

CHAPTER I

INTRODUCTION

A. Research Background

The development of Islamic banking in Indonesia began with the establishment of Bank Muamalat Indonesia on November 1, 1991 which is the result of the work of the banking team *Majelis Ulama Indonesia* (MUI) that officially operates on May 1, 1992. Over time, the development of the Islamic banking industry in Indonesia is increasing. Authority Financial Services (Otoritas Jasa Keuangan/OJK) recorded until 2021 on its website, there are 15 BUS (Islamic Banks full flagged), 20 UUS (Islamic Window), 163 BPRS (Islamic Rural Banks), and 2,881 total Islamic Banks operating in Indonesia.

Table 1.1 Islamic Banking Office in Indonesia

Group of Banks	Institutions	Offices
Islamic Bank full flagged (BUS)	15	2,038
Islamic Windows (UUS)	20	375
Islamic Rural Banks (BPRS)	163	468
Total Islamic Operating in Indonesia	198	2,881

Source: Islamic Banking Statistics by OJK, March 2021

According to Firdaus (2005), it is explained that Islamic bank is a bank that operates in accordance with Islamic principles, namely banks with procedures and operations that follow Islamic provisions. One of the elements that must be avoided in Islamic *muamalah* is practices that contain

elements of usury (speculation and deception). In the Q.S Al-Baqarah (2) verse 275, it says:

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا
 إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَى فَلَهُ مَا
 سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ

It means: "those who eat usury cannot stand but like the standing of a person who is possessed by a devil because of madness. That is because they say that buying and selling are the same as usury. Even though Allah has permitted buying and selling and forbids usury. Whoever gets a warning from his Lord, and then stops, then what has been obtained before belongs to him and his affairs (up to) to Allah. Whoever repeats it, then they are the inhabitants of Hell, they will abide in it forever."

Based on the verse above, it can be interpreted that people who eat usury, namely by carrying out usury transactions by taking or receiving excess and using it for their needs, will live in anxiety. Then, when they are raised from the grave, they will have a painful punishment. Whereas Allah has justified buying and selling that benefits both parties and forbids usury which is detrimental to one party. Whoever gets a warning from Allah and stops then what was found before the prohibition came to be his own and if he repeated it after the warning, then they are the inhabitants of hell and will abide therein forever.

The banking sector is a very dominant sector in economic activity in a country because it is a financial institution that functions in collecting and distributing public funds with the aim of meeting capital and investment needs for fund owners. This function has been regulated in Law Number 10 of 1998. According to Fiqri *et al.*, (2021) it is stated that in carrying out its business activities, Indonesia is divided into two parts, namely conventional banks and Islamic banks.

Islamic bank is one of the banking sectors that provides an alternative for the wider community in utilizing banking services because it is not dominated by the interest system. This is because its operation refers to the provisions contained in the Qur'an and Al-Hadith. Furthermore, Antara (2021) reported in Tempo Bisnis that the development of Islamic banking in Indonesia in the second quarter of 2021 grew positively reaching 15.8% on an annual basis. Even though Alhusain (2021) stated that the achievement of the Indonesian Islamic banking market share in 2021 only reached 6.81%, while the rest was owned by conventional banks. Therefore, Islamic banking needs to have a high sense of competition to seize big opportunities in the banking industry. Moreover, the development of Islamic banks in Indonesia is increasing with intense competition. With this, it is necessary to pay attention to the condition of Islamic banks and also to have a strategy in order to win the existing competition.

Islamic banks are able to compete and have good performance if realized by implementing *Good Corporate Governance* (GCG). With the

implementation of GCG, it is hoped that a conducive, healthy, efficient, and transparent business climate will be created and improve the welfare of all elements of Islamic banks including employees. According to Muntaza and Wibowo (2019), GCG is a necessity for Islamic banks because its implementation is a form of responsibility to the community in managing Islamic banks properly, professionally, and carefully. With public trust, it will produce a mutually synergistic and harmonious relationship so that it can affect the development of Islamic banks in forming a good image. In addition, the implementation of GCG makes Islamic banks have strong and quality foundations and mechanisms for corporate governance so that they can produce satisfactory outcomes. and can increase the value and financial performance to provide satisfaction to stakeholders.

The implementation of GCG in banking is based on 5 (five) basic principles, including the principles of transparency, accountability, responsibility, independence, and fairness.

The implementation of GCG in conventional and Islamic banking has a different concept, namely the existence of *Islamic Compliance*. Asrori (2011) states that *Islamic compliance* is one indicator of Islamic disclosure to ensure the compliance of Islamic banks to Islamic principles. Islamic principles referred to is that Islamic law in banking activities must be based on a fatwa issued by the National Islamic Council (Dewan Syariah Nasional/DSN) formed by the MUI.

Purnamasari and Darma (2009) explained that the application of *Islamic compliance* in Islamic banking aims to reduce the practice of usury, gharar, speculation, deception, and all transactions that are not in accordance with Islamic principles. In addition, the implementation of *Islamic compliance* will require Islamic banking to carry out halal profit-based business activities and carry out the mandates entrusted by customers properly, such as in terms of managing zakat, infaq and shodaqoh.

The merger between the concepts of *Good Corporate Governance* and *Islamic Compliance* can be termed *Islamic Corporate Governance (ICG)*. ICG is one of the strategies implemented by Islamic banking in an effort to improve reputation and trust, as well as protect the interests of stakeholders in order to image a healthy Islamic banking system. The research conducted by Alam *et al.*, (2021) states that ICG is important for Islamic banks because it is needed as a good, efficient, effective business, profitable for higher performance and to eliminate confusion between management, executives, conventional bankers, and banks.

Furthermore, to establish a business activity that is good, efficient, effective and eliminates confusion, of course requires employees' performance because it is one of the success factors of Islamic banks. In achieving the success of Islamic banks, quality is needed that has sufficient work effectiveness. The potential of human resources has a very important role in Islamic banking in order to achieve banking. Arifin (2005) it is explained that human resources are company assets that must be maintained,

developed because they have emotions, desires, demands, needs, and limitations. Therefore, it must be managed optimally in order to obtain quality resources.

Quality human resources can be seen from the real performance and behavior that is displayed by each person as his work achievement. According to Brigham and Houston (2001) cited in Amri *et al.*, (2016) it is explained that companies that are able to compete with good performance can be realized by implementing the implementation of GCG, this can be seen from the important goal of establishing banking, by increasing the welfare of all elements of the banking system including employees. Employees performance is the main demand for the company so that its operations can be guaranteed. In order to further improve the quality of employees' performance, efforts can be made through the implementation of GCG because according to the National Committee for Islamic Financial Economics (Komite Nasional Ekonomi Keuangan Syariah/KNEKS) in the 2019-2024 Indonesian Islamic Economic Masterplan, it explains that with this GCG, it is possible to monitor banking performance because there is a relationship between management, the board of directors, and shareholders. and other stakeholders who provide structure (a system of relations between agencies) through banking objectives.

Evidence from previous research conducted by Junaidi *et al.*, (2020) states that good corporate governance has a positive effect on employees' performance. Likewise, research conducted by Yuspitasari *et al.*, (2018)

states that good corporate governance has a positive effect on employees' performance. In addition, there is research conducted by Rizky (2018) which states that Islamic corporate governance has a positive effect on employees' performance. The results of those studies show that implementation of GCG principles can affect the performance of the employees

This research is a replication of research conducted by Junaidi *et al.*, (2020) regarding "The Influence of Good Corporate Governance on the Performance of Employees of BUMN Companies (Research on Employees of BRI Unit Ratu Samban Bengkulu City). This research uses the same independent variables, namely transparency, accountability, responsibility, independence, fairness and, the same dependent variable, namely employees' performance. In addition, this research also adds 1 (one) variable to be developed, namely *Islamic Compliance*. This variable refers to the previous research conducted by Abidin (2019) regarding "Analysis of the Implementation of Islamic Good Corporate Governance (ICGC) at the Islamic Rural Banks Hikmah Wakilah Banda Aceh". This research uses a single variable which includes transparency, accountability, responsibility, independence, fairness, and *Islamic compliance*. These variables are the same as the independent variables in the current research. This research has differences with previous research, namely as follow: first, the research conducted by Junaidi *et al.*, (2020) is located in Bengkulu City, and the research conducted by Abidin (2019) is located in Banda Aceh, while this

current research will be conducted in North Sulawesi. Second, the population used in the research by Junaidi *et al.*, (2020) are employees of the BRI Unit Ratu Samban Bengkulu City and the research conducted by Abidin (2019) did not have a population because in this research it did not correlate with other variables, while in the current research uses a population of Islamic bank employees in North Sulawesi. Third, the research conducted by Junaidi *et al.*, (2021) tested the effect of the independent variable on the dependent variable the same as in the current research, while the research conducted by Abidin (2019) did not test the effect because it is descriptive which is only to find out and describe the reality of the event under research and reveal a problem, situation or event in fact.

The motivation for doing this research is because research on Islamic corporate governance on the performance of Islamic bank employees is still rarely done. The second motivation for choosing the locus is North Sulawesi because the area is known to be predominantly Christian religion. Kusnandar (2021) reports from Databoks in June 2021 that people who follow the Christian religion as many as 1.67 million or 62,98%. While the people who follow the Muslim religion as many as 834.68 thousand or 31.77%. In addition, according to Kolibu (2021) reports from RRI Manado, 70% of non-muslim customers use Islamic banking. So with these are differences and issues, a researcher is interested and wants to know whether Islamic banks in North Sulawesi are able to grow and develop while still

implementing Islamic corporate governance that is in accordance with Islamic principles and can affect the performance of employees who work in Muslim minority areas.

The purpose of this research is to link the relationship between Islamic Corporate Governance and employees' performance, especially in Islamic banking. Therefore, this research wants to empirically prove the influence of the principles of Good Corporate Governance and *Islamic Compliance* on Employees Performance. As well as providing implications in the realm of practice and special contributions to the development of the concept of Islamic Corporate Governance.

Based on the background that has been described, the researcher is interested in conducting research entitled "**The Influence of *Islamic Corporate Governance* on Employees Performance (Case Study of Islamic Banks in North Sulawesi).**"

B. Formulation Of The Problem

Based on the explained background, the formulation of the problem in this research are:

1. Does transparency has a positive effect on the performance of Islamic Banks employees?
2. Does accountability has a positive effect on the performance of Islamic Banks employees?
3. Does responsibility has a positive effect on the performance of Islamic Banks employees?

4. Does independence has a positive effect on the performance of Islamic Banks employees?
5. Does fairness has a positive effect on the performance of Islamic Banks employees?
6. Does *Islamic Compliance* has a positive effect on the performance of Islamic Banks employees?

C. Research Objective

In accordance with the formulation of the problem, then the objectives of this research are:

1. To examine the effect of transparency on the performance of Islamic Banks employees.
2. To examine the effect of accountability on the performance of Islamic Banks employees.
3. To examine the effect of responsibility on the performance of Islamic Banks employees.
4. To examine the effect of independence on the performance of Islamic Banks employees.
5. To examine the effect of fairness on the performance of Islamic Banks employees.
6. To examine the effect of *Islamic Compliance* on the performance of Islamic Banks employees.

D. Benefits of Research

The expected benefits of this research include two things, namely:

1. Theoretical:

The results of this research are expected to provide benefits in the form of additional references for certain parties. And it can also be used as a reference or comparison for other research that conducts similar research or broader aspects.

2. Practice:

- a. With this research, it is hoped that Islamic banking can obtain an overview of the effect of applying the principles of *Good Corporate Governance* and Islamic compliance on employees' performance so that it can increase employees' productivity or become an evaluation material for employees, and is also expected to be useful as information and input for ideas in internal decision making.
- b. To increase knowledge about the application of the principles of *Good Corporate Governance* and *Islamic Compliance* in a company/banking, especially human resources who will go directly to the banking industry.