

The urgency of Leadership in Islamic Banking Industries Performance

Lucky Nugroho¹, Nurul Hidayah², Ahmad Badawi³, Akhmad Amien Mastur⁴
{lucky.nugroho@mercubuana.ac.id¹, nurul.hidayah@mercubuana.ac.id²,
a.badawi@mercubuana.ac.id³, amien_mastur@yahoo.co.id⁴}

Universitas Mercu Buana, Indonesia¹, Universitas Mercu Buana, Indonesia², Universitas Mercu Buana, Indonesia³, Doctoral Program of Islamic and Economics Finance of Trisakti University, Indonesia⁴

Abstract. The purpose of this study is to provide information to all stakeholders in the Islamic banking industry related to the importance of the role of leaders in maintaining the performance of the bank Islamic Bank to increase the trust of the ummah in using financial services of Islamic banks. This research is a conceptual paper using qualitative methodology supported by data and theoretical studies from previous studies. The discussion of research questions is as follows: (1) How Leadership in Islamic Perspective; (2) How is the Relationship of Ownership in Leadership; (3) How is the Relationship between Sharia Banking Conditions and the current Leadership Phenomenon. The Islamic banking industry requires trustworthy leaders so that there is a sense of ownership in managing Islamic banks that have an impact on increasing performance. However, on the other hand, current Islamic banking still has a dependency on management that originates from its parent bank, which is a conventional bank. Therefore an independent Islamic bank is needed so that it can provide more significant benefits to the community and the ummah

Keywords: Leadership, Islamic Banking, Performance

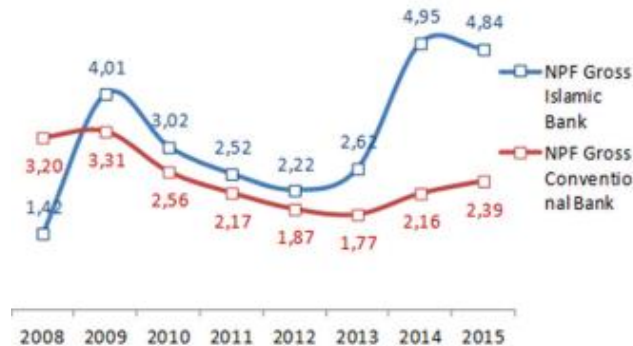
1 Background

The concept of the purpose of Islamic banking is to provide welfare to the people. The use of sharia, or commonly called maqhasid sharia, which regulates how humans can achieve safety in the world and happiness in the hereafter or called 'Falah.' Furthermore, according to Nugroho (1) Islamic banks do not only aim to achieve the profit aspect but also include aspects of people, planet and prophet so that with the existence of Islamic banking, the Muslim Ummah in Indonesia which is the majority of the population will be guaranteed in implementing religious teachings in kaffah or totality (2,3). On the other hand, the growth of the Islamic banking industry in terms of assets from 2009 to 2015, on average, is higher when compared to conventional banks. The average growth of the sharia banking industry in the 2009-2015 period was 29.86%, while the conventional banking industry only reached 15% so that the growth of the sharia banking industry was double that of the conventional banking industry. Furthermore, the annual growth ratio between the sharia banking industry and the conventional banking industry can be seen in Graph 1.1 as follows:



Graph 1.1 Growth of Assets of Sharia Banking Industry VS Growth of Conventional Banking Industry, source: (2)

According to graph 1.1 above, it is known that the trend of the assets of the Islamic banking industry has decreased even though the average growth of the Islamic banking is still higher when compared to the conventional banking industry. Furthermore, when viewed from the amount of problem financing, the growth of problem financing in the sharia banking industry also experienced a higher increase compared to the conventional banking industry. The growth of problem financing in the Islamic banking industry compared to the problem of growth financing in the conventional banks can be seen in graph 1.2 below:



Graph 1.2 Growth of Problematic Financing of the Sharia Banking Industry VS Conventional Banking Industry, source:(2)

According to graph 1.2 above, it can be considered that the problem of growth financing in the Islamic bank industry exceeds the growth of problem financing from conventional banks. The problem of financing is indicated by the proportion of problem financing (NPF), which can have an impact on the low reputation of Islamic banks from the perspective of stakeholders (4–6). Thus, we need a leader who can be trusted in managing Islamic banks so that they can improve the reputation of Islamic banks so that people can trust to transact their business and finance in Islamic banks because Islamic bank customers are not only Muslim, but non-Muslim communities can also access services from Islamic banks.

The existence of Islamic banks is inseparable from the targets of the teachings of Islam, namely to realize benefits for the Ummah. *Maslahah* can be construed as a condition of prosperity (tangible and intangible) that provides beneficiaries for the whole community or the ummah (1,7). According to Bararah & Nugroho and Asutay (8,9), in order to realize the benefits of the community, the operations of Islamic banks have the aim of not only seeking profit (financial performance) but also providing social impact for the community (social performance) (3,4). *Maqhasid syariah* is the objective of the existence of Islamic Banks, which is protecting the religion, bearing on the soul, protecting the mind, preserving the offspring, protecting the property, and protecting the environment (10–12). Thus, all elements of the sharia *maqhasid* have the aim of maintaining the continuity of a more civilized human life. In association with the sharia *maqhasid*, sharia banking must also be able to play an active role in poverty alleviation, improve health and education, which in this context Islamic banks have a role to overcome social problems. Therefore profit for Islamic banks is not the primary goal, but the gain is intended to maintain the continuity of a business or operational of Islamic banks and contribute to the welfare of the ummah or society in general.

The success of developing and getting the role of Islamic banks in the Ummah's economy is inseparable from the role of leaders in Islamic banks. The leader is obliged to foster, mobilize, and channelize all the potential of the organization he leads so that the success of the organization in achieving its goals depends on the role of the leader. The phenomenon of the very high growth of Islamic banking at this time has not been paired by the fulfillment of sufficient human resources (13–15). The definition of the adequacy of the number of human resources of Islamic banks is not just in terms of fulfilling the number of employees, but more important is employees who have the ability, competence, and experience in managing Islamic banking. This condition is certainly inseparable from the history of Islamic banking in Indonesia, which is still early stage and the absence of political support from the government of those periods, which causes growth and development, both in terms of amount and quality of Islamic banking is not as expected (5). Grounded on this, the research questions in this concept paper include (i) What about leadership from an Islamic perspective?; (ii) How is the relationship between ownership in leadership; (iii) How is the Relationship between Sharia Banking Conditions and the Current Leadership Phenomenon?

2 Method

The purpose of this conceptual paper is to provide additional insights to academics and practitioners and stakeholders to improve the performance and reputation of Islamic banks through a leadership perspective. Based on these objectives, the research method used in this study is qualitative, supported by data and analysis of studies that have been conducted by previous researchers. Furthermore, this study aims to: (i) find out the definition of leadership from an Islamic perspective (ii) find out the relationship between ownership and leadership (iii) find out the relationship between current sharia conditions and leadership phenomena in Islamic banks.

3 Discussion

In this conceptual paper, the discussion of the work relates to the still limited human resources of Islamic banks and the need for real leadership so that the existence of Islamic banks can have excellent performance. The excellent performance of Islamic banks will have an impact on the welfare of the Ummah and society in general. The elaboration of the research questions above is as follows:

3.1 Leadership from an Islamic perspective

The success or failure of an organization is always associated with the ability of a leader (16–18). If an organization succeeds in achieving its objectives, then indirectly, the community says the leader of the organization has excellent abilities and vice versa. In the philosophy of Java, there is a slogan of the behavior of the leader that should have been introduced by Ki Hajar Dewantara “Ing ngarso tulodo; Ing Madyo mangun karsa; Tut wuri handayani. The meaning of the slogan is a role model; give encouragement or motivation and give strength (19). So that a leader has authority to his subordinates and can exert influence, and if something goes wrong by his subordinates, the leader can help and provide solutions and can instill independence to his subordinates. Next is the Islamic perspective on leadership. Referring to verse Q.S Ibrahim verse 4 and Q.S As-Sajdah verse 24: Meaning: “And We did not send any messenger except [speaking] in the language of his people to state clearly for them, and Allah sends astray [thereby] whom He wills and guides whom He wills. And He is the Exalted in Might, the Wise (Q.S Ibrahim verse 4).“Meaning: “ And We made from among them leaders guiding by Our command when they were patient and [when] they were certain of Our signs (Q.S As Sajdah verse 24).“ Based on the two verses of the Qur'an mentioned above, then a leader is required to understand the will and pay attention to the conditions of the subordinates they lead. Allah commands humans, especially those who believe, to be obedient and obedient to the Prophet. Obedience and obedience to him as the chosen person of Allah SWT is a manifestation of the leadership of Allah SWT on this earth. The personality of the Prophet as a leader in thinking, behaving, and acting is an example of the contents of the Koran so that it should be emulated.

Changes in the world economy caused by globalization, demand sustainable development. The urgency of information combined with the complexity of today's business, coupled with the increased business competition, makes it a challenge for leaders to be more transparent and increase their competence to innovate to maintain the sustainability of the organization they lead. Therefore a leader must have a mission based on the interests of the Ummah, has a vision of sustainable growth (not only worldly but also the hereafter), and strategic thinking. Also, the consideration of a leader is not only related to company profits but also considers the welfare of employee families, environmental sustainability, development of disadvantaged areas, and national economic growth because, from an Islamic perspective, the leadership will be accounted for in the afterlife. Thus, the purpose of leadership is not to seek personal and group benefits but must contribute to the benefit of society (ummah). Also, a leader must have high creativity in developing concepts and services that fit the needs and have maximum productivity

The Islamic perspective related to leadership is that a leader must be mandated. Further, the meaning of trust can be interpreted as a bond or contract of a leader with the subordinates they lead, that it is inevitable that a leader will guide, protect, and will treat them fairly. Therefore, a leader must be able to provide benefits not only for his organization (representing

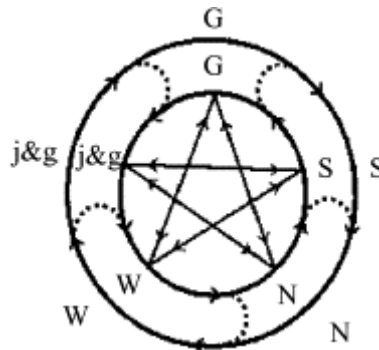
shareholders) but also for all employees he leads (20). Therefore, leadership is not a property that can be used in any way you wish by the person who is given the mandate. This leadership is not used for personal gain, but must be used to benefit the whole community. Based on this, Islam views the task of leadership in two main functions, namely upholding the religion (the afterlife) and managing world affairs to carry out God's commands and stay away from Allah's prohibitions. So Allah hates people who become leaders because of the pursuit of material and position (21). This was narrated in the Buchari Muslim hadith: "Abu said (Abdurrahman) bin samurah r.a. Said: The Messenger of Allah has said to me: "O Abdurrahman bin samurah, do not demand a position in government, because if you are entrusted without asking, you will be assisted by Allah to carry it out, but if you can get the position because of your request, then it will be handed over your shoulder or your wisdom (18). And if you have sworn an oath, then it turns out that if you do something else, it will be better, then makes the promise and do what is better." (Bukhari, Muslim). Also, there are hadiths related to this matter, namely "From Abu Hurairah r.a he said, Rasulullah SAW said: If the mandate has been lost (not held firmly), then wait for the moment of its destruction. He asked: O Messenger, how do people get rid of that mandate? The Prophet replied: (Namely) if an affair (mandate) is given to someone who is not an expert, then wait for the moment of its destruction. (HR. Bukhari). "Leadership in an Islamic perspective, namely the mandate carried out by a leader must be accompanied by the professionalism that has a vision of prosperity for the ummah, has long-term planning, can implement, has experience and expertise and is recognized for its expertise in carrying out its duties as an obligation.

3.2 Relationship of ownership in leadership

Why is ownership in leadership so important? A sense of belonging shapes a leader's mentality in making policies and decisions because mental meaning relates to a person's character, character, and mentality. Furthermore, a sense of belonging will affect a leader in acting. That is because of the following matters:

- With a sense of ownership, a leader will know and understand the goals to be achieved;
- With a sense of ownership, a leader will understand and understand how to have a role and contribute positively to his organization;
- With a sense of ownership, a leader will have a sense of responsibility for the success of the organization;
- With a sense of ownership, a leader will understand his duties and responsibilities.

Therefore, it would be nice if the government currently has an Islamic bank so that the government can play a direct role in the improvement and progress of Islamic banking in Indonesia. The role of government is significant for the progress of Islamic banks, which aims to realize prosperity and create benefits for the people. This is expressed by Ibn Khaldun's famous theory in Figure 3.1 as follows:



Gambar. 3.1 Ibnu Khaldun Theory
Source: (22)

According to Ibn Khaldun according to Figure 3.1 above, there are interrelated variables that cannot be separated from each other, namely Sharia (S), Society (N), government (G), welfare (W), development (g) and justice (j) so the function becomes as follows: $G = f(S, N, W, g \text{ and } j)$. Based on Ibnu Khaldun's equation and image, (G) is a dependent variable because the government/leader is obliged to guarantee welfare (W) for the community or state (N) by providing an environment conducive to development (g) and creating justice (j) through implementation of sharia values (S) to create *maslahah* (social-wellbeing). Furthermore, to support the development and sustainable growth of Islamic banking in Indonesia, government support is needed (government-driven) in addition to community-driven/market-driven desires.

3.3 Conditions of Islamic Banking Leadership

Regarding to Sidiq (23), a leader must be able to provide benefits not only for the organization (representing shareholders) but also for all employees they lead and even benefit all stakeholders. Following previous research conducted by Nugroho & Anisa, the management of Islamic banks is still very dependent on the parent bank, and even there are Islamic banks that 100% of the board of directors are from a parent bank, which is a conventional bank (13,24). This phenomenon certainly needs attention from the regulator, because currently 99% of Islamic banks that have substantial assets; their shares are still owned by their parent bank which is also a conventional bank. The further effect is that the policies and work programs of Islamic banks will be determined by the parent bank in order to support the business on holdings. The appointment of Islamic banking directors should be an independent figure so that they have a focus on advancing and developing their organizations based on the needs of the Ummah based on the vision and mission of providing benefits to the community. It is also related to related ethics contained in the Qur'an Al-Baqarah verse 208-209, meaning: " O you who have believed, enter into Islam completely [and perfectly] and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy. But if you deviate after clear proofs have come to you, then know that Allah is Exalted in Might and Wise (Q.S Al Baqarah verse 208-209)." So that the personnel who manage and lead Islamic banks are chosen people who have the goal of prospering the country and realizing the benefits of the Ummah not solely because of office and power, which only gives benefits to a handful or a group of people. Thus, the existence of a leader in an organization is not only aimed at

advancing the organization but can carry out its mandate for the welfare of employees and treat employees as an investment for the company rather than as a factor and means of production for the benefit of management and organization.

4 Conclusion

The development of the sharia banking industry today must be supported by professional human resources in their fields, including their leaders. The leader has a vital role in advancing the organization or company because a leader is a captain who determines the business direction of the organization.

Furthermore, with the phenomenon of many Islamic bank leaders or directors coming from conventional banks, the following considerations are needed:

- The Islamic banking industry needs an independent Islamic bank so that the vision and mission of the Islamic bank to realize the benefit for the Ummah can be implemented and broad impact on the community;
- Islamic banks need leaders who understand the goals of sharia, or maqhasid of sharia so that in addition to professionals in their fields, but able to provide benefits for the Ummah and the community (Maslahah) which aims at happiness in the world and the hereafter (Falah);
- Ownership is vital for leaders in managing Islamic banks so that in managing Islamic banks, there is a responsibility not only to the shareholders but further to all stakeholders, and more importantly the position is a mandate that will be accountable to Allah SWT.

References

1. Nugroho L, Hidayah N, Badawi A. The Islamic Banking, Asset Quality: “Does Financing Segmentation Matters” (Indonesia Evidence). *Mediterr J Soc Sci*. 2018 Jan 8;9(5):221–35.
2. Nugroho L, Utami W, Sukmadilaga C, Fitrijanti T. The Urgency of Allignment Islamic Bank to Increasing the Outreach (Indonesia Evidence). *Int J Econ Financ Issues*. 2017;7(4):283–91.
3. Desker B. Islam in Southeast Asia: The challenge of radical interpretations. *Cambridge Rev Int Aff*. 2003;16(3):415–28.
4. Bernstein D. Asset quality and scale economies in banking. *J Econ Bus*. 1996;48(2):157–66.
5. Chotib A, Utami W. Studi Kinerja PT BNI Syariah Sesudah Pemisahan (Spin Off) dari PT Bank BNI (Persero) Tbk. *Akuntabilitas*. 2016;7(2):94–108.
6. Soekapdjo S, Nugroho L, Badawi A, Utami W. BAD DEBT ISSUES IN ISLAMIC BANK: MACRO AND MICRO INFLUENCING (INDONESIA CASES). Vol. 4, *International Journal of Commerce and Finance*. 2018.
7. Nugroho L, Husnadi TC, Utami W, Hidayah N. Masalah and Strategy to Establish a Single State-Owned Islamic Bank in Indonesia. *Tazkia Islam Financ Bus Rev*. 2017;10(1):1–17.
8. Nugroho L, Bararah HN. Pengaruh Good Corporate Governance dan Biaya Operasional dan Pendapatan Operasional (BOPO) terhadap stabilitas keuangan bank umum syariah di Indonesia Tahun 2012-2017. *Inovbiz J Inov Bisnis*. 2018;6(2):160–9.
9. Asutay M. Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance. *Asian African area Stud*. 2012;11(2):93–113.
10. Nugroho L. ISLAMICS PRINCIPLE VERSUS GREEN MICROFINANCE. *EJIF – Eur J Islam Financ* [Internet]. 2015 Jun 1;3:1–9. Available from:

<http://www.ojs.unito.it/index.php/EJIF/article/view/1046/1184>

11. Samosir CBH, Prayoga AB. Jurnal Pengaruh Persepsi Harga Dan Promosi Terhadap Keputusan Pembelian Konsumen Produk Enervon-C. *J Ilm Manaj dan Bisnis*. 2015;1(2):1–13.
12. Nugroho L, Badawi A, Hidayah N. Discourses of sustainable finance implementation in Islamic bank (Cases studies in Bank Mandiri Syariah 2018). *Int J Financ Res*. 2019;10(6):108–17.
13. Nugroho L, Anisa N. Pengaruh Manajemen Bank Induk, Kualitas Aset, dan Efisiensi terhadap Stabilitas Bank Syariah di Indonesia (Periode Tahun 2013-2017). *Inovbiz J Inov Bisnis*. 2018;6(2):114–22.
14. Sidiq U. Kepemimpinan Dalam Islam: Kajian Tematik Dalam Al-Quran Dan Hadits. *Dialogia* [Internet]. 2014;12(Juni):127–41. Available from: <http://jurnal.stainponorogo.ac.id/index.php/dialogia/article/view/305>
15. Ramadhani H. Prospek dan Tantangan Perkembangan Asuransi Syariah di Indonesia [Internet]. Vol. 1, *Al-Tijary*. 2015 [cited 2019 Jun 25]. 57-66 p. Available from: <https://journal.iain-samarinda.ac.id/index.php/altijary/article/view/422/325>
16. Hofstede G. Motivation, leadership, and organization: do American theories apply abroad? *Organ Dyn*. 1980;9(1):42–63.
17. Leithwood K, Mascall B. Collective leadership effects on student achievement. *Educ Adm Q*. 2008;44(4):529–61.
18. Samosir CBH, Prayoga AB. Jurnal Pengaruh Persepsi Harga dan Promosi terhadap Keputusan Pembelian Konsumen Produk Enervon-C. *J Ilm Manaj dan Bisnis*. 2015;1(3):1–15.
19. Hadi R, Wahyudin U, Ardiwinata JS, Abdu WJ. Education and microfinance: an alternative approach to the empowerment of the poor people in Indonesia. *Springerplus*. 2015;4(1):244.
20. Dedi. Manajemen Kepemimpinan Dalam Islam. *AN-NIDHOM (Jurnal Manaj Pendidik Islam)*. 2016;1(1):71–98.
21. Ghozali AM, Acim SA. Kriteria pemimpin dalam perspektif hadits. *Istinbath J Huk Islam*. 2018;17(1):115–62.
22. Chapra MU. Ibn Khaldun's theory of development: Does it help explain the low performance of the present-day Muslim world? *J Socio Econ*. 2007;37(2):836–63.
23. Sidiq U. Kepemimpinan Dalam Islam: Kajian Tematik Dalam Al-Quran Dan Hadits. *Dialogia J Stud Islam dan Sos*. 2014;12(1):127–41.
24. Waemustafa W, Abdullah A. Mode of Islamic Bank Financing : Does Effectiveness of Shariah Supervisory Mode of Islamic Bank Financing : Does Effectiveness of Shariah Supervisory Board Matter ? *Aust J Basic Appl Sci*. 2015;9(37):1–15.