

# ATTRIBUTES OF SHARIAH SUPERVISORY BOARD AND SHARIAH COMPLIANCE

Hasan Mukhibad<sup>\*</sup>, Prabowo Yudo Jayanto<sup>\*\*</sup>, Kuart Waluyo Jati<sup>\*\*</sup>,  
Muhammad Khafid<sup>\*\*</sup>

<sup>\*</sup> Corresponding author, Accounting Department, Economics Faculty, Universitas Negeri Semarang, Jawa Tengah, Indonesia

Contact details: Accounting Department, Economics Faculty, Universitas Negeri Semarang, 50229, Jawa Tengah, Indonesia

<sup>\*\*</sup> Accounting Department, Economics Faculty, Universitas Negeri Semarang, Jawa Tengah, Indonesia



## Abstract

**How to cite this paper:** Mukhibad, H., Jayanto, P. Y., Jati, K. W., & Khafid, M. (2022). Attributes of Shariah Supervisory Board and shariah compliance. *Corporate Governance and Organizational Behavior Review*, 6(3), 173–180.

<https://doi.org/10.22495/cgobrv6i3p16>

Copyright © 2022 The Authors

This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0).  
<https://creativecommons.org/licenses/by/4.0/>

**ISSN Online:** 2521-1889

**ISSN Print:** 2521-1870

**Received:** 22.04.2022

**Accepted:** 02.09.2022

**JEL Classification:** G30, G32, G31, G40

**DOI:** 10.22495/cgobrv6i3p16

Shariah's compliance in bank operations guarantees that Islamic bank (IB) directors must maintain. The importance of shariah compliance has not been widely explained by previous researchers, especially the attribute factor of the Shariah Supervisory Board (SSB). Only Basiruddin and Ahmed (2020) have researched shariah compliance using the indicator or shariah non-compliant income (SNCI). This study uses zakat expenditure as an indicator to measure shariah compliance. The study aims to prove the role of the SSB attributes (the number of members, SSB expertise in finance/banking, experience, and educational background in shariah) on the risk of shariah compliance. This study uses a sample of 9 Islamic banks in Indonesia observed from 2010 to 2019. Using unbalanced data, the number of units of analysis is 102 bank years. Data were analyzed using panel data regression. We find that the number of SSB members and the educational background of SSB are proven to increase shariah compliance. However, SSB's experience and expertise in finance/banking are not proven to affect shariah's compliance. In general, SSB's involvement in strategic bank policy-making to improve shariah compliance is evident.

**Keywords:** Risk of Shariah Compliance, Shariah Supervisory Board Attributes, Experience, Expertise

**Authors' individual contribution:** Conceptualization — H.M.; Methodology — H.M. and K.W.J.; Validation — P.Y.J.; Formal Analysis — H.M.; Investigation — K.W.J.; Resources — P.Y.J.; Data Curation — H.M. and K.W.J.; Writing — H.M.; Visualization — H.M. and K.W.J.; Supervision — M.K.; Project Administration — P.Y.J.

**Declaration of conflicting interests:** The Authors declare that there is no conflict of interest.

**Acknowledgements:** The Authors would like to thank the Economics Faculty, Universitas Negeri Semarang (UNNES), Indonesia, for funding this research.

## 1. INTRODUCTION

The demands of Muslims to carry out transactions according to shariah are the primary basis for establishing Islamic banks. In shariah, Muslims are required to transact fairly, free from *gharar*, *maysir usury* (interest), transactions for buying or selling illicit goods, and cigarettes (Al Rahahleh, Bhatti, & Misman, 2019; Baydoun, Sulaiman, Ibrahim, & Willett, 2018). Islamic bank (IB) was established to

provide banking services and run its business under Islamic law and provide investment instruments and banking services that are halal under shariah (Islamic law) (Sheho, Bacha, & Smolo, 2020).

The existence of the Shariah Supervisory Board (SSB) is required to ensure that the IB has complied with the shariah principles (Hassan & Lewis, 2007). SSB has duties as advisors and supervisors of bank operations and guarantees shariah compliance (Mukhibad & Anisykurillah, 2020). The development

of bank business operations requires the development of new products to meet customer needs. The development of this new product involves SSB so that the products offered do not violate Shariah rules. Shariah compliance is a guarantee given by bank managers to consumers and is the main factor of customer satisfaction. Studies from Anouze, Alamro, and Awwad (2019), Ali and Raza (2017), Saqib, Farooq, and Zafar (2016) have proven that shariah compliance is a significant factor in customer satisfaction of Islamic banks.

The importance of Shariah compliance in banking makes Shariah compliance a unique type of risk faced by IBs. In the context of Indonesia, the Financial Services Authority (*Otoritas Jasa Keuangan* — OJK), the regulator of Islamic banks in Indonesia, has stated that Shariah compliance is one of the unique types of IB risk (OJK, 2016). However, the importance of this type of risk has not made researchers explain the risk of shariah compliance and how the roles of BOD and SSB (as IB supervisor and advisor) control this type of risk. From our search, only Basiruddin and Ahmed (2020) have explained Shariah compliance as measured by the ratio of non-halal income or shariah non-compliant income (SNCI). The assumption is that the greater the non-halal income obtained by the IB, the less Shariah compliance.

Shariah's non-compliant income is the IB's income derived from Conventional Bank (CB) interest income (Rosman, Che Azmi, & Amin, 2017). In dual system banking (as adopted by Indonesia), IB and CB can cooperate in providing banking services. The low number of IB branch offices in Indonesia causes IBs to cooperate with CBs by opening an IB service at the CB office. This collaboration allows the IB to earn interest income. The Fatwa of the Indonesian Ulema Council number 1231DSN-MUYXV2018 states that interest income is income that cannot be avoided. IBs may accept it because it must be used as social funds and channeled for social activities. This means that SNCI can be purified by issuing it to charity (Hanefah, Kamaruddin, Salleh, Shafii, & Zakaria, 2020). Rosman et al. (2017) and Omar and Hassan (2019) found that IBs use SNCI for charity. For this reason, we argue that SNCI is weakly used as an indicator of shariah compliance.

We argue that shariah compliance is more accurately measured by the bank's concern for the poor by issuing a portion of the bank's income (zakat). Although there is no consensus among scholars that issuing zakat is mandatory for Islamic banks, there are many verses in the Qur'an that emphasize the importance of paying zakat. Zakat is one of the pillars of Islam, which is mentioned in the Quran in 24 verses (Darussalam & Zulfiqar, 2014). Zakat is evidence of a Muslim's concern for poverty (Salleh, 2017). IB is considered to carry out socio-economic functions in line with the Prophet's social justice agenda (Hassan & Lewis, 2007). Zakat is evidence that a bank has carried out a social function (Abdullahi, 2019). Zakat is proven to reduce poverty, increase purchasing power and economic growth (Furqani, Mulyany, & Yunus, 2018; Ayuniyyah, Pramanik, Saad, & Ariffin, 2018; Sulaeman, Majid, & Widiastuti, 2021), and also develop small business entrepreneurship (Hoque, Khan, & Mohammad, 2015). The contribution of Muslims in alleviating

poverty is also part of the duty of Muslims as *khalifah fill ard*. "The best of people bring the most benefit to the rest of mankind" (Ahmad, ath-Thabrani).

This study contributes in two ways. First, this study formulates a new indicator of shariah compliance. Shariah compliance guarantees that IB directors must maintain, but studies on shariah compliance are limited. We complement the study from Basiruddin and Ahmed (2020) in formulating indicators of shariah compliance.

Second, we evaluate the performance of SSB using four indicators: the number of members, SSB expertise in finance/banking, experience, and educational background in shariah. Following Mukhibad and Anisykurlillah (2020), Elamer et al. (2020), Zeineb and Mensi (2018), Alnasser and Muhammed (2012), and Alman (2012), SSB has the main task of providing guarantees of compliance with Shariah rules and principles. However, previous studies have linked SSB attributes with IB's financial performance. Ben Abdallah and Bahloul (2021), Baklouti (2022), Farag, Mallin, and Ow-Yong (2018), and Mollah and Zaman (2015) found that the number of SSBs improved financial performance. Ben Abdallah and Bahloul (2021), Baklouti (2022), and Almutairi and Quttainah (2017) found that expertise in finance/banking attributes improved financial performance. Nomran and Haron (2019) found that the experience attributed to improved financial performance. We expand on the previous literature by explaining the attributes of the number of members, SSB expertise in finance/banking, experience, and educational background to shariah compliance.

The remainder of this paper is structured as follows. The second section describes the theory, conceptual framework, and hypotheses. The third section presents the research sample, variable measurement methods, and data analysis methods. The fourth section presents the research results and the fifth section discusses the findings. The last section presents conclusions, practical implications for banks and regulators, and research limitations.

## 2. LITERATURE REVIEW

### 2.1. Agency theory

Based on the agency theory, SSB is a unique board in Islamic banks which acts as a supervisor, consultant to directors and other boards in managing bank assets to obtain bank income following shariah (Farag, Mallin, & Ow-Yong, 2018; Injas, Haron, Ramli, & Injas, 2016). Therefore, the presence of SSB in IB is to ensure that the bank's operations are following shariah (Mukhibad & Anisykurlillah, 2020; Elamer et al., 2020; Zeineb & Mensi, 2018; Alnasser & Muhammed, 2012; Alman, 2012). In addition, IB manages depositor funds, which mostly use *mudharaba* contracts, and places directors as investment managers required to manage public funds in profitable strategic projects according to shariah.

Implementing the *mudharaba* contract on savings and time deposits causes depositors to receive profit sharing according to the bank's performance, and depositors can bear losses if the director fails to manage their funds. With this

*mudharaba* system, depositors have a considerable risk (Ariffin, Archer, & Karim, 2009) because they have no certainty of income and have the potential to bear losses suffered by the bank. Thus, in *mudharaba* transactions, there are agency problems (Dar & Presley, 2000; Beck, Demirgüç-Kunt, & Merrouche, 2013), information asymmetry; and allows for moral hazard (Mahmood & Rahman, 2017).

Agency problems can be reduced by a compensation approach and governance (Hillman & Dalziel, 2003). If the principle obtains information about the agent's behavior and contracts with agents based on performance, the agent is likely to fulfill the interests of the principles (Eisenhardt, 1989). SSB functions as a supervisor of agent behavior. The design of an effective corporate control mechanism can enable directors to act in the best interest of all stakeholders. This approach assumes that agency conflict can be reduced by improving the quality of supervision (Mollah & Zaman, 2015; Nomran, Haron, & Hassan, 2018; Khan & Zahid, 2020). The presence of SSB as a supervisory director is expected to reduce agency problems in IB. The behavior of directors that needs to be controlled by SSB is to make high-risk investments and even investments in sectors that are prohibited by shariah. Shariah restricts directors from making investments, but due to high liquidity and the high risk of withdrawing funds by the depositor, directors can make risky investments by ignoring the safety and shariah compliance aspects.

## 2.2. Hypothesis development

SSB has a duty as a supervisor to reduce agency problems in IBs. To increase the effectiveness of the SSB, an SSB requires certain specifications or attributes to finish the tasks (Anisykurlillah, Jayanto, Mukhibad, & Widyastuti, 2020). The first attribute is the number of SSB members. OJK has regulated that IB must have at least two people SSB members. IBs with a high number of SSBs allow IB to choose SSB members with different backgrounds, experiences, expertise, and considerations (Hamza, 2016), thus increasing the quality of strategic decisions (Mukhibad & Anisykurlillah, 2020). The quality of SSB's supervision of risk-taking will increase because the IB has many SSB members. Safiullah and Shamsuddin (2018) and Alabbad, Hassan, and Saba (2019) find that the number of SSB members negatively influences the bankruptcy risk and operational risk of Islamic banks. Thus, IBs with a high number of SSB members will increase their supervision (Bukair & Abdul-Rahman, 2013) so that directors take policies to improve shariah compliance.

*H1: The number of SSB members negatively influences shariah compliance.*

SSB as a supervisor and consultant requires competency in financial/banking. These competencies are needed to improve SSB's understanding of bank business operations. Thus, SSB can assess whether the policies taken by the board of directors include policies that are detrimental or beneficial to the bank. OJK and the Auditing Organization for Islamic Financial Institutions (AAOIFI) have required SSB competence in finance/banking. AAOIFI stated that as a consultant, SSB is recommended to have expertise in business, economics, law, and accounting to complement his expertise in *Fiqh almu'amalat*

(Khalid, Haron, Sarea, & Masron, 2018). SSBs who have experience in finance/banking will carry out their duties effectively (Almutairi & Quttainah, 2017; Ghayad, 2008). Practical supervisory and consulting duties can reduce managers' high-risk policies (Najwa, Ramly, & Haron, 2019), including avoiding the risk of shariah non-compliance. SSB's expertise in finance/banking will make it easier for SSB to understand financial reports and allow SSB to access policies and issues related to financial reporting, including risk assessment and management (Basiruddin & Ahmed, 2020). Basiruddin and Ahmed (2020) found that SSBs with expertise in finance would increase shariah compliance.

*H2: SSB's expertise in finance/banking negatively influences shariah compliance.*

OJK and AAOIFI are argued that SSB must have competence in the field of shariah. SSB is an advisor to directors and other boards so bank operations comply with shariah rules and principles (Bukair & Abdul-Rahman, 2013). The board of directors requires SSB's ability to explain transactions and business fields prohibited and permitted by shariah. Thus, director policies that are not in accordance with shariah can be avoided. SSB, which has an educational background in shariah, has more control over *Fiqh almu'amalat* (Khalid et al., 2018). This ability is needed as human capital in consulting with the board of directors in formulating strategies or developing new products. Following this argument, we developed the proposition that SSB with a shariah educational background encourages managers to improve shariah compliance.

*H3: SSB's educational background in Islamic law or shariah negatively influences Shariah compliance.*

The experience hypothesis theory reveals that long-term board involvement will increase experience, commitment, and greater competence and provide essential knowledge about the company and its business environment (Kor & Sundaramurthy, 2009; Vafeas, 2003). This knowledge and experience are essential for board members to contribute effectively to the company's strategic growth (Kor & Sundaramurthy, 2009) and foster innovation (Kimberly & Evanisko, 1981). SSB, which has to control and provide business advice to directors, requires an understanding of the bank's business environment. This understanding can be realized when SSB is involved in the company's business decisions in the long term.

SSB's experience in carrying out its duties can be measured by tenure (Anisykurlillah et al., 2020). SSB, with a long tenure, positively affects SSB's knowledge of operations and the bank's business environment. SSB tenure will improve SSB's competence in providing supervision and consulting services because the solutions have been more concerned with the bank environment. The long tenure will cause SSB to have an excellent ability to control the director.

*H4: SSB experience has a negative influence on shariah compliance.*

## 3. METHODOLOGY

This study uses Islamic banks in Indonesia with a total of 14 banks. Of the 14 Islamic banks, 2 Islamic banks do not report zakat expenditure. So, we use 12 Islamic banks as a research sample

with an observation period of 10 years (2010–2019). We collect all data manually based on the annual reports issued by each bank and data analysis using a fixed-effect model.

The following methods measured the variables:

1. SSB size measured by the number of SSB members (Safiullah & Shamsuddin, 2018; Bukair & Abdul-Rahman, 2013).

2. SSB's expertise in finance/banking (*SSBFIN*) is measured by the ratio of SSB members who have an educational background in finance/banking (Isa & Lee, 2020; Mukhibad & Anisykurlillah, 2020; Najwa et al., 2019).

3. SSB's expertise in shariah (*SSBSYA*) is measured by the ratio of SSB members with an educational background in shariah (Bukair & Abdul-Rahman, 2013).

4. SSB's experience (*SSBEXP*) is measured by SSB's tenure based on the average tenure of SSB members (Basiruddin & Ahmed, 2020).

5. The dependent variable of this study is shariah compliance which is proxied by zakat expenditure (*LNZEXP*). It is measured by the natural logarithm of zakat issued by IB (modified from Mukhibad, Kiswanto, and Jayanto, 2017, and Mukhibad and Setiawan, 2020). We argue that the amount of zakat expenditure indicates that IBs are more compliant with shariah.

This study uses the attributes of BOD, financing ratio, leverage, and total assets as control variables.

1. The attributes of BOD (*BODINDEX*) are measured by index numbers from the following indicators: the number of BOD members, independent BOD ratio, and BOD ratio with expertise in finance/banking (Safiullah & Shamsuddin, 2018). We give each indicator a score of 1 if it has a value above the median and vice versa. The percentage of the three indicators is calculated to determine the BOD index.

2. Financing to asset ratio (*FTA*) is measured by the ratio of total financing to total assets (Meslier, Risfandy, & Tarazi, 2020).

3. Leverage (*LEV*) is measured by the ratio of debt to assets (Grassa & Chakroun, 2016).

4. Size is measured by the natural logarithm of the total assets (Safiullah & Shamsuddin, 2018).

The equation model of this study is as follows:

$$LNZEXP_{i,t} = \beta_0 + \beta_1 SSB_{SIZE}_{i,t} + \beta_2 SSB_{FIN}_{i,t} + \beta_3 SSB_{SYA}_{i,t} + \beta_4 SSB_{EXP}_{i,t} + \beta_5 Control_{i,t} + \varepsilon \quad (1)$$

The multicollinearity, heteroscedasticity, and autocorrelation tests were performed. The selection of the fixed-effect or random-effect model is based on the Hausman test. Following Alhammadi, Archer, Padgett, and Karim (2018), the Hausman test with a p-value of less than 0.05 recommends processing the data using a fixed-effect and vice versa.

## 4. RESULTS

### 4.1. Descriptive analysis

Table 1 shows that IBs in Indonesia have average zakat received (21.25) greater than the average zakat distributed (20.95). The average number of SSB members is 2.34, indicating that many IBs have a minimum number of SSB members (two members). SSB with expertise in finance/banking is 23.03%, while SSB with expertise in Shariah is 33.16%. Many SSBs in Indonesia do not have Islamic education background or finance/banking from this outcome. Table 1 also shows that SSB members have an average tenure of 6.658 years. This tenure indicates that there is rarely a change in SSB members in IBs in Indonesia.

**Table 1.** Statistic descriptive

	<i>LNZEXP</i>	<i>SSBSIZE</i>	<i>SSBFIN</i>	<i>SSBEXP</i>	<i>SSBSYA</i>	<i>BODINDEX</i>	<i>FTA</i>	<i>LEV</i>	<i>SIZE</i>
Mean	20.95348	2.343137	0.230392	6.658497	0.331699	0.555556	145.7891	34.36374	29.61498
Median	21.84678	2.000000	0.000000	6.000000	0.333333	0.666667	70.53432	18.61464	29.49004
Maximum	24.65105	3.000000	0.666667	17.50000	1.000000	1.000000	3186.609	96.82249	32.35212
Minimum	12.88106	2.000000	0.000000	0.000000	0.000000	0.000000	0.000000	5.849910	25.93341
Std. Dev.	2.766070	0.477101	0.253734	3.833181	0.246533	0.195287	432.5018	29.80095	1.417645

**Table 2.** Matrix correlations

	<i>SSBSIZE</i>	<i>SSBFIN</i>	<i>SSBSYA</i>	<i>SSBEXP</i>	<i>BODINDEX</i>	<i>FTA</i>	<i>LEV</i>	<i>LNASSETS</i>
<i>SSBSIZE</i>	1							
<i>SSBFIN</i>	0.3764	1						
<i>SSBSYA</i>	-0.2757	-0.2973	1					
<i>SSBEXP</i>	0.2921	-0.1728	-0.3358	1				
<i>BODINDEX</i>	0.2007	0.1221	0.1904	-0.05854	1			
<i>FTA</i>	-0.1138	-0.0799	0.0202	0.01755	-0.1624	1		
<i>LEV</i>	-0.0337	0.1262	-0.1537	-0.26076	0.0302	0.2518	1	
<i>LNASSETS</i>	0.5419	0.3408	-0.1677	0.3444	0.1031	-0.3641	-0.3268	1

### 4.2. Model test results

Table 2 shows the correlation test result between the independent variables of > 0.8 and shows no strong correlation between the independent variables. The Durbin-Watson test resulted in a Durbin-Watson statistic score of 1.869. Durbin-Watson (DW) score > Durbin Upper (DU) (1.031) and indicates no autocorrelation. The Breusch pagan

Godfrey test resulted in a probability chi-square (PCS) score of 0.601. PCS score > 0.05 and indicates that the regression model is homoscedastic.

The regression test result using fixed-effect are presented in Table 3 and show that *SSBSIZE* has a coefficient of 1.445453 and a probability of 0.00000 lower than 0.01. This result rejects  $H_0$  (null hypothesis) at 1% and indicates that *SSBSIZE* positively affects shariah compliance. *SSBFIN* returns

are -1.390248, and the probability is 0.1742. The probability score is greater than 0.1 and indicates that *SSBFIN* does not affect shariah compliance. *SSBEXP* produces a coefficient of 0.023383 and a probability of 0.5548. The probability score is greater than 0.1 and indicates that *SSBEXP* does not

affect shariah compliance. *SSBSYA* produces a coefficient score of -1.779872 and a probability of 0.0860. The probability value is < 0.1 and decides to reject  $H_0$  and indicates that *SSBSYA* has a negative effect on shariah compliance.

**Table 3.** Regression panel data

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>T-statistic</i>	<i>Prob.</i>
<i>SSBSIZE</i>	1.445453	0.294601	4.906481	0.0000***
<i>SSBFIN</i>	-1.390248	1.010898	-1.375260	0.1742
<i>SSBEXP</i>	0.023383	0.039372	0.593907	0.5548
<i>SSBSYA</i>	-1.779872	1.019755	-1.745392	0.0860*
<i>BODINDEX</i>	0.039204	0.354375	0.110630	0.9123
<i>FTA</i>	0.001004	0.000330	3.045533	0.0034***
<i>LEV</i>	-0.001133	0.003504	-0.323452	0.7475
<i>LNASSET</i>	0.646531	0.234758	2.754028	0.0078***
<i>C</i>	-12.99988	6.719899	-1.934535	0.0578*

Note: \*\*\*, \*\*, \* significant at 1%, 5%, and 10%, respectively.

### 4.3. Additional test

In this subsection, we summarize the four attributes of SSB by developing the SSB index indicator. We give a score of 1 if the bank has each SSB attribute greater than the average attribute score of the entire sample and vice versa, a score of zero. The scores of the four SSB attributes are calculated as the SSB

index as a proxy for SSB diversity. This method was also used by Khan and Zahid (2020), Aljughaiman and Salama (2019), and Mollah, Hassan, Al Farooque, and Mobarek (2017). The results of the Hausman test produce the value of the chi-square statistic is 1.7253 with a probability of 0.8857. The results of the Hausman test recommend the random-effect model to analyze the data.

**Table 4.** Additional test

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>T-statistic</i>	<i>Prob.</i>
<i>SSBINDEX</i>	3.752533	1.430133	2.623904	0.0104**
<i>BODINDEX</i>	0.117781	0.911131	0.129269	0.8975
<i>FTA</i>	0.001529	0.000530	2.886938	0.0050***
<i>LEV</i>	0.006159	0.006632	0.928631	0.3559
<i>LNASSETS</i>	0.908131	0.276584	3.283384	0.0015***
<i>C</i>	-9.555274	8.133787	-1.174763	0.2436

Note: \*\*\*, \*\*, \* significant at 1%, 5%, and 10%, respectively.

Table 4 shows that the SSB index positively affects compliance with shariah rules and principles (Bukair & Abdul-Rahman, 2013). These results confirm the role of SSB in shariah compliance. SSB encourages IBs to spend part of the income received as zakat and channel it to social activities. These results strengthen the findings of Mukhibad et al. (2017) that corporate governance improves the performance of bank zakat. SSB is one of the unique boards in the corporate governance structure of IBs and encourages IBs to comply with shariah.

## 5. DISCUSSION

Table 3 shows that the number of SSB members positively influences the risk of shariah compliance. This result is different from the findings of Mukhibad and Setiawan (2020), which found that the number of SSB members does not influence the distribution of zakat. IBs with many SSBs allow IBs to choose SSB members with various backgrounds (Hamza, 2016). In doing so, the IB can carry out this diversity of expertise, education level, experience, expertise, gender, age, and other backgrounds to provide consideration in making business decisions so that it impacts improving the quality of SSB decisions. For example, in making business decisions to distribute zakat, SSB members need considerations from the shariah aspect, and economic

reasoning, customer trust, and regulations. So that this SSB diversity will increase business decisions (Mukhibad & Anisykurlillah, 2020). The results of this study indicate that IBs who have a high number of SSB members will advise the director to pay corporate zakat, collect professional zakat for employees, and zakat from customers, then distribute zakat according to shariah rules.

We find that SSB's expertise in finance/banking does not affect shariah compliance. OJK and AAOIFI have suggested that IBs have SSB with expertise in finance/banking as a complement to SSB expertise in sharia. This expertise is essential because the task of SSB is involved in making bank business decisions in the form of evaluating the conformity of shariah on bank products. So, SSB requires expertise in sharia, finance/banking (Khalid et al., 2018; Isa & Lee, 2020; Najwa et al., 2019; Mukhibad & Anisykurlillah, 2020). However, SSB's expertise in finance/banking did not direct the directors to increase the zakat distributed by banks. There is an allegation that the financial/banking background is more directed at making policies that can improve the economic performance of the bank, and the zakat distributed by IBs does not have an economic impact on the bank (Mukhibad, Anisykurlillah, Nurkhin, & Jayanto, 2019). Moreover, Mukhibad et al. (2019) found that zakat expenditure had no impact on return on assets and return on equity.

This study found that SSB's expertise in finance/banking did not influence shariah compliance. OJK and AAOIFI have suggested to IBs to have SSB with expertise in finance/banking as a complement to SSB expertise in shariah. This expertise is important because the task of SSB is involved in making bank business decisions in the form of evaluating shariah compliance for products developed by banks, and the task requires expertise in shariah and finance/banking (Khalid et al., 2018; Isa & Lee, 2020; Najwa et al., 2019; Mukhibad & Anisykurlillah, 2020). However, SSB's expertise in finance/banking did not direct the directors to increase the zakat distributed by banks. There are possibilities that the financial/banking background is more directed at making policies that can improve the economic performance of banks. Zakat distributed by IB does not have an economic impact on the bank (Mukhibad et al., 2019).

The educational background of SSB in the field of shariah is proven to have a negative influence on shariah compliance as proxied by zakat expenditure. This means that SSB with Islamic education background has a negative impact on bank policies to distribute zakat. This is because the Indonesian Ulama Council (*Majelis Ulama Indonesia* — MUI) has not issued a fatwa that requires IBs to issue part of their income as zakat. Zakat has been mentioned in the Quran in 24 verses (Darussalam & Zulfiqar, 2014) and is evidence of Muslim concern for poverty (Salleh, 2017). However, scholars have not classified IB as muzakki who are obliged to pay zakat. This is corroborated by the existence of Bukopin Syariah and Maybank Syariah, which do not publish reports on sources and uses of zakat funds.

SSB experience is not proven to influence shariah compliance. These results corroborate the findings Anisykurlillah et al. (2020), which found that SSB tenure has no effect on fraud prohibited in Islam. This finding contradicts the experience hypothesis theory, which reveals that the involvement of SSB in bank operations in the long term will increase experience, commitment, competence, and expertise. Furthermore, this competence has an impact on improving the quality of SSB outcomes, increasing bank performance, and increasing shariah compliance. The involvement of SSB in bank operations will provide important knowledge about

the company and its business environment (Kor & Sundaramurthy, 2009; Vafeas, 2003). This knowledge and experience are essential for SSB in making strategic bank policies. However, the involvement of SSB does not encourage IBs to increase zakat expenditure.

## 6. CONCLUSION

In general, this study shows that SSB positively influences shariah compliance. However, when viewed from each SSB attribute indicator, the number of SSB members positively influences shariah compliance. SSB's educational background in shariah negatively influences shariah compliance. SSB's experience and expertise in finance/banking do not affect shariah compliance. However, in general, SSB has been shown to have a positive impact on shariah compliance.

The contribution of this research is that SSB should encourage directors to take bank policies to pay zakat for banks, employees, and customers and distribute zakat funds to charities. The activity of collecting and distributing zakat is proof that the IB carries out social functions as a complement to commercial activities. The IB is advised to appoint SSB members who have competencies that can support the bank's performance, and it is necessary to evaluate the performance of the SSB. This action is to increase the effectiveness of SSB in carrying out its duties. Regulators need to encourage IBs to carry out their social functions by increasing zakat collection and distribution activities.

This study develops a measuring instrument for shariah compliance as measured by the distribution of zakat. Although no fatwa obliges IB to pay zakat, shariah compliance measurement tools must still be developed. Paying zakat is proof of IB's involvement in reducing poverty and contributing to the development of the people's economy, which is emphasized in the Qur'an. Other researchers can develop other zakat compliance proxies to complement this research.

The limitation of this study is that it uses one indicator (zakat compliance) to measure shariah compliance. Further study can develop and use several indicators that can explain shariah compliance in Islamic banks.

## REFERENCES

1. Abdullahi, S. I. (2019). Zakah as tool for social cause marketing and corporate charity: A conceptual study. *Journal of Islamic Marketing*, 10(1), 191–207. <https://doi.org/10.1108/JIMA-03-2017-0025>
2. Al Rahahleh, N., Bhatti, I. M., & Misman, F. N. (2019). Developments in risk management in Islamic finance: A review. *Journal of Risk and Financial Management*, 12(1), 37. <https://doi.org/10.3390/jrfm12010037>
3. Alabbad, A., Hassan, M. K., & Saba, I. (2019). Can Shariah board characteristics influence risk-taking behavior of Islamic banks? *International Journal of Islamic and Middle Eastern Finance and Management*, 12(4), 469–488. <https://doi.org/10.1108/IMEFM-11-2018-0403>
4. Alhammadi, S., Archer, S., Padgett, C., & Karim, R. A. A. (2018). Perspective of corporate governance and ethical issues with profit sharing investment accounts in Islamic banks. *Journal of Financial Regulation and Compliance*, 26(3), 406–424. <https://doi.org/10.1108/JFRC-01-2017-0014>
5. Ali, M., & Raza, S. A. (2017). Service quality perception and customer satisfaction in Islamic banks of Pakistan: The modified SERVQUAL model. *Total Quality Management and Business Excellence*, 28(5–6), 559–577. <https://doi.org/10.1080/14783363.2015.1100517>
6. Aljughaiman, A. A., & Salama, A. (2019). Do banks effectively manage their risks? The role of risk governance in the MENA region. *Journal of Accounting and Public Policy*, 38(5), 106680. <https://doi.org/10.1016/j.jaccpubpol.2019.106680>
7. Alman, M. (2012). Shari'ah supervisory board composition effects on Islamic banks' risk-taking behavior. *Journal of Banking Regulation*, 14, 134–163. <https://doi.org/10.2139/ssrn.2140042>

8. Almutairi, A. R., & Quttainah, M. A. (2017). Corporate governance: Evidence from Islamic banks. *Social Responsibility Journal*, 13(3), 601-624. <https://doi.org/10.1108/SRJ-05-2016-0061>
9. Alnasser, S. A. S., & Muhammed, J. (2012). Introduction to corporate governance from Islamic perspective. *Humanomics*, 28(3), 220-231. <https://doi.org/10.1108/08288661211258110>
10. Anisykurlillah, I., Jayanto, P. Y., Mukhibad, H., & Widyastuti, U. (2020). Examining the role of sharia supervisory board attributes in reducing financial statement fraud by Islamic banks. *Banks and Bank Systems*, 15(3), 106-116. [https://doi.org/10.21511/bbs.15\(3\).2020.10](https://doi.org/10.21511/bbs.15(3).2020.10)
11. Anouze, A. L. M., Alamro, A. S., & Awwad, A. S. (2019). Customer satisfaction and its measurement in Islamic banking sector: A revisit and update. *Journal of Islamic Marketing*, 10(2), 565-588. <https://doi.org/10.1108/JIMA-07-2017-0080>
12. Ariffin, N. M., Archer, S., & Karim, R. A. A. (2009). Risks in Islamic banks: Evidence from empirical research. *Journal of Banking Regulation*, 10(2), 153-163. <https://doi.org/10.1057/jbr.2008.27>
13. Ayuniyyah, Q., Pramanik, A. H., Saad, N. M., & Ariffin, M. I. (2018). Zakat for poverty alleviation and income inequality reduction. *Journal of Islamic Monetary Economics and Finance*, 4(1), 85-100. <https://doi.org/10.21098/jimf.v4i1.767>
14. Baklouti, I. (2022). Is the Sharia supervisory board a friend or an enemy of Islamic banks? *Journal of Islamic Marketing*, 13(2), 526-541. <https://doi.org/10.1108/JIMA-04-2020-0118>
15. Basiruddin, R., & Ahmed, H. (2020). Corporate governance and Shariah non-compliant risk in Islamic banks: Evidence from Southeast Asia. *Corporate Governance*, 20(2), 240-262. <https://doi.org/10.1108/CG-05-2019-0138>
16. Baydoun, N., Sulaiman, M., Ibrahim, S., & Willett, R. (2018). *Principles of Islamic accounting*. John Wiley & Sons. <https://doi.org/10.1002/97811194444480>
17. Beck, T., Demirgüç-Kunt, A., & Merrouche, O. (2013). Islamic vs. conventional banking: Business model, efficiency and stability. *Journal of Banking and Finance*, 37(2), 433-447. <https://doi.org/10.1016/j.jbankfin.2012.09.016>
18. Ben Abdallah, M., & Bahloul, S. (2021). Disclosure, Shariah governance and financial performance in Islamic banks. *Asian Journal of Economics and Banking*, 5(3), 234-254. <https://doi.org/10.1108/ajeb-03-2021-0038>
19. Bukair, A. A., & Abdul-Rahman, A. (2013). The influence of the Shariah supervision board on corporate social responsibility disclosure by Islamic banks of Gulf Co-operation Council countries. *Asian Journal of Business and Accounting*, 6(2), 65-104. <https://doi.org/10.5296/jmr.v7i2.6989>
20. Dar, H. A., & Presley, J. R. (2000). Lack of profit loss sharing in Islamic banking: Management and control imbalances. *International Journal of Islamic Financial Services*, 2(2), 9-12. Retrieved from [https://www.academia.edu/6345958/Lack\\_of\\_Profit\\_Loss\\_Sharing\\_in\\_Islamic\\_Banking\\_Management\\_and\\_Control\\_Imbalances](https://www.academia.edu/6345958/Lack_of_Profit_Loss_Sharing_in_Islamic_Banking_Management_and_Control_Imbalances)
21. Darussalam, & Zulfiqar, M. (2014). *Zakah according to the Quran & Sunnah*. Riyadh, Saudi Arabia: Darussalam Publishers.
22. Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, 14(1), 57-74. <https://doi.org/10.5465/amr.1989.4279003>
23. Elamer, A. A., Ntim, C. G., Abdou, H. A., Owusu, A., Elmagrhi, M., & Ibrahim, A. E. A. (2020). Are bank risk disclosures informative? Evidence from debt markets. *International Journal of Finance and Economics*, 26(1), 1-28. <https://doi.org/10.1002/ijfe.1849>
24. Farag, H., Mallin, C., & Ow-Yong, K. (2018). Corporate governance in Islamic banks: New insights for dual board structure and agency relationships. *Journal of International Financial Markets, Institutions & Money*, 54, 59-77. <https://doi.org/10.1016/j.intfin.2017.08.002>
25. Furqani, H., Mulyany, R., & Yunus, F. (2018). Zakat for economic empowerment of the poor in Indonesia: Models and implications. *Iqtishadia*, 11(2), 392-411. <https://doi.org/10.21043/iqtishadia.v11i2.3973>
26. Ghayad, R. (2008). Corporate governance and the global performance of Islamic banks. *Humanomics*, 24(3), 207-216. <https://doi.org/10.1108/08288660810899368>
27. Grassa, R., & Chakroun, R. (2016). Ownership structure, board's characteristics and corporate governance disclosure in GCC banks: What about Islamic banks? *International Journal of Accounting, Auditing and Performance Evaluation*, 12(4), 360-395. <https://doi.org/10.1504/IJAPE.2016.079862>
28. Hamza, H. (2016). Does investment deposit return in Islamic banks reflect PLS principle? *Borsa Istanbul Review*, 16(1), 32-42. <https://doi.org/10.1016/j.bir.2015.12.001>
29. Hanefah, M. M., Kamaruddin, M. I. H., Salleh, S., Shafii, Z., & Zakaria, N. (2020). Internal control, risk and Shari'ah non-compliant income in Islamic financial institutions. *ISRA International Journal of Islamic Finance*, 12(3), 401-417. <https://doi.org/10.1108/IJIF-02-2019-0025>
30. Hassan, M. K., & Lewis, M. K. (2007). *Handbook of Islamic banking*. Edward Elgar. Retrieved from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.918.3122&rep=rep1&type=pdf>
31. Hillman, A. J., & Dalziel, T. (2003). Boards of directors and firm performance: Integrating agency and resource dependence perspectives. *The Academy of Management Review*, 28(3), 383-396. <https://doi.org/10.2307/30040728>
32. Hoque, N., Khan, M. A., & Mohammad, K. D. (2015). Poverty alleviation by Zakah in a transitional economy: A small business entrepreneurial framework. *Journal of Global Entrepreneurship Research*, 5(1), 7. <https://doi.org/10.1186/s40497-015-0025-8>
33. Injas, M. M. Y., Haron, M. S., Ramli, R., & Injas, R. A. (2016). The importance of the Shari'ah Supervisory Boards (SSBS) in the Islamic banking system. *South East Asia Journal of Contemporary Business, Economics and Law*, 9(2), 25-31. Retrieved from [http://www.seajbel.com/wp-content/uploads/2016/05/K9\\_65.pdf](http://www.seajbel.com/wp-content/uploads/2016/05/K9_65.pdf)
34. Isa, M., & Lee, S. P. (2020). Does the Shariah committee influence risk-taking and performance of Islamic banks in Malaysia? *Journal of Islamic Accounting and Business Research*, 11(9), 1759-0817. <https://doi.org/10.1108/JIABR-12-2018-0207>
35. Khalid, A. A., Haron, H., Sarea, A. M., & Masron, T. A. (2018). The role of shariah supervisory board on internal Shariah audit effectiveness: Evidence from Bahrain. *Academy of Accounting and Financial Studies Journal*, 22(5), 1-15. Retrieved from [https://www.researchgate.net/publication/327721510\\_The\\_role\\_of\\_shariah\\_supervisory\\_board\\_on\\_internal\\_Shariah\\_audit\\_effectiveness\\_Evidence\\_from\\_Bahrain](https://www.researchgate.net/publication/327721510_The_role_of_shariah_supervisory_board_on_internal_Shariah_audit_effectiveness_Evidence_from_Bahrain)
36. Khan, I., & Zahid, S. N. (2020). The impact of Shari'ah and corporate governance on Islamic banks performance: evidence from Asia. *International Journal of Islamic and Middle Eastern Finance and Management*, 13(3), 483-501. <https://doi.org/10.1108/IMEFM-01-2019-0003>

37. Kimberly, J. R., & Evanisko, M. J. (1981). Organizational innovation: The influence of individual, organizational, and contextual factors on hospital adoption of technological and administrative innovations. *Academy of Management Journal*, 24(4), 689-713. <https://doi.org/10.5465/256170>
38. Kor, Y. Y., & Sundaramurthy, C. (2009). Experience-based human capital and social capital of outside directors. *Journal of Management*, 35(4), 981-1006. <https://doi.org/10.1177/0149206308321551>
39. Mahmood, A., & Rahman, M. A. U. (2017). PLS — A true alternative to interest-based banking: Reality or a myth? *Journal of Finance and Bank Management*, 5(2), 32-39. <https://doi.org/10.15640/jfbm.v5n2a3>
40. Meslier, C., Risfandy, T., & Tarazi, A. (2020). Islamic banks' equity financing, Shariah supervisory board, and banking environments. *Pacific Basin Finance Journal*, 62, 101354. <https://doi.org/10.1016/j.pacfin.2020.101354>
41. Mollah, S., & Zaman, M. (2015). Shari'ah supervision, corporate governance and performance: Conventional vs. Islamic banks. *Journal of Banking & Finance*, 58, 418-435. <https://doi.org/10.1016/j.jbankfin.2015.04.030>
42. Mollah, S., Hassan, M. K., Al Farooque, O., & Mobarek, A. (2017). The governance, risk-taking, and performance of Islamic banks. *Journal of Financial Services Research*, 51, 195-219. <https://doi.org/https://doi.org/10.1007/s10693-016-0245-2>
43. Mukhibad, H., & Anisykurlillah, I. (2020). Evaluation study: Does the Sharia supervisory board have a direct effect on profitability? *Muqtasid: Jurnal Ekonomi Dan Perbankan Syariah*, 11(1), 55-69. <https://doi.org/10.18326/muqtasid.v11i1.55-69>
44. Mukhibad, H., & Setiawan, D. (2020). Could risk, corporate governance, and corporate ethics enhance social performance? Evidence from Islamic banks in Indonesia. *Indian Journal of Finance*, 14(4), 24-38. <https://doi.org/10.17010/ijf/2020/v14i4/151706>
45. Mukhibad, H., Anisykurlillah, I., Nurkhin, A., & Jayanto, P. Y. (2019). Can social performance improve financial performance and increase customers' trust? *International Journal of Financial Research*, 10(4), 37. <https://doi.org/10.5430/ijfr.v10n4p37>
46. Mukhibad, H., Kiswanto, & Jayanto, P. Y. (2017). An analysis on financial and social performance of Islamic banks in Indonesia. *International Journal of Monetary Economics and Finance*, 10(3-4) 295-308. <https://doi.org/10.1504/IJMEF.2017.087479>
47. Najwa, N. A., Ramly, Z., & Haron, R. (2019). Board size, chief risk officer and risk-taking in Islamic banks: Role of Shariah supervisory board. *Jurnal Pengurusan*, 57, 3-21. <https://doi.org/10.17576/pengurusan-2019-57-01>
48. Nomran, N. M., & Haron, R. (2019). Dual board governance structure and multi-bank performance: A comparative analysis between Islamic banks in Southeast Asia and GCC countries. *Corporate Governance*, 19(6), 1377-1402. <https://doi.org/10.1108/CG-10-2018-0329>
49. Nomran, N. M., Haron, R., & Hassan, R. (2018). Shari'ah supervisory board characteristics effects on Islamic banks' performance: Evidence from Malaysia. *International Journal of Bank Marketing*, 36(2), 290-304. <https://doi.org/10.1108/IJBM-12-2016-0197>
50. Omar, H. N., & Hassan, R. (2019). Shariah non-compliance treatment in Malaysian Islamic banks. *International Journal of Management and Applied Research*, 6(4), 220-233. <https://doi.org/https://doi.org/10.18646/2056.64.19-016>
51. Otoritas Jasa Keuangan (OJK). (2016). *Peraturan Otoritas Jasa Keuangan Nomor 65 /POJK.03/2016 Tentang Penerapan Manajemen Risiko Bagi Bank Umum Syariah*. Jakarta: Indonesia Governance. Retrieved from <https://www.ojk.go.id/id/regulasi/Documents/Pages/POJK-tentang-Penerapan-Manajemen-Risiko-bagi-Bank-Umum-Syariah-dan-Unit-Usaha-Syariah/pojk%2065-2016.pdf>
52. Rosman, R., Che Azmi, A., & Amin, S. N. (2017). Disclosure of Shari'ah non-compliance income by Islamic banks in Malaysia and Bahrain. *International Journal of Business and Society*, 18(S1), 45-58. Retrieved from <http://www.ijbs.unimas.my/images/repository/pdf/Vol18-S1-paper3.pdf>
53. Safiullah, M., & Shamsuddin, A. (2018). Risk in Islamic banking and corporate governance. *Pacific-Basin Finance Journal*, 47, 129-149. <https://doi.org/10.1016/j.pacfin.2017.12.008>
54. Salleh, M. S. (2017). Contemporary vision of poverty and Islamic strategy for poverty alleviation. *SAGE Open*, 7(2), 1-8. <https://doi.org/10.1177/2158244017697153>
55. Saqib, L., Farooq, M. A., & Zafar, A. M. (2016). Customer perception regarding Sharia'h compliance of Islamic banking sector of Pakistan. *Journal of Islamic Accounting and Business Research*, 7(4), 282-303. <https://doi.org/10.1108/JIABR-08-2013-0031>
56. Šeho, M., Bacha, O. I., & Smolo, E. (2020). The effects of interest rate on Islamic bank financing instruments: Cross-country evidence from dual-banking systems. *Pacific-Basin Finance Journal*, 62, 101292. <https://doi.org/10.1016/J.PACFIN.2020.101292>
57. Sulaeman, Majid, R., & Widiastuti, T. (2021). The impact of zakat on socio-economic welfare before COVID-19 pandemic in Indonesia: A quantitative study. *International Journal of Zakat*, 6(2), 75-90. Retrieved from <https://ijazbaznas.com/index.php/journal/article/download/301/109/>
58. Vafeas, N. (2003). Length of board tenure and outside director independence. *Journal of Business Finance & Accounting*, 30(7-8), 1043-1064. <https://doi.org/https://doi.org/10.1111/1468-5957.05525>
59. Zeineb, G. B., & Mensi, S. (2018). Corporate governance, risk and efficiency: Evidence from GCC Islamic banks. *Managerial Finance*, 44(5), 551-569. <https://doi.org/10.1108/MF-05-2017-0186>