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Revista de Antropología, Ciencias de la Comunicación y de la Información, Filosofía,  
Linguística y Semiótica, Problemas del Desarrollo, la Ciencia y la Tecnología

Año 35, 2019, Especial N°

# 20

Revista de Ciencias Humanas y Sociales

ISSN 1012-1587 ISSN-e: 2477-9385

Depósito Legal pp 198402ZU45



Universidad del Zulia  
Facultad Experimental de Ciencias  
Departamento de Ciencias Humanas  
Maracaibo - Venezuela



# **The Islamic Corporate Governance Implementation and Program at Miftahussunnah Islamic Boarding School**

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## **Abstract**

This research designs and implements Islamic Corporate Governance (ICG) at pondok pesantren (Islamic boarding school) Miftachussunnah in Surabaya so that it can be used as a reference for the improvement of governance and institutional structure in the pondok pesantren. This research will use the qualitative method. As a result, the discussions in this financial aspect include three things: financial planning and management conditions, analysis and recommendations. In conclusion, the preparatory phase consists of several steps, namely: a preliminary survey, findings, analysis of findings primarily to analyze governance management and institutional structures.

**Keyword:** Boarding, Schools, Good, Corporate, Governance.

# *El Programa y la Implementación del Gobierno Corporativo Islámico en Miftahussunnah Islamic Boarding School*

## **Resumen**

Esta investigación diseña e implementa el Gobierno Corporativo Islámico (ICG) en pondok pesantren (internado islámico) Miftahussunnah en Surabaya para que se pueda utilizar como referencia para el mejoramiento de la estructura institucional y de gobierno en el pondok pesantren. Esta investigación utilizará el método cualitativo. Como resultado, las discusiones en este aspecto financiero incluyen tres cosas: planificación financiera y condiciones de gestión, análisis y recomendaciones. En conclusión, la fase preparatoria consta de varios pasos, a saber: una encuesta preliminar, hallazgos, análisis de hallazgos principalmente para analizar la gestión de la gobernanza y las estructuras institucionales.

**Palabra clave:** Embarque, Escuelas, Bueno, Corporativo, Gobernanza.

## **1. INTRODUCTION**

Corporate governance recently received much attention because Adelphia, Enron, WorldCom, and other high profile scandals, which served as the last impetus like the US Rule as the Sarbanes-Oxley Act of 2002, were deemed to be the most influential corporate governance rules in last 70 years. With corporate governance associated with better corporate performance, companies that are well governed should be

better governed than poor governance corporate. Good Corporate Governance in Islam has unique features and presents distinctive characteristics compared to western Anglo-Saxon concepts and European models.

It combines elements of Tawheed, Shura, sharia rules and maintains personal goals without neglecting the social welfare duties. Islam also believes that one's daily activities and corporate transactions must be based on the values of honesty, firmness, respect, justice, tolerance, patience, and honesty, not lies, arrogance, insubordination, envy, envy, slander and bragging (Isik and Hassan, 2002; Barati et al., 2018). This should also be manifested in the individual's involvement in business activities and operations and their relationship with all their respective stakeholders. Overall, Islamic views on corporate governance are more comprehensive than stakeholder views and closely related to ethical values in Islam.

## **2. LITERATURE REVIEW**

The concept of Good Corporate Governance (GCG) is universally closed to the teachings of existing religions. GCG principles are in harmony with the teachings of Islam. Although Islam always introduces good ethics, strong morals, integrity, and honesty, it is not easy to incorporate such ethical values into an Islamic Good Corporate Governance, which known as the concept of Islamic Corporate Governance (ICG). As a result, in practice, most Islamic

companies use conventional corporate governance standards that may not be consistent with Islamic values. The Islamic perspective sees the corporate practice as a Muslim obligation to God, leading to an implicit contract with God and an explicit contract with humans. Corporate Governance (hereinafter referred to as CG) can be defined from different disciplines (Turnbull, 1997; Islamov et al., 2017); eg law, psychology, economics, management, finance, accounting, philosophy even in religious disciplines.

1. Alnasser et al. (2012), Introduction to Corporate Governance from an Islamic Perspective, found that the importance of implementing corporate governance in Islamic banks as this will help illustrate the true image of the organization. The value of this study explains the governance in Islamic institutions, and how they conduct news-based investigations, especially those related to the functions and objectives of Sharia control.

2. Choudhury et al. (2013), Corporate Governance in Islamic Perspective found the hetrodox theory of Islamic finance in order to demonstrate good corporate governance as an alternative to understanding Islamic epistemology.

3. Brown, Lawrence D and Caylor Marcus L, 2004, Corporate Governance and Firm Performance, find out how corporate governance values are calculated based on a set of data provided by a shareholder institution. From the results of this assessment it is known that companies that have good governance provide greater, more valuable, and provide high shareholder value to their shareholders

4. Turnbull Shann, *Corporate Governance: Its Scope, Concern and Theories*, emphasizes how to conduct governance in an organization by taking into account the factors that affect the organizational process in order to generate and sell goods or services. In addition, Turnbull also argues that the appointment of controllers and regulators is also an important substance in building Good Corporate Governance.

5. Alsuhaibani and Naifar (2013), *Islamic Corporate Governance: Risk-Sharing and Islamic Preferred Shares*. Shows that the financial system in Islam is based on the principle of profit sharing. This principle is a fair principle because there are profit and risk sharing. The Islamic finance system based on risk-sharing can be developed for use worldwide by providing auxiliary paradigms for the preparation of global financial reforms. Improve the resilience of risk management systems by increasing the capacity to maintain basic functions and risk handling structures and to absorb disturbances in risk handling components.

6. Li (2009) *how can corporate governance control the enterprise's financial risk?* Observed a strong positive correlation between risk management and corporate governance as risk management to an index to measure the success of corporate governance in many countries. Governance arrangements require the board of directors to be clear about their company's strategy and risk appetite. These settings require efficient reporting systems that allow them to monitor their companies and to respond effectively at the right time if needed. Corporate governance enables risk management to

have the duty to oversee the board. The function of the board here is to monitor the effectiveness of enterprise management practices and to make the necessary changes (Yang et al., 2019; Soo et al., 2019; Tayyebinejad, 2018).

### **3. METHODOLOGY**

Design of Islamic Corporate Governance (ICG) in Pondok Pesantren (Islamic Boarding School) Miftachussunnah in Surabaya. This research was conducted in Pondok Pesantren Miftachussunnah on Kedung Tarukan Street Number 100 Surabaya. The reason why choosing this Pondok Pesantren is that its age is 35 years and this Pondok Pesantren still can exist and have various achievements that have been achieved.

### **4. DATA COLLECTION TECHNIQUE**

The technique of collecting data by doing a direct observation of the object of study. According to Hasan (2002) observation are the selection, alteration, recording, and coding of a series of behaviors and circumstances pertaining to the organization, in accordance with the empirical goals. The intended observations in this data collection technique are pre-research observation when research and post-research are used. The most important use of observational techniques



is to rely on observations and researcher memories. However, to facilitate observation and memory, the researcher uses (1) records, (2) electronic devices such as recorders and cameras (3) observations, (concentration on appropriate data), and (4) enhances perception or knowledge of the object being observed.

Interviews are data collection techniques by asking direct questions by interviewers to respondents, and respondents' answers recorded or recorded (Hasan, 2002). According to Arikunto (1996), the method of documentation is how to retrieve data using written items, books, magazines, regulatory documents, meeting minutes, diaries related to research problems. Tools and techniques of data collection, researchers use 3 (three) methods of observation, interview and documentation. Researchers use these three methods because they are quite relevant in data collection.

This research will use the qualitative method. The use of this research method is adjusted to the main purpose of research that is to describe, comprehend, and reveal comprehensively from the implementation Moleong (2002) suggest that qualitative data analysis is an effort done by working with data, organizing data, choosing it into manageable units, synthesizing it, finding and finding patterns, expressing what is important and what learn and decide what can be told to others. According to Ahwarumi (2014), the qualitative data analysis phase is as follows: Review all data from Pondok Pesantren governance that has been collected. This process is done descriptively where the description of condition/ condition at the time of research conducted as objective as possible.

## **5. RESEARCH RESULT AND DISCUSSION**

Foundation Islamic boarding school Miftachussunnah Surabaya was established on November 10, 1982 by Abuya KH. Miftachul Akhyar. With faith, devotion, tenacity, belief and devotion to Allah SWT and with the spirit of *fi sabilillah*, finally this Pondok Pesantren has experienced various kinds of progress that build up to this moment. Besides as a boarding school, this foundation has developed a formal education starting from Madrasah diniyah, RA, Madrasah Ibtidaiyah, Madrasah Tsanawiyah, and Madrasah Aliyah. Overall Yayasan Pondok Pesantren Islam (YPPI) Miftachussunnah has various education units such as:

- a. Formal education
  1. RA Darul Hijroh (Pre-school)
  2. MI Darul Hijroh (Elementary School)
  3. MTs. Darul Hijroh (Junior High School)
  4. MA Darul Hijroh (Senior High School)
- b. Informal education
  1. Madrasah Diniyah
  2. Pengajian kitab kuning (Recitation of the yellow book)
  3. Pondok Pesantren Cooperative (Kopontren)
  4. Contemorary Shalawat & Hadrah
  5. Shalawat & Hadrah Al-Banjari
  6. Tartil Qur'an
  7. Khot (Arabic calligraphy).

Implementation and design of ICG are formulated in GCG stages. The first step in the ICG phase is the preparation stage. This stage is done with the aim to know the condition of governance management and institutional structure of Pondok Pesantren Miftachussunnah, so it can be used as a reference of governance improvement and institutional structure in Pondok Pesantren Miftachussunnah. The first questionnaire was a governance management questionnaire and an institutional structure (table 4.1). This questionnaire contains functions related to management, governance and institutional structures in which GCG-based company requirements are those companies must adhere to good governance management aspects. Here is a questionnaire on governance management and institutional structure and results analysis.

		Yes	No
<b>Governance Management Aspects</b>			
	1. Is there:		
1.1	Development of vision, mission and noble values in Pondok Pesantren development	√	
1.2	Vision and mission has been reviewed periodically well	√	
1.3	1. Vision and mission are well communicated internally	√	
1.4	Key Performance Indicator (KPI) for the advancement of Pondok Pesantren	√	
1.5	Operating		
Procedures (SOP) which			

describes every job obligation of each employee clearly and well		
Nilai	5	0

Table 1:

Source: processed researchers, 2016

Administratively, the management of pesantren, Pondok Pesantren Miftachussunnah has good vision, mission, noble values, KPI and SOP, which with the administration, Pondok Pesantren Miftachussunnah should have run well. Here it can be seen that there is a problem in the Pondok Pesantren Miftachussunnah which requires to conduct internal audit in the field of finance, such as the results of interviews with the leadership of Pondok Pesantren Miftachussunnah: The problem in the financial section is the absence of an internal audit and has not been reported in a transparent and accountable manner, causing Pondok Pesantren Miftachussunnah has a high risk of misuse of financial. From the results of interviews with the head of Pondok Pesantren Miftachussunnah, it is known that financial management has not been transparent and accountable. So the next step needs to be done a study on internal control, especially in the financial field.

This review is conducted to complement the previous review and to see the current internal controls. Analysis and assessment are done by using internal control questionnaire (ICQ) finance section, it is expected from this ICQ assessment can be analyzed a problem that happened in the financial department of Pondok Pesantren Miftachussunnah for subsequent improvement. ICQ did to the leadership and administrators Pondok Pesantren working in the



	Regular basis?		
6.	Is internal and external financial support adequate in the development of pondok pesantren?		√
7.	Is the development of pondok pesantren (activity or finance) has been reported in a transparent and accountable Manner?		√
<b>Management of Pondok Pesantren</b>			
1.	Are all personnel qualified?		√
2.	Is the Pesantren HR Development Competent and Competent Based?		√
3.	Are each task clearly Understood?	√	
4.	Is there a type of training program for new financial Officers?		√
5.	Is there a refresher training for Old employees?		√
6.	Is there an evaluation of Employee performance?		√
7.	Is the employee performance evaluation carried out on a Regular basis?		√
8.	Is there reward and punishment		√

9. For employee performance? Does the company adopt an ethical standard that should be Run?	√	
value	4	0

Table 3: ICQ for finance

Source: processed researchers, 2016

The value of ICQ Pondok Pesantren score Miftachussunnah is 4, which means the internal control of Pondok Pesantren Miftachussunnah is less. To further improve the effectiveness, efficiency, and economy it is necessary to improve many aspects of this part of finance. In addition, with the development of the company's operations, support from good internal controls is required. From the ICQ assessment above, the findings are obtained then developed the findings of financial analysis.

No	Condition	Effect	Recommendation
1	Reporting of financial results is not done routinely	Financial information can not be known by all parties	Reporting is routine and controlled
2	The absence of new and old board training	Slow board performance improvement	Training of Pondok Pesantren administrators regularly
3	There are no SOPs and manual	Since there is no written document, if	Built SOP and financial admin

	procedures of the financial admin section	there is an error in the administration, there is no written evidence used for its accountability	procedures manual
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Table 4: Findings of ICQ results in Pondok Pesantren Miftachussunnah

Source: processed researchers, 2016

From the findings of the preliminary survey, a holistic analysis of financial aspects was performed. The discussions in this financial aspect include three things: financial planning and management conditions, analysis and recommendations. The boarding school with the committee or board of pondok pesantren at the beginning of each fiscal year together has formulated the Revenue and Expenditure Budget Plan of Pondok Pesantren as a reference for Pondok Pesantren managers in carrying out activities in accordance with the budget that has been determined. However, as the activities and use of the budget are not reported transparently and accountable. In addition, internal and external financial support has not been sufficient in the development of pesantren. Pesantrens also have no internal audit function, especially in finance.

1. Pondok Pesantren Miftachussunnah has carried out budgeting planning together with committee or board of pesantren so that Pondok Pesantren have reference in conducting its activities.

2. The absence of transparent and accountable reporting and the absence of internal audit function, especially in the financial sector.



## **6. CONCLUSIONS AND RECOMMENDATIONS**

Implementation and design of ICG in Pondok Pesantren Miftachussunnah is formulated in the following stages:

1. The preparatory phase consists of several steps, namely: a preliminary survey, findings, analysis of findings primarily to analyze governance management and institutional structures. In this stage, there are findings that in the Pondok Pesantren Miftachussunnah the absence of reporting activities and finances in a transparent and accountable and the absence of internal audit in Pondok Pesantren. So given the recommendation that all activities Pondok Pesantren must be made a report in a transparent and accountable. In addition, the financial expenditure of Pondok Pesantren from any source should be accounted for. This responsibility becomes a form of transparency in financial management. In principle, accountability is done by following the rules of the budget source.

2. The organizational restructuring includes;

- a. Organizational restructuring,
- b. ICG Pondok Pesantren policymaking,
- c. Training and Assistance.

3. Evaluation of the implementation of ICG, the first thing to do is to understand all the principles of ICG that must be applied Pondok Pesantren, followed by combining it with an analysis that measures the

performance of Pondok Pesantren both in the field of finance and non-financial.

Based on the result of planning condition analysis and management of Pondok Pesantren Miftachussunnah cannot be used as a reference for doing an assessment on other Pondok Pesantren. This is because the conditions in each Pondok Pesantren vary with different governance management. So for the next discussion material can be done comprehensive research on Pondok Pesantren-Pondok Pesantren in Indonesia which amounted to 27 thousand Pondok Pesantren, can be taken a representative sample of the total amount. From several Pondok Pesantren to be studied can be seen the behavior of management governance ranging from human resources, a culture that exists in every Pondok Pesantren, and the focus of activities that exist in every Pondok Pesantren. The focus of activities in every Pondok Pesantren varies, some emphasize on formal educational institutions, some are emphasizing on the clerical master printers and the latter is the emphasis on the entrepreneurial development agency.

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Revista de Ciencias Humanas y Sociales

Año 35, N° 20, (2019)

Esta revista fue editada en formato digital por el personal de la Oficina de Publicaciones Científicas de la Facultad Experimental de Ciencias, Universidad del Zulia.  
Maracaibo - Venezuela

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