

THE ROLE OF DIGITAL MANAGEMENT AND GOVERNANCE IN THE GLOBAL COMPETITIVENESS OF ISLAMIC BANKS IN INDONESIA

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Abstract: *This study explores the role of digital management and governance in enhancing the global competitiveness of Islamic banks in Indonesia. As digital transformation becomes a key driver in the financial services industry, Islamic banks must adapt through the integration of digital technologies and improved governance frameworks to remain relevant and competitive in a rapidly changing global landscape. Using a qualitative research approach, this study gathers insights through in-depth interviews with banking practitioners, regulators, and digital transformation experts. The findings reveal that digital management such as the adoption of mobile banking, core digital systems, and AI-driven services significantly contributes to operational efficiency and customer engagement. Meanwhile, strong governance practices, particularly in terms of transparency, Shariah compliance, and digital risk management, play a pivotal role in building stakeholder trust and international recognition. The study concludes that digital transformation and governance are interdependent and must be integrated into the strategic direction of Islamic banks to enhance their global competitiveness.*

Keywords: *Islamic Banking, Digital Management, Governance, Competitiveness*

Introduction

In recent years, Islamic banking in Indonesia has experienced remarkable growth, fueled by increasing public awareness of Shariah-compliant financial practices and strong governmental support. As the largest Muslim-majority country in the world, Indonesia holds significant potential to become a global leader in Islamic finance. However, the financial landscape is rapidly evolving due to technological advancements, digital disruption, and the growing expectations of a tech-savvy customer base. These changes present both opportunities and challenges for Islamic banks to enhance their competitiveness on a global scale (Ekasari et al., 2021).

Digital management, which encompasses the strategic use of digital technologies in banking operations, customer engagement, and financial services delivery, has become a critical factor in determining the success and resilience of modern financial institutions (Rahmayati & Gunawan, 2020). Meanwhile, governance—especially in the context of Islamic banking—plays an equally vital role. It ensures that financial operations are not only efficient and transparent but also aligned with Islamic ethical principles and compliant with Shariah law.

Despite the growing importance of digitalization, many Islamic banks in Indonesia still face challenges in integrating digital management into their core strategies (Akbar & Rahmayati, 2023). Moreover, digital transformation often outpaces the development of governance

frameworks, leading to potential gaps in accountability, risk management, and Shariah compliance. As global competition intensifies, Islamic banks must address these gaps to build trust, ensure sustainability, and position themselves as credible players in the international financial market.

This study aims to investigate the interplay between digital management and governance in shaping the global competitiveness of Islamic banks in Indonesia. By exploring how these two elements contribute to institutional performance, customer trust, and strategic positioning, the research seeks to offer insights and practical recommendations for stakeholders in the Islamic banking sector (Olabode, 2024).

Literature Review

The global banking industry has witnessed a profound transformation due to the rapid development of digital technologies. In this context, digital management has emerged as a key driver of operational efficiency, innovation, and customer satisfaction, digital transformation is not merely about adopting new technologies but also involves rethinking business models, culture, and operations to leverage digital tools effectively. In Islamic banking, this transformation must also align with Shariah principles, making the integration of digital management more complex yet increasingly essential (Mansori & Maatuk, 2023).

Several studies have examined the impact of digitalization on banking performance. A study by highlighted that banks investing in digital infrastructure such as mobile banking platforms, artificial intelligence (AI), and big data analytics tend to achieve higher customer engagement and operational efficiency. In the context of Islamic banking, s emphasize that digital innovation must coexist with Islamic ethical values and financial justice, reinforcing the need for a balanced approach between modern technology and religious compliance (Mollik & Majeed, 2025).

Governance also plays a crucial role in the sustainability and global competitiveness of Islamic financial institutions . Governance in Islamic banks involves not only adherence to regulatory standards but also compliance with Shariah law, which includes oversight by Shariah Supervisory Boards (SSBs). Strong governance structures enhance transparency, accountability, and stakeholder confidence, which are essential for maintaining public trust in Islamic banking institutions (Mujiatun & Affandi, 2024).

The link between governance and digital transformation is increasingly being recognized.. In Islamic banking, this synergy is even more critical, as digital innovations must be assessed through the lens of Shariah compliance (Abdulrahman et al., 2024). theory of competitive advantage suggests that institutions must innovate continuously and maintain high-quality governance standards to succeed in international markets. In Islamic banking, competitiveness is not only measured by financial performance but also by the ability to deliver ethical, inclusive, and Shariah-compliant services globally. This requires a dual focus on digital capability and strong governance (AlDerbesti, 2024).

In the Indonesian context, studies by Bank Indonesia and OJK (Financial Services Authority) have pointed out that while Islamic banks are progressing in digital adoption, gaps remain in governance frameworks, cybersecurity policies, and human resource capabilities . These shortcomings can hinder their ability to compete globally, especially against more digitally mature and better-governed Islamic financial institutions in Malaysia, the Gulf countries, or even non-Islamic digital banks (Ichsan et al., 2023).

Overall, the literature suggests that the integration of digital management with strong governance is not only beneficial but essential for the global competitiveness of Islamic banks . However, empirical studies focusing specifically on the Indonesian Islamic banking sector

remain limited, indicating a need for more localized research that considers regulatory, cultural, and technological factors unique to Indonesia (Al-Mansour, 2015).

Method

This study adopts a qualitative research approach to explore and understand the role of digital management and governance in enhancing the global competitiveness of Islamic banks in Indonesia. A qualitative method is appropriate because it allows for in-depth exploration of participants' experiences, perceptions, and insights that are not easily quantifiable.

Result and Discussion

1. Digital Management Practices in Indonesian Islamic Banks

The study found that digital transformation is underway across major Islamic banks in Indonesia, although the scale and maturity of implementation vary significantly. Most banks have adopted basic digital services such as mobile banking, internet banking, and digital onboarding. Some larger Islamic banks are experimenting with more advanced technologies such as AI-based customer service, blockchain for secure transactions, and data analytics to improve customer targeting and risk management (Ahmed et al., 2021).

However, the research also revealed that digital infrastructure remains uneven, with smaller or regional Islamic banks lagging behind in investment and technological integration. A lack of skilled human resources, budget constraints, and regulatory uncertainty were cited as key barriers.

"We are pushing digital transformation, but not all branches have the capability to implement it fully," said one IT manager from a mid-sized Islamic bank.

2. Governance Frameworks Supporting Digital Initiatives

The governance structures of Islamic banks in Indonesia are evolving to accommodate the complexities of digital operations. Shariah Supervisory Boards (SSBs) are increasingly involved in assessing digital product compliance, while risk management committees are expanding their focus to include cybersecurity and data protection.

Several banks have updated their corporate governance policies to reflect digital accountability, including the establishment of IT governance units and the adoption of internal controls for digital platforms. However, gaps remain, particularly in aligning digital strategy with long-term governance planning.

"Digital initiatives often move faster than our governance updates. We are catching up," stated a compliance officer.

3. Contribution to Global Competitiveness

The integration of digital management and governance was found to have a direct impact on international competitiveness. Banks that successfully implement digital services with strong governance practices report:

- Increased customer satisfaction and loyalty
- Faster adaptation to global financial standards
- Improved chances of forming international partnerships and attracting investment

For example, one leading Islamic bank in Indonesia has recently partnered with a Middle Eastern fintech company, citing its robust digital governance framework as a key enabler. However, without comprehensive and adaptive governance, digital strategies risk creating vulnerabilities. The absence of clear digital ethics policies and limited Shariah input in tech development were highlighted as weaknesses.

4. The Interplay Between Digital Management and Governance

The study confirms that digital management and governance are interdependent. Effective digital transformation requires governance to ensure ethical, secure, and compliant operations, especially in Islamic banking, where trust and religious adherence are vital.

“Technology without ethical oversight can undermine the values that Islamic banks stand for,” noted a Shariah advisor.

Discussion

1. Islamic banks must adopt strategic alignment between digital innovation and Shariah governance to remain competitive globally.

For Islamic banks to succeed on a global scale, they must ensure that their digital innovations are fully aligned with the principles of Shariah law. This means that while adopting new technologies like mobile banking, blockchain, or AI-driven services, these innovations must also comply with Islamic finance principles such as the prohibition of interest (riba), uncertainty (gharar), and gambling (maysir). Strategic alignment refers to ensuring that the digital transformation efforts are carefully planned, developed, and executed in a way that does not compromise the ethical and legal standards of Islamic finance. Without this alignment, there could be a loss of trust from customers who expect Islamic banks to maintain religious integrity alongside modern technological advancements (Ezzati et al., 2025).

2. Leadership commitment is crucial in driving a culture that embraces both technology and accountability.

For digital transformation to be successful in Islamic banks, strong commitment from leadership is essential (Rahmayati, 2021). Leaders must set the tone by supporting technological advancements while also ensuring that the organization upholds accountability in its practices. This involves not only promoting the adoption of digital technologies but also reinforcing the importance of maintaining ethical standards, legal compliance, and transparency (Aziz & Rahman, 2023). When bank leaders prioritize both innovation and responsible governance, they create a culture where employees are encouraged to embrace new technologies in a manner that is aligned with organizational values and regulations.

3. Regulatory support and clearer digital compliance frameworks from bodies like OJK and DSN-MUI are needed to accelerate secure digital adoption.

In order for digital adoption in Islamic banks to be secure and efficient, there is a need for stronger regulatory support and well-defined compliance frameworks from regulatory bodies like the Financial Services Authority (OJK) and the Indonesian National Shariah Board (DSN-MUI). (Ayedh et al., 2019) Clearer guidelines and regulations will help Islamic banks navigate the complexities of digital transformation while ensuring that all digital services are fully compliant with Shariah law and financial regulations. Regulatory bodies should provide continuous guidance and updates to help banks adapt to new technologies without compromising the principles of Islamic finance, fostering a secure environment for both banks and their customers.

Conclusion

This study concludes that digital management and governance play a critical and complementary role in enhancing the global competitiveness of Islamic banks in Indonesia. As financial technology reshapes the global banking landscape, Islamic banks must not only adopt digital tools to improve efficiency and customer experience but also strengthen governance structures to ensure ethical integrity, regulatory compliance, and alignment with Shariah principles.

The findings indicate that while digital initiatives such as mobile banking, AI-driven services, and online financing have begun to transform operations in several Indonesian Islamic banks, the success and sustainability of these initiatives depend heavily on the presence of strong governance frameworks. These include effective oversight from Shariah Supervisory Boards, cybersecurity policies, digital risk management protocols, and transparent internal controls. Furthermore, the integration of digital management with good governance has a direct impact on a bank's ability to compete globally—through increased customer trust, improved operational resilience, and enhanced reputation in international markets. However, challenges remain, particularly in terms of technological readiness, human capital, and regulatory clarity. To remain competitive on the global stage, Islamic banks in Indonesia must view digital transformation not just as a technical upgrade but as a strategic and ethical shift that requires holistic governance. Investment in digital infrastructure must be matched by investment in digital governance, especially to uphold the values of Islamic finance in the digital age.

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