

On the other hand, creating a culture of continuous learning and improvement is essential to enhance human resource competency. Islamic banks should encourage their employees to pursue professional development opportunities and provide support for further education, such as certification in Islamic finance or related fields [69]. Establishing a mentoring program can also facilitate knowledge sharing and skills development among employees, fostering a collaborative work environment [60]. Another important strategy, according to respondents, is the development of effective governance mechanisms. The development of effective governance mechanisms in Islamic banks is essential to ensure compliance with Sharia principles, enhance transparency, and build stakeholder trust. Governance frameworks must be modified to meet demands specific to the Islamic finance sector as well as industry-specific obstacles.

A strong Shariah governance framework is essential for Islamic banks to ensure compliance with Islamic law. This includes establishing clear roles and responsibilities for the Shariah Supervisory Board (SSB), which is tasked with overseeing the bank's compliance with Shariah principles. Research shows that enhancing the independence and expertise of SSB members can significantly improve the effectiveness of Shariah governance [73, 74]. Regular training and professional development opportunities for SSB members can also help them stay updated with emerging trends and best practices in the Islamic banking industry.

Islamic banks must also adopt the principles of Good Corporate Governance (GCG) that emphasize transparency, accountability, and fairness. Integrating GCG with Islamic Corporate Social Responsibility (ICSR) can create a holistic governance framework that contributes to the financial health and sustainability of Islamic banks [74]. By fostering a culture of ethical behavior and social responsibility, Islamic banks can enhance their reputation and build stronger relationships with stakeholders.

5. Conclusion

The results of the study using the Analytic Network Process (ANP) method to identify the criteria for governance problems in Islamic banks revealed that transparency is the most important issue. More specifically, the main problem in transparency is the agency problem, which indicates a conflict of interest between management and shareholders. For the issue of responsibility, weaknesses in internal control are the highest priority, indicating that ineffective internal supervision has the potential to cause operational losses. In terms of independence, the main problem faced is the lack of independence of the Board of Commissioners, indicating that the supervisory structure has not been functioning optimally. Meanwhile, in the fairness issues, conflict of interest is the most pressing issue, indicating an imbalance in the treatment of various stakeholders. The proposed solution is that Islamic banks need to maximize the three lines of defense as the main internal step to strengthen governance. Active involvement of stakeholders is a priority in external solutions. In terms of strategy, improving human resource competency and developing effective governance mechanisms are key to ensuring continuous improvement in Islamic bank operations.

5.1. Recommendation

Based on the research results, several recommendations can be implemented by Islamic banks to improve governance and increase their operational performance. First, Islamic banks need to focus on increasing transparency by improving reporting mechanisms and information disclosure, especially related to financial and non-financial risks, to build public and stakeholder trust. Second, strengthening internal supervision through optimizing the three lines of defense system must be a priority to reduce operational risk and improve internal control. Third, the independence of the Board of Commissioners must be increased by placing members who have integrity and independence in decision-making to ensure more objective supervision. In addition, implementing strict policies to prevent conflicts of interest is very important so that Islamic banks can operate fairly and in a balanced manner. Finally, improving human resource competency through ongoing training and building effective governance mechanisms will provide a stronger foundation for the sustainability and growth of Islamic banks in the long term.

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