

The Influence of Sharia Supervisory Board (SSB) on The Profitability of Islamic Banks in Indonesia

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Abstract: *This study aimed to know the Influence of The Characteristics of The Syariah Supervisory Board (SSB) Simultaneously and Partially on The Profitability of Islamic Banks in Indonesia in The Period of The Year 2013-2017. The Analytical methods used on this study is multiple regression. The result showed that Simultaneously The Characteristics of The SSB Significant Effect of The Profitability of Islamic Banks. Partially only The Characteristics of The SSB that are Education Background and skills in Islamic Economics and Finance that Have a Significant Effect on Profitability of Islamic Banks, while The Size, Dual Position and Reputation Have no Significant Effect on Profitability of Islamic Banks in Indonesia.*

Key Words: *Syariah Supervisory Board, Profitability, Islamic Banks*

1. INTRODUCTION:

The development of sharia banking business in Indonesia experiences many problems. Mr. Achmad Permana as the Secretary General of the Association of Indonesian Islamic Banks (Asbisindo) stated that "there are actually three major problems experienced by Islamic banking and this is what hinders the development of Islamic banking to date".

The first problem is the availability of products and standardization of Islamic banking products. There are still many Islamic banks that have not run their business according to sharia principles. The second problem is the low level of public understanding towards Islamic banking products. The last problem is the issue with the Human Resources (HR) itself. The difficulty that the management team faced in finding Islamic banking has led to the difficulty in finding the competent human resources in Islamic economics and sharia law (*fiqih muamalah*).

Problems that occur are not only limited in those three problems. Mr. Dhani Gunawan as the Director of Islamic Banking also added several issues regarding the growth of Islamic banks in Indonesia. The first is the unaligned vision and the lack of coordination between the government and the authorities in developing Islamic banking. The second is the amount of Islamic banks that has the issue of capital inadequacy. OJK observed in 12 Islamic banks, there are 10 of them which core capital are of less than Rp. 2 trillion; no Islamic banks found with core capital exceeding Rp 5 trillion yet. The third is the immense amount of the funding return to the customers.

The fourth is the lack of both products' variations and the services that are provided; the features of Islamic banks are yet to be completed compared to the similar products found in conventional banks. The fifth is the number and qualities of inadequate human resources are generally lower compared to the qualities of human resources found in conventional banking. The sixth is low public understanding and awareness towards Islamic bank products. The last problem is the suboptimal regulation and supervision in Islamic banking.

The role of SSB is very decisive and strategic towards the application of sharia principles in Islamic financial institutions. Every SSB members must meet requirement of size, integrity, reputation, expertise and integral educational background in both *muamalah* jurisprudence and modern Islamic financial economics. In practice, prevalent numbers of Islamic financial institutions have appointed DPS just because their popularity as clerics; denying the existence of their knowledge. This acts as the cause of the inability of SSB to be optimal; the knowledge of the technicalities of Islamic financial institutions does not exist.

Thus the implementation of *Good Corporate Governance* (GCG) in Islamic banking becomes increasingly important. GCG that serves to anticipate various risks, both in financial and in reputation are also an important pillar that must be applied to create a more superior and resilient Islamic bank.

The implementation of GCG in Islamic and conventional banks uses the same principles: transparency, accountability, professionalism and fairness. The implementation must fulfill the compliance towards sharia principles (sharia compliance). It cannot be separated from its obligation to carry out business activities based on sharia principles. This is what distinguishes the implementation of GCG in Islamic banking from its counterpart in conventional banking.

Another thing that distinguishes the GCG is the existence of the Sharia Supervisory Board (SSB) found in Islamic banking. SSB is very relevant in the implementation of GCG as the element that supervises and ensures that an Islamic bank must use sharia principles in each of its operations. DPS must have strong characteristics which are related to the

size, concurrent position, educational background, reputation and expertise. With strong characteristics, it is hoped that it is able to carry out the duties in order to increase the profitability of Islamic banking.

2. THEORITICAL FRAMEWORK:

Agency Theory

The existence of these two participants (principals and agents) arise problems regarding the mechanisms that must be established to harmonize different interests between the two of them. *Good Corporate Governance* (GCG) as the effectiveness of a mechanism that aims to minimize agency conflicts, with special emphasis on legal mechanisms that prevent the execution of exportations of majority and minority shareholders (Nuswandari, 2009).

Good Corporate Governance Theory

According to Effendi (2017), *Good Corporate Governance* (GCG) is a system designed to direct the management of a company professionally based on the principles of transparency, accountability, accountability of independence, and justice. GCG can encourage the formation of a clean, transparent and professional (CTP) management work pattern.

Sharia Supervisory Board Theory (DPS)

According to Wahyudin (2015), specifically for banks that conduct business activities based on sharia principles, they must have a Sharia Supervisory Board (SSB), which is an independent body in charge of directing, consulting, evaluating, and Supervising the activities of Islamic banks comply with the sharia principles as determined by the fatwa and Islamic sharia.

3. RESEARCH METHOD:

This research is a descriptive study with a quantitative approach in which data used secondary data derived from annual financial reports and reports on Islamic banking Good Corporate Governance (GCG) in Indonesia. This study examines Islamic banking on the grounds that Islamic banks are a bank whose activities have an impact and a direct relationship with the Sharia Supervisory Board (SSB) so as to facilitate researchers in assessing the characteristics of the Sharia Supervisory Board (SSB). The data needed for the financial performance of Islamic banks is measured by profitability ratios namely: *Return on Assets* (ROA) and *Return on Equity* (ROE). The characteristics of the Sharia Supervisory Board (SSB) are seen in the GCG (Good Corporate Governance) report, which are: Size, Dual Position, Educational Background, Reputation and Expertise.

The population in this study is all Islamic banks in Indonesia and the time of research is in 2013-2017 period. There are 11 samples from 13 populations after purposive sampling technique is sampling based on certain criteria (Arikunto, 2016). Islamic banks used as samples in this study are as follows:

Table 3.1
List of Islamic Banks Population

No	Name of the Islamic Banks
1.	PT. Bank Muamalat Indonesia
2.	PT. Bank Victoria Syariah
3.	PT. Bank BRI Syariah
4.	PT. Bank Jabar Banten Syariah
5.	PT. Bank BNI Syariah
6.	PT. Bank Syariah Mandiri
7.	PT. Bank Mega Syariah
8.	PT. Bank Panin Dubai Syariah
9.	PT. Bank Syariah Bukopin
10.	PT. BCA Syariah
11.	PT. Maybank Syariah Indonesia
12.	PT. BTPN Syariah
13.	PT. Bank Aceh syariah

sources:www.ojk.go.id

Data collection methods used in this study is documentation methods, namely the collection of data from various sources that have been officially published and included in the bibliography. The data collection phase begins by studying literature by studying various books, journals, and readings related to research. Furthermore, the collection of quantitative data is based on the research period, namely from 2013-2017 obtained from the annual report and the good corporate governance report for each Islamic bank in Indonesia.

Table 3.2
Operational Defenition

No	Variables	Indicators	Hypotheses
1.	Size of DPS	% fromtotal DPS in Islamic Bank	H ₁ (+)
2.	DPS Position (Dual)	% from DPS in another positionat the same time	H ₂ (+)
3.	Educational Background	% dari DPS with Doktor/Ph.D degree	H ₃ (+)
4.	Reputation	% from DPS that doubles as DSN-MUI	H ₄ (+)
5.	Skills	% from DPS with sharia financial and economical skills	H ₅ (+)
6.	CAR	Stock adequacy owned by Islamic Banks inclosing price	H ₆ (+)

No	Variables	Indicators	Researchers
1.	ROA	ROA = EAT / Total Aset	Norman et al., 2017; Norman et al., 2016; Mollah dan Zaman, 2015; Musibah dan Alfatanni, 2014; Matoussi dan Grassa, 2012
2.	ROE	ROE = EAT / Modal	Norman et al., 2017; Norman et al., 2016; Mollah dan Zaman, 2015; Musibah dan Alfatanni, 2014; Matoussi dan Grassa, 2012

4. RESULTS AND DISCUSSIONS:

Research Result

F test (simultaneous) that is done in order to find out all independent variables together has a significant effect on the dependent variable. It can be seen in table 4.17 and table 4.18 (F and Sig.) As follows:

Table 4.17
F test (simultaneous) ROA
ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	197.272	5	32.879	2.512	.034 ^a
Residual	628.237	49	13.088		
Total	825.508	54			

a. Predictors: (Constant), KDPS, RJDSPS, RDPS, UDPS, LBPDP

b. Dependent Variable: ROA

In table 4.17, the results of the F test can be displayed to determine whether all independent variables together affect the dependent variable, with a significant level of 5%. So, the degree of freedom: 54 - 6 = 48, then the F table obtained is 2,294. Based on the above output, it can be concluded that all the independent variables (UDPS, RJDPS, LBPDP, RDPS, KDPS and CAR) F calculated is 2.512, thus F arithmetic > F table (2.512 > 2,294) which statistically all independent variables affect ROA. While the value (Sig.) of all variables (0.034 < 0.05) means that there is a positive and significant influence of all independent variables together on ROA.

Table 4.18
F test (simultaneous) ROE
ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	5470.914	5	911.819	2.564	.031 ^a
Residual	17071.108	49	355.648		
Total	22542.022	54			

a. Predictors: (Constant), KDPS, RJDSPS, RDPS, UDPS, LBDPDS

b. Dependent Variable: ROA

In table 4.18 the results of the F test are displayed can be used to determine whether all independent variables together affect the dependent variable, with a significant level of 5%. So, the degree of freedom: $54 - 6 = 48$, then the F table obtained is 2,294. Based on the above output, it can be concluded that all the independent variables (UDPS, RJDPS, LBDPDS, RDPS, KDPS and CAR) F counted is 2,654, thus $F_{count} > F_{table}$ ($2,654 > 2,294$) which statistically all independent variables affect ROE. While the value (Sig.) Of all variables ($0.031 < 0.05$) means that there is a positive and significant effect of all independent variables together on ROE.

T test (partial) is used to find out all independent variables individually have a significant effect on the dependent variable. It can be seen in table 4.19 and 4.20 table (T and Sig.) As follows:

Table 4.19
T test (partial)ROA
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.140	3.553		.321	.750
UDPS	-.218	.101	-.536	-2.168	.035
RJDSPS	-.069	.039	-.333	-1.760	.085
LBDPDS	.143	.067	.563	2.130	.038
RDPS	-.013	.031	-.084	-.413	.681
KDPS	.088	.040	.542	2.220	.031
CAR	.039	.048	.128	.817	.418

a. Dependent Variable: ROA

In table 4.20, the results of the t-test value can be displayed to determine how far the effect of independent variables partially affects the dependent variable, with a significant level of 5%. So, the degree of freedom: $54 - 6 = 48$, then the t table value obtained is 1.667. Based on the output above, it is as follows:

a. UDPSvariable

The UDPS T variable is calculated as -2.168, thus the value of t count $< t_{table}$ ($-2.168 < 1.667$) which statistically negative UDPS variables affect ROA, while the significant value of UDPS ($0.035 < 0.05$) which statistically influences the UDPS variable ROA. Thus it can be concluded that, the value of t arithmetic (negative) and the value of sig. (significant).

b. RJDPSVariable

RJDPS variable t count value is -1,760, thus the value of t count $< t_{table}$ ($-1,760 < 1,677$) which statistically variable RJDPS negatively affects ROA, while significant value of RJDPS ($0,085 > 0,05$) which statistically RJDPS variable has no effect significant against ROA. Thus it can be concluded that, the value of t counts (negative) and sig values. (not significant).

c. LBDPDSvariable

LBDPDS variable t count value is 2,130, thus the value of t count $> t_{table}$ ($2,130 > 1,667$) which statistically positive LBDPDS variable affects ROA, while the significant value of LBDPDS ($0,038 < 0,05$) which statistically LBDPDS variable has a significant effect on ROA . Thus it can be concluded that, the value of t counts (positive) and the value of sig. (significant).

- d. RDPSvariable
 RDPS variable t count value is -0.413, thus the t count value < t table (-0.413 < 1.667) which statistically RDPS variable negatively affects ROA, while the significant value of RDPS (0.681 > 0.05) which RDPS variable statistically has no effect significant to ROA. Thus it can be concluded that, the value of t counts (negative) and sig values. (not significant).
- e. KDPSvariable
 KDPS variable t count value is 2,220, thus the value of t count > t table (2,220 > 1,667) which statistically positive KDPS variable affects ROA, while the significant value of KDPS (0,031 < 0,05) which statistically KDPS variable has a significant effect on ROA . Thus it can be concluded that, the value of t counts (positive) and the value of sig. (significant).
- f. CARvariable
 The CAR variable t count value is 0.817, thus the value of t arithmetic < t table (10.817 < 1.677) which statistically variable CAR negatively affects ROA, while the significant value of CAR (0.542 > 0.05) which statistically variable CAR has no positive effect on ROA. Thus it can be concluded that, the value of t counts (negative) and sig values. (not significant).

Table 4.20
Test T (Parial) ROE Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	10.701	18.155		.589	.558
UDPS	-.972	.514	-.457	-1.890	.065
RJDSPS	-.424	.201	-.389	-2.103	.041
LBDPS	.659	.343	.496	1.919	.061
RDPS	-.183	.159	-.229	-1.150	.256
KDPS	.594	.202	.700	2.935	.005
CAR	.072	.244	.045	.296	.769

a. Dependent Variable: ROE

In table 4.21, the results of the t-test value can be displayed to determine how far is the effect of independent variables partially in affecting the dependent variable, with a significant level of 5%. Therefore, the degree of freedom: 54 - 6 = 48, then the t table obtained is 1,667. Based on the results of the above output are as follows:

- a. UDPSvariable
 UDPS variable t count value is -2.890, thus the value of t count < t table (-2.890 < 1.667) which statistically negative UDPS variables affect ROA, while the significant value of UDPS (0.065 > 0.05) which statistically UDPS variables have no effect significant to ROA. Thus it can be concluded that, the value of t counts (negative) and sig values. (Not significant).
- b. RJDPSvariable
 RJDPS variable t count value is -2.103, thus the value of t count < t table (-2.103 < 1.677) which statistically variable RJDPS negatively affects ROA, while the significant value of RJDPS (0.041 < 0.05) which statistically significant RJDPS variable. Thus it can be concluded that, the value of t counts (negative) and sig values. (Significant).
- c. LBDPSvariable
 LBDPS variable t count value is 2.409, thus the value of t count > t table (1.919 > 1.667) which statistically positive LBDPS variable affects ROA, while the significant value of LBDPS (0.061 > 0.05) which statistically LBDPS variable has no significant effect. Thus it can be concluded that, the value of t counts (positive) and the value of sig. (not significant).
- d. RDPSvariable
 RDPS variable t count value is -1,150, thus the t count value < t table (-1,150 < 1,667) which statistically RDPS variable negatively affects ROA, while the significant value of RDPS (0,256 > 0,05) which RDPS variable statistically has no effect significant to ROA. Thus it can be concluded that, the value of t counts (negative) and sig values. (not significant).

e. KDPSvariable

The KDPS variable t count value is 2.935, thus the value of t count > t table (2.935 > 1.667) which statistically influences the KDPS variable ROA, while the significant value is KDPS (0.005 < 0.05) which the KDPS variable statistically has a significant effect on ROA. Thus it can be concluded that, the value of t counts (positive) and the value of sig. (significant).

f. CARvariable

CAR variable t arithmetic value is 0.296, thus the value of t arithmetic < t table (0.296 < 1.677) which is a CAR variable negatively affects ROA, while the significant value of CAR (0.769 > 0.05) which statistically variable CAR has no significant effect on ROA. Thus it can be concluded that, the value of t counts (negative) and value. (not significant).

5. DISCUSSION:

Based on the tests performed, it can be concluded that the LBDPS and KDPS variables have a positive and significant effect towards ROA and ROE with the following memematic equation:

$$ROA = 1,140 - 0,218 (UDPS) - 0,069 (RJDPS) + 0,143 (LBDPS) - 0,013 (RDPS) + 0,88 (KDPS) + 0,39 (CAR)$$

$$ROE = 10,701 - 0,972 (UDPS) - 0,424 (RJDPS) + 0,659 (LBDPS) - 0,183 (RDPS) + 0,594 (KDPS) + 0,072 (CAR)$$

Based on the equation above, if the independent variable is considered constant, the average ROA is 1.140. If it is viewed based on LBDPS variable; every 30% increase or 1 DPS member who has a higher education background will increase ROA by 4.2%, because DPS members who have higher education are better at carrying out their responsibilities as DPS members. When viewed based on the KDPS variable, that every 30% increase or 1 DPS member who has expertise in the field of sharia economics and finance will increase ROA by 2.4%, because the members who have expertise in the field are better at carrying out their functions in Islamic banks compared to those who do not have these skills.

Based on the above equation, it can be seen that if the independent variable is considered constant, then the average ROE is 10.701. Based on KDPS variables, every 30% increase or 1 DPS member who has expertise in the field of sharia economics and finance will increase ROE by 17.7%. It is because the investors tend to judge and look at the expertise of someone who is very competent in the field of economics and Islamic finance so that it can control and do its work better than those who do not have the expertise so that investors dare to invest in the Islamic bank.

6. CONCLUSION:

This study aims to see the influence of the Sharia Supervisory Board (DPS) on the Profitability of Islamic Banks in Indonesia. In this study, there were a sample of 11 Islamic banks in Indonesia by taking the period of 2013-2017. The results of testing the hypothesis using multiple linear analysis with five independent variables (Size, Multiple Positions, Educational Background, Reputation and Expertise), two dependent variables (ROA and ROE), and one control variable (CAR), the results show that:

1. The size of DPS in this study has a negative influence towards ROA. The regression coefficient has a negative but significant sign which shows that, with fewer DPS members existed in an Islamic bank, the lower agency costs that is incurred by Islamic banks and improve coordination between DPS members. UDPS variable is significant to ROA because with more DPS members in a sharia bank it contains DPS members with various experiences, skills from various fields that lead to better interpretation of products and operations so that the bank's performance is better and more able to work more effectively as DPS member
2. The size of DPS in this study has a negative influence on ROE. The regression coefficient is negative but significant indicating that, stakeholders want to utilize the small number of DPS members in order to reduce agency costs rather than the high number of DPS members, so that money can be used for more important matters.
3. Dual DPS positions in this study have a negative influence towards ROA. Regression coefficients have a negative but significant sign which indicates that DPS members who have other jobs at the same time will make them ineffective and focus on work and lead to conflicts of interest because they have access to exclusive information.
4. Dual DPS positions in this study have a negative influence on ROE. Regression coefficients have a negative but significant sign which shows that, stakeholders want DPS members in Islamic banks to have experience, get more information sources so that they can do better policies obtained in different places even though their work becomes less effective and focused because of the many concurrent work at the same time.
5. Educational Background The DPS in this study has a negative influence on ROA. Regression coefficients have a negative but significant sign which shows that, DPS members who are highly educated means that the members are qualified to be more skilled in the field they control and play an important role in Islamic banks because they can increase competitiveness in Islamic banks.

6. Educational Background The DPS in this study has a negative influence on ROA. The regression coefficient is negative but significant which shows that, stakeholders want highly educated DPS members who understand sharia economics and finance so that it is more effective to work in Islamic banks than highly educated DPS members who understand in other fields.
7. The DPS reputation in this study has a negative influence on ROA and ROE. The regression coefficient is negative and insignificant indicating that, there are only a few people who have a reputation in Islamic banks of the number of DPS members working in Islamic banks in Indonesia. Researchers see that the average number of board members who work in Islamic banks are still few who have a good reputation so that the results of the research obtained are not significant. On average, DPS who have a Master / Bachelor degree are still few in concurrent positions and become members of the DSN and MUI, so this needs to be taken into consideration by the board members to be able to get a reputation that can later become capital that can be brought to the Islamic banks where they work.
8. The DPS reputation in this study has a positive influence on ROA and ROE. The regression coefficient is positive and significant indicating that, DPS Expertise members are abilities possessed by DPS members in carrying out their role as advisors and supervisors of Islamic banks. The more abilities that DPS members have, the better they are in carrying out their roles in Islamic banks. DPS members who have the knowledge and experience in Islamic economics and finance are more effective in their work than DPS members who do not have such capability.

This study has simultaneous result that the Size, Dual Position, Educational Background, Reputation and Expertise variables of DPS have positive and significant impacts on the Profitability of Islamic Banks in Indonesia. If partially, the DPS Background Education and Expertise variable has a positive and significant impact towards ROA, while positive and significant effects on the ROE merely depends on skills. The Size, Multiple Positions, and Negative Reputation do not significantly affect the ROA and ROE of Islamic banks in Indonesia.

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