

## Agency Problem Handling Strategy in Shariah Bank

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### ABSTRACT

In the period 2018 - 2020 there were 21, 8 and 26 findings of internal fraud cases at Bank Muamalat in the GCG report. Meanwhile, in BNI Syariah there are 8 to 9 findings of internal fraud contained on the official BNI Syariah website. Sharia Bank is a banking institution that is carried out based on sharia principles. Therefore, this study outlines various problems that may cause agency problems in Islamic banks. This research uses ANP research methods to describe problems and find solutions related to Agency Problems in Islamic Banking. The main problem causing the Agency Problem is the lack of supervision on the profit-sharing financing mechanism, in line with the priority of solutions related to agency problems, namely routine supervision related to financing that has been distributed. This result was agreed upon by the speakers with a rater agreement value of  $W = 0.24$ .

**Abstrak:** Pada rentang tahun 2018 – 2020 terdapat 21, 8 dan 26 temuan kasus internal fraud di Bank Muamalat pada laporan GCG. Sementara itu di BNI Syariah terdapat 8 sampai dengan 9 temuan internal fraud yang termuat dalam website resmi BNI Syariah. Bank Syariah merupakan institusi perbankan yang dijalankan berdasarkan prinsip syariah. Oleh sebab itu, penelitian ini menguraikan berbagai permasalahan yang mungkin menimbulkan terjadinya agency problem di Bank Syariah. Penelitian ini menggunakan metode penelitian ANP untuk menguraikan permasalahan dan mencari solusi terkait permasalahan Agency Problem di Perbankan Syariah. Adapun permasalahan utama penyebab agency problem adalah minimnya pengawasan pada mekanisme pembiayaan profit-sharing, sejalan dengan prioritas solusi terkait permasalahan agency problem, yaitu Pengawasan yang rutin terkait pembiayaan yang sudah disalurkan. Hasil ini disepakati oleh para narasumber dengan nilai rater agreement sebesar  $W = 0,24$ .

**Kata kunci:** masalah keagenan, tata kelola perusahaan yang baik, bank syariah

## INTRODUCTION

Islamic banking in Indonesia is facing the challenge of rapid ecosystem change, as in the Islamic banking road map issued by the Financial Services Authority (OJK) for 2020-2025, it is said that Islamic banking relies on three important things in the future. namely strengthening the identity, synergy and ecosystem of the Islamic economy and strengthening licensing, regulation, and supervision<sup>1</sup> regulated corporate governance as in the good regulatory regulations issued by Bank Indonesia through Bank Regulations Indonesia, namely PBI Number 11/33/PBI/2009 concerning the Implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units and issued by the Financial Services Authority through POJK Number 55/POJK.03/2016 Concerning the Implementation of Governance for Commercial Banks and Circular Letter Number 12/13/DPbS concerning the Implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units.<sup>2</sup>

Regulations from regulators as support from regulators that the importance of implementing governance in the banking industry to good governance both in terms of implementation and supervision then have governance principles that includes transparency, accountability, reliability, independence, and fairness<sup>3</sup>. Governance as the responsibility of stakeholders as control of the future of Islamic banks, so it is necessary to implement governance with the principles of transparency, accountability, reliability, independence and fairness siddiq, tabligh, amanah, and fathonah<sup>4</sup>

However, the reality that occurs in the implementation of governance in Islamic banking has not been carried out properly, this is evident from the form of supervision that needs to be proven the process starting from governance structure, governance process, and governance outcomes, and the discovery of findings of internal fraud in Islamic banks, as the initial data of reality, namely at Bank Muamalat as of 2018-2020, there were 21, 8, 26 findings published in the GCG Report. Meanwhile, BNI Syariah as many as 8 and 9 findings (data obtained from the bank's website). In fact, internal fraud in Islamic banks is not only the subject of poor governance, but it is necessary to study why internal fraud occurs even though there are already supervisory functions.<sup>5</sup>

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<sup>1</sup> Keuangan, Otoritas Jasa. *Roadmap Pengembangan Perbankan Syariah Indonesia*. Vol. 8.2020

<sup>2</sup> Keuangan, Otoritas Jasa. *Surat Edaran Nomor 12/13/DPbS.2010*

<sup>3</sup> Lukas, S., & Basuki, B. *The implementation of good corporate governance and its impact on the financial performance of banking industry listed in IDX. The International Journal of Accounting and Business Society*, 23(1), 2015, 47-72.

<sup>4</sup> Aminudin, A. *Tata Kelola Perusahaan Yang Baik, Manajemen Risiko Dan Kinerja Keuangan Di Bank Syariah. Liquidity: Jurnal Riset Akuntansi dan Manajemen*, 3(1), (2014), 44-50.

<sup>5</sup> Fadilah, S., Lestari, R., Sahdan, M. H., & Khalid, A. Z. A. . *Internal Audit Effectiveness: A Case Of Indonesia. Journal of Talent Development and Excellence*, 12(2s), (2020) 625-638.

Based on these problems, it is of particular interest for the author to explore research on Islamic banking governance because of various problems that may occur where due to conflicts Potential interests from shareholders and management of Islamic banks or known as agency problems. The issue of this problem was also carried out previous studies which stated that the implementation of Good Corporate Governance was realized from the availability of the board of directors, board of commissioners, and internal control mechanisms as well as the existence of sharia supervisory boards that play a role and synergize to overcome the problem of fraud or fraud that occurs because of banking as an intermediation financial services institution who are very vulnerable to fraudulent actions that can have an impact on the financial performance of banks<sup>6</sup>.

Although the organizational structure of Islamic banking has been supported by the sharia board of commissioners and supervisory board, it is not only needed in an institutional structure but also fundamental functions of the structure can function properly and effectively as expected in the implementation of banking governance this results in a healthy Islamic banking and performed well, as in previous research conducted by which compared the structure of Islamic banking governance in Indonesia with in Malaysia that in Malaysia stronger functions from the sharia supervisory board and focus more on not concurrent positions while on the sharia supervisory board in Indonesia because of the allowability of concurrent positions so as to make the supervisory function not yet Optimal.<sup>7</sup>

This is the analysis of inequality that occurs theoretically and practically that there has not been a good conformity of the organizational structure of islamic banks today with The authority and responsibility of the sharia supervisory board and other devices. Then the problem of agency problems that may occur in Islamic banking governance in Indonesia was also conducted research that outlined that the occurrence of agency problems in the implementation of profit sharing financing, namely mudharabah and musyarakah. Where the research revealed provision of profit sharing financing, especially in mudharabah, is very related to agency problems, because agents have the potential to commit deviations financial results of projects that are carried out because the control of the owner of capital is not optimal. These deviations relate to aspects of moral standards, the ineffectiveness of profit-sharing models, to employers, to costs, and to efficiency issues.<sup>8</sup>

From several previous studies, various discussions were found about corporate governance (GCG) on company financial performance, on agency theory, principal agent problems, principal contracts both in banking globally

<sup>6</sup> Ngumar, S., Fidiana, F., & Retnani, E. D. *Implikasi Tata Kelola Islami Pada Fraud Bank Islam. Jurnal Reviu Akuntansi Dan Keuangan*, 9(2),(2019), 226-239.

<sup>7</sup> Rama, A. *Analisis Sistem Tata Kelola Syariah bagi Perbankan Syariah di Indonesia dan Malaysia. Jurnal Bimas Islam*, 8(1),2015

<sup>8</sup> Muhamad, M. *Minimalisasi Masalah Agency Melalui Screening Adverse Selection dalam Pembiayaan Mudarabah di Bank Syari'ah. TSAQAFAH*, 6(1),2010, 43-64.

and banking in Indonesia. This is an interesting discussion and continues to be developed because of course, the implementation of good governance will produce a healthy banking system. The following are the results of the governance (GCG) discussion search conducted through the following VOS Viewer tool:

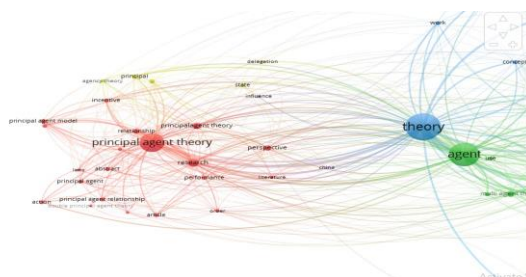


Figure 1. Principal Agency and Governance Issues

Banking management is considered by shareholders, management, and banking regulators.<sup>9</sup> Such as research conducted by Yuniarti, et al using research indicators on the dimensions of Good Corporate Governance (GCG), bank risk, market discipline, banking stability and analyzing the effect of GCG on banking stability, both directly and indirectly showing that, first, GCG determined by managerial ownership and an independent board of directors; Market discipline is determined by the growth of deposits and the ratio of margin levels; bank risk is determined by Non Performing Loans (NPL) and Loan Loss Reserves (LLR); Banking stability is determined by the Capital Adequacy Ratio (CAR), and Net Interest Margin (NIM). Second, GCG affects banking stability either directly or indirectly through banking risks. Third, GCG directly affects banking stability but does not directly affect market discipline<sup>10</sup>.

Likewise, the study is supported by which confirms that agency problems are known from information asymmetry (agents / managers who are more dominant in obtaining information compared to shareholders). For this reason, the research also suggests that agency problems can be overcome, namely through internal and external policies. Internal steps include internal audits, consideration of salary payments for management, concentrated ownership, GCG.<sup>11</sup>

The previous studies that have been described above become unequivocal information about the possibility of problems in the banking system in this case the agency problem that becomes kelol a main in the study. The difference between this research and previous studies is that previous studies have examined financial performance problems that have an impact on the

<sup>9</sup> Yuniarti, S., Chandrarin, G., & Subiyantoro, E. *The direct and indirect impacts of good corporate governance on banking stability: An empirical study in Indonesia*. *International Journal of Business and Society*, 19(S4), (2018), 517-534.

<sup>10</sup> Sari, M. *Penerapan Good Corporate Governance Dalam Meningkatkan Kinerja Keuangan*. *Prosiding The National Conference on Management and Business (NCMAB)*, (2018), 17-27.

<sup>11</sup> Boshkoska, M. (2015). The agency problem: Measures for its overcoming. *International Journal of Business and Management*, 10(1), 204.

occurrence of bank governance problems that have not been effective from Tata Elola principles, examine conflicts of interest between principals and agents through the provision of profit-sharing financing. Meanwhile, this study outlines the possibility of indications of agency problems not only in principles but a combination of the existence of stakeholders in the banking industry. how the functions of the governance apparatus have worked well by linking them to the functions of the sharia supervisory board and reviewing them from the regulations that have been regulate so as to produce suggestions and recommendations to internal parties in terms of Islamic banking and external in terms of regulators if there is a governance process in Islamic banking that has not effectively carried out even though there are regulations and internal bank systems that regulate governance.

Through the modification of this research, of course, which aims to analyze the implementation system of Islamic banking governance in Indonesia, how the governance conditions occur in the banking industry, then analyze the indications agency problem, then after knowing the indications that occur, mitigation is analyzed so that the agency problem can be minimized. These results will contribute to Islamic banks and regulators in providing recommendations in the future.

The specific purpose of this study is to minimize agency problems in Islamic banks through Shariah Governance as seen from various governance components including the Board of Directors, the number of Audit Committees, the number of Risk Monitoring Committees, the number of internal fraud, the frequency of meetings of the Board of Commissioners and the Sharia Supervisory board and the Board of Directors, as well as the level of bank governance. And the proxy of the principles of governance in general and its sharia principles whether they have been applied by Islamic banks or not so that the impact of agency problems arises.

With this Shariah Governance model research recommending to Islamic banks and to regulators to consider every financial activity in the principles of governance and governance, regulators do not only assess Islamic banks through the level of bank governance without considering the governance process. in the Islamic bank. This point is a specific specification in this study because there has been no other study that examines the problems that occur in the governance of Islamic banks that not only prioritize financial performance but also recommend to regulators even though regulators have issued regulations regarding governance<sup>12</sup>.

## METHODS

This research has used the Analytic Network Process (ANP) method. There were several stages before the research model was obtained. In the first

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<sup>12</sup> Wu, X.. *Corporate governance and corruption: A cross-country analysis*. *Governance*, 18(2), (2015),151-170.



stage, a literature study was carried out on various sources relevant to the research and made a list of open questions. These questions have been used to conduct in-depth interviews to gain an in-depth understanding of agency problems in the Indonesian Islamic banking industry. The results are used to design the Analytic Network Process (ANP) network framework model as well as to design the questionnaire model needed to obtain the required data<sup>13</sup>. The questionnaire has been filled in by respondents who are considered experts on this issue. Respondents came from four Islamic banks in Indonesia, namely Bank Sumut Syariah, Bank Syariah Indonesia, Bank Aceh and Bank DKI Syariah. One other respondent came from the Financial Services Authority. All respondents must have criteria, namely having worked in Islamic financial institutions for more than five years and being in the minimum position of Manager. The following is a chart of the sampling stages:



Figure 2. Chart of The Sampling Stages

The data has been processed using Super Decision software to determine the main causes of the agency problem so that the right solution can be produced.

## RESULT AND DISCUSSION

Based on the identification carried out regarding problems and solutions through literature studies and interviews with practitioners and regulators, the ANP network structure was developed as follows:

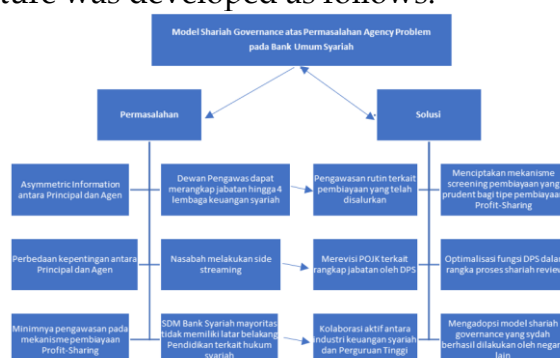


Figure 3. ANP Network Models

Source: Results of Literature Study and Interview (2021)

After creating the ANP network model, the questionnaires were distributed to five informants who came from four practitioners from different Islamic banks in Indonesia with a minimum level of position as Manager and one from the Financial Services Authority. As for the results of processing from the Super

Decision software, priority values are obtained for the causes of agency problems and solutions for agency problem problems. The results of data processing can be seen in the following table:

Table 1. Priority Value of Agency Problem Causes

Priority Issue	Priority Value	Percent -age (%)	Rank -ing
Asymmetric Information between Principal and Agent	1,23	24,6	2
Difference in Interest between Principal and Agent	0,20	4	6
Lack of Oversight on Profit-Sharing Financing Mechanism	1,37	27,4	1
Supervisory Board Can Concurrently Hold Positions for up to 4 Islamic Financial Institutions	0,49	9,8	5
Customer Doing Side Streaming	0,83	16,6	4
The majority of Islamic bank human resources do not have an educational background related to sharia law	0,87	17,4	3

Source: Data Processed by Researchers (2022)

In the table above, it can be seen that the respondents agreed that the main cause of the Agency Problem was due to the lack of supervision of the Profit Sharing financing mechanism (27.4%). This was followed by Asymmetric Information between principals and agents (24.6%) and in the third and fourth places it was caused by the majority of Islamic Bank HR having no educational background related to sharia law (17.4%) and due to customers doing side streaming ( 16.6%). As for the fifth and sixth causes, the Supervisory Board can hold concurrent positions in up to 4 (four) Islamic financial institutions (9.8%) and differences in interests between principals and agents.

The results of rater agreement for clusters causing agency problems show a value of  $W=0.24$  where respondents agree that the causes of agency problems are on a fairly good scale.

Table 2. Agency Problem Solution Priority Value

Priority Issue	Priority Value	Percentage (%)	Ranking
Regular supervision related to financing that has been disbursed	1,54	30,8	1
Creating a prudent financing screening mechanism for Profit-Sharing financing types	1,06	21,2	2
Revising the POJK related to concurrent positions by DPS	0,30	6	6
Optimization of DPS function in the framework of the shariah review process	0,65	13	5
Active collaboration of the Islamic financial industry and universities to conduct talent	0,66	13.2	4

scouting of human resources who understand  
business and sharia aspects

Adopting a shariah governance model that has been successfully carried out by other countries	0,77	15.4	3
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Source: Data Processed by Researchers (2022)

The table above shows that the respondents agree that the priority solutions in overcoming the Agency Problem are as follows: First, routine supervision related to disbursed financing (30.8%). This is in accordance with the main cause of the agency problem, namely the lack of supervision of the Profit Sharing financing mechanism (27.4%). Second, creating a prudent financing screening mechanism for profit-sharing financing types (21.2%). Third, adopting the sharia governance model which has been successfully implemented by other countries (15.4%). Fourth, active collaboration between the Islamic finance industry and universities to conduct talent scouting for human resources who understand business and sharia aspects. Fifth, optimizing the function of the Sharia Supervisory Board (DPS) in the framework of the shariah review process and lastly, revising the POJK regarding concurrent positions by the DPS. The rater agreement obtained for the cluster that causes the Agency Problem problem shows a value of  $W=0.73$  where the respondents agree that the solution to overcome the problem of the Agency Problem problem is on a fairly strong scale.

## CONCLUSION

Islamic banking is an industry with a highly regulated business. This business requires a mechanism that ensures the bank complies with all internal and external rules. Governance that is not yet optimal causes many problems, one of which is the agency problem. The main cause of agency problems is due to sub-optimal supervision of PLS financing that has been distributed. Therefore, in accordance with the results of the ANP, these problems can be overcome by adding human resources who can carry out routine supervision regarding the financing that has been channeled. Another solution that can be done is to create a financing screening mechanism that is able to anticipate the possibility of irregularities in the implementation process of financing made by customers.

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## Author's Contribution

Rahmayati: Contribute to formulating research ideas, collecting data, processing data, and interpreting data.



Khairunnisa: Contributing to writing systematics, research methods, and analyzing interpretation results,

Arif Nugroho: Contributing to the language proofread.

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### Declaration of Competing Interest

We declare that we have no conflict of interest.

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