



The Influence of Sharia Supervisory Board Characteristics on the Financial Performance of Islamic Banks

Hudan Baihaqi Malik^{1)*}, Irfan Akmaludin²⁾ Hamid Asayesh³⁾

¹Sharia Accounting, STEI SEBI

E-mail: hudan.malik27@gmail.com

² Sharia Accounting, STEI SEBI

E-mail: irfanakmalludin7@gmail.com

³Ayatollah Boroujerdi University, Iran

E-mail: hamid@abru.ac.ir

DOI: <https://doi.org/10.35719/jiep.v6i1.150>

Received: January, 15 2024

Revised: February, 5 2024

Approved: February, 29 2024

*Corresponding Author

Abstract

This study aims to analyze the influence of the characteristics of the Sharia Supervisory Board (DPS) on the financial performance of Islamic Banks. The research focus includes variables such as DPS size, DPS educational qualifications, number of DPS meetings, DPS reputation, bank size, and bank age. The data used are financial statements and DPS profiles of Islamic Commercial Banks (BUS) during the 2016-2020 period. Literature study and content analysis methods are used to collect and analyze data from previous studies. The results showed that DPS size has a significant negative effect on Return on Assets (ROA), while DPS educational qualifications have a significant positive impact on ROA. The number of DPS meetings has no significant effect on financial performance, and the DPS reputation variable also has no significant effect on ROA. In contrast, bank size and bank age have a significant positive impact on the financial performance of Islamic banks. These findings provide a deeper understanding of the factors that may affect the financial performance of Islamic banks, with implications for the improvement of corporate governance and related policies in the Islamic banking sector. Suggestions for future research include further analysis of contextual factors and risk management policies that may moderate the relationship between DPS characteristics and financial performance.

Keywords : Sharia Supervisory Board, Islamic Bank, Financial Performance

JEL Clasification : (conform to the JEL klasifikasi classification)

1. INTRODUCTION



The Sharia Supervisory Board (DPS) is responsible for providing guidance, conducting reviews, and supervising the activities of financial institutions to comply with the rules and principles of Islamic sharia. DPS fatwas and rules are binding on Islamic financial institutions, and in the context of the application of shari'ah principles in shari'ah banks, the role of DPS must fully refer to the principles and values of Islamic economics and business that have been implemented by the Prophet.

DPS has a position that is regulated by several laws and regulations, including Bank Indonesia Regulation (PBI) No. 6/17/PBI/2004 on Rural Banks based on Sharia Principles, PBI No.6/24/PBI/2004 and No.7/35/PBI/2005 on Commercial Banks conducting business activities based on Sharia Principles, and PBI No.8/3/PBI/2006 on the change of business activities of Conventional Commercial Banks into Commercial Banks conducting business activities based on Sharia Principles. All of these PBIs require every Islamic Bank to have a DPS.

The role of DPS is the spearhead of strict supervision related to the course of transactions in sharia banks, and this supervision must be in accordance with sharia aspects, especially compliance with sharia principles and freedom from usury. The effectiveness of the DPS role can have a positive impact on the optimality of the suitability of the principles of sharia banks, especially if the profit-sharing system runs efficiently. In this case, the growth and investment of Islamic banks will tend towards efficient projects. However, Islamic banking is prone to shari'ah mistakes, especially with the demand for high profit targets. A low level of shari'ah supervision may increase the risk of violating shari'ah principles. Some DPS may not fully understand financial and banking economics, and do not supervise and examine contracts in Islamic banking. Therefore, better supervision and understanding of shari'ah principles is



essential to ensure the compliance and integrity of shari'ah banks (Puspa Iwari et al., 2023).

So far, experience in the shariah banking sector in Indonesia shows that the Shariah Supervisory Board is often filled by individuals who are well-known in Islamic organizations or have popularity in Islamic science, but lack competence in the field of shariah banking and finance. In this reality, the management of sharia banks can benefit because supervision of them tends to be lax.

Quoted from (Kartikaningrum, 2016) sourced from the journal (Jensen & Meckling, 1976) Fundamentally, the concept of corporate governance is based on agency theory. Agency relationships arise when one or more individuals (principals) hire other individuals (agents) to provide a service and then give decision-making authority to the agent. The relationship between the principal and the agent can create an information imbalance (asymmetric information), because the agent has more knowledge about the company than the principal. Assuming that each individual acts to maximize self-interest, the agent may take actions that are detrimental to the interests of the company. The difference in interests between the principal and the agent, known as the agency problem, arises due to information asymmetry. Agency problems involve moral hazard and adverse selection, which in turn can lead to agency costs. One method used to monitor contracts and limit opportunistic agent behavior is through corporate governance. Corporate governance aims to reduce information asymmetry between the principal and the agent, thereby reducing agency costs.

In fact, many members of the Shari'ah Supervisory Board are appointed based on their charisma and popularity in the community, not because of sufficient expertise and knowledge in the field of shari'ah economics and banking. In addition, the frequency of the Shari'ah Supervisory Board's visits to the shari'ah banks is also a concern, with some of them only coming once a month, a week,



or even months absent from the shari'ah banks they are supposed to supervise. This condition is the cause of many shariah banking practices that are not in accordance with the provisions of Islamic shariah. This is the situation that occurs in sharia banking institutions in Indonesia today. Based on the above context, the author feels it is important to conduct research that focuses on increasing the independence of the Shari'ah Supervisory Board in applying shari'ah principles in the shari'ah banking environment.

2. LITERATURE REVIEW

Agency Theory

According to Jensen and Meckling (1976), agency theory is an agreement between a manager (agent) and an owner (principal). To maintain the balance in this relationship, the owner grants decision-making authority to the manager. Agency theory is based on three types of assumptions: assumptions about the fundamental nature of humans, organization, and information (Eisenhardt, 1989, as cited in Emirzon, 2007). Referring to assumptions about the fundamental nature of humans, it can be concluded that the owner (principal) and the manager (agent) tend to prioritize personal interests, which can lead to the emergence of agency problems. Within the framework of Good Corporate Governance (GCG), the Sharia Supervisory Board becomes a concept originating from agency theory, expected to function as a tool to address agency problems and ensure that managers act in the interests of shareholders (Nugroho, 2020).

Sharia Bank

Islamic financial institutions, or Shariah-compliant banks, develop their operations and products in accordance with the principles found in the Quran and hadith, especially those related to Islamic transactional procedures (Antonio & Perwataatmaja, 2001; Umam, 2013: 15). The current number of Shariah-compliant banks in the Southeast Asia region is 41 units.



Based on previous theories and research, several factors have been identified as influencing the performance of Islamic banking (KPS). These factors include the characteristics of the Sharia Supervisory Board, comprising the size of the Sharia Supervisory Board (DPSSize), the educational background in Islamic finance and banking of the Sharia Supervisory Board (DPSEdu), the foreign education of the Sharia Supervisory Board to provide a more global understanding (DPSForeign), and the level of busyness of the Sharia Supervisory Board (DPSBusy). Furthermore, there is the factor of risk-taking (Risk Taking / RT) identified as a moderating variable on the influence of the characteristics of the Sharia Supervisory Board.

Islamic financial institutions are entities that develop their operations and products in line with the principles found in the Quran and hadith, particularly those related to Islamic transactional procedures (Antonio & Perwataatmaja, 2001; Umam, 2013: 15). The current number of Shariah-compliant banks in the Southeast Asia region is 41. Based on previous theories and research findings, factors influencing the performance of Islamic banking (KPS) have been identified. These factors involve the characteristics of the Sharia Supervisory Board, including the size of the Sharia Supervisory Board (DPSSize), the educational background in Islamic finance and banking of the Sharia Supervisory Board (DPSEdu), the foreign education of the Sharia Supervisory Board to provide a more global understanding (DPSForeign), and the level of busyness of the Sharia Supervisory Board (DPSBusy). Additionally, there is the factor of risk-taking (Risk Taking / RT) identified as a moderating variable on the influence of the Characteristics of the Sharia Supervisory Board. Therefore, testing will be conducted to assess the extent to which these independent variables can influence the performance of the bank. (Pada Bank Syariah Di Asia Tenggara et al., 2015)



Governance of Islamic Banks

For Islamic banks operating in accordance with Islamic principles, governance is not only about accountability to shareholders and stakeholders but also about accountability to Allah SWT. A Muslim believes that a life governed by the teachings of the Quran and Sunnah regulates every aspect of their life. Therefore, the principles of governance in Islamic banks are more comprehensive, encompassing transparency, accountability, responsibility, professionalism, fairness, and compliance with Shariah principles. The implementation of this comprehensive governance principle is expected to protect all stakeholders and enhance compliance with legal regulations, while still adhering to Shariah principles and ethics applicable in the Islamic banking industry.

In the context of Islamic banking, there is a Sharia Supervisory Board (DPS) that plays a crucial role. The DPS is responsible for overseeing the bank's operations in accordance with Shariah principles and applicable regulations. The DPS monitors every activity of Islamic banking to ensure it is free from riba (usury), gharar (uncertainty in contracts), and maisir (speculation). The presence of the DPS in Islamic banks is expected to enhance the bank's compliance with Islamic rules and regulations.

In Indonesia, the implementation of governance in the Islamic banking industry is supervised by the Financial Services Authority (OJK). Regulation No. 11/33/PBI/2009 [4] on the Implementation of Governance for Sharia Commercial Banks and Sharia Business Units serves as a reference for OJK in overseeing the implementation of governance in Islamic banks. This regulation details the elements of governance in Islamic banking, including the Board of Commissioners, Board of Directors, DPS, and various committees. DPS plays a special role in governance from an Islamic perspective. The DPS is a board that



provides advice and recommendations to the Board of Directors and oversees the bank's activities to ensure compliance with Shariah principles. The DPS is independent, selected, and approved at the general meeting of shareholders (RUPS). (Luthan & Mazelfi, 2023)

Sharia Supervisory Board

The Sharia Supervisory Board (DPS) in accordance with Bank Indonesia Regulation No. 11/33/PBI/2009 has the function of providing advice and suggestions to the board of directors and overseeing bank activities to comply with sharia principles. The Implementation Guidelines for the Determination of DPS Members in Sharia Financial Institutions, based on DSN-MUI Decree No. 03 of 2000, explains that the main duties of DPS include providing advice to directors and commissioners regarding sharia aspects, supervising company operations by ensuring compliance with DSN fatwas, and mediating communication between LBS/LKS and DSN regarding product and service development.

Bank Indonesia Regulation No. 6/24/PBI/2004 stipulates the duties, powers, and responsibilities of DPS, including ensuring compliance of bank operations with DSN fatwas, assessing sharia aspects of bank operational guidelines and products, providing sharia opinion on bank operations and publication reports, and reporting the results of sharia supervision every six months to the board of directors, commissioners, the National Sharia Council, and Bank Indonesia.

In the context of Good Corporate Governance, DPS has a central role in improving the performance of Islamic banking through supervision of operations and product development to be in line with sharia principles. According to Bank Indonesia Regulation No. 11/33/PBI./2009, the number of DPS members is a minimum of two people or a maximum of 50% of the board of directors, with integrity, competence, and reputation requirements. Competence



is measured by knowledge and experience in sharia muamalah, banking, or finance. Reputation, as a track record of DPS members, also has an important role in improving company performance (Nugraheni, 2018).

The importance of DPS independence is reflected in the provision that DPS members may not hold concurrent positions in more than two banking institutions and two non-bank Islamic financial institutions. DPS meetings must also be held at least once a month. Several DPS characteristics, such as the number of members, education, concurrent positions, competence, number of meetings, reputation, and changes in member composition, can affect the performance and financing risk of Islamic banks, in accordance with research by Safiullah & Shamsuddin (2018), Nomran (2018), and Shittu et al. (2016).

The Sharia Supervisory Board (DPS) has a central role in Islamic financial institutions, appointed and placed by the National Sharia Council (DSN) to ensure compliance with sharia principles. The standards provided by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) confirm that the DPS is not only a body of legal experts in Fiqh Al-mu'amalat (Islamic commercial jurisprudence), but also an expert in sharia science with in-depth knowledge in the context of banking.

The role of DPS in the governance of Islamic financial institutions is very important, serving as a supervisor who monitors and regulates operational activities. Its main objective is to ensure the integrity, credibility and transparency of Islamic banks. The emphasis on the religious aspect of the bank's decisions in accordance with the DSN fatwa indicates the involvement of the DPS in ensuring full compliance with sharia principles.

Interestingly, the DPS is considered an independent Board of Directors that has the right to be present at board meetings. This gives the DPS more power in verifying and ratifying decisions that relate to religious aspects. As such, DPS not



only plays a supervisory role, but also contributes directly in making important decisions involving sharia principles.

The mentioned references, such as the studies by (Rosnia et al., 2018) and (Fani et al., 2023), provide theoretical and practical support to the key role of DPS in the context of Islamic banking. Thus, the Sharia Supervisory Board is not only an important element in maintaining sharia compliance, but also an integral part of the decision-making mechanism relating to religious values in Islamic financial institutions.

Characteristics of the Sharia Supervisory Board

Understanding the characteristics of the Sharia Supervisory Board (DPS) is crucial as it will affect the effectiveness of its role. This study focuses on the competence of DPS in the field of sharia mu'amalah, knowledge of banking and/or finance in general, as well as the frequency of DPS meetings in a year, to assess their impact on risk-taking and tax avoidance. A scholar who becomes a DPS member needs to have special expertise in the field, in addition to a deep understanding of Islamic law. The existence of this competency is explicitly explained in Regulation No:6/24/PBI/2004. The expected competence involves knowledge and experience in sharia mu'amalah as well as an understanding of banking or finance in general. This regulation emphasizes that DPS members must be scholars who have an adequate level of education and have expertise in banking or finance.

The purpose of this requirement is to ensure that the DPS can thoroughly understand the financial policies taken by the Islamic banking management. In addition, in accordance with Regulation No. 11/33/PB1/2009, the DPS is required to hold regular meetings at least once a month, with decision-making based on consensus. The presence of scholars in the DPS is considered to limit management from taking risk averse actions and avoiding taxes on Islamic



banks. DPS, as part of the governance structure, is driven more by ethics than greed. Therefore, the presence of a strong board of commissioners can support the limitation of risk-taking and tax avoidance when collaborating with a religiously inclined risk-averse DPS. Regulations related to DPS meetings are also explained in Regulation No. 11/33/PB1/2009 Article 49, which states that DPS meetings must be held at least once a month. The routine of DPS meetings allows for periodic discussions on all aspects that need to be discussed regarding Islamic banks.

Financial Performance

Financial performance assessment involves the use of a number of parameters that can assess the extent to which a company is successful in achieving profits (Sucipto, 2003). One method to evaluate financial performance is to investigate financial statements using various financial ratios (Munawir, 2010).

In essence, the evaluation of the financial performance of the banking sector does not differ much from the assessment of company performance in general. The financial performance of the bank reflects the financial situation of the bank in a certain period, especially in terms of collecting and distributing funds, which is generally measured by indicators of capital adequacy, liquidity, and profitability (Jumingan, 2006 as mentioned in Lestari & Fidiana, 2015).

Performance in the context of accounting terms refers to the evaluation of the operational effectiveness of a business over a certain period. In general, a bank's performance reflects its successful achievement in running its operations. According to Esomar (2021), bank financial performance refers to the bank's ability to carry out normal banking operations and fulfill obligations properly in accordance with applicable banking regulations. This financial performance relationship is closely related to the application of financial ratios, which serve to



evaluate whether the company is experiencing an increase or decrease in its financial performance (Afiska et al., 2021).

3. RESEARCH METHOD

Sourced from the journal (Hartanto & Dani, 2016) the method applied in this research is a literature study or literature study. The literature study approach involves collecting references from several previous studies which are then compiled comprehensively to form conclusions, in accordance with the concepts described by Mardalis (1999).

This research applied a literature study approach to achieve the research objectives. The literature study method applied involves collecting journal articles relevant to the research theme, specifically related to the Islamic supervisory board and the impact of its characteristics on financial performance in Islamic banks. To identify journal articles that are in line with the research objectives, this study uses the help of Publish or Perish software. Afterward, content analysis was conducted as a research method to identify and understand the content and purpose of the collected texts (Arifin, M. A. L., Asmaul Husna, 2023).

Content analysis is used as a research technique to produce an objective and systematic description of the content contained in the media that is the object of research. This analysis aims to understand the challenges faced by Islamic financial and banking institutions in achieving their goals, especially in the context of Islamic economics. The content analysis process is carried out through three main stages. The first stage is data reduction, where information obtained from journal articles is processed to reduce complexity, compile summaries that cover key aspects, and focus on significant things. This process was carried out in a structured manner so that the data became more organized, easy to understand, and could be organized in accordance with the research objectives.



The second stage is data display, which involves presenting information from data reduction, allowing conclusions to be drawn and data relevant to the research objectives. The third stage is Conclusion Drawing or Verification, where researchers explore the meaning of the data collected and draw deeper conclusions in accordance with the research objectives (Purwono, n.d.).

4. RESULTS AND DISCUSSION

This literature study is in-depth about the influence of the characteristics of the Sharia Supervisory Board (DPS) on the financial performance of Islamic Banks. Based on this research, several key findings can be identified:

The Effect of DPS Size on Financial Performance

This study discusses the effect of the size of the Sharia Supervisory Board (DPS) on the Return on Assets (ROA) of Islamic Commercial Banks (BUS) in the 2016-2020 period. The main findings show that the DPS size variable has a significant negative effect on financial performance, as measured by ROA.

The strength of this study lies in the selection of variables that are relevant to the context of Islamic banking and a long enough time span to provide a more comprehensive picture. The finding that a larger DPS size will decrease ROA supports the hypothesis that a large DPS size can increase agency costs and reduce bank profitability.

However, it should be noted that this study is descriptive and correlational in nature, so it cannot conclude causation with certainty. The effect of DPS size on ROA may be influenced by other factors not identified in this study. Therefore, further research with experimental or case study approaches may provide further insights.

In addition, it is necessary to consider the specific context of each Islamic bank, as there may be differences in the effect of DPS size on ROA between banks. The use of agency theory as the basis of explanation provides a strong



framework, however, further research can expand the analysis by considering other factors such as ownership structure, risk management policy, and economic environment.

Overall, this study makes an important contribution to the understanding of the relationship between DPS size and financial performance of Islamic banks. Recommendations for future research are to consider additional factors that may enrich the analysis and involve more variations in the context of the Islamic banking industry.

The Effect of DPS Educational Qualifications on Financial Performance

This study explores the relationship between the educational qualifications of the Sharia Supervisory Board (DPS) and the financial performance (ROA) of Islamic Commercial Banks (BUS) in the 2016-2020 period. The main findings show that the DPS educational qualification variable has a significant positive effect on ROA, which is supported by Resource Dependency Theory.

The strengths of this study include the choice of variables that are relevant to the context of Islamic banking and the support of the Resource Dependency theory. The emphasis on DPS educational qualifications as a determinant of financial performance makes a significant contribution to the literature and practical understanding. The argument put forward, that qualified and highly educated DPS members can increase the competitiveness of banks, create stronger analytical power, and enable effective decision-making, sounds logical and consistent.

Nonetheless, this study still has some shortcomings. The selection of a time period that may be limited may affect the generalizability of the findings. In addition, this study bases its findings on literature and theory without including empirical analysis or concrete case studies. Measures such as primary data



collection or advanced statistical testing might have given more strength to the findings.

Overall, this study provides valuable insights into the role of DPS educational qualifications in improving the financial performance of Islamic banks. Recommendations for future research are to consider extending the time period, as well as involving further empirical analysis to validate the findings. Further integration of case studies or industry analysis may also provide a deeper understanding of the impact of DPS educational qualifications on financial performance.

The Effect of the Number of DPS Meetings on Financial Performance

This study examines the variable number of Sharia Supervisory Board (DPS) meetings and its impact on the financial performance of Islamic Commercial Banks (BUS) in the 2016-2020 period. The main findings show that the number of DPS meetings has no significant effect on financial performance, which contrasts with existing regulations and practices.

The strengths of this study involve adequate analysis related to the compliance of Islamic Commercial Banks with regulations set by Bank Indonesia and the Financial Services Authority (OJK). The understanding that these banks have complied with the obligation to hold meetings in accordance with the stipulated regulations provides a strong context for this research.

However, this study also highlights weaknesses in the quality of DPS meetings. The fact that not all DPS members attend meetings may indicate potential problems in decision-making and the quality of strategic planning at the Sharia Supervisory Board level. However, this study did not discuss in detail the direct impact of poor meeting attendance on financial performance.

A suggestion for future research is to further deepen the analysis of the relationship between DPS meeting quality and financial performance. Further



exploration of factors that may affect meeting quality, such as DPS members' attendance and disclosure of reasons for absence, may provide richer insights.

Overall, this study provides important and interesting information for the practice of Good Corporate Governance (GCG) in Islamic Commercial Banks, but the limitations in analyzing the direct impact on financial performance could be a focal point for further research.

Effect of DPS Reputation on Financial Performance

Based on resource dependence theory, the Islamic supervisory board is considered a crucial resource for Islamic banks that can improve their financial performance (Pfeffer & Salancik, 1978). The existence of a good reputation on the sharia supervisory board is an advantage for Islamic banks (Pfeffer & Salancik, 1978). The sharia supervisory board has the responsibility to ensure that the bank's business activities and products are in accordance with sharia principles. When the Islamic supervisory board has a positive reputation, it can increase the number of customers and bank deposits, which in turn reduces liquidity risk and improves the financial performance of Islamic banks (Farook, Hassan, & Lanis, 2011); (Nomran, Haron, & Hassan, 2018). Findings from research by Nomran, Haron, & Hassan (2018), Nugraheni (2018), and Nugroho (2020) state that the reputation of the Sharia Supervisory Board (DPS) has a positive impact on the financial performance of Islamic banks.

This study evaluates the relationship between the reputation variable of the Sharia Supervisory Board (DPS) and the financial performance of Islamic Commercial Banks (BUS) during the 2016-2020 period, showing that DPS reputation has no significant effect on ROA. The analysis was conducted by measuring DPS reputation based on the percentage of DPS members who sit on DSN-MUI or have membership in other Islamic institutions at the same time.



The strengths of this study include the measurable method of measuring reputation variables and the selection of a long enough research time, allowing the observation of trends and variability in financial performance. The selection of variables related to the Islamic banking context also provides added value for practical understanding.

However, a weakness arises from the finding that only a few DPS members sit on the DSN-MUI, while more have memberships in other Islamic institutions. This raises questions about the validity of the reputation measurement method and its relevance in the context of Islamic banks. The lack of membership in DSN-MUI, which can be considered as the main sharia institution, may affect the validity of the findings.

Suggestions for future research are to consider the role of other variables that may influence DPS reputation, as well as explore contextual factors that may moderate the relationship between DPS reputation and financial performance. Further analysis of the impact of membership in DSN-MUI on reputation and financial performance may provide greater insight.

Overall, this study presents a picture of the relationship between DPS reputation and financial performance of Islamic banks, although the results show that the variable has no significant effect. Further consideration of contextual factors and measurement methods may enrich the understanding of the role of DPS reputation in the context of Islamic banking.

Effect of Bank Size on Financial Performance

The bank size variable shows a significant effect on the financial performance of Islamic Commercial Banks (BUS) in the 2016-2020 period. This finding is in line with the view that banks with a larger scale or size tend to have ease in obtaining sources of funds from external parties and can access various markets more effectively, as stated by (Novyanny & Turangan, 2019).



The success of large banks lies not only in the ease of obtaining sources of funds, but also in their ability to carry out various financial activities, including the purchase of assets, utilization of loans, and engaging in investment and other financial activities. Therefore, it can be concluded that larger bank size can contribute positively to financial performance, as it provides greater flexibility and access to conduct business operations.

This positive influence can be interpreted through various aspects, such as increased operational efficiency, the ability to execute more complex business strategies, as well as increased bargaining power in the financial market. Nonetheless, further research may be needed to understand in more depth how other factors such as risk management and bank governance may moderate the relationship between bank size and financial performance.

Overall, these findings provide strong insights into the importance of bank size in supporting the financial performance of Islamic Commercial Banks. However, as a next step, further research could deepen the understanding of the underlying dynamics of this relationship and involve additional variables to gain a more comprehensive understanding.

Effect of Bank Age on Financial Performance

Performance, in the context of accounting terms, refers to the evaluation of the operational effectiveness of a business over a given period. For the banking sector, performance generally reflects the achievements made by the bank in carrying out its operations. According to Esomar (2021), bank financial performance describes the bank's ability to carry out normal banking activities and fulfill all its obligations in accordance with applicable banking regulations. This financial performance is closely related to financial ratios, which are used to measure whether the company is experiencing an increase or decrease in its financial performance.



The Return on Assets (ROA) ratio is widely used as an indicator of the company's financial performance to evaluate the level of effectiveness of all company operations. ROA is a form of profitability ratio that is used to measure the company's ability to generate profits by taking into account total existing costs and after the cost of capital (costs used to fund assets) is taken into account in the analysis (Ikhwal, 2016). The ROA formula can be explained as follows:

$$\text{ROA} = \text{EBIT} \text{ (Earning Before Interest and Tax)} / \text{Total Assets.}$$

According to the resource dependency theory, a larger Islamic supervisory board is considered more favorable than a smaller Islamic supervisory board (Quttainah, Liang, & Qiang, 2013). The large dimension of the Sharia Supervisory Board (DPS) can have a significant impact on the financial performance of Islamic banks. This is due to the increased number of DPS members consisting of scholars with diverse experiences, skills, and in-depth knowledge of Islamic law and fiqh. This then has an impact on the interpretation of Islamic bank products and operations, which ultimately improves the overall performance of Islamic banks (Hamza, 2016). The effect of DPS size on the financial performance of Islamic banks has been proven in previous studies, as indicated by Matoussi & Grassa (2012), Mollah & Zaman (2015), Nomran, Haron, & Hassan (2018), and Baklouti (2020).

The bank age variable significantly affects the financial performance of Islamic Commercial Banks (BUS) during the 2016-2020 period. This finding is in line with the view that long-established or older banks tend to have a greater level of experience, allowing them to make wiser decisions when facing operational problems or challenges (Novyanny & Turangan, 2019).

An additional advantage of older banks is higher trust from the public. Long-established banks usually have an established reputation and are better known by the public compared to newly established banks. Therefore, people have a



tendency to be more trusting and confident in using products and services offered by banks that have a long operational history.

The importance of bank age in building financial performance can be interpreted as a result of the accumulated experience and trust that has been built over the years. However, it should be noted that this positive effect can also be influenced by other factors such as adaptation to technological developments, innovation, and risk management capabilities.

Overall, the findings provide a strong understanding of the positive impact of bank age on the financial performance of Islamic Commercial Banks. However, further research can explore additional factors that may moderate this relationship and analyze how older banks can remain relevant and adapt in a changing business environment.

5. CONCLUSION

This literature review provides an in-depth understanding of the influence of Sharia Supervisory Board (DPS) characteristics on the financial performance of Islamic Banks. The study identified several key findings related to DPS variables and factors that may affect the financial performance of banks. Firstly, the findings show that DPS size has a significant negative effect on Return on Assets (ROA), with larger size tending to decrease bank profitability. While this study provides a comprehensive picture, it should be noted that causal relationships cannot be ascertained as the research method is descriptive and correlational in nature.

Furthermore, the study explored the educational qualifications of DPS and found that educational qualifications have a significant positive influence on ROA. This supports the Resource Dependency theory that emphasizes the importance of qualified and highly educated DPS members in improving the competitiveness of banks. Although these findings provide valuable insights, the



weakness of the study lies in the limitations of empirical analysis or concrete case studies, thus the need for further research with a more in-depth approach.

Furthermore, the study examined the number of DPS meetings and found that this variable had no significant effect on financial performance, despite banks complying with regulations that require them to hold meetings as per regulations. The study highlighted weaknesses in the quality of DPS meetings, however, the direct impact of poor meeting attendance on financial performance has not been explained in detail. Future research should further deepen the analysis of this relationship and explore the factors that influence meeting quality.

Furthermore, an evaluation of DPS reputation shows that this variable has no significant effect on ROA. Although the method of measuring reputation is measurable, the lack of membership in DSN-MUI, the main sharia institution, raises questions about the validity of the findings. Suggestions for future research include consideration of other variables that may affect DPS reputation and further analysis of the impact of membership in a major sharia institution.

Finally, the variables of bank size and bank age showed a significant positive influence on the financial performance of Islamic Commercial Banks. Larger bank size contributes positively through increased operational efficiency and greater access to business operations. While the older age of the bank provides higher trust from the public. While these findings provide strong insights, further research is needed to understand other factors that may moderate this relationship and explore how older banks can remain relevant in a dynamic business environment.



JIEP

Journal of Islamic Economic Perspectives (JIEP)

ISSN: 2715-0445

Volume 6, Issue 1 (20xx) doi:

<https://doi.org/10.35719/jiep.v6i1.150>



6. REFERENCES

Afiska, L., Handayani, D. F., & Serly, V. (2021). Pengaruh Karakteristik Dewan Pengawas Syariah (DPS) Terhadap Kinerja Keuangan Bank Umum Syariah Yang Terdaftar pada Otoritas Jasa Keuangan (OJK) Indonesia. *Jurnal Eksplorasi Akuntansi*, 3(4), 784-798. <https://doi.org/10.24036/jea.v3i4.429>

Arifin, M. A. L., Asmaul Husna, N. M. S. (2023). *Audit Internal Syariah dan Faktor Efektivitas Pada Bank Syariah*.

Fani, A. A. B., Purnamasari, D. S., & Safitri, F. I. (2023). Do we need a Sharia Supervisory Board in every Islamic bank? *Journal of Islamic Economics and Philanthropy*, 5(4), 131-144. <https://doi.org/10.21111/jiep.v6i2.9678>

Hartanto, R. S. W., & Dani, H. (2016). Studi Literatur: pengembangan media pembelajaran dengan software autocad. *Jurnal Kajian Pendidikan Teknik Bangunan*, 1(1), 1-6.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360. [https://doi.org/https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/https://doi.org/10.1016/0304-405X(76)90026-X)

Kartikaningrum, S. D. (2016). Pengaruh Karakteristik Dewan Direksi terhadap Kinerja Keuangan Bank Syariah di Indonesia. *Fakultas Ekonomi Dan Bisnis Islam Institut Agama Islam Negeri Salatiga*.

Luthan, L., & Mazelfi, I. (2023). *Analisis Pengaruh Karakteristik Dewan Pengawas Syariah Terhadap Perilaku Pengambilan Risiko dan Penghindaran Pajak Pada Perbankan Syariah Di Indonesia*. 18(1), 135-149. <https://akuntansi.pnp.ac.id/jam>

Novyanny, M. C., & Turangan, J. A. (2019). Pengaruh Likuiditas, Ukuran Perusahaan, Umur Perusahaan Dan Pertumbuhan Perusahaan Terhadap Profitabilitas Pada Perusahaan Jasa Sektor Perdagangan, Jasa & Investasi Yang Terdaftar Pada Bursa Efek Indonesia. *Jurnal Manajerial Dan Kewirausahaan*, 1(1). <https://doi.org/10.24912/jmk.v1i1.2790>



Nugroho, A. (2020). Studi Efektivitas Dewan Pengawas Syariah Terhadap Profitabilitas dan Resiko Pembiayaan Perbankan Syariah. *Proceeding of National Conference on Accounting & Finance*, 2(2010), 60-68.
<https://doi.org/10.20885/ncaf.vol2.art6>

Pada Bank Syariah Di Asia Tenggara, S., Fella Rizki, M., & Ilyas, F. (2015). *PENGARUH KARAKTERISTIK DEWAN PENGAWAS SYARIAH TERHADAP KINERJA PERBANKAN YANG DIMODERASI OLEH PENGAMBILAN RISIKO BANK*.

Purwono, F. H. A. U. U. N. P. R. J. (n.d.). *Metodologi Penelitian (Kuantitatif, Kualitatif dan Mix Method)*. GUEPEDIA.

Puspa Iwari, D., Jurnal, H., Lasmi Wardiyah, M., Noorisnan Pelita, B., Supriyadi, D., & Hasana, N. (2023). *Analisis Konsep Independensi Dewan Pengawas Syariah dalam Penerapan Prinsip Syariah di Lingkungan Perbankan Syariah* (Vol. 10, Issue 2).

Rosnia, M., Mustafa Mohd, H., & Norailis Ab., W. (2018). Sharia Supervisory Board (SSB) and Performance of Islamic Banks in Malaysia. *International Journal of Engineering & Technology*, 7, 710-714.