

Research Article

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Sharia Compliance and Islamic Good Corporate Governance: Evidence from BMH East Java

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Received: Oct 17, 2025; **Accepted:** Oct 26, 2025; **Online:** Oct 31, 2025 | DOI: <https://doi.org/10.47353/ijema.v3i5.355>

Abstract: *Zakat institutions play a strategic role in socio economic empowerment by collecting and distributing Zakat, Infaq, Sadaqah, and Waqf (ZISWAF) funds to assist underprivileged communities. This study investigates the implementation of Islamic Good Corporate Governance (IGCG) and Sharia compliance at Baitul Maal Hidayatullah (BMH) East Java, focusing on their influence on institutional performance. Adopting a qualitative descriptive approach, data were collected through semi structured in depth interviews with key stakeholders, observations, and document analysis. Findings indicate that Sharia compliance constitutes the core pillar of IGCG, ensuring transparency, accountability, and ethical fund management. Despite minor operational challenges, such as administrative hurdles for certification and variable supervisory engagement, BMH East Java demonstrates robust governance practices that reinforce public trust and improve zakat distribution efficiency. This study provides empirical evidence that IGCG serves not only as a governance framework but also as a strategic tool for enhancing credibility, operational effectiveness, and social impact, offering practical implications for zakat institutions in Indonesia.*

Keywords: *Islamic Good Corporate Governance, Sharia Compliance, Zakat Institutions, Baitul Maal Hidayatullah.*

Introduction

Zakat institutions play a strategic role in the collection and distribution of zakat funds to assist those in need. As one of the pillars of Islam, zakat aims to alleviate the burdens of the poor and underprivileged, as well as to improve the socio economic conditions of the Muslim community. In the context of global economic challenges, zakat institutions are expected to serve as effective instruments for more equitable wealth distribution, thereby reducing social inequality and poverty.

However, in recent years, several zakat institutions in Indonesia have experienced significant declines in revenue. This raises concerns regarding the effectiveness of zakat fund management and the need to implement good corporate governance (GCG) principles. GCG is a system that directs and controls an organization to achieve a balance of power among key stakeholders, based on principles of transparency, accountability, responsibility, independence, and fairness.

In the context of Islamic based zakat institutions, the application of GCG can be extended into Islamic Good Corporate Governance (IGCG), which integrates GCG principles with Islamic values, including compliance with Sharia law (Maali et al., 2006). The implementation of IGCG is expected to enhance the performance of zakat institutions, thereby maximizing the positive impact of zakat on society. Non-profit organizations such as Amil Zakat Institutions (LAZ), which are not profit-oriented, also require good governance. Fund growth is one key indicator of an institution's ability to effectively collect and manage zakat (Noor, 2020).

In Indonesia, the realization of Zakat, Infaq, and Sadaqah (ZIS) collection remains low relative to its potential. In 2021, only IDR 14 trillion was collected, representing less than 4.2% of potential funds (Andira Tsaniya Al-Labiyah et al., 2023). This condition highlights the need for in-depth studies on the effectiveness

of zakat management. The ZISWAF (Zakat, Infaq, Sadaqah, and Waqf) collection data for Baitul Maal Hidayatullah (BMH) East Java shows an interesting tren.

Table 1. ZISWAF Receipts of BMH East Java

Year	Amount (IDR)
2019	76,113,090,666
2020	86,108,500,660
2021	88,008,483,057
2022	79,239,966,915
2023	69,924,423,088

Source: BMH East Java Financial Data

Fund collection at BMH increased between 2019 and 2021, but significantly decreased in 2022 -2023. This decline may be influenced by the ongoing impact of the COVID-19 pandemic, economic conditions, or internal institutional factors. This trend underscores the importance of implementing IGCG to enhance transparency, accountability, and Sharia compliance in zakat management. Although several studies emphasize the importance of IGCG, its implementation still faces challenges. Hamid et al. (2019) found that most zakat institutions in Indonesia still focus on fund collection without adequately addressing governance aspects, resulting in low transparency and accountability. Ghozali & Chariri (2016) further revealed that while some major zakat institutions have applied IGCG principles, the level of compliance and implementation remains inconsistent, particularly in terms of accurate and publicly accessible financial reporting.

From a regulatory perspective, the implementation of IGCG is also influenced by applicable laws, such as Law No. 23 of 2011 on Zakat Management. Trisnawati & Saefudin (2018) argued that gaps in law enforcement and implementation may affect the effectiveness of IGCG in zakat institutions. Moreover, information technology can enhance the efficiency and transparency of zakat management. Khariza (2021) demonstrated that technologies such as big data and artificial intelligence can be used to monitor and evaluate institutional performance in real time, although adoption remains limited, especially for smaller or remote institutions.

The declining zakat collection reported by the National Zakat Agency (Baznas) in recent years further highlights the urgent need for comprehensive research on the effectiveness of zakat management in Indonesia. Al-Labiyah (2023) noted that in 2021, only 4.2% of the potential zakat funds were collected, indicating a fundamental problem in zakat management systems that must be addressed.

Based on this background, a significant gap exists in the literature regarding IGCG implementation, particularly in terms of how Sharia compliance and IGCG principles impact the performance of zakat institutions. This study aims to explore the implementation of IGCG at BMH East Java, providing empirical evidence on the effectiveness of zakat fund management, as well as offering recommendations to enhance transparency, accountability, and Sharia compliance in zakat governance.

Method

This study adopts a qualitative descriptive approach, aimed at providing a systematic, factual, and accurate explanation of the phenomena under investigation. The qualitative approach is particularly suitable for this study because it focuses on non numerical data (Sugiyono, 2016). The qualitative data in this research consist of opinions, comments, interview results, and observations concerning the research object.

The main objective is to examine the implementation of Islamic Good Corporate Governance (IGCG) and Sharia compliance in a zakat institution.

Data collection involved in-depth interviews with program heads and stakeholders and direct observation of institutional activities at Baitul Maal Hidayatullah (BMH) East Java. The collected data were analyzed systematically and interpreted to provide an in depth understanding of IGCG practices. The qualitative approach allows researchers to capture the perspectives and experiences of participants, thereby providing a comprehensive portrayal of Sharia compliance and IGCG implementation within BMH East Java.

The research object refers to the institution or entity under investigation. It can include individuals, organizations, or other entities from which relevant information and data can be obtained. In this study, the research object is Baitul Maal Hidayatullah (BMH) East Java, located at Jl. Raya Mulyosari 398, Surabaya. This institution was selected because it represents a model zakat management organization and serves as the focus for examining IGCG practices. The research aims to collect information and data relevant to understanding Sharia compliance and governance practices at BMH East Java.

In qualitative research, data collection typically involves observation, in depth interviews, and document analysis. Combining these techniques allows researchers to gather comprehensive and nuanced data aligned with the research objectives. In this study, semi-structured in-depth interviews were conducted with key stakeholders, including the Secretary General, Head of Program and Community Development, Sharia Supervisory Board members, external auditors, and donors of BMH East Java. This approach combined predetermined questions with open ended prompts, enabling participants to express their perspectives freely while allowing researchers to probe for deeper insights aligned with the study objectives.

This study utilizes both primary and secondary data. Primary data were collected by the researchers, including Rita Fiantika et al. (2022), through in-depth interviews with key BMH East Java staff and observations of institutional activities, with interview recordings ensuring credibility. Secondary data, following Hermawan & Amirullah (2016), were obtained from BMH East Java's financial reports and institutional documents to provide contextual support. The combination of these data sources enables a comprehensive and triangulated understanding of IGCG and Sharia compliance at BMH East Java.

The study examines Islamic Good Corporate Governance (IGCG) within zakat institutions, highlighting Sharia compliance as a fundamental dimension. IGCG refers to the adoption of governance practices that integrate Islamic values into organizational management, ensuring operations adhere to Sharia principles while promoting transparency, accountability, fairness, and responsibility. In this context, Sharia compliance serves as the focal point of governance evaluation, supported by data from Sharia certification documents and in-depth interviews with the Sharia Supervisory Board, key staff, and other relevant stakeholders (Maali et al., 2006; Hamid et al., 2019). By focusing on these elements, the research seeks to provide a comprehensive understanding of how Islamic governance principles are operationalized in the management of zakat funds at BMH East Java.

Data analysis followed a qualitative, thematic, and interpretative approach to uncover patterns and insights related to IGCG and Sharia adherence. Interview recordings were meticulously transcribed, coded, and organized into thematic categories reflecting governance practices and compliance measures. Triangulation with secondary data, including financial reports and institutional documents, enhanced the validity and reliability of the findings. The analytical process enabled the researchers to evaluate the effectiveness of IGCG implementation, identify strengths and gaps in Sharia compliance, and provide

empirical insights into the governance framework of BMH East Java, offering practical implications for improving Islamic governance in zakat institutions.

Results and Discussion

Baitul Maal Hidayatullah (BMH) East Java, as a national zakat institution, plays a crucial role in the collection and distribution of Zakat, Infaq, Sadaqah, Waqf, and grants, including social humanitarian funds and Corporate Social Responsibility (CSR) contributions from corporate donors. The institution has established collection units across 24 cities and regencies, reflecting its commitment to facilitating community contributions toward ZISWAF (Zakat, Infaq, Sadaqah, Waqf, and Fidyah) and promoting social welfare. Over the years, BMH programs have reached 287 pesantren, empowered 5,213 dai tangguh, supported thousands of underprivileged families, and provided access to quality education for numerous school-age children. The institution was officially reaffirmed as a National Amil Zakat Institution (LAZNAS) by the Ministry of Religious Affairs of Indonesia in December 2015 (Decree No. 425/2015) in accordance with Zakat Law No. 23/2011. Its vision is to become a leading and trusted zakat institution, and its mission emphasizes excellence in collection and utilization, professional and transparent management of Zakat, Infaq, and Sadaqah, as well as community empowerment through education and da'wah programs. The organizational structure of BMH East Java is pesantren-based, led by a representative chair in Surabaya, with four operational divisions under the management team to ensure efficient governance and operational control.

Financially, BMH East Java demonstrated relative stability in 2023, with total assets increasing slightly to IDR 13.57 billion from IDR 13.48 billion in 2022, supported by an increase in cash and cash equivalents from IDR 9.66 billion to IDR 9.83 billion, reflecting effective liquidity management and fund collection strategies. Zakat revenue in 2023 amounted to IDR 9.95 billion, representing a slight decrease from IDR 12.51 billion in 2022, likely influenced by macroeconomic fluctuations and donor behavior changes. Despite this decline, distribution to eight categories of asnaf, especially faqir and miskin, continued effectively, demonstrating BMH's adherence to Sharia principles and its accountability to both donors and beneficiaries. Infaq and Sadaqah contributions totaled IDR 58.32 billion, slightly down from IDR 62.66 billion in 2022, with allocations directed toward social, educational, humanitarian, da'wah, and economic empowerment programs. The largest portion, IDR 21.39 billion, supported social and humanitarian initiatives, while education and da'wah programs received IDR 4.73 billion and IDR 6.93 billion, respectively, highlighting BMH's consistent commitment to community development (Lubis et al., 2019; Bahri et al., 2022). Operational efficiency was also evident; although amil fund revenue declined slightly to IDR 8.01 billion from IDR 8.32 billion in 2022, administrative costs decreased from IDR 1.06 billion to IDR 943 million, indicating active efforts to control operational expenditure (Luntajo & Hasan, 2023). Nonetheless, the amil fund reported a deficit of IDR 379 million, reflecting ongoing challenges in balancing operational costs with fund inflows.

The implementation of Islamic Good Corporate Governance (IGCG) is evident in BMH East Java's operations, with Sharia compliance as a core dimension. All financial processes, from fund collection to distribution, adhere to Sharia principles, guided by fatwas issued by the Sharia Supervisory Board (DPS), regulations from the Ministry of Religious Affairs, and BAZNAS guidelines. Additionally, investment instruments utilized by BMH in fund development are strictly Sharia-compliant, avoiding *riba*, *gharar*, and *maysir*, consistent with prior studies emphasizing the fundamental role of Sharia compliance in zakat management (Permana & Baehaqi, 2018; Sakti & Fahrullah, 2022; Razali et al., 2022). Interview data

revealed that stakeholders perceive Sharia compliance as not only a regulatory requirement but also as a critical factor in building institutional credibility. Informants emphasized that adherence to Sharia principles underpins trust from muzakki (donors) and ensures that all collection and distribution activities are conducted ethically and religiously, supporting findings by Bahri & Arif (2020) and Lubis et al. (2019).

Despite robust governance, several challenges persist. Variability in fund allocation interpretations, particularly regarding the use of zakat for productive investments, remains an issue. Some institutions still face administrative hurdles in obtaining official Sharia certification, while active engagement of the Sharia Supervisory Board is not uniformly implemented across all units. Nevertheless, BMH East Java demonstrates significant compliance, with transparent financial reporting, internal audit oversight, and supervisory board involvement ensuring accountability and operational integrity (Bahri et al., 2022; Luntajo & Hasan, 2023). These mechanisms align with prior research suggesting that ICGG implementation enhances institutional legitimacy, operational effectiveness, and public trust, thereby facilitating more efficient zakat collection and distribution (Permana & Baehaqi, 2018; Sakti & Fahrullah, 2022; Razali et al., 2022).

The findings demonstrate that Sharia compliance constitutes the central pillar of Islamic Good Corporate Governance (IGCG) at BMH East Java, serving to strengthen the institution's governance framework while supporting financial stability and maximizing social impact. The study reveals that strict adherence to Sharia principles enhances the credibility and trustworthiness of zakat institutions in the eyes of the Muslim community, thereby positively affecting both the collection and distribution of zakat funds. This perception of reliability encourages greater participation from donors and ensures that institutional operations align with ethical and religious expectations, ultimately fostering more effective and socially responsible zakat management.

Moreover, the findings highlight the importance of ongoing investments in human resource development, technological integration, and proactive supervisory engagement to address operational challenges and sustain the effectiveness of ICGG implementation (Bahri & Arif, 2020; Lubis et al., 2019; Bahri et al., 2022; Luntajo & Hasan, 2023). By embedding these practices into organizational routines, zakat institutions can reinforce governance structures, enhance operational efficiency, and uphold Sharia compliance consistently. These results underscore that ICGG functions not only as a governance mechanism but also as a strategic tool, enabling zakat institutions to manage funds ethically, ensure compliance with Islamic principles, and contribute to sustainable institutional growth and broader social welfare outcomes.

Conclusion

This study examines the implementation of Sharia compliance and Islamic Good Corporate Governance (IGCG) in Baitul Maal Hidayatullah (BMH) East Java and its impact on organizational performance in managing zakat, infaq, and sadaqah funds. The findings indicate that BMH East Java demonstrates a robust adherence to Sharia principles, with all financial collection, distribution, and investment activities conducted in compliance with Islamic law. The involvement of the Sharia Supervisory Board, internal audits, and regulatory guidance from the Ministry of Religious Affairs and BAZNAS ensures transparency, accountability, and credibility, which are essential for sustaining public trust and donor confidence.

The study also highlights that ICGG serves as a strategic governance framework, integrating conventional corporate governance principles such as transparency, accountability, fairness, and

responsibility with Sharia compliance. This integration not only ensures ethical and religiously compliant fund management but also strengthens institutional legitimacy and operational effectiveness. Despite challenges, including administrative hurdles in obtaining Sharia certification and interpretational differences in fund allocation, BMH East Java's commitment to IGCG has positively influenced its financial stability, operational efficiency, and social impact.

In conclusion, the research confirms that Sharia compliance is the central pillar of IGCG in zakat institutions, acting as both a governance and strategic tool. Institutions that rigorously implement IGCG are more likely to earn the trust of the Muslim community, enhance zakat collection, optimize fund distribution, and contribute meaningfully to social welfare. This study provides empirical evidence supporting the role of IGCG as a sustainable framework for ethical, Sharia-compliant, and socially responsible management of zakat institutions, with practical implications for similar organizations in Indonesia and other Muslim majority contexts (Permana & Baehaqi, 2018; Bahri & Arif, 2020; Lubis et al., 2019; Bahri et al., 2022; Luntajo & Hasan, 2023; Sakti & Fahrullah, 2022; Razali et al., 2022).

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