

CORPORATE GOVERNANCE EVALUATION OF PT BANK A IN RELATION WITH SPIN-OFF PREPARATION SHARIA BUSINESS UNITS

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Abstract

The motivation for the research is due to Bank A prepared for a Spin-Off Sharia Business Unit to comply with the provisions of Law No 21 of 2008 relating to Islamic banking, there are several cases regarding corporate governance in Sharia banking, so Bank A has an obligation to make sure current practice of corporate governance is adequate enough to be benchmarked by Sharia Business Unit. The goal of the research is to evaluate the practice of corporate governance in PT Bank A in relation to the Spin-Off preparation Sharia Business Unit to comply with the provisions of Law No. 21 of 2008 relating to Islamic Banking. The evaluation has become important because Bank A has responsibilities to guide the corporate governance design of the Sharia Business Unit to be a separate entity using the current corporate governance practice of Bank A as a benchmark. Document analysis and a semi-structured face-to-face procedure interview were employed to achieve the purposes of the research. Data were taken from the Head of Corporate Secretary, Financial Controller, Sharia Planning and Strategic Head, and internal documents of PT Bank A. There are several aspects of Bank A to improve in order to have a better corporate governance foundation to guide the preparation process for establishing (spin-off) Sharia Business Units such as strengthening of systems, infrastructure, and public participation processes. This study adds to the knowledge body on the evaluation of corporate governance for conventional banking in order to spin off Sharia business units due to the obligation stated in the provisions of Law No. 21 of 2008 relating to Islamic Banking. The study also argued not only the regulation can be used as an indicator for evaluation but using the “beyond regulation” indicator will be beneficial to improve current corporate governance practices to become efficient and effective. This research is going to evaluate the corporate governance practice of PT Bank A using the General Guidelines for Governance of Indonesian Sharia Entities (*Pedoman Umum Governansi Entitas Syariah Indonesia*) (PUG-ESI) which the guideline is new in Indonesia. This research is going to give an overview of the current implementation of corporate governance and the steps that need to be taken to prepare for a spin-off in 2023 in terms of complying with corporate governance guidance. This research can be used as a good benchmark for the conventional banking industry which spin-offs Sharia Business Units in Indonesia.

Keywords: Conventional Banking, Corporate Governance, Sharia Business Unit, Sharia Governance, Spin-Off.

INTRODUCTION

Corporate governance (GCG) is still a major issue in a company's business. This is because Corporate responsibility is a crucial milestone for a company's valuation. According to a study conducted by the World Bank, one of the factors causing the current world economic crisis is the weak implementation of the corporate governance system (The World Bank, 2010). In addition, the issue of weak corporate governance was one of the triggers for the economic crisis that occurred in Indonesia in 1997. Therefore, many people believe putting business governance in place is essential in the business world as a barometer of corporate accountability.

Following the passage of Law No. 10 of 1998, the public in Indonesia was extremely eager to use Islamic banking and financial institutions' services, which raised hopes for the creation of a better nuance in both the micro and macroeconomies. The consequence of this increased public interest is accompanied by an improved public understanding of Islamic teachings that provide guidance in all aspects of life, including the existence of Sharia accounting. Therefore, society will demand the implementation of good and clean Islamic financial institutions and this will encourage the development and implementation of a clear, precise, orderly, and effective accountability system.

The magnitude of the responsibility possessed by Islamic banking shows that Islamic banking must create good corporate governance. The irony is that giving this great responsibility is not matched by the preparation of human resources and good governance. This is able to be seen from the lack of discipline in Islamic bank employees in finishing their duties and responsibilities which has given rise to several cases. This case was proven by the existence of fraud at the largest Islamic bank in Indonesia regarding the embezzlement of housing loan funds in Banda Aceh in February 2022 (Dialeksis, 2022). In addition, this is also proven by survey data related to fraud in Indonesia (ACFE, 2020) carried out by the ACFE in 2019 where the Financial and Banking Industry is the most disadvantaged aparty due to fraud in Indonesia as much as 41.4%. Therefore, there is still a lack of corporate governance practices in the banking industry that may create problems in the future.

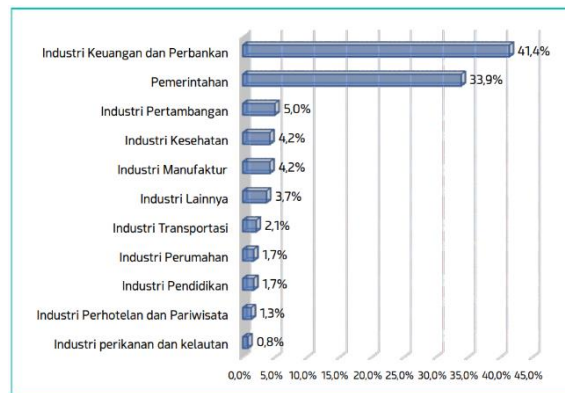


Figure 1.

Types of Industries that are the Most Disadvantage due to Fraud

Source: (ACFE, 2020)

The rapid progress of sharia banking in Indonesia has made conventional commercial banks (BUK) also want to provide services based on sharia principles (OJK, 2023). The establishment of UUS is a mandatory requirement that must be carried out by conventional commercial banks wishing to provide services based on Sharia principles. This UUS arrangement was reaffirmed in Law No. 21 of 2008 on Islamic Banks. UUS as a bank operating unit or department is temporary, not permanent. Based on the above stipulations, a traditional commercial bank may spin off a UUS to become an Islamic commercial bank if its assets reach at least 50% of the parent bank's total assets or if it operates at maximum segregation limits, is understood to need to be 15 years after the enactment of the Sharia Banking Act, which is in 2023. Regarding the UUS spin-off mechanism, POJK 59/POJK.03/2020 specifically regulates the requirements and procedures for the separation of Shariah entities. There are two ways to separate UUS from BUK. First, create a new Sharia Commercial Bank (BUS), or second, assign the rights and obligations of UUS to an existing BUS.

Bank A plans to prepare for a spin-off of the Sharia Business Unit (UUS) to comply Law No. 21 of 2008 on Islamic Banks. By preparing for the spin-off of UUS, Bank A must ensure good GCG implementation in the Company so that the spin-off process for UUS runs smoothly and the Sharia Business Unit can have good GCG implementation after the spin-off process. Currently, several aspects of UUS CG are blended with bank A, therefore there is a problem if, in the process of spin-off, UUS lacks of evaluation of current

corporate governance practice. However, the process spin-off of UUS requires careful preparation, especially in implementing corporate governance. In particular, Bank A is a conventional banking company with a Sharia Business Unit that operates based on Islamic law. Responsibility for aspects of corporate governance does not only lie with shareholders but also with customers and the community related to Sharia aspects.

This research has its contribution as it differs from several prior studies and helps to contribute more to the presenting literature in many respects. First, the research aims to help evaluate the corporate governance of Bank A and conduct a gap analysis of the corporate governance framework that binds Bank A in relation to the preparation for the spin-off Sharia Business Unit which has advantages in several aspects such as this research gives an overview for the current implementation of corporate governance, and steps that need to be taken to prepare for a spin-off in 2023 in terms of complying with corporate governance guidance (evaluation). This research can be used as a good benchmark for the conventional banking industry which spin-offs Sharia Business Units in Indonesia because Bank A is one of the conventional banks in the banking industry that must prepare for the spin-off in Indonesia (problem-solving). This research is expected to provide additional information for implementation related to corporate governance in Bank A which can be used as material for making investment decisions (analysis). For regulators, research at Bank A will provide an overview of the conditions for implementing corporate governance in Islamic banking, including among others, the banking industry in carrying out spin-offs of Islamic Business Units, the Islamic banking industry in adhering to Islamic corporate governance standards that are beginning to expand internationally (rule determination). For the community, this research can increase participation in checks and balances for companies whose sources of funds come from funds collected from the public, including banks and public companies (policy implication).

Secondly, this research uses General Guidelines for Governance of Indonesian Sharia Entities (*Pedoman Umum Governansi Entitas Syariah Indonesia*) (PUG-ESI) (KNKG, 2023) as an indicator for evaluation using qualitative analysis which those guidelines are “beyond regulation” where most research on governance evaluation in Indonesia is based on binding regulations and using quantitative analysis such as research by (Ridwan & Mayapada, 2022), (Savitri, E, et al., 2020). Therefore, there is very limited research on

governance evaluation that uses these guidelines as a benchmark in conducting governance evaluations.

REVIEW OF LITERATURE

Corporate Governance Theory

In many corporate governments, the interaction between principals and agents can be explained from a variety of different theoretical perspectives, including stewardship theory (Donaldson & Davis, 1991), theory of agency (Jensen, M.C & Meckling, W.H, 1976); (Fama, 1980)), managerial hegemony theory ((Cornforth, 1999); (Cornforth, 2001)) and most recent view, stakeholder theory ((Blair, 1995)). In subsequent developments, agency theory received a wider response and became the dominant theory because it better reflects the actual reality. The Framework of Corporate Governance is a program of policies and implementations by which the Board provides transparency, accountability, and fairness to various kinds of stakeholders (investors, management, customers, shareholders, employees, society, and government). Governments and regulators tend to promulgate the guidelines of corporate governance to institutions of governance and also protect the interests of all relevant stakeholders.

Corporate governance is a fundamental balance and internal and external control, ensuring accountability of all stakeholders and accountability for business operations (Solomon, 2010). Corporate governance is good if focuses on the strategy of innovation of the company and transparency in disclosure to avoid management abuse and control over business conduct. Besides that, consider financial expectations in the short term of profitability form, and also in the long term in terms of growth and return on investment (Abor, J. & Adjasi, C. K. D, 2007). Corporate governance helps develop strategic plans to achieve efficient and effective performance (Ijeoma, N & Ezejiofor, R. A, 2013). Corporate governance is known to be important for the development of competitive and healthy companies. In addition, good corporate governance practices grow a sound, better, accountable, transparent, independent, accountable, and fair control of the internal system (Ramakrishnan, 2013).

Islamic Sharia-Based Corporate Governance

Islamic banking's governance model is according to property rights and contracts principles and should establish structures that affirm Sharia law to protect the rights of interest groups (Bhatti, 2009). Sharia governance is therefore a full system outlining how IFIs apply the bases of Shariah in running the business (Ginena, K & Hamid, A, 2015). (IFSB, 2009) describes the Sharia system of governance as "a set of structural steps to ensure that IFIS is Sharia compliant throughout its operations". The Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI) standards of accounting reflect the different characteristics of IFIs and serve as a guide that can meet the industry's ongoing needs. AAOIFI policies and standards of accounting become not mandated for IFIs and can pose comparability, reliability, and compliance measurement issues (Sarea, A.M & Hanefah, M.M, 2013).

Research shows that the oversight and leadership role of the Sharia Supervisory Board (DPS) has a positive influence on the performance of Islamic banks (Nomran, N.M, et al., 2018); (Mollah, S & Zaman, M, 2015)). Furthermore, DPS composition, size, education, qualifications, and proficiency in Islamic jurisprudence, modern finance, and Islamic finance are positively correlated with IFI performance (Almutairi, A.R & Quttainah, M.A, 2017). His understanding of Shariah and his knowledge of finance and accounting helped DPS make decisions. Again, high-performing DPS members contribute to higher profits and benefits (Nomran, N.M, et al., 2017). (Khan, I, et al., 2017) Also, his DPS members with degrees in accounting, economics, or finance, and knowledge of Sharia are positively related to Islamic banking performance and profitability. We also understand that there are Islamic banks working with reputable DPS members that may explicitly provide Sharia governance guidelines and principles, disclose information, and disclose additional information on corporate social responsibility in their annual reports. increase. Such a DPS may also have other active roles in overseeing and directing the bank function as a whole, advising management on improving the quality of the SG and improving the bank's operational services, performance, and disclosure (Ajili, H. & Bouri, A, 2018).

Corporate Governance in Indonesia Banking Industry

The conventional bank corporate governance framework with additional sharia services through the Sharia Business Unit covers three areas, as follows:

1. Legal provisions that are binding in Indonesia and guidelines issued by competent authorities in certain fields, for example, Bank Indonesia (for banking companies) and the Indonesian National Governance Committee (KNKG) (for public companies and companies that collect and manage public funds). Some examples of provisions include BI Regulation no.11/33/PBI/2009 concerning the application of GCG in Islamic banks, and General Guidelines for Indonesian Corporate Governance and General Guidelines for Governance of Indonesian Sharia Entities issued by the KNKG (KNKG, 2023).
2. Internationally recognized corporate governance frameworks, including Principles of Corporate Governance (OECD, 2004)) and Enhancing Corporate Governance for Banking Organizations (BCBS, 2010)). The OECD framework is one of the frameworks accepted at the international level (Abu-Tapanjeh, 2009) which aims to provide support to the governments of OECD and non-OECD countries in evaluating and developing corporate governance frameworks in their respective countries (OECD, 2004). The Basel Committee on Banking Supervision adopted the principles of corporate governance from the OECD to develop practice guidelines that are relevant to the characteristics of the banking business (BCBS, 2010).
3. Corporate governance frameworks that apply specifically to Islamic banking, including the Guiding Principles on Sharia Governance Systems for Institutions Offering Islamic Financial Services (IFSB, 2009), Governance Standards for Islamic Financial Institutions (AAOIFI, 2005). Both AAOIFI and IFSB are the main Islamic Shari'ah-based corporate governance standard-setting bodies in the world (Hawkamah, 2011). Both frameworks emphasize the Sharia Board as the backbone of Islamic financial institutions, including in terms of independence, audit and governance, internal Sharia review as well as the appointment mechanism and expertise of members of the Sharia Council.

Spin-Off Procedure and Resource Dependence Theory

Resource dependency theory explains how a company's external resources influence decision making. Sourcing external resources is an integral part of any company's tactical and also strategic management. The presenting references suggests that the theory provides the need for firms to use resources as alternative actors in the environment, and that by depicting scarce resources, it provides new opportunities for firms to use alternative resources ((Pfeffer, J & Salancik, G.R, 1978); (Sherer, P.D & Lee, K, 2002)). Theories are used in empirical studies ((Sharif, S.P & Yeoh, K.K, 2014); (Hillman, A.J, et al., 2000)). These studies examine corporate behavior, director and officer appointments, and contracts. We demonstrate and discuss the importance of this theory in describing the structure, business policies, and relationships of firms to their external relations. Research examines associations, joint ventures, unions and achievements to overcome addiction and promote physical independence and legitimacy

Regarding the UUS spin-off mechanism, POJK 59/POJK.03/2020 specifically regulates the requirements and procedures for the separation of Shariah entities. There are two ways to separate UUS from BUK. First, create a new Sharia Commercial Bank (BUS). or second, assign the rights and obligations of UUS to an existing BUS. "The separation of UUS through the creation of BUS can only be done with the approval of the Bank of Indonesia (currently the Financial Services Authority). The paid-up capital is at least Rp.500 billion (Rp. If insufficient, cash and/or land and buildings resulting from the split may be contributed and used to operate BUS. The paid-up capital of BUS resulting from the separation must be increased to at least IDR 1 trillion (1,000,000,000,000.00) within 10 years after the BUS business license is granted.

General Legal Provisions for Sharia Bank

In Indonesia, good corporate governance obligations apply only to certain companies. These companies are generally associated with public interests such as, As a publicly traded company and a company operating in the financial services sector, practicing corporate governance is a prerequisite to protect investors and the wider community. The application of corporate governance in those companies is covered by Law No. 8 Year 1995 (Modal, 1995), Law No. 10 Year 1998 (UU Perbankan, 1998) and relevant laws including Law No.

21 2008 (UU Perbankan Syariah, 2008). However, as mandated by Law No. 40 of 2007 (UU Perseroan Terbatas, 2007) practicing corporate governance is actually an obligation of all companies. The explanation in section 4 states that the company must adhere to the principles of integrity, decency, decency and good corporate governance in managing the company.

The legal basis regarding corporate governance in some Islamic banks lies in the Islamic Banking Act. The Sharia Banking Law is a refinement of Law No. 10/1998 (UU Perbankan, 1998) which is considered not specific and does not accommodate the operational characteristics of Islamic banking, while the growth and business volume of Islamic banks has grown rapidly since the issuance of the Law. Article 34 paragraph 1 stipulates that BUS and UUS are required to implement good governance. Furthermore, Article 34 (2) requires Islamic banks to develop internal procedures for implementing corporate governance principles in order to optimize the corporate governance application at all scales of the enterprise.

Conceptual Framework

Based on literature review above, research framework of this research as follows:

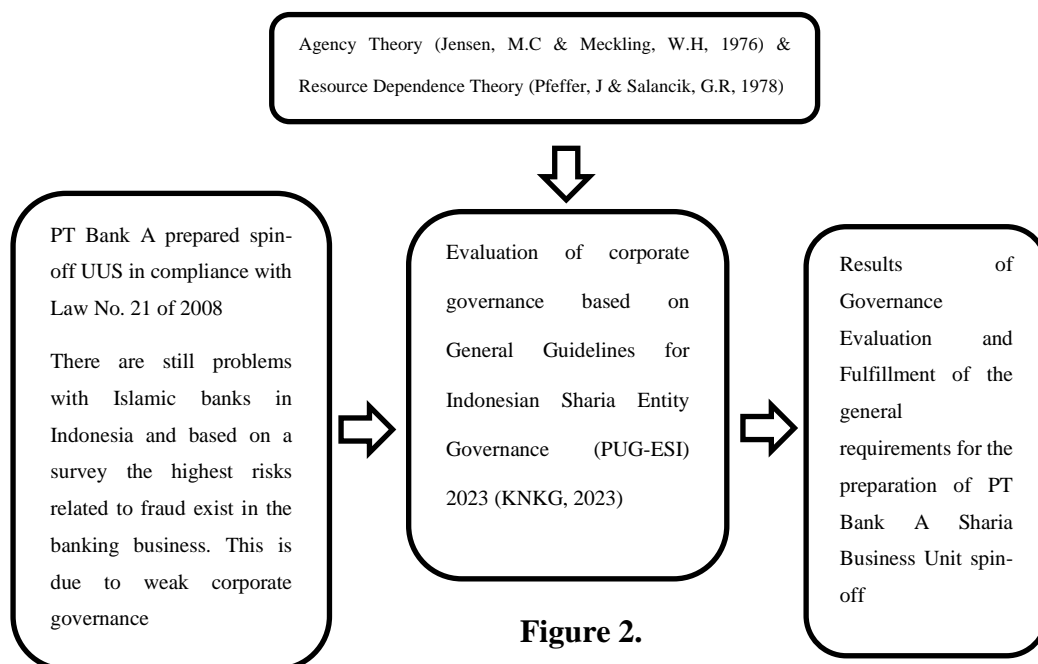


Figure 2.

Research Framework

Source: (UU Perbankan Syariah, 2008), (ACFE, 2020). (Dialeksis, 2022), (KNKG, 2023)

RESEARCH METHOD

This study employs a case study method based on literature analysis and interviews. The method of case study (Yin, 2003) helps an in-depth definition of his CG practice in relation to specific perceptions and serves an important research purpose. This research uses a single case study. Therefore, this study builds on a case study study to evaluate Bank A's governance mechanisms as a single unit analysis. This case study is evaluative in nature, i.e., it can be either descriptive and judgmental (Yin, 1984) or an instrumental case study (Stake) to examine a certain case to provide ne insight to be a problem or theory (Stake, 1994).

Qualitative research is used know why and how something happens (Cooper, R.D & Schindler, S.P, 2011). It consists of “a set of interpretive techniques that seek to describe, decode, translate, and otherwise come to understand with meaning, not frequency, certain phenomena that more or less occur naturally in the social world” (Cooper, R.D & Schindler, S.P, 2011). This research used qualitative method. This is because researchers are looking for answers to 'how' questions rather than 'how much' of the questions (Silverman, 2010).

Data Collection

In carrying out an evaluation, it is necessary to determine the criteria that will be used to conclude the results of the evaluation (Ellet, 2018). This research was conducted using criteria that were developed based on:

1. The 8 (eight) principles of KNKG corporate governance are given in the General Guidelines for Governance of Indonesian Sharia Entities (KNKG, 2023). These eight principles are the basis for the corporate governance application for public companies and all banks in Indonesia with sharia principles.
2. General provisions in OJK Regulation no. 59/POJK.03/2020 regarding the requirements and procedures for separating Sharia Business Units.

Data sources consist of primary data and secondary data using the following data collection methods:

1. Documentation

Researchers must have extensive knowledge about the object under study. So, it is important for researchers to obtain secondary data in the form of company internal documents and regulations related to the research topic. Through secondary data analysis, the researcher analyzed the available data. However, even though the data is not generated by direct research interactions with participants, researchers still need to be active in collecting and constructing the data (Cassell, Catherine & Symon, Guillian, 2004). Through documentation techniques an analysis of literature and documents related to the topics discussed is carried out. It aims to obtain theoretical data that supports the truth of the data obtained from research. Information and data in this study were obtained from various public sources (company annual reports, company websites, newspapers) and internal data obtained from the companies studied. In this research we will examine PUG-ESI, Annual Report of Bank A, and other internal documents to analyze regarding corporate governance practice in PT Bank A.'

2. Semi-Structured Interview

Interviews done in this research are data taken directly and actively from the researchers. Primary data is able to be taken from interviews by the process of interactions of the researchers and also the participants directly through internet (Cassell, Catherine & Symon, Guillian, 2004) The semi-structured interview was chosen by the researcher give such an additional data about the research as it fits more for comprehensively understanding the practical features of the subject matter. This interview also allows the researcher to elicit more perspectives of the respondents, it can include a variety of specifics when collecting the answers (Dane, 1990). In addition, this kind of method provides an opportunity for respondents to give more perception of their practical knowledge and also understanding (Saunders, M, et al., 2007). Moreover, face-to-face interviews can fulfill the process for gaining a good definition of the problem of research. When the conversation is going face-to-face, it's good to know the in-depth responses. It helps participants understand the questions to be clearer (Sekaran, U & Bougie, R, 2010). Face-to-face interviews maintain the personality of the respondents in giving their perceptions, highly valued in the whole procedure of collection of data (Gillham, 2000).

The interviewee was the subject of the researcher as an informant for this study who came from an insider at Bank A. The interviewees are Syariah strategic and planning head and Head of Corporate Secretary. Both of them are chosen, due to both of them are the PIC regarding spin-off in Bank A and also gathering information regarding corporate governance. The goals in determining these sources were to create findings to support analysis of the data. The interviews have several goals as follows:

- a. Obtain clarification of existing information gaps
- b. Ensuring the reliability of the information obtained
- c. Obtain information regarding spin-offs that are not disclosed in open reports

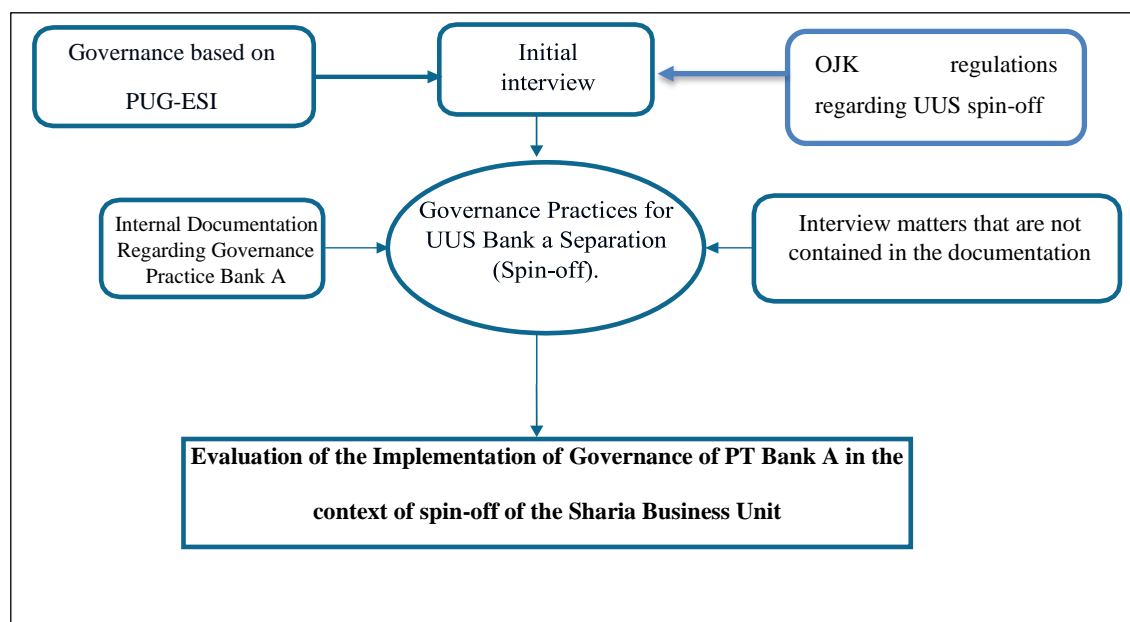


Figure 3.

Data Analysis Process

Source: Processed by the Author

Data Analysis

Data analysis aims so that the data obtained in the form of interviews or company documents can be understood and analyzed so that they can provide solutions to problems. The steps in analyzing data based on Figure 3 are as follows:

- a. Carrying out the process of identifying problems regarding the need to evaluate the implementation of Bank A's governance in preparation for the spin-off of the UUS.

- b. The process of studying the literature to formulate a problem, namely related to governance and additional aspects of Sharia governance to be used as indicators in conducting evaluations. The analytical framework became the basis for collecting secondary data and formulating interview questions.
- c. Secondary data was collected and grouped based on research questions and matters from secondary data that required further clarification or confirmation were added to the interview questions. Based on the completed interview questions, interviewees were identified to be interviewed. Data from interviews were grouped according to research questions to be analyzed together with secondary data. In the event that there were things that required further clarification based on data analysis, interviews were again conducted. Conducting interviews and analysis of documents related to Bank A Governance practice which are the core of the research implementation process. Because in the interview process the researcher collects data that is used as evidence in conducting the evaluation. The interview process was carried out credibly so as to produce objective data.
- d. The next stage is data analysis, summarizing the data obtained and evaluating the governance principles of Bank A in the context of spin-off of the Sharia Business Unit at Bank A. Data analysis uses qualitative analysis methods based on an analytical framework with the aim of answering each research question and compare with the guidelines used as indicators. The analysis technique used is diagnostic analytic with gap analysis technique by comparing the eight principles of governance and general requirements in OJK Regulation no. 59/POJK.03/2020 regarding the requirements and procedures for separating Sharia Business Units as criteria/indicators in conducting evaluations
- e. The results of the research are in the term of proposals and recommendations related to the governance of bank A in the context of sharia unit spin-off. The stages of the research were carried out by the authors objectively so as to produce credible research results.

Unit Analysis

The Sharia Business Unit is a division of Bank A under Sharia principles. Managed by Bank A, Sharia Business Unit (UUS). It is supported by the Bank's 2023 strategy to

develop digital Islamic banking; Bank A Syariah will enhance its products and services specifically for the public through its digital banking platform. In addition, Bank A Syariah plans to complement its lending products with green lending. At the same time, Bank A continues to offer its customers innovative and unique products. Products focus on customer needs and provide a competitive edge compared to the services and products offered by competitors (Bank A, 2023).

An organizational structure ensures that a company can conduct its business properly. The GMS is claimed as the highest body of the business entity. The General Assembly has powers not possessed by other bodies, such as appointing and appointing officers, directors, and the Sharia Council. The committees formed by the company for the continued implementation of its corporate governance principles are a) Audit Committee, b) Nomination and Compensation Committee, and c) Risk Oversight Committee. These committees act as extensions of the committees in exercising oversight functions of the company. Ultimate responsibility for the operation of the company rests with the Managing Director, whose business conduct is overseen by a committee and Shariah Supervisory Board. The President Director leads the management team and is assisted by her nine Directors who oversee specific areas of the company’s operations.

RESULTS AND DISCUSSION

EVALUATION OF THE 8 (EIGHT) PRINCIPLES OF GENERAL GUIDELINES FOR INDONESIAN SHARIA ENTITY GOVERNANCE (PUG-ESI) 2023			
No	PRINCIPLES	GAP	RECOMMENDATION
1	Roles and Responsibilities of the Board of Directors, Board of Commissioners and DPS (Principle 1)	Has not submitted a report commenting on the Quarterly Financial Report and published simultaneously with the Quarterly Financial Report	Deliver a report commenting on the Quarterly Financial Statements so that it is useful for investors and analysts who will review the fundamentals and financial performance of the entity
2	Composition and Remuneration	a. A former president director who will join the	a. Former main directors can join the Board of

	of the Board of Directors, Board of Commissioners and DPS (Principle 2)	Board of Commissioners (President Commissioner) and a former independent commissioner who has been reappointed as an Independent Commissioner without a break between these positions. b. Deputy main commissioner (independent) beyond the time limit of 9 (nine) years	Commissioners and former independent commissioners can be reappointed as Independent Commissioners with a break between these positions of at least 2 (two) years. b. The term of office of an independent commissioner may not exceed the time limit of 9 (nine) years.
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EVALUATION OF THE 8 (EIGHT) PRINCIPLES OF GENERAL GUIDELINES FOR INDONESIAN SHARIA ENTITY GOVERNANCE (PUG-ESI) 2023

No	PRINCIPLES	GAP	RECOMMENDATION
3	Working Relations between the Board of Directors, Board of Commissioners and DPS (Principle 3)	There isn't any	There isn't any
4	Ethical and Responsible Behavior (Principle 4)	There isn't any	There isn't any
5	Risk Management, Internal Control and Compliance (Principle 5)	The Board of Directors has not submitted the results of the review in the Entity's	Submitting to the entity's annual report related to the sharia review includes: a. identification, assessment, and monitoring of operational and activity

		annual report.	compliance with sharia; b. periodic review results and findings; c. informing and updating information and the latest developments related to laws and regulations related to the Entity in sharia management and committees; provide adequate guidance and training on relevant governance requirements for review staff.
EVALUATION OF THE 8 (EIGHT) PRINCIPLES OF GENERAL GUIDELINES FOR INDONESIAN SHARIA ENTITY GOVERNANCE (PUG-ESI) 2023			
No	PRINCIPLES	GAP	RECOMMENDATION
6	Disclosure and Transparency (Principle 6)	Bank A has not performed assurance (assurance) by external parties on the Sustainability Report	Sustainability reports are expected to be provided with assurance by independent and competent external parties to increase the quality of Bank A's sustainability reports.

7	Application of the Principle of Protection of Shareholders' Rights (Principle 7)	<p>a. Bank A has not clearly disclosed the rules and procedures governing acquisitions, takeovers and extraordinary transactions such as mergers and asset sales</p> <p>b. The minutes of the GMS do not contain questions raised by shareholders and answers given by the chairman of the meeting or the answering party.</p>	<p>a. Bank A must clearly disclose the rules and procedures governing acquisitions, takeovers and extraordinary transactions such as mergers and asset sales so that investors understand their rights and the right to compensation. so that investors understand their rights and the right to obtain compensation</p> <p>b. It is necessary that the minutes of the GMS contain the questions raised by the shareholders and the answers given by the chairman of the meeting or the answering party to ensure the completeness of the minutes of the GMS so that the public is aware of the questions and the quality of the answers given by bank A at the GMS.</p>
8	Respect for Other	There isn't any	There isn't any

	Stakeholders (Principle 8)		
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EVALUATION OF COMPLIANCE WITH GENERAL REQUIREMENTS OF OJK REGULATION NO. 59/POJK.03/2020 (REQUIREMENTS AND PROCEDURES FOR SEPARATION OF SHARIA BUSINESS UNITS)			
No	ASPECT	GAP	RECOMMENDATION
1	Minimum Capital Adequacy Ratio (KPMM) regarding the minimum capital adequacy requirement of BUS	Bank A has not yet received certainty regarding the minimum capital adequacy requirement and is waiting for an update regarding the obligation to carry out a UUS spin-off.	Bank A must obtain certainty from the majority shareholder regarding the ability to provide minimum capital adequacy in the future.
2	Non-Performing Financing (NPF) Ratio at most 5%	There isn't any	There isn't any

Roles and Responsibilities of the Board of Directors, Board of Commissioners and DPS

Bank A has implemented this principle except, regarding the Quarterly Financial Report, the Board of Directors of Bank A has not submitted a report commenting on the Quarterly Financial Report and published simultaneously with the Quarterly Financial Report so that it is useful for investors and analysts who will review the entity's

fundamentals and financial performance. Bank A has submitted Quarterly information in the form of:

- a. Quarterly Financial Report
- b. Report of Total Exports in Quarterly Leverage Ratio
- c. Quarterly Liquidity Coverage Ratio Calculation Report
- d. Report on Compliance Obligations Net Stable Funding Ratio (Net Stable Funding Ratio)
- e. Quarterly Risk Exposure and Capital Publication Reports

The results of the confirmation with the corporate secretary stated that this did not cause any problems for bank A and always consulted with the OJK every quarter.

Composition and Remuneration of the Board of Directors, Board of Commissioners and DPS

Overall Bank A has implemented this principle except, there are former president directors/members of the Board of Directors who will join the ranks of the Board of Commissioners (President Commissioner) without a break between these positions. In addition, the former independent commissioner was reappointed as an Independent Commissioner and there was no respite between these positions. There is a deputy main commissioner (independent) over the deadline of 9 (nine) years with a total term of office of 18 years (6x appointments with a term of office of 3 years each).

The results of the confirmation with the corporate secretary stated that this did not cause any problems for bank A and always consulted with the OJK. However, this can weaken the ability of the Board of Commissioners to provide independent advice and supervision to the Board of Directors and for roles where there is a potential conflict of interest, the Board of Commissioners consists of a sufficient number of Independent Commissioners, with a limited term of office and disclosure of the term of membership. The Board of Commissioners and their independence from the entity's point of view.

Working Relations between the Board of Directors, Board of Commissioners and DPS

Overall Bank A has implemented this principle, which are:

- a. Bank A has disclosed that the Board of Directors and Board of Commissioners have a close, open, constructive, professional and trusting working relationship for the best interests of the corporation.
- b. Bank A has emphasized the importance of a close, open, constructive, professional, trusting working relationship between the Board of Directors and the Board of Commissioners in achieving the best interests of the corporation.
- c. Bank A has disclosed access to complete information on the Board of Commissioners and the importance of members of the Board of Directors and Board of Commissioners understanding the implications of the corporate ownership structure for carrying out their roles.

Ethical and Responsible Behavior

Overall Bank A has implemented this principle, which are:

- a. Bank A has disclosed about the Corporation's efforts to have a commitment to act ethically and responsibly, upholding organizational values and culture.
- b. Bank A has disclosed the need for corporations to make periodic statements regarding corporate commitments not only to comply with applicable laws and regulations, but also to commit to act ethically and responsibly.
- c. Bank A has disclosed that the sharia board has a clear description of responsibilities and mandates received clear operational procedures and reporting lines and a good understanding of ethics and professional conduct
- d. Bank A has disclosed that its sharia board provides strong and independent sharia oversight with sufficient capability to make objective decisions on sharia-related issues. In addition, the decision-making process of the sharia board is not allowed to be dominated by one individual or group of individuals
- e. Bank A has disclosed that the sharia board has been provided with complete, sufficient and timely information prior to the holding of the work meeting

Risk Management, Internal Control and Compliance

Overall, Bank A has implemented this principle except, Periodic sharia reviews are conducted to assess the Entity's compliance with sharia-compliant operations, business, cooperation and activities. The officer in charge of compliance has been responsible for

conducting a sharia review as part of the Entity's compliance responsibilities. The staff performing the review function have sufficient qualifications and competencies to carry out the compliance function and understand the sharia related to the Entity. However, the Board of Directors has not submitted the results of the review in the Entity's annual report. Things that need to be submitted in the entity's annual report related to the sharia review include:

- a. Identification, assessment, and monitoring of operational and activity compliance with Sharia;
- b. Periodic review results and findings reports;
- c. Inform and update information and the latest developments related to laws and regulations related to the Entity on sharia management and committees;
- d. Provide adequate guidance and training on relevant governance requirements for review staff.

The results of the confirmation on the part of the corporate secretary are that there is no obligation regarding the inclusion of the results of the sharia audit review in the Entity's annual report, and Bank A is ready to add them to the Entity's annual report if necessary.

Disclosure and Transparency

Overall Bank A has implemented this principle except, the sustainability report is prepared in accordance with the Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017, Global Reporting Initiative (GRI) Standards 2021, GRI Financial Service Sector Disclosures, and the Sustainability Accounting Standard Board (SASB) for Commercial Banks. There are several restatements in the 2022 Sustainability Report, namely financial performance data for 2021 and 2020, as well as employee training data for 2020. Bank A has not carried out assurance from external parties regarding the Sustainability Report. Sustainability reports are expected to be provided with assurance by independent and competent external parties to increase the quality of Bank A's sustainability reports.

The results of the confirmation on the Corporate Secretary and Sustainable Finance section do not yet have binding regulations requiring Sustainability Reports to be guaranteed (assurance), so far Bank A has only asked Bank A's external auditors to audit

figures related to sustainability reports, but has not conducted a review related to measurement existing environmental aspects.

Application of the Principle of Protection of Shareholders' Rights

Overall Bank A has implemented this principle except, tactics that prevent takeover (anti-take-over devices) are not used to protect management and the Board of Commissioners from accountability, this is evidenced by the change in controlling shareholder of Bank A in 2019. In addition, Bank A has not clearly disclosed the rules and procedures governing acquisitions, acquisitions, and extraordinary transactions such as mergers and asset sales so that investors understand their rights and the right to compensation.

Confirmation results from the Corporate Secretary that there are no binding rules and procedures governing acquisitions, takeovers, and extraordinary transactions such as mergers and asset sales so that investors understand their rights and the right to compensation. Bank A is prepared to disclose the rules and procedures governing acquisitions, takeovers and extraordinary transactions such as mergers and asset sales so that investors understand their rights and the right to obtain compensation if needed.

Respect for Other Stakeholders

Overall, Bank A has implemented this principle, which are:

- a. Bank A has disclosed to the Corporation regarding the recognition of stakeholder rights stipulated in applicable laws and regulations or an agreement agreed upon by the corporation and encourages active cooperation with stakeholders in creating wealth, employment, and financially healthy business continuity.
- b. Bank A has disclosed the role of the Board of Directors and Board of Commissioners in integrating sustainability aspects into the corporate business model, implementing stakeholder engagement, and ensuring the protection of the rights of stakeholders. The Board of Commissioners monitors the integration of all of the above aspects by the Board of Directors.

Minimum Capital Adequacy Ratio Regarding the Minimum Capital Adequacy Requirement of BUS

- a. Paid-up capital for the establishment of a BUS resulting from Separation which becomes a subsidiary in the structure of a bank business group is at least IDR 1,000,000,000,000.00 (one trillion rupiah).
- b. Paid-up capital for the establishment of a BUS resulting from Separation which becomes a holding company, is appointed as executor of the holding company, or is not in the structure of a bank business group of at least IDR 3,000,000,000,000.00 (three trillion rupiahs).
- c. Additions to the shortage of paid-in capital as referred to in points a and b must be made in cash

Based on the results of an interview with the Sharia Planning and Strategic Head, it was stated that the Sharia Business Unit (UUS) during the 2022 period, used Siahaan Irdamis Andarumi & Friends Counselors at Law for the implementation of the Sharia Business Unit Separation Plan (Spin off). Bank A intends to form a new BUS from the separation of UUS and carry out banking synergies. In addition, he has held meetings with the Board of Directors, UUS Board of Commissioners and the Sharia Supervisory Board regarding the Minimum Capital Adequacy Requirement (KPMM). The results of the meeting stated that the Board of Directors, Board of Commissioners and Sharia Supervisory Board are waiting for the final decision of the majority shareholder of Bank A and the final regulations which are still in the process of being made by the OJK.

Based on the information above, Bank A will continue to follow updates related to the obligation to spin off UUS, where the Board of Directors, Board of Commissioners and Sharia Supervisory Board and the majority shareholders are aware of the existence of a minimum capital adequacy requirement in the future.

Non-Performing Financing (NPF) Ratio at Most 5%

In 2022, Bank A recorded a net profit of IDR 3.30 trillion, an increase of 110% compared to 2021. This had an impact on ROA and ROE which were respectively 1.7% and 8.3% at the end of 2022 compared to the achievement the previous year which was recorded at 0.8% and 4.1% respectively. Bank A's (consolidated) gross NPF ratio was

maintained at 2.6% at the end of 2022, an improvement of 10bps compared to the end of 2021 which was recorded at 2.7%.

Based on the data above, Bank A has met the highest gross Non-Performing Financing Ratio (NPF) of 5% in accordance with POJK 59/POJK.03/2020 concerning requirements and procedures for separating Sharia business units.

CONCLUSION

Based on the above studies, it can be concluded that the implementation of Bank A's corporate governance has been quite good. In general, by conducting a review of the eight principles of corporate governance, all principles have been fulfilled. One of the factors causing the implementation of corporate governance to be carried out well is because Bank A is engaged in a highly regulated industry, one of the main components of which is the implementation of corporate governance because this business relies on public trust. The results of case study research conducted at conventional banking companies that are preparing for spin-off of Islamic Business Units support and enrich several previous studies.

In order to prepare for the spin-off of the Sharia Business Unit, Bank A is expected to be able to guide and become a benchmark for UUS and similar companies in general in terms of corporate governance, Bank A is not far behind from existing regulations. Provisions of general requirements in OJK Regulation no. 59/POJK.03/2020 regarding the requirements and procedures for separating Sharia Business Units has been prepared.

The implementation of corporate governance is not only carried out at the company's strategic level, but is also strengthened by consistent and continuous outreach across all levels of the company. This shows that the implementation of corporate governance in Bank A is not carried out solely because of government regulations, but is carried out with full awareness that the implementation of corporate governance will benefit the company itself. The recommendations that can be conveyed in this research are not carried out at the fundamental level, because their implementation in general has been carried out very well. The recommendations given are made to correct weaknesses that have not received attention from management, or are potential events that can cause problems in the future.

Thus, it is hoped that in the future the implementation of corporate governance at Bank A will run even better.

This research was conducted using the case study method with the aim of describing the situation and uniqueness of the company that is the object of the case study so that the situation in the object of the case study cannot be generalized to other banking companies and is not intended to reflect a general view of all banking sectors in Indonesia. The sharia banking industry has been affected by regulatory developments, previously allowing Conventional Commercial Banks to provide Sharia-based services, so there is an obligation to spin off Sharia Business Units to become Sharia Business Entities (BUS). Furthermore, the requirements for Banks that are required to carry out spin-offs have changed so that Banks need to wait for legal certainty regarding general requirements and which entities are required to carry out spin-offs. A case study describes a situation where maybe everyone can have a different opinion and analysis at a certain level contains the considerations and subjectivity of the researcher, therefore case studies have the characteristics of not having general conclusions (Ellet, 2018). This research mainly uses primary data sources in the form of interviews and secondary data which are publicly available at the time the research is conducted so that it may not cover the corporate strategy which is the object of the case study in a complete and in-depth manner.

The DPR has announced an amendment to the spin-off law through the PPSK Law whereby the obligation for a spin-off in July 2023 has been removed, and the terms of the Spin-Off will then be determined by the OJK. The law gives OJK no later than 6 (six) months to stipulate UUS requirements. Future researchers can carry out a similar evaluation using the new criteria that are being made by the OJK in 2023. In addition, spin-off obligations are not only required for conventional banking companies but are also intended for conventional insurance companies that also form business units in providing Sharia-based services. Therefore, further research can conduct research related to the evaluation of the implementation of corporate governance for insurance companies in order to prepare for the spin-off of the Sharia Business Unit.

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