



The Principles of Sharia Good Corporate Governance (GCG) as the Main Pillar of Islamic Economics: Creating a Fair, Inclusive, and Sustainable Alternative System

Syerly Lia Azharah^{1*}, Baginda Parsaulian²

^{1,2}UIN Sjech M. Djamil Djambek Bukittinggi, Indonesia

*Corresponding author: syerlyliaa@gmail.com

Abstract. *This study examines the fundamental role of Sharia Good Corporate Governance (GCG) as the main foundation in building an Islamic economic system that can offer fair, inclusive, and sustainable alternatives. Using qualitative research methods with a literature study approach, this study analyzes the principles of Sharia GCG, which include transparency, accountability, responsibility, independence, and fairness, which are integrated with Islamic values such as shiddiq, amanah, fathanah, and tabligh. The results show that the implementation of Sharia GCG not only meets modern corporate governance standards but also ensures compliance with Sharia principles and maqasid Sharia in creating maslahah for all stakeholders. Sharia GCG has been proven to create better economic stability, encourage broader financial inclusion, and support sustainable development through fair wealth distribution mechanisms such as zakat, waqf, and profit-sharing-based financial instruments. This study confirms that Sharia GCG has the potential to be an effective alternative model for overcoming global economic inequality and creating a more humanistic and moral economic system.*

Keywords: Corporate Governance, Financial Inclusion, Good Sharia, Islamic Economics

1. Introduction

The modern market economy system has long made Good Corporate Governance (GCG) one of its fundamental pillars. However, the global financial crisis and growing awareness of the negative impacts of shareholder-centered capitalism have highlighted the structural weaknesses of conventional GCG. Conventional GCG, which often fails to adequately accommodate ethical and social values, opens the door to exploitative and speculative practices such as those involving maisir, gharar, and riba. This failure has created a global urgency to find alternative governance models that are not only efficient in generating material profits, but also ethically stable and socially sustainable. (Muhammad Daud, 2004). Amidst these conditions, Islamic economics has emerged as an alternative paradigm that promises holistic solutions through principles that integrate material and spiritual aspects. Islamic economics does not only focus on achieving profits, but also emphasizes the overall welfare of society through fair wealth distribution mechanisms and sustainable resource management. Amidst this need, Sharia-Compliant Good Corporate Governance (SCG) has emerged as an essential governance framework for Islamic financial institutions (IFIs), responding to the demands of the Islamic community for banking practices that are in accordance with Sharia principles. SCG is not merely the adoption of conventional GCG with additional compliance clauses, but rather a fundamental theoretical paradigm shift. While

conventional GCG is dominated by Shareholder Theory, SCG is rooted in Shariah Enterprise Theory (SET) (Muammar, 2013).

The fundamental difference between SCG and conventional GCG lies in their main objectives. SET explicitly equates material and spiritual values. This means that the objective of a sharia company is to achieve *Falah* (worldly and spiritual prosperity), where business activities are viewed as a form of worship (altruistic values) that must be balanced with egoistic profit motives. This shift shows that SCG is an inherently ethical mechanism that is theoretically more stable and equitable, because profit motivation is limited by moral and legal (sharia) constraints. This is a theoretical revolution that seeks to respond to global systemic criticism of uncontrolled capitalism. (Irham et al., 2023)

One of the fundamental elements in building a robust Islamic economic system is the implementation of Sharia Good Corporate Governance (GCG). Sharia GCG is a corporate governance concept that combines modern corporate governance principles with Islamic values and teachings. Unlike conventional GCG, which is only accountable to shareholders, Sharia GCG has a broader accountability orientation to Allah SWT as the true owner of the universe, as well as to all stakeholders, including the community and the environment. The principles of Sharia GCG not only include transparency, accountability, responsibility, independence, and fairness as in conventional GCG, but are also integrated with Islamic moral values such as *shiddiq* (*honesty*), *amanah* (*trustworthiness*), *fathanah* (*intelligence*), and *tabligh* (*communicative/open*). This integration creates a governance system that is not only effective in business terms, but also has a strong spiritual and moral dimension.

The implementation of Sharia GCG in Islamic economic institutions has shown significant positive impacts. Research shows that Islamic banks and other Islamic financial institutions that apply Sharia GCG principles tend to have more stable performance, higher public trust, and greater contributions to sustainable economic development. Moreover, Sharia GCG serves as a mechanism to ensure that the operations of Islamic economic institutions remain in line with the *maqasid sharia* - the main objectives of Islamic sharia which include protection of religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-aql*), lineage (*hifz al-nasl*), and wealth (*hifz al-mal*). Thus, Sharia GCG not only functions as an internal control tool, but also as an instrument for realizing holistic community welfare. (Mohammad Dedi, 2023)

In the context of developing alternative economic systems, Sharia GCG offers a unique approach due to its ability to integrate modern business efficiency with universal ethical and moral values. This makes Sharia GCG a potential solution not only for Muslim communities, but also a model that can be adopted more widely in creating a more just and sustainable global economic system. This study aims to comprehensively analyze the role of Sharia GCG principles as the main pillars in building an Islamic economic system that can be an alternative to the conventional economic system. The focus of the study includes identifying the fundamental principles of Sharia GCG, analyzing its implementation in various Islamic economic institutions, and evaluating its impact on the creation of a fair, inclusive, and sustainable economic system.

2. Methods

This study uses a qualitative method with a literature study approach (library research). (Sugiyono, 2020) Data was collected through in-depth studies of academic sources such as journals, research articles, and books relevant to the topics of Sharia GCG and Islamic economics. Data analysis was conducted descriptively to understand the

implementation of Sharia GCG principles and their impact on an Islamic economic system that is fair, inclusive, and sustainable.

3. Results and Discussion

3.1. Basic Concepts of Sharia Good Corporate Governance (GCG)

From an Islamic perspective, the understanding of corporate governance has a much broader and more comprehensive concept, as well as good character and piety to Allah SWT, which form the basis for not falling into fraudulent and dishonest practices in carrying out one's duties. Good corporate governance, which in modern terminology is referred to as Good Corporate Governance, is related to the hadith of the Prophet Muhammad SAW narrated by Aisha r.a., which means "Indeed, Allah loves when a person does something well." The principles of Good Corporate Governance in Islam are also in line with those formulated by the OECD (Organisation for Economic Cooperation and Development) and the KNKG (National Committee on Governance Policy). The principles formulated by the OECD are transparency, accountability, responsibility, and fairness. Meanwhile, the principles formulated by the KNKG are transparency, accountability, responsibility, independence, and fairness. (M. Iqbal et al., 2024)

3.2. Fundamental Principles of Sharia GCG

Based on literature review, Sharia GCG principles can be categorized into five main principles that are integrated with Islamic values (Karina Indah, 2022):

- a. Transparency - Tabligh Principle
The principle of transparency in Sharia Good Corporate Governance (GCG) not only covers the disclosure of information to shareholders, but also includes disclosure to all stakeholders. This principle is in line with the concept of tabligh in Islam, which emphasizes the importance of conveying information honestly, clearly, and comprehensively. In its application, transparency is realized through the disclosure of accurate and timely financial information, openness in the decision-making process, clarity regarding the level of compliance with Sharia principles, and effective communication with all interested parties.
- b. Accountability - Principle of Trustworthiness
Accountability in Sharia Good Corporate Governance (GCG) has a dual dimension, namely accountability to Allah SWT and to fellow human beings. This principle is manifested through vertical accountability to Allah SWT, which is reflected in compliance with Sharia principles, as well as horizontal accountability to stakeholders. In addition, accountability is also manifested through an effective supervisory system from the Sharia Supervisory Board (DPS) and periodic reporting on performance and the level of compliance with Sharia.
- c. Responsibility - The Principle of Khalifah
The principle of responsibility in the context of Sharia is based on the concept of *khalifah*, which places managers as representatives of Allah on earth and requires them to act with full trust. The implementation of this principle is reflected in the implementation of Corporate Social Responsibility (CSR) based on Islamic values, responsibility for environmental preservation and sustainability, fulfillment of zakat obligations and Islamic philanthropic activities, and positive contributions to overall community development.
- d. Independence - Principle of Fathanah

Independence in Sharia Good Corporate Governance (GCG) requires that every decision be made based on objective and comprehensive analysis, in accordance with the principle of *fathanah* (intelligence). This principle is realized through the establishment of an independent and professional organizational structure, the implementation of a decision-making process that is free from conflicts of interest, the strengthening of competence and integrity in management, and the implementation of an effective system of checks and balances to ensure balance and fairness in all aspects of governance.

e. Fairness - The Principle of 'Adl

Fairness is a fundamental principle in Islam that must be reflected in all aspects of organizational management. This principle is realized through fair treatment of all stakeholders, proportional distribution of profits in accordance with each party's contribution, equal access to information and opportunities, and avoidance of all forms of discriminatory practices in operational activities and decision-making. (Efrizal Sofyan, 2021)

3.3. *Maqasid Shariah as the Foundation of Shariah GCG*

The implementation of Shariah Good Corporate Governance (GCG) cannot be separated from the achievement of maqasid shariah as the highest goal in Islamic law. Maqasid shariah, which consists of five main objectives, provides a comprehensive framework for evaluating the effectiveness of Shariah GCG implementation. These objectives include the protection of religion (hifz al-din), life (hifz al-nafs), intellect (hifz al-aql), lineage (hifz al-nasl), and wealth (hifz al-mal). *First*, Protection of Religion (Hifz al-Din) is realized through the implementation of Sharia GCG, which ensures that all activities of Islamic economic institutions are in accordance with Sharia principles. This is done through a financial system that is free from riba, gharar, and maysir; the implementation of effective Sharia supervisory mechanisms; the provision of halal and thayyib products and services; and efforts to educate and improve Sharia financial literacy among the public. *Second*, Protection of Life (Hifz al-Nafs) is reflected in the contribution of Sharia GCG to the protection and improvement of human quality of life. Its implementation includes financing in the health and food security sectors, implementing Corporate Social Responsibility (CSR) programs oriented towards community welfare, applying prudent risk management, and supporting social and economic stability. *Third*, Protection of Reason (Hifz al-Aql) is realized through support for human resource development and education. Sharia GCG encourages financing in the education and research sectors, the implementation of training programs and human resource development, the improvement of financial and sharia economic literacy, and product and service innovations that support the learning process and knowledge enhancement. *Fourth*, Protection of Progeny (Hifz al-Nasl) is carried out through policies and programs that focus on family welfare. Its implementation includes financing for housing and children's education, providing Sharia insurance products for family protection, and implementing family economic empowerment programs to improve the stability and welfare of future generations. And Last *Fifth*, Protection of Wealth (Hifz al-Mal) is realized through safe, fair, and productive wealth management. This principle is applied through an effective risk management system, transparency in fund management, fair distribution of wealth through zakat and waqf instruments, and productive and sustainable investments in accordance with Islamic values. (Refta Lidha, 2022)

3.4. *The Impact of Sharia GCG on the Economic System*

The implementation of Sharia Good Corporate Governance (GCG) has had a tangible impact on building a more equitable, inclusive, and sustainable economic system. Based on Islamic values, Sharia GCG not only strengthens the governance of financial institutions, but also balances economic, social, and environmental aspects in its practices. *Economic Stability*, Sharia GCG contributes to economic stability through the application of profit-sharing mechanisms that reduce speculative risk and create fair risk sharing. The prohibition of usury helps prevent monetary instability, while real asset-based financing ensures that economic activities have a real impact. Prudent risk management principles also maintain the sustainability of the Islamic financial system. *Financial Inclusion*, The implementation of Sharia GCG promotes financial inclusion by expanding access to financial services for all levels of society. Sharia financial institutions play an active role in financing MSMEs, developing Islamic microfinance, and increasing Sharia financial literacy so that the public understands and utilizes financial products wisely. *Fair Distribution of Wealth*, The Sharia-based wealth distribution system creates economic equality through instruments such as zakat and waqf. Profit-sharing mechanisms ensure that profits and risks are shared proportionally, while social investment encourages asset management that provides both economic and social benefits to the community. Last, *Sustainable Development*, Sharia GCG supports sustainable development through green finance and ESG (Environmental, Social, Governance) principle-based investment. Natural resources are managed responsibly, taking into account environmental sustainability and the welfare of future generations.

3.5. The Role of Sharia GCG in Creating an Alternative Economic System

Sharia Good Corporate Governance (GCG) acts as a catalyst in creating an alternative economic system that is capable of addressing the fundamental weaknesses of the capitalist and socialist systems. Based on the principles of justice, balance, and moral responsibility, Sharia GCG offers an approach that balances economic efficiency and human values : *Advantages Over the Capitalist System*, Compared to the capitalist system, Sharia GCG has a number of advantages that are more oriented towards social balance and sustainability. Restrictions on speculative practices protect the real economy from market instability. The principle of distributive justice ensures the equitable distribution of wealth so that it is not concentrated in the hands of a few. In addition, the value of social responsibility is integrated into business activities so that every economic activity benefits society. Sharia GCG also encourages sustainable and inclusive economic growth, rather than simply pursuing short-term profits. *Advantages Over Socialist Systems*, Meanwhile, compared to socialist systems, Sharia GCG provides greater scope for individual freedom and creativity in innovation. The principle of individual incentives encourages entrepreneurship without neglecting ethical values. Market mechanisms are still utilized to achieve economic efficiency, but are balanced with moral constraints so as not to harm others. Sharia GCG also recognizes private property rights, but emphasizes that such assets have a social function. Thus, this system encourages innovation within the framework of Islamic spiritual and ethical values. Last *Unique Synthesis*, Sharia GCG offers a unique synthesis between two major economic systems by combining the market efficiency of capitalism and the social justice of socialism. This model prioritizes economic freedom accompanied by moral responsibility, growth that considers environmental sustainability, and a balance between material and spiritual well-being. This combination makes Sharia GCG a governance system that is not only economically productive but also oriented towards the welfare of the people.

3.6. Challenges and Opportunities

Despite its enormous potential, the implementation of Sharia GCG still faces several challenges. Differences in the interpretation of Sharia principles between countries and institutions create a need for global standardization. The limited number of human resources who understand Sharia economics and corporate governance also poses a barrier. In addition, regulations that are not yet fully supportive and low market acceptance remain major obstacles. However, there are many opportunities, including the potential demographic dividend from the large Muslim population in the world, increasing awareness of sustainable finance, the development of financial technology (fintech) that expands access to financial services, and growing global recognition of Sharia finance.

4. Conclusions

Sharia Good Corporate Governance (GCG) is a governance system based on Islamic values such as trust, justice, honesty, and moral responsibility to Allah SWT. Its main principles transparency, accountability, responsibility, independence, and justice are in line with the maqasid syariah, which emphasizes the protection of religion, life, reason, lineage, and property. The implementation of Sharia GCG has had a positive impact on economic stability, wealth distribution, and sustainable development, and has become an alternative to a fair and ethical economic system. Despite facing challenges in standardization and human resources, its development opportunities are vast through integration with financial technology and ESG principles. Thus, Sharia GCG has the potential to become a universal governance model that is sustainable and oriented towards the welfare of the people.

Acknowledgements

The author expresses gratitude to Allah SWT for His mercy and guidance so that this article could be completed successfully. Thanks are also extended to the lecturers, supervisors, staff of the Sharia Economics Postgraduate Program at UIN Syech M. Djamil Djambek Bukittinggi, and fellow students who have provided support, guidance, and valuable input during the research process. May this work contribute positively to the advancement of knowledge and receive blessings from Allah SWT.

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