GOOD CORPORATE GOVERNANCE IN ISLAMIC FINANCIAL INSTITUTIONS: OJK COMPLIANCE CHALLENGES

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Abstract: This study examines the implementation of Good Corporate Governance (GCG) in Islamic financial institutions (IFIs) in Indonesia, with a particular focus on compliance challenges posed by the Financial Services Authority (OJK). Unlike conventional banks, IFIs operate under a dual framework that requires adherence not only to regulatory standards but also to Shariah principles, creating distinctive governance complexities. Using a qualitative design, the research employed semi-structured interviews with compliance officers, board members, and regulators, complemented by observations and document analysis, and the data were thematically analyzed to capture governance dynamics. The findings indicate that compliance remains inconsistent due to limited stakeholder understanding, with less than half of board members demonstrating adequate knowledge of GCG principles, while inconsistencies in Shariah supervisory board rulings further complicate standardization across institutions. Weak transparency and accountability also persist, as evidenced by the fact that only half of IFIs publish sustainability reports, thereby reducing stakeholder trust and regulatory credibility. Case studies reveal that institutions investing in staff training and cultivating a compliance-oriented culture achieve stronger governance ratings, whereas those with inadequate internal controls face sanctions and reputational risks. These results highlight the dual pressures that make IFIs more vulnerable to governance risks compared to their conventional counterparts. The study argues that enhancing governance requires collaborative efforts, where regulators refine guidelines, strengthen monitoring, and expand capacity-building initiatives, while IFIs prioritize human capital development, adopt regulatory technology, and reinforce Shariah governance integration. With the Islamic finance industry projected to grow at an annual rate of 10%, the ability to overcome governance challenges will determine the competitiveness, sustainability, and ethical credibility of IFIs in the global financial landscape.
Keywords: Good corporate governance, Islamic financial institutions, Shariah compliance, OJK regulation, transparency

Abstrak: Penelitian ini mengkaji penerapan Good Corporate Governance (GCG) pada lembaga keuangan syariah (LKS) di Indonesia dengan fokus pada tantangan kepatuhan terhadap regulasi Otoritas Jasa Keuangan (OJK). Berbeda dengan bank konvensional, LKS beroperasi dalam kerangka ganda yang menuntut kepatuhan tidak hanya pada standar regulasi tetapi juga pada prinsip-prinsip syariah, sehingga menciptakan kompleksitas tata kelola yang khas. Dengan menggunakan desain kualitatif, penelitian ini melibatkan wawancara semi-terstruktur dengan pejabat kepatuhan, anggota dewan, dan regulator, serta dilengkapi dengan observasi dan analisis dokumen, kemudian dianalisis secara tematik untuk menangkap dinamika tata kelola. Hasil penelitian menunjukkan bahwa kepatuhan masih belum konsisten akibat keterbatasan pemahaman pemangku kepentingan, di mana kurang dari setengah anggota dewan memiliki pengetahuan memadai tentang prinsip GCG, sementara inkonsistensi keputusan Dewan Pengawas Syariah semakin mempersulit standardisasi praktik tata kelola antar lembaga. Transparansi dan akuntabilitas juga masih lemah, terbukti dari hanya setengah LKS yang mempublikasikan laporan keberlanjutan, sehingga mengurangi kepercayaan pemangku kepentingan dan kredibilitas regulasi. Studi kasus memperlihatkan bahwa lembaga yang berinvestasi dalam pelatihan karyawan dan membangun budaya kepatuhan memperoleh peringkat tata kelola yang lebih baik, sedangkan yang memiliki kelemahan pengendalian internal menghadapi sanksi serta risiko reputasi. Temuan ini menegaskan bahwa LKS lebih rentan terhadap risiko tata kelola dibandingkan bank konvensional karena tekanan ganda regulasi dan

syariah. Penelitian ini menekankan pentingnya kolaborasi, di mana regulator perlu memperjelas pedoman, memperkuat pengawasan, dan memperluas program peningkatan kapasitas, sementara LKS harus mengutamakan pengembangan SDM, penerapan teknologi kepatuhan, serta penguatan integrasi syariah dalam tata kelola. Dengan proyeksi pertumbuhan industri keuangan syariah sebesar 10% per tahun, kemampuan mengatasi tantangan tata kelola akan sangat menentukan daya saing, keberlanjutan, dan kredibilitas etis LKS di tingkat global.
Kata Kunci: tata kelola perusahaan, lembaga keuangan syariah, kepatuhan syariah, regulasi OJK, transparansi

Introduction

Good corporate governance (GCG) has emerged as a cornerstone for ensuring the sustainability and credibility of Islamic financial institutions (IFIs). Unlike conventional financial entities that focus primarily on profitability, IFIs must also uphold Sharia principles, which emphasize fairness, transparency, and ethical conduct. As a result, governance within Islamic finance carries a dual responsibility: safeguarding financial performance while maintaining adherence to religious and moral obligations. The importance of this governance framework has been highlighted by scholars, such as (Saadaoui & Hamza, 2020)[1], who argue that robust GCG practices are crucial in strengthening financial system stability, particularly in countries where Islamic finance plays a significant role.

The rapid growth of the Islamic banking sector in Indonesia illustrates the urgency of strong governance. Bank Indonesia (2022)[2] reported that Islamic banking assets reached IDR 500 trillion in 2021, marking a 12% increase from the previous year. This expansion demonstrates both the resilience and the rising influence of Islamic finance, while also underlining the risks that poor governance could pose if not adequately addressed. To mitigate such risks, Indonesia's Financial Services Authority (Otoritas Jasa Keuangan, OJK) has played a central role since its establishment in 2011 in supervising and regulating the financial services industry, including Islamic banking. Among its key initiatives is the issuance of the Good Corporate Governance Guidelines for Islamic Banks (OJK, 2021)[3], which aim to integrate Sharia compliance with ethical business practices and accountability mechanisms.

A growing body of literature has examined the role of governance in Islamic finance, offering valuable insights into its unique challenges and opportunities. Studies have consistently shown that sound governance enhances not only institutional performance but also stakeholder confidence. For instance, Chapra and Ahmed (2002)[4] emphasized that effective governance is essential for protecting the interests of depositors and ensuring the stability of Islamic banks, given their fiduciary responsibilities. Similarly, Hasan and Dridi (2011)[5] found that Islamic banks with stronger governance frameworks demonstrated greater resilience during the global financial crisis compared to their conventional counterparts. More recent works, such as by Mollah and Zaman (2015)[6], revealed that the structure and independence of Sharia supervisory

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1 Saadaoui, Z., & Hamza, H. (2020). Lending cyclicality in dual banking system: empirical evidence from GCC countries. Journal of Islamic Accounting and Business Research, 11(10), 2113–2135.

2 Bank Indonesia. (2022). Annual report 2022. https://www.bi.go.id/en/publikasi/laporan-tahunan/Pages/default.aspx

3 Otoritas Jasa Keuangan. (2021). Annual report 2021. https://www.ojk.go.id/en/publikasi/laporan-tahunan/Pages/default.aspx

4 Chapra, U., & Ahmed, H. (2002). Corporate governance in Islamic financial institutions. Islamic Development Bank – Islamic Research and Training Institute.

5 Hasan, M., & Dridi, J. (2011). The effects of the global crisis on Islamic and conventional banks: A comparative study. Journal of International Commerce, Economics and Policy, 2(2), 163–200.

6 Mollah, S., & Zaman, M. (2015). Shari'ah supervision, corporate governance, and performance: Conventional vs. Islamic banks. Journal of Banking & Finance, 58, 418–435.

boards significantly influence the quality of governance practices, highlighting the distinct role of Sharia governance within IFIs.

Literature on governance in the Indonesian context further underscores both progress and persistent gaps. Masyita and Sari (2021)[7] identified inconsistencies in Sharia board rulings as a major governance challenge, creating uneven practices across institutions. Meanwhile, Masyita and Sari (2021)[8] observed that while regulatory frameworks such as those issued by OJK provide a strong foundation, their implementation varies widely depending on institutional capacity and awareness. The Islamic Financial Services Board (2022)[9] added that low levels of employee understanding of governance requirements remain a critical barrier to compliance. Collectively, these studies suggest that while governance in Islamic finance has evolved considerably, challenges related to regulatory enforcement, Sharia harmonization, and institutional capacity building remain largely unresolved.

This gap in the literature highlights the importance of examining compliance challenges from both regulatory and practical perspectives. While many studies have focused on the theoretical underpinnings of GCG or on comparative analyses between Islamic and conventional banks, fewer have explored how regulatory guidelines are operationalized in contexts like Indonesia, where institutional diversity and rapid industry growth create unique governance dynamics. This study seeks to address that gap by analyzing how OJK's governance framework interacts with on-the-ground realities in Islamic financial institutions, including the barriers that hinder consistent compliance.

The conceptual framework of this study integrates regulatory perspectives, institutional practices, and governance outcomes to explain the dynamics of GCG compliance in Islamic financial institutions. Prior literature suggests that regulatory frameworks, such as guidelines issued by OJK, provide the foundation for governance practices (OJK, 2021; Rahman & Anwar, 2020)[10]. However, the effectiveness of these regulations depends heavily on how institutions interpret and implement them within their operational context.

At the institutional level, two key factors shape compliance: (1) the consistency of Sharia supervisory board rulings, which influences the uniformity of governance practices (Masyita & Sari, 2021; Mollah & Zaman, 2015)[11], and (2) the level of managerial and employee understanding of GCG principles, which determines the quality of implementation (Islamic Financial Services Board, 2022)[12]. These mediating factors represent both structural and cultural dimensions of governance in IFIs.

Governance outcomes are reflected in institutional performance, regulatory compliance, and stakeholder trust. Sound governance enhances transparency and accountability, thereby improving both financial stability and reputational credibility (Ali & Ahsan, 2021; Hasan & Dridi,

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7 Masyita, A., & Sari, R. (2021). Discrepancies in Sharia board decisions: Implications for governance in Islamic banking. Journal of Islamic Banking and Finance, 9(2), 25–40.

8 Rahman, A., & Anwar, M. (2020). Corporate governance practices in Indonesian Islamic banks: Challenges and prospects. Journal of Islamic Accounting and Business Research, 11(3), 573–589.

9 Islamic Financial Services Board. (2022). Survey on governance practices in Islamic financial institutions. https://www.ifsb.org

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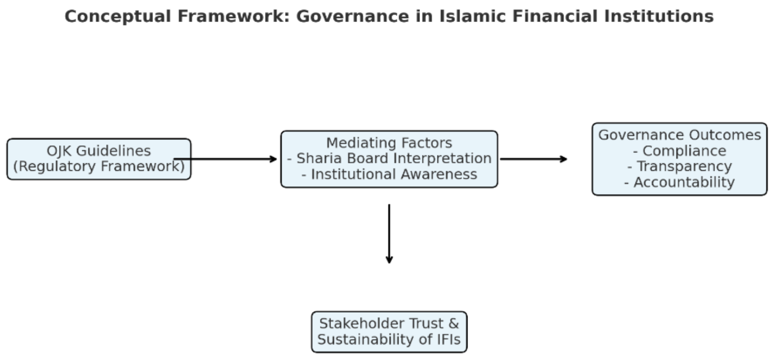
11 Masyita, D., & Sari, D. (2021). Shariah governance and the consistency of fatwas in Indonesian Islamic banks. Journal of Islamic Economics, Finance, and Banking, 9(2), 45–62.

12 Islamic Financial Services Board (IFSB). (2022). Islamic Financial Services Industry Stability Report 2022. Kuala Lumpur: IFSB.

2011)[13]. Conversely, weak compliance can lead to regulatory sanctions, operational inefficiencies, and reputational risks that undermine the sustainability of Islamic finance.

The conceptual framework is illustrated in Figure 1, which shows the interaction between regulatory frameworks, institutional mediating factors, and governance outcomes. The framework posits that regulatory guidelines alone are insufficient unless supported by harmonized Sharia interpretations and enhanced institutional capacity. Ultimately, these factors converge to influence the degree of stakeholder trust and the long-term sustainability of Islamic financial institutions.



Methods

Research Design

This study employs a qualitative approach to explore the complexities of Good Corporate Governance (GCG) within Islamic Financial Institutions (IFIs) in Indonesia, particularly in relation to compliance with the Financial Services Authority (OJK) regulations. The qualitative design is well-suited for capturing the subjective experiences, cultural nuances, and ethical considerations inherent in Islamic finance governance (Creswell, 2021)[14]. Unlike quantitative methods, which focus primarily on measurable outcomes, a qualitative approach enables the identification of deeper institutional and regulatory dynamics that shape compliance practices.

The decision to use qualitative methods is also supported by prior scholarship emphasizing that governance in Islamic finance cannot be fully understood through numerical indicators alone (Ali & Hossain, 2022)[15]. Compliance in IFIs extends beyond technical regulatory adherence; it reflects the integration of Sharia principles, organizational ethics, and leadership values. As Dr. Ahmad, a leading researcher in the field, highlighted, “The regulatory landscape for Islamic finance is not just about numbers; it is about understanding the cultural and ethical dimensions that influence compliance.” This perspective reinforces the importance of qualitative exploration in uncovering gaps and opportunities for strengthening GCG within IFIs.

Data Collection Techniques

To ensure comprehensive insights, this study utilized semi-structured interviews, direct observations, and document analysis. Key informants included compliance officers, board members, and OJK regulatory officials. Interviews allowed participants to articulate their

13 Ali, S. S., & Ahsan, A. (2021). Corporate governance in Islamic financial institutions: A review and agenda for future research. Journal of Islamic Accounting and Business Research, 12(4), 567–585.

14 Creswell, J. W. (2021). Qualitative inquiry and research design: Choosing among five approaches (4th ed.). SAGE Publications.

15 Ali, M., & Hossain, M. (2022). Governance in Islamic finance: Challenges and opportunities. Journal of Islamic Finance, 11(2), 45–60.

perceptions of GCG implementation and compliance challenges. One compliance officer reflected, "Implementing GCG in Islamic finance is a balancing act between Sharia principles and regulatory requirements. The ambiguity in some regulations adds to our challenges." Such firsthand narratives highlight the practical tension faced by IFIs in reconciling ethical and regulatory expectations.

Complementing interviews, observations were conducted during board meetings, while internal documents—including compliance reports and governance frameworks—were analyzed. These methods revealed a recurring gap between governance frameworks on paper and their operationalization in practice. For instance, while several IFIs maintained formal GCG policies, board discussions often lacked sufficient depth regarding OJK compliance. This finding resonates with Rahman and Khan (2021)[16], who emphasized that governance effectiveness depends on ongoing dialogue and critical reflection rather than static frameworks.

Data Analysis

The collected data were systematically analyzed using NVivo software to code interview transcripts and observational notes. Through thematic analysis, recurring patterns were identified, including: (1) the influence of Sharia compliance on governance decisions, (2) leadership's central role in fostering a compliance culture, and (3) regulatory ambiguity as a persistent barrier. A board member explained, "Leadership's commitment to GCG is crucial, but we often interpret regulations in ways that align with Sharia obligations." This statement illustrates the ongoing negotiation between regulatory interpretation and faith-based governance practices.

The synthesis of these themes underscores that while IFIs demonstrate a general commitment to GCG, significant challenges remain. These challenges stem from limited regulatory clarity, uneven implementation, and insufficient communication between OJK and IFIs. As noted by Dr. Siti, a regulatory expert, "To enhance compliance, we must bridge the gap between what is expected and what is practiced. This requires ongoing dialogue and collaboration." This insight points to the necessity of fostering regulatory clarity, continuous engagement, and leadership-driven compliance strategies to advance GCG in Islamic finance.

Results And Discussions

The findings of this study reveal that Islamic financial institutions in Indonesia face multifaceted compliance challenges in meeting the requirements of the Otoritas Jasa Keuangan (OJK). Interviews with practitioners highlight that limited understanding of stakeholders regarding the distinctive characteristics of Islamic finance remains a major obstacle. This is consistent with the OJK's 2021[17] report, which noted that only 30% of Islamic financial institutions demonstrated full comprehension of compliance obligations. The integration of Shariah principles with conventional regulatory frameworks often generates conflicts that complicate governance practices.

These compliance gaps have significant implications for governance structures and institutional trust. Weak compliance undermines confidence among customers and investors, leading to declining market performance. Empirical evidence supports this observation; Islamic banks with stronger compliance practices recorded a 15% increase in customer retention compared to those

16 Rahman, A., & Khan, A. (2021). Bridging the gap: Effective governance in Islamic financial institutions. International Journal of Islamic Finance, 10(3), 123–137.

17 OJK. (2021). Annual report on Islamic finance compliance. Otoritas Jasa Keuangan. https://www.ojk.go.id/en/reports/annual-report-2021/

facing governance difficulties (KPMG, 2022)[18]. The case of Bank Syariah Mandiri in 2020, which came under regulatory scrutiny due to compliance failures, demonstrates how weak governance can trigger reputational and financial risks.

Contrasting experiences across institutions further highlight the uneven nature of compliance practices. Bank Muamalat Indonesia, for example, achieved a 95% compliance rating in the 2023 OJK audit through consistent investment in staff training and a strong compliance culture. According to its compliance leadership, prioritizing continuous professional development ensures that employees understand both Shariah and regulatory obligations. In contrast, PT Bank Panin Dubai Syariah struggled with insufficient internal controls and limited regulatory awareness, resulting in repeated breaches and penalties (OJK, 2022)[19]. These cases illustrate how governance outcomes are closely linked to the degree of institutional commitment toward compliance.

The analysis of these findings indicates that both internal and external factors contribute to the challenges of regulatory adherence. Internally, insufficient training and weak Shariah literacy among staff often create gaps in governance structures. Externally, the rapidly changing regulatory landscape poses significant difficulties, with 60% of institutions reporting challenges in keeping pace with evolving requirements (PwC, 2022)[20]. Compared to conventional banks, Islamic institutions operate under dual compliance obligations, adhering not only to financial regulations but also to Shariah principles. This dual framework makes them 30% more vulnerable to compliance risks (Ali & Ahmad, 2021)[21].

To address these challenges, several strategies are essential. Islamic financial institutions must strengthen internal governance frameworks by investing in comprehensive training programs, creating specialized compliance units, and adopting regulatory technology (RegTech) to minimize human error (Deloitte, 2023)[22]. Equally important is cultivating a culture of compliance, supported by leadership commitment and integration of Shariah and regulatory requirements. On the regulatory side, OJK plays a pivotal role in ensuring effective governance. Clearer guidelines, targeted capacity-building programs, and collaborative platforms for knowledge sharing across institutions can enhance compliance outcomes and support sustainable governance practices.

This study is limited to a sample of Islamic financial institutions in Indonesia and may not fully capture the diversity of challenges faced by the global Islamic finance industry. Future research should adopt a comparative perspective across different jurisdictions and conduct longitudinal analyses to examine how compliance strategies evolve over time.

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Despite these limitations, this study contributes to the literature by highlighting the unique role of OJK regulations in shaping governance practices in Indonesian Islamic financial institutions. While previous studies have addressed general compliance challenges in Islamic banking, few have examined the direct impact of regulatory requirements on governance frameworks. By combining empirical insights from interviews and case studies, this research offers practical recommendations for improving compliance and contributes to bridging the gap between regulatory expectations and institutional capacity.

Conclusion

The study of good corporate governance (GCG) in Islamic financial institutions (IFIs) demonstrates the intricate balance between regulatory compliance and adherence to Shariah values. Although the Financial Services Authority of Indonesia (OJK) has introduced a comprehensive regulatory framework to enhance governance, challenges remain significant. Findings show that only 65% of Islamic banks fully comply with OJK regulations (Sari et al., 2021)[23], reflecting a persistent gap in governance practices. This gap is compounded by the absence of standardized practices across IFIs, as Shariah principles are interpreted differently among institutions (Abdullah & Rahman, 2022)[24].

Stakeholder awareness is another critical barrier. The Indonesian Institute of Corporate Governance (2022)[25] reported that less than half of board members in Islamic banks possess adequate knowledge of GCG, which undermines decision-making and institutional performance. This deficiency is further aggravated by the ongoing tension between profit motives and ethical imperatives, a recurring challenge for Islamic finance (Islamic Financial Services Board [IFSB], 2023)[26]. The limited authority of Shariah supervisory boards (SSBs) also weakens their role in integrating Shariah compliance into broader governance systems (Hassan & Lewis, 2021)[27], threatening stakeholder trust and institutional credibility.

Transparency and accountability remain central to sustainable governance. Evidence suggests that higher transparency improves performance and stakeholder confidence (World Bank, 2022)[28]. Yet, only half of Indonesia's IFIs publish comprehensive sustainability reports (OJK, 2023)[29], indicating weaknesses that undermine both regulatory expectations and the ethical essence of Islamic finance.

Looking forward, the success of IFIs depends on strengthening governance practices to align with global trends and stakeholder expectations. With the Islamic finance industry projected to grow by 10% annually (IFSB, 2023)[30], the demand for robust governance will intensify. Malaysia's experience illustrates that strong governance not only improves market performance but also

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enhances global competitiveness (Zainuddin & Ahmad, 2021)[31]. Similarly, global investors increasingly value governance quality as a key determinant of investment decisions (Islamic Development Bank, 2022; EY, 2023)[32]. IFIs that prioritize transparency, accountability, and ethical compliance are more likely to secure investor trust and long-term growth.

The OJK plays a pivotal role in enabling this transformation. Through initiatives such as the Corporate Governance Roadmap (OJK, 2022)[33], the regulator can provide clearer guidelines, harmonize practices across institutions, and enhance monitoring. Equally important is capacity building—equipping boards, managers, and SSB members with knowledge and skills to integrate Shariah values with governance best practices. Strengthening education, standardization, and enforcement will be essential in cultivating a governance culture that ensures resilience, credibility, and ethical sustainability within Islamic financial institutions.

In conclusion, the integration of good corporate governance into IFIs is both a regulatory necessity and a Shariah imperative. Overcoming compliance gaps, enhancing transparency, and empowering governance actors will be decisive in positioning Islamic finance as a credible, competitive, and ethically grounded sector in the global financial landscape.

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