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# Explaining Governance Failure in Islamic Microfinance Institutions: Integrating Risk Governance and *Maqasid al-Shariah*

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**ABSTRACT**

**Introduction**: The sustainability of Islamic Microfinance Institutions (IMFIs) is threatened by a lack of governance. Previous research has addressed issues of financial performance and regulatory compliance largely at the expense of governance dynamics, organizational resilience, and Islamic ethical values. This research attempts to analyze governance failure by applying Risk Governance Theory, Shariah Governance, and *Maqasid al-Shariah* and aims to construct a *Maqasid*-Based Risk Governance Model.
**Methods**: A qualitative multiple-case study design was conducted on BMT Global Insani and BMT Mitra Umat. Data collection consisted of semi-structured interviews, collection of internal documents, regulatory reports, and other supporting documents. Reflexive thematic analysis with methodological triangulation was used to analyze the data.
**Results**: Two pathways of governance failure were identified: structural governance failure and governance erosion. Both pathways lead to the deterioration of organizational resilience. Evaluating the state of governance revealed poor governance integrity, ineffective participatory risk identification, insufficient adaptive risk mitigation, and deteriorating ethical leadership. To address these issues, a *Maqasid*-Based Risk Governance Model is proposed which combines the above elements and governance effectiveness.
**Conclusion and Suggestion**: Governance failure in Islamic Microfinance Institutions transcends the domains of leadership, organizational culture, and accountability, and adaptive governance capability. The model addresses the gap in governance scholarship by incorporating *Maqasid al-Shariah* as the primary strategic governance concern and providing tailored recommendations for Islamic Microfinance Institutions, governance regulators, and Shariah Supervisory Boards. It is suggested that the model be quantitatively tested in multiple governance contexts.

## 1. Introduction

Islamic Microfinance Institutions (IMFIs) IMFIs have resulted in the combination of ethical lending models interested in both the commercial and social aspects of lending. The combination of Shariah principles and enhancements such as justice, risk-sharing, transparency, and trust also add a definite structure to the distribution of wealth within the IMFIs. The governance structures of these institutions focus on regulatory frameworks and provide a certain level of implementation of the Maqasid al-Shariah (Isfianadewi, 2024; Mergaliyev et al., 2021).

The largest community-based Islamic micro financing institution in Indonesia is *Baitul Maal wat Tamwil (BMT)* or *Koperasi Simpan Pinjam dan Pembiayaan Syariah (KSPPS)*. This institution integrates the provision of productive Shari'ah financing with the provision of social Islamic funds such as *zakat, infaq,* and *sadaqah*. By integrating these two functions, BMT is both a financial and socio-economic intermediary committed to the financial sustainability and welfare of the community (Isfianadewi, 2024; Lubis & Ashar, 2024).

While many BMTs are strategically positioned to build a sustainable institution, many of them suffer from governance issues. Managers of some BMTs suffer from weak internal controls, inadequate risk management, and poor supervisory practices, and as a result, their organizations are vulnerable to fraud, finance defaults, and a loss of public confidence (Angriani & Wardiwiyono, 2026; Ascarya et al., 2017; Neng Frida, 2023; Nofinawati, 2016). The above issues have contributed to many institutional failures in Indonesia, including BMT Global Insani, BMT Mitra Umat, BMT Tetulung, BMT Al-Barokah, and BMT Rindu Alam. Even though these institutions have different structures, they all have poor governance practices linked to inadequate oversight, low accountability, and poor controls of risk. This means that the failures in governance are not isolated to a single institution but are systematic.

Failures in governance of Islamic microfinance institutions are exemplified by the failure of BMT Global Insani and BMT Mitra Umat. The illegal Qiradh investment scheme collapsed BMT Global Insani and lost investors over IDR 77 Billion (Novitasari & Novitasari, 2019). BMT Mitra Umat lost over IDR 50 billion after operating for close to 30 years (Adnan et al., 2003; Prameswari & Budiharto, 2026). BMT Global Insani and BMT Mitra Umat show that collapse of an institution can be caused by both fraud and a gradual decline of governance. This suggests both fraud and the collapse of an institution can be caused by the inadequate governance practices of the institution, inadequate oversight, poor accountability, and low ethical leadership.

The increasing significance of governance has been acknowledged in the literature of Islamic finance. Most of the literature states that the effectiveness of corporate governance bolsters the performance of the institution and creates financial and organizational stability (Aslam & Haron, 2021; Ghani et al., 2024; Hartanto et al., 2024; Raouf & Ahmed, 2022; Rashid et al., 2024; Safieddine, 2009; Srairi & Kateb, 2025). This is largely a result of improved accountability, transparency, and control. Some literature acknowledges Shariah governance and its role in enhancing the legitimacy of the institution and the public's trust. Recently, *Maqasid al-Shariah* has been referred to as a holistic approach to governance that addresses the social and ethical concerns of Islamic financial institutions (Asutay & Harningtyas, 2015; Mergaliyev et al., 2021). However, the majority of these studies focus on Islamic commercial banking, while the role of governance in Islamic microfinance institutions has not been fully established.

Moreover, previous research has placed a greater emphasis on governance from the angles of finance and regulation. Few have regarded governance failure from the deterioration of ethics, the weakening of organizational culture, and the fragility of institutional values. Most of the empirical data have come from financially sound institutions. Hence, the dynamics of governance in institutions prior to collapse are largely unknown. Consequently, the dynamics of Risk Governance, Shariah Governance, and *Maqasid al-Shariah* have not been addressed in a single framework to analyze the governance failure of Islamic microfinance institutions.

This study aims to fill these gaps using Risk Governance Theory, with the intent of extending the theory with the addition of *Maqasid al-Shariah*. The theory of Risk Governance explains how the design of governance and the architecture of systems of control, as well as the engagement of stakeholders and the management of risks, affect the resilience of organizations. From the perspective of *Maqasid*, this theory is enhanced by the elements of justice and accountability, and of public interest (*maslahah*) and the safeguarding of wealth (*hifz al-mal*). The combined theories of Risk Governance and *Maqasid* provide a more nuanced analysis of the resilience of organizations, as they explain that the governance failure of Islamic microfinance institutions is a failure both in the management of risk and in the realization of the ethical ends of Islamic finance.

This paper focuses on three main contributions to the literature. First, it constructs an integrated governance framework that incorporates Risk Governance Theory and *Maqasid al-Shariah* to articulate the concept of institutional resilience within Islamic microfinance. Second, it delivers comparative empirical data from two failed BMTs that reflect different types of institutional collapse. Third, it offers a *Maqasid*-Based Risk Governance Model that may provide a strategic framework for governance enhancement, institutional resilience, and the long-term sustainability of Islamic microfinance.

This study intends to analyze the application of risk governance in BMT Global Insani and BMT Mitra Umat, understand the governance-based reasons for their institutional failure, and create an integrated governance model with the capability of strengthening the sustainability of Islamic microfinance institutions from the angle of *Maqasid al-Shariah*.

## 2. Literature Review

Risk governance has transitioned from a technical model focused on the identification and management of risks to a more integrated governance model that captures leadership, accountability, organizational culture, stakeholder engagement, and institutional resilience (Aven et al., 2018; Aven & Renn, 2018). Unlike traditional risk management that focuses predominantly on the control of operational and financial risks, risk governance recognizes that the sustainability of an organization relies on governance frameworks that anticipate challenges and facilitate the alignment of institutional goals with the needs and expectations of stakeholders. Various international models, such as COSO ERM and ISO 31000, argue that risk governance frameworks must incorporate risk at all levels of strategy and define structural and operational controls and performance frameworks, especially in a governance model (Hutchins, 2018; Otter et al., 2026; Prasetyo, 2025).

In Islamic financial institutions, governance transcends the efficiency and effectiveness of management since all decisions are guided by Shariah and the goals of social and economic development. The measurement of governance therefore must also consider institutional responsiveness, ethical conduct, transparency, and social engagement. Recent studies have shown that the improvement of governance frameworks has a positive impact on the resilience of an organization, the financial health of an organization, and stakeholder engagement as a result of the strengthening of the oversight function and operational control (Raouf & Ahmed, 2022; Srairi et al., 2022). However, the primary focus of these studies is on Islamic commercial banks, while the governance frameworks of Islamic microfinance institutions are still an area that is yet to be explored.

The origins of Shariah Governance are attributable to the singularity of the Islamic financial system. Shariah Governance expands the accountability of the institution toward the rulers, the stakeholders, and society. It also ensures compliance with the Islamic law. The effectiveness of this kind of governance would ensure the principles of *adl*, *amanah*, *shafafiyyah*, *mas'uliyyah*, and *maslahah*. *Shariah* Governance should not be viewed merely as a system of compliance. It is an organizational philosophy. It is a system of values and principles that is embedded in the fabric of the organization and is utilized in the organization's strategic and other decisions (Elhalaby et al., 2023; Imron & Ritonga, 2025).

Despite the fact that Shariah Governance has been increasingly adopted by organizations, recent studies suggest that the formal compliance with governance standards does not necessarily safeguard an organization from going bankrupt. As evidenced by Rahajeng, (2025), the lack of ethical values in the governance structures led to the fraudulent practices of the Indonesian Islamic Cooperatives. This was despite the existence of a formal governance structure. Similar findings of Mergaliyev et al., (2021) concluded that the effectiveness of governance is the result of an adequate governance structure and the ethical objectives that are incorporated in the decisions of the organization. From the above, it can be deduced that the failure of governance is a combination of an ethical and managerial failure as opposed to an inadequate system of internal controls.

This ethical aspect is further associated with *Maqasid al-Shariah*, presenting a reference point for assessing the role of state mechanisms in Islamic financial systems. When looking at conventional governance models, the criteria for evaluating the performance of an institution is focused on financial results. However, the Maqasid al-Shariah provides a more comprehensive portfolio of success. It is concerned with the preservation of religion (*hifz al-din*), life (*hifz al-nafs*), reason (*hifz al-'aql*), wealth (*hifz al-mal*), and the dignity of humanity (*hifz al-nasl*) (Asutay & Harningtyas, 2015; Mergaliyev et al., 2021). Hence, governance must complement the reduction of organizational risk, and the promotion of justice and fair distribution of wealth and sustainable socio-economic development. More recent studies and analyses acknowledge the institutions that combine Maqasid and governance principles enjoy the legitimacy, greater stakeholder confidence, and sustainable organizational performance. This is more evident than in institutions that operate based on financial performance alone.

The governance problems of Islamic Microfinance Institutions (IMFIs), specifically the *Baitul Maal wat Tamwil (BMT),* become more complex because the BMTs are the only institutions that attempt simultaneous goal attainment of commercial viability and social objectives. Also, the BMTs rely on the community to a greater extent than do Islamic commercial banks (Nazirwan, 2015). This reliance increases their exposure to a variety of governance problems, including the absence of sufficient internal controls and supervision, financing irregularities, and a general decline in accountability. From a resilience perspective, governance quality has been acknowledged as one of the most crucial factors for the sustainability of Islamic microfinance institutions. While many of these institutions are the subject of commercial success, research on governance failures of these institutions has been scarce.

For these reasons, the current research has a number of important shortcomings. First, the existing research on Islamic financial governance has focused almost exclusively on Islamic commercial banks, and thus the Islamic microfinance institutions have largely been left out. Second, the majority of the governance research has evaluated governance effectiveness through the lens of financial performance and the fulfillment of legal requirements, and has paid little attention to the ethical and cultural decline of the organization. Finally, the governance of risk, *Shariah*, and *Maqasid al-Shariah* have largely been treated as separate subjects, resulting in a fragmented understanding of the resilience of these institutions. For these reasons, current governance frameworks have largely been unable to explain why Islamic microfinance institutions experience governance failures, despite the presence of formal governance structures.

This study, under the previously outlined constraints, aims to construct a new cohesive analytical framework that combines Risk Governance Theory, *Shariah* Governance, and *Maqasid al-Shariah*. Risk Governance Theory identifies how resilient structures are created by governance systems that are proactive in the identification, evaluation, management, and oversight of risks. Shariah Governance affirms that governance systems operate within the bounds of Islamic law and ethics, while Maqasid al-Shariah ensures governance systems are guided by the ends of justice and accountability, as well as the greatest benefit for the most people, and the safeguarding of capital. Within the context of this study, the combination of these theories and systems provides the means for analyzing governance failure of Islamic microfinance institutions beyond the managerial and financial realms and toward the ethical and structural realms.

## 3. Methodology

This study utilized a qualitative multiple-case study approach to understand risk governance failures within Islamic Microfinance Institutions (IMFIs). This study specifically focused on BMT Global Insani (West Java) and BMT Mitra Umat (Central Java). A qualitative method was the most appropriate for this study, as it was necessary to examine the governance processes, organizational behavior, and the institutional elements that create the conditions for governance failure in the context of the real world, rather than using statistical methods to draw and test causal relations (Creswell & Creswell, 2017; John W. Creswell, 2019). The multiple-case study approach permitted an analytical comparison of two divergent governance failures, thus adding strength and the possibility for transferability to the findings through a cross-case analysis (Borman et al., 2012; Ryan, 2012). The cases were specifically chosen for the different types of institutional disintegration they represented: structured fraud in BMT Global Insani and the gradual deterioration of governance in BMT Mitra Umat.

Primary data consisted of semi-structured interviews with eight purposefully chosen key informants, including some former managers, members of the supervisory board, employees, cooperative regulators, and cooperative members who were all actively engaged in the governance processes. The secondary data included institutional documentation, cooperative inspection reports, regulatory documents, court documents, media reporting, and relevant scholarly articles. Methodological triangulation was achieved by adding interviews to the analysis of documents and provided a fuller contextual understanding of governance failure (C. Patton et al., 2015; M. Q. Patton et al., 2015).

Data were analyzed using reflexive thematic analysis, following Braun & Clarke (2022). Familiarization with the data, initial coding, development and refinement of themes, and the final interpretive stage of the analysis were all part of the analytical process. Comparison of themes of governance structure, risk identification, internal control, Shariah governance, and *Maqasid al-Shariah* across the two cases aimed at the identification of common governance structures and the differentiation of institutional frameworks. The integrated view of Risk Governance Theory, Shariah Governance, and *Maqasid al-Shariah* focused on the construction of a *Maqasid-Based* Risk Governance Model for Islamic microfinance institutions.

The trustworthiness of the findings was facilitated by the triangulation of sources, triangulation of methods, and the constant comparison of documentary data and interview data. The model was developed considering the criteria of Lincoln & Guba (1985) focusing on credibility, dependability, confirmability, and transferability. These steps focused on the development of the model, and the rigor of analysis, while increasing the model's validity and reliability.

## 4. Results And Discussion

### 4.1 Governance Failure Patterns in Islamic Microfinance Institutions

The analysis of BMT Global Insani and BMT Mitra Umat shows that the breakdown of the institutions resulted from lengthy governance failures, rather than isolated financial issues. Documentary evidence from institutional records and interviews points to a lack of governance even prior to the liquidity crises within both institutions. In both case studies, the lack of governance, internal control, accountability, leadership, and risk oversight points to governance failure being viewed as an organizational process that occurred over time as opposed to a singular event that occurred within management.

Table 1. Cross-Case Comparison of Governance Failure Patterns

| Governance Dimension | BMT Global Insani | BMT Mitra Umat | Cross-case Interpretation |
|---|---|---|---|
| Governance structure | Highly centralized and founder-oriented | Initially participatory but gradually centralized | Different governance trajectories produced similar institutional outcomes |
| Internal control | Weak since establishment | Initially effective but progressively weakened | Governance capacity declined over the organizational life cycle |
| Accountability | Limited transparency and reporting | Declining accountability and member participation | Weak accountability reduced institutional resilience |
| Risk oversight | No effective independent supervision | Supervisory mechanisms gradually became ineffective | Weak oversight accelerated governance deterioration |
| Organizational culture | Opportunistic and authority-driven | Complacency and excessive managerial confidence | Organizational culture mediated governance effectiveness |

BMT Global Insani suffered from a lack of adequate governance in the early phases of the organization. Organizational and regulatory documents show an absence of supervisory control, details insufficient transparency, missing accountability forums, and inadequate duty segregation. From the interviews conducted, inadequate governance centralized the control of the organization into the hands of the founding family. Evidence from the interviews suggests the following:

*"Effective control was extremely difficult because they tended to protect one another. Even branch managers were excluded from strategic decision-making. All major decisions were made centrally by the owner's family."* (INF-03)

The regulatory interview also corroborated the evidence of missing formal governance mechanisms:

*"The Cooperative Office never received an invitation to the Annual Members' Meeting (RAT) from BMT Global Insani. No financial reports were submitted to the regulator, and no routine external supervision was ever conducted*." (INF-01).

The combined research and interview evidence demonstrates that governance gaps existed within BMT Global Insani prior to the organization suffering financial distress. Rather than establishing accountability, transparency, and independent oversight, the governance frameworks of the organization concentrated decision-making authority within a small and self-regulating group. These governance frameworks also diminished the organizational resilience of BMT Global Insani.

The collapse of BMT Global Insani demonstrates how structural governance failure can be bolstered during the nascent stages of developing an organization, as opposed to only during a financial crisis.

A former member of the Supervisory Board described the absence of governance as follows:

*"Being part of the Supervisory Board, we had minimal or no access to the most critical meetings, and branch managers were not invited to discuss financial plans and policies. Most of the critical decisions were made even before the supervisory review was done."* (Former Supervisory Board Member, GI-03)

There is a clear convergence between documentary evidence and interview data which indicates that the organization had poor governance which was evident long before the organization went into financial distress. Governance structures existed mainly as administrative procedures and formalities, with no substantive control or accountability. This created an environment of excessive risk, and the absence of governance structures facilitated the development of unethical and fraudulent investments practices which culminated in the collapse of the organization.

A different governance trajectory can be seen in the case of BMT Mitra Umat. Evidence from documentation and interviews indicates that in the formative years of the organization, effective governance systems were and characterized by transparent reporting, active members and participants, and monitoring by the community. However, the quality of governance began to deteriorate slowly with the growth of the organization and increased complexity in the management of the organization. Insufficient internal supervision and accountability decreased, and the level of centralization in governance structure increased.

Here are the reflections of one senior employee regarding the transition:

*“Between 1995 and 2015, the leadership dedicated themselves to a service (khidmah) model. Board members were unpaid. Deliberations were clear and members were asked: ‘Will this be a service to our members?’ as opposed to ‘Will this be a service to our members?’ However, after 2015, the organization moved toward a completely different model. Management set the goal of growing the organization’s assets in the shortest time. The value of amanah (trustworthiness) and prudence dissipated as the organization’s ambition grew.”* (INF-07).

*“The greatest transformation in the organization was the shift from a khidmah culture to a profit-oriented culture. This created a culture in which growth was the primary goal and the prudent governance was seen as an impediment instead of a protective mechanism.”* (INF-05).

These results are consistent with the available records, which indicate that the decline of governance at BMT Mitra Umat was not a sudden event, but rather a gradual process, that was made worse by the expansion and increased complexity of management. For every step that was made in the value of governance, the organization was moving away from community and collective accountability (especially the service to the community) toward maximum profitability. This deterioration of governance ultimately diminished the organization’s ability to innovate and respond to new threats.

Another participant noted how manipulations of organizational oversight showed gradual deterioration:

*“The election process for supervisory board members changed from an open process to a closed one. Closed process means management has the discretion to decide who is to be*

*listed as candidates. This means that those members who were critical to management were never elected to supervisory boards. After the removal of independent supervisors, no one challenged management's strategic decisions. In effect, a culture of silence was created. Everyone knew that things were not right, but no one had the courage to speak out."* (Former Supervisory Board Member, INF-06)

*"People who previously raised governance concerns were eventually removed. This removal discouraged others from raising governance concerns. As a result, the system of checks and balances disappeared."* (Former Risk Manager, INF-05)

What these interviews have revealed correlates with documentary evidence. This shows that BMT Mitra Umat experienced the gradual deterioration of governance, rather than the immediate breakdown of governance. The organization did not collapse as a result of the absence of governance mechanisms. Instead, BMT Mitra Umat lost the capacity to govern as accountability decayed, and the ability to learn and adapt the organization resiliently to change with it. Consequently, the deterioration of governance worsened and eventually the institution became unable to counter emerging threats to its financial and operational stability.

Organizational failures due to governance failures appear to have different developmental pathways. However, the results are similar across the pathways. BMT Global Insani shows the presence of structural governance failure. In this case, the governance mechanisms were insufficient from the beginning of the development of the institution. On the other hand, BMT Mitra Umat shows governance degradation, where the governance mechanisms were fully functional initially but subsequently lost their capacity to adapt to changes. The difference in the findings shows that governance quality should be viewed as flexible when considering organizational capability. Instead of being a static trait of governance, it should be seen as a result of the continuous development of the institution.

The results present new perspectives on the Theory of Risk Governance. In the existing literature, it is postulated that in order for governance mechanisms to strengthen the resilience of an organization, the mechanisms must strengthen the governance mechanisms of accountability, transparency, and risk oversight (Raouf & Ahmed, 2022; Srairi et al., 2022; Srairi & Kateb, 2025). The current research agrees with these findings but demonstrates that the effectiveness of governance mechanisms requires the existence of formal governance mechanisms, and these mechanisms must have the capacity to adapt. Governance degradation, therefore, constitutes a long process that precedes the financial failure of an organization rather than an abrupt failure of governance when an external event occurs.

The results broaden the Shariah Governance literature by showing that governance failures come not just from failures to meet regulations, but also from the collapse of ethical values in organizational practice. While both organizations adopted Islamic governance structures, interview and document evidence showed that managers' decision-making began to ignore the principles of *amanah* (trustworthiness), *shura* (consultation), *adl* (justice), and *mas'uliyyah* (responsibility). Ethically, governance structures lost their function, and both governance systems became empty shells. This asserts the idea that the absence of ethically driven organizational culture does not satisfy the requirements of Islamic governance, even if the structures are in place, and relies too heavily on regulatory requirements.

From the lens of *Maqasid al-Shariah*, governance failures are not simply a sign of administrative shortcomings, but an inability to fulfill the ultimate goals of Islamic finance. Protecting members' assets (*hifz al-mal*) was compromised by poor accountability and insufficient oversight, that unnecessarily exposed members' assets to risk. Meanwhile, decision-making that became increasingly centralized, and a deteriorating appetite for learning within the organization, compromised the protection of reason (*hifz al-'aql*) because decisions were made subjectively by management rather than through a rational and deliberate process (Abdullah, 2018; Dusuki & Abdullah, 2007). The erosion of public confidence further curtailed the achievement of *maslahah*, the primary aim of Islamic financial institutions. Therefore, governance must be assessed to determine the extent to which it facilitates the achievement of ethical obligations, serves the interests of stakeholders, and promotes the long-term viability of the institution, rather than solely from a financial standpoint.

The analysis shows that governance failures within Islamic Microfinance Institutions are both dynamic and cumulative. The collapsing of an institution can be spawned by either governance structural deficiencies or the slow decline of governance status. Resilience is underscored by the interplay of multifactor risk oversight and the other elements. This study sets out the groundwork for developing an understanding of the failure to identify risk, and how the elements of governance failure transform into organizational inactivity and ineffectiveness toward strategic risk.

### 4.2 Risk Identification Failure: From Governance Weakness to Organizational Vulnerability

One of the most notable parallel governance failures prior to both Islamic Microfinance Institutions (IMFIs) collapse was due to insufficient risk identification. BMT Global Insani and BMT Mitra Umat lacked the necessary systems to recognize and describe strategic risks. In lieu of adequate systems, those strategic risks were left to evolve into crises. BMT Global Insani and BMT Mitra Umat had different paths of governance, but in both cases failures of risk identification were primarily governance failures as opposed to technical failures.

Table 2. Cross-Case Comparison of Risk Identification Practices.

| Risk Identification Dimension | BMT Global Insani | BMT Mitra Umat | Cross-case Interpretation |
|---|---|---|---|
| Strategic risk assessment | Absent | Informal and limited | Strategic risks were underestimated in both institutions |
| Risk identification procedure | No standardized framework | Community-based assessment without formal documentation | Risk identification lacked institutionalization |
| Early warning system | Not implemented | Functioned inconsistently | Warning signals failed to generate corrective actions |
| Information sharing | Highly centralized | Moderately participatory | Communication barriers weakened organizational learning |
| Stakeholder involvement | Very limited | Moderate but declining | Reduced participation weakened collective risk awareness |

The results suggest BMT Global Insani has not employed a formal mechanism to determine strategic, operational, and financial risks. Evidence from internal documents shows principal investments ( for instance the Al-Qiradh plantation) were made without rigorous feasibility studies, due diligence, or formal risk assessment. The evaluation of the risk was made primarily based on the management's optimism and expectations of returns.

There was a consensus about the weakness in governance in the interviews. One senior respondent said the following:

*"Risks were not systematically identified. Money accumulated through Al-Qiradh was moved directly to Global Infinite to fund the plantation with no evaluation of feasibility. A market study for jabon timber or ginger was not done. Agricultural risks such as crop failure, pests, or forest fires were not evaluated. There was no business plan or cash flow forecast. Management assumed that the plantation project would be profitable as the prices in the market would be optimal."* (INF-03)

Another former member of staff was quoted as saying that there was no involvement of operational staff in the construction of Al-Qiradh investment risks:

*"Operational staff had no role to play in investment risk identification. Our task was to handle Al-Qiradh investors' transactions at the front office, while Global Infinite made all the decisions regarding the investment. We were kept in the dark about the analyses and documents that supported those decisions."* (INF-02)

The agreement between the documentary evidence and the interviews showed that the governance process did not incorporate risk identification. Investment decisions were made without proper feasibility studies, and there was no independent analysis or evidence. Avoiding operational staff in discussions led to a loss of the potential for risk identification. This resulted in a significant increase in the strategic, operational, and reputational risk to the organization.

These findings indicate that the closure of BMT Global Insani demonstrated both the presence of insufficient governance structures and the absence of approaches that promote the incorporation of risk recognition during the decision-making processes of the organization.

A different, but no less significant, phenomenon can be seen in BMT Mitra Umat. Systematic evidence indicates that at the outset of its operation, the organization assessed financing risks by relying on community-based knowledge, personal observations, and direct and close relationships. These informal governance mechanisms worked well for the organization. However, the results of the interviews showed that these informal mechanisms began to lose their effectiveness in the face of growing organizational complexity.

Unlike BMT Global Insani, the documented evidence suggests that BMT Mitra Umat relied on a community-based model of risk identification, with close social relations, direct observations, and informal financing practices. These informal governance mechanisms worked well for the organization, because the organization's financing practices were simple and closely linked to the community. However, results of interviews showed that these mechanisms began to lose their effectiveness as the complexity of the organization increased and the framing of the organizational activities expanded beyond the boundaries of conventional microfinance.

One senior informant elaborated on how the institution initially tackled potential financing risks through community involvement instead of formal analytical methods:

*"When members requested financial assistance, we did not just look at the paperwork or the financials. We went to their houses, met their families, saw their businesses, and talked to their neighbors to help us evaluate their standing, character, and likelihood of repayment. Even in the absence of formal risk assessment, we were careful to provide financing to members we deemed to be trustworthy and productive"* (INF-07).

Nevertheless, another informant explained how this governance approach deteriorated over time. More focus was placed on financing decisions for large property investments:

*"Investments in property were made on the basis of intuition or management to judgment and not on elaborate identifications of feasibility. No team existed to analyze the market, cash-flows, do a sensitivity analysis, or even do a basic demand analysis before management spent around IDR 18.7 billion on property. Management's assumption was that*

*property would always appreciate and that they would always make a good return on the investment* (INF-06)."

The deterioration of governance was especially highlighted through the decline of appraisal standards for financing. One senior manager described:

*"In past years (1995-2014), financing decisions were made based on the 5C's, a field visit was carried out before financing was approved, and the institution made follow-up visits after the financing was granted. However, after 2015, this went on to relaxation, especially for property investments and financing to related parties."*

*"The Financing Committee became almost completely redundant as the most of the substantive decisions had been made already by senior management before the committee was ever convened."* (INF-05)

Interview findings and supporting documentation show that BMT Mitra Umat did not completely lack the ability to identify risk. Rather, the organization experienced a loss of risk identification where the existing governance mechanisms began to lose the ability to contend with the more sophisticated risks posed by the organization. The informal community knowledge that had supported the microfinance operations in the earlier years of the organization was not changed into formal risk governance systems that would allow support the growth of the organization. As a result, financing decisions increasingly began to rely more on the optimistic intuition and the experience of the management personnel of the organization, as opposed to formal analysis, and independent and rational decision making.

One supervisory board member noted the existence of early warning systems prior to the collapse, and although management ignored formal recommendations, there were internal memos and reports with clear evidence. They stated the following:

*"It was not the absence of an early warning system, but the absence of a willingness of senior management to listen to and act on the system. Written warnings were issued time and time again about liquidity problems, conflicts of interest, and too much concentration on property investment. Managing staff did not want to act on the substance of the issues and instead dismissed them as an undue level of pessimism. In the end, management staff and board members who raised governance issues were systematically separated from the decision-making process, thus neutralizing the early warning system."* (INF-06)

Documentary evidence indicates that the warnings concerning the issues of liquidity risk, conflicts of interest, and concentration on property were issued formally and in writing three times in 2016. Management remained unconvinced to act on the warnings stating that offering investments should be safe.

Evidence from BMT Global Insani interviews supports that centralized leadership described below limited the scope of vertical and independent evaluations, thus constraining organizational communications.

*"Branch managers and operational staff were not part of the strategic discussions about investments. We only had access to the project via slides, as we were not part of the planting tours. Decisions were made long before managers were communicated to about the tours, and there were no questions or evaluations that could be made about the investment."* (INF-03)

Another respondent added:

*"Only top management made the calls on the usage of the funds of the investors, and we were left to carry out admin work. We did not see the reports or the analysis that backed those calls."* (INF-02)

What these responses indicate is that the most evident gap was in the methods of governance and not in the distribution of information. In BMT Mitra Umat, governance alerts were documented, and were ignored, and in BMT Global Insani, centralized governance restricted knowledge and excluded the majority from the operational levels. As a result, governance was enabled, and the identification of risks was largely ineffective due to a lack of openness, independent appraisal, or prompt and proactive governance. The extension to the Theory of Risk Governance is that organizational resilience rests on the existence of adequate risk information as well as systems of governance that promote and safeguard constructive dissent and independent oversight.

The analysis shows that risk identification is more than an Enterprise Risk Management technical function. It is a governance capability that requires leadership openness, organizational transparency, stakeholder engagement, and a commitment to learning. BMT Global Insani shows governance failure by not having an organized risk assessment. BMT Mitra Umat shows that previously good governance mechanisms become inadequate by not adjusting to the complexity of the organization. Though the pathways were different, both organizations had the same governance issues of slow response, poor learning, and reduced resilience.

This research contributes to Risk Governance Theory. It shows that risk identification is a governance process of the organization and not an analytical process. Other research has focused on the governance mechanisms of risk management, such as risk registers and matrices, and the formalized techniques of risk assessment (Aven & Renn, 2009). While these tools are critical, this research shows that their application is mainly a function of governance. If there is no openness and stakeholder engagement, and if leadership is not adaptive, tools of risk management will not prevent the organization from failing.

This research also contributes to the field of Shariah Governance. In Islamic governance, decision making is based on *amanah, shura,* and *ihtiyat.* The evidence from the interviews and the documents showed that these principles started to wane. Governance shifted from a system of collective accountability to one of managerial dominance, which lessened the organization's ability to recognize new risks.

Inefficient risk identification from the *Maqasid al-Shariah* perspective means a lack of protection for institutional assets and organizational knowledge. Poor governance exposed members' money to avoidable financial risks, breaching the principle of *hifz al-mal*, and poor organizational learning impaired *hifz al-'aql*. The situation became worse when the poor quality of learning led to the use of subjective managerial judgments over systematic analysis and collective discussions. This situation explains that the lack of a structured framework for risk identification within Islamic financial institutions makes the practice of risk identification an administrative function within the governance framework. In such institutions, risk identification must function as an ethical governance framework of protecting stakeholders, safeguarding institutional trust, and fostering the long-term viability and growth of the organization.

Failures to identify risks stemmed from governance failures, declining organizational learning, poor communication, and weakened ethical accountability. Structures of governance aside, both instances of governance failure resulted in the inability of the institution to identify and respond to organizational risks within the appropriate timeframe. Mechanisms to identify and understand governance and risk failure will chronologically give way to inadequate mitigation of risk and subsequently, institutional collapse.

### 4.3 Risk Mitigation Failure and the Development of a *Maqasid-Based* Risk Governance Model

The comparison analysis shows there was a collapse of governance at the same level of ineffective risk mitigation immediately before the collapse of both Islamic Microfinance Institutions (IMFIs). Documentary analysis, along with the institutional reports and interviews, shows that even though there was preliminary warning before the financial crises, the governance mechanisms did not translate the warnings into a response. Instead of designing and implementing proactive measures, both institutions focused on the short-term solution to address the problem that already manifested itself. The findings imply that the failure of governance was not just about the failure to identify the risk but more about the organizational leadership's failure to institutionalize the adaptive risk mitigation.

Table 3. Cross-Case Comparison of Risk Mitigation Practices.

| Governance Dimension | BMT Global Insani | BMT Mitra Umat | Cross-case Interpretation |
|---|---|---|---|
| Leadership response | Highly reactive | Corrective actions delayed | Leadership failed to respond proactively to emerging risks |
| Portfolio management | Investment highly concentrated | Limited portfolio diversification | Concentration increased financial vulnerability |
| Internal monitoring | Weak supervision | Monitoring gradually deteriorated | Governance weakened institutional resilience |
| Crisis management | No contingency planning | Corrective intervention implemented too late | Governance systems failed to anticipate organizational crises |
| Organizational learning | Lessons not institutionalized | Learning mechanisms weakened over time | Similar governance failures were repeated |

The findings indicate that BMT Global Insani lacked a structured risk mitigation framework capable of preventing organizational crises. Documentary evidence shows that investment decisions were heavily concentrated in a single business sector without diversification strategies, independent investment review, or contingency planning. As financial pressure increased following investors' withdrawal requests, management relied primarily on ad hoc responses rather than systematic crisis management. Consequently, organizational actions focused on maintaining short-term liquidity instead of addressing the underlying governance deficiencies that had generated excessive institutional risk.

Interview participants consistently confirmed this governance weakness. One former manager explained:

*"There was no contingency planning before the liquidity crisis emerged. The institution did not* maintain *an adequate liquidity reserve, diversify its investment portfolio, or establish alternative financing arrangements. Instead, management assumed that the plantation investment would inevitably generate sufficient returns to meet all future obligations."* (INF-03)

Another participant emphasized that organizational responses became predominantly reactive once the financial crisis had already escalated:

*"When investors demanded the repayment of their funds, management relied on repeated promises that the projects would soon generate returns. However, there was no coordinated restructuring strategy, no transparent disclosure of the institution's financial condition, and no concrete recovery plan. The response focused on postponing the problem rather than resolving it."* (INF-02)

The consistency between documentary evidence and interview findings demonstrates that Mitigation strategies were all too often implemented after the institution's financial risks had turned into financial crises. As a consequence, governance mechanisms were primarily reactive. This presented significant challenges for the institution in maintaining financial stability and safeguarding stakeholder trust.

A different governance trajectory was evident at BMT Mitra Umat. Documentary evidence suggests that the institution had governance mechanisms in place that were responsive to operational risks. However, the evidence from interviews suggests that the effectiveness of these mechanisms gradually diminished as the quality of governance worsened. Management did not undertake timely organizational changes and instead ignored the decline in the quality of financing along with the deterioration of internal control and the decline in accountability in the organization.

One of the senior managers recollected about the repeated delays in implementing corrective actions when there were already indicators of a rise in liquidity risk:

*"We suggested that the liquidity reserve be raised to 15% of total member deposits to provide for the possibility of member drawdowns. However, the board rejected the suggestion, reasoning that more 'idle' cash would mean a greater drop in short-term profitability. Management was simply against the loss of potential earnings, even if that came at the price of a loss of financial prudence and financial stability."* (INF-05)

Another participant described the same effect of delayed corrective actions due to excessive optimism of management:

*"Management was of the constant belief that the value of real estate would keep on rising and that the purchase of real estate would be a certain source of profit. Because of this belief, no corrective actions were taken for the liquidity concern as management was of the belief that the market would solve the concern."* (INF-06)

After the financial crisis occurred, the organization seemed to have become more reactive than proactive:

*"Management promised that funds would be paid back 'very soon' and that our projects would produce a return. There was a total lack of a coherent plan to restructure, no clear communication of the true state of the organization's finances, and no planning for a recovery."* (INF-02)

The interviews support what the documents state. Nothing caused the delays in taking corrective actions, apart from management's refusal to take a hit regarding short-term profits. The delays in taking corrective actions, the refusal to take a hit regarding short-term profits, and the excessive optimism of management resulted in a total lack of governance, and reactive and fragmented responses, all of which led to the collapse of the organization.

This study uses examples from BMT Mitra Umat to further develop Risk Governance Theory. It shows that organizational resilience is supported by the existence of mitigation strategies and leadership's willingness to take corrective measures before the danger escalates. In light of Maqasid al-Shariah, pursuing short-term financial gains by forgoing liquidity reserves is a manifestation of the failure of hifz al-mal, or the protection of wealth. Financing decisions were made in governance structures that blocked members' access to liquidity while creating financial risks and compromising the long-term sustainability of the organization.

Risk Governance Theory explains that BMT Mitra Umat did not fail due to the absence of governance mechanisms. Rather, the adaptive capability of governance systems was progressively diminished due to the increased reliance of organizational leaders on the past successes of the organization and informal judgments. As a result, governance systems advanced from the management of risks and prevention toward the response to crises, and as such, diminished organizational resilience against financial and operational threats.

A shared characteristic of both organizations is a lack of capacity for adaptive learning. Review of documentation and interview data show that the presence of previous operational, audit, and internal governance problems did not establish a basis for organizational learning that would promote improvement. Rather, the improvements that did occur were of a short-term, disjointed, and largely fragmented nature, and were the result of the efforts of individual managers rather than the governance systems of the organization.

One of the members of the former supervisory board noted that in the past, governance problems rarely resulted in substantive organizational reform, due to the consistently ignored critical recommendations:

"*Supervisors who consistently raised concerns about governance and were viewed as critical were removed from the organization. Once they were gone, no one else was going to oppose the management. There was an awareness of existing governance issues, but people were made afraid of speaking out about it because they feared facing the same consequences. Governance issues remained unresolved because the criticism that had been offered did not bring about any changes to instigate improvements."* (INF-06)

This was echoed by another informant:

*"I warned management about the potential issues of making large property investments multiple times. Instead of constructive criticism that would have improved the governance of the organization, my criticism was seen as the impeding of growth. It was a waste of my time to keep warning them as they had already made their decisions."* (INF-05)

BMT Global Insani demonstrated the same problem after major decisions about investments were made and continuous assessment and formalized review of the decisions was not applied. Learning remained closed.

"*There was no regular field monitoring of the plantation project funded by members' funds. Employees were never invited to see how their money was invested, and there was no regular reporting on the status of the project, the crop, operational problems, or even the financial results. Without regular monitoring, management had no way to determine if the investment was in line with the objectives it originally had."* (INF-02)

Another branch manager stated:

*"Even I, as a branch manager, was never invited to the plantation site. My knowledge was limited to photos and the presentations by management. There was no way to verify if the plantation really existed, if there was any work done on it or if there were problems along the way that would need to be fixed."* (INF-03)

The alignment of the management of the site and the documentary evidence of site visits and interviews shows that the main problem was not only poor monitoring, but the inability to embed learning within the organization. In BMT Mitra Umat, repeated warnings of poor governance did not result in any structural changes, as critical reviewers were routinely sidelined. BMT Global

Insani, on the other hand, had a lack of mechanisms for continuous monitoring that would yield credible information for the organization. Governance systems of BMT Global Insani prevented the operational experience of BMT Global Insani from becoming institutional knowledge and forced the continuous accumulation of strategic risks. Findings contribute to Risk Governance Theory by arguing that the resilience of an organization relies on the ability to both identify and mitigate risk, as well as the governance systems that safeguard learning and independent feedback, and transform governance failures into a catalyst for constant organizational improvements rather than a history of recurring dysfunction.

These findings illustrate that ineffective risk mitigation predominantly stemmed from governance failure as opposed to financial management technical failures. Organizations that have a limited capacity for learning become more vulnerable as their governance systems fail to evolve from prior lessons into improvement systems.

This analysis shows risk mitigation should be understood as a dynamic governance capability as opposed to the execution of crisis management protocols. BMT Insani exhibits governance failure through the absence of formal mitigation mechanisms. BMT Mitra Umat demonstrates the degradation of governance through the slow adaptation of the organization. Both of these pathways led to the collapse of the organization, as governance systems did not incorporate the continuous cycle of formal monitoring, learning, and adaptive planning.

These findings contribute to Risk Governance Theory, as they illustrate organizational resilience incorporates the identification of risk, and the ability of governance to sustain the capacity for adaptive responses to evolving risk to avoid institutional failure. While previous studies focused on the role of supervision and regulatory control in governance, the current findings demonstrate that the effectiveness of governance also includes adaptive leadership along with continuous institutional improvement. Thus, risk mitigation should be considered a dynamic governance capability rather than a technical control system.

These results advance Shariah Governance literature by shedding light on the need for ethical leadership. Islamic governance's principles of amanah, shura, adl, and ihsan step into the foreground when leadership is called upon during a crisis. However, both the documentary evidence and interviews detail how these principles were eroded when the organization turned to centrally and reactively focused responses. Thus, governance mechanisms broke down, not solely due to the failure of management, but also because the strategic thinking around the decisions lacked a sufficient level of ethical concern.

From the view of *Maqasid al-Shariah*, inadequate response to the crisis did not sustain the institution and the stakeholders, which, due to poor governance, put members' assets at risk of unnecessary financial loss, which is counter to *hifz al-mal*. In addition, the constant lack of learning within the organization further compromised *hifz al ʻaql*. When public trust in the organization declined, it impacted the institution's ability to achieve *maslahah*, which is the core goal of any Islamic financial institution. For these reasons, inadequate response to the crisis not only exposed the organization and its stakeholders to unnecessary financial loss, but also did not protect ethical governance.

### 4.4 Development of the *Maqasid-Based* Risk Governance Model

This study proposes a Maqasid-Based Risk Governance Model. It combines the elements of Risk Governance Theory, Shariah Governance, and *Maqasid al-Shariah* into a singular governance model. The proposed model situates *Maqasid al-Shariah* as the primary guidance for governing the entire organization lifecycle (Ismail & Baharuddin, 2025; Razzaq, 2026). With the exception of a few models, risk governance models focus on adherence to rules and the administration of economic risk (Klinke & Renn, 2012; P. Lee, 2008; Onifade, 2023).

Governance Integrity considers ethical leadership, independent oversight, and transparent accountability the foundation of sustainable governance (Alam & Miah, 2021; Hamza, 2013; Obid & Naysary, 2014; Oktarina et al., 2026). This consists of findings that the independence and competency of the SSB is essential to Shariah governance (Kusumawati et al., 2025). Participatory Risk Identification is a risk management mechanism that relies on the participation of community and organizational stakeholders to develop a shared perception of risk (Gambling, 2006; Hermans et al., 2012; Klinke & Renn, 2010; Onifade, 2023; Renn & Klinke, 2013). Participatory risk management strengthens risk management, improves organizational reputation, and creates alignment with organizational goals (Gambling, 2006; Gangi et al., 2019). Adaptive Risk Mitigation is designed to strengthen the resilience of the organization and focuses on the balance of control and flexibility, and the preparedness to act and learn (Blanc & Ottimofiore, 2021; Ford, 2013; Hashfi et al., 2025; Klinke & Renn, 2012). This dimension affirms that stakeholder-inclusive ESG practices undertaken in moderation serve to mitigate risk, while excessive practices likely result in increased risk (Hashfi et al., 2025). *Maqasid* Orientation is concerned with governance choices that serve the greater good and strategically align with the Islamic finance system (Habib, 2023; Ismail & Baharuddin, 2025; Razzaq, 2026; Rizal et al., 2025). This orientation considers the five elements of *Maqasid al-Shariah* (religion, life, intellect, lineage, and wealth) as primary (Ismail & Baharuddin, 2025; Renfiana et al., 2026).

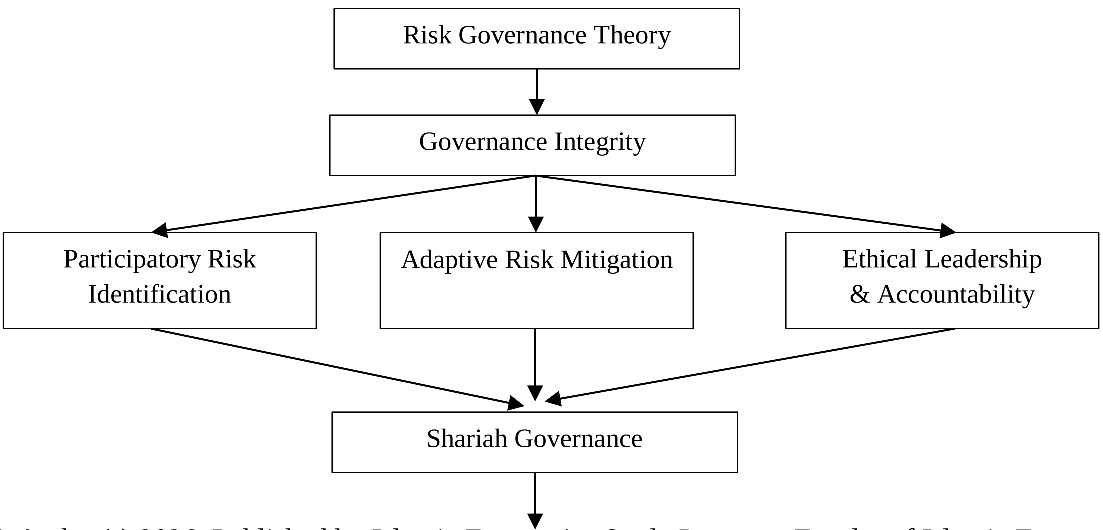
The model developed in this study demonstrates that constructive organizational resilience is an outcome of the interconnectedness of Risk Governance, Shariah Governance, *Maqasid al-Shariah*, and organizational resilience. This integration is supported by evidence showing that dual-governance structures combining Shariah Supervisory Boards (SSBs) and conventional boards enhance the extensive stance of risk (Boulanouar et al., 2026; Islam et al., 2025) and that SSBs are instrumental in risk governance (Najwa et al., 2019; Prasojo et al., 2022). Therefore, the effectiveness of governance is measured beyond the financial performance and the compliance of the organization to the laws and is assessed on the organization’s capability to uphold its principles, trust, and sustainability over time (Habib, 2023; Madah Marzuki et al., 2021; Razali et al., 2024). The integrated model is the primary contribution of the study, and a reference point to enhance governance in Islamic Microfinance Institutions.

This research contributes to the governance literature by clarifying that the institutional failure of Islamic Microfinance Institutions (IMFIs) cannot be solely attributed to financial or regulatory shortcomings (Ghani et al., 2024; Madah Marzuki et al., 2021). Governance failure, in this instance, is a complex phenomenon that includes governance structure, organizational culture, leadership, and the inability or unwillingness to apprehend and/or respond to risks and their effects (Jan & Ismail, 2023; Klinke & Renn, 2012; Onifade, 2023). Thus, the study advances the Risk Governance Theory, *Shari'ah* Governance, and *Maqasid al-Shari'ah* by introducing a Maqasid-Based Risk Governance Model (Grassa et al., 2024; Hermans et al., 2012; Jan & Ismail, 2023; Mahsun et al., 2022, 2023; Onifade, 2023; Razzaq, 2026; Renn & Klinke, 2013; Siti Harizah et al., 2024).

This model puts resilience at the center of governance systems. It differentiates between structural governance failure and the erosion of governance. Furthermore, it has shown that the institutional collapse of organizations can be achieved using different governance pathways and processes, even if the outcomes of the organization are the same (Ghani et al., 2024; A. Lee et al., 2018; Madah Marzuki et al., 2021).

This research augments Risk Governance Theory by framing governance as an adaptive, mutable organizational capability that requires reinforcement relative to the environmental complexity and volatility (Ford, 2013; Hermans et al., 2012; Klinke & Renn, 2012; Renn & Klinke, 2013). This complements the aspects of the IRGC model on pre-assessment, interdisciplinary risk estimation, risk characterization and evaluation, and the participation of stakeholders (Klinke & Renn, 2010, 2012; Renn & Klinke, 2013). This research broadens the scope of Shariah Governance by placing the ethical values of *amanah* (trust), *shura* (consultation), *'adl* (justice), and *mas'uliyyah* (accountability) as existing components in governance systems as opposed to meeting the lowest regulatory requirements (Jan & Ismail, 2023; Khan, 2023; Obid & Naysary, 2014; Oktarina et al., 2026; Razzaq, 2026). The inclusion of these components provides solutions for the gaps in the current Shariah governance practices on disclosure, transparency, independence, and competence (Alam & Miah, 2021; Jan & Ismail, 2023; Khan, 2023). Lastly, this research furthers the work on *Maqasid al-Shariah* by demonstrating that this theory serves as a conceptual framework for the design of governance systems in addition to its role as a performance evaluation framework(Billah et al., 2024; Ismail & Baharuddin, 2025; Razzaq, 2026; Renfiana et al., 2026; Rizal et al., 2025). This claim is further supported by the recent frameworks that have utilized the Maqasid principles in constructing ESG related frameworks and creating measurable indicators that harmonize with the requirements of international standards (Radin et al., 2024; Renfiana et al., 2026).

An action implementing structure is introduced for *shari'ah* microfinance institutions as well as their *shari'ah* boards focusing on governance. The findings indicate that governance alongside the Maqasid values shows the need for risk taking and supervisory values, as well as an approach that is evaluative and cooperative (Gambling, 2006; Mergler & Hoyer, 1977; Nainggolan et al., 2023; Prasojo et al., 2022; Siti Harizah et al., 2024). Research shows that the independence, diversity, as well as the professionalism of a Shari'ah Supervisory Board, influence the level of risk-taking and the performance of the institution (Nainggolan et al., 2023; Prasojo et al., 2022). Hence, governance should also incorporate the assessment of the organization's maturity in governance, the ethical leadership, and the organization's resilience (Habib, 2023; Naysary & Tarazi, 2024; Obid & Naysary, 2014; Oktarina et al., 2026). The aim of the *Maqasid*-Based Risk Governance Model is to achieve the sustainability of the Institutions and reduce the risk of governance failure in Islamic Microfinance Institutions by integrating the Islamic ethics of governance with the management (Billah et al., 2024; Ghani et al., 2024; Madah Marzuki et al., 2021; Minhas, 2023; Razali et al., 2024; Rizal et al., 2025).



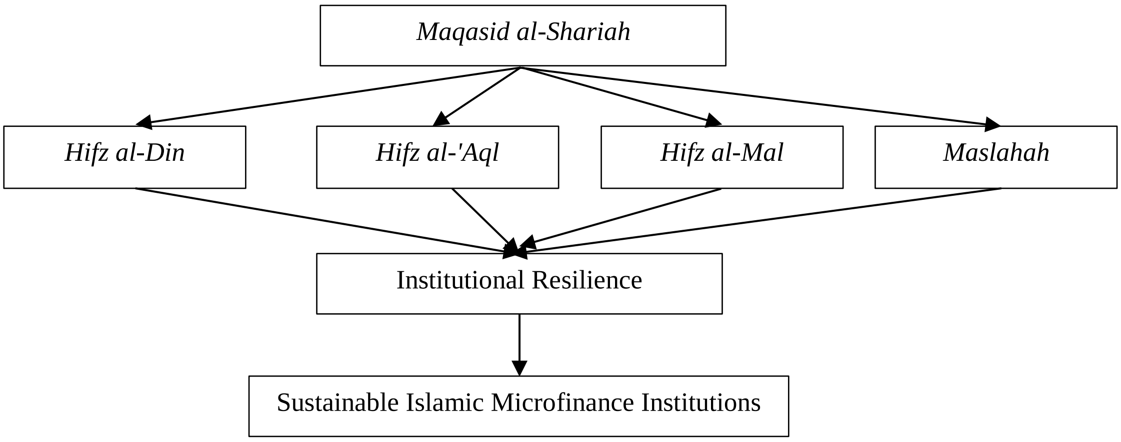



Figure 1. Theoretical Positioning of the *Maqasid*-Based Risk Governance Model

## 5. Conclusion

This enrichment describes how the failure of governance in Islamic Microfinance Institutions (IMFIs) cannot be confined to the destruction of finances and the failure to comply with the regulations. Instead, it is comprised of many types of governance failure such as failure of leadership, organizational culture, accountability, and the capability of governance of risks. In the juxtaposition of BMT Global Insani and BMT Mitra Umat, two different paths of governance were named: structural governance failure and governance erosion, which resulted in the same collapse of the institution. Further, the results showed that weak governance results in the failure to address the risks that would sustain the institution. This address is manifested in the failure to identify and adapt governance of risks and ethics in decision-making that is based on the principles of Islam.

The primary focus of this research is the *Maqasid-Based* Risk Governance Model. Risk Governance Theory, Shari'ah Governance, and *Maqasid al-Shari'ah* now form part of an integrated governance system when placed within the model. *Maqasid al-Shari'ah* is positioned at the top of the governance system and the remaining governance features are the governance of integrity, participation in the governance of risks, flexibility of governance of risks and decisions and the strategic elements of the organizational system throughout its life. The model places organizational resilience in the core of governance and thus expands the horizons of existing governance systems to encompass ethical leadership, stakeholder participation, institutional learning, accountability, and the sustainability of the governance system.

The proposed model, when applied, offers a complete governance framework for Islamic Microfinance Institutions, regulators, and *Shari'ah* Supervisory Boards. It aims to enhance the quality of governance and decrease the risk of failure of the institution. Thus, governance assessment should incorporate governance maturity, ethical leadership, and adaptive, resilient organizations, alongside the financial and regulatory measures. Future research is encouraged to test the model using quantitative or mixed methods across various institutional contexts to derive quantifiable governance measures and to improve the model's applicability across the Islamic finance sector.

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