

# Model of halal management practices in Islamic banking: empirical evidence from Bank Syariah Indonesia

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## Abstract

**Purpose** – This research analyzes the halal management practice model implemented at the Bank Syariah Indonesia (BSI) Pekalongan branch in maintaining compliance with Sharia principles. **Method** – This research uses a qualitative method with an interpretative approach. Data collection was done through in-depth interviews, observation, and document analysis. The research results were validated by triangulating data sources, methods, and theories. **Findings** – The results showed that the BSI Pekalongan branch implemented a strict supervisory system to ensure that all transactions and services followed Sharia principles. Transparency in contracts and halal-based fund management are the main factors that build customer trust. Islamic financial education strategies play a role in increasing customer loyalty to bank products and services. Challenges in Islamic financial literacy and technology utilization still hinder the improvement of halal management efficiency. This research provides insight for Islamic banking stakeholders to increase the effectiveness of halal management in building customer trust and loyalty. The BSI Pekalongan branch can improve its competitiveness and ensure full compliance with Sharia principles by strengthening its supervision through transaction transparency and digitalization of halal services. **Implications** – Theoretically, this research enriches halal management studies by emphasizing Sharia compliance, transparency, and innovation in digital services. Practically, it guides Islamic banks in strengthening governance and customer trust.

**Keywords:** halal management, Sharia compliance, Islamic banks.

## Introduction

The development of the Islamic banking industry in Indonesia continues to experience favorable growth, indicated by the increase in assets, financing, and third-party funds, which are higher than in conventional banking (Rafidah 2023). Islamic banking is driven by increasing public awareness of the concept of halal finance and regulatory support from the government (Fikriawan, Ayu, and Nafi'ah 2023). As a country with the largest Muslim population in the world, Indonesia has great potential to develop a Sharia-based financial system (Surur, Shulthoni, and Adinugraha 2024). Bank Syariah Indonesia (BSI) is Indonesia's largest Sharia financial institution, essential in implementing halal principles in banking practices. Despite implementing Sharia principles in its operations, challenges in halal management remain significant and require in-depth study.



The phenomenon in the Islamic banking industry shows that even though Islamic banks operate based on Sharia principles, the implementation of halal management still faces various obstacles (Tieman, van der Vorst, and Che Ghazali 2012). One of the main challenges is ensuring that all operational aspects, from products and services to business policies, indeed comply with the halal principles set by the Sharia authorities. Several cases show discrepancies in the application of the halal tenets, both in governance and transparency, in the provision of Sharia financial products (Harrieti 2018). Many Islamic banks still adopt conventional systems and procedures adapted to the Sharia model, raising questions regarding the effectiveness of halal management in ensuring holistic compliance with Sharia principles (Zaki, Paham, and Zusak 2023).

The study of the practical model of halal management at BSI Pekalongan branch is based on the urgency of understanding the implementation of halal management in Islamic banking as an essential aspect of maintaining customer trust and compliance with Sharia principles. Islamic banking is responsible for ensuring that all its products and services comply with halal principles, not only from the aspect of Islamic law but also in operational practices, which include compliance with regulations, transparency, and good governance (Jusri and Maulidha 2020; Menne et al. 2024). This explained that halal management practices in Islamic banking are crucial in ensuring compliance with Sharia principles and increasing customer confidence. BSI, as Indonesia's most prominent Islamic bank, plays a strategic role in implementing optimal halal management (Iskandar and Amaliah 2024). However, implementation challenges include regulatory harmonization, compliance monitoring, and halal service innovation (Ahamed 2023).

Prior relevant studies have discussed Islamic banking from various perspectives, including Islamic risk management (Hidayati and Hidayatullah 2021; Utami et al. 2021; Mujiatun et al. 2022; Sugianto and Malasyi 2024), the influence of Sharia compliance on financial performance (Hamid et al. 2019; Azzahra 2020; Desta, Subagiyo, and Usdeldi 2022; Afdal and Agustin 2023), and the role of the Sharia supervisory board (SSB) in overseeing Islamic banking policies (Prabowo and Jamal 2017; Ilyas 2021; Adinugroho et al. 2023; Suripto 2023). Specific studies regarding halal management practice models in Islamic banking, especially in the BSI Pekalongan branch, are still limited. Many studies focus more on normative aspects of Sharia compliance without looking at the actual implementation of the halal management system implemented by Islamic banks.

Despite numerous studies on Islamic banking covering risk management, financial performance, and Sharia governance, research addressing halal management practice models remains limited. Existing literature predominantly explores normative Sharia compliance, neglecting the practical implementation of halal management systems in Islamic banks. Empirical investigations into the BSI Pekalongan branch are scarce despite the increasing relevance of halal management in ensuring Sharia compliance. This study fills the gap by providing empirical evidence on how halal management practices are implemented in BSI Pekalongan, offering a comprehensive model for effective halal governance in Islamic banking.

The absence of a standard model as a guideline for halal management practices in Islamic banking is one of the main problems. Sharia financial institutions apply halal principles with different approaches, depending on their interpretations of applicable fatwas and regulations (Hasan 2021). This condition creates the potential for inconsistencies in the implementation of halal management, which then affects the level of customer trust and the sustainability of the Islamic banking industry (Yusof and Ali 2021). In addition, there has been no explicit discussion on how halal management practice models can enhance the operational efficiency and competitiveness of Islamic banking in Indonesia. The urgency of consistently implementing halal management standards in the Islamic banking industry is crucial because Indonesia's financial sector is growing, and people increasingly demand halal products and

services. Islamic banks must ensure that their management system follows halal principles. This study recommends building an effective and sustainable halal management system for regulators, Islamic banks, and other stakeholders.

This study aims to explore and interpret the halal management practice model in the BSI Pekalongan branch, an area known to be strong in the Islamic economic ecosystem. This study is critical because it provides an empirical picture of the effectiveness of the halal management system in Islamic banking. Its novelty lies in the evidence-based approach that identifies the main factors in the successful implementation of halal management, which can serve as a reference for the Islamic financial industry in improving compliance standards and Sharia-based services. The selection of research locations at the BSI Pekalongan branch office was based on several strategic considerations. Pekalongan is known as a city with a majority Muslim population and has a rapidly developing Sharia-based business ecosystem. Pekalongan city has been recognized as a UNESCO creative city in batik art (Devina and Atrinawati 2022; Syahidah 2022), contributing to Sharia-based economic growth, including Islamic banking. As part of a region with strong halal-based economic potential, the BSI Pekalongan branch is an ideal representation for studying how the halal management model is applied in Islamic bank operations at the branch level. This research provides empirical insights that can contribute to developing policies and best practices in managing Islamic banking in Indonesia.

## Literature review

### *Sharia compliance in Islamic banking*

Sharia compliance is a form of character, integrity, and credibility that fulfils all Sharia principles (Ramadhani and Bilen 2024). This compliance has a culture of compliance, including values, attitudes, and actions, to create Sharia compliance with appropriate Bank Indonesia regulations. Sharia compliance is a form of application and traditional inbound financial transactions and banking products (Lebdaoui, Chetoui, and Harkat 2024). Sharia compliance is a form of Sharia principles carried out by Islamic banking, which is guided by Islamic provisions when carrying out activities and operations, especially in transactions with Islamic bank products. Islamic banks cannot carry out usury, *gharar*, or *maysir* in their business activities. However, they must carry out their activities based on halal profits, trustworthiness, and supervision of Islamic bank compliance (Mokoagow 2024).

As Sharia compliance supervisors, Bank Indonesia and the Sharia supervisory board supervise Islamic banks in the financial and operational fields. Islamic banking supervision aims to ensure that the industry is run according to Sharia principles and systems, which are the basis for operations and practices by Sharia principles and systems (Nugroho 2024). Compliance with Sharia principles in Islamic banking is not only a legal imperative but also the moral and ethical foundation upon which all Islamic banking operations are based (Rochmad, Yusuf, and Mulyana 2024). Sharia compliance in the DSN MUI fatwa in Bank Indonesia Regulation includes: 1) Bank Indonesia Regulation No. 10/32/2008 regarding Islamic banking committee; 2) PBI No.9/19/PBI/2008 December 17, 2007 regarding the implementation of Sharia principles in fundraising and fund disbursement activities and services of banks; 3) Circular letter No. 10/14/DPbS dated March 17, 2008 regarding the implementation of Sharia principles in fundraising and fund disbursement activities and services of Islamic banks (Widyastuti et al. 2020).

Sharia compliance is a component of risk management and is applied when managing risks in Islamic banks (Bangun et al. 2023). It is part of corporate governance, developed and established by the Islamic financial service board (IFSB), and has international standards (Jallali and Zoghلامي 2022). Sharia compliance is the foundation, especially in social



interaction (Hassan et al. 2023). This means that the Islamic bank conducts business activities and manages customer funds, adhering to Sharia principles and raising awareness of the Muslim community to always follow the Qur'an and Hadith in carrying out every activity in the financial field (Jalaluddin, Majid, and Agustina 2023). Sharia compliance theory highlights the importance of adhering to Sharia principles in every operational aspect of Islamic financial institutions. This theory explains that Sharia principles govern legal and regulatory aspects, including business ethics and social responsibility (Mu'adzah 2022). Sharia compliance theory highlights the importance of adhering to Sharia principles in every operational aspect of Islamic financial institutions. This theory explains that Sharia principles govern legal and regulatory aspects, including business ethics and social responsibility (Umar and Al-Faryan 2024).

Several previous studies relevant to this study have discussed Sharia compliance and governance effectiveness in the Islamic banking industry. Research conducted by Muslihun (2023) examined the role of SSB in ensuring Sharia compliance in Islamic banks and found that Sharia supervision mechanisms still have several weaknesses in implementation and effectiveness. Meanwhile, research by Faizah, Wiyadi, and Sholahuddin (2023) shows that Sharia compliance significantly impacts customer trust and loyalty in Islamic banking. These studies have not explicitly discussed how the halal management model can be applied systematically in Islamic bank operations.

#### *Technology acceptance model (TAM)*

The technology acceptance model (TAM) is a theory that explains the factors that influence individuals' acceptance and use of technology (Indrayanto et al. 2024). Davis (1993) developed this theory, which emphasizes that technology acceptance is influenced by two main factors: perceived ease of use and usefulness. Perceived ease of use refers to the extent to which a person believes technology is easy to understand and use. In contrast, perceived usefulness refers to the extent to which technology can improve user performance. The development of TAM underwent various modifications and developments. Previous research added other variables, such as social factors, beliefs, and conditions, that influence individual decisions in accepting technology (Xue, Rashid, and Ouyang 2024). This model evolved into TAM 2 and the more complex unified theory of acceptance and use of technology (UTAUT) by considering various external aspects, including organizational and environmental influences (Recskó and Aranyossy 2024). The leading indicators in TAM include perceived usefulness, perceived ease of use, attitude towards use, intention to use, and actual use (Juliani et al. 2021). These factors form an individual's cognitive process in accepting technology, where initial perceptions of technology will influence attitudes and ultimately encourage or hinder the use of technology in everyday life.

#### *Theory of planned behavior (TPB)*

The theory of planned behavior (TPB) was developed by Ajzen (1991). This theory explains how psychological factors influence individual intentions and behavior. It emphasizes that a person's behavior is determined by intentions that are influenced by attitudes, subjective norms, and perceived behavioral control. Attitudes reflect an individual's evaluation of behavior, and subjective norms refer to social influences that encourage or inhibit action. In contrast, perceived behavioral control refers to how individuals feel they have control over the behavior. The TPB is widely applied in various fields as it develops, including finance, health, and business. Recent research has shown that the TPB can be extended to include additional variables such as trust and habit. This theory is used in Islamic banking to understand the factors that encourage customers to choose Sharia-based services (Abid and Jie 2023). The leading indicators of TPB consist of three aspects: attitudes toward





behavior, subjective norms, and perceived behavioral control (Lee 2009). These three factors contribute to forming intentions that ultimately influence an individual's behavior. Islamic banks can develop more effective strategies to increase customer trust and loyalty to the Islamic banking system.

#### *Halal management in Islamic banking*

Halal management in Islamic banking is crucial in ensuring compliance with Sharia principles, which cover various operational aspects, from products and services to corporate governance (Faizi 2024). Islamic banks play an essential role in implementing effective halal management practice models to maintain the integrity and trust of the public in the Islamic banking system. The concept of halal management in Islamic banking is rooted in the principles of Islamic law, which regulate financial transactions so that they are free from elements of usury, *gharar*, and *maysir* (Afifi 2024). This principle is implemented through a strict SSB supervision mechanism. These banking regulations follow the fatwa of the Indonesian Ulema Council (MUI) and the implementation of halal certification in business aspects related to banking products and services (Handayati, Rochayatun, and Meldona 2024). Halal management in Islamic banking includes compliance strategies with the regulations of the Financial Services Authority (FSA) and Bank Indonesia, which oversee the stability and sustainability of the Islamic banking industry.

The effectiveness of halal management practices is highly dependent on institutional compliance with Sharia regulations and the implementation of sound governance systems (Khatib et al. 2022). Research conducted by Alafi (2023) confirms that Islamic banks' success in implementing halal principles is determined by legal aspects and management's commitment to building a corporate culture based on Islamic values. Another influencing factor is using digital technology to increase transparency in Islamic bank operations and optimize customer education regarding the importance of halal finance. Halal management practices in Islamic banking focus on managing financial products that comply with Sharia, such as *murabaha*, *mudarabah*, and *ijarah* financing. Implementing these contracts aims to avoid transactions contrary to Islamic principles and ensures fairness and balance between the bank and customers (Anwar, Nurhakim, and Rani 2024). Islamic banks that apply the principle of transparency in their profit-sharing schemes tend to have higher customer loyalty than banks that still use conventional patterns in their systems (Falih et al. 2025). This indicates that the success of halal management is determined by the extent to which the bank can build trust through the application of Islamic principles in every aspect of its operations.

The main challenges in implementing halal management in Islamic banking include the public's understanding of the fundamental differences between Islamic and conventional banks and limited regulations specifically regulating halal compliance mechanisms in the financial sector. A study conducted by Hudaefi and Jaswir (2019) revealed that there is still a gap between rules and the implementation of halal practices in Islamic banking, especially in the supervision of investment funds originating from sources that do not fully comply with Sharia principles. Therefore, it is necessary to strengthen policies to ensure that all aspects of Islamic banking business meet the established halal criteria. The halal management practice model reflects efforts to adapt to these challenges through halal financial product innovation, improving the internal monitoring system, and collaborating with various global Sharia financial institutions. The study conducted by Shofiyuddin et al. (2024) emphasizes that digitalization in Islamic banking has opened up new opportunities to ensure compliance with halal principles through a more transparent and integrated system. This includes implementing blockchain technology in recording Sharia transactions, using artificial intelligence to increase Sharia compliance in risk analysis, and optimizing digital platforms to improve the public's financial education and literacy.

## Method

This research uses a qualitative and case study approach to explore the halal management practice model implemented at the BSI Pekalongan branch. This research was conducted at the BSI Pekalongan branch, which was chosen purposively because it is one of the branches with a rapidly developing Sharia financial ecosystem. Compared to other BSI branches, the BSI Pekalongan branch has an advantage due to its thriving Islamic finance ecosystem (Yusuf, Syafi'i, and Tamamudin 2023). Pekalongan's intense halal-based business landscape and its majority Muslim population create an ideal environment to implement and adhere to halal management practices. Although other BSI branches adhere to Shariah principles, the BSI Pekalongan branch offers a unique empirical setting where halal compliance is closely integrated with local economic activities (TKP 2018). This makes it a strategic case to analyze how Islamic banking adapts and supports the halal industry, differentiating it from branches in less halal-oriented regions.

Data was collected through in-depth interviews, participant observation, and document analysis. In-depth interviews were conducted with managers, staff, and stakeholders to explore their perspectives on implementing halal principles in banking operations. Participant observation allows researchers to see how halal policies are implemented daily, ensuring conformity between theory and practice. Document analysis of internal guidelines, Sharia compliance reports, and applicable regulations provides validation of data from interviews and observations. These data collection techniques ensure data triangulation so that the research results are more accurate and in-depth and can represent halal management practices empirically at the BSI Pekalongan branch.

Key informants, including branch heads, Sharia compliance teams, the Sharia supervisory board, and customers who actively use Islamic banking services, were interviewed. In-depth interviews were conducted with four key informants representing the BSI Pekalongan branch, customers, and SSB, namely the branch head (Mr. MZS), area manager (Mr. PW), customer (Mr. ATS), and SSB (Mr. OS). The informants' selection was based on each informant's duties and functions and relevance to the topic and focus of this research. Questions focused on implementing Sharia compliance, operational challenges, and customer perceptions of Islamic banking services at the BSI Pekalongan branch. The probing technique was used to dig deeper into the answers, ensuring data validity. Each interview was recorded and analyzed using a thematic approach to obtain patterns in halal management practices at the BSI Pekalongan branch.

The implementation of halal principles in daily bank operations was observed, focusing on transaction procedures, supervision mechanisms, and customer interactions. Documents were analyzed by reviewing internal policies, Islamic banking regulations, and compliance reports published by the SSB and relevant authorities. Several key indicators are used to measure its effectiveness in evaluating and improving the quality of halal management at the BSI Pekalongan branch. These include monitoring for Sharia compliance, which encompasses the active role of the Sharia supervisory board (SSB) and internal audits focused on Sharia adherence. The bank also upholds halal-based internal policies, such as maintaining fund separation according to Sharia principles, applying appropriate Sharia contracts, and ensuring investments align with halal standards. Education and socialization efforts are also emphasized, mainly through Sharia financial education programs tailored for customers. Transparency is critical, especially in disclosing information related to contracts and investment schemes. In addition, digital innovation is reflected in the digitization of services at the BSI Pekalongan branch. The effectiveness of these indicators is assessed using a scale that ranges from "Very Effective" and "Effective" to "Moderately Effective."

Parameter indicators or scales used in research on the impact of halal management on customer trust and loyalty at the BSI Pekalongan branch are shown in Table 1. The data



analysis technique uses the thematic analysis method, which involves categorizing data based on patterns that emerge from the results of interviews, observations, and document studies. Data triangulation was carried out to increase the validity of research results by comparing findings from various sources to ensure the accuracy and objectivity of the analysis (Leadley, Jones, and Hocking 2023).

Table 1 parameter indicators of the effects of halal management on customer trust and loyalty

Aspect	Indicator	Impact scale
Customer Trust	Sharia compliance in BSI Pekalongan branch operations	Very high
	Transparency in contracts and transactions	High
	Supervision by the Sharia supervisory board (SSB)	High enough
Customer Loyalty	Frequency of reuse of BSI Pekalongan branch services	Very high
	Recommendation to other parties	High
	Satisfaction with BSI Pekalongan branch services	High enough

Source: Saputra (2024)

## Results and discussion

This study's results indicate the implementation of the halal management practice model at Bank Syariah Indonesia (BSI) Pekalongan Branch. Through in-depth interviews, observations, and document analysis, it was found that the BSI Pekalongan branch has implemented a strict supervision system to ensure all transactions and services are by Sharia principles. The three main aspects supporting halal management's effectiveness in this bank are Sharia compliance, contract transparency, and digital innovation in Islamic banking services.

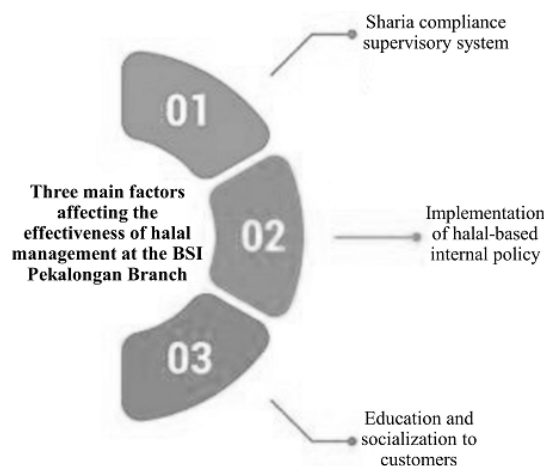


Figure 1 factors influencing the effectiveness of halal management

Source: data (processed, 2024)

Based on Figure 1, it can be explained that in terms of the Sharia compliance aspect, the BSI Pekalongan branch has a multi-level supervision system involving the SSB and internal compliance unit. The SSB ensures that all banking products, including murabaha, mudarabah, and ijarah financing, are carried out per the fatwa issued by the Indonesian Ulema Council (IUC). The financing mechanism has met Sharia standards by ensuring the contracts used are free from usury, gharar, and maysir elements.

Based on interviews with the bank, it was found that transparency in fund management is an essential factor in building customer trust. The bank provides transparent information about the profit-sharing scheme and the investments made. Customers feel safer and more comfortable because their funds are managed in a halal manner, without investing

in sectors that are not by Sharia principles, such as the alcohol and gambling industries. Mr. ATS confirms this as the customer states, "I chose BSI because they apply Sharia principles. With the Sharia supervisory board, I feel safer. Apart from that, the transparency in the financing agreement is apparent, so I am more confident and comfortable making transactions here."

Regarding digital innovation, the BSI Pekalongan branch began implementing technology-based services to improve efficiency and compliance with halal principles. Implementing digital banking with a blockchain-based system allows for more transparent transaction recording and minimal deviation from Sharia rules. Digital-based Islamic financial education has also begun to be implemented to increase public literacy in Islamic banking. This finding is aligned with the results of interviews with Mr. MZS as the head of the BSI Pekalongan branch: "The biggest challenge is the low Sharia financial literacy and regulatory complexity. However, we continue to improve education, utilize digitalization, and collaborate with regulators and academics to ensure Sharia compliance and sustainable growth."

This study found several challenges in implementing halal management at the BSI Pekalongan branch. One of the main challenges is the low level of Islamic financial literacy among the community. Some customers still have difficulty understanding the concept of profit sharing and comparing the Islamic system with conventional banking. This impacts the level of customer trust and loyalty to Islamic banking products. To overcome this, the BSI Pekalongan branch has conducted various socialization and education programs on Islamic banking. This finding aligns with the results of interviews with Mr. PW as the BSI Pekalongan branch area manager: "Customer education is still a major challenge. Many customers do not fully understand the concept of Sharia finance. Therefore, we continue to increase Sharia financial literacy for the community."

Based on the regulatory side, differences in rules between the Financial Services Authority (FSA), Bank Indonesia, and National Sharia Board of the Indonesian Ulema Council (NSB-IUC) create challenges in developing uniform policies. Regulatory harmonization is a crucial aspect in improving the effectiveness of halal management. This finding is aligned with the results of interviews with Mr. OS as the BSI Sharia Supervisory Board, which stated, "The NSB-IUC fatwa always guides us and is directly supervised by SSB. Every product and transaction must comply with Sharia. We educate customers better to understand the differences between Sharia and conventional banking."

Table 2 presents the effectiveness of halal management at the BSI Pekalongan branch based on three main factors that have been analyzed.

Table 2 effectiveness of halal management

Aspect	Indicator	Effectiveness
Sharia compliance monitoring	The role of the Sharia supervisory board and internal audit	Very effective
Halal-based internal policy	Separation of funds, implementation of Sharia contracts, halal investment	Effective
Education and Socialization	Sharia financial education program for customers	Moderately effective
Transparency	Openness of contract information	Effective
Digital innovation	Digitalization of Sharia services	Moderately effective

Source: data (processed, 2025)

Table 2 shows that halal management at the BSI Pekalongan branch has been running well in ensuring Sharia compliance, increasing transparency, and implementing digital innovation. However, challenges in Islamic financial literacy and regulatory harmonization





still need to be improved. With the right strategy, the BSI Pekalongan branch has the potential to become a more competitive and sustainable Islamic banking model in the digital era.

This study shows that halal management at the BSI Pekalongan branch is well-run and effective in ensuring Sharia compliance, increasing transparency, and adopting digital innovation. Supervision by the Sharia supervisory board and internal audit proved very effective, while halal-based internal policies and contract information disclosure are also well implemented. Implementing digital services further strengthens transaction transparency, although Islamic financial literacy still needs improvement. BSI Pekalongan branch has the potential to become a more competitive and sustainable Islamic banking model in the digital era if the right strategies are implemented.

**Table 3 comparison of challenges and opportunities in implementing halal management**

Category	Challenge	Opportunity
Community understanding	Low Sharia financial literacy in society	Increased awareness of the importance of halal finance
Regulation and compliance	Differences in regulations between FSA, BI, and NSB-IUC	Increasingly strong rules and government support
Human Resources	Lack of experts in halal management	Sharia finance training and certification
Technology	Limitations of Sharia-based digital systems	Digitalization and use of Blockchain in Sharia transactions

Source: data (processed, 2025)

Table 3 shows that the BSI Pekalongan branch has implemented Sharia compliance policies systematically. Internal documents such as Sharia compliance reports, DSN-MUI fatwas, and internal Islamic banking policies are the primary references in implementing bank operations. Based on the reviewed policy documents, it is known that the BSI Pekalongan branch has applied Sharia principles in all transactions with strict supervision by the SSB and internal compliance unit.

**Table 4 impact of halal management on customer trust and loyalty**

Aspect	Indicator	Impact
Customer Trust	Sharia compliance in bank operations	Very high
	Transparency in contracts and transactions	High
	Supervision by the Sharia supervisory board (SSB)	Very high
Customer Loyalty	Frequency of repeated use of bank services	High
	Recommendations to others	High Enough
	Satisfaction with Islamic banking services	Very high

Source: data (processed, 2025)

Table 4 shows that the bank has prepared financial statements with the principle of transparency, allowing customers to understand the investment scheme and profit sharing clearly. This report ensures that customer funds are not allocated to sectors that contradict Sharia principles. In addition, the digital innovation document shows the development of a digital-based banking system to improve the transparency of transactions, including the application of blockchain technology in Islamic financial records. Islamic financial education documents still need to be strengthened, especially in explaining the profit-sharing scheme and the advantages of Islamic banking more comprehensively than conventional banking. Therefore, banks need to improve financial literacy strategies with materials that are more easily understood by the public to increase trust in the Islamic system.

### *Implementation of halal principles in the operations*



The implementation of halal principles at the BSI Pekalongan branch through three main aspects: Sharia compliance policies, management of halal banking products, and Sharia-based customer service. BSI Pekalongan branch has implemented a strict internal supervision system in terms of policy through the Sharia Supervisory Board, ensuring that all banking activities align with the fatwa issued by the Indonesian Ulema Council. The bank carries out banking products such as murabaha, mudarabah, and ijarah financing through transparent mechanisms based on Islamic law. BSI Pekalongan branch has provided Islamic banking services by paying attention to the needs of Muslim customers, providing supporting facilities such as a transaction room free from elements of usury and gharar, and educating customers about the importance of Sharia finance.

BSI Pekalongan branch has managed funds by avoiding investment in non-halal sectors, including industries related to alcohol, gambling, and other sectors that conflict with Sharia principles. Banks provide halal investment products such as Sukuk and Sharia mutual funds, which shows that they implement a strict system in managing income sources so that they are entirely halal. The main challenge in implementing halal principles is that customers still have a limited understanding of Islamic banking mechanisms. Some customers still compare the profit-sharing system in Islamic banking with the interest system in conventional banking, giving rise to inaccurate perceptions regarding the superiority of Sharia products. Therefore, the bank strives to increase Sharia financial literacy through education and outreach programs.

The implementation of halal principles in BSI Pekalongan branch operations reflects Islamic banking efforts to ensure that all transactions and services provided meet Sharia standards. Compliance with Islamic law in banking activities is a formality and commitment to maintain the credibility of the Islamic banking industry because Islamic banks are attached to Islamic systems and laws (Khan 2015). Supervision by SSB has a central role in ensuring that every product released meets halal principles. This supervisory system functions as regulatory control and a form of the bank's moral and spiritual responsibility towards the Muslim community. This finding aligns with research conducted by Azhar et al. (2022), which states that the effectiveness of SSB supervision is directly proportional to Sharia compliance in Islamic banking.

BSI Pekalongan branch has proven that the Islamic financial system can be a competitive alternative to conventional banking by carrying out its operations without involving usury. Islamic banking still faces challenges in customer education, so more extraordinary efforts must be made to increase public understanding of the fundamental differences between Sharia and conventional systems. They explain these findings through Sharia compliance theory, which emphasizes that the Islamic economic system must fully adhere to Sharia principles without any elements contradicting Islamic law. BSI Pekalongan branch has implemented Sharia compliance principles in the investment screening process, fund management, and implementation of Sharia contracts in every transaction. Sharia Compliance Theory emphasizes that transparency in Islamic banking is essential for building customer trust. BSI Pekalongan branch has implemented a transparency system in Sharia financing well, especially in murabaha and mudarabah contracts, where the bank provides complete information to customers regarding profit and profit-sharing schemes. This finding aligns with research by Khammassi et al. (2024), which states that transparency in Islamic banking increases customer trust and loyalty. Challenges in Sharia compliance still occur, especially in customers' understanding of Sharia financial schemes. Based on this theory, Sharia compliance depends on the bank's internal regulations and the public's knowledge of the Islamic economic system. Therefore, the BSI Pekalongan branch has taken educational steps as a relevant strategy to increase the effectiveness of implementing halal principles in Islamic banking.

The results of this study are explained through halal management theory, which highlights the importance of Sharia-based business management by focusing on compliance, innovation, and good governance. Islamic banking ensures that all operations, from product planning to customer interactions, adhere to Sharia principles. The BSI Pekalongan branch has implemented halal management well, especially in fund management and Sharia supervision. This bank seeks to develop services that suit the needs of Muslim customers by presenting halal investment products that comply with maqashid Sharia principles. This supports research by Yusril (2020), which emphasizes that the success of halal management in Islamic banking is determined by the bank's ability to balance Sharia aspects and business aspects. This research has found that halal management at the BSI Pekalongan branch faces challenges in increasing customer understanding of the profit-sharing system. Based on this theory, these challenges can be overcome with more effective communication strategies and by providing Sharia financial consulting services to customers.

The results align with research conducted by Mulyawati and Setiawan (2024), which shows that the successful implementation of halal principles in Islamic banking depends on three main factors: strict Sharia supervision, transparency in transactions, and Sharia financial education to the public. The research revealed that Islamic banks with a transparent fund management system free from usury tend to have higher customer trust. The findings of Barus et al. (2024) regarding the digitalization of Islamic banking are supported, especially in improving technology-based services to strengthen the Sharia compliance system. The research emphasizes that integrating technology in Islamic banking can increase efficiency and expand the reach of halal services to the public. This research has found that the BSI Pekalongan branch has implemented halal principles using Sharia compliance theory and halal management, although it still faces challenges in customer education. Therefore, banks need to strengthen the Sharia supervision system and increase Islamic financial literacy as a strategic step to ensure the optimal development of Islamic banking.

#### *Effectiveness of halal management in maintaining Sharia compliance*

Three main factors influence the effectiveness of halal management at the BSI Pekalongan branch: the Sharia compliance monitoring system, implementation of halal-based internal policies, and education and outreach to customers. Based on the monitoring aspect of Sharia compliance, the BSI Pekalongan branch adopts a multi-level supervision system involving the Sharia supervisory board and the internal Sharia compliance unit. SSB ensures that all bank products and services comply with the fatwa issued by the Indonesian Ulema Council. The internal compliance unit routinely performs Sharia audits to prevent deviations from established halal standards.

BSI Pekalongan branch implements halal-based internal policies to increase the effectiveness of halal management. This bank separates halal and non-halal funds in its operations, applies Sharia contracts in every transaction, and prohibits investment in sectors that conflict with Islamic principles. The bank actively educates and socializes the importance of Sharia compliance in banking customers. With this effort, the BSI Pekalongan branch is trying to increase public understanding of the Sharia financial system and encourage customer participation in transactions that comply with Islamic law.

Halal management at the BSI Pekalongan branch has maintained good Sharia compliance, especially in monitoring and implementing internal policies. The Sharia supervisory board and internal compliance audit team ensure that the bank provides transactions, products, and services that comply with Sharia standards. Banks still face challenges in educating and socializing Sharia financial concepts to customers. Even though banks have implemented various Sharia financial literacy programs, customer understanding is still uneven. Many customers do not understand the differences between Sharia and



conventional financial systems. Some still think that the profit-sharing system in Islamic banking is the same as interest in traditional banking. Therefore, banks need to implement more innovative educational strategies so that people better understand the concept of Sharia finance.

This research explains the results through Sharia compliance theory, which states that the effectiveness of the Islamic financial system depends on the extent to which financial institutions comply with Sharia principles in each of their operations. Islamic banking must ensure Sharia compliance through three main elements: regulations, supervisory systems, and transaction transparency (Andespa et al. 2024). The findings of this research indicate that the BSI Pekalongan branch has succeeded in implementing Sharia compliance by carrying out strict supervision through SSB and internal audits. This proves that adequate supervision is the main factor in maintaining halal Islamic banking operations. This research reveals that customer education is still a challenge that needs to be resolved so that Sharia compliance is implemented by banks and understood by the wider community.

Halal management theory explains that the effectiveness of a halal system in an organization depends on three main factors: halal strategy planning, implementation of a monitoring system, and regular evaluation of halal compliance (Husna, Wong, and Osman 2022). BSI Pekalongan branch has developed a halal strategy reflected in internal policies that support usury-free transactions and fund management per Sharia principles. The Bank implements a multi-layered supervisory system through SSB supervision and Sharia compliance units to prevent irregular operational practices. The bank carries out regular Sharia audits to ensure the effectiveness of implementing the halal management system.

Based on a halal management perspective, this research shows that banks must include customer education as an integral part of their strategy. Without a good public understanding, implementing the halal system in Islamic banking can face obstacles, especially regarding the transparency and acceptability of Sharia products among customers. Therefore, halal management in Islamic banking needs to focus on the internal aspects of the bank and increase public understanding of the concept of Sharia finance.

This research aligns with a study by Ayadi et al. (2016), which shows that the regulatory supervision and compliance system significantly influence halal management's effectiveness in Islamic banking. The study found that banks with a strict Sharia supervision system tend to have higher customer trust than banks without implementing optimal compliance standards. Research conducted by Fadhilah and Azmi (2024) emphasizes the importance of education and transparency in increasing the effectiveness of halal management. It found that Islamic banks that actively provide Sharia financial literacy to customers tend to have higher customer loyalty because customers feel they understand Islamic values better in the economic system they use.

This research has shown that halal management at the BSI Pekalongan branch has effectively maintained Sharia compliance, primarily through SSB supervision and halal-based internal policies. Challenges are still found in education and outreach to customers. Based on the theory of Sharia Compliance and Halal Management, the effectiveness of halal management in Islamic banking is determined by the bank's internal compliance and the extent to which the public understands and accepts the Sharia financial system. Therefore, more innovative strategies are needed to increase Sharia financial literacy so that the effectiveness of halal management can be more optimal.

#### *Challenges and opportunities in implementing halal management*

BSI Pekalongan branch faces several main challenges in implementing halal management. The first challenge arises because people still have a limited understanding of the Islamic banking system. Even though Islamic banking is developing rapidly, many people





still think that Islamic banks do not have any significant differences from conventional banks. This lack of understanding makes it difficult for people to accept Islamic banking products, especially those related to Sharia contract concepts such as murabaha, mudarabah, and ijarah. The second challenge relates to Sharia compliance in banking operations. BSI Pekalongan branch must ensure that all transactions, investments, and bank services remain by Sharia principles. Banks face obstacles in harmonizing regulations between the FSA, BI, and NSB-IUC. These differences in regulations often create ambiguity in policy implementation, so banks must adjust their business processes in a complex manner to continue to meet applicable halal standards.

Limited human resources with high competence in halal management are a challenge. Even though the BSI Pekalongan branch has formed a Sharia compliance team, the bank needs to increase employee capacity to understand Sharia concepts more deeply. The lack of experts who understand Islamic law and the modern banking system hinders the optimization of the implementation of halal management. Based on the operational side, limited technological infrastructure hampers the effectiveness of the Islamic banking system. Banks need technology integration that automatically supports Sharia compliance, such as Sharia-based transaction monitoring systems and digital platforms that make it easier for customers to understand halal products. Banks are still developing this technology, so its effectiveness is not yet fully optimal. This research has identified several strategic opportunities the BSI Pekalongan branch can utilize to strengthen the halal management system. Increasing public awareness of halal finance creates the first opportunity. With increasing Islamic financial literacy, more and more customers are looking for banking products that comply with Sharia principles. This trend opens opportunities for the BSI Pekalongan branch to expand the market by presenting innovative products that are more suited to the needs of the Muslim community.

The development of digital technology in Islamic banking has offered great opportunities to increase the efficiency of halal management (Hammadi et al. 2024). Digitalization allows banks to develop artificial intelligence-based transaction monitoring systems that detect transactions inconsistent with Sharia principles. Applying blockchain technology in the Sharia transaction recording system can increase transparency and accountability, making it easier for banks to ensure compliance with Sharia regulations (Irimia-Diéguez et al. 2024). Another opportunity that can be exploited is increasingly strong regulatory support from the government. The Indonesian government has shown its commitment to supporting the development of the halal industry (Rusydia and Mahsyar 2024), including the banking sector. More precise and more structured regulations make it easier for banks to implement halal standards in their operations. Collaboration between banks, regulators, and academics in developing Sharia-based policies can help the BSI Pekalongan branch strengthen its halal management system. Strengthening human resources through training and certification of expertise in Sharia finance can be a long-term strategy for the BSI Pekalongan branch to increase the effectiveness of halal management. Banks can optimally implement the halal system with a competent workforce in Islamic banking.

This research can be attributed to the technology acceptance model (TAM), which explains that technology acceptance is influenced by two main factors: perceived usefulness and ease of use. Digitalizing the Islamic banking system at the BSI Pekalongan branch, such as using AI and blockchain for Sharia compliance, offers high benefits in improving the efficiency and transparency of halal management. However, challenges arise due to limited technological infrastructure and low public literacy in Islamic products, reducing perceived ease of use. Therefore, for the digitalization of halal management to be optimally accepted, the BSI Pekalongan branch needs to increase education and user-friendly technology design to strengthen public trust and participation.



The results of this research align with the findings of Ulfi, Mubarrok, and Wahyudi (2020), which shows that one of the biggest challenges in Islamic banking is the limited public understanding of Islamic financial concepts. The study emphasizes that Sharia financial education must be integral to the halal industry development strategy. Research conducted by Saleh and Ibrahim (2021) reveals that technology has an essential role in increasing the effectiveness of halal management in the banking sector. The study found that Islamic banks that adopt technology-based systems have higher Sharia compliance than banks that still rely on manual systems. Research conducted by Daoud and Kammoun (2024) supports the results of this research, especially in Islamic banking regulations. The study states that government regulatory support has a significant influence on the development of the halal industry, especially in creating policies that are friendlier to Sharia-based businesses.

This research found that the implementation of halal management at the BSI Pekalongan branch faces several main challenges, including low Sharia financial literacy, regulatory complexity, limited human resources, and suboptimal technological infrastructure. Great opportunities can be exploited, such as increasing public awareness of halal finance, digitalization of Islamic banking, increasingly strong regulatory support, and strengthening human resource capacity in the Sharia sector. BSI Pekalongan branch has overcome existing challenges and optimized opportunities with the right strategy to increase the effectiveness of halal management. BSI Pekalongan branch has strengthened Sharia financial education, utilized digital technology, and collaborated with regulators and academics to ensure that the banking system operates by Sharia principles and develops sustainably in the digital era.

#### *The impact of halal management on customer trust and loyalty*

The implementation of halal management at the BSI Pekalongan branch significantly impacted the level of customer trust and loyalty. Regarding trust, most customers choose BSI because the bank adheres to strict Sharia principles. The SSB helps increase customers' sense of security when using bank products and services. Transparency in financing contracts strengthens this trust because banks provide clear information regarding profit-sharing mechanisms and the management of customer funds (Fahamsyah and 'Ainulyaqin 2023).

Based on the loyalty aspect, it has been established that customers who strongly believe in BSI's Sharia compliance often use the bank's services repeatedly and recommend them to others. Positive experience in banking transactions free of usury, *gharar*, and *maysir* and the quality-of-service bank employees provide are the main factors that encourage this loyalty. Several obstacles have been identified in effectively building customer trust and loyalty. Some customers still do not understand the mechanisms of Islamic banking products, especially regarding the profit-sharing system. Apart from that, challenges in digitizing services arise because some customers want increased technology-based services to support the convenience of their transactions (Hassan et al. 2024).

This research indicates that the effectiveness of halal management implemented at the BSI Pekalongan branch contributes positively to customer trust and loyalty. Customers confident in the bank's Sharia compliance are more likely to have a long-term relationship with the bank because they feel safe carrying out transactions according to Islamic teachings. Transparency in contracts and the involvement of SSB in supervising bank operations are factors that strengthen this trust. This research indicates that the main challenge in maintaining customer trust and loyalty is the aspect of Sharia financial education. Even though banks have implemented halal principles in their operations, customer segments still do not fully understand the mechanisms of Islamic banking. This shows that trust in the Sharia financial system depends not only on the bank's internal implementation of halal management but also on how much the bank can educate the public about Sharia values in the Islamic financial system (Dzukroni and Afandi 2023).



The findings of this research are explained through the Sharia compliance theory, which states that the effectiveness of the Islamic financial system depends heavily on banks' adherence to Sharia principles in their operations (Jedidia and Hamza 2024). This theory emphasizes that banks must comply with regulations and implement Sharia compliance in their management practices so that customers are confident that their funds are managed halal. Studies have shown that implementing strict Sharia compliance principles has strengthened customer trust in the BSI Pekalongan branch. The SSB ensures that all bank products and services adhere to Islamic law, preventing customers from engaging in transactions that violate Sharia principles. This theory shows that banks must support Sharia compliance with transparency and adequate education. If banks do not explain the profit-sharing system or fund management mechanisms to customers, their level of trust may decrease. Therefore, banks need to implement more effective communication strategies so that customers understand and accept the Islamic financial system.

Based on the halal management theory perspective, banks must implement a halal system in banking that involves three main aspects: halal policy, implementation of a supervision system, and regular evaluation of halal operations (Wijaya and Widodo 2023). This theory explains that halal management's effectiveness depends not only on regulations but also on the bank's efforts to provide good transaction experience to customers. Research on the impact of halal management on customer trust and loyalty at the BSI Pekalongan branch can be linked to the theory of planned behavior (TPB). A person's behavior is influenced by intentions formed from three main components: attitudes toward behavior, subjective norms, and perceived behavioral control. In this context, customer attitudes towards Islamic bank services are formed from the belief that halal management and compliance with Sharia principles provide security and blessings in transactions. Subjective norms arise from social influences, where a religious society encourages using Sharia-compliant financial institutions (Ikhwan, Adha, and Pambudi 2024). Perceived behavioral control is reflected in the extent to which customers can understand and access Sharia products, which is still challenging due to the lack of Islamic financial education and literacy. Therefore, to strengthen the intention and behavior of loyalty to Islamic banks, the BSI Pekalongan branch needs to strengthen Islamic financial education and increase the ease of access and transparency of information. The effective implementation of halal management will align with the TPB principles of encouraging positive customer behavior towards Islamic banking services at the BSI Pekalongan branch.

The success of the BSI Pekalongan branch in building customer loyalty depends on managing a comprehensive halal system. SSB supervises and ensures the implementation of transparent contracts as part of the halal policy so that all transactions are free from haram elements. The bank conducts regular evaluations through Sharia audits to ensure compliance with Sharia principles. This emphasizes that the success of halal management depends on society's understanding and acceptance of the system. If banks do not provide sufficient education about the benefits and advantages of Islamic banking, customer loyalty can be disrupted. Therefore, banks must increase Sharia financial literacy as an integral part of halal management strategies in Islamic banking.

The results of this research are supported by the findings of Muhammad et al. (2021), which show that Sharia compliance in bank operations significantly correlates with customer trust. The study found that banks with strong Sharia compliance mechanisms tend to have higher confidence than banks with weaknesses in Sharia supervision. Research conducted by Aslam, Ashraf, and Iqbal (2023) supports this finding, especially in the context of customer loyalty. Their study shows that customers who feel confident that the bank they use comply with halal principles are likelier to use its services repeatedly and recommend the bank to others. This research shows that implementing effective halal management at the BSI



Pekalongan branch positively impacts customer trust and loyalty. Strict Sharia compliance, contract transparency, and SSB supervision are the main factors that support customer trust. Customer loyalty increases because they feel safe and comfortable using bank services that comply with Islamic principles. Sharia financial education is still a challenge that needs to be overcome. More effective communication strategies and the use of digital technology can be a solution to increasing customers' understanding of the Sharia financial system so that their trust and loyalty to banks can continue to be strengthened.

## Conclusions

This research concludes that halal management in this bank has been running well, especially in Sharia supervision, regulatory compliance, and halal principle-based internal policies. The Sharia Supervisory Board ensures that all products and services comply with *maysir*. Sharia standards, while internal regulations support transparency of transactions and management of customer funds. The main advantage of the halal management model at the BSI Pekalongan branch lies in the layered supervision system that prevents elements of *usury*, *gharar*, and transactions. Innovations in managing halal investment funds, such as separating halal and non-halal funds and applying strict Sharia contracts, increase customer confidence. There are still challenges in Islamic financial literacy, where some customers do not understand the Islamic banking system, especially the profit-sharing mechanism and its differences from conventional banks. Based on Sharia compliance theory, the effectiveness of halal management is determined by the internal policies of the BSI Pekalongan branch and customer trust in the transparency of fund management. Besides regulations, the bank's strategy for building customer loyalty through a safe transaction experience is essential. More intensive Islamic financial education and innovation of Sharia-based digital services are needed to strengthen the effectiveness of the halal system.

This research provides insight for Islamic banking stakeholders in developing a more optimal halal management system. BSI Pekalongan branch needs to increase Islamic financial literacy, optimize digital services, and strengthen cooperation with regulators and academics in formulating more adaptive policies to improve the implementation of halal management and compliance with Sharia principles. Theoretically, this study reinforces the theory of Sharia compliance by emphasizing the importance of strict regulation, intensive supervision, and transparency of transactions in the effectiveness of Islamic banking. The findings of this study support halal management theory, which emphasizes that the success of halal management depends not only on regulation but also on the innovation of Sharia-based products and services. Practically, this research shows that halal management at the BSI Pekalongan branch has effectively ensured Sharia compliance, increased transparency, and adopted digital innovation. Strict supervision by the Sharia Supervisory Board and internal audits strengthen customer trust in the BSI Pekalongan branch system. Transparency in contracts and the digitalization of banking services contribute to increased customer loyalty. Challenges in Islamic financial literacy still need to be addressed through more effective education strategies. This research has limitations because it only focuses on one BSI Pekalongan branch, so the results cannot be generalized. The qualitative approach used has also not measured the quantitative impact of implementing halal management. Further studies are recommended to compare with other branches or Islamic banks and use a quantitative approach for a more comprehensive analysis.

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