# Disclosure of Governance Practice by Islamic Banks: An Application in Indonesia

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**Abstract**

This study aims to evaluate the governance practices in Islamic banks in Indonesia by using the governance standards developed from AAOIFI and IFSB as the international sharia governance guidelines accepted throughout the world. Furthermore, this research will also identify what aspects have been and have not been fulfilled by Islamic banking in Indonesia in order to realize governance as expected. This research is a quantitative descriptive study that uses content analysis to explore and analyse the data. This study uses data sourced from annual reports, financial reports and websites of 12 Islamic banks in Indonesia, in 2016. Overall the data indicated that the index of governance of Islamic banks in Indonesia was still low when the guidelines sourced from AAOIFI and IFSB were used as benchmarks. The average score achieved by Islamic banks was 37%. Based on the guidelines prepared by Hasan (2011), the score was classified as emerging practices. The focus of Islamic banks to general governance was higher than specific governance information. Statistical tests demonstrated that this difference is significant.

**Keywords**: Corporate Governance, Islamic Financial Institutions, Sharia Governance.

**Jel Codes:** G34, M14, M41.

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## Introduction

The history of corporate governance can be traced back to the emergence of the company itself, when the separation of ownership between owners and management demands a transparent and accountable corporate management. This has been an interesting issue since the onset of the financial crisis. Many countries and international organizations have provided guidelines and codes for the best corporate governance practices (OECD, 2004). At the same time, with the advent of the Islamic finance industry, there is a need for the Islamic banking's governance practices.

The conventional financial system stands on a foundation of interest, uncertainty and gambling that is banned in Islam. Muslim scientists have proposed the Islamic financial system and its growth has been remarkable since it was first introduced (Muneeza & Hassan, 2014). The Islamic finance industry has grown not only in Muslim countries such as Malaysia, Indonesia and the Gulf Cooperation Council (GCC) but also in non-Muslim countries like Sri Lanka and Singapore. Since the goal of the Islamic financial industry is to implement sharia-based financial practices, sharia governance guidelines play an important role to ensure that the industry meets Islamic financial goals (Belal, Abdelsalam, & Nizamee, 2014).

## 1. Literature Review

In Indonesia, the development of the Islamic finance industry has grown rapidly since 1992. After experiencing high growth in previous years, Islamic banks face the challenge of decreasing growth since 2013. Currently, there are 13 Islamic Commercial Banks and 21 Islamic Business Units with total assets of 401.452 billion rupiah (OJK, 2017). Meanwhile, the market share of Islamic banks in Indonesia only reached 5.44% in the past 26 years. The Financial Services Authority alleges that the cause of the slow growth of Islamic banking in Indonesia is supervision and regulation that are not optimally implemented (OJK, 2015).

According to Shahzad, Saeed, & Ehsan (2017) governance in Islamic financial institutions is very important as well as corporate governance in a modern corporate organization. Governance is an arrangement that ensures compliance with Sharia rules and principles in every Islamic banking transaction. Sharia governance as described by Shaharuddin (2011) is a responsibility for ensuring the compliance of sharia principles in products, instruments, operations, practices and management of Islamic financial institutions. This kind of governance mechanism will improve the credibility of Islamic financial institutions. This is in line with the research result of Wardayati (2011) on one of the Islamic banks in Indonesia which revealed that implementation of sharia governance has a significant influence on the reputation and trust of customers to Islamic banking.

Recognizing the importance of governance for Islamic financial institutions, the Accounting Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued Islamic governance standards (governance standards number 1 to 7). AAOIFI standards have become mandatory in some countries such as Bahrain, Jordan, Oman, Qatar, Qatar Financial Center, Sudan, and Syria. In Indonesia and Malaysia, the AAOIFI standards were used as a basis for the preparation of national standards.

Although there have been guidelines on governance for Islamic financial institutions, some studies have revealed that in practice there are still many weaknesses in the implementation of governance in Islamic financial institutions. Hasan (2011) revealed that there were many shortcomings in the implementation of sharia governance and further improvement is required. The fall of Islamic Money Management Companies in Egypt in 1988-1989, the collapse of Ihlas Finance House in Turkey in 2001 and the fraud that caused the loss of Dubai Islamic Bank between 2004 and 2007 are examples of the poor governance practices.

In Indonesia, the indication of the lack of good governance in Islamic financial institutions is marked by several cases such as the closure of 19 Branch Offices of Bank Mega Sharia in 2016, and a drastic decline in profits experienced by Bank Muamalat Indonesia up to 71.36% per June 2016, from Rp106.54 billion to Rp 30.51 billion in addition to an increase in NPF 7.23% from the previous year at 4.93% as of June 2015 (OJK, 2017).

Regarding the governance, Ali (2015) disclosed that governance standards for Islamic Banks in Indonesia couldn't be considered as a model of the overall governance framework for Islamic Banks. The current guidelines for the governance of Islamic banking in Indonesia are merely the result of the adaptation of conventional bank governance guidelines issued by Bank Indonesia previously.

Based on what is described above, this study aims to evaluate the governance practices of Islamic banks in Indonesia by using governance standards developed using AAOIFI and IFSB guidelines. Furthermore, this research will also identify what aspect have and has not been fulfilled by Islamic banking in Indonesia in order to realize the governance as expected.

The stewardship theory was chosen as the framework in this study because of the contextual characteristics of Islamic financial institutions. Contextually, multifaceted objectives (which focus on more than just economic factors) include ideal board compositions supported by strategic committee councils - nominations, remuneration, risk management and audits (Ullah & Khanam, 2018). The good structure of these elements supports the appropriate accounting treatment for risk, the effective handling of internal control systems, transactions with related parties, compliance with issued guidelines and the creation of management reports to achieve operational efficiency within Islamic financial institutions. Stewardship is conceptualized as an outcome of leadership behaviors that encourage a deep commitment to the best interests of the organization and an individual motivation to work for the benefit of the organizational cause (Madison, 2014).

Stewardship theory as confirmed by Sulaiman, Abd Majid, & Noraini (2015) emphasizes the coordination of relationships based on personal beliefs and strengths (ie respect and expertise). As stewards, Islamic financial institutions managers and directors need to focus on managing the interaction process with their various stakeholders through "increased commitment and value identification" (Madison, 2014). This ultimately aims to create trust and improve the alignment of goals between Islamic financial institutions and their stakeholders. Once trust is achieved, collaboration is facilitated as it becomes an important point of the social system between Islamic financial institutions and their stakeholders (Sundramurthy & Lewis, 2003).

### 1.1 The concept of Corporate Governance From an Islamic Perspective

The concept of governance of Islamic financial institutions is as important as the concept of conventional corporate governance. This is also a concept used to evaluate the compliance of the sharia financial industry towards the sharia principles in order to ensure the trust of the stakeholders of the sharia financial industry (Haqqi, 2014). Shaharuddin (2011) asserted that sharia governance is a complete framework that not only provides guidelines for compliance of Islamic banking practices towards sharia principles but also provides a detailed framework of the duties and responsibilities of all stakeholders.

Many Islamic governance thinkers seek to formulate a governance framework based on an Islamic perspective. Bukhari, Awan, & Ahmed (2013) presented a framework that integrates shari'-ah and Islamic moral teachings; and emphasize institutions of shura, isbah and religious audits as a key component of corporate governance frameworks.

A more comprehensive corporate governance framework was illustrated by Bukhari et al. (2013). They clearly determined the appropriate structure and level of governance of each institution, along with their roles and functions; goals and objectives; and company legal regulations based on the Tawhid and Shura epistemology. Meanwhile Alnasser & Muhammed (2012) conceptualized an integrated framework that incorporates the corporate culture and control mechanisms within the Islamic Arrangement.

Overall, Hashim, Mahadi, & Amran (2015), Meutia & Febrianti (2017), and Almutairi & Quttainah (2016) concluded that the conceptual framework of the Islamic corporate governance must take into account the elements of Tauhid epistemology, the shuratical process, the concept of the caliph (Khilafah), social justice (al-adl wal ihsan), accountability (taklif), aspects of Islamic legal regulations, general banking laws and regulations, and principles of Islamic morality.

### 1.2 Conceptual Framework of Governance

According to Hasan (2011) that the philosophical foundations of corporate governance in Islam require a layer of additional governance for the purpose of sharia compliance. In this idea, the corporate governance in Islamic financial institutions requires a set of institutional arrangements to oversee the aspects of sharia business and operations. In the absence of corporate governance models in Islamic literature, Islamic financial institutions innovatively introduced the sharia governance system as part of their corporate governance framework, specifically exclusive to corporate governance frameworks.

### 1.2.1 The AAOIFI Governance Standards

AAOIFI has issued 92 standards and guidelines, including 24 accounting standards, 5 audit standards, 7 governance standards, 54 sharia standards and 2 codes of conduct (AAOIFI, 2015) Seven standards relating to governance are:

1. Governance Standard for IFIs No. 1: Sharia Supervisory Board: Appointment, Composition and Report

2. Governance Standard for IFIs No.2: Sharia Review

3. Governance Standard for IFIs No.3: Internal Sharia Review

4. Governance Standard for IFIs No.4: Audit & Governance Committee for Islamic Financial Institutions

5. Governance Standard for IFIs No.5: Independence of Sharia Supervisory Board

6. Governance Standard for IFIs No.6: Statement on Governance Principles for Islamic Financial Institutions

7. Governance Standard for IFIs No.7: Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions.

The need to have effective sharia governance is essential as it strengthens the credibility of Islamic financial institutions. The sharia governance framework should address various issues related to the above discussion. AAOIFI's governance standards are critical to improving and bringing harmonization to sharia governance practices. The standard is expected to effectively solve various issues related to sharia governance.

Governance standards number 1 to 5 relates specifically to the basic guidelines of sharia governance, standard number 6 deals with general governance principles for Islamic financial institutions. Standard number 7 specifically contains mandatory and voluntary standards for implementing the social responsibility in the all aspects of Islamic financial institutions' activities; and the disclosure guidance of the social responsibility information for the stakeholders of Islamic financial institutions.

### 1.2.2 IFSB Governance Guidelines

IFSB-3 provides guidance and key principles to facilitate IFIs with appropriate governance structures and processes with a stakeholder-oriented approach as the model basis. Part 1 and part 3 of IFSB-3 recommend an integrated corporate governance approach based on ethics and compliance with Sharia rules and principles.

IFSB-3 recommends several key principles related to efforts in protecting the rights and interests of investment account holders (IAHs). For example, principle 2.1 requires IFIs to recognize IAH's right to monitor their investment performance and risk-related, while principle 2.2 encourages them to adopt sound and transparent investment strategies (IFSB, 2006).

IFSB-3 defines governance as:

“as a set of relationships between a company’s management, its BOD, its shareholders, and other stakeholders which provides the structure through which the objectives of the company are set; and the means of attaining those objectives and monitoring performance are determined.”

Furthermore, this guide explains that corporate governance in Islamic financial institutions includes "a set of organizational arrangements in which the management of Islamic financial institutions must be aligned with the interests of stakeholders; providing appropriate incentives for governance units such as BOD, sharia supervisory boards, and management to pursue objectives (the interest of stakeholders); and facilitate effective monitoring, thus encouraging Islamic financial institutions to use resources more efficiently, and adherence to Islamic sharia rules and principles (IFSB, 2006).

**1.3 Previous Research**

Bukhari et al. (2013) explored the management's perceptions of the importance of the practiced various dimensions of corporate governance in Islamic banking in Pakistan. The study exposed that the most significant dimensions affecting the corporate governance in Islamic banks were the board of directors (BoD) and the Sharia Supervisory Board (SSB), while in the sharia business units, the significant factors were almost in all dimensions of corporate governance.

Muneeza & Hassan (2014) proposed a need to enforce sharia governance due to the formation of a widespread sharia financial institution in the world. It is important to have a special sharia governance code to regulate Islamic companies. Islamic law cannot be changed, so the constructing of the Code of Conduct for sharia governance will certainly facilitate the task of Muslims and non-Muslims who want to invest or benefit from Islamic companies.

Grassa & Matoussi (2014) used a descriptive analysis approach in exploring and analyzing data collected for 83 Islamic banks observed in the 2002-2011 period. The authors tested the mean differences and median attributes of corporate governance among Islamic banks in the GCC countries and Southeast Asian countries. They used corporate governance variables selected from different governance structures, namely ownership structure, the board of directors, sharia councils and CEO attributes. The findings confirmed that there were significant differences in Islamic banking governance structures in the GCC and Southeast Asian countries. This finding recognized that there was a lack of governance framework.

Almutairi & Quttainah (2016) analyzed the relationship between SSB and the performance of Islamic banks. Using a sample of 1,803 bank year observations, from 82 IBs in 15 countries, between 1993 and 2014, the research found that SSB did tend to improve the financial performance of IBs. In addition, the results demonstrated that SSB in IBs improves financial performance by an average of 12.43 per cent as measured by Tobin's Q, return on assets, and return on equity.

Meanwhile Khalid, Haron, & Masron (2016) investigated a conceptual relationship between the competence and effectiveness of internal sharia auditors in Islamic financial institutions. They used the theory of Maqasid al Sharia to understand the interrelationship between competence and effectiveness of internal Sharia audits that were supplemented by the roles and responsibilities of internal sharia auditors within Islamic financial institutions. The findings suggested that competence in terms of knowledge, skills and skills could affect the effectiveness of internal sharia auditors within Islamic financial institutions.

Shahzad, Saeed, & Ehsan (2017) analyzed the sharia audit mechanisms and the challenges facing Islamic banking after the implementation of the sharia governance framework by the State Bank of Pakistan (SBP). His findings indicated that although sharia audits were considered to be typical activities of conventional auditing, much training is required for external audit offices and Islamic financial institutions' employees. Shahzad et al. (2017) also concluded that the idea of SBP councils was an appropriate step towards future conflict resolution, but this governance framework might have certain financial implications for Islamic financial institutions.

Research by Amalina, Percy, & Stewart (2013) contributed to the discussion of the Sharia governance system by examining the level of disclosure of the Sharia Supervisory Board and the report of the Board of Directors in the annual report of 23 Islamic banks in Malaysia and Indonesia. This study also analyzed the disclosure of zakat. This study was a cross-sectional analysis of annual report disclosure in 2009. This study used the index of disclosure and content analysis to measure the level of disclosure about Sharia Supervisory Board (SSB) and zakat. This study also examined the relationship between SSB characteristics and the level of SSB disclosure and zakat. The findings suggested that disclosures related to SSB and zakat are limited, with only four banks disclosing more than half of the SSB Index. It is noticed that the level of disclosure was low in sensitive matters. Some of the factors related to SSB disclosure include cross-membership with other SSBs; and the expertise of SSB members in accounting, banking, economics or finance.

Following, Darmadi (2013) explored the disclosure of corporate governance mechanisms in the annual report of Islamic banks in Indonesia. Using a sample of seven Islamic banks in Indonesia, this study established a Corporate Governance Disclosure Index (CGDI) to measure bank disclosure rates. The corporate governance mechanisms discussed in this study include the sharia supervisory board, the board of commissioners, the board of directors, the board committee, internal controls and external audits, and risk management. It was revealed that Bank Muamalat and Bank Sharia Mandiri, the two largest and oldest commercial banks, scored higher than other banks. This study shows that the average disclosure rate among the sample banks was relatively low.

Hidayat & Al Khalifa (2018) evaluated the commitment of the Islamic banks in Bahrain to sharia governance. This research used quantitative and qualitative research methods. The survey results indicated that Islamic banks in Bahrain practice 7 out of 9 questions in the questionnaire, related to the aspects of sharia governance in accordance with the standards of governance of Islamic financial institutions (AAOIFI). Interviews also revealed that Islamic banks in Bahrain practice most aspects of sharia governance.

A review of research related to governance above shows that the issue of sharia governance has received considerable attention. From these studies it was found that several studies have attempted to develop a framework of sharia governance (Khalid, Haron, & Tajul, 2017); Hamza, 2013; Muneeza & Hassan, 2014), other research attempts to link governance practices with other components in Islamic banks such as performance (Almutairi & Quttainah, 2016; Khalid, Abdelhakeem, Haron, Hasnah & Masron, 2016).

Research that attempts to measure governance implementation in Islamic banking in Indonesia conducted by Amalina et al. (2012) and Darmadi (2011). The research conducted by Darmadi (2011) used the index of governance disclosure that was still based on conventional banking governance concept only added with the disclosure of DPS. The sample consisted of only 7 Islamic banks from 11 Islamic banks in Indonesia in 2010. Data was only taken from the annual report. The theory used to understand governance behaviour and agency theory.

Meanwhile, research conducted by Amalina et al. (2012) in 2009 measured the implementation of sharia governance on 19 Islamic banks in Malaysia and 4 Islamic banks in Indonesia. Data on the bank governance were taken from annual reports. Sharia governance index used was limited to SSB and zakat. The theory was the stakeholder theory.

This research is different from previous research in terms of the theory. This research uses the stewardship theory. The governance index used to measure governance implementation in Islamic banks is the governance index by (Sulaiman et al., 2015) derived from the governance standards issued by AAOIFI and IFSB. So the advanced concept of governance is expected to be more comprehensive. In addition, this study analyses the existing governance data in both annual reports and the bank's own website. The assessment of governance practices will provide a more complete picture. Assessment of governance implementation will be performed on all Islamic banks in Indonesia using 2016 data.

## 2. Methodology

This research is a quantitative descriptive research that will use content analysis approach and disclosure index in digging and analysing data coming from the web, annual report and financial report. Krippendorff (2004) defined content analysis as a "research technique for making conclusions and data that can be replicated and valid" and Berelson (1952) refers to it as "a research technique for objectively, systematically and quantitatively describing the content of real communication".

### 2.1. Data

Furthermore, to measure governance practices, this study uses data sourced from annual reports, financial statements and websites of 12 Islamic banks in Indonesia in 2016. The use of information from the website is one of the differences in this study with previous research.

Information from the website is quite important and easily accessible to all stakeholders. Until the end of 2016, there are twelve Islamic banks in Indonesia. The twelve banks are as in Table 1:

**Table 1:** List of Islamic Banks in Indonesia

| No | Islamic Banks |
|---|---|
| 1 | Muamalat Indonesia Bank |
| 2 | Sharia Mandiri Bank |
| 3 | Mega Sharia Bank |
| 4 | BRI Sharia |
| 5 | Bukopin Sharia Bank |
| 6 | BNI Sharia |
| 7 | Jabar Banten Sharia Bank |
| 8 | BCA Sharia |
| 9 | Victoria Sharia Bank |
| 10 | Maybank Sharia Indonesia |
| 11 | Panin Sharia Bank |
| 12 | Bank Tabungan Pensiunan Nasional Sharia |

**Source**: OJK (2017)

### 2.1 Analysis Technique

The researchers analyze all governance disclosures in certain parts of the annual report and financial statements, including notes to the financial statements. The method of content analysis used in this study specifically aims to measure the level of transparency of governance practices in Islamic banks. In this case, this study uses a disclosure index approach. This research approach has been described as a useful tool for measuring corporate disclosure (Beattie, McInnes, & Fearnley, 2004).

The disclosure indicators used in this study adopted from the indicators developed by (Sulaiman et al., 2015) consisting of 123 indicators. Sulaiman et al. (2015) develop indicators based on the existing governance concepts in AAOIFI and IFSB so that these indicators are considered to represent governance that should be practiced by Islamic banks. This indicator consists of 14 dimensions as show in Table 2.

**Table 2:** Disclosure Dimensions

| Dimensions | Items |
|---|---|
| D1. *Board structure and functioning* | 1 - 24 |
| D2. *Nominating committee* | 25 - 32 |
| D3. *Remuneration committee* | 33 - 41 |
| D4. Risk management committe | 42 - 49 |
| D5. *Audit committee/ Audit & governance committee* | 50 - 61 |

| | |
|---|---|
| D6. Sharia committee/ Sharia Supervisory board | 62 - 76 |
| D7. Risk management | 77 - 85 |
| D8. Internal audit and control | 86 - 93 |
| D9. Related parties transactions | 94 - 95 |
| D10. Management reports | 96 - 97 |
| D11. Non-adherence to guidelines | 98 - 99 |
| D12. Customers/ Investment account holders | 100 -113 |
| D13. Governance Committee | 114 - 119 |
| D14. Sharia Compliance | 120 - 123 |

To measure the level of governance's disclosure, this study follows the level used by (Hasan, 2011) into five categories of disclosure levels: Less than 16% of disclosures are classified as 'Underdeveloped practice', 16 - 33% as 'Emerging Practice', > 33 - 50% as 'Improved Practice', > 50 -77% as 'Good Practice' and > 77% as 'Best Practice'.

## 3. Results and Discussion

### 3.1 Governance Index

Table 3 describes the governance index of 12 Islamic Banks in Indonesia in 2016 based on standards developed by Sulaiman et al., (2015).

**Table 3:** Governance Index of Islamic Banks in Indonesia

| No | Banks | Governance Index |
|---|---|---|
| 1 | Bank Muamalat Indonesia | 0.41 |
| 2 | Bank Sharia Mandiri | 0.31 |
| 3 | Bank Mega Sharia** | 0.43 |
| 4 | Bank BRI Sharia | 0.36 |
| 5 | Bank Sharia Bukopin | 0.38 |
| 6 | Bank BNI Sharia* | 0.48 |
| 7 | Bank Jabar Banten Sharia | 0.31 |
| 8 | BCA Sharia | 0.41 |
| 9 | Bank Victoria Sharia | 0.33 |
| 10 | Maybank Sharia Indonesia | 0.32 |
| 11 | Bank Panin Sharia | 0.33 |
| 12 | BTPN Sharia*** | 0.42 |

The data in table 4 shows that BNI Sharia owns the highest governance index at 48%. While the lowest index is owned by BSM and BJBS which is 31%. The average index of governance of Islamic banks in Indonesia as a whole is 37%. These data suggest that the governance index of Islamic banks in Indonesia is still low when guidance sourced from AAOIFI and IFSB is used as a benchmark. This finding is consistent with Darmadi (2011) who found that the average disclosure rate among the sample banks in Indonesia is relatively low. This means that to compete internationally is still needed to improve the governance of Islamic banks better. Based on categories (Hasan, 2011) the implementation of governance is still at the level of emerging practice.

Furthermore, data in Table 4 presents the disclosure of governance index per dimension in each Islamic bank in Indonesia.

**Table 4:** Governance Index by Islamic Banks per Dimension

| No | Dimension | BMI | BSM | BMS | BRIS | BukS | BNIS | BJBS | BCAS | VS | MayS | BPS | BTPNS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | D1 | 0.29 | 0.17 | 0.25 | 0.29 | 0.42 | 0.37 | 0.21 | 0.25 | 0.58 | 0.33 | 0.33 | 0.33 |
| 2 | D2 | 0.62 | 0.62 | 0.62 | 0.62 | 0.62 | 0.62 | 0.5 | 0.62 | 0.37 | 0.5 | 0.62 | 0.62 |
| 3 | D3 | 0.62 | 0.62 | 0.75 | 0.5 | 0.75 | 0.62 | 0.62 | 0.87 | 0.62 | 0.62 | 0.5 | 0.75 |
| 4 | D4 | 0.62 | 0.62 | 0.87 | 0.62 | 0.5 | 0.25 | 0.62 | 0.12 | 0.75 | 0 | 0.25 | 0.75 |
| 5 | D5 | 0.5 | 0.42 | 0.75 | 0.5 | 0.67 | 1.54 | 0.58 | 0.67 | 0.58 | 0.58 | 0.42 | 0.5 |
| 6 | D6 | 0.68 | 0.56 | 0.62 | 0.37 | 0.44 | 0.62 | 0.37 | 0.62 | 0.44 | 0.5 | 0.5 | 0.62 |
| 7 | D7 | 0.33 | 0 | 0.11 | 0.33 | 0.22 | 0.55 | 0.11 | 0.44 | 0.44 | 0 | 0.22 | 0.33 |
| 8 | D8a | 0.5 | 0.5 | 0.5 | 0.33 | 0.67 | 0.33 | 0.33 | 0.33 | 0.33 | 0.66 | 0.16 | 0.33 |
| 9 | D8b | 0 | 0 | 0 | 0.5 | 0 | 1 | 0 | 0 | 0.5 | 1 | 0 | 0 |
| 10 | D9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.5 | 1 | 0 | 1 | 0 |
| 11 | D10 | 0 | 0 | 0 | 0.5 | 0 | 0.5 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | D11 | 0 | 0 | 0 | 0.5 | 0 | 0.5 | 1 | 0 | 0 | 0 | 0.5 | 0 |
| 13 | D12 | 0.07 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | D13 | 0.5 | 0 | 0.83 | 0 | 0 | 0.5 | 0 | 0.67 | 0 | 0 | 0.5 | 0.67 |
| 15 | D14 | 0.5 | 0.5 | 0.25 | 0.75 | 0.25 | 0.75 | 0.25 | 0.75 | 0 | 0.25 | 0.25 | 0.5 |

Based on the data in table 4 can be explained as follows:

Dimension 1. Board structure and functioning

For the dimensions of structure and function of the Board of Directors, Bank Victoria Sharia has the highest disclosure index (58%) compared to other Islamic banks. BSM has the lowest index that is equal to 16.7 %.

Dimension 2: Nominating Committee (NC)

Almost all Islamic Banks have disclosure index of nomination committee with value more than 50% (62,5%). Only three banks have indexes of less than 62.5%, namely BJBS, Maybank Sharia and Victoria Sharia.

Dimension 3: Remuneration Committee (RC)

BCA Sharia has the highest index of disclosure of remuneration committee dimensions compared to other Islamic banks, which is 87.5%. While BRIS and Bank Panin Sharia have the lowest index of 50%.

Dimension 4: Risk management committee (RMC)

For the fourth dimension, the risk management committee, BMS has the highest index of 87.5% compared to other banks. However, there are still banks that have an index of 0, meaning that they do not disclose information regarding risk management committee, namely Maybank Sharia.

Dimension 5: Audit committee (AC) / Audit & Governance Committee (AGC)

In the examination committee dimension, BNI Sharia has the highest index of 91.7%, while Bank Sharia Mandiri and Bank Panin Sharia both have the smallest index, which is 41.7%.

Dimension 6: Sharia Committee (SC) or Sharia Supervisory Board (SSB)

The highest percentage in the disclosure of sharia committee information was disclosed by Bank Muamalat Indonesia (68.8%), while the lowest percentage of information was disclosed by BRI Sharia and Bank Jabar Banten Sharia (37.5%).

Dimension 7: Risk management (RM)

In the dimensions of risk management, there are two banks that do not provide information at all namely Bank Sharia Mandiri and Maybank Sharia, while BNI Sharia provides the most information that is equal to 55.6%.

Dimension 8a: Internal audit and control

All Islamic banks provide information on the dimensions of internal audit and control (a), Bank Sharia Bukopin and Maybank Sharia both provide as much information (66.7%), while Bank Panin Sharia provides the least information (16.7%).

Dimension 8b: Internal audit and control

Only four Islamic commercial banks disclose information about internal Sharia reviews. BNI Sharia and Maybank Sharia conduct 100% disclosure, while BRI Sharia Bank and Bank Victoria Sharia disclose 50%.

Dimension 9: Related parties transaction

With regard to information on transactions with related parties, only three banks provided disclosures. Bank Victoria Sharia and Panin Sharia Bank provide 100% information on this dimension while BCA Sharia provides information of 50%. Nine other Islamic banks did not reveal the slightest information about this dimension.

Dimension 10: Management Report

For the tenth dimension, namely the management report, only BRI Sharia and BNI Sharia provide information that is 50% each. While 10 other banks did not disclose information relating to this tenth dimension.

Dimension 11: Non-adherence to Guidelines

Of the twelve Islamic banks, only four banks disclosed information regarding the 11th dimension, namely Bank Jabar Banten Sharia (100%), BRI Sharia (50%), BNI Sharia (50%), and Bank Panin Sharia (50%).

Dimension 12: Customers / Investment Account Holders (IAHs)

Bank Muamalat Indonesia is the only bank that provides information on this dimension of 7.1%. While 11 other Islamic Commercial Banks did not provide any information.

Dimension 13: Governance committee (GC)

Only half of the Islamic banks disclose information about the governance committee. The largest percentage was conducted by Bank Mega Sharia (83.3 %), the rest between 50 % and 67 %. Six Islamic banks that did not provide information were Bank Sharia Mandiri, BRI Sharia, Bukopin Sharia, Bank Victoria Sharia, and Maybank Sharia.

Dimension 14: Sharia Compliance

As for dimension 14 (Sharia compliance), only Bank Victoria Sharia does not provide information on this dimension. BRI Sharia, BNI Sharia and BCA Sharia have a fairly high disclosure index of 75%. The rest only revealed 25%.

The data in Table 4 also shows that in general Islamic Banks have more attention to governance dimensions related to dimensions 1 to 8a and dimension 14. While in dimensions 8b to 13, their attention is very small or almost non-existent.

Furthermore, in table 5 there is a description of the minimum, maximum and average values for each dimension in total.

**Table 5:** Minimum, Maximum and Mean of Governance Index

| No | Dimensions | Min | Max | Mean |
|---|---|---|---|---|
| 1 | Board structure and functioning | 0.17 | 0.96 | 0.37 |
| 2 | Nominating committee | 0.38 | 0.63 | 0.58 |
| 3 | Remuneration committee ** | 0.50 | 0.88 | 0.66 |
| 4 | Risk management committee | 0.00 | 0.88 | 0.50 |
| 5 | Audit committee *** | 0.42 | 1.54 | 0.64 |
| 6 | Sharia committee * | 0.38 | 3.63 | 0.84 |
| 7 | Risk management | 0.00 | 0.56 | 0.26 |
| 8 | Internal audit and control | 0.17 | 0.67 | 0.42 |
| 9 | Internal audit and control b | 0.00 | 3.00 | 0.42 |
| 10 | Related parties transaction | 0.00 | 1.00 | 0.21 |
| 11 | Management report | 0.00 | 0.50 | 0.08 |
| 12 | Non-adherence to guidelines | 0.00 | 1.00 | 0.21 |
| 13 | Customers / Investment Account Holders | 0.00 | 0.07 | 0.01 |
| 14 | Governance committee | 0.00 | 0.83 | 0.31 |
| 15 | Sharia compliance | 0.00 | 0.75 | 0.42 |

The data in table 5 shows that the sharia committee dimension has the highest disclosure index, i.e. 84% followed by the dimension of the remuneration committee (66%) and the dimension of the audit committee (64%). The lowest disclosure index is in the Customers / Investment Account Holders dimension (1%). This dimension contains information about the customer's investment. In this dimension, Islamic banks are expected to disclose items about customer investment conditions such as profit sharing method as well as policies related to customer investment.

The high attention of Islamic Banks on governance issues related to remuneration committees and audit committees is more the result of the Regulation of Bank Indonesia Number 11/33/PBI/2009, December 7, 2009 on the Implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units which explains that the Board of Commissioners shall establish at least the following: Risk Monitoring Committee; Remuneration and Nomination Committee; and Audit Committee.

The data also shows that there are banks that have not disclosed issues related to D4 Risk management, D9 Internal audit and control, D10 Related parties transaction, D11 Management report, D12 Non-adherence to guidelines, D13 Customers / Investment Account Holders, D14 Governance committee, D15 Sharia compliance.

### 3.2 General Governance and Specific Governance Information

Furthermore, the results of this study are grouped into two categories as Sulaiman et al. (2015), namely the general governance information and the specific governance information. General governance information includes D1, D2, D3, D4, D5, D7, D8a, D9, D10 and D11. These dimensions are oriented towards achieving operational efficiency to lead to the achievement of economic goals. Specific governance information includes D6, D8b, D12, D13 and D14. These dimensions broaden the orientation towards the realization of corporate social and ethical values through the application of partnership-based business principles. Table 6 shows information on the disclosure of general governance and specific governance undertaken by each Islamic bank in Indonesia.

**Table 6:** Disclosure of General Governance and Specific Governance Information

| Banks | GCGi | | SCGi | |
|---|---|---|---|---|
| | Total | Percentage | Total | Percentage |
| BMI | 34 | 42.0% | 17 | 40.5% |
| BSM | 27 | 33.3% | 11 | 26.2% |
| BMS | 37 | 45.7% | 16 | 38.1% |
| BRIS | 34 | 42.0% | 10 | 23.8% |
| Bukopin Sharia | 39 | 48.1% | 8 | 19.0% |
| BNIS* | 41 | 50.6% | 18 | 42.9% |
| BJBS | 31 | 38.3% | 7 | 16.7% |
| BCAS | 34 | 42.0% | 17 | 40.5% |
| Bank Victoria Sharia | 34 | 42.0% | 8 | 19.0% |
| Maybank Sharia | 28 | 34.6% | 11 | 26.2% |
| Bank Panin Sharia | 30 | 37.0% | 12 | 28.6% |
| BTPN Sharia | 36 | 44.4% | 16 | 38.1% |

The data in table 6 shows that all Islamic banks in Indonesia pay more attention to general governance information compared to specific governance. The most attention to specific and general governance information is carried out by BNI Sharia of 50.6 % for general governance and 42.9 % for specific governance. The data above also shows that the highest value for general governance is 41 of 81 general governance items. While for the highest value specific governance is 18 of 42 specific governance items.

Furthermore, to support this result, paired samples test is used to determine whether the differences in Islamic bank's attention to general governance and specific governance are statistically significant. The result of the test as described in table 7 and table 8.

**Table 7:** Mean GCGi and SCGi

| | | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|---|
| Pair 1 | GCGi | 12 | 41.667 | 5.2086 | 1.5036 |
| | SCGi | 12 | 29.967 | 9.5645 | 2.7610 |

Table 7 shows that the mean of general governance is 41,667. while the mean of specific governance is 29,967. To prove whether this mean difference is statistically significant the results can be seen in table 8.

**Table 8:** Paired Samples Test

| | | Paired Differences | | | | | t | df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | | Lower | Upper | | | |
| Pair 1 | GCGi - SCGi | 11.70000 | 8.96306 | 2.58741 | 6.00515 | 17.39485 | 4.522 | 11 | 0.001 |

The test results indicate that there are significant differences (significance level 0.001 < 0.05) between the disclosure of general governance and special governance. Based on these results it can be concluded that Islamic banks in Indonesia tend to disclose general governance information compared to special governance. This is possible because the rules regarding the governance of Islamic banks in Indonesia do not touch matters relating to specific governance as referred by Sulaiman et al. (2011).

## Conclusion

Based on the results of analysis and discussion can be summed up things as follows:

Overall the data shows that the governance index of Islamic banks in Indonesia is still at the emerging practices when the guidelines sourced from AAOIFI and IFSB are used as benchmarks. This means that to compete internationally is still needed improvement of better governance.

The basic issue of this study is the extensiveness of governance information expressed by Islamic banks in Indonesia in their annual report. The average score achieved by Islamic banks is 37%. Based on the guidance compiled by Hasan (2011) this value is classified at the level of emerging practice. The study also found that the best governance disclosure is in BNI Sharia (48%), while the lowest governance disclosure is found in BSM and BJBS at 31%. This implies that the length of the bank stands is not a guarantee of rising governance index. Given that BSM is one of the Islamic banks that stand much earlier than BNI Sharia.

The attention of Islamic banks to general governance oriented towards the achievement of operational efficiency to lead to the achievement of economic objectives is higher than the attention to specific governance issues oriented towards the realization of the company's ethical and social values through the implementation of partnership-based business principles. The range of general governance disclosure is in the range of 33.3% - 50.6%. However the specific governance disclosure range is at 16.7% - 40.5%. The difference is proved to be a statistically significant difference. This implies that Islamic banks in Indonesia are not specifically motivated to disclose information related to specific governance. Although according to the Stewardship theory, specific elements of governance actually reflect the aspects of accountability of Islamic banks to stakeholders. Furthermore, stewardship theory suggests that managers and directors of Islamic banks must provide governance information in their annual reports, specifically specific governance to gain the trust of stakeholders.

Based on the 14 dimensions of governance that should be disclosed by Islamic banks, it is found that Islamic banks disclose governance above 50 per cent for dimensions: nominating committee, remuneration committee, risk management committee, audit committee and sharia committee. While governance disclosures for board structure and functioning dimensions, risk management, internal audit and control, internal audit and control b, related parties transactions, management reports, non-adherence to guidelines, customers/investment account holders, governance committees and sharia compliance below 50 per cent.

The results of this study, however, have limitations. First, the small number of Islamic banks in Indonesia (only 12 samples) is a limitation of this study. Further research may be able to expand the sample by adding Islamic banks from other countries. Second, the use of cross-sectional data that only captures disclosure evidence in a given year has ignored the trend of governance disclosure over time. Third, each item in the governance index is assumed to have the same weight of interest. Subsequent research can consider the different weights of each disclosure item so it is expected to give better results.

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