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Proposing a corporate governance model for an Islamic property developer

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Abstract

Purpose – The purpose of this study include analyzing the conformity between the General Guidelines for the Governance of the Indonesian Sharia Entities (GGG-ISE) and the implementation in the field and proposing a model of corporate governance for Islamic property developers.

Design/methodology/approach – This research uses a qualitative method with a case study approach. The researcher used a structured interview method and chose a purposive technique to determine the interviewees. This study has seven interviewees representing three Islamic property developer companies in Jember Regency, East Java, Indonesia. Data collection was conducted from June to July 2023, with a duration of about 60 min for each interviewee. The interviews were conducted face-to-face in each interviewee's residential office.

Findings – The results showed that the companies had implemented several principles of GGG-ISE, namely, ethical and responsible actors, risk management, internal control, compliance, disclosure and transparency by making financial reports, shareholder rights and stakeholder rights, both internal and external stakeholders. Furthermore, this study found that GGG-ISE does not comply with the components of the organizing organ group. This study also found that governance reports have not been implemented in GGG-ISE components. In addition, this study identified a new component that must be present and not found in GGG-ISE, namely, a statement of the use of contracts for mudharib owners and between mudharib owners and stakeholders. Based on these findings, this study proposes a governance model for Islamic property developer companies called the GGG-IPDE.

Originality/value – This research is a pioneer in proposing a corporate governance model for Islamic property developers.

Keywords Stakeholder theory, Governance, Islamic governance, Islamic property developer, Qualitative, Case study

Paper type Research paper

1. Introduction

Sharia business is practiced not only in the financial sector but also has penetrated the real sector, including the property sector. The development of business in the property sector aligns with the increasing public demand for housing needs. This is due to the need for human life for housing ownership as one of the primary human needs in addition to food

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and clothing, so everyone will try to own a house. Home is a shelter and physiological need that includes security, self-esteem and self-actualization. These multidimensional social effects articulate the importance of decent and affordable housing. Regardless of the current economic conditions, everyone should have a place to live to fulfill one of their primary needs.

Indonesia, as a country with a majority Muslim population, has the opportunity to develop Muslim groups who want a high level of religiosity in life, including in terms of the choice of location and home environment. This is to the findings that the religiosity factor is a determinant factor that influences intention in determining a decision and even to behave, including Ali et al (2023), Hasan and Rahman (2023) and Siswanto (2023). The development of housing with the Islamic concept has experienced a significant increase as evidenced by the existence of Islamic housing in many areas in Indonesia, including Bogor, Bekasi, Karawang, Bandung, Purwakarta, Kalimantan Island, Tasikmalaya, Banyumas, Malang, Jakarta, Depok, South Tangerang and Banten and Jember. Entrepreneurs are starting to pursue business in the property sector because this business can provide a high rate of return.

However, some negative cases occur in the Islamic property business. The Metro Jaya Regional Police in Indonesia revealed a case of Sharia housing sales fraud where 270 people were victimized with a total loss of Rp 23bn (Pratama, 2019). Another case was that there were 3,680 victims with a total loss of Rp 40bn in two locations, namely, in South Tangerang and Banten, Indonesia, which occurred in December 2019 (Bustomi and Gatra, 2019). Another incident was the report of 80 people for fictitious Sharia housing fraud to the East Java Regional Police, Indonesia (Mubyarsah, 2022). Some of these fraud cases are certainly detrimental to Sharia property developers who have managed their companies well and comply with Islamic rules. This makes it mandatory for developer companies to realize good corporate governance and by Islamic rules to provide a sense of security and trust for the community for the business model in the Islamic property sector.

Governance is the structure and process used to direct and manage the entity to achieve the entity's objectives and accountability to create value and sustainability for the entity. In general, Islamic governance is the structure and process in the Islamic economic sector to ensure compliance with legislation and Islamic principles. Specifically, Islamic governance can be defined as the institutional and organizational arrangements by which an entity can ensure effective independent management/supervision of Sharia compliance (KNKG, 2023). Implementing Islamic governance is a strategic step in meeting the demands and needs of all stakeholders. As stated in the stakeholder theory statement the company is not only concerned with owners and managers as well as essential parties of the company but also other external parties involved, including suppliers, customers and competitors. Based on the Islamic perspective, the stakeholder theory provides a comprehensive description of responsibilities guided by Islamic rules. These guidelines are recognized in the Islamic principles of property rights and contracts.

The Indonesian government through Komite Nasional Kebijakan Governansi (National Committee on Governance Policy) has released guidelines for the implementation of governance for companies engaged in the Islamic economic sector. The guidelines are called the General Guidelines for the Governance of Indonesian Sharia Entities (GGG-ISE). This guideline has an updated version published in 2023. GGG-ISE is supposed to be a guideline for all companies using Sharia concepts in Indonesia. However, based on an initial survey in the field, Sharia property developer companies in Jember Regency, Indonesia, do not yet have a Sharia corporate governance report. However, this does not mean that the company is not practicing good corporate governance. It is interesting to explore more deeply the implementation of corporate governance of Islamic property developers because no previous research has explored this corporate governance model.

Some previous research that discusses Islamic property developers focused on the study of financing with the concept of Islamic finance (Secchi, 2015), and research that examines the return and dividend characteristics of two types of Malaysian real estate investment trust series, namely, conventional and Islamic (Sukor *et al.*, 2020). Meanwhile, research on Islamic governance both in Indonesia and globally has so far focused on Islamic Banking institutions (Puspitasari *et al.*, 2023a, 2023b; Alam and Adedeji, 2021; Alam and Islam, 2021; Ben Abdallah and Bahloul, 2021; Tashkandi, 2023) and waqf institutions (Dalila, 2019).

Based on the elaboration of stakeholder theory, Islamic governance concept, GGG-ISE and previous research, this study aims to:

- explore and analyze the implementation of corporate governance of Islamic property developers in Jember Regency concerning the GGG-ISE; and
- propose a corporate governance model for Islamic property developers.

This research contributes to the theoretical field by increasing knowledge in the field of governance in companies that use the Islamic system and producing specific governance guidelines for Islamic property developer companies. The practical contribution of this study is all the Islamic property developer companies can apply the new governance guidelines to improve company performance.

2. Literature review

2.1 Stakeholder theory

Al-Nasser Mohammed and Muhammed (2017) have an opinion about the stakeholder theory that the company is not only concerned with owners and managers as well as essential parties of the company but also other external parties involved, including suppliers, customers and competitors. This theory emphasizes that an organization that meets the demands and needs of stakeholders will accelerate its financial performance (Puspitasari *et al.*, 2023a, 2023b). Based on the Islamic perspective, the stakeholder theory provides a comprehensive description of responsibilities guided by Islamic rules. These guidelines are recognized in the Islamic principles of property rights and contracts as conveyed by Chapra (2004).

Stakeholder theory is implemented in all types of companies, including Sharia property developer companies. This company is obliged to pay attention to the interests of stakeholders including business partners, employees, consumers, government and the surrounding community. The company uses Islamic rules to realize transparency, accountability and responsibility for company management through Islamic contracts in economic transactions. The use of Islamic contracts will be able to meet the needs and requests of all parties thereby realizing optimal company performance. The representation of stakeholder theory is manifested in the implementation of corporate governance. Implementation of good corporate governance will automatically realize stakeholder demands and needs. Companies with an Islamic concept are required to use Islamic governance as a form of consistency between their statement as an Islamic company and its practices.

2.2 Islamic governance

Governance has been widely discussed among Western academics (Ismail *et al.*, 2014). However, Islam has been concerned with governance since 1,400 years ago. Abu-Tapanjeh (2009) compared the principles of corporate governance in Islam with conventional corporate governance. He used the Organization of Economic Cooperation Development as a model of conventional corporate governance, as it has become an international benchmark for policymakers, investors, companies and other stakeholders. His paper found that the Islamic perspective on corporate governance has a broader horizon and does not compartmentalize roles and responsibilities, so all actions and obligations fall under the jurisdiction of divine law in Islam.

In line with the findings of Abu-Tapanjeh (2009), board responsibilities in Islamic governance should include three important aspects as follows:

- Strategic guidance, where accountability is not only a requirement to the board or stakeholders but also to Allah as the ultimate authority.
- Management monitoring should be holistic and integrative.
- Accountability to the board and stakeholders should include negotiation and cooperation, consultation and consensus-seeking with relevant stakeholders to make decisions. The faithful discharge of all duties and obligations is recognized as worship of Allah, part of a life of constant prayer and unremitting obedience to Allah in all of life's activities – spiritual, social, economic and political with the sole purpose of seeking Allah's pleasure (Badran, 2005).

Alsartawi (2019) argued that Islamic governance can be defined as the processes and frameworks that ensure compliance of business operations with Sharia to build stakeholder trust and contribute to financial stability and performance. According to Gupta (2010), there is a relationship between transparency and effective governance. He states that transparency through disclosed information is increasingly becoming the centerpiece of governance initiatives, referred to as governance through disclosure. This means that reporting is a necessity to achieve good governance. There is a need for regulation to influence the structure of governance and disclosure so that companies can fulfill better governance. Any organization that is transparent in its reporting meets one of the criteria of good governance. Thus, it would be more meaningful to select these boards than to select boards that are not transparent enough in their reporting as that may be the case and these boards do not meet the governance criteria. As a result, there is no point in examining organizations that do not practice better governance (Smallman, 2008). The Sharia Supervisory Board (SSB) is the embodiment of the implementation of Islamic governance in companies that use Islamic concepts. SSB has a strategic role in implementing Islamic governance (Puspitasari *et al.*, 2023a, 2023b).

2.3 General Guidelines for Governance of Indonesian Sharia Entities

The guidelines for implementing governance for Islamic companies have so far focused on Islamic financial institutions because the first Islamic economic practices were carried out in the financial sector. World institutions that compile guidelines for the implementation of governance for Islamic financial institutions are the Accounting and Auditing Organization for Islamic Finance Institutions and the Islamic Financial Services Board. Meanwhile, Indonesia has the National Committee for Governance Policy which has compiled the GGG-ISE where these guidelines are not only for Islamic financial institutions but also all entities that carry out company operations with the Islamic system. In this chapter, researchers only describe in detail the GGG-ISE prepared by the Komite Nasional Kebijakan Governansi (National Committee for Governance Policy).

The National Committee for Governance Policy is a committee responsible for developing the implementation of governance in Indonesia through a series of efforts to realize good governance and corporate governance to encourage improved national economic performance. The National Committee for Governance Policy has prepared the GGG-ISE, which can be referred to by all companies that conduct their business with the concept of Islam, both commercial and nonprofit institutions. GGG-ISE is a guideline for entities within the scope of Islamic economics in preparing the entity's governance system to achieve the entity's objectives and compliance with sharia, in fulfilling the interests of all stakeholders.

The GGG-ISE contains the rights of stakeholders and their fulfillment, the main rules regarding the management or management and supervision and management of Sharia entities in Indonesia, including aspects of ethics, risk management and disclosure. The GGG-ISE consists of eight principles divided into three groups of principles:

(1) the first three principles are the group of principles governing the management and supervisory functions of Sharia entities, namely, the board of directors, the board of commissioners and the SSB in Sharia entities, as well as the management, trustees/supervisors and Sharia supervisors of nonprofit organizations; and

(2) the group of principles governing the processes and outputs produced by the organizers of sharia entity governance.

The group of principles governing the owners/resource providers will primarily receive benefits from the implementation of the governance of Islamic entities. These principles and their derivatives are imbued with the four pillars of governance, namely, ethical behavior, accountability, transparency and sustainability. The reflection of the four pillars in the principles of governance of Indonesian Islamic entities will encourage the creation of long-term value of Islamic entities. The SSB is a governance organ that plays a very important role in realizing Sharia compliance by entities that are committed to making Sharia their operating principle. Therefore, the SSB needs to occupy a strong position in Sharia supervision, which is equivalent to the position of supervision by the board of commissioners. As the basis of action for SSB, it must refer to sharia principles that refer to fiqh muamalah. To have a formal basis, the rules used as a guide are those that have been determined and regulated by the Indonesian Ulema Council, which has a national (central) position.

2.4 Corporate governance of Islamic property developer

As stated by stakeholder theory, companies are obliged to fulfill all the needs and requests of stakeholders, both internal and external stakeholders. This will support company sustainability. Fulfilling stakeholder needs and demands can be realized by implementing good corporate governance. Sharia companies are required to implement Islamic governance. This is in line with the opinion (Hasan, 2012, p. 25) that Sharia companies require governance to promote fairness, transparency and corporate accountability. Sharia compliance requirements are part of the corporate governance framework signifying the essence of maintaining relationships between different stakeholders as well as relationships with God. Therefore, ownership of governance reports is very important to demonstrate transparency, accountability and especially conformity with Islamic rules in its operations.

Sharia property developers in Indonesia do not yet have corporate governance reports. It can happen because this industry has only been established for a few years and none of them have yet become public companies. Apart from that, there is no obligation for companies to officially report on corporate governance in a published report. On the other hand, managers stated that they did not understand the preparation of governance reports even though the Indonesian government, through the National Committee for Governance Policy, had launched general corporate governance guidelines for sharia business called GGG-ISE. The government has not provided specific corporate governance for Sharia property developers. Therefore, this research aims to develop a governance model for sharia property developers. Figure 1 shows the idea of creating corporate governance guidelines for Sharia property developers as a result of the elaboration of existing Sharia corporate governance theories, concepts and guidelines.

3. Research method

This research is a qualitative method with a case study approach. Case study research is suitable for examining a phenomenon in its natural context (Yin, 2013). It is a method for understanding individuals that is carried out integratively and comprehensively to obtain an understanding of the individual with the aim that the problem can be resolved and obtain good self-development. Determination of interviewees was carried out using snowball sampling technique. There are no rules for the number of interviewees in qualitative research and do not provide a definite number or range of cases that can be a guide for researchers (Efstation *et al.*, 1990).

Meanwhile, the selection of interviewees using snowball technique. The interviewees came from the managers of three Sharia property development companies in Jember Regency, Indonesia. The first interviewee was Mr Lukman, the manager of PT Lukasya Land Property, where the researcher knew him from Mr Arif who was the author's relation and knew Mr Lukman's profession so the author decided to contact Mr Lukman as a way to get other interviewees. The use of this snowball succeeded in getting seven interviewees. Table 1 gives information on the details of interviewees. The researcher decided to use seven

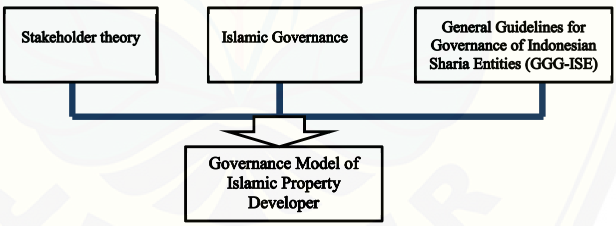

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Figure 1. Relevant theories supporting the Sharia property developer governance model

No.	Interviewee	Company name	Position	Reference
1	LK	PT Lukasyah Land Property (LLP)	Mudharib and owner	Arif
2	GF	PT Lukasyah Land Property (LLP)	Mudharib and owner	Lukman
3	HD	PT Syafaat Land (SL)	Mudharib and owner	Lukman
4	AD	PT Syafaat Land (SL)	Mudharib and owner	Lukman
5	CTR	PT Syafaat Land (SL)	Marketer	Andri
6	AR	PT Amany Berkah Propertindo (ABP)	Mudharib and owner	Citra
7	BNG	PT Amany Berkah Propertindo (ABP)	Mudharib and owner	Citra

Source: Table is developed by authors

Table 1. Detail of interviewees

interviewees because the researcher had experienced a saturation of data information. Saturated data means that the data is the same or similar to the delivery of the seven interviewees.

This study used semistructured interviews as a data collection technique to optimize information. This method leads the researcher to prepare a list of themes and questions that may differ from one interviewer to another, which will create more elasticity than other tactics. Appendix presents the interview guidelines for collecting data. The object of research is the manager of Sharia Housing Companies in Jember Regency, including PT Syafaat Land, PT Lukasyah Land Property and PT Amany Berkah Propertindo (ABP). Data collection was carried out during June–July 2023 with an interview duration of about 60 min for each interviewee. The interviews were conducted face-to-face at each interviewee's residential office during working hours.

The researcher analyzed the data by adjusting the application of governance in the field and the implementation of the components of the GGG-ISE and continued by analyzing the findings in the field. The GGG-ISE components for commercial companies consist of eight principles which are grouped into three, namely:

(1) Organizer:
- roles and responsibilities of the board of directors, board of commissioners and SSB;
- composition and remuneration of the board of directors, board of commissioners and SSB; and
- working relationship between the board of directors, board of commissioners and SSB.

(2) Organ process and outputs:
- ethical and responsible actors;
- risk management, internal control and compliance; and
- disclosure and transparency.

(3) Beneficiaries of governance implementation:
- shareholder rights; and
- stakeholder rights.

The analysis phase includes the following and is illustrated in Figure 2.

- Researchers conducted field exploration using interview methods.
- Researchers used the GGG-ESI component as the basis for field data collection.
- Researchers analyzed the compatibility between field practice and GGG-ESI.
- Researchers reviewed the components that were appropriate, inappropriate and or had not been implemented by Islamic property development companies.
- Researchers developed a model of corporate governance for Sharia property developer.

3. Result and discussion

3.1 Implementation of corporate governance of Sharia property in Jember Regency based on the General Guidelines for the Governance of Indonesian Sharia Entities

The GGG-ISE contains recommendations and guidelines for the operational activities of various types of Sharia entities in Indonesia. GGG-ISE is one of the important instruments to

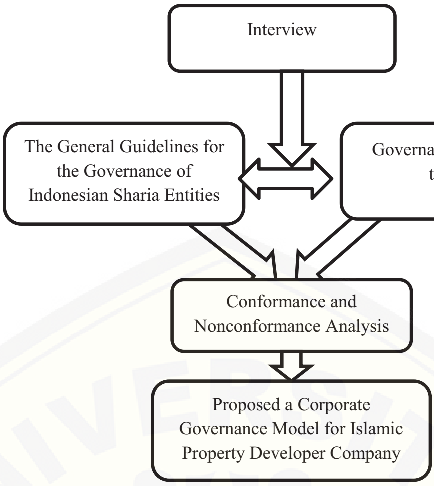

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Figure 2.
Illustration of the stages of data analysis

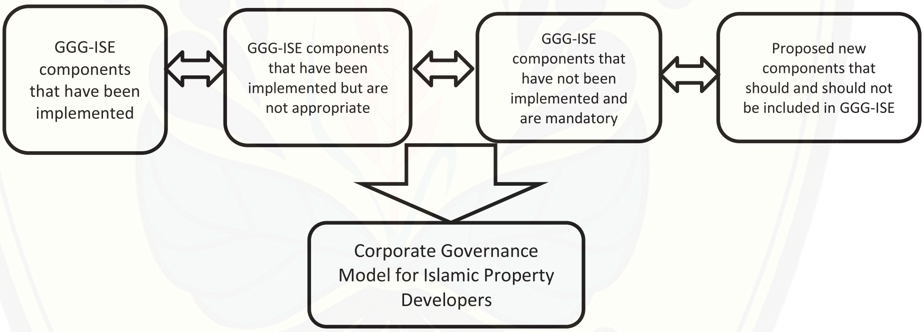

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Figure 3.
Stages of developing a corporate governance model for Sharia property developer

support the fulfillment of the governance standards of Islamic entities in Indonesia so that they can grow and develop as healthy, modern and sustainable Islamic entities. This guideline is expected to be a reference in building the governance of Islamic entities, both Islamic commercial entities and Islamic social/nonprofit ones. The three Islamic property companies that are the object of this research are included in the category of Islamic commercial entities. The following are the results of the exploration of the implementation of corporate governance of Islamic housing in Jember Regency, East Java, Indonesia which refers to GGG-ISE.

3.1.1 Organizer. PT Lukasya Land Property, PT Syafaat Land and PT Amany Berkah Propertindo are Sharia-concept property companies in the form of a limited liability company (LLC). The form of LLC is by the legality aspects required when establishing an Islamic property company so that the company deed lists the position of the board of directors and the board of commissioners in its organizational structure. However, the main duties and functions of each person in the organizational structure are not running because this business uses the concept of cooperation between several parties called *syrah* with the basis of Sharia contracts. The *syrah* system occurs between *mudharib*-owner. *Mudharib*-owner is a party who acts as the owner and also manager of a partnership business. The duties and responsibilities of the *mudharib owner* follow the terms and conditions of the contract applied.

However, the three companies do not have an SSB in their organizational structure. In fact, companies that run operations under the Islamic system must have an SSB as an organ that oversees and ensures that operations are by Islam. However, the position of such an SSB in the Sharia property developer company is located in the community organizational structure, including the Indonesian Sharia Property Developer (ISPD) or Sharia Property Developer Association (SPDA), which is an organization that Sharia property companies throughout Indonesia.

The management of the ISPD is at the central and regional levels. The central leadership is called the Central Leadership Council, at the provincial level there is a Regional Leadership Council and at the district/city level, there is a Branch Leadership Council. One of the requirements for ISPD membership is that members pay dues of Rp 2m per year. ISPD members get benefits for company development and expanding networks with similar companies. However, the existence of ISPD or SPDA cannot play a full role like the SSB. SPDA only provides consultation related to Sharia rules and laws in the implementation of the Sharia housing business but does not provide a supervisory role. Every transaction in *syirkah* must be based on a contract and the manager/director can consult SPDA to ensure that the type of contract used is by Islamic provisions.

Governance is closely related to managerial compensation called remuneration (Mumu *et al.*, 2021). In the LLC organizational form, remuneration is given to the board of directors. However, in Islamic property developer companies, remuneration is not available. Therefore, the three companies as the object of research do not apply the remuneration system. However, the mudharib-owner will earn income with a profit-sharing system with a profit-sharing composition by the ratio agreed upon by the mudharib-owner at the beginning of the partnership. *Syirkah* is a form of partnership in running a commercial business. The existence of profit sharing as a consequence of using the *syirkah* (partnership) system with a contract that has been agreed between mudharib-owners must comply with the terms and conditions of the contract. The mudharib-owners are more than one and they use a *syirkah inan* contract, which is a mixture of capital and labor.

Ridwan *et al.* (2023) explained that *syirkah inan* is an alliance between two or more people in the field of trade or all kinds of businesses with the owners providing capital according to their respective portions and providing their labor and skills according to the portion of the capital. The *syirkah inan* underlies the muamalah relationship between mudharib-owners of Islamic property developers. The concept of partnership in a business has the consequence of sharing profit and losses based on the agreed portion. This is different from a company in the form of a LLC which has a predetermined level of remuneration for company managers.

3.1.2 Organ process and outputs

- Ethical and responsible actors.

Sharia ethical behavior comes from the principles of Sharia as stipulated in the Qur'an and Hadith. Ethical behavior and responsibility are manifestations of Islamic values in managing companies that use the concept of sharia. As a Sharia commercial company/ entity, the managers of Sharia property companies in the Jember Regency are obliged to carry out these Islamic values. Islamic values in the implementation of ethical behavior are found in the words "responsibility", "will be made easier" and "not yelling". Islam promotes values in society, which are outlined in the Qur'an and Hadith. Islamic values become principles for religious believers and help shape their attitudes and behaviors. The findings of statements referring to Islamic values are in line with (Rehan *et al.*, 2019) who used eight Islamic values in their research including gratitude, hard work and optimal effort, virtue, perfectionism, continuous self-criticism, consultation, cooperation and responsibility. The words made easy and not yelling can be grouped under the element of virtue, as stated by Rehan *et al.* (2019).

- Risk management, internal control and compliance.

Shafique *et al.* (2013) define risk as the inconsistency of returns associated with a particular asset. Risk is also defined as the combination of the likelihood of an event occurring and its consequences (ISO-IEC, 2002). Meanwhile, the word risk comes from the Arabic rizk which means sustenance (Wilson and Liu, 2011). Islamic finance teaches there is no profit without taking risks. This is the basic concept of Islamic finance, unlike the conventional system where the interest charged guarantees depositors a predetermined return without sharing the risk of the venture (Maghrebi, 2015; Shaukat and Alhabshi, 2013). Risk sharing between parties in a transaction is encouraged in Islam whereas transferring risk to a third party outside the transaction is not allowed (Maghrebi, 2015; Shaukat and Alhabshi, 2013) which is tantamount to gambling (Siddiqi, 2008). Thus, all modes that use interest are not allowed as they shift the burden of risk to the entrepreneur alone. Risk management based on risk sharing is considered more efficient and fair than systems built on risk transfer (Maghrebi, 2015; Shaukat and Alhabshi, 2013; Siddiqi, 1984). Given Islam's prohibition against risk transfer, conventional debt financing models cannot be adapted for Islamic financing modes. Islamic finance does not allow transactions that are gharar (uncertain or speculative risk) and maisir (gambling) because they impact the level of equity and fairness between the transacting parties (Al-Omar and Abdel-Haq, 1996).

Every business has risks, including the Sharia property developer business. The types of risks identified in the interview results are as follows:

- Operational risk.

Muhaimin and Aisyah (2022) explained that the source of operational risk is the broadest compared to other risks, which come from the above activities as well as from operational activities and services, accounting, information technology systems, management information systems or human resource management systems. In general, operational risk is associated with several problems stemming from a process or procedure failure. Operational risk is a risk that affects all activities due to something inherent in the implementation of an operational process or activity.

Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but does not include reputational risk or risk due to strategic decisions. Some operational risks result in increased bank operating costs or reduced income (Aloqab *et al.*, 2018). Operational risk in this company can occur in the condition of physical damage to the house building before the sale and purchase contract is made due to errors made by field workers. The damage is the responsibility of the housing manager.

- Installment payment risk or credit risk.

Muhaimin and Aisyah (2022) explained that credit risk is a form of the inability of a company, institution, institution or individual to complete its obligations on time both at maturity and after maturity and all by applicable rules and agreements.

This risk is caused by consumers who do not pay according to the agreed time. The step to anticipate the risk of consumer default is to provide information to consumers to make payments on the agreed date between consumers and managers. This method is quite effective because consumers will prepare installments and pay on time. If consumers experience delays in installment payments, consumers will inform the manager and mention the payment date. Even though consumers are late in paying installments, the manager does not apply fines because the manager considers that the application of penalties in installment buying and selling transactions is assumed to be additional and falls into the category of usury. Islam opposes the existence of usury, so fines are prohibited in the Islamic housing business.

- Liquidity risk.

Risk can occur if a component of an obligation is not regularly fulfilled. This risk is the inability to settle short-term obligations promptly at a fair price (Muhaimin and Aisyah, 2022). Liquidity risk in the Islamic housing business can be found, among others, in the manager's inability to pay for building materials. This is due to the inadequacy of the company's cash to make payments for purchasing building materials on credit to the supplier. The manager is delayed in paying the supplier according to the predetermined period, so the manager suspends payment until he has enough cash to spend. However, if this happens, the supplier is no longer willing to provide credit facilities for purchasing building materials from the manager of Islamic housing.

To avoid disputes due to the delay, the manager tries to keep communicating in good faith to resolve the delay in payment. The manager tries to give an excellent impression to the parties related to the housing business operations. Although the supplier is not willing to allow the purchase of materials with due payments, the relationship is still well-established between the housing manager and the supplier of building materials. To meet the needs of building materials with substandard cash financial conditions, managers will usually look for new suppliers willing to provide payment facilities on an overdue basis.

- Risk of cancellation of sale and purchase.

The Islamic housing developer business uses direct sale and purchase transactions with consumers without going through financing from any Islamic financial institution. The sale and purchase agreement requires the seller to provide the goods so that the sale and purchase agreement cannot be carried out if the house has not been completed. However, business managers market products by accepting down payments for house purchases to ease the company's finances by providing houses and minimizing unused house buildings because no one has bought them. The manager applies a ward or promise for prospective home buyers. Waad means prospective homeowners promise to buy a house when the house is completed. Promise or Waad, in the Islamic concept, binds only one of the parties so that if the pledge cancels the plan to own a house for some reason, then this does not cause any legal consequences. However, if there is a cancellation of the transaction, the manager is at risk of returning the down payment, which can disrupt the company's finances.

To minimize disruption to the company's finances due to the risk of sale and purchase cancellation, the mudharib-owner applies sufficient down payments for the physical construction of property according to the type of property to be purchased. Controlling the risk of canceling the sale and purchase of property units is also carried out using the double-check method, namely, conducting observations and interviews with people around to ensure the character of prospective buyers is good.

The concept of buying and selling property with a Sharia system has a very significantly different from conventional concepts. In the Sharia system, buying and selling property occurs without any intermediary parties in financing the house, so that the property mudharib-owner transacts directly with consumers. Meanwhile, in the property business with a conventional system, there is a third party in terms of helping finance property purchases, namely, banking institutions, which means that consumers must follow credit acquisition procedures that include interest as a profit requested by the bank. Interest is included in usury which is not in accordance with the concept of Islamic economics and finance.

In addition to risk management, the company has also carried out internal control. The internal control system is the main area audited during the external audit process. The internal control system undergoes an audit annually to address any weaknesses in the system. The elements of Sharīʿah (Islamic law) are not included in the internal control and audit framework (Hanefah *et al.*, 2020). Internal control mechanisms are generally designed to provide:

- reasonable assurance of financial reporting;
- effectiveness and efficiency of operations; and
- compliance with applicable laws and regulations (COSO, 2013).

Hanefah *et al.* (2020) mentioned that internal control is recognized as one of the important processes or procedures in any organization including Islamic Financial Institutions (Iqmal and Nathasa, 2018). This is because internal control helps in controlling all possible risks, coordinating appropriate organizational activities and assisting in managerial decision-making (Devi *et al.*, 2007). From a risk management perspective, internal control is seen as an effective tool for managing risk. This means that if an organization fails to implement good internal control practices, the organization will face high risks that will ultimately endanger its goals.

Internal control that has been carried out by the three mudharib-owner of Islamic property companies is the preparation of financial reports to determine the financial condition and risks that have an impact on the company's finances. The company makes financial reports for the company's internal needs and the basis for calculating taxes. Thus, the mudharib-owner carries out internal control as a form of risk management that will affect the company's financial condition. However, if the business start-up includes investors, then the mudharib-owner will send quarterly financial reports to the investors.

Sharia is holistic in orientation guiding every aspect of Muslim's daily lives (Abu-Tapanjeh, 2009; Vinnicombe, 2010). Sharia recognizes that devout Muslims must inevitably engage in secular/material transactions, but stipulates that such transactions must be guided by religious/spiritual/Islamic values that uphold accountability, equality, fairness, morality, responsibility and social justice (Kamla and Haque, 2019; Maali and Napier, 2010). Companies that declare to use the Sharia system are obliged to comply with the rules and guidelines set by Islam. In this study, the mudharib-owner of Islamic property companies has shown compliance with Sharia. They show this compliance, among others, by applying the pillars and conditions of Islamic contracts with parties related to this business so that this business can demonstrate accountability, independence, confidentiality, competence, consistency and openness to stakeholders.

Disclosure and transparency have also been carried out by them, for example, the preparation of financial reports that can be accessed by each other. Financial reports have many functions. Financial reports can be one of the internal controls and also a form of disclosure and transparency by managers. However, because this property developer company is still a private company, the financial statements are still for internal consumption. Meanwhile, the company has not made other forms of disclosure such as corporate governance disclosure. They should make governance reports to provide information to stakeholders so that the companies get high trust from stakeholders. Mudharib-owner can start making simple governance disclosure reports and increase more fully in the coming years.

3.3.3 Beneficiaries of governance implementation. The implementation of governance will provide benefits for many parties, both for the company itself and external parties. Benefits for internal parties include mudharib-owner, employees and internal marketers. Meanwhile, the benefits for external parties include marketing agents, consumers, landowners and the government. The implementation of good governance will uphold accountability, equality, fairness, morality, responsibility and social justice (Kamla and Haque, 2019; Maali and Napier, 2010). The main thing in the implementation of good governance in Islamic business is the application of Islamic contracts to the relationship of each party, namely, the relationship between mudharib-owner and employees, marketers, investors, landowners, consumers and consumers. The contract is the most important source of engagement in Islamic economic and financial transactions. One of the important factors in the creation of a contract is the element of willingness between the two parties who immerse themselves in the bond of agreement (Zubair and Hamid, 2016).

The application of the contract as a manifestation of good governance for the company in the management provides benefits for the source and amount of income to be obtained. The managers use *a syirkah inan* contract so that they realize and understand that the profits that will be considered as income come from business profits with the amount according to the agreed ratio. The benefits of the implementation of governance will flow to employees where the mudharib-owner and employees use an *ijarah* contract or service lease. The consequence of this contract is that employees receive ujrah as a form of salary and must be paid without being tied to company targets. However, if the employee also handles the sale of housing units, the employee will also receive a bonus. For marketers who are agents, the manager uses a *samsara* contract, which provides a commission if they succeed in selling property units. In addition, there are freelance marketers who will receive a bonus if they succeed in selling housing units.

Meanwhile, the provision of land can be done by buying land from someone with a sale and purchase contract, which can be paid in cash or credit, or by inviting the landowner to become an investor using a *mudharabah* contract. Such governance provides certainty in the transaction and the benefits that will be obtained. If the landowner chooses to use sale and purchase, then the landowner will get a margin. However, if the landowner agrees to become an investor using a *mudharabah* contract, the landowner will get profit sharing according to the ratio agreed with the *mudharib*.

The implementation of governance will also provide trust for consumers in every transaction. The mudharib-owner ensures that all contracts related to consumers can be carried out so that consumers feel safe and confident in transacting with the mudharib-owner. To support this sense of security and trust, the mudharib-owner establishes an office on the land where the house/property will be built. The mudharib-owner tries to give trust to consumers in organizing and managing their business about consumers.

Another beneficiary in governance is the government, where the government will benefit by receiving tax payments according to the type of transaction. This tax payment is also a form of company compliance with regulations set by the government. The tax paid is the land purchase tax between the mudharib-owner and the landowner. If consumers buy in the form of plots, consumers will pay land purchase tax from the mudharib-owner.

3.2 Conformity between governance implementation of Sharia property developer and General Guidelines for the Governance of Indonesian Sharia Entities

The implementation of the principles in the governance of Islamic commercial entities as contained in GGG-ISE is important to be implemented consistently and continuously by all entities, especially those based on Sharia and those that have not yet implemented Sharia but intend to manage by following Sharia so that sustainable value enhancement in the long term can be realized. This subchapter analyzes the suitability of PUG ESI implementation in the three Sharia property developer companies. The results of the analysis show that there are components of GGG-ISE that are not implemented in the governance of Islamic property developers. The detailed analysis results are in Table 2. The GGG-ISE components that were not implemented included the first group component, namely, organizing organ. Researchers identified a mismatch between the roles, responsibilities, composition and remuneration of the board of directors, board of commissioners and SSB, which resulted in the working relationship between the three positions. Based on the findings in the field, the board of directors and commissioners are only a complementary formality to fulfill the establishment of the company in the form of an LLC. Directors and commissioners do not play their roles and responsibilities as they should. Thus, governance in the organizing organ group is not by GGG-ISE so there is no working relationship between directors and commissioners.

Meanwhile, the practice that occurred in the field was that there was a working relationship between mudharib-owner who had the same position in terms of duties and responsibilities. The cause of this practice is the use of *syirkah inan* which underlies the working relationship between managers. This Sharia property business uses an Islamic system that must be clear in the contract between the parties involved in the business. The *syirkah inan* is a contract that is considered by the business pattern of Islamic property developers. Syirkah inan is the mixing of capital and labor and an alliance between two or more people in trade or all kinds of business (Ridwan *et al.*, 2022). The mudharibs-owners give each other capital and skills according to the agreed portion.

The use of *syirkah inan* has economic consequences fromudharib-owber, namely, the distribution of profit sharing according to the initially agreed ratio of the profit earned by the company. This is of course not by the remuneration given to those with the status of directors and commissioners. Remuneration is a motivational tool for directors and executives to improve company performance (Devers *et al.*, 2008). Based on this concept, remuneration is provided in the form of economic compensation and salary. Meanwhile, *syirkah inan* only provides economic compensation for mudharibs-owners through profit sharing with an agreed ratio between them. The number of them is at least two people with the maximum number not limited.

Another thing that is not by GGG-ISE is that Sharia property developer companies do not have an SSB, an important organ in a Sharia company. SSB has the task of ensuring that Sharia economic entities carry out management according to Sharia. However, Sharia property companies have a place for consultation regarding Sharia operations. The company can consult about Sharia management at the SPDA institution. Two associations oversee Sharia property companies in the Jember Regency: the Association of Sharia Property Developers and ISPD (SSBI). The association has a Sharia consultant division for its members but does not carry out operational supervision to ensure that it is by Sharia or not. This practice does not accommodate the role of the SSB as found in GGG-ISE, so it appears that corporate governance has not yet demonstrated Sharia accountability and compliance. The component that Sharia property companies have not implemented is the preparation of corporate governance reports as a form of disclosure and transparency.

Table 2. General Guidelines for the Governance of Islamic Property Developer Entities (GGG-IPDE)

No.	Governance group	Governance principles	Description
1	Application of Akad	Akad between mudharib-owner	Stating the contract used between mudharib-owner
		Agreements between mudharib-owner and internal–external stakeholders	Stating the contract used
2	Organizer	Roles and responsibilities of mudharib-owner and Sharia Supervisory Board	Explaining in detail
		Composition and mudharib-owner's profit share	Explaining in detail
		Working relationship between mudharib-owner and Sharia Supervisory Board	Explaining in detail
3	Organ process and outputs	Ethical and responsible actors	Explaining in detail what has been done
		Risk management, internal control and compliance	Explaining in detail what has been done
		Disclosure and transparency	Preparation of financial statements and Sharia governance
4	Beneficiaries of governance implementation	Mudharib-owner's rights	Disclose the profit-sharing ratio
		Internal stakeholder rights	• Internal marketers will get a bonus • Employees and internal marketers
		Rights of external stakeholders	• Marketing agents will get a commission • Freelance marketers will get a bonus • Consumers will get a sense of security and trust • Landowners will get certainty of obtaining margins or profit sharing • The government will receive tax payments

Source: Table is developed by authors

Corporate governance disclosure in the form of an official report is very important to provide accurate and reliable information on company performance. The company can start by preparing a simple governance report that will continue to improve in subsequent periods.

Based on the findings of discrepancies between governance implementation according to GGG-ISE and field practices, this study proposes a governance model specifically applied to Islamic property companies by designing the governance of Islamic property companies. This governance model design is carried out by combining GGG-ISE components that have been implemented by the company with components that have been carried out in practice but are not by GGG-ISE due to differences in Sharia business concepts and adding components that do not yet exist in practice but must exist to strengthen the characteristics of sharia companies to increase stakeholder confidence. In addition, the author will also add new components that must exist even though they do not exist in GGG-ISE. Picture 3 contains the steps in designing an Islamic property corporate governance model.

3.3 Proposed corporate governance model for Sharia property developers

This sub-chapter contains a design study of the corporate governance model of Islamic property developers based on the stages described in the previous sub-chapter. The author begins the design formation with the first stage which includes GGG-ISE components that have been implemented by Islamic property development companies including ethical and responsible actors, risk management, internal control, compliance, disclosure and transparency by making financial reports, shareholder rights and stakeholder rights both internal and external stakeholders. The second stage was to incorporate GGG-ISE components that had been implemented but were not appropriate, namely, the organizing group component. The new governance model must include and explain the duties, roles and working relationships between the management and SSBs at the company level.

The third stage is to include GGG-ISE components that have not been implemented and are mandatory, namely, the principle of composition and remuneration of the board of directors, board of commissioners and SSB in the responsibility component. In this principle, the new model must explain the application of profit sharing for the organizing organ and there is no term remuneration. In addition, the new model is required to make disclosures by preparing a corporate governance report. The fourth stage proposes a new component that must be present and not found in GGG-ISE, namely, an explanation of the use of contracts between managers and between managers and stakeholders. The contract is the most important thing in implementing Sharia business, so companies need to explain in detail the contracts used in their business operations in the corporate governance report. Based on these stages, Table 2 presents a proposed corporate governance model for Islamic property developers that can be referred to by all managers of these companies. This model is called the GGG of Islamic Property Developer Entities (GGG-IPDE).

4. Conclusions

The objectives of this study are as follows:

- to analyze the suitability of GGG-ISE and its implementation in the field; and
- to propose a corporate governance model for sharia developers.

Based on primary field data, it is known that several principles have been implemented and matched GGG-ISE, namely, ethical and responsible actors, risk management, internal control, compliance, disclosure and transparency by making financial reports, shareholder rights and stakeholder Rights both internal and external stakeholders. Furthermore, this study found that the GGG-ISE does not comply with the organizational group component. This study also found the GGG-ISE components that have not been implemented, namely, governance reports in Sharia property development companies. In addition, this study identified new components that must be present and not found in GGG-ISE, namely, a statement of the use of contracts between mudharib-owners and between mudharib-owners and stakeholders. Based on the findings, this study proposes a governance model for Islamic property development companies called the GGG-IPDE.

This research provides practical and theoretical implications. The practical implication is the creation of an Islamic property developer corporate governance model that can be referred to by all Islamic property development companies in Indonesia. The theoretical implication is the development of science, especially the stakeholder theory in the Sharia property developer context. This study also implements the concept of Islamic governance in Islamic property developer practices, which has never existed until now. This study suggests to the future researchers, including:

- to analyze the implementation of Islamic property corporate governance using these new governance components;
- to analysis the relationship between Islamic governance disclosure and company performance; and
- to conduct the quantitative analysis based on primary data survey design.

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Appendix. Interview guideline

(1) Does this company already have a board of directors and a board of commissioners?
(2) Does the company also have Sharia Supervisory Boards?
(3) What is the role of the board of directors in managing the entity?
(4) What is the role of the board of commissioners in managing the entity by the directors?
(5) What is the role of Sharia Supervisory Boards in ensuring that this company has carried out management according to Sharia?
(6) Does the company also provide remuneration for directors, board of commissioners and Sharia Supervisory Boards?
(7) How is the commitment of the entity (company) in complying with applicable laws and regulations and commitment to act ethically and responsibly?
(8) How does the company implement risk management in managing the company?
   - Shariah compliance risk;
   - risk of customer default due to business change or death;
   - risk of default on profit sharing to investors; and
   - operational risk.
(9) Does the company also make disclosures on matters relating to condition, financial performance and ownership?
(10) How to realize transparency and responsibility to investors?
(11) How to realize transparency and responsibility to customers?

Source: Author's own work

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