



Sharia Governance (SG) and Virtuous Governance (VG): A Comparison

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Abstract

This study aims to compare four guidelines/frameworks for Sharia Governance, namely: General Guidelines for Sharia Business Good Governance (GGSBGG) for Islamic business organizations, Zakat Core Principle (ZCP), General Guidelines for Governance of Indonesian Non-Profit Organizations (GGG-INO), and virtuous governance for philanthropic institutions. This comparison shows the fundamental differences between these guidelines/frameworks so that the advantages and disadvantages of these guidelines are known. This study uses a qualitative approach with a literature study method. The four guidelines/frameworks have differences in the substance of the drivers, foundations, orientation (scope), principles, functions, structures, processes, and objectives (wisdom) of governance. The fundamental difference between virtuous governance and the other three governance systems lies in the driving factors, and the foundation of governance affects the values implemented by philanthropic institutions. This value difference will affect governance's concept, principles, processes, and objectives.

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INTRODUCTION

The concept, approach, and governance structure are not something of a nature one size fits all (Issyam et al., 2016). The implementation of governance will be influenced by the value system and culture adhered to. The implementation of governance will experience difficulties if general rules are applied in various countries at various economic and legal development stages. The implementation of governance can differ between companies and countries, considering that existing values and ethical standards, such as culture, legal provisions, business practices, government policies, and other values, such as religion, greatly influence the concept of governance. The concept of governance in Islamic institutions is certainly different from governance in conventional institutions. Sharia Financial Institutions have a unique corporate governance system and are different from the idea of corporate governance in general (Grassa, 2013; Rama, 2015). The challenge faced today is how to develop a comprehensive but efficient Sharia governance framework (Rama, 2018).

Several studies have been conducted to internalize Islamic values in governance. Research on corporate governance based on an Islamic perspective concludes that governance based on an Islamic perspective has its characteristics and presents different characteristics compared to Western concepts. Governance from an Islamic viewpoint combines elements of monotheism, shura, and Sharia principles while maintaining the company's objectives without neglecting social welfare (Bhatti & Bhatti, 2009; Hasan, 2009; Lewis, 2001)

The basic principles of governance are adopted from Islamic values, including the concept of *Hisbah*, *shura*, disclosure and transparency, final bookkeeping and accounts, and audits (Bhatti & Bhatti, 2009). These values apply to formulate policies and regulations for Islamic institutions. Lewis (2001) It is stated that governance in the Islamic concept differs from conventional governance. Islam views governance as having broader goals and responsibilities towards suppliers, customers, competitors, and employees and includes worldly and *ukhrawi* needs for Muslims. From this Islamic perspective, the ultimate responsibility and goal of governance are *Maqashid Shariah* or Sharia goals. The purpose of these sharia teachings is to achieve benefits in this world and the hereafter (Hasan, 2008).

Islamic philanthropic institutions, like other Islamic commercial financial institutions, must be managed professionally by implementing Sharia Governance Standards. The Sharia Governance Framework is designed to form a mechanism that can ensure that the governance process is implemented correctly by Sharia principles (Muhamad Sori et al., 2015). A good Sharia governance system and standards aim to supervise and ensure that all institutional activities follow Sharia provisions. Standards on how governance is carried out result in objective, effective, and efficient supervision. Thus, the proper standards of the Sharia Governance System for institutions and nonprofits are necessary (Ascarya & Yumanita, 2018; Hakim et al., 2019). Sharia institutions nonprofit It is appropriate to implement a governance infrastructure to increase its accountability vertically and horizontally and ensure the achievement of Sharia goals

(*Maqashid Shariah*). Theoretically, governance with an approach *Maqashid Shariah* allows an organization to be flexible and focused to achieve better performance (Ismail et al., 2016).

Rules related to the governance of Sharia institutions and nonprofits have shown their development in recent years and have been enforced by regulators, even though many of these rules result from adaptations of conventional governance rules for companies or for-profit institutions. Sharia compliance standards and the implementation of Sharia governance are compiled by two international regulatory agencies, namely The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and The Islamic Financial Services Board (IFSB) (Hamza, 2013). Sharia Governance issued by IFSB is the most comprehensive standard compared to other standards (Arrazi, 2023). Some of these institutions have published guidelines related to governance such as Accounting, Auditing and Governance Standards for Islamic Financial Institutions by The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI); Good Corporate Governance published by The Islamic Financial Services Board (IFSB); Zakat Core Principle (ZCP) by Bank Indonesia, Baznas and the Islamic Research and Training Institute (IRTI – IDB); and General Guidelines for the Governance of Indonesian Non-Profit Organizations (GGG-INO) by the Komite Nasional Kebijakan Governansi (KNKG).

Other research was also carried out by Mayasari et al. (2024), which proves that the governance of philanthropic institutions must be built from Islamic values, namely the Qur'an and hadith, so that the concept of governance will be more complete and comprehensive. Virtuous governance consists of principles, structures, and processes that achieve the wisdom (essential goal) of the practice of Virtuous governance. The building of virtuous governance consists of three main parts, namely (1) the foundation of the governance building, which contains the principles of virtuous governance framed with faith (faith), (2) the pillar of the building is the process of virtuous governance framed with sharia (Islam), finally, (3) the roof of the building is the wisdom (essential purpose) of virtuous governance which is framed in *akhlak* (Ihsan).

This study aims to compare four guidelines/frameworks for Sharia Governance, namely: 1) General Guidelines for Sharia Business Good Governance (GGSBGG) for Islamic business organizations prepared by the Komite Nasional Kebijakan Governansi (KNKG) in 2011, 2) Zakat Core Principle (ZCP) (2016) by Bank Indonesia, Baznas and Islamic Research and Training Institute (IRTI – IDB) for zakat institutions, 3) General Guidelines for Governance of Indonesian Non-Profit Organizations (GGG-INO) in 2022 for non-profit organizations by KNKG, and 4) virtuous governance for philanthropic institutions in 2023. The researcher compares these four concepts and governance frameworks because of the similarity of the substance and characteristics of the institution. An analysis will be carried out on Governance's concepts, principles, processes, and objectives, detailed in the substance of the drivers, foundations, orientation (scope), principles, functions, structures, processes, and objectives (wisdom) of Governance.

METHOD

This study uses a qualitative approach with a literature study method, namely the application of research methods to study data in the form of research articles and literature related to research problems. This method is beneficial for filtering the intellectual structure of any scientific field in qualitative type research. This method is the most widely used to build an overview of a research theme that has been journaled. The literature study helps describe, explore, organize, and analyze data and makes it possible to know the past, understand its presence, and propose directions for the future. This study will compare the guidelines and framework of Sharia governance from four kinds of literature, namely: 1) General Guidelines for Sharia Business Good Governance (GGSBGG) for Islamic business organizations prepared by the Komite Nasional Kebijakan Governansi (KNKG) in 2011, 2) Zakat Core Principle (ZCP) (2016) by Bank Indonesia, Baznas and the Islamic Research and Training Institute (IRTI – IDB) for zakat institutions, 3) General Guidelines for the Governance of Indonesian Non-Profit Organizations (GGG-INO) in 2022 for non-profit organizations by KNKG, and 4) virtuous governance for philanthropic institutions in 2023. The materialization and analysis of this research will include the substance of the driving factors, foundation, orientation (scope), principles, functions, structures, processes, and objectives (wisdom) of Sharia governance.

RESULT AND DISCUSSION

The first fundamental difference between GGG-INO and VG is in the driver (driven) and the foundation of the governance implementation. The implementation of non-profit organizational governance in GGG-INO can be encouraged from two sides, namely ethics and regulations. Encouragement from ethics (ethical driven) grows from the awareness of individuals in the organization and stakeholders to carry out governance practices that prioritize mission achievement and organizational survival in the long term. On the other hand, the push from regulations (regulatory-driven) "forces" non-profit organizations to comply with applicable laws and regulations. Both approaches have their strengths and limitations, which complement each other to create a healthier social and economic environment (KNKG, 2022: ii). Driving factors (driven) have implications for using laws and ethical and behavioral guidelines as the foundation of GGG-INO.

ZCP is an international standard for the management and supervision of zakat as a strengthening of good zakat management and supervision and an instrument of zakat safety net among Muslim countries (Badan Amil Zakat Nasional (BAZNAS), 2016: 23). The ZCP adapts the internationally applicable framework in the Basel Basic Principles (PPB) which contains minimum standards for regulation and supervision of banks and the banking system which are then adapted to the implementation of zakat (National Amil Zakat Agency (BAZNAS), 2016: 2). The analysis made in the ZCP assesses the relevance of elements of modern regulations to the regulations on possible zakat. Thus, the driving force of the ZCP is compliance with Sharia

regulations and applicable laws, as well as efforts to standardize the international management and supervision of zakat for Muslim countries.

VG makes monotheism a driving force (storage driven) in the implementation of the governance of Islamic philanthropic institutions so that it is not ethics that is the basis but the moral values contained in the Qur'an and hadith. Morality is not just a good or bad trait; more than that, morality is the nature of deeds that are based on Allah's sharia and a firm faith in Allah. VG states that the "intention" in governance must be correct and that the procedures (procedures and governance processes) are also carried out correctly by Sharia and other applicable rules. One of the weaknesses of the concept of governance is that there is no separation of the "right" from the "wrong" before it is done (Do) "correctly." That is, everything is done "right" and has been done according to the procedure without looking at whether something is "right" or "wrong." (Lukviarman, 2004).

VG is one of the solutions to overcoming the weaknesses of the current governance concept. VG is carried out by straightening out the intention of governance only because of Allah (solid monotheism); implementing governance correctly and complying with sharia (Qur'an and hadith) and other binding regulations; done with noble morals, good morals to Allah, *stakeholders* (humans) and the universe. VG has a material and non-material orientation, as well as the purpose of this world and the hereafter. The orientation of VG includes the material and religious values owned by the institution. VG aims to achieve benefits in this world and the hereafter by maintaining a multidimensional goal. It includes spiritual, physical, cultural, intellectual, social, and financial dimensions and goals.

ZCP and GGG-INO are different from VG. Hasan (2009) Stated that there is a difference between the governance of the Western perspective (Anglo-Saxon and European) and the governance of the Islamic perspective. The difference in principles between business institutions or philanthropic/non-profit institutions and conventional institutions and Sharia institutions has implications for the conception, values, and practices of governance (Toha, 2006: 213). ZCP is adapted from international standards, which are then adjusted to regulations related to zakat. The same thing happens to GGG-INO, which is adapted to the principles of governance regulated in the Foundation Law and Law Number 40 of 2007 concerning Limited Liability Companies and other governance principles. On the other hand, VG is built from the moral principles in Surah An-Nahl 90 and *extended maqashid syariah*, which refers to the Qur'an and hadith, which are the source of knowledge and truth that comes from Allah.

Comparison between GGG-INO compiled by KNKG, ZCP by Baznas, BI and IRTI-IDB) Furthermore, the virtuous governance (VG) built into this study is presented in Table 1.

Table 1. Comparison of General Guidelines for Governance-Indonesian Non-Profit Organizations (GGG-INO), Zakat Core Principle (ZCP), General Guidelines for Good Governance for Sharia Business (GGSBGG) and Virtuous Governance (VG)

Substance	GGG-INO	ZCP	GGSBGG	VG
Driven	Compliance with regulations and ethics	Compliance with Sharia regulations and applicable legal provisions	Compliance with spiritual and operational principles	Monotheism to Allah
Foundation	Laws, ethical and behavioral guidelines	Modern financial laws, regulations, and regulations on zakat (Qur'an and hadith)	The Qur'an and Sunnah and legal regulations	Moral Principles Surah An-Nahl 90 and <i>Extended Maqashid Syariah</i> (Qur'an and Hadith)
Orientation (Scope)	Material	Material and non-material (limited)	Material and non-material (spiritual, intellectual, material, life security, and regeneration and family)	Material and non-material (Spiritual, physical and cultural, intellectual, social, and financial)
Principle	Behavior Ethics, Accountability, Transparency and Sustainability	Sharia principles and the principle of professionalism. Adapted Basel Principles (PPB)	<i>ShiFAT</i> (<i>Shidiq, Fathonah, Amanah, Tablig</i>), and TARIF (Transparency, Accountability, Responsibility, Independence and Fairness and Equality)	The principles of monotheism, trust, piety, inherent supervision, <i>ukhuwah</i> , deliberation, <i>maslahat</i> , <i>itqan</i> , and <i>amar ma'ruf nahi munkar</i>
Function	Coaching function, management function, and supervision function	Management, supervision, and regulatory functions	Ownership Function, Operational Business Implementation Function. Functions of Sharia Aspect Supervision Function, Supervision, and Advisory Function.	Submissive function, implementation function, advisory function, supervisory function, monitoring and partnership function, regulatory function

Substance	GGG-INO	ZCP	GGSBGG	VG
Structure	Governing organs, such as trustees, supervisors, administrators, and executives of organizations, or organs or bodies with other names; other stakeholders, such as fund providers, beneficiaries, members, employees, suppliers, authorities, activity supporters, the general public, and the community related to the organization's activities	Zakat Management Institutions, Agencies supervisors, regulators.	General Meeting of Shareholders (GMS), Board of Commissioners, Board of Directors, and Sharia Supervisory Board	Implementers of philanthropic institutions, such as directors, management, and students; advisors, such as trustees and administrators of the foundation; and supervisors are like the supervisory board (DPS). Baznas; "Owners" and partners such as beneficiaries (donors) and beneficiaries (ummah); Enforcers and policymakers such as the Government (Ministry of Religion, BAZNAS, BAZ prov/city/regency) and Zakat Forum (FOZ)
Process	The stages of management, supervision, and overall development of the organization by implementing risk management and internal control systems that are effective, appropriate, and encouraging compliance with applicable laws and regulations, integrated into the organization's governance system, which is in line with the objectives, Organizational Goals, and Strategies	The stages of development, implementation, monitoring, and enforcement of practical zakat tools and supervision systems include internal and sharia control.	Implementation Stages (Determination of the company's vision, mission, and values; position and function of the organizing organ; implementation of accountability, internal control, and financial reporting; operational policies; code of conduct; disclosure information; improvement policy and assessment policy)	The planning stage has the right intention, the do stage with istiqomah and by sharia, the check stage with self-reflection and institutions, and the act stage with migration to a good/better path. The process begins with <i>bismillah</i> , accompanied by <i>dzikrullah</i> , prayer and ends with <i>alhamdulillah</i> , which never escapes from tawakal to Allah
Purpose (Wisdom)	Creating organizational value and benefits for members and beneficiaries that are sustainable in the long term by paying attention to the interests of stakeholders; Building a culture of good nonprofit governance	Achieving the strengthening of good zakat management and supervision and zakat safety net instruments among Muslim countries	Getting blessings, benefits, and Continuity and Benefits, Avoiding harm	Achieving the benefits and pleasure of Allah in this world and the hereafter

Source: Researcher Synthesis

CONCLUSION

Sharia Financial Institutions have a unique corporate governance system and are different from corporate governance in general, especially for non-profit institutions such as philanthropic institutions. (Grassa, 2013; Rama, 2015) The four guidelines/frameworks for Sharia Governance, namely General Guidelines for Sharia Business Good Governance (GGSBGG) for Islamic business organizations prepared by the Komite Nasional Kebijakan Governansi (KNKG) in 2011, *Zakat Core Principle (ZCP)* (2016) by Bank Indonesia, Baznas and the Islamic Research and Training Institute (IRTI – IDB) for zakat institutions, the 2022 General Guidelines for the Governance of Indonesian Non-Profit Organizations (GGG-INO) for non-profit organizations by KNKG, and virtuous governance for philanthropic institutions in 2023 have their uniqueness. The fundamental difference between virtuous governance and the other three governance types lies in the driving factor (driven), and the foundation of governance affects the values implemented by philanthropic institutions. This value difference will affect governance's concept, principles, processes, and objectives.

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