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Sharia Supervisory Board and Islamic Banking Performance in Indonesia: Does Size Matter?

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ABSTRACT

Research Originality: This study is amongst a few studies empirically examining the impact of the Sharia Supervisory Board's (SSB) characteristics on the financial performance of Islamic banks in Indonesia. This attribute concerns regulators and market players due to its importance in Shariah governance and Islamic banks' performance. This study encompasses both full-fledged and dual-banking Islamic financial institutions.

Research Objectives: This study investigates the impact of the Sharia Supervisory Board's characteristics on the financial performance of Islamic banks in Indonesia.

Research Methods: This study utilizes random-effects GLS unbalanced panel data regression analysis with panel data from 30 Islamic banks in Indonesia (13 full-fledged Islamic banks and 17 dual-banking Islamic banks) from 2018 to 2023.

Empirical Results: The study highlights the pivotal role of SSB size in enhancing the financial performance of Islamic banks. The results suggest that the size of SSB has a significant positive influence on the financial performance of Islamic banks in Indonesia during the 2018- 2023 period.

Implications: It provides additional rationale for the newly issued regulation regarding the SSB size in Indonesia. It also offers actionable insights into the necessity of effective governance structures to ensure the sustainable growth of Islamic banking institutions.

Keywords:

financial performance; sharia supervisory board; Islamic bank; sharia governance; return on asset (ROA).

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INTRODUCTION

Islamic banking has experienced significant growth over the past decade, driven by increasing demand for Sharia-compliant financial services worldwide. As of 2023, the global Islamic banking sector's total assets reached USD 3.38 trillion, reflecting a compound annual growth rate of 10.5% from 2017 to 2023 (IFSB, 2024). This expansion underscores the sector's resilience and growing appeal among diverse communities. The Islamic banking sector has also progressed notably in Indonesia, which has the world's largest Muslim population. By August 2024, its market share rose to 7.33%, with assets totaling IDR 902.39 trillion (approximately USD 57.8 billion), marking an annual growth rate of 10.37% (OJK, 2024). These figures highlight the increasing acceptance and integration of Sharia-compliant financial services globally and within Indonesia. Sharia governance and its implications are becoming interesting studies, especially in Indonesia, a country with the highest Muslim population in the world. Islamic bank financial performance, sharia governance, and supervision of Islamic banks are among the main themes in research related to Islamic bank governance (Alam et al., 2025). The governance framework within Islamic banking institutions is designed to optimize financial and operational performance metrics, with the Shariah Supervisory Board (SSB) serving as a crucial governance mechanism that potentially influences institutional performance outcomes (Minaryanti & Mihajat, 2023).

Research indicates that adherence to Shariah principles represents the primary determinant in customers' selection of Islamic banking services (Elgattani & Hussainey, 2020). The SSB is a cornerstone of Islamic banking, ensuring compliance with Islamic principles and influencing Islamic banks' overall governance and performance (Grassa et al., 2023; Jabeen & Kausar, 2022). Theoretical frameworks such as legitimacy theory (Dowling & Pfeffer, 1975), stakeholder theory (Freeman, 1984), agency theory (Jensen & Meckling, 1976), and resource dependency theory (Pfeffer & Salancik, 1978) provide valuable insights into the SSB's role. Legitimacy theory suggests that Islamic banks can continue to operate sustainably if society recognizes that the Islamic banks have been operating with a value system (sharia principles), one of which is reflected in the existence of SSB, that is the same as or equivalent to the value system held by society. Stakeholder theory positions the SSB as a key entity safeguarding the interests of diverse stakeholders, including investors, regulators, and the Muslim community, by maintaining Sharia compliance and legitimacy. Agency theory emphasizes the SSB's function in reducing conflicts between management and stakeholders, ensuring accountability and adherence to ethical principles. Additionally, resource dependency theory suggests that the SSB is vital for banks, contributing intellectual, relational, and reputational capital that enhances governance and decision-making. Larger SSBs are often better equipped to handle complex financial products and governance challenges, reinforcing their role as a critical mechanism in Islamic banking.

In the context of Indonesia, the role of SSB is also highly strategic not only because all products that Islamic banks will offer must have a basis in religious scholars' fatwas but also because they perform supervisory rule in the governance of the Islamic banks

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(Puspitasari & Kasri, 2023). Thus, SSB not only needs to know Islamic law but must also have knowledge of accounting and/or finance, which equips them to understand the specifics of modern banking transactions and activities so that they can conduct adequate supervision, which can ultimately improve the financial performance of Islamic banks (Ghayad, 2008).

In this respect, there are several regulations in Indonesia regarding SSB. One example is the Indonesian Financial Services Authority (OJK) regulation or POJK No. 10/POJK.03/2016 on Governance for Islamic Banks, which stipulated that the SSB must be appointed based on recommendations from the National Shariah Council (DSN-MUI) and provide periodic reports to OJK regarding Shariah compliance. Regarding the size of SSB, POJK No. 16/2022 requires a full-fledged Islamic bank to have a minimum of 2 SSB members and a maximum of 50% of the number of Directors. However, POJK No. 12/2023 regulates that dual-banking Islamic banks must have a minimum of 2 SSB members and a maximum of 3 SSB members. Thus, different regulations require different numbers of SSB members. This condition suggests no uniform baseline for determining the ideal number of SSB members.

Empirical studies have examined the impact of various SSB characteristics on the financial performance of Islamic banks. The size of the SSB is a significant factor in the governance mechanisms of Islamic banks. A larger SSB, comprising members with diverse competencies and experiences, tends to understand products better and can provide more comprehensive assessments, potentially contributing to improved performance (Hamza, 2016). Studies have found a positive relationship between SSB size and the financial performance of Islamic banks (Mollah & Zaman, 2015; Almutairi & Quttainah, 2017; Baklouti, 2020; Grassa et al., 2023). From the customer's perspective, more SSB members can enhance Islamic bank's credibility by demonstrating a strong commitment to Sharia principles. Nevertheless, empirical evidence derived from a study on Islamic banking institutions in Saudi Arabia demonstrates that SSB size exhibits no statistically significant influence on the financial performance of Islamic banks (Bashir et al., 2023).

Other SSB characteristics, such as expertise, reputation, and cross-membership, have also been studied. The presence of board members with higher educational backgrounds can improve company performance (Darmadi, 2013). Sharia advisors ideally understand Sharia, legal, and economic issues (Ghayad, 2008). SSB members without a financial or accounting background may struggle to carry out their duties effectively. However, other studies found that SSB expertise does not significantly influence Islamic banks' financial performance (Hakimi et al., 2018; Baklouti, 2020). Regarding reputation, directors bring knowledge and reputation to the institution, which can be a competitive advantage. Reputation and Islamic bank industry knowledge strongly correlate with performance (Nomran et al., 2018).

In countries where the Islamic finance industry is still developing, Sharia experts become corporate elites in SSB (Gözübüyük et al., 2020). Resource dependency theory suggests that directors who hold multiple positions on boards (cross-membership) have wider access to information, enriching their knowledge and experience related to corporate

governance (Nomran et al., 2018). Cross-membership significantly positively influences Islamic banks' performance in Indonesia (Grassa et al., 2023; Rahman & Haron, 2019). However, other studies, such as Krause et al. (2014), argue that cross-membership can reduce the independence and flexibility of SSB supervision. Hamza (2013) highlights potential conflicts of interest that may arise. Gözübüyük et al. (2020) warn about the risk of negligence and information leakage, while Baklouti (2020) mentions the possibility of increased absenteeism and decreased effectiveness of SSB control if SSB members hold multiple positions.

This study addresses a research gap in Islamic banking literature by examining the impact of Shariah Supervisory Board (SSB) characteristics on financial performance within Indonesia's two Islamic banking models. While previous studies (e.g., Bashir et al., 2023; Tashkandi, 2023; Baklouti, 2020; Mukhibad, 2019; Alsartawi, 2019; Nomran et al., 2018) have predominantly focused only on full-fledged Islamic banks, they overlooked the dual-banking Islamic banks, which also exist in some countries. The novelty of this research lies in its comprehensive analysis of both full-fledged and dual-banking Islamic banks, offering a comparative perspective that has been largely absent in existing literature. The primary purpose of this study is to investigate how SSB characteristics, with specific emphasis on SSB size, influence the financial performance of Islamic banks operating within Indonesia's dual-banking framework during the period 2018-2023. This research aims to generate valuable insights for regulators and bank management in optimizing SSB roles while simultaneously contributing to the theoretical understanding of Shariah governance by providing empirical evidence on SSB effectiveness across different Islamic banking models within a unified regulatory environment.

METHODS

This study adopts a quantitative research methodology that utilizes secondary data from banks' audited financial and annual reports. Key information on SSB characteristics—such as SSB size, educational background (competence), elite group representation, and cross-membership—was extracted from the SSB profile section of the bank's annual reports. Financial metrics were collected from audited financial statements, including Return on Assets (ROA), Net Profit Margin (NPM), and total assets. The study employs ROA as the dependent variable because of limitations in Islamic bank's equity data availability, which precludes using the return on equity (ROE) ratio. Macroeconomic data, such as GDP growth and inflation rates, were obtained from the Central Bureau of Statistics. The operationalization of each variable used in this study is carried out with different calculations, as explained in Table 1.

The dataset combines cross-sectional data, including independent and control variables, with time-series data from 2018 to 2023. This integration forms a panel dataset, enabling the analysis of individual and temporal variations. Panel data methods are particularly advantageous in enhancing the efficiency of parameter estimates by addressing issues related to multicollinearity, omitted variable bias, and unobserved heterogeneity.

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A data cleansing is processed to ensure the quality and reliability of the data. This action involved removing outliers and incomplete observations. For example, some full-fledged Islamic banks that did not disclose SSB profiles or net profit data were excluded. Consequently, the final sample comprises 155 panel observations from 13 full-fledged Islamic banks and 17 dual-banking Islamic banks, covering 2018–2023. Data selection prioritizes banks with adequate information disclosure and reliable reporting standards, ensuring a robust and representative sample.

Table 1. Operational Variables

Variables	Definitions	Reference
ROA	Natural logarithm of *Return on Assets* with calculation: Net profit devided by total asset	Kusi et al. (2018)
SSB_SIZE	Number of SSB members	Baklouti (2020)
SSB_COMP	The ratio of SSB who has an education background in economics/finance/accounting with calculation: Number of SSB who have education background in economics or finance or accounting devided by total number of SSB	Baklouti (2020)
SSB_ELITE	The ratio of SSB who is also chairman or member of DSN-MUI with the calculation: Number of SSB who is also chairman or member of DSN-MUI devided by total number of SSB	Gözübüyük et al. (2020)
SSB_CMRT	The ratio of SSB's members who sit on SSBs of other Islamic Financial Institutions (IFIs), with the calculation: Number of SSB's who sit on SSBs of other IFI devided by total number of SSB	Baklouti (2020)
BANK_NPM	Net profit margin ratio with calculation: Net profit devided by revenue	Manogna and Mishra (2021)
BANK_ASSET	Natural logarithm of total Islamic bank's asset	Alsartawi (2019)
CRISIS	The dummy variable, "1" is years of the COVID-19 crisis (2020-2021), if not "0"	Susanti et al. (2023)
GDP	Indonesia's Gross domestic product growth	Romus et al. (2020)
INFLATION	Indonesia's inflation rate	Tarkom and Ujah (2023)

Descriptive statistical analysis was initially performed to summarize the data's central tendency, dispersion, and distribution characteristics. Subsequently, the study conducted a series of model specification tests to identify the most suitable panel data regression model, including the Hausman test and the Breusch-Pagan Lagrange Multiplier (LM) test. These tests are critical for selecting common, fixed, and random effects models, ensuring that the estimation results are consistent and efficient.

After determining the most appropriate model, the study applied random-effects Generalized Least Squares (GLS) panel regression for the analysis. The GLS approach is suitable for handling heteroskedasticity and autocorrelation commonly present in panel data. This method aligns with the methodologies employed in previous studies, such as Baklouti (2020), who utilized GLS for examining SSB characteristics, and Tashkandi

(2023) and Nomran et al. (2018), who applied the Generalized Method of Moments (GMM) for similar purposes. While Mukhibad (2019) employed a fixed-effects model with Ordinary Least Squares (OLS) estimation, and Alsartawi (2019) used multiple linear regression, the choice of GLS in this study is justified by its ability to account for unobserved heterogeneity across banks and reduce estimation bias in cases of random effects. GLS estimation is instrumental when dealing with heteroscedasticity and autocorrelation in panel data, as it provides more efficient estimates by accounting for the variance-covariance structure of the error terms.

The statistical analysis includes partial variable testing (t-test) to assess the significance of individual predictors, simultaneous variable testing (F-test) to evaluate the model's overall explanatory power, and determination coefficient (R-squared) analysis to measure the proportion of variance explained by the model. This study performed robustness tests using alternative measurement proxies for the variables. Robustness testing is essential to confirm that the findings remain valid under different specifications and assumptions (Neumayer & Plümper, 2017). This approach strengthens the credibility of the conclusions by demonstrating that the observed relationships are not contingent on a specific model or measurement approach. By employing a rigorous panel data regression framework and incorporating robustness testing, this study aims to provide a comprehensive and reliable analysis of the impact of SSB characteristics, particularly SSB size, on the financial performance of Islamic banks in Indonesia.

In this study, researchers conducted panel data regression analysis using the least square method. The following is the research model used to estimate based on the available panel data:

$$ROA_{i,t} = \alpha_0 + \beta_1 SSB\_SIZE_{i,t} + \beta_2 SSB\_COMP_{i,t} + \beta_3 SSB\_ELITE_{i,t} + \beta_4 SSB\_CMRT_{i,t} + \beta_5 BANK\_NPM_{i,t} + \beta_6 BANK\_ASSET_{i,t} + \beta_7 CRISIS_{i,t} + \beta_8 GDP_{i,t} + \beta_9 INFLATION_{i,t} + \varepsilon_{i,t}$$

Where: i: Islamic banks (i = 1,….,30); t: Annual period (t = 2018,….,2023); α: Constant; β: The vectors of coefficient estimates; ε: The error term.

RESULTS AND DISCUSSION

The descriptive statistical analysis of Islamic banks in Indonesia during the 2018–2023 period, as detailed in Table 2, highlights several notable findings. Islamic banks' Return on Assets (ROA) exhibits substantial variability, with an average of 0.06 and a standard deviation of 1.29. This significant variability reflects the differences in business strategies and cost structures among Islamic banks, consistent with findings from prior research (Baklouti, 2020; Miao et al., 2023).

The composition of the SSBs in Indonesia underscores the sector's limited availability of specialized human resources. Only 38.28% of SSB members possess an educational background in economics, finance, or accounting. Additionally, most (78%) of SSB members hold multiple positions in other IFIs, further indicating the constrained pool of expertise. Furthermore, 44.41% of SSB members concurrently serve as board members

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of the National Sharia Council (DSN-MUI), highlighting DSN-MUI's pivotal role as a talent pool for SSB members. Cross-membership is prevalent, with 59.36% of SSB members holding positions in multiple Sharia financial institutions. In terms of financial performance, Islamic banks reported an average net profit ratio of 22.72%, reflecting a wide range of profitability across the sampled banks. The average ROA was 0.0557, further underscoring significant variability in operational efficiency and strategic approaches. These differences illustrate the diverse cost structures and income generation models' Islamic banks adopt.

The macroeconomic context during the observation period provides additional insights. The 2020–2021, marked as the COVID-19 crisis period, is captured by the crisis dummy variable, with an average value of 0.30. During this time, Indonesia experienced average GDP growth of 3.81%, while the inflation rate averaged 2.95%. These macroeconomic conditions add to Islamic banks' challenges, affecting their governance and financial performance during this period. This analysis offers a comprehensive overview of the operational, governance, and macroeconomic factors impacting Islamic banks in Indonesia. The variability in ROA, differences in SSB composition, and the influence of external factors such as the COVID-19 crisis highlight the complexity of managing Sharia-compliant financial institutions. These findings underscore the need for targeted policy interventions and governance reforms to enhance the resilience and efficiency of Islamic banks in Indonesia.

Table 2. Descriptive Statistics

Variables	Observation	Median	Mean	Std. Dev.
ROA	155	0.3400	0.0557	1.2963
SSB_SIZE	155	2	2.2645	0.4978
SSB_COMP	155	50	38.2792	32.0183
SSB_ELITE	155	50	44.4090	40.1243
SSB_CMRT	155	66.6700	59.3550	42.7283
BANK_NPM	155	19.7000	22.7158	18.9280
BANK_ASSET	155	8.9500	9.0434	1.1869
CRISIS	155	0	0.3032	0.4611
GDP	155	5.0500	3.8063	2.5749
INFLATION	155	2.7200	2.9531	1.2520

Source: EViews Output

Multicollinearity testing was implemented to assess the presence of correlations between predictor variables in the regression model. Correlation coefficients below 0.8 among independent variables indicate the absence of multicollinearity concerns. The results presented in Table 3 demonstrate that all correlation coefficients fall below the 0.80 threshold, thus confirming the absence of multicollinearity in the dataset.

Table 3. Multicollinearity Test

	SSB_ SIZE	SSB_ COMP	SSB_ ELITE	SSB_ CMRT	BANK_ NPM	BANK_ ASSET	CRISIS	GDP	INFLATION
SSB_SIZE	1.00								
SSB_COMP	-0.14	1.00							
SSB_ELITE	0.17	0.17	1.00						
SSB_CMRT	0.14	0.07	0.77	1.00					
BANK_NPM	0.07	0.11	-0.09	-0.12	1.00				
BANK_ASSET	0.32	-0.07	0.63	0.63	-0.16	1.00			
CRISIS	0.02	0.02	-0.01	-0.00	-0.00	0.03	1.00		
GDP	0.01	-0.01	-0.00	-0.04	0.05	-0.04	-0.78	1.00	
INFLATION	-0.03	-0.00	-0.01	-0.05	0.05	0.02	-0.62	0.54	1.00

Source: EViews Output

The results of the panel data regression estimation are presented in Table 4. The model selection process began with the Chow test, which yielded a cross-section F probability value of 0.0000. This result suggests that the fixed-effect model (FE) is more suitable than the common-effect model (CE). Subsequently, the Hausman test was conducted to determine whether the fixed-effect or random-effect model (RE) would be more appropriate. The Hausman test results showed a cross-section random probability value of 0.3171, indicating that the random-effect model is preferable. The Lagrange Multiplier (Breusch-Pagan) test was performed, producing a cross-section probability value of 0.0000. The results of both the Hausman and Lagrange Multiplier tests consistently support the adoption of the random-effect model for panel data regression analysis.

Based on the Random-Effect model estimation results in Table 4, SSB size positively influences the financial performance (ROA) of Islamic banks in Indonesia during 2018–2023. This result differs from the Bashir et al. (2023) study, which found that SSB size does not significantly influence ROA. This condition may be caused by different Islamic bank data as the object of research. Additionally, three other variables significantly influence the financial performance of Islamic banks: profitability level, bank assets, and the crisis period (marked by the COVID-19 pandemic).

The simultaneous testing of independent variables yields an F-statistic of 21.59, greater than the critical F-table value of 1.94. This result indicates that the independent variables collectively significantly affect ROA. Furthermore, the adjusted R-squared value of 0.5461, or 54.61%, demonstrates that the independent variables collectively explain 54.61% of the variation in ROA. The remaining 45.39% is attributable to other factors not included in the research model.

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Table 4. Panel Data Regression Estimation Results

Variables	CE	FE	RE
C	0.4276 0.54	2.1662 1.56	0.4902 0.50
SSB_SIZE	-0.0245 -0.15	0.2865 2.09**	**0.2557** 1.99**
SSB_COMP	-0.0020 -0.82	0.0026 0.97	0.0013 0.52
SSB_ELITE	-0.0077 -2.49**	-0.0019 -0.62	-0.0031 -1.08
SSB_CMRT	0.0071 2.50**	0.0016 0.56	0.0027 1.10
BANK_NPM	0.0469 11.70***	0.0581 12.25***	**0.0544** 13.26***
BANK_ASSET	-0.1511 -1.69*	-0.4519 -2.91***	**-0.2465** -2.27**
CRISIS	-0.1631 -0.58	-0.2399 -1.77*	**-0.2618** -1.96*
GDP	-0.0214 -0.46	-0.0239 -1.09	-0.0231 -1.06
INFLATION	0.0380 0.50	0.0225 0.61	0.0167 0.46
Observations Adjusted R-Squared	155 0.5056	155 0.8959	155 0.5461
F-Statistics	18.4995***	35.8781***	21.5882***
Chow Test (Cross-Section F) Probability cross-section F		19.7463*** 0.0000	
Hausman Test (Chi-Square Statistics) Probability cross-section random			10.4258*** 0.3171
Lagrange Multiplier (Breusch-Pagan) Probability cross-section	186.0491*** 0.0000		

Notes: * significance at 10%; ** significance at 5%; and ***significance at 1%
CE= Common-Effect; FE= Fixed-Effect; RE= Random-Effect; Coeff= Coefficient; t-stat= t-statistics
Source: EViews Output

Furthermore, to ensure the validity of the findings, a robustness test was conducted by adding two independent variables (the ratio of professors on the SSB and the SSB meeting attendance rate) and one control variable (exchange rate). Table 5 reports the result of the robustness test. Based on the regression result in Table 5, SSB size remains a variable that positively influences Islamic banks' financial performance, just as in the first model. In addition, four other variables significantly influence the financial performance of Islamic banks: Profitability level, bank assets, crisis, and currency exchange rate. The results of panel data regression estimations were found to be robust due to their consistency. However, the independent variables and control variables were added to the second model for robustness testing purposes.

Table 5. Robustness Test Results

Variables	Coefficient	t-statistic	Prob.
C	-1.1899	-0.97	0.33
SSB_SIZE	0.2511	2.00**	0.048
SSB_COMP	0.0006	0.23	0.82
SSB_PROF	0.0005	0.22	0.83
SSB_ELITE	-0.0028	-0.97	0.33
SSB_CMRT	0.0036	1.48	0.14
SSB_PRES	0.0028	0.83	0.41
BANK_NPM	0.0530	13.10***	0.00
BANK_ASSET	-0.3592	-3.04***	0.00
CRISIS	-0.2537	-1.86*	0.06
GDP	-0.0255	-1.18	0.24
INFLATION	-0.0420	-0.96	0.34
CURRENCY	0.0002	2.07**	0.04

Notes: * significance at 10%; ** significance at 5%; and ***significance at 1%
Source: EViews Output

The results of this study, as presented in Table 4 and Table 5, provide significant insights into the relationship between Sharia Supervisory Board (SSB) characteristics and the financial performance of Islamic banks in Indonesia during the 2018–2023 period. The findings of the various SSB characteristics analyzed reveal that only SSB size significantly influences Islamic banks' financial performance. This result aligns with findings from previous studies, such as Mollah and Zaman (2015), Almutairi and Quttainah (2017), Baklouti (2020), and Grassa et al. (2023), which have also established a positive relationship between SSB size and the financial performance of Islamic banks. These studies highlight that SSB size is critical in Sharia governance mechanisms, as it positively correlates with better bank performance (Bukair & Rahman, 2015; Baklouti, 2020). Specifically, a larger SSB brings together individuals with diverse skills and experiences, facilitating a better understanding of complex financial products and more effective Sharia assessments (Hamza, 2016).

The result is also consistent with the view of the Resource Dependence Theory and The Legitimacy Theory. From the perspective of Resource Dependence Theory, a larger SSB size increases the diversity of resources available to Islamic banks. This diversity includes a broader range of SSB members' educational backgrounds, expertise, and experiences. In Indonesia, where Sharia knowledge is still developing, having more SSB members enables cumulative knowledge-sharing, enhancing decision-making and improving Islamic banks' overall performance. Furthermore, under the framework of the Legitimacy Theory, a larger SSB strengthens the credibility of Islamic banks and enhances

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public trust. Islamic banks can align their operations with the societal value system by demonstrating their commitment to upholding Sharia principles in all operational activities. This alignment is crucial for maintaining legitimacy, as organizations are more likely to operate sustainably when society recognizes them as adhering to shared values and principles. Consequently, the presence of a larger SSB not only reinforces the legitimacy of Islamic banks but also promotes sustainable operations and long-term growth.

Notably, the study's finding suggesting 3 (i.e., rounding value of 2.6) as a minimum number of SSBs aligns with the recently issued regulation regarding SSB size in Indonesia. As explained earlier, before 2024, different regulations require different numbers of SSB members. While POJK 16/2022 requires a minimum of 2 SSB members and 50% of the number of Directors, POJK 12/2023 mandates a minimum of 2 SSB members and 3 SSB members. This condition has somewhat created confusion amongst Islamic banks. However, the regulator recently issued POJK Number 2/ 2024 Concerning the Implementation of Sharia Governance for Full-Fledged Islamic Banks and Dual-Banking Islamic Banks. This regulation stipulates that each Islamic bank must have a minimum of 3 SSB members and a maximum of 50% of the number of Directors. This regulation aligns with the recommendation issued by the National Committee on Governance Policy (KNKG), which recommends a minimum of 3 Sharia Supervisory Board (SSB) members for each entity. As such, it appears that the government is beginning to standardize the provisions applicable to full-fledged Islamic banks and dual-banking Islamic banks. This alignment also suggests that this study could serve as a foundation for understanding the rationale behind increasing the minimum number of SSB members compared to previous regulations.

In addition, based on the estimation results of the random effect model presented in Table 4, three variables significantly influence the financial performance of Islamic banks: profitability level, bank assets, and the COVID-19 crisis period. First, bank profitability emerges as a critical determinant of firm performance. A higher net profit margin typically corresponds to an increase in Return on Assets (ROA), as supported by Manogna and Mishra (2021). This condition was also the case for Islamic banks in Indonesia during that period. Second, bank assets show mixed results regarding their impact on financial performance. While Alsartawi (2019) found a significant positive relationship between bank assets and ROA—where larger banks achieved higher ROA than smaller ones—studies on Islamic banks in Indonesia during 2018–2023 reveal a negative impact of bank assets on ROA. This contradictory finding may be explained by the ability of smaller Islamic banks, with relatively lower asset volumes, to manage and maximize existing funds more efficiently to generate profits.

Lastly, the global financial crisis and the COVID-19 pandemic negatively impact Islamic banks' performance. For instance, Tashkandi (2023) highlighted that the global financial crisis adversely affected ROA in Islamic banks within the Gulf Cooperation

Council (GCC) region. Similarly, studies measuring bank performance in Indonesia before and during the COVID-19 pandemic (Boshnak et al., 2023; Susanti et al., 2023) demonstrated that the pandemic caused substantial losses in the Indonesian banking industry. During the COVID-19 period, ROA significantly declined compared to pre-pandemic levels. This condition is also the case for Islamic banks in Indonesia during the 2018-2023 period.

CONCLUSION

This study investigates the impact of the Sharia Supervisory Board's characteristics on the financial performance of Islamic banks in Indonesia. The study's main findings indicate that the size of the SSB has a significant positive impact on the financial performance of Islamic banks. Larger SSB size increases the diversity of resources available to Islamic banks and promotes sustainable operations and long-term growth. This study underscores the critical role of having an adequately sized SSB in enhancing Sharia supervision and bolstering a bank's financial outcomes. However, other SSB attributes—such as competence, elite group membership, and cross-membership—did not significantly affect the banks' performance. Notably, the bank's profit, the bank size, and the COVID-19 crisis period are also found significant in this study.

The study's findings have several implications. First, Islamic bank management must proactively address the requirements of POJK 2/ 2024, which mandates a minimum of three SSB members by 1st January 2026. This action is important to enhance Islamic banks' legitimacy and customer trust and optimize resource potential for the Islamic bank. Second, to anticipate the increase of new SSB applications, the regulator and assessor (Financial Services Authority and National Sharia Council/DSN-MUI) must conduct a better fit and proper assessments for which, at the same time, must also enhance its monitoring processes to uphold the integrity and quality of SSB appointments.

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