

How Islamic is Islamic Banking in Indonesia?

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Abstract. The purpose of this paper is to analyze the implementation of Sharī'ah values in Islamic banks operating in Indonesia. The research uses survey data taken from 240 respondents from types of Islamic banks operating in Indonesia. These consist of three full-fledged Islamic banks namely, subsidiaries of state-owned and private conventional banks and the Islamic business unit of a conventional bank. Each Islamic banks survey respondents represented 30 employees and 30 customers. The results of the study show that in general there are differences in the implementation of Sharī'ah values among Islamic banks. Our findings also show different perceptions between Islamic bank employees and customers in terms of Sharī'ah value implementation in the respective banks. From the four Sharī'ah principles measured, justice was found to have the lowest score compared to other principles such as brotherhood, benefit and balance.

Keywords: Islamic bank, Sharī'ah values, Measurement of Sharī'ah principles.

JEL Classification: G21.

KAUJIE Classification: L21, L23, L24.

1. Introduction

Indonesia is the most populous Muslim country in the world. By having more than 207.2 million Muslims according to the National Statistic Agency or BPS (2010), this is equivalent to 87.5 % of the total population. As such the country has substantial potential for further development of the Islamic banking industry. However, the fact shows that in terms of market share, the total assets of the country's Islamic banking industry are still below 5% at the end of 2014 after more than two decades in operation.

Current figures also indicate the significant progress of Islamic banks in terms of number. After the establishment of the first Islamic bank in the early 1990s, Financial Services Authority or *Otoritas Jasa Keuangan* (OJK) records that the number of Islamic banks has increased significantly to 197 units at the end of 2014 (OJK, 2014). These consist of 12 fully-fledge Islamic commercial banks (known as *Bank Umum Syariah* abbreviated as BUS), 22 Islamic business units (known as *Unit Usaha Syariah*

abbreviated as UUS) and 163 Islamic rural banks (known as *Bank Pembiayaan Rakyat Syariah* abbreviated as BPRS).

Compared to other countries, the total assets of Islamic financial institutions in Indonesia in 2010 amounted to USD 10.5 billion and was ranked 12th after Bangladesh having total assets of USD 11.7 billion. The first rank was occupied by Iran whose total assets exceed USD 388 billion followed by Saudi Arabia in second place with total assets of USD 151 billion. Meanwhile, Malaysia whose total assets reach USD 133.4 billion was ranked in third position (UKIFS, 2012).

Several studies have suggest that the growth in Islamic banking is mainly influenced by: increases in the Muslim population (Imam and Kpodar, 2010); compliance with Shari'ah values (Ramzan et. al., 2012); and sufficient information about products and services of Islamic banks and trust in banking without interest (Bashir et. al., 2011). With regard to the perception of Islamic banks' customers, some studies show that the religious factor and the implementation of Shari'ah principles affect costumer choice in Islamic banking (Metawa and Almossawi, 1998; Naser et. al., 1999).

The dimension of Shariah compliance is found to be the main reason for customer to choose Islamic banking followed by other factors such as assurance, responsiveness, empathy, reliability and tangibility (Othman and Owen, 2001). Some studies also reveal that there is a positive relationship between the implementation of Shari'ah values and customer loyalty, as is evident in the study conducted by Amin and Isa (2008). It is also found that there is a positive relationship between image and customer satisfaction to customers' loyalty (Hoq et al., 2010).

One of the factors that obstruct the rate of development of Islamic banks in Indonesia is the public perception on the real practice of Islamic banking compared to conventional banking. A large number of people are still of the view that there is no significant differences between an Islamic bank and its conventional counterpart. If this difference exists, some of them view it only in the transaction mechanism and procedure. This negative viewpoint may become an obstacle that reduces the growth of

Islamic banks. Another important point affecting this perception is the incomplete understanding of the principles of transactions (*mu'āmalāt*) that comply with the Shari'ah. This can be observed from the research conducted by Chailis (2007), stating that profit sharing stipulated by Islamic banks still follows prevailing interest rates. Similarly, Bachruddin (2009) found that components of CAMEL (Capital, Asset Quality, Management, Earnings and Liquidity) remain dominant in determining Islamic banks' profits compared to *mushārah* and *muḍārah*, which theoretically should become the mainstay of Islamic banking business. Nugroho (2014) stated that there is an accusation in the society that Islamic banking business patterns are not different from conventional banking, and hence, he suggested to have a Shari'ah index as an indicator to measure the degree of Shari'ah compliance aspect of the bank.

Based on the above explanation, the questions examined in this paper are: first, is it true that Indonesian Islamic banks are not Islamic according to the perception of the parties involved in this industry? Second, how is the implementation of Shari'ah values among the various models of Islamic banking in Indonesia?

The purpose of this study is to analyze the implementation of Shari'ah values in the operation of Islamic banks and to compare the implementation of Shari'ah values among the various models of Islamic banks in Indonesia based on the aforementioned perceptions. These Shari'ah values should be critically evaluated as they will affect public perception on the claim that Islamic banks are different from conventional banks. This study investigates the implementation of Shari'ah values of Indonesian Islamic banks from four perspectives, which are: brotherhood (*ukhuwwah*), justice (*'adl*), benefit (*maṣlahah*) and balance (*tawāzun*). The criteria are based on Bank Indonesia regulations no. 10/16/PBI/2008 and statements of Islamic financial accounting standards of The Indonesian Accounting Standards Board (known as *Dewan Standar Akuntansi Keuangan* abbreviated as DSAK) which were approved by the National Sharia Board (known as *Dewan Syariah Nasional* abbreviated as DSN) of the Indonesian Council of 'ulamā' (known as *Majlis 'ulamā' Indonesia* abbreviated as MUI).

2. Literature Review

Islamic banking is a subsystem of the holistic Islamic economic system. Meanwhile, economic activity is just one part of *mu'āmalah* aspects in Islamic systems, completing other aspects such as marriage, inheritance, law and politics. Therefore, the activities undertaken must meet the rules and requirements of Shari'ah. The existing rules are called *fiqh* which means knowledge about Islamic laws. Economic transactions use *fiqh* of *mu'āmalah* rules. The general principle of *fiqh* of *mu'āmalah* states that all are permissible unless there is *dalil* (argument) that prohibits it. Visser (2009) and Sjahdeini (2010) state that the sources of Islamic law can be classified into primary sources that consist of Qur'an and *hadith*, and secondary sources that cover *ijtihad* (individual interpretation), *ijma'* (consensus of the '*ulamā'*' or *ijtihad*/interpretation from several Islamic law experts accepted as universal) and *qiyās* (analogical reasoning).

Rivai and Usman (2012) argue that *fiqh* of economics (*fiqh al-iqtisād*) in Islam provide rules or guidelines on how people make choices to fulfill their needs from available resources. These rules are obtained from *ijtihad* based on divine revelation, i.e. Al-Qur'an and *hadith*. He further states that the values adopted in Islamic banks should be in-line with the values of Islamic economics.

Islamic banks must apply Shari'ah values in their entire operations (Warde, 2000: Antonio, 2001: Benamraoui, 2008: Tiby, 2011), and must promote these values to staff, customers and society in general (Dusuki, 2008). Society's economic activities, which cover both Muslims and non-Muslims, will be in a better condition if they work under Islamic norms framework. Some indicators of these norms or values comprise, but are not limited to, the following items: (i) commitment to always looking for the lawful (*halāl*) and good things (*tayyib*), (ii) avoidance of prohibited activities, (iii) avoidance of extravagant life style, (iv) avoidance of oppressive activities, (v) avoidance of *ribā*, *gharar* and *maysir* elements, (vi) commitment to always uphold social responsibility such as *zakāh*, *infāq*, *ṣadaqah*, and (vii) principles of justice and brotherhood (Antonio, 2001).

The Bank Indonesia Regulation No. 10/16/PBI/2008 requires all Islamic banks to comply with Shari'ah principles in their activities of funding, financing and other services. These principles include balance and justice (*'adl wa al-tawāzun*), benefit (*maṣlahah*) and universality (*'ālamīyyah*), and prohibition of *gharar*, *maysir*, *ribā*, *ḥarām* and *ẓulm* aspects (BI, 2008). Ikatan Akuntan Indonesia (2007) and Sholihin (2010) classify five Shari'ah principles to be followed in Islamic transactions. Those principles are: (i) brotherhood, (ii) justice, (iii) benefit, (iv) balance, and (v) universalism. Rivai and Usman (2012) elaborate that the principles of business ethics in Islam, such as *tawhīd*, *khilāfah*, worship (*'ibādah*), purification (*tazkiyah*) and *iḥsān*, can be further classified under general principles of justice, honesty, transparency, togetherness, freedom, responsibility and accountability. Based on Bank Indonesia regulations and statements of Islamic financial accounting standards of The Indonesian Accounting Standards Board (DSAK-IAI) as per above, this study uses four of these five Shari'ah principles to analyze the implementation of Shari'ah values in Islamic banks.

Brotherhood is a major principle that must be implemented in Shari'ah transactions. Sholihin (2010) argues that the essence of the brotherhood principle lies in the arrangement of social interaction and harmonization of all stakeholders' interest aiming at achieving general *maṣlahah* in the spirit of cooperation and helping each other. In the principle of brotherhood, someone is not allowed to enjoy benefit at the cost of others. This should be reflected in Islamic banking operations in which all parties involved should follow the steps of brotherhood, i.e. to make acquaintance (*ta'āruf*), to understand each other (*tafāhum*), to help each other (*ta'āwun*), to guarantee each other (*taḍāmun*), and to develop synergies, strong alliances and collaboration (*taḥāluf*). Islamic transactions also put togetherness values as a priority in producing benefit that can be enjoyed fairly by involved parties. *Shirkah* (cooperation) shows this brotherhood. According to Rivai and Usman (2012), the presence of no discrimination principle in Islamic economics reflects the equality principle that is

derived from the foundation of monotheism (*tawhīd*). This could be observed from the Qur'ān *sūrah* al-Nisā' (4: 29) and *sūrah* al-Tawbah (9: 71).

The principle of justice means putting something in place, giving something to those deserving, and treating something in appropriate positions (BI, 2008; Sholihin, 2010; Tarmizi, 2013). Prohibition of several things in Islam, such as *ribā*, *gharar*, and *maysir*, basically is an attempt to apply justice in Islamic economic transactions. Rivai and Usman (2012) express that the ability of businessman to create balance and to remove oppression and unfairness in transactions shows the application of the principle of justice based on *tazkiyah* (purification of the soul). This has been mentioned in several verses of the Qur'ān, such as *sūrah* al-Baqarah (2: 275 and 279), *sūrah* al-Muṭaffifīn (83: 1-6), *sūrah* Hūd (11: 84-85), *sūrah* al-Shu'arā' (26: 181-183), *sūrah* al-Mā'idah (5: 8 and 90), and *sūrah* al-Nisā' (4: 10).

The principle of *maṣlaḥah* contains deep understanding that all economic transactions should be able to produce multidimensional benefits covering both this world and *ākhirah* dimensions, material and spiritual dimensions, and individual and collective dimensions. It must fulfil *ḥalāl* and *ṭayyib* requirements. The former is related to the Sharī'ah compliant aspect while the latter brings kindness and *barakah* to all parties involved in the transaction (BI, 2008; Sholihin, 2010). *Maṣlaḥah* transactions will be in line with *maqāṣid* al-Sharī'ah which is the objective of the Sharī'ah. According to Rivai and Usman (2012), readiness of business practitioners to give goodness to others is the essence of the meaning of *maṣlaḥah* based on the value of *iḥsān*. This is in accordance with *sūrah* al-Naḥl (16: 90) and *sūrah* al-Qaṣaṣ (28: 77).

The balance principle is to maintain a balance between material and spiritual aspects, private and public interest, financial sectors and real sectors, commercial and social matters, and utilization and conservation aspects (BI, 2008). This is in line with Qur'anic injunctions such as stated in the *sūrah* al-Munāfiqūn (63: 9), *sūrah* al-Ma'ārij (70: 24-25), and *sūrah* al-Baqarah (2: 267). Sharī'ah transaction do not only emphasize maximizing corporate profits for the sake of shareholders but also adds value to all stakeholders involved in economic activity.

3. Research Method

This is a quantitative study based on survey evidence. The sample is taken by using non-probability sampling procedure, which consists of convenient sampling for customer respondents and purposive sampling for bank's internal management respondents. The customers are clients of the Islamic bank, either depositors or borrowers. The bank management survey respondents are limited to employees who serve and deal directly with customers.

Primary data is collected by distributing questionnaires to both groups of respondents according to the respective types of Islamic bank with whom they do banking business or where they are employed. The number of respondents asked to fill in the questionnaires is around 30 for employees and 30 for customers of the Islamic bank. Since four banks have been selected by this study, the total number of respondents reaches 240 people. These four selected Islamic banks represent four types of Islamic banks operating in Indonesia. These are:

- An Islamic commercial bank which is a subsidiary company of a conventional state-owned commercial bank (BUMN) and represented by bank A;
- An Islamic commercial bank which since its establishment has operated as a full-fledged Islamic bank and represented by bank B,
- An Islamic commercial bank which is a subsidiary company of a conventional private commercial bank and represented by bank C,
- An Islamic business unit of conventional commercial bank and represented by bank D.

Distribution of the respondents' domicile is in the capital city of Indonesia, i.e. Jakarta, and its surrounding satellite cities comprising Bogor, Depok and Tangerang. The employees of the Islamic banks that are survey respondents are taken from operational groups that serve and deal directly with customers. The level of job position of these employee respondents varies ranging from security officer, customer service (CS) officer, account officer (AO), teller, relationship manager (RM), head of department (HOD) or branch manager (BM). Meanwhile, customer group respondents are those who deposit

their funds or receive financing facilities or both. They have various backgrounds ranging from civil servants, private employees and businessmen. All data was collected from October 2014 to January 2015.

The t-test is conducted to test the hypothesis of Shari'ah values implementation among Islamic banks and to find out the differences in the perception between internal management of Islamic bank and its customers on the implementation of these Shari'ah values. The hypothesis is structured as follows:

1. Shari'ah value implementation among selected Islamic banks:

Ho: There is no significant difference between Islamic banks in the implementation of Shari'ah values.

Ha: There is significant difference between Islamic banks in the implementation of Shari'ah values.

2. Perception on Shari'ah values implementation between internal management of Islamic banks and customers

Ho: There is no significant difference between the perception of internal management of Islamic bank with that of customers of Islamic banks.

Ha: There is significant difference between the perception of internal management of Islamic banks with that of customers of Islamic banks.

The questionnaire contains questions relating to the implementation of Shari'ah values by Islamic banks,

which are divided into four groups of Shari'ah value perspectives. Those are (i) brotherhood, (ii) justice, (iii) benefit, and (iv) balance. Some questions were prepared based on provisions (*fatwā*) of the National Sharia Board (DSN) – Indonesian Council of '*ulamā*'. Respondents were asked to show their perception in relation to the Islamic bank implementation of Shari'ah values base on a Likert scale of 1 - 5 ranging from not implemented to 100% implemented.

4. Research Findings

4.1. Comparison of Shari'ah values implementation among Islamic banks

The difference in the implementation of Shari'ah values in the Islamic banking industry in Indonesia can be observed by comparing the four selected Islamic banks individually. The t-test results are available in Table (1). Based on the table, it is found that, in general, differences exist in the implementation of Shari'ah values between Islamic banks, except in the case of bank B *versus* bank D which shows no difference.

Furthermore, the average of the implementation of Shari'ah values based on the combined perceptions of the internal management of the bank and the customers of each Islamic bank can be seen in Figure (1). This figure shows that the mean perception on the Shari'ah values implementation is different from one Islamic bank to another Islamic bank, including the case of bank B and bank D. It means that there exists the difference in the Shari'ah values implementation of all Islamic banks.

Table (1)
The differences of Shari'ah values implementation among Islamic banks

Bank I vs Bank II	Mean (Bank I)	Mean (Bank II)	Sig. (2-tailed)*	Conclusion
Bank A vs Bank B	4.59	4.39	.000	Different
Bank A vs Bank C	4.59	4.00	.000	Different
Bank A vs Bank D	4.59	4.30	.000	Different
Bank B vs Bank C	4.39	4.00	.000	Different
Bank B vs Bank D	4.39	4.30	.243	Same
Bank C vs Bank D	4.00	4.30	.000	Different

* If the two-tailed sig ≤ 0.05 , then Ha is accepted (there is a difference) and Ho is rejected.

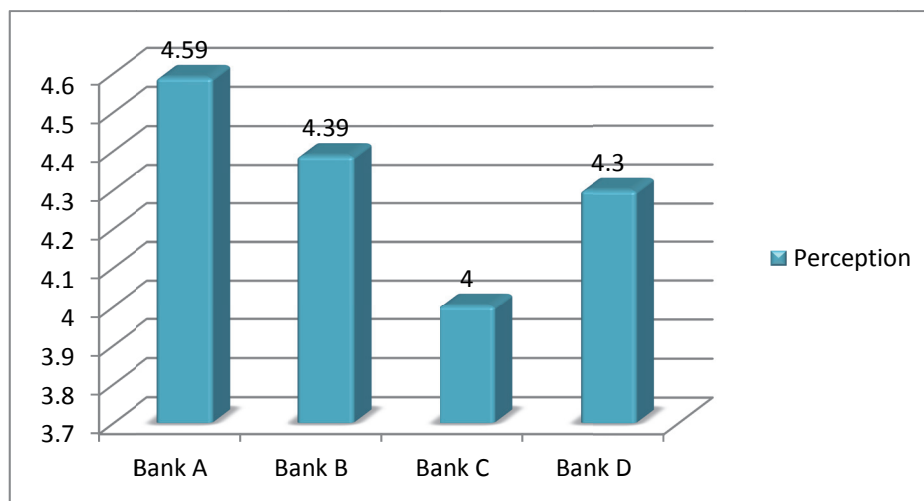


Figure (1). Mean perception of the Shari'ah values implementation in each Islamic bank.

These differences occur due to two major reasons:

a) The differences exist due to external and internal reasons. In general, the basis for operation of Islamic banks that must be executed by the employees is based on external regulations comprising *fatwā* of National Shari'ah Board of Indonesia (DSN-MUI), regulation from the government such as Islamic Banking Act, regulations issued by Bank Indonesia such as PBI (*Peraturan Bank Indonesia* or Bank Indonesia Regulation) and SEBI (*Surat Edaran Bank Indonesia* or Circular Letter of Bank Indonesia), POJK (*Peraturan Otoritas Jasa Keuangan* or Regulation of Financial Services Authority), Guidelines of Islamic Bank Accounting, and international regulations issued by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (Islamic Financial Services Board). As for internal regulation, the differences exist because of the difference in the internal rules of Islamic banks, such as company manuals and Standard Operating Procedure (SOP).

b) Islamic values used in this study are not only related to the value of justice, which is closely linked to Islamic banking products, but also other values such as brotherhood, benefit (*maṣlahah*) and balance. These values are closely related to the Islamic banks' treatment of their customers and employees. Brotherhood, balance and benefits are universal in nature, although they are not specifically regulated by the National Shari'ah Board (DSN-MUI).

Meanwhile, similarities between bank B and bank D in Shari'ah value implementation may be caused by similar understanding and implementation of Islamic values in their operations. Figure (1) shows that bank A has the highest rate in the Shari'ah values implementation while bank C has the lowest rate. According to data by the end of 2013, bank A had the largest market share in the Islamic banking industry in Indonesia in terms of depositors' fund, total assets and revenues, while bank B had the second largest market share. Bank D was in the third position for market share and bank C was in the 14th position in terms of revenue and 12th in terms of total assets.

Bank A has the highest rate in almost every aspect of Shari'ah values implementation compared to the other three Islamic banks while bank C has the lowest rate (vide Figure 2). It seems to be caused by bank A's level of maturity and long term experience, which allows the bank to practice Islamic values in a better way/manner. Bank A nowadays is known to be the largest Islamic bank in Indonesia and has had experience as an Islamic bank since 1999. As for bank C, it was established in 2009, a decade after bank A's establishment, so that the bank's experience lagged behind bank A. This seems to be the main reason why this bank scores the lowest rate in terms of Shari'ah value implementation.

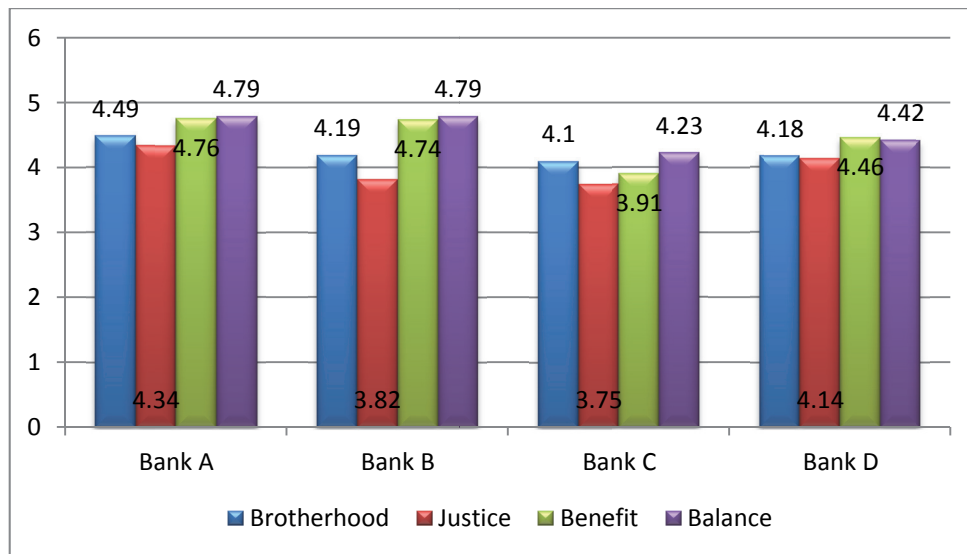


Figure (2). The comparison of Shari'ah values implementation among Islamic banks.

Figure (2) also shows that from the four aspects of Shari'ah values measured, justice seems to be the lowest one in terms of perception score as compared to the values of brotherhood, *maṣlahah* and balance, respectively. This occurs presumably because the value of justice is based on the aspects associated with products and product features directly. On the other hand, the values of balance, benefit and brotherhood, are closely related to the treatment of the Islamic banks of their customers and employees.

Norms are relatively easier to be understood. It is a common thing that is usually practiced by Islamic banks. Institutional theory states that norms or behaviors are basically the core and main focus of institutions. Norms and values are easier to be identified by the respondents, such as welcome greetings, regular Islamic discussion, and knowledge updates for employees. Therefore, this aspect acquires a higher score.

Combined perceptions of employees and customers of the Islamic bank indicate that the implementation of the balance principle acquires the highest score ranging from 4.23 to 4.79. It shows that Islamic banks from the perspective of respondents have a commitment to always uphold balance (*al-tawāzun*) in their operations. This balance includes material and spiritual balance, private and public balance, financial and real sector balance, business and social balance, and utilization and conservation balance.

This result has also been confirmed through in-depth interviews with the management of Islamic banks and observation during the study period. The indicators measured in this balance principle are features of their environmental, spiritual, and knowledge update programs. The Islamic banks observed are found to have routine religious lectures as their spiritual program. For instance, bank A conducts the lecture every Monday after *ṣuḥr* prayer once a week and conduct joint *dhikr* programs every Friday between 7.30 until 8.00 am. Worship facilities for prayer are also provided by Islamic banks. Availability of simple worship facilities, such as prayer room for employees on every floor of the bank's building, as well as the mosque that is quite representative, indicates the commitment of the Islamic banks to always balance their activities.

Furthermore, the benefit or *maṣlahah* principle occupies the second highest score after the balance, except for bank C. This *maṣlahah* principle is measured by several programs comprising the implementation of CSR (Corporate Social Responsibility) programs, collection of employees' *zakāh* of profession, optional facilitation of payment of *zakāh*, *infāq*, and *ṣadaqah* (ZIS) for customers, and distribution of ZIS and other socio-religious funds to the surrounding community. Combined perception of employees and customers for this principle seems to be relatively homogenous, such as 4.76 (bank A), 4.74 (bank B) and 4.46 (bank D). Annual reports and financial reports of those three banks confirm these indicators of *maṣlahah* principle.

However, bank C scores the lowest, i.e. 3.91 as this bank does not collect *zakāh* from its employees.

The third principle is brotherhood. It is essentially a universal value that organizes social interaction and harmonization of interests to the spirit of mutual help. In this study, this brotherhood is measured based on the existence of discrimination in serving customers. The absence of discrimination basically reflects the essence of the equality concept that is derived from *tawhīd* (Rival and Usman, 2012). The finding shows that implementation of brotherhood principle is quite good. Its scores ranged from 4.11 to 4.49.

However, it is quite surprising that justice occupies the lowest score. Implementation of this justice principle has been given the score between 3.75 and 4.28 according to the perception of respondents. This may be because of a:

- Lack of understanding of the concept of justice among the available human resources of Islamic banks;
- Asymmetric practice of the justice principle in the operation of Islamic banks. For example, due to the pragmatic behavior of employees, the customers have less opportunity to know the details of transactions. This includes less opportunity to negotiate the rate of profit margin in the *murābahah* financing and to discuss the profit sharing ratio in the *muḍārabah* scheme.
- Problems with the standard operating procedure (SOP) may cause a reduction in the implementation of the justice principle. Different SOP from one Islamic bank to another may create a different perception of respondents.
- Differences in interpretation of external and internal regulations. This will lead to a different implementation of the justice principle.

4.2. Comparison of perception between employees and customers of Indonesian Islamic banks

Table (2) provides the results on the perception of both employees group and customers group of respondents based on the t-test. It is found that the average score of employees' perception is higher than that of customers'. The former's average score is 4.52 while the latter's score is equal to 4.11. However, the different perceptions between employees and customers does not occur in the case of bank D.

Table (2) also provides information showing that employee perception is always higher than the customer perceptions in each Islamic bank. This fact seems to be caused by the following reasons:

- These differences in their perception may be caused by differences in the usage of criterion between employees with customers. The employees usually use official references, such as *fiqh* rules, Bank Indonesia and OJK Regulations, bank's internal policy, and accounting and reporting principles, while customers may have insufficient information on those rules.
- The presence of information distortion which is caused by incompatibility of the practice of Islamic banks with legal provisions issued by the National Shari'ah Board of Indonesia.
- There is the possibility that customers have been treated in a way that is not matched with prevailing rules and norms. This will create customer experiences which affect their perception of banks' compliance with Shari'ah values.
- Ineffective delivery of Shari'ah values from employees of the bank to their customers.

Table (2)
The difference of perception between employees and customers

Bank	Employees	Customers	Sig. (2 tailed)*	Conclusion
Aggregate	4.52	4.11	0.000	Difference
Bank A	4.83	4.35	0.000	Difference
Bank B	4.76	4.01	0.000	Difference
Bank C	4.12	3.87	0.005	Difference
Bank D	4.33	4.26	0.432	Same

* If the two-tailed sig ≤ 0.05 , then H_a is accepted (there is a difference) and H_o is rejected.

Meanwhile, possibilities that may cause the absence of significant difference between the perception of employees and customers of bank D are as follows:

- Employees of bank D can deliver the Shari'ah values contained in the bank's products to their customers effectively.
- Based on business character mapping, bank D emphasizes technology-based supporting system (for instance, e-registers) as its value proposition which differentiates the bank from other Islamic banks. Service features with advanced technology have given satisfaction to the customers. This leads to a good perception of customers to the bank service and creates similarity with employees' perception.

Based on this research, scores obtained by the Islamic banks related to the application of Shari'ah values indicate that the application of Shari'ah values is considered good from the customers' perception as well as employees' perception. Customers perceive the application of Shari'ah values above 80 percent while the employees perceive it around 90 percent. Deficiencies in the implementation of Shari'ah values are a valuable input for continuous improvement of the Islamic bank's operations.

Shari'ah compliance standard can be categorized into two groups. The first one is the mandatory group, which must be fully applied in the operation of Islamic banks, such as the non-existence of interest (*riba*), excessive speculation or gambling (*maysir*), vagueness (*gharar*), harm (*zulum*), and illegitimate (*haram*). The second are recommended, namely, the Shari'ah values which give value added to Islamic banks and strengthen their competitiveness level, such as service excellence and implementation of corporate social responsibility.

4.3. Managerial Implication

The above findings in which there is a tendency for customers' perception to be lower than employees', should stimulate the management of the Islamic banks to formulate strategies that aim to continuously improve the service quality of the bank. Quality improvement of available human resources is extremely important as they will be the spearhead of Shari'ah values' delivery to customers.

Justice should be paid serious attention to since it is the core aspect of Islamic banks, differentiating the banks from their conventional counterparts. It has also been regulated in detail by the National Shari'ah Board (DSN – MUI). This research provides empirical evidence that justice earns the lowest score. This finding should guide the management of Islamic banks to upgrade the quality of implementation of justice principles. However, it does not mean that attention to the other three values should be reduced.

In order to increase the implementation of Shari'ah values in the operation of the Islamic bank, this study suggests the authorities, such as Financial Services Authority and DSN – MUI, to work together in formulating Shari'ah audits and reporting standards. As for now, there is only a financial audit and accounting reporting system. The presence of a Shari'ah audit and its reporting system is believed to be the way to increase the application of Shari'ah values. The results of a Shari'ah audit should be publicly informed so that public confidence can be increased in the future. The role of a Shari'ah Supervisory Council or DPS (*Dewan Pengawas Syariah*) in each Islamic bank should be optimized. It is this council that will be responsible for conducting a Shari'ah audit and produce its report that will be publicly published. It will increase the trust of customers and will positively affect the development of the Islamic banking industry in Indonesia.

5. Conclusions and Suggestions

From the findings of our survey, it can be concluded that the operation of Islamic banks in Indonesia has been in line with Shari'ah values and its average score reaches 4.31 based on the perception of employees and customers. The highest score of 4.58 was achieved by bank A and the lowest score of 4.00 was achieved by bank C. In general, there are differences in the Shari'ah values implementation among Islamic banks, except for the case between bank B and bank D.

It is also found that there are differences in the perception of Shari'ah value implementation in Islamic banks between employees and customers. Customers in general, have lower perception as compared to employees'. Justice was found to be the

lowest as compared to the other principles. This requires more focus and commitment from the management of Islamic banks to increase implementation of the justice principle in the banks' operation.

This research suggests the banking authorities, i.e. Financial Services Authority and the National Shari'ah Board of Indonesia, should introduce a Shari'ah audit and reporting system which must be made public. This will increase public confidence and trust in Islamic banks. Betterment in the

implementation of Shari'ah values will give a positive impact upon the development of the Islamic banking industry in the country. This study was limited to the comparison of the implementation of Shari'ah values among the various models of Islamic banks and did not cover the relationship between the ownership structure of each bank with its Shari'ah values' implementation. Therefore, it is suggested that further research should seek to examine these from the aspect of the ownership structure.

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مدى "إسلامية" البنوك الإسلامية في إندونيسيا؟

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المستخلص: الغرض من هذه الورقة هو تحليل ومقارنة تنفيذ القيم الشرعية في البنوك الإسلامية العاملة في إندونيسيا. استخدم البحث البيانات الأساسية المأخوذة من ٢٤٠ مجيبين من أربعة أنواع البنوك الإسلامية العاملة في إندونيسيا، التي تتكون من ثلاث بنوك إسلامية بالكامل (منذ تأسيسها، شركة تابعة لبنك تقليدي للدولة، شركة تابعة لبنك تقليدي خاص) ووحدة الأعمال الإسلامية لبنك تقليدي. كل بنك إسلامي ممثل بعدد ٣٠ موظفا و ٣٠ عميلا. وقد أظهرت نتائج الدراسة أنه - من حيث العموم - هناك اختلافات في تنفيذ القيم الشرعية بين البنوك الإسلامية. كما تشير أيضا إلى وجود تصور مختلف بين موظفي البنوك الإسلامية وعماله من حيث تنفيذ البنك الإسلامي للقيم الشرعية في ممارساته. من المبادئ الشرعية الأربعة التي تمت قياسها، وجد أن العدالة حصلت على الدرجة الأدنى مقارنة بغيرها من المبادئ وهي الأخوة والمنفعة والتوازن.

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