Principles of Good Governance in Quranic’s Perspective

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**Abstract**

The purpose of this study is to find out how the Quran perspectives in explaining the principles of good governance. The methodology used in this research is library research through a qualitative approach, namely research that processes thinking deductively and inductively. The source of this research data consists of a primary data source in the form of Verses of the Qur'an which is used as a reference with the explanation of several mufasir, and a secondary data source consisting of relevant previous scientific research works in the form of books, journals and other scientific works. The method of the Interpretation of Al-Quran used as a method of analysis in this study is the method of tafsir al-maudhu'i. In conclusion, some contextual principles in good governance are contained in several verses in the Qur'an, both on Transparency, Accountability, Responsibility, Independency, and Fairness. The important point of this research is that in offering a solution to a problem, Al-Quran always provides perspective not only materially but also a spiritual perspective.

**Keywords:** Good governance, tafsir Maudhu'i, Quranic perspective

**Introduction**

The discussion of good governance starts from the separation between the principal (owner) and the agent (manager) in a modern corporation, namely to solve agency problems among owners, managers and other stakeholders effectively (Sudarmanto, et al., 2021). Owners need transparency, efficiency and progress on the part of managers, to obtain economic benefits to ensure the long-term continuity of the organization, by demanding that responsible policies be integrated into the organization (Pava & Krausz, 1996). Agency theory (Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983) stipulate that principals (shareholders) and agents (managers) have opposing interests that can trigger conflicts that will interfere with the smooth running of the organization. With the implementation of good governance will be more value and a clear measure of performance in achieving organizational goals.

The implementation of good governance is based on the desire of the organization to run well, efficiently and obtain satisfactory output. If all existing mechanisms can run well starting from the top management to the lowest level ensures the implementation of their main tasks and functions so as to create a good working atmosphere. Instead, management theory offers an alternative view, stating that there are ethical and professional motives that would override and prevent conflicts of interest from developing between principals and agents (Muth & Donaldson, 1998).

The crisis caused by non-performing loans in 2007-2008 has been the deepest crisis in the world since the economic depression of the last century. The origin of the crisis at that time was attributed to governance failures in the financial sector. The collapse of the United States real estate
market and the subsequent failure to release subprime risk actually resulted in a credit crunch (Gregoriou, 2009). Others have implications for the use of new and poorly understood financial instruments such as collateralized debt obligations. The use of high-powered incentive compensation for senior banking executives may have exacerbated the problem. Other problems point to institutional failures governing risk management, credit ratings, and financial reporting standards that prove ineffective in signaling underlying structural problems (Conyon, et al., 2011). When a crisis occurs, large shareholders seek to minimize their losses during profit shocks by funneling resources out of the company to externalize losses to minority shareholders and to escape their own creditors. For example, some studies have found that the Asian financial crisis has intensified incentives for controlling shareholders to take over minority investors (Friedman, et al., 2003).

Other events such as the collapse of Enron (Clarke, 2005), the expansion of corporate bailouts (Hill, 2010), and ethical questions from Halliburton (Rothe, et al., 2006), highlight ongoing problems with older models that are taken for granted, "good" corporate governance. Despite extensive theoretical developments and empirical exploration in this domain (Arora & Dharwadkar, 2011), popular depictions of the goodness of corporate governance remain rooted in the economic idea that "good" means the act of maximizing corporate value (Daily, et al., 2003). By definition "good" economically, other important approaches are marginalized, such as those focused on ensuring that companies uphold the social contract between them and the society in which they operate (Donaldson & Dunfee, 1994).

On the other hand, Islam as a perfect religion and in accordance with human fitness, certainly has the concept of a perfect and complete life. Not only regulates man's relationship with his God, but also regulates the relationship between humans known as muamalah. Even according to research conducted by Jalaluddin Rahmat, Islam is a religion that emphasizes muamalah affairs greater than the affairs of ritual worship. Islam turns out to pay more attention to aspects of social life than aspects of ritual life (Rahmat, 1991). Among scientists there is an agreement, that in the structure of science there is science that is theoretical, and science that is practical. Theoretical science has a role as the basis or foundation for practicing, and science that is practical is the practice of theoretical science. Theoretical science is referred to as pure science (basic science), while practical science is called applied science (Nata, 2018).

Literature review

From around 1950 to 1980, the development approach was oriented towards achieving high levels of economic growth (Wang et al., 2008). Since the end of 1980, the strategy has changed to be oriented towards economic growth. In 2000, the United Nations (UN) launched the millennium development agenda which contains eight goals. In 2015, this agenda was replaced by the agenda for sustainable development goals (SDGs) 2030 (Dhaoui, 2019). Many tools, strategies and recommendations have been suggested to achieve this goal. Many studies have shown that the challenges facing countries in terms of sustainable development such as high unemployment rates, widespread poverty and inequality are partly explained by public and private institutions being vulnerable to inefficient acts of corruption (Demmers et al., 2004). In this regard, the new paradigm of development strategy based on good governance emphasizes the joint participation of the role of the state, non-state actors, civil society and the private sector, in the economy and in the process of public governance (Stojanovic, et al., 2016).

There are two main reasons behind the emergence of good governance. First, and at the end of the Cold War, poor countries faced the challenge of making the transition to a market economy and therefore they concentrated their efforts on modernizing institutions and decision-making
processes ((Hout, 2007). Second, in the late 1980s and increasing economic problems such as increasing external debt, many developing countries are launching what we call structural adjustment programs. These programs provide mitigating results and there are doubts about the Washington Consensus and the legitimacy of international financial institutions. The world has moved to an increasing wave of globalization and an irregular market (Craig & Porter, 2006).

For the application of the principles of good governance, special attention is paid to institutions. Institutions must help citizens achieve sustainability, in particular providing equal opportunities and ensuring social, economic and political access to resources. Public institutions can greatly contribute to the maintenance of human rights, environmental protection, stable macroeconomic conditions, improving health conditions, managing and mobilizing resources for essential public services, and others (Jukneviciene & Krateivaite, 2012). Furthermore, it is very important to identify problems, develop frameworks and create opportunities, and create open government ideas and appropriate public policy formats (West et al., 2009).

To promote good governance in a democratic government, public trust is considered as one of the important components (Clark & Lee, 2001). Countries that have greater citizen trust can function more efficiently, effectively and smoothly than those with low trust (Chen & Shi, 2001). Over the last four decades, research conducted by Cooper, Knotts, & Brennan (Cooper et al., 2008); Van de Walle, Van Roosbroek, & Bouckaert (Walle et al., 2008), have shown an alarming trend due to the decline in public confidence in democratic governance in the United States. This is reinforced by research (Christopher et al., 2008; Hetherington, 1999; Kim, 2010) which reveals that public trust has also experienced serious collapse in several developed countries, such as Canada, Japan, and western countries. In this context, this kind of trust is considered important for social, political and economic development for various reasons. Without having sufficient trust, individuals will take voluntary compliance with government regulations and demands, even though the government aggressively opposes such measures (Levi & Stoker, 2000), thus making the state weak in carrying out its duties (Nye et al., 1997). Trust helps reduce complexity and gain effectiveness and efficiency in the administration of the public sector (Raab, 1998), enabling governments to democratically take advantage of voluntary public compliance rather than through more costly coercive and control mechanisms (Tyler, 1998).

The discussion on good governance begins with the separation between the principal (owner) and the agent (manager) in a modern corporation, namely to effectively resolve agency problems between owners, managers and other stakeholders (Sudarmanto et al., 2021). Owners need transparency, efficiency and progress on the part of managers, to obtain economic benefits ensuring the long-term sustainability of the organization, by demanding that responsible policies be integrated into the organization (Pava & Krausz, 1996). Agency theory according to Jensen and Meckling (1976), Fama (1980), Fama and Jensen (1983), stipulates that principals (shareholders) and agents (managers) have opposing interests that can trigger conflicts that will disrupt the smooth running of the organization. The implementation of good governance will be of added value and a clear measure of performance in achieving organizational goals.

The implementation of good governance is based on the desire of the organization to run well, efficiently and obtain satisfactory outputs. If all existing mechanisms can run well from top management to the lowest level, it ensures the implementation of their respective main tasks and functions so as to create a good working atmosphere. In contrast, stewardship theory offers an alternative view, which states that there are ethical and professional motives that will override and prevent conflicts of interest from developing between principals and agents (Muth & Donaldson, 1998). Concentration of ownership can be a beneficial corporate governance mechanism, as large
shareholders have a greater incentive to monitor senior managers than more diversified minority shareholders (Shleifer & Vishny, 1986).

However, according to research by Dyck & Zingales (2004), and Liu & Magnan (2011), there is a potential offset against the costs of ownership concentration, as it creates the potential for large shareholders to exercise their discretion by extracting personal gain from control. The risk of realizing these costs is likely to increase when the good governance prescription of one share-one vote is violated, for example when the voting rights of large owners exceed their cash flow rights through the use of instruments such as pyramid structures or dual class share capital structures (Faccio & Lang, 2002). In times of crisis, majority shareholders may seek to minimize their losses by channeling resources out of the company to externalize losses to minority shareholders and flee from their creditors. For example, several studies have found that the Asian financial crisis has intensified incentives for controlling shareholders to expropriate minority investors (Friedman et al., 2003).

**Research method**

The methodology used in this research is through library research, which is a research method carried out by studying literatures and writings that are closely related to the problems posed in the research (Baidan & Aziz, 2018), through a qualitative approach, namely research that emphasizes the analysis of processes of thinking in a deductive and inductive manner related to the dynamics of the relationship between observed phenomena, and always use scientific logic (Kisworo & Sofana, 2017). The use of qualitative methods is also to explore various sources of data, observations, and documentary evidence (Slack et al., 2015; Yin, 2014).

The source of this research data consists of primary data sources in the form of Qur'anic verses that are referenced with explanations of several mufasir, and secondary data sources consisting of relevant previous scientific research works in the form of books, journals and other scientific works from various points of view. While the data used is a variety of qualitative data that is maintained in the form of words, sentences, gestures, facial expressions, charts, pictures and photos (Sugiyono, 2017; Sudarmanto et al., 2022) which comes from these various sources.

The Qur'anic interpretation method used as a method of analysis in this study is the al-maudhu'i interpretation method, which is an interpretation that describes several Verses of the Qur'an that are about a particular title or topic or sector (Djalal, 1991). Furthermore, draw conclusions according to the framework of existing theories, namely those related to the discussion of good governance in accordance with scientific discourse, followed by the discussion of Qur'anic verses that have a relationship of meaning in discussion according to several mufasir.

**Result and Discussion**

Corporate governance systems can be seen as special configurations of internal and external mechanisms that condition the generation and distribution of residual income in a country's enterprises (Shleifer, A. & Vishny, 1997). This mechanism works both at the level of analysis of companies and countries (Judge, et al., 2010). Meanwhile, the agency theory developed by Jensen & Meckling (Jensen & Meckling, 1976), views that the management of the company as an "agent" for shareholders, will act consciously for its own interests, not as a wise and wise and fair party to shareholders (principal).

The Organization for Economic Coorperation and Development (OECD, 2004) defines Corporate Governance as a group of relationships between the company's management, shareholders, and other parties who have interests with the company. Corporate Governance requires the existence of a device structure to achieve goals and supervision over performance.
Syakhroza (Syakhroza, 2005) provides an understanding of organizational governance as a comprehensive unity covering aspects of culture, law and other institutional completeness in the form of mechanisms based on the concept of corporate control and accountability systems of the parties in control. Meanwhile, Claessens (Claessens & Yurtoglu, 2013) states that, the understanding of Corporate Governance can be included in two categories. The first category is more inclined to a series of corporate behavior patterns as measured through performance, growth, financing structure, treatment of shareholders and stakeholders. The second category looks more at the normative framework, namely all legal provisions both derived from the legal system, judicial system, financial markets and so on that affect corporate behavior.

The dominant theory in organizational governance in the economic sector is agency theory. Although research shows a possible diminished interest in agency theory due to a lack of predictive validity it remains highly influential in management's portrayal of good corporate governance (Clegg, 2010; Cueva-Rodriguez et al., 2012). In fact, this theory remains the main theory of good organizational governance in related domains including accounting (Seal, 2006), economics (Ward & Filatotchev, 2010), finance (Jensen, 2005), law (Lan & Heracleous, 2010), and strategy (Thomsen & Padersen, 2000). Other research suggests that the efficacy of governance prescriptions may depend on a variety of factors, such as national economic development (Chen, et al., 2011), national institutions (Carney et al., 2011), industry context (Chancharat et al., 2012), ownership structure (Desender et al., 2012), and financial condition and stage in its life cycle (Dowell et al., 2011).

According to Kaen (2003) and Shaw (2003) there are four main components needed in the concept of good governance, namely fairness, transparency, accountability, and responsibility. In order to realize the concept of good governance, there are at least 5 pillars set by the National Committee for Governance Policy (KNKG) Indonesia, which was formed based on the Decree of the Minister of Ekuin Number: KEP /31/M.EKUIN/08/1999 which was later refined in 2006 known as the concept of TARIF (Transparency, Accountability, Responsibility, Independentcy, and Fairness) in Rusdiyanto et al. (2019).

a) Transparency

This concept is needed in maintaining the objectivity of an organization in carrying out its business by providing clear, accurate, accessible and understood information and can be accounted for by all stakeholders in the organization. Capital market regulations in Indonesia quoted explain that material and relevant information is information that can affect fluctuations in the company's stock price, or that significantly affects the risks and prospects of the company in question. And it is known, when the financial crisis often gives rise to more complex and strict disclosure rules (Romano, 2004), but the strengthening of sustainable governance mechanisms shows a lot of good things (Bruno & Claessens, 2010). Clear and accurate information is identical to Honesty, which is a displayed behavior or appropriate word between heart and speech.

\[\text{Abdullah bin Mas'ud said, the Prophet Muhammad said, "Indeed, honesty will lead to good, and good will lead to heaven."} \text{ (HR Bukhari).}\]

Allah has said in the Quran which means:

\[\text{Only those who invent lies are only those who do not believe in the signs of Allah, and they are liars.} \text{ (An-Nahl [16]: 105).}\]

Interpreting this verse, Ibn Katsir explained that the Prophet Muhammad was not a far-fetched person nor a braggart, because those who created lies and relied on them to Allah and His apostles were only evil beings who did not believe in the verses of Allah from among the infidels and atheists. While the Prophet Muhammad is the most honest, kindest, and most perfect man of
his knowledge, his charity, his faith, and his beliefs and he is known to be honest by his people (Ar-Rifai, 2000).

b) Accountability

This concept is necessary to see the extent of performance that has been produced by an organization. In this case, a performance must be managed appropriately and measurably to see how far the continuity between the planning, organizing, implementation and evaluation processes carried out with the organization's objectives. The importance of accountability, its assignment, and its implications for performance, have long been unknown and even begun to be ignored in some organizations (Jensen & Murpy, 2004). While shareholder excellence is debated, especially from a legalistic point of view (Stout, 2002), it is an institutionally and socially embedded approach that dominates in practice (Deakin, 2005). So this concept has an element of clarity of function in the organization and how to account for it. Allah said in the Qur'an which means:

He arranged affairs from heaven to earth, then it ascended to Him in a day whose content was a thousand years according to your calculations. (Al-Sajadah [32]: 5).

In jalalain's interpretation it is explained that the level of that time was fifty thousand years. The meaning in question is that the doomsday for the unbelievers feels so long because it is so terrible. Unlike the believer, he feels as if only for a short while even the time feels shorter than when it was in the world (Al-Mahalli & As-Suyuti, 2017).

c) Responsibility

This concept reflects the responsibility of each individual or organization in complying with all tasks, rules and policies related to the activities of an organization. This concept is not only limited to the responsibility in carrying out work between superiors and subordinates, but the responsibility of the organization to stakeholders to the surrounding community. And the enforceability of owner interference will cause confusion about who is responsible and urge management to respond quickly to any changes (Finkelstein & D’Aveni, 1994). The Word of Allah in the Qur'an means:

Each self is responsible for what he has done (Al-Mudatsir [74]: 38).

It is explained that every soul is tainted and depends on what it seeks, whether in the form of good or bad. He cannot be free before fulfilling his obligations and punishments (Basyir et al., 2018).

d) Independency

This concept can be used as a self-actualization for the organization so that it can stand alone and have competitiveness with its business environment. Organization must have effective and efficient governance without any dominance or intervention from other parties, and be able to use and utilize existing values. Although relational owners such as families and companies, may be able to increase the resilience of the company by propping up when in poor conditions (Villalongan & Amit, 2010). One possible negative explanation is that strong relational owners may be susceptible to excessive monitoring and interference in decision-making (Burkart et al., 1997). The Quran has explained:

Indeed, Allah will not change the condition of a people until they change themselves (Ar-Rad [13]: 11).

Every human being is guarded by angels who follow him in turn, the guardian angels. They guard him by Allah's command and help. They do not reject God's commandments. If fate comes, they don't take care of it. They record all human deeds, whether it's good or bad. Indeed, Allah
does not change the enjoyment and security of a people, so that they turn their obedience and goodness into disobedience and evil (Zuhaili et al., 2009).

e) Fairness

This concept is needed to maintain organizational stability by maintaining fairness and equality for each member, stakeholder and other stakeholders according to their respective portions. The fact is that every part of the organization or company has the same opportunity to develop and contribute to the organization. Governance reforms intended to improve managerial oversight may be well-intentioned, but excessive monitoring can have dysfunctional consequences that hinder executives' ability to manage (Finkelstein & Hambrick, 1990). Excessive hand-wringing also jeopardizes the division of labor between owners and management, as the reason owners appoint professional executives in their main place (Williamson, 2007). In its application, good governance cannot be separated from the prevailing organizational culture. Culture according to Schein (2010) is a dynamic phenomenon in its current state and a background of coercive structures that affect groups through several ways.

In this regard, Allah says in the Qur'an which means:

Indeed, Allah enjoins justice and good deeds, giving to relatives, and Allah forbids indecency, disobedience and enmity. He taught you that you might take heed (An-Nahl [16]: 90).

Ibn Abbas interpreted, indeed Allah told you to be fair with the creed that there is no god but Allah. While Sufyan bin Uyainah means "just" here by being the same in doing charity for God, both qalbu charity and external charity. Ihsan means that charity is better than external charity. While fahsya and mungkar mean that their external charity is better than qalbu charity (Ar-Rifai, 2000).

Conclusion

The concept of good governance includes 5 principles, namely: (1) Transparency, which is the concept of maintaining objectivity in carrying out organizational business by providing clear, accurate, accessible and understood information and can be accounted for. Clear and accurate information is identical to Honesty, i.e. a behavior displayed or appropriate words between heart and speech; (2) Accountability, which is a concept to see the extent of organizational performance that can be managed and measurable to find out the continuity between planning, organization, implementation and evaluation. So this concept has an element of clarity of function in the organization and how to account for it; (3) Responsibility, which is a concept that reflects the responsibility of each individual and organization in complying with all tasks, rules and policies related to the organization's activities. It must be realized that everything is tainted and depends on what it seeks, whether in the form of good or bad; (4) Independency, which is the concept of self-actualization for the organization in order to stand alone and have competitiveness with its business environment. Organization must have effective and efficient governance without any dominance or intervention from other parties. Remember that every human being is guarded by angels who record all human charity, be it good or bad. And God does not change the pleasures and salvation that exist in a people, so that they turn their own obedience and good into evil and evil; and (5) Fairness, that is, the concept of maintaining the stability of the organization by maintaining fairness and equality for each member, stakeholder and other stakeholders accordingly. portions of each. God tells me to be just with the creed that there is no god but Allah. Or be fair in doing charity for God, both charity qalbu and external charity.
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