



Implementation of Sharia Governance and its Implications on BPRS Reputation

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ABSTRACT

This study empirically investigates the influence of sharia governance on customer trust and bank reputation among Sharia People's Financing Banks (BPRS) in West Sumatra, Indonesia. Additionally, it analyzes the mediating role of customer trust on BPRS reputation. The research addresses a gap in the existing literature concerning the specific interactions of these variables within the BPRS context. The Partial Least Squares-Structural Equation Modeling (PLS-SEM) methodology was employed for data analysis, utilizing secondary data from audited annual financial reports of BPRS for the period 2019-2022, obtained from the Financial Services Authority (OJK) website. The research sample was selected using a purposive sampling technique, encompassing BPRS across several regencies/cities in West Sumatra. Key findings indicate that sharia governance, measured by the number of directors and commissioners, has a significant positive influence on customer trust (t -statistic = 4.970, p -value = 0.000). This result affirms that robust sharia governance implementation is crucial for fostering customer trust. However, the findings reveal that sharia governance does not directly and significantly impact BPRS reputation (t -statistic = 0.868, p -value = 0.386), suggesting an indirect influence pathway. Conversely, customer trust demonstrates a highly significant and positive influence on BPRS reputation (t -statistic = 9.330, p -value = 0.000). The implications of this study suggest that for BPRS in West Sumatra, prioritizing strong sharia governance will fundamentally enhance customer trust. This trust, in turn, serves as a primary driver for improving and maintaining the bank's reputation, which is essential for the sustainable growth and stability of sharia financial institutions in the region.

Keywords: *Sharia Governance, Reputation, Customer Trust*

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INTRODUCTION

The future of banking is largely determined by the ability of sharia banking management and facing the various rapid changes that are currently occurring. The rapid pace of information and technology as well as financial innovation, making the financial sector where Islamic banking resides increasingly complex, dynamic and competitive (Holili, 2017). This condition has the potential to increase risks for Islamic banking where all these risks absolutely must be managed (Solihati et al., 2023). Islamic banks must start managing these risks, such as governance and reputation risks, for example. Reputation risk can occur due to a decrease in stakeholder trust originating from negative perceptions of the bank. The impact of reputation risk events generally causes non-financial losses for the bank. Reputation risk occurs due to events that are detrimental to the reputation of sharia banks, for example negative news in the mass media, ethical violations, and customer complaints which can damage the reputation of sharia banks (Meirina & Abaharis, 2020). Increasing reputation and trust in the long term will increase customer loyalty which will ultimately increase the market share of sharia banks.

Study of research results (Najib & Rini, 2019) using a quantitative descriptive method resulted in a total calculation of the assessment of the implementation of sharia governance at a sharia bank (Bank Muamalat) showing an average score of 3.427 in the good category. This shows that sharia compliance is an indicator that makes the biggest contribution to the implementation of sharia governance. Compliance with sharia is the main factor for customers in establishing a partnership with a sharia bank and deciding to maintain a sharia bank (Afdal & Agustin, 2023; Endah & Meilani, 2009; Saramawati & Lubis, 2019)ⁱ.

Based on the findings that have been discussed, it can be concluded that the implementation of sharia governance has implications for the reputation of BPRS and customer loyalty, serving as a variation of this mechanism. The analysis in this study utilized Partial Least Squares (PLS) to examine the structural relationships. The results of the first hypothesis test show a direct and positive relationship between sharia governance measured by the number of directors and commissioners and customer trust in Sharia People's Financing Banks (BPRS) in West Sumatra. This indicates that good sharia governance practices can directly increase customer trust in BPRS. Furthermore, the results of the third hypothesis confirm that customer trust has a positive and significant effect on the reputation of BPRS in West Sumatra. This suggests that the higher the level of customer trust, the stronger its influence on improving the bank's reputation. This is in line with Najib and Rini who found that the implementation of sharia governance at Bank Muamalat scored an average of 3.427 (good category), indicating that sharia compliance is the strongest contributing factor to governance quality. Similarly, (Najib & Rini, 2019) emphasize that sharia governance not only ensures compliance with Islamic principles but also enhances stakeholder confidence. Junusi (2021) further asserts that customers of Islamic banks prioritize sharia adherence in their decision to remain loyal. Moreover, Rahman and Wahyudi (2020) found that

strong sharia governance frameworks reduce reputational and operational risks, which indirectly improve customer retention. Hanifa also underline that transparency, accountability, and ethical leadership three pillars of sharia governance are critical in building trust among stakeholders. This further confirms that sharia governance plays a strategic role not only in legal compliance but also in safeguarding the bank's public image and long-term sustainability. The aim of this research is to determine sharia governance on the trust of customers of Sharia People's Financing Banks (BPRS) in West Sumatra and the influence of sharia governance on the reputation of Sharia People's Financing Banks (BPRS) in West Sumatra. as well as the influence of customer trust on the reputation of Sharia People's Financing Banks (BPRS) in West Sumatra.

These findings are relevant and increasingly urgent given the shifting landscape of financial services, where Islamic banks face not only business competition but also moral scrutiny from their customers. In my view, the strength of BPRS lies not only in its financial performance but also in its ability to demonstrate integrity, transparency, and sharia compliance in all operational aspects. Customers today are more critical and selective, especially in choosing financial institutions that are consistent with their religious and ethical values. When a BPRS consistently applies sharia principles, it builds emotional and spiritual attachment that goes beyond mere transactional relationships. This is what makes trust the key gateway to building a solid reputation.

Based on the analysis, the first hypothesis was accepted, indicating a direct and positive relationship between sharia governance (measured by the number of directors and commissioners) and customer trust in Sharia People's Financing Banks (BPRS) in West Sumatra. This suggests that good sharia governance practices directly enhance customer trust in BPRS.

Furthermore, the third hypothesis was also confirmed, showing that customer trust has a positive and significant effect on the reputation of BPRS in West Sumatra. The higher the level of customer trust, the stronger its influence on improving the bank's reputation. These findings align with Najib and Rini (2019), who emphasize that sharia governance not only ensures compliance with Islamic principles but also boosts stakeholder confidence. Junusi (2021) further states that sharia bank customers prioritize sharia adherence in their decision to remain loyal. Additionally, Rahman and Wahyudi (2020) found that robust sharia governance frameworks reduce reputational and operational risks, indirectly enhancing customer retention. Hanifa (2021) also underlines that transparency, accountability, and ethical leadership the three pillars of sharia governance are critical in building trust among stakeholders. This reinforces that sharia governance plays a strategic role not only in legal compliance but also in safeguarding the bank's public image and long-term sustainability.

RESEARCH METHODOLOGY

The type of research used is quantitative data using secondary data and the population of Sharia People's Financing Banks (BPRS) in West Sumatra. Secondary Data. in the form of audited annual financial reports sourced from the OJK website .

The data for the object of this research are taken from the annual reports of each Sharia People's Financing bank, up to 1 among the population according to that BPRS samples in West Pasaman Regency, Agam Regency, Tanah Datar Regency, Solok City, Sawah Lunto City, and Payakumbuh City.

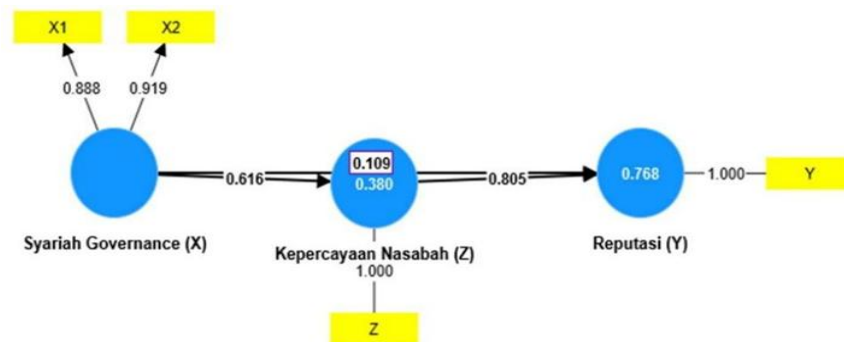
The analysis technique is assisted by PLS (Partial Least Square) software. Partial Least Square is used in this research. According to (Faozan, 2014) Hypothesis testing uses the first 3 steps of the Outer Model. Convergent validity of the measurement model with reflexive indicators is assessed based on the correlation between item scores/component scores calculated using PLS. If it correlates more than 0.70% with the construct being measured. The second one is discriminant validity greater than 0.5, which means latent variations have become a good comparator for model. However, based on the results obtained, it can be stated that the indicators used in this scientific research do not all have good discriminant validity in constructing their respective variations (Hasnati et al., 2019; Satifa & Suprpto, 2020; Shandy Utama, 2020).

RESULT AND DISCUSSION

Based on PLS-SEM analysis using SmartPLS, the first hypothesis was accepted, indicating a direct and positive relationship between sharia governance (measured by the number of directors and commissioners) and customer trust in Sharia People's Financing Banks (BPRS) in West Sumatra (t-statistic 4.970 p-value 0.000). Theoretically, sharia governance, emphasizing transparency, accountability, fairness, and professionalism especially through the role of the Sharia Supervisory Board (DPS) signals integrity to customers, thereby reducing perceived risks and building confidence. To systematically build trust, BPRS needs to ensure transparent and accountable implementation of sharia governance through clear disclosure of sharia compliance information, socialization of the DPS's role, and provision of effective complaint and feedback channels. However, the second hypothesis was rejected, as sharia governance did not have a direct and significant impact on BPRS reputation (t-statistic 0.868; p-value 0.386). This suggests that the influence of sharia governance on reputation might be more indirect, mediated by other factors. Crucially, the third hypothesis was accepted, showing that customer trust had a highly significant and positive impact on BPRS reputation (t-statistic 9.330; p-value 0.000).

This finding highlights trust as the primary mediating bridge: sharia governance builds trust, and this trust then strongly shapes the bank's reputation through positive perceptions and shared customer experiences. The theoretical contribution of this study is validating the mediating role of customer trust in the relationship between sharia governance and reputation within the BPRS context, enriching sharia governance literature. Practically, BPRS should focus on building and maintaining customer trust through transparent and accountable sharia governance practices, as trust is a strategic asset that will drive long-term reputation and loyalty.

Picture 1: Structural Model



Source: Output SmartPLS 3.0

The Sharia Governance variable is measured by the number of members of the Dewan Direksi and Dewan Komisaris of BPRS West Pasaman Regency, BPRS Agam Regency, BPRS Tanah Datar Regency, BPRS Solok City, Sawah Lunto City, and Payakumbuh City in 2019-2022. The reputation variable is measured by the number of Financial Reports Annual and customer trust variables are measured by the number of third party fund financial reports (DPK).

Evaluation of the Measurement Model (Outer Model) Convergent Validity To test convergent validity, the outer loading or loading factor value is used. Indicators are assessed based on the correlation between the item score and the construct score. The reflection count is said to be correlated more than 0.70 with the construct you want to measure. However, research for the initial stages of scale development measures loading values of 0.5 to 0.60 which are considered sufficient (Ghozali 2019). Describes the magnitude of the correlation between each indicator measurement item and its contract, all in the outer range of 0.5 to 0.60.

Tabel 1.Outer Model

	Trust Customers	Reputation	Sharia Governance
1			0.888
2			0.919
3	1,000	1,000	

Data Processing: Sem Pls 2025

Table 1 displays the outer loading values for each indicator. To assess convergent validity, the common standard is an outer loading value > 0.70 . However, values > 0.60 are often acceptable in PLS-SEM, especially in exploratory research. From this table, it's evident that all indicators for the *Sharia Governance* variable

(Indicators 1 and 2 with loadings of 0.888 and 0.919), as well as *Trust Customers* (Indicator 3 with a loading of 1.000) and *Reputation* (Indicator 3 with a loading of 1.000), have loading values above 0.60. This indicates that each indicator significantly represents its latent variable. Thus, all indicators are deemed valid in measuring their intended constructs, allowing the analysis to proceed.

To test convergent validity, we measure the validity of the indicator as a variable measure which can be seen from the outer loading of each indicator > 0.70 . If the convergent standard is > 0.70 , then loading values below 0.70 are removed from the model. The validity analysis was carried out to ensure that each concept of each latent variable differed from the other variables.

The model may have good discriminant validity if each loading value of each indicator of a latent variable has the largest loading value compared to other loading values against other latent variables. The best new measurement criteria are: look at the Heterotrait-Monotrait Ratio (HTMT) value. If the HTMT value is < 0.90 then a construct has good discriminative validity (Husein 2022).

Tabel 2. Discriminant Validity

Discriminant validity ensures that each latent variable construct is conceptually distinct from other constructs. The methods used to evaluate discriminant validity include examining the Heterotrait-Monotrait Ratio (HTMT) and Cross Loading values.

	Trust	Reputation	Syariah Governance
Trust			
Reputation	0.872		
Syariah Governance	0.696	0.682	

Data Processing: Sem Pls 2025

Table 2 presents the HTMT values between constructs. The suggested criterion for good discriminant validity is an HTMT value < 0.90 (Husein, 2022). From this table, all pairs of constructs show HTMT values below 0.90 (0.872 for *Reputation-Trust Customers*, 0.696 for *Sharia Governance-Trust Customers*, and 0.682 for *Sharia Governance-Reputation*). This indicates that each construct demonstrates good discrimination from other constructs and is conceptually distinct. Shows that the loading value of each indicator team on the construct is greater than the cross loading value. With these results it can be concluded that all constructs or latent variables have good discriminant validity, where in the block of construct indicators they are better than on other block indicators.

Tabel 1.4 Cross Loading

Variable	Trust	Reputation	SyariahGovernance
X1	0.518	0.498	0.888
X2	0.592	0.590	0.919
Y	0.872	1.000	0.605
Z	1.000	0.872	0.616

Data Processing: Sem Pls 2025

Table 3 displays the cross loading results. Discriminant validity is also evaluated by ensuring that each indicator's loading value on its own construct (bolded) is greater than its loading values on other constructs (cross loadings). From the table, it's clear that each indicator has the highest loading value on its own construct. For example, X1 and X2 have the highest loadings on *Sharia Governance*, Y on *Reputation*, and Z on *Trust Customers*. This further confirms that all constructs possess good discriminant validity.

Next is *test Multicolliniarity* is carried out to find out the relationship between indicators. In order to find out what the formative indicators are, the multicollinierity with VIF between 5-10 can be said to mean that this indicator occurs *multicolonierity*

Tabel 5.Outer Weight

	Bobot luar (Outer weights)
X1 <- Syariah Governanc (X)	0.511
X2 <- Syariah Governanc (X)	0.594
Y <- Reputation (Y)	1.000
Z <- Trust(Z)	1.000

Data Processing: Sem Pls 2025

The multicollinearity test is performed by examining the *Variance Inflation Factor* (VIF) values for each formative indicator. The general criterion is that VIF values should be less than 5 or 10. From Table 4, all indicators show a VIF value of 1.000. Since these VIF values are well below the threshold of 5, it can be concluded that there is no multicollinearity issue in this research model.

Table 5 displays the *Cronbach's Alpha* values for each construct. The accepted standard for reliability is a *Cronbach's Alpha* value > 0.70. From the table, *Sharia Governance* has a *Cronbach's Alpha* of 0.777, while *Trust* and *Reputation* both have a value of 1.000. All these values are above the 0.70 threshold. This indicates that all

variables in this study demonstrate a high level of reliability, suggesting good consistency and stability of measurement.

Tabel 6 .Cronch Bach Alpha

	<i>Reliability Composite</i>
<i>Syariah Governance(X)</i>	0.777
Trust (Z)	1.000
Reputation (Y)	1.000

Data Processing: Sem Pls 2025

It can be seen that the Cronbach alpha value of each of these variables > 0.70 . With these results, it can indicate that each variation This research has achieved the requirements for Cronbach alpha values, so it can be concluded that all of the variables have a high level of reliability. Table 6 presents the *R-Square* and *Adjusted R-Square* values for the endogenous variables *Trust* and *Reputation*. The *R-Square* value for customer trust (Trust) is 0.380, meaning 38.0% of the variance in customer trust can be explained by the independent variables in the model. Meanwhile, the *R-Square* value for reputation (Reputation) is 0.768, indicating that 76.8% of the variance in reputation can be explained by the variables within the model. The *Adjusted R-Square* values, which are close to the *R-Square* values, suggest that the model explains the data variance quite well without excessive overfitting

Tabel 7. Uji R Square

	R-square	Adjusted R-square
Trust	0.380	0.351
Reputation	0.768	0.746

Data Processing: Sem Pls 2025

It can be concluded that the value R-Square for confidence variables customer (z) is around 0.380 and the R-square value for the output variable is around 0.768. The next step is to measure whether the model can be measured or not Through Q-Square (Q2). The value of $Q2 > 0$ indicates that the model has a preidictiivei reileivancei mode (Supri yanto & Maharani, 2023:101). The results of calculating Q-square in this specification it is as follows

$$2 Q = 1 - (1 - 0.380) (1 - 0.768)$$

$$Q2 = 1 - (0.62)(0.232)$$

$$Q2 = 1 - 0.14384$$

$$Q2 = 0.85616$$

$$Q^2 = 85.61\%$$

Based on the Q^2 test, this can be shown *predictability of return* equal to 0.85616 or 85.61%. It can be concluded that the data contribution that can be classified by mode 1 is around 85.61%. While the rest The value of 14.39% can be explained by other variables that have not been explained in this research model.

Discussion

In the discussion section which is intended to answer the problem it has been formulated. Next we will discuss the acceptance of hypothesis The analysis is accompanied by factual support or rejection of the hypothesis of the analysis and the analysis required by using the PLS methodology whose calculations are carried out with the help of the iSmartPLS software program, and test results of path coefficients and their significance levels.

1.The influence of Sharia Governance on Customer Trust as a variable mediation of Sharia People's Financing Banks (BPRS) in West Sumatra.

In this regulation, Sharia governance is measured by the number of direct directors and the number of commissioners. Based on the value of the loading factor > 60 on the variable This sharia governance is measured by the number of direksi (X1) and the number of diwan commission (X2) with factor loadings of 0.888 and 0.919. Based on the results of statistical calculations, it can be concluded that the construct of Sharia governance has a significant positive influence on the construct of customer trust as a mediating variable. This can be seen from the values of t-statistic 4.970 with p-value 0.000. This is the results, hypothesis of H1 in the analysis shows that the accepted. This thing implementation of Sharia governance in Sharia People's Investment Banks (BPRS) in West Sumatra has a positive influence on confidence customers of the Sharia People's Bank (BPRS) in Sumatra West. If you implement sharia governance, this will have an impact on increasing trust in sharia banks which will ultimately increase the profits of sharia banks(Purnomo, 2019; Salman, 2021; Tri Widyastuti Ningsih, 2021). This implisit also shows that sharia banking during this time have paid little attention to sharia principles. In fact, people's trust in sharia banks will have an impact on people's loyalty in using sharia banking services.

Increasing customer trust can be used as an indicator of balanced results Islamic banks and also as a prediction of the success of Islamic banks in the future in order to increase their profits. The implementation of good corporate governance is proven in how sharia financial institutions in the Muslim world can increase public trust in sharia banks. According to Chapra, failure to implement sharia principles will cause customers to move to other banks. Sharia Governance is a series of structured processes used to manage and improve leadership in making decisions The results of this implementation are in line with the results(Purnomo, 2019; Shandy Utama, 2020; Tri Widyastuti Ningsih, 2021). which show that the implementation of GCG does not directly impact the performance of the company. Because it is the implementation of

good corporate governance and the implementation of sharia principles or the term sharia governance , it becomes an obligation for sharia banking in an effort to improve reputation and trust in sharia banking, as well as protecting the interests of stakeholders . Holdeirs in order to design the banking system sound sharia . The implementation of the implementation of Syariah governance shows that Good Corporate Goveirnance (BPRS) in West Sumatra is good because of the data shows that BPRS , including banks , have good governance . one of the reason Customers who choose to join sharia banking services are sharia banks that have riiba, gharar, provided by Islamic banks. This is supported by research results (Salman, 2021)

Sharia People's Financing Bank is a bank that was founded with the aim of serving micro and small businesses operates based on the sharia system in accordance with Law no. 10 years 1998 concerning banking and Bank Indonesia Regulation (PBI) no. 16/17/2004 concerning Sharia People's Financing Banks based on sharia principles. Apart from that, BPRS is also regulated in Law no. 21 years 2008 concerning Sharia Banking. In 2016, OJK issued OJK regulations, namely number 3 POJK. 03/2016 concerning Bank Financing Sharia People. Sharia People's Financing Banks (BPRS) are different from banks People's Credit (BPR), in terms of naming, looks different, seen from the perspective of the use of the term Credit Financing. BPRS uses the term financing because the word credit is often used used in conventional banks which use an interest system(Nugraheni & Yuliani, 2017). Meanwhile, banks that use the sharia system do not uses the term credit but uses the term financing.

2.The influence of Sharia Governance on the Reputation of Sharia Rural Financing Banks (BPRS) in West Sumatra.

Based on the results of statistical calculations , it can be concluded that the construct of Sharia governance does not have a positive or insignificant influence on construction of the reputation of the Sharia People's Bank (BPRS) in West Sumatra direct. This can be seen from the t-statistic value of 0.868 with a p-value of 0.386 with Therefore, the H2 hypothesis in this experiment is rejected. This shows that the Sharia governance owned by the Sharia People's Investment Bank (BPRS) in West Sumatra has no influence on the reputation of the People's Investment Bank. Syariah (BPRS) in West Sumatra, it can be concluded that the Syariah Goveirnance of the governance of Sharia People's Investment Banks (BPRS) in West Sumatra does not have a direct influence on the reputation of Sharia People's Banks (BPRS) in West Sumatra.

A Bank governance that applies the principles of openness, accountability, independence, responsibility and fairness(Solihati et al., 2023). sharia banking companies in an effort to improve the reputation and trustworthiness of sharia banking, as well as protect the interests of stakeholders in order to design a sound and healthy sharia banking system It is believed that this strategy can maintain customer loyalty.(Alam & Miah, 2024) Sharia governance is a unique and special governance concept for companies or financial institutions that offer products and services that comply with sharia principles.

The intentional presentation and disclosure of information by management to deceive users of financial statements is fraudulent financial reporting. Financial statement fraud is closely related to management. Profit manipulation is used to quantify profits to make the company look better than similar companies.(Mustion et al., 2024) The rise of fraudulent financial reports in public companies also raises concerns for users of financial statements, such as auditors, investors, lenders, and other users.

3. The influence of customer trust as a mediating variable on the reputation of Sharia Rural Financing Banks (BPRS) in West Sumatra.

From the t statistic value of 9.330 with p-values of 0.000, this is acceptable. This shows that customer trust as a mediating variable for banks (BPRS) in West Sumatra is high and very influential on the reputation of (BPRS) while trust is an important factor in building partnership relationships between companies and customers. Without trust, a cooperative relationship cannot possibly survive for a long period of time. Trust arises as a result of reliability and integrity demonstrated through various attitudes of fairness, responsibility, and helpfulness. This result supported by (Hanifa 2021) reputation is one of the values that a bank has in following up on decisions that are trusted by the company.

A company's reputation is the result of an overall evaluation obtained from direct experience over a long period of contact with the company's parties , from the customer's point of view as one of the stakeholders, regarding the company 's products and services including communication activities , and the interaction with the company's representatives and parties (Amalina Nur Arifah, Juwita Andriani, 2023; Arrazi, 2023; Dewi & Utama, 2020; Solihati et al., 2023). Companies are measured in terms using the Linkert scale. Reputation risk is derived from various attributes , namely: social responsibility , emotional attractiveness , financial performance , product and service pei, vision and dreams, work environment (Putri 2021). This kind of imbalance is balanced in the competition for good reputation , that as much as it is needed, reputation is more difficult to achieve in a good way , good reputation is much easier than people say in metaphor, it takes ten years to to tear it down. Maintaining someone's reputation is not easy, let alone maintaining good reputation from the company(Agustina & Maria, 2017; Yusril Musyaffa, 2022).Corporate reputation is an award that a company has because of the advantages that exist in that company , namely the ability that the company has so that the company can maintain its reputation for being reliable. can create new things to meet consumer needs(Hassan et al., 2017; Jubaidah & Mawi, 2024; Kholid & Bachtiar, 2015; Kiranawati et al., 2023).

CONCLUSION

If we look at the results of the implementation that has been discussed , we can implement the implementation of sharia governance as well as the implications for the reputation of BPRS and customer loyalty as a variation of this mechanism, this

implementation uses Partial Least Square (PLS). The results of the first hypothesis test show that there is a direct and positive relationship between Sharia Governance, which is measured by the number of directors and the number of commissioners regarding the trustworthiness of customers of the People's Bank. Sharia (BPRS) in West Sumatra. This means that by implementing Sharia governance, it can directly influence customers' trust in the Bank. Sharia People's Financing Banks (BPRS) in West Sumatra. The results of the Third Hypothesis show that there is a positive relationship between customer trust and the reputation of Sharia People's Financing Banks (BPRS) in West Sumatra. This means that the higher the level of customer trust, the more direct influence it will have on Islamic people's financing banks in West Sumatra.

For future research, it is recommended to explore other variables that may influence the reputation of BPRS, such as service quality, product innovation, digital transformation, and ethical marketing. Additionally, further studies could employ a comparative approach across different provinces or involve a larger sample size to generalize the results. It would also be valuable to incorporate qualitative methods such as interviews with stakeholders or content analysis of customer feedback to gain deeper insights into the behavioral and emotional factors influencing trust and reputation in Islamic financial institutions.

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