# Exploring the Nexus of Disclosure of Sharia Compliance and Governance in Islamic Banking: A Comprehensive Analysis of the Sharia Supervisory Board

**Arifah[1] and Ataina Hudayati[2♣]**
*[1]Department of Sharia Economics, STAI Darul Ulum, South Kalimantan, Indonesia*
*[2]Economics Faculty, Universitas Islam Indonesia, Yogyakarta, Indonesia*

## ABSTRACT

This research provides an in-depth examination of the crucial connection between Sharia Supervisory Boards (SSB) and Sharia Compliance Disclosure (SCD) in the context of Indonesian Islamic banks. Using secondary data from the years 2014 to 2019, sourced from a selection of Islamic Banks, this research employed panel multiple regression analysis conducted using E-Views software. The findings of this investigation yielded remarkable insights. Firstly, it was demonstrated that the expertise of SSB members played a pivotal role in significantly and positively influencing the extent of SCD. Conversely, the size and education of SSB members exerted a significant and negative influence on SCD. Intriguingly, the study revealed that SSB's meetings and SSB's cross-directorship did not have any impact on SCD. These findings hold profound implications for the strategic selection and composition of SSB, highlighting the paramount importance of expertise in driving robust SCD practices within Islamic Banks. In this way, this research advances our understanding of SSB dynamics and their impact on financial transparency, contributing valuable insights to the global discourse on Islamic finance.

**Keywords**: Attributes of Sharia Supervisory Board, Sharia Compliance Disclosure, Islamic Banks.

---

ARTICLE INFO

**Article History**:
*Received: 01 October 2023*
*Accepted: 30 October 2023*
*Available online: 01 December 2023*

♣ Corresponding Author: Ataina Hudayati; Economics Faculty, Universitas Islam Indonesia, Yogyakarta, Indonesia; Email: ataina.hudayati@uii.ac.id; Tel: +62 274 (881546)

## INTRODUCTION

Islamic banks, guided by Sharia principles, place immense importance on Sharia compliance, as noted by scholars like Segarawasesa (2021). Sharia represents a comprehensive framework of principles, regulations, and laws designed to promote human progress under divine guidance, serve the interests of humanity, both in this life and the hereafter, and enhance and perfect life, encompassing legal, political, social, and economic aspects, including the domain of Islamic banking (Alam et al., 2015; Alam et al., 2017). Sharia's scope extends beyond Muslims to encompass all of humanity.

In the context of Islamic banking regulations in Indonesia (OJK, 2023), adherence to Sharia principles constitutes an integral component of Good Corporate Governance (GCG). Beyond Sharia compliance, GCG comprises other pivotal elements, such as transparency, accountability, responsibility, and fairness. Consistent with these principles of GCG, Islamic banks engage in the Sharia Compliance Disclosure (SCD). SCD emphasizes the publication of reports that uphold Sharia ethics and morals (Aribi et al., 2019). The Sharia Supervisory Board (SSB) stands as one of the most critical governance mechanisms, ensuring that business activities align with Sharia principles (Segarawasesa, 2021).

A growing body of research has examined the complex relationship characteristics between Sharia Supervisory Board (SSB) and the practice of Sharia Compliance Disclosure (SCD) within Islamic banks. Notably, these studies have produced a varied array of findings, with some highlighting the positive impact of specific SSB attributes on disclosure practices (El-Halaby & Hussainey, 2016; Meutia et al., 2019), while others have reported divergent results (Fakhruddin & Jusoh, 2018; Nugraheni & Khasanah, 2019). These disparities in research outcomes underscore the necessity for a more comprehensive and more critical study in this area.

This current study embarked on an exploration of the multifaceted dimensions of SSB characteristics, aiming to address the incongruities that have arisen in prior research. Encompassing variables such as SSB size, educational qualifications, expertise, frequency of meetings, and cross-directorship, this research seeks to shed light on the intricate interplay between these attributes and the SCD within the context of Indonesian Islamic banking. In brief, the primary objective of this study was to conduct a thorough analysis of the impact of SSB attributes on Sharia Compliance Disclosure (SCD) in Islamic banks, aiming to contribute to a deeper understanding of the intricate dynamics within this pivotal facet of Islamic finance.

This study makes a significant contribution in multiple dimensions. Firstly, it conducted a rigorous examination of various Sharia Supervisory Board (SSB) characteristics, broadening the scope beyond previous research. While earlier studies, such as Fakhruddin and Jusoh (2018) focused on factors like cross-membership, experience, and meeting frequency within SSBs, Dahlifah and Sunarsih (2020) concentrated on cross-membership and SSB size, and Fakhruddin et al. (2021) explored SSB qualifications and experience, this research encompassed a more extensive range of SSB characteristics, including size, educational background, expertise, meeting frequency, and cross-directorship.

Secondly, it employed a comprehensive Sharia Compliance Disclosure (SCD) measurement approach, surpassing previous studies in breadth and depth. While El-Halaby and Hussainey (2016) provided a three-element measurement framework for SCD, covering dimensions related to the SSB, Corporate Social Responsibility, and financial statement presentation, this study enhanced the assessment by incorporating the ethical dimension introduced by Rehman et al. (2020). Furthermore, it utilized a comprehensive SCD measurement index consisting of 55 items across four dimensions, setting it apart from earlier research endeavors. This thorough measurement instrument facilitates a more in-depth evaluation of SCD, offering a clearer understanding of transparency and compliance levels within the sampled banks. In summary, this study not only widens the investigative horizon by scrutinizing diverse SSB characteristics but also adopts a robust and extensive SCD measurement framework. Consequently, it enriches the scholarly discourse in the field and provides valuable insights for practitioners, policymakers, and future researchers striving to enhance SCD practices within the context of Islamic banking.

The research contributions concerning the enhanced evaluation of SSB attributes' effectiveness can guide authorities in the selection of SSB members. Additionally, the insights into measuring Shariah Compliance Disclosure (SCD) may prove valuable for researchers and academics conducting future studies.

## LITERATURE REVIEW

### The Agency Theory and Corporate Governance

The Agency Theory is a fundamental framework in corporate governance literature, addressing the inherent conflicts of interest between principals (shareholders or owners) and agents (managers) within organizations (Jensen & Meckling, 1976; Ross, 1973). This theory posits that the delegation of decision-making authority from principals to agents may result in agency problems due to the agents' tendency to prioritize their self-interest over the interests of shareholders (Darussamin et al., 2018). In response to these conflicts, mechanisms such as disclosure are employed to align the interests of principals and agents.

In this study, the Agency Theory was applied to explain the beneficial impact of all attributes of the Sharia Supervisory Board (SSB) on the Disclosure of Sharia Compliance. Elevating the quality of SSB results in an enhanced level of Sharia Compliance Disclosure. According to the Agency Theory, it is posited that differences in information availability between agents (managers) and principals (investors) incentivize managers to engage in actions that may be detrimental to the interests of the principals. To mitigate such information disparities, a monitoring mechanism was employed, which includes both governance, represented in this research by the Sharia Supervisory Board, and disclosure, described in this study by the SSB.

### Disclosure as a Monitoring Mechanism

Disclosure plays a pivotal role as a monitoring mechanism within the Agency Theory framework. It is viewed as a means to mitigate agency conflicts by providing shareholders and stakeholders with transparent information about corporate activities, particularly managerial decisions and financial performance (Darussamin et al., 2018). The effectiveness of disclosure mechanisms can significantly influence the degree to which agency conflicts are resolved, as it empowers shareholders to assess managerial actions and make informed investment decisions.

## Sharia Compliance Disclosure in Islamic Banking

In the context of Islamic banking, Sharia Compliance Disclosure assumes paramount importance. Islamic banks operate under the ethical and moral framework of Sharia principles, necessitating strict adherence to Sharia standards and guidelines (Segarawasesa, 2021). Disclosure of Sharia Compliance is a primary means through which Islamic banks convey their commitment to adhering to Sharia principles and ensuring transparency to their stakeholders (Dahlifah & Sunarsih, 2020). It serves as a manifestation of ethical practices and compliance, providing assurance to shareholders, depositors, and the wider community.

## Sharia Supervisory Board

The Sharia Supervisory Board is a key governance mechanism within Islamic banks, entrusted with the responsibility of ensuring Sharia compliance in all aspects of banking operations (OJK, 2022). The role of the SSB in overseeing and advising on Sharia compliance is crucial to maintaining the ethical integrity of Islamic banking. Building upon previous research, this study investigated a broader range of SSB attributes, encompassing factors such as size, educational background, expertise, meeting frequency, and cross-directorship as explored in studies by Fakhruddin and Jusoh (2018); Dahlifah and Sunarsih (2020) and Fakhruddin et al. (2021).

## Hypothesis Development

*H1: The size of SSB positively impacts Sharia Compliance Disclosure.*

Larger SSBs, consisting of a greater number of members, are anticipated to have a more pronounced impact on the Disclosure of Sharia Compliance. This hypothesis aligns with the Agency Theory perspective, as a larger SSB is expected to bring diverse expertise and experience to bear on the monitoring and assurance of Sharia compliance within Islamic banks. Extensive empirical research (El-Halaby & Hussainey, 2016; Mukhibad, 2018; Rostiani & Sukanta, 2018; Nugraheni & Khasanah, 2019; Dahlifah & Sunarsih, 2020; Andraeny, 2021) suggests that a larger SSB, composed of more members, enhances the disclosure practices in Islamic banks. It is argued that a larger SSB brings in a larger pool of expertise and experience, leading to more effective monitoring of Sharia compliance and subsequently influencing the extent of disclosure (Farook et al., 2011). As a result, the presence of more SSB members was hypothesized to positively influence the extent of Sharia Compliance Disclosure.

*H2: The education level of SSB positively impacts Sharia Compliance Disclosure.*

The educational qualifications of SSB members are considered vital to their ability to provide insightful guidance on Sharia compliance and to advocate for comprehensive Disclosure of Sharia Compliance. In line with this, it was hypothesized that higher education levels among SSB members will lead to a more robust and effective oversight mechanism. Such members are expected to possess a deeper understanding of the importance of transparent disclosure practices, thereby positively influencing the extent of Sharia Compliance Disclosure. Research by Mukhibad (2018) supports this notion, indicating that the educational qualification of SSB members significantly impacts disclosure practices. It is argued that SSB members with higher levels of education, particularly those with doctoral degrees, possess analytical skills and professional capabilities that enable them to advocate for comprehensive disclosure, including Sharia compliance (Setiawan, 2020). This hypothesis reflects the belief that well-educated SSB members better understand the significance of transparent information presentation and compliance with Sharia principles, thereby promoting disclosure practices.

*H3: The expertise in SSB positively impacts Sharia Compliance Disclosure.*

Expertise is a critical attribute for SSB members, especially in fields such as finance, economics, and Islamic law. SSB members with greater expertise are expected to be more effective in evaluating and ensuring Sharia compliance within Islamic banks. It is hypothesized that the expertise of SSB members, particularly in areas directly relevant to Islamic banking and finance, will positively impact the Disclosure of Sharia Compliance. Numerous empirical investigations Muda, (2017); Mukhibad, (2018); Panjaitan and Sriwiyanti, (2020) and Fakhruddin et al., (2021) offer proof of the favorable impact of SSB expertise on disclosure behaviors. It is argued that SSB members with expertise in areas such as economics, banking, and

Islamic law are better equipped to evaluate and ensure Sharia compliance within Islamic banks, resulting in improved disclosure practices (Farook et al., 2011). This hypothesis reflects the belief that the specialized knowledge of SSB members contributes to the enhancement of bank performance, including Sharia Compliance Disclosure.

*H4: The meetings in SSB positively impact Sharia Compliance Disclosure.*

The frequency of SSB meetings was hypothesized to play a significant role in enhancing the oversight of Sharia compliance and encouraging greater Disclosure of Sharia Compliance. Frequent meetings provide SSB members with ample opportunities to deliberate on compliance-related matters and reinforce the importance of transparent disclosure. Consequently, more frequent SSB meetings are anticipated to positively influence the extent of Sharia Compliance Disclosure. Previous research by Meutia et al. (2019) suggests that active SSB meetings, even with a smaller number of SSB members, contributed positively to Sharia banks. Frequent meetings provided ample opportunities for the SSB to discuss Sharia Compliance topics and reinforce the importance of transparent disclosure practices. Increased meeting frequency enhanced the capacity of SSB to motivate managers for disclosing information pertinent to Sharia compliance. Regulation mandates regular meetings for SSB, emphasizing their role as deliberative forums for decision-making (OJK, 2022). Therefore, this hypothesis posited that increased frequency of SSB meetings positively influences the extent of Disclosure of Sharia Compliance.

*H5: The SSB's cross-directorship positively impacts Sharia Compliance Disclosure.*

SSB members holding concurrent positions in other financial institutions, known as cross-directorship, are expected to bring a wealth of experience and insights to their role within the SSB. This diversity of experience was hypothesized to positively impact the effectiveness of the SSB in ensuring Sharia compliance and promoting Disclosure of Sharia Compliance within Islamic banks. The fifth hypothesis suggested that SSB members holding concurrent positions in other Islamic financial institutions, known as cross-directorship, positively affect the Disclosure of Sharia Compliance. Studies conducted by El-Halaby and Hussainey (2016); Fakhruddin and Jusoh (2018) and Meutia et al. (2019) suggested that the occupancy of multiple positions by SSB members exerted a positive and noteworthy impact on disclosure practices, attributable to the enriched experience possessed by each SSB member. This hypothesis aligned with the belief that SSB members, through their experiences in other financial institutions, can bring valuable insights and perspectives to promote Sharia compliance and Disclosure of Sharia Compliance within Islamic banks.

## RESEARCH METHODOLOGY

### Data

The data utilized in this research was sourced from the Annual Reports of Islamic Banks operating in Indonesia for the period spanning from 2014 to 2019. Notably, among the 14 Islamic banks within the region, only nine banks possessed comprehensive datasets requisite for this investigation. The financial institutions under consideration included Bank Rakyat Indonesia Syariah, the National Sharia Pension Savings Bank, Muamalat Indonesia, and Maybank Sharia Indonesia, Bank Central Asia Syariah, Bukopin Syariah, Mega Syariah, Syariah Mandiri, and Bank National Indonesia Syariah.

The research only utilized data up to 2019, as of January 27, 2021, the three sharia banks under investigation, namely Bank Rakyat Indonesia Syariah, Bank Syariah Mandiri, and Bank Nasional Indonesia Syariah, merged to form Bank Syariah Indonesia in accordance with Indonesian Financial Services Authority Regulation No. SR-3/PB.1/2021. Furthermore, when the research was conducted, the financial report for the year 2020 had not yet been made available.

### Variable Development

The principal variable under scrutiny within this study was concerned with “Sharia Compliance Disclosure.” This variable was ascertained from the Annual Reports of Indonesian Islamic Banks and encompasses elements relating to the adherence of these banks to Sharia principles. The dimensions characterizing Sharia Compliance Disclosure in this research were rooted in the standards delineated by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). These dimensions, previously adopted by El-Halaby and Hussainey (2016), were expanded in the present study to encompass an additional facet related to ethical disclosure (Rehman et al., 2020), derived from AAOIFI accounting standards. In total, the framework comprised four dimensions that delineate Sharia Compliance Disclosure, encompassing a total of 55 constituent items. These dimensions are outlined as follows:

1. *Sharia Supervisory Board-Related Information (14 items)*: This dimension encapsulated data pertaining to the composition, functions, and activities of the Sharia Supervisory Board within Islamic banks.

2. *Corporate Social Responsibility (CSR) Disclosure (11 items)*: Within this dimension, the focus was on the disclosure of information concerning social responsibility endeavors and initiatives undertaken by Islamic banks.

3. *Financial Statement Presentation and Disc*losure *(16 items)*: This dimension revolved around the manner in which financial statements were presented and disclosed in the Annual Reports of Islamic banks.

4. *Ethical Disclosure (14 items)*: This novel dimension, introduced in this study, encompassed information pertaining to ethical practices and adherence to ethical standards as specified by AAOIFI accounting standards.

The methodology used to gauge the disclosed items in this investigation employed an unweighted approach, where items that were disclosed were assigned a value of 1, while items that were not disclosed received a value of 0. Subsequently, the sum of disclosed items was divided by the total number of Sharia Compliance Disclosure items, which encompassed a total of 55 items.

In terms of quantifying the independent variables, this research adopted measurement techniques informed by the studies of Cohen et al. (2014), Rifai and Asrori (2017), Nomran et al. (2018) and Elamer et al. (2019). The size of the Sharia Supervisory Board (SSB) was assessed based on the number of SSB members. Educational attainment within the SSB was assessed based on the educational qualifications achieved by individual SSB members (Score 1=undergraduate; 2=master degree; 3=doctoral degree). SSB expertise encompassed the specialized skills held by SSB members, contributing to their performance, including expertise in the financial sector, economics, and Sharia. SSB Member Meetings quantified the annual meeting activities conducted by SSB members. Cross-directorship signified a scenario where an SSB member held two or more positions in distinct companies.

## Analytical Methods

Concerning the analytical methods utilized in this research, EViews, a statistical software package, was employed for data processing. EViews was selected as the suitable statistical software for conducting the panel regression analysis implemented in this study. This study used panel regression to improve analytical methods uses by Fakhruddin and Jusoh (2018) and Fakhruddin et al. (2021). They used OLS regression.

Two crucial tests were conducted to determine the ideal model for panel regression in this study: the Chow test and the Hausman test. The Chow test indicated that the fixed effect model was more suitable than the common effect model (prob. chi-square cross-section was found to be 0.0040 less than 5%). Subsequently, the Hausman test further confirmed the superiority of the fixed effects model (random cross-section probability was 0.0019 less than 5%), solidifying its appropriateness for this analysis. Therefore, the fixed effects model was chosen for the regression analysis, rendering the Lagrange multiplier test unnecessary.

The regression equation implemented with the fixed effect model was as follows:

$$SCD_{it} = \alpha + \beta_1 \text{ Size}_{it} + \beta_2 \text{ Education}_{it} + \beta_3\text{Expertise}_{it} + \beta_4 \text{ Meetings}_{it} + \beta_5\text{Cross-directorship}_{it} + e_{it}$$

$\alpha$ = Constanta
$\beta$ = Coefficient regression
i = cross section

t = time series
e = error

## Statistic Descriptive

Table 1 provides an overview of the descriptive statistics for the research variables. The average score for Sharia Compliance Disclosure (SCD) stood at 85%, with a range between a high of 95% and a low of 71%. This data highlighted the relatively high level of SCD in Indonesian Sharia banking. On average, each Sharia bank boasted over 2 members on its Sharia Supervisory Board (SSB), ranging from a minimum of 1 member to a maximum of 3 members. Moreover, approximately 79.3% of Sharia banks had SSB members with backgrounds in finance, banking, and economics. The annual frequency of SSB meetings averaged more than 13 times, varying from a high of 26 meetings to a low of 6 meetings. Lastly, a significant 96.6% of SSB members held multiple positions, with dual positions ranging from 50% to 100%.

**Table 1: Statistic Descriptive**

| | Mean | Median | Max. | Min. | Std.Dev |
|---|---|---|---|---|---|
| Sharia Compliance Disclosure | 85% | 85% | 95% | 71% | 0.05 |
| SSB's size | 2.23 | 2 | 3 | 2 | 0.44 |
| SSB's education | 2.21 | 2.25 | 3 | 1 | 0.43 |
| SSB's expertise | 79.3% | 100% | 100% | 33% | 24% |
| SSB's meetings | 13.6 | 12 | 26 | 6 | 3.3 |
| SSB's coss-directorship | 96.6% | 100% | 100% | 50% | 12.2% |
| Observation | 54 | 54 | 54 | 54 | 54 |

Source: Processed Data

## Classic Assumption Test

Classical Assumption Tests were performed to evaluate several key assumptions for the regression model, including tests for normality, homoscedasticity, and multicollinearity. For the normality test, the Jarque-Bera statistic and a histogram-normality test in EViews were employed. The Jarque-Bera value was determined to be 3.126882, with a significance level of 0.209414, exceeding the standard threshold of 0.05. As a result, it was deduced that the regression model in this study successfully satisfied the normality test. To assess heteroscedasticity, the Glejser test was utilized. The Glejser test results indicated that none of the independent variables were statistically significant when regressed against the absolute value of the residuals. This observation suggested the absence of heteroscedasticity symptoms within the regression model. In terms of the multicollinearity test, it was found that the correlation coefficients between independent variables were all below 0.5, indicating the absence of multicollinearity symptoms among the independent variables in this study.

The model's goodness of fit was evaluated using an F-test. The computed F probability value was 0.005509, which is less than 0.01. This outcome indicated that the F statistic held statistical significance, thus confirming the suitability of the regression model for hypothesis testing.

# RESULT

## Hypothesis Testing

Hypothesis testing in this study relied on the outcomes of multiple linear regression tests, with a significance level set at 0.1 ($\alpha = 10\%$).

**Table 2: Regression Result (Fixed Effect Model)**

| Independent | Coeff. | Std.Error | t-Stat | Prob. |
|---|---|---|---|---|
| Constanta | 0.960089 | 0.104194 | 9.214445 | 0.0000 |
| SSB's size | -0.049675 | 0.028329 | -1.753508 | 0.0872* |
| SSB's education | -0.053906 | 0.023608 | -2.283362 | 0.0278** |
| SSB's expertise | 0.000858 | 0.000377 | 2.278679 | 0.0281** |
| SSB's meetings | 9.28E-05 | 0.002648 | 0.035056 | 0.9722 |
| SSB's coss-directorship | 0.000505 | 0.000638 | 0.791031 | 0.4336 |

Source: Processed Data. * significant at 10%; ** significant at 5%

## Analysis

The results as presented in Table 2 indicated a negative impact of size in SSB on Sharia Compliance Disclosure (SCD). This conclusion was substantiated by the significance level (sig.) for size in SSB, which stood at 0.0872, just below the 10% threshold, along with the associated coefficient was negative. In essence, this implied that an increase in the number of SSB members is associated with a slight decrease in Sharia Compliance Disclosure in Islamic banks. Interestingly, this outcome contradicted the initial prediction of Hypothesis 1, which posited a positive relationship between SSB size and Sharia Compliance Disclosure. Therefore, Hypothesis 1 was not supported, and the findings suggested that a larger SSB size was linked to reduced Sharia Compliance Disclosure.

As is the case on the influence of SSB's size on Sharia Compliance Disclosure (SCD), the findings of the study also showed that education in SSB had a negative effect on SCD. This was supported by the significance level (sig.) for education in SSB, which was 0.0278, below the 10% threshold, and the coefficient was negative. Essentially, this suggested that a rise in the educational qualifications of SSB members was correlated with a reduction in the dissemination of Sharia compliance information. Consequently, Hypothesis 2 was not supported, and the findings suggested that higher education levels among SSB members were associated with lower levels of Sharia Compliance Disclosure.

As shown in Table 2, the sig. value for expertise in SSB was 0.0281, below 10%, with a coefficient which was positive. This supported Hypothesis 3, indicating that expertise in SSB had a positive and significant impact on Sharia Compliance Disclosure. In other words, Hypothesis 3 was supported.

Regarding the fourth hypothesis, the coefficient for meetings in SSB was 9.28E-05, and p value was 0.9722. This indicated that meetings in SSB's had a positive but statistically insignificant impact on Sharia Compliance Disclosure. As a result, Hypothesis 4 was not accepted, and the outcomes indicated that the frequency of meetings in SSBdid not exert a significant influence on Sharia Compliance Disclosure. Finally, as is the case in meetings in SSB, the coefficient value of SSB's cross-directorship was also very small and not significant, indicating that SSB's cross-directorship had no effect on SCD.

# DISCUSSION

## Size of SSB and SCD

The first hypothesis examined in this research proposed that SSB size would positively affect SCD. However, the findings revealed that while SSB size had a significant effect, its direction was contrary to the initial prediction. The results indicated that a larger SSB size was associated with a reduction in Sharia compliance disclosure. This unexpected outcome could be attributed to the potential for disagreements among a larger number of SSB members regarding the extent of Sharia Compliance Disclosure that Islamic banks should publish. This finding suggested that Islamic banks should exercise caution when determining the size of their SSB. Another plausible explanation for this unexpected result could be that SSB members primarily focussed on ensuring that bank products and operational activities aligned with Sharia principles, with disclosure of activities being of secondary importance. Consequently, the results of this study did not align with Agency Theory, as the presence of SSBs did not seem to be effective in advising managers to make disclosures in order to prevent agency conflicts.

These results were inconsistent with previous research conducted by Dahlifah and Sunarsih (2020), El-Halaby and Hussainey (2016), Mukhibad (2018), Nugraheni and Khasanah (2019), (Andraeny, 2021) and Rostiani and Sukanta (2018), all of which suggested a positive and significant relationship between the number of SSB members and Sharia Compliance Disclosure.

## Education in SSB and SCD

The next hypothesis examined the impact of education in SSB on Sharia Compliance Disclosure. It posited that a higher education level among SSB members would affect a positive disclosure. However, the results were similar to size in SSB that they indicated a significant effect but in the opposite direction. The findings suggested that a higher education level among SSB members was associated with a decrease in Sharia compliance disclosure. This outcome is consistent with the results of research by Fakhruddin et al. (2021) and Nurhikmah et al. (2018), which also observed a negative correlation between education level in SSB and disclosure. This negative relationship could be attributed to the lack of economic or banking knowledge among SSB members, despite their advanced degrees. Notably, this data showed that 80% of SSB members holding doctoral degrees did not have a background in economics or banking. Instead, most of them helddoctoral degrees in religious studies and Sharia law, which may focus primarily on Sharia compliance without addressing the technical intricacies of financial institutions.

Furthermore, as Fakhruddin et al. (2021) pointed out, many banks appoint SSB members based on their influence as ulama (religious scholars), rather than their expertise in economics or banking. As a result, the regulations implemented by SSB members may not be optimized because they lack knowledge of the specific technical aspects of financial institutions. This situation may account for the observed negative relationship between SSB education level and Sharia Compliance Disclosure.

## Expertise of SSB and SCD

The third hypothesis examined the impact of the expertise of SSB members on Sharia Compliance Disclosure. It proposed that SSB members' expertise would positively influence disclosure, and the research findings support this hypothesis. The results align with the research conducted by Muda (2017) and Mukhibad (2018). According to regulations (OJK, 2022), SSB members are required not only to possess Sharia knowledge but also to have expertise and experience in economics and banking. SSB members who are knowledgeable and experienced in economics, banking, and Islamic law are more likely to recognize the significance of disclosure as it adds value to the company and attracts investors. SSB members with expertise in Islamic economics can also contribute to the disclosure of social performance by Islamic banks, thereby enhancing their overall performance (Farook et al., 2011). Consequently, it is essential for SSB members to be well-versed in Sharia and knowledgeable in the fields of economics and banking to effectively fulfill their roles.

## Meetings in SSB and SCD

Hypothesis 4 aimed to examine whether an increase in the number of SSB meetings would positively affect Sharia Compliance Disclosure. However, the results challenged this hypothesis, as they indicated that the number of meetings did not significantly influence Sharia compliance disclosure. These findings are consistent with Purwanti (2016), which similarly concluded that the addition of more SSB meetings does not have a substantial impact on the extent of Sharia Compliance Disclosure. The lack of a significant effect may be attributed to the measurement approach employed in this study, which considered the overall number of SSB meetings held within a year but did not specifically focus on meetings addressing Islamic bank reporting.

Typically, the monthly SSB meetings, in accordance with regulation (OJK, 2022) primarily serve as forums for discussions related to product evaluations and the performance of SSB members. These discussions do not appear to influence the level of disclosure within the bank. Consequently, the results did not align with the predictions of the Agency Theory, as the deliberations during these meetings did not seem to persuade managers to increase their disclosure efforts in bank annual reports.

It is noteworthy that these findings differ from those of Meutia et al. (2019), which reported a significant positive relationship between the number of SSB member meetings and disclosure. According to their research, a greater number of SSB member meetings provided more time for in-depth discussions related to Sharia compliance and strategies for disclosure in the annual reports of Sharia banks.

## Cross-Directorship in SSB and SCD

The fifth and final hypothesis proposed that cross-directorship of SSB members in other professional organizations would positively influence Sharia Compliance Disclosure. However, the research outcomes did not support this hypothesis, as they indicated that cross-directorship had no significant effect on Sharia compliance.

These findings are in line with the results of Dahlifah and Sunarsih (2020), which suggested that the number of DPS members holding memberships in other professional organizations does not significantly affect disclosure. Despite their dual roles, SSB members are responsible for effective supervision. However, their ability to perform their roles more effectively is determined by the number of positions they hold, and in accordance with regulation (OJK, 2022) SSB members are limited to holding a maximum of four concurrent positions. Consequently, these findings suggest that the influence of cross-directorship on disclosure may not be as significant as initially anticipated. Furthermore, these results challenge the predictions of agency theory, as SSB members with work experience in other financial institutions do not appear to have the influence to sway managers' decisions toward increased disclosures in bank annual reports.

It's important to note that these findings also deviate from the outcomes of research by Fakhruddin and Jusoh (2018) and Meutia et al. (2019), both of which suggested a positive and significant impact of dual SSB positions on disclosure. These studies argued that holding multiple positions enhanced the effectiveness of bank monitoring activities related to Sharia principles.

## CONCLUSION, IMPLICATION, LIMITATION AND SUGGESTION

This study delved into the impact of the characteristics of SSB on Sharia compliance disclosure within Indonesian Sharia banks. The research considered multiple SSB characteristics, including size, education level, expertise, number of meetings, and cross-directorship. Drawing on data from financial reports spanning from 2014 to 2019 for nine Indonesian Islamic commercial banks, and a Sharia compliance measurement index consisting of 55 items across four disclosure dimensions, several key conclusions can be drawn.

### Conclusions

The descriptive analysis revealed that, on average, the level of Sharia compliance disclosure in the sampled Indonesian Sharia commercial banks was at a commendable 85%. This indicates a relatively high commitment to transparency and compliance within these banks.

The hypothesis testing yielded notable results. Surprisingly, SSB size had a significant negative impact on Sharia Compliance Disclosure. A larger SSB size was associated with reduced disclosure, suggesting that a higher number of SSB members might lead to conflicts over the extent of Sharia Compliance Disclosure. Similarly, the education level of SSB members had a significant negative influence on disclosure. Specifically, SSB members with higher education levels contributed less to Sharia compliance disclosure, likely due to many holding doctoral degrees in Islamic law rather than business or accounting. In contrast, SSB expertise had a significant positive effect on Sharia Compliance Disclosure. SSB members with expertise in economics, banking, and Sharia law positively influence disclosure practices, emphasizing the importance of appointing members with diverse expertise. Next, findings indicated that the number of SSB meetings did not significantly affect Sharia Compliance Disclosure. Meetings primarily focused on product evaluations and SSB member performance and did not impact disclosure. Lastly, cross-directorship, where SSB members held positions in other professional organizations, did not significantly influence Sharia Compliance Disclosure.

## Implications

Islamic banks should carefully consider the number and educational background of SSB members. Appointing members with diverse expertise, including business and accounting, may lead to more effective supervision and enhanced disclosure. Prioritizing SSB members with comprehensive knowledge in economics, banking, and Sharia law can contribute to improved Sharia compliance disclosure. Future research should focus on meetings specifically related to financial reporting in Islamic banks to gain deeper insights into their relationship with disclosure.

## Limitations and Suggestions for Future Research

This study, while providing partial support for the Agency Theory, highlights the importance of exploring alternative theories to comprehensively understand the role of SSB in enhancing Sharia Compliance Disclosure in Islamic banks. The results indicated that the frequency of SSB meetings did not significantly impact Sharia bank performance, suggesting the necessity for future investigations into the effectiveness of meeting agendas within Sharia banks. These findings, which diverge from theoretical expectations, offer valuable insights into the intricate dynamics between characteristics of SSB and Sharia Compliance Disclosure in Indonesian Sharia banks. Further research in this domain holds the potential to deepen our understanding and guide best practices within the field.

## ACKNOWLEDGEMENT

We would like to thank the anonymous reviewer for the constructive comments and suggestions.

## REFERENCES

Alam, M. M., Akbar, C. S., Shahriar, S. M., & Elahi, M. M. (2017). The islamic shariah principles for investment in stock market. *Qualitative Research in Financial Markets*, *9*(2), 132–146. https://doi.org/10.1108/QRFM-09-2016-0029

Alam, M. M., Said, J., & Hassan, S. (2015). Performance of islamic microcredit in perspective of maqasid al-shariah: A case study on amanah ikhtiar Malaysia. *Humanomics*, *31*(4), 374–384. https://doi.org/10.1108/H-12-2014-0072

Andraeny, D. (2021). Corporate governance and disclosure of sharia compliance: An insight based on Aaoifi standards. *Journal of Islamic Finance and Accounting*, *4*(1), 1–13. https://doi.org/10.22515/jifa.v4i1.3475

Aribi, Z. A., Arun, T., & Gao, S. (2019). Accountability in islamic financial institution: The role of the shari'ah supervisory board reports. *Journal of Islamic Accounting and Business Research*, *10*(1), 98–114. https://doi.org/10.1108/JIABR-10-2015-0049

Cohen, J. R., Hoitash, U., Krishnamoorthy, G., & Wright, A. M. (2014). The effect of audit committee industry expertise on monitoring the financial reporting process. *The Accounting Review*, *89*(1), 243–273. https://doi.org/10.2308/accr-50585

Dahlifah, D., & Sunarsih, U. (2020). The effect of cross-sharia membership and the size of the sharia supervisory board, the size of the company on the disclosure of sharia compliance. *Proceedings of the Annual International Conference on Accounting Research (AICAR 2019)*, *127*(Aicar), 123–125. https://doi.org/10.2991/aebmr.k.200309.028

Darussamin, A. M., Ali, M. M., Ghani, E. K., & Gunardi, A. (2018). The effect of corporate governance mechanisms on level of risk disclosure: Evidence from Malaysian government linked companies. *Journal of Management Information and Decision Sciences*, *21*(1), 1–19.

El-Halaby, S., & Hussainey, K. (2016). Determinants of compliance with AAOIFI standards by islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management*, *9*(1), 143–168. https://doi.org/10.1108/IMEFM-06-2015-0074

Elamer, A. A., Ntim, C. G., Abdou, H. A., Zalata, A. M., & Elmagrhi, M. (2019). The impact of multi-layer governance on bank risk disclosure in emerging markets: the case of Middle East and North Africa. *Accounting Forum*, *43*(2), 1–36. https://doi.org/10.1080/01559982.2019.1576577

Fakhruddin, I., & Jusoh, M. A. (2018). Influence of sharia supervisory board characteristics on the sharia compliance. *Proceedings of the 5th International Conference on Community Development (AMCA 2018)*, *231*(amca), 355–357. https://doi.org/10.2991/amca-18.2018.97

Fakhruddin, I., Jusoh, M. A., Norwani, N. M., Kusbandiyah, A., & Zakaria, N. (2021). The influence of shari'ah supervisory board characteristicson shari'ah disclosures of Indonesia islamic financial institution. *Turkish Journal of Computer and Mathematics Education (TURCOMAT)*, *12*(3), 2883–2887. https://doi.org/10.17762/turcomat.v12i3.1318

Farook, S., Hassan, M. K., & Lanis, R. (2011). Determinants of corporate social responsibility disclosure : The case of Islamic banks. *Jurnal of Islamic Accounting and Business Research*, *2*(2), 1–28. https://doi.org/10.1108/17590811111170539

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*, 305–360. https://doi.org/10.1177/0018726718812602https://doi.org/10.1016/0304-405X(76)90026-X

Meutia, I., Aryani, D., & Widyastuti, S. M. (2019). Characteristics of the sharia supervisory board and its relevance to islamic social reporting at islamic banks in Indonesia. *EKUITAS (Jurnal Ekonomi Dan Keuangan)*, *3*(1), 130–147. https://doi.org/10.24034/j25485024.y2019.v3.i1.4160

Muda, I. (2017). The effect of supervisory board cross-membership and supervisory board members' expertise to the disclosure of supervisory board's report: Empirical evidence from Indonesia. *European Research Studies Journal*, *20*(3), 702–716. https://doi.org/10.35808/ersj/738

Mukhibad, H. (2018). Peran dewan pengawas syariah dalam pengungkapan islamic sosial reporting (The role of the sharia supervisory board in disclosing Islamic social reporting). *Jurnal Akuntansi Multiparadigma*, *9*(2), 299–311. https://doi.org/10.18202/jamal.2018.04.9018

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-12-2016-0197https://doi.org/10.1108/IJBM-12-2016-0197

Nugraheni, P., & Khasanah, E. N. (2019). Implementation of the AAOIFI index on CSR disclosure in Indonesian islamic banks. *Journal of Financial Reporting and Accounting*, *17*(3), 365–382. https://doi.org/10.1108/JFRA-02-2018-0013

Nurhikmah, F., Winarsih, W., & Kusumaningtyas, M. (2018). Pengaruh dewan pengawas syariah dan intelectual capital terhadap pengungkapan corporate social responsibility dengan kinerja keuangan sebagai variabel mediasi: Studi empiris perbankan syariah di Indonesia (The influence of the sharia supervisory board and intellectual capital on corporate social responsibility disclosure with financial performance as a mediating variable: Empirical study of sharia banking in Indonesia). *MALIA: Journal of Islamic Banking and Finance*, *2*(2), 174–188. https://doi.org/10.21043/malia.v2i2.4785

OJK. (2022). *Salinan Peraturan Otoritas Jasa Keuangan Republik Indonesia nomor 16/POJK.03/2022 Tentang Bank Umum Syariah (Copy of Republic of Indonesia Financial Services Authority Regulation Number 16/POJK.03/2022 Concerning Sharia Commercial Banks).* 1–107.

OJK. (2023). *Salinan Peraturan Otoritas Jasa Keuangan Republik Indonesia nomor 17 tahun 2023 Tentang Penerapan Tata Kelola Bagi Bank Umum (Copy of the Republic of Indonesia Financial Services Authority Regulation number 17 of 2023 Concerning the Implementation of Governance for Commercial Banks)*. 1–96.

Panjaitan, S. R., & Sriwiyanti, E. (2020). Analisis pengaruh lintas keanggotaan dewan pengawas dan keahlian anggota dewan pengawas terhadap pengungkapan laporan dewan pengawas pada bank syariah di Indonesia 2017 – 2019 (Analysis of the influence of cross-membership of the supervisory board and the expertise of supervisory board members on the disclosure of supervisory board reports on Islamic banks in Indonesia 2017 – 2019). *Jurnal Ilmiah AccUsi*, *2*(1), 28–38. https://doi.org/10.36985/accusi.v2i1.50

Purwanti, A. (2016). Dewan pengawas syariah dan pengungkapan aspek lingkungan, produk dan jasa pada bank syariah (Sharia supervisory board and disclosure of environmental aspects, products and services in sharia banks). *Jurnal Akuntansi Dan Keuangan Islam*, *4*(2), 169–179. https://doi.org/10.35836/jakis.v4i2.25

Rehman, U. Z., Zahid, M., Rahman, U. H., Asif, M., Alharthi, M., Irfan, M., & Glowacz, A. (2020). Do Corporate Social Responsibility Disclosures Improve Financial Performance? A Perspective of the Islamic Banking Industry in Pakistan. *Sustainability*, *12*(8), 1–18. https://doi.org/10.3390/su12083302

Rifai, A., & Asrori. (2017). Analysis of influence of characteristics of islamic supervisory board toward islamic financial performance. *Accounting Analysis Journal*, *6*(2), 160–172.

Ross, S. A. (1973). The economic theory of agency: The principal's problem. *The American Economic Review*, *63*(2), 134–139.

Rostiani, S. S., & Sukanta, T. A. (2018). Pengaruh dewan pengawas syariah, profitabilitas dan leverage terhadap pengungkapan islamic social reporting (ISR)( The influence of the sharia supervisory board, profitability and leverage on Islamic social reporting (ISR) disclosure).