

THE ROLE OF THE SHARIA SUPERVISORY BOARD (SSB) IN MODERATING THE EFFECT OF GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF ISLAMIC BANKS IN INDONESIA

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ABSTRACT

Purpose — The aims of this research to examine and analyze the extent of the role of the sharia supervisory board (SSB) in moderating the effect of good corporate governance on the financial performance of Islamic banks in Indonesia.

Design/methodology/approach — Population in this research is 14 (fourteen) Islamic banks in Indonesia and the sample used in this research is 9 (nine) Islamic banks that have published financial reports, good corporate governance reports, and annual reports for the period 2010 - 2019. This research data processed were processed using reviews-10.

Findings — The results of this research stated that good corporate governance has a significant effect on the financial performance of Islamic banks. The sharia supervisory board (SSB) moderates the effect of good corporate governance on the financial performance of Islamic banks in Indonesia.

Practical Implications — The chow test stated chosen model as fixed effects, then the Housman test stated chosen model as random effects. Thus the model used in this research is a random effect.

Originality/value — To complete the results, this research used in-depth interviews with practitioners of Islamic banks in Indonesia, specifically the departement of compliance with Islamic banks.

Keywords Good corporate governance, Sharia Supervisory Board, financial performance

Paper Type Research Paper.

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INTRODUCTION

Financial Services Authority (OJK) in June 2019 stated the development of Islamic banks in Indonesia currently can be seen from the amount Islamic banks are 14 banks, the sum of Islamic business units as many as 20 banks, 2,950 office networks, and Islamic rural banks as many as 164 banks. In 2008 which became an important factor in driving the growth of Islamic banks in Indonesia, because the expansion of Islamic banks in Indonesia is considered significant.

In the 21st century, as widely known, banking management very important to implement good corporate governance. the main trigger for the development of these demands was the crisis that was occurred in the banking sector in 1997-2001 which affected a great number of conventional banks, wherein that period as many as 89 conventional banks had to be liquidated (Setyani, 2012). the efforts to restore public trust towards Indonesian banks through restructuring and recapitalization can have a long-term and fundamental impact if only it is accompanied by three other important actions, namely: (i) the adherence to the precautionary principle; (ii) implementing good corporate governance, and (iii) effective supervision from the bank supervisory authority.

The existence of the sharia supervisory board (SSB) can be one of the differentiators among conventional banks and Islamic banks. The duty and responsibility of the sharia supervisory board (SSB) are to provide advice to directors and control all activities to be in accordance with Islamic principles. Assess and ensure compliance with Islamic principles for products issued by the Bank and oversee the development process of new products of the Bank. Islamic banks are financial institutions that operate in accordance with Islamic principles, meaning that the banks must comply with the sharia regulations in their operations, especially the ones that are concerned with the sharia procedures, therefore guaranteeing compliance with sharia compliance in all of the banks' fund management activities. Sharia is very important in the business activities of Islamic

banks (Rivai and Arifin 2010). If the role of the sharia supervisory board (SSB) is weak then it will have an impact on reputational risks from Islamic banks which in turn will have an impact on displaced commercial risk, such as liquidity risk and other risks.

For this reason, the role of the sharia supervisory board (SSB) needs to be optimized to ensure that all Islamic bank's products and operational systems are based on Islamic principles. Therefore, members of the sharia supervisory board (SSB) must understand economics, banking and, have experience in the field of Islamic law. The working relationship of the board of commissioners, sharia supervisory board (SSB), and directors is a check and balance relationship for the progress and health of the Islamic banks. The three elements will guarantee the operations of Islamic banks to run within the scope of applicable laws and regulations and based on Islamic principles. The sharia supervisory board (SSB) must always oversee the business activities of Islamic banks and provide opinions on the purity of the Islamic principles adopted.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Company financial effectiveness is the result of management activity in a company. To assess the success of a company's management in terms of achieving the company goals set in a certain period, using the results of management activities as a parameter or the benchmark. According to Chariri and Ghazali (2007), financial information and non-financial information can be used to measure a company's financial effectiveness. Customer satisfaction with the services provided by the company is an example of nonfinancial information. However, most company financial effectiveness is measured by financial information in certain periods. According to Fahmi (2012), financial effectiveness is a formal effort by the company as a benchmark to evaluate the company. The company's financial effectiveness is closely related to performance measurement and assessment. Performing measurement is the qualification and efficiency and effectiveness of the company in the operation of the company's business during the accounting period. As for

performance, an appraisal is the determination of operational and organizational effectiveness and employees based on the targets, standards, and criteria that have been previously set periodically.

Jensen and Meckling (1976) stated in agency theory that: We define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal.

Good corporate governance has an effect on company financial effectiveness. Islamic bank's financial effectiveness in Indonesia can improve, with the implementation of good corporate governance supported by the role of the sharia supervisory board (SSB). It is reflected in this research conducted by research previously: Darwanto and Chariri (2019) that showed good corporate governance has a significant effect on the financial effectiveness of Islamic banks in Indonesia. Darwanto and Chariri (2019), stated that the presence of the sharia supervisory board (SSB) affected the financial effectiveness of Islamic banks in Indonesia. Lukas and Basuki (2015), Rama and Yella (2015), Ibrahim (2017), Mushtaq et al. (2018), Mahrani and Soewarno (2018), Ahmed and Hamdan (2015), Prasojo (2015), Zaman et al (2015, Ghaffar (2014), Inam and Mukhtar (2014), Putra and Simangkalit (2014), Vo and Nguyen (2014), Haider et al. (2015), Paul (2015), Agustina et al. (2015), Siswanti (2016) and Siswanti, et al. (2017), Badawi (2018), stated that good corporate governance has a significant effect on financial effectiveness of the company, thus it can be said that if good corporate governance is implemented properly, it will help to increase the company financial effectiveness. In addition, regarding the implementation of sharia supervisory board (SSB), as the result of this research conducted by Asrori (2014) stated that the existence of a sharia supervisory board (SSB) and

sharia compliance has a significant effect on the financial effectiveness of Islamic banks. The existence of sharia supervisory boards in Islamic banks is one of the differentiators between Islamic banks and conventional commercial banks because all products and services in Islamic banks are provided and the customers must comply with the Islamic principles. The existence of Islamic banks is not only labeled sharia, but all transactions must subject to and comply with Islamic principles. Therefore, the role of the Sharia supervisory board (SSB) in overseeing all activities of Islamic banks in Indonesia is very important. Based on the explanation above, we propose a role model for the sharia supervisory board (SSB) in moderating the effect of good corporate governance on the financial effectiveness of Islamic banks in Indonesia.

Relationship between Good Corporate Governance and Financial Performance

In the world of business management, good corporate governance is a relatively new problem. good corporate governance is a concept applied in an organization or company to increase transparency and accountability with the aim of ensuring that the objectives of a company can be achieved using the available resources as efficiently. As a concept, good corporate governance does not have a single definition. in 1992, the Cadbury committee first introduced good corporate governance known as the Cadbury report. the Cadbury committee stated good corporate governance is a system related to shareholders (shareholders, company management, creditors, the government, and other parties related) who have rights and interests in the company. as a concept, good corporate governance does not have a single definition. the forum for good corporate governance in Indonesia (2010) stated, in its first publication using the Cadbury committee definition, which is a regulation to manage the relationship between shareholders, government, company management, employees, creditors, and other stakeholders (internal dan external) with their rights and obligations. Besides that, FCGI also explained that the aim of good corporate governance is to provide value-added for all stakeholders involved.

Regulation of central bank (PBI) no. 11/33 / PBI / 2009 states that good corporate governance is a bank that implements all the principles of governance which include transparency principle, accountability principle, responsibility principle, independence principle, and fairness principle. organization for economic cooperation and development (2004) stated good corporate governance as the structure of relationships and its responsibilities among related parties consisting of members of the board of directors, shareholders, and commissioners including managers, which are designed to encourage the creation of competitive financial effectiveness as it is needed in achieving company's goals.

In relation to the company's financial effectiveness, Rehman and Mangla (2012) state that good corporate governance has a significant effect on the financial effectiveness of banking sectors in Pakistan. in addition, the results of studies conducted by Rama and Novela (2015); Haider et al. (2015); Lukas and Basuki (2015); Paul et al. (2015); Agustina et al. (2015); Taufik (2016) Siswanti et al (2017); Ausat (2018); badawi (2018), Darwanto and Chariri (2019), Siswanti and Cahaya (2019) which stated that good corporate governance has a significant effect on financial effectiveness in various industrial sectors, both corporate and banking companies. Thus Islamic banks must maintain sustainable performance by increase public trust (Nugroho, et al. 2019). Based on the description, the hypotheses proposed in this study are as follows:

***H1:** Good corporate governance has a significant effect on the financial performance of islamic banks.*

The Role of Sharia Supervisory Board (SSB) in moderating the effect of Good Corporate Governance on Financial Performance of Islamic Banks.

Islamic bank is a bank that runs all operational business activities based on sharia principles or based on Islamic law principles regulated in the fatwa of the Majelis Ulama Indonesia (MUI), such as the principle of *Vol. 29, No. 1 April 2021*

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justice and balance, *masalah*, *naturallyah*, and does not contain *gharar*, *maysir*, *riba*, *zalim*, and unclean object. In carrying out their business activities, Islamic banks need to always adhere to the principles contained in Islam. Islamic banks are required to carry out compliance with Islamic principles in their operational activities as regulated in Bank Indonesia concerning the implementation of Islamic principles in funding, lending, and bank services. In implementing good corporate governance in Islamic banks, compliance with Islamic principles is one of the most important pillars, because obedience to Islamic principles is the differentiator between Islamic banks and conventional banks. The principle of sharia law states that Islamic banks prohibited usury transactions, *Maisir*, *Gharar*, *Dharar*, *Immoral*, *Shut*, and *Risywah*.

Sharia supervisory board (SSB) tasks are, among others overseeing the implementation of the national sharia council decision in the sharia financial institution. In the regulation of central bank no. 11/2 / PBI / 2009 further emphasizes the position of sharia supervisory board (SSB) that every Islamic banks or commercial bank has a sharia business unit is required to appoint a sharia supervisory board (SSB) whose main task is to provide advice to directors and supervise the sharia operations.

In relation to financial performance of Islamic banks, the studies conducted by Rahayu et al (2019), Darwanto and Chariri (2019) stated that the existence of sharia supervisory boards (SSB) has a significant effect on the financial effectiveness of Islamic banks. Based on the description, the hypotheses proposed in this research are as follows:

H2: *Sharia supervisory board (SSB) moderates the effect of Good Corporate Governance on Financial Performance of Islamic Banks.*

CONCEPTUAL FRAMEWORK

Based on literature review and to see the relationship between variables, that is independent variables independent variable good

corporate governance and the dependent variable (financial performance) with the moderate sharia supervisory board (SSB). The proposed conceptual model is presented ini figure. 1 as follows:

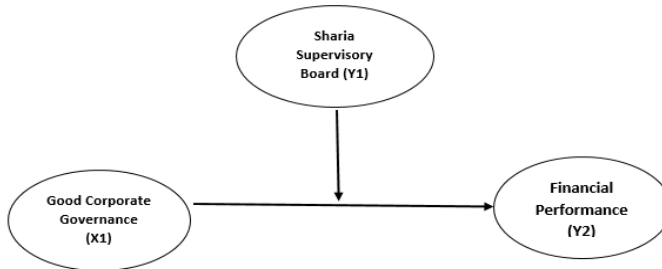


Figure 1. Conceptual Model of Study

RESEARCH METHOD

The data used in this research are secondary data consisting of good corporate governance reports, financial reports and annual reports from all Islamic banks in Indonesia for the period 2010 – 2019. Islamic banks in Indonesia are chosen as the sample because they perform worse than conventional banks. As such, this research seeks to identify areas of possible improvement by analyzing good corporate governance, sharia supervisory board (SSB) and financial effectiveness. The periods between 2010 - 2019 as the total assets of Islamic banks in Indonesia increased significantly. This research uses good corporate governance as an independent variable (X), the sharia supervisory board (SSB) as a moderating variable (Y1) and financial effectiveness as a dependent variable (Y2). the criteria of taking samples in this research are:

1. Islamic banks which published good corporate governance reports between 2010 – 2019
2. Islamic banks which published annual reports between 2010 – 2019
3. Islamic banks which published financial statements between 2010 - 2019

Method of taking samples using purposive sampling method. The total population in this research were 14 (fourteen) Islamic banks, based on the above sampling criteria, the number of banks that could be sampled in this research are 9 (nine) Islamic banks. This research used panel data regression with eviews 10 as the primary analytical tool because the model formed is a regression with panel data. To support the results of statistical tests, this research conducted in-depht interviews with practitioners Islamic banks, especially working in the compliance department. The purpose of the follow-up interview is to clarify the opinions of the respondents related to their questionnaire responses. Furthermore, if the interview results support this research results, it will be included as information that supports the statistical test.

The variables used in this research are good corporate governance as an independent variable, the sharia supervisory board (SSB) as a moderating variable, and financial effectiveness as the dependent variable. The measurement of each variable as shown at table 1 below:

Table 1. Research Variables

Variable	Indicator	Measurement
Dependent Variable		
Good Corporate Governance (GCG)	11 (eleven) indicator	Bank self-assessment ac to quality rating
Independent Variable		
Financial effectiveness	Return on Assets (ROA)	Net profit after tax/Tota
Moderating Variable		
Sharia Supervisory Board (SSB)	Sharia supervisory board (SSB) Financial effectiveness	Sum of monthly n within a year

RESULT AND DISCUSSION

The data processing using eviews 10, can be seen by the results of chow test, the hausman test and the lagrange multiplier test in table 2 below.

Table 2. Panel Data Test

Panel Data Test	Chow	Hausman	Lagrange Multiplier test
Information	Cross-Section Chi-Square < 0.05	Cross-section random > 0.05	Cross-Section Chi-Square < 0.05
Result	Fixed Effect	Random Effect	Random Effect
Analysis	H ₀ : rejected Fixed Effect Model	H ₀ : accepted Random Effect Model	H ₀ : rejected Random Effect Model

From the eviews 10 test results, it can be explained that the Chow test used to test Fixed effect model with the comon effect, from the chow test results stated that the Cross-Section Chi-Square <0.05. Thus, it can be explained that the appropriate model in the test is a fixed effect. After chow test, next the Hausman Test, which is used to test a fixed effect model with random effects, the results of the housman test stated that the Cross-Section Chi-Square > 0.05. Thus, it can be said that the right model in this research is a random effect. Because the results of the Hausman test choose a capital random effect, the next step is to do the Lagrange Multiplier (LM) test. From the Lagrange Multiplier (LM) test results, it can be stated that the Cross-Section Chi-Square <0.05. Thus, it can be explained that the right model in this research is a random effect, then the analysis of all research results will use a random effect analysis.

Table 3. F Test (goodness of fit)

Summary	Chi-Square-Statistics	Chi-Square.df	Probability

Cross-section random	178.277239	68	0.0000
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F test is a statistical test that aims to determine the effect of all independent variables on the dependent variable. From the results of Eviews 10, the F test can be seen in Table 3, which states the F value of statistical probability $0.000 < 0.05$, thus it can be stated that the model proposed in this research is acceptable

Table 4. t-statistics test

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	0.075593	0.051687	5.777547	0.0000
good corporate governance (GCG)	0.693094	0.748624	3.597391	0.0416
SSB	0.509226	0.292225	0.080929	0.0327
Moderation	1.388616	0.346015	0.319515	0.0243

From table 4, it can be seen that the results of the t-test, the significance level of good corporate governance on the financial effectiveness of Islamic banks shows a number of $0.041 < 0.05$ and t-statistic shows a number of $3.597391 > 1.96$. thus, it can be concluded that good corporate governance has a significant effect on financial effectiveness of Islamic banks. it shows that very importance of implementing good corporate governance in Islamic banks, it is proven that good corporate governance has a significant effect on the financial effectiveness of Islamic banks in Indonesia.

From the results of the t-test, it can be seen how strong the sharia supervisory board (SSB) in moderating the effect of good corporate governance on the financial effectiveness of Islamic banks. the significance level value of $0.024 < 0.05$ and t-statistic value of $0.319515 >$

1.96, thus it can be said that the sharia supervisory board (SSB) strengthens or can moderate to strengthen the influence of good corporate governance on the financial effectiveness of Islamic banks.

It can be explained the function of the sharia supervisory board (SSB) is to provide advice to the Directors and oversee the activities of Islamic banks to be in accordance by Islamic principles; assess and ensure compliance with Islamic principles for products issued and operational guidelines by Islamic banks; oversee the development process of new Islamic banks products; periodically reviewing the fulfillment of Islamic principles on mechanisms for raising funds and channeling funds and providing Islamic banks services; request data and information related to sharia aspects from Islamic banks work units in the context of carrying out their duties.

Thus it can be said that the presence of the sharia supervisory board (SSB) in the Islamic bank will be able to oversee the operations of the Islamic bank and its compliance with sharia. Thus the existence of the sharia supervisory board (SSB) can further strengthen the effect of good corporate governance on the financial effectiveness of Islamic banks in indonesia.

Table 5. Determination (R^2) test

R-squared	0.772286	Mean dependent var	2.875000
Adjusted R-squared	0.653416	S.D. dependent var	1.582808
S.E. of regression	1.057742	Akaike info criterion	3.004103
Sum squared resid	76.07962	Schwarz criterion	3.130584
Log likelihood	-104.1477	Hannan-Quinn criter.	3.054455
F-statistic	30.32825	Durbin-Watson stat	0.929149
Prob(F-statistic)	0.000000		

From table 5, it can be seen that the value of determination (R^2) is 0.672 or 67.20%. This can be interpreted that good corporate governance can affect the financial effectiveness of Islamic banks by 67.20%, while the remaining 32.80% is influenced by other factors that not examined in this research. this shows that good corporate governance has a considerable influence on influencing financial effectiveness of Islamic

banks in indonesia. the results of the determination test can be stated that good corporate governance has a very big effect in improving the financial effectiveness of Islamic banks in indonesia.

Based on the results of this research stated that the implementation of good corporate governance can improve the financial effectiveness of Islamic banks, as a result of this research which states that good corporate governance has a significant effect on the financial effectiveness of Islamic banks in indonesia. it states that enhancement financial effectiveness of Islamic banks can be do implementation good corporate governance. good corporate governance is needed to control and regulate the relationship the company's management and all stakeholder of the company regarding their obligations and right in accordance by the vision and mission company. It aims to create value added for all stakeholder and the achievement of the company's goals and work programs effectively. For the company to run well, all parties need to implement the basic principles of good good corporate governance. the principles of good corporate governance are arranged flexibly so that they can be implemented for all companies.

To regulate and control the relationship between the company's management and all parties needed good corporate governance with an interest in the company regarding their obligatioan and rights by the vision and mission company's. it aims to create added value for all interested parties and the achievement of the company's goals and work programs effectively. so that Islamic banks can run well, principles of good corporate governance, need implement by all parties. so that can be implemented easily, the principles o good corporate governance are regulated flexibly.

The results of this research are supported by research previously: rehman and mangla (2012), the results show that there is a significant impact of good corporate governance variables on the financial effectiveness of the overall banking sector in pakistan. heider et al. (2015), the most outstanding results of this research has considerable and strong

positive relationship in large board size and firm financial effectiveness in developing countries as pakistani circumstances. lukas and basuki (2015), state that good corporate governance partially has a significant effect on the financial effectiveness of the banking industry listed in the indonesia stock exchange (idx). *paul et.al (2015) stated good corporate gaovernance has a significant effect on financial effectiveness of microfinance bank in north central nigeria. agustina et al (2015)*, stated the empirical results indicate that partially managerial ownership and independent commissioner is significant influence on the financial effectiveness in banking companies listed on the indonesia stock exchange. Taufik (2016), stated good corporate governance has a significant affect on financial effectiveness of companies listed in indonesia stock exchange. siswanti et.al (2017), stated good corporate governance has a significant effect on financial effectiveness Islamic banks in indonesia. badawi (2018), good corporate governance (only independent commissioners) has a significant effect on financial effectiveness at commercial banks in indonesia. darwanto and chariri (2019) stated that good corporate governance has a significant positive effect on financial financial effectiveness. this proves by implementing transparent, accountable, responsive, independent, and fair good corporate governance, it will improve the financial effectiveness of Islamic banks in indonesia.

The role of the Sharia supervisory board (SSB) is to asses and ensure compliance with Islamic principles for operational guidelines and products issued by banks, oversee the process of developing new bank products, request a fatwa from the National Sharia Board for new Islamic banks products for which there is no fatwa yet; periodically reviewing the fulfillment of Islamic principles on the mechanisms for raising funds and channeling funds and providing Islamic banks services; request data and information related to sharia aspects from Islamic banks work units in the context of carrying out their duties. Sharia supervisory board (SSB) has an important role in the development of Islamic banks in Indonesia, while

the role of Sharia supervisory board (SSB) include: the presence of sharia supervisory board (SSB) in Islamic banks can determine the level of credibility of Islamic banks; sharia supervisory board (SSB) is a key trustees element in creating guarantees of compliance with Islamic principles; sharia supervisory board (SSB) is one of the main pillars in the implementation of good corporate governance.

With the sharia supervisory board (SSB), the existence of Islamic banks will be able to control all of their operational activities by following Islamic principles. The results of this research state that the sharia supervisory board (SBS) can moderate the influence of good corporate governance on the financial effectiveness of Islamic banks. this shows that the role of the sharia supervisory board (SSB) is very large for the financial effectiveness of Islamic banks because, with the sharia supervisory board (SSB), Islamic bank operations will be in accordance by islamic principles.

The results of this research are supported research Rahayu et al (2019), stated that sharia supervisory boards (SSB) has a significant effect on financial effectiveness of Islamic banks in Indonesia. Likewise Darwanto and Chariri (2019) stated that the existence of sharia supervisory board (SSB) has a significant effect on the financial effectiveness of Islamic banks in Indonesia. Based on the results of this research related to the title, problems, and research hypotheses, in this research there are several things that can be explained through hypothesis testing in eviews 10 analysis, as shown in figure 2

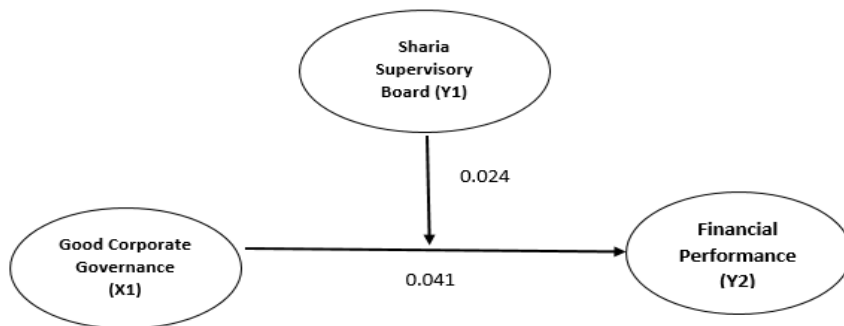


Figure 2, Hypothesis test

CONCLUSIONS

Good corporate governance is the structure and mechanism that governance company management so as to produce economic value for shareholders and stakeholders for long term. implementation of the principles of good corporate governance can contribute to improving financial effectiveness. applying the principles of good corporate governance can contribute to improving company financial effectiveness and long-term economic value for investors and stakeholders. the company's objectives in implementing good corporate governance are: to protect the rights and interests of shareholders and stakeholders; and encourage shareholders, members of the board of directors, board of commissioners, sharia supervisory board (SSB), employees and company agents to make decisions and carry out their actions based on high moral values and compliance with laws and regulations.

Sharia supervisory board (SSB) has an important role in the development of Islamic banks in Indonesia, while the role of Sharia supervisory board (SSB) include: the presence of sharia supervisory board (SSB) in Islamic banks can determine the level of credibility of Islamic banks; sharia supervisory board (SSB) is a key trustees element in creating guarantees of compliance with Islamic principles; sharia supervisory

board (SSB) is one of the main pillars in the implementation of good corporate governance. so that the role and function of the sharia supervisory board (SSB) must be maintained, their position strengthened, and their function and role optimized in oversight to create a healthy, efficient and appropriate Islamic banks by following rules and islamic principles.

Based on the results above, it can be concluded that it is very important for Islamic banks in indonesia to always maintain and implement good corporate governance properly and correctly so that the company is always governance. the existence of a sharia supervisory board (SSB) in Islamic banks has a very important role, where all Islamic banks products and services must always be under the supervision of the sharia supervisory board (SSB) in order to remain compliant with islamic principles. thus existence of sharia supervisory board (SSB) in Islamic banks will further strengthen the influence of good corporate governance on the financial effectiveness of Islamic banks.

The results of this research are provide benefits for Islamic banks in indonesia in order to further improve good corporate governance properly. in addition, the existence of the sharia supervisory board (SSB) on Islamic banks can be further enhanced, because the existence of sharia supervisory board (SSB) will greatly help Islamic banks to remain comply and abide the Islamic principles.

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