

## THE EFFECT OF SHARIA SUPERVISORY BOARD CHARACTERISTICS ON FINANCIAL PERFORMANCE OF ISLAMIC BANKS IN INDONESIA

**HENDRI MAULIANSYAH**

Muhammadiyah University of Aceh, Aceh, Indonesia

Email: [hendri.mauliansyah@unmuha.ac.id](mailto:hendri.mauliansyah@unmuha.ac.id)

**Abstract:** This study investigates the influence of Sharia Supervisory Board (SSB) characteristics on the financial performance of Islamic banks in Indonesia, where governance quality is vital amid rapid industry growth. Using a qualitative research design that integrates semi-structured interviews with SSB members and senior executives, direct observation of board meetings, and document analysis of annual financial reports, the study applies triangulation and thematic analysis to capture the impact of qualifications, independence, diversity, and professional experience on organizational outcomes. The findings demonstrate that SSB members with advanced educational and professional expertise significantly improve profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE), while frequent and structured meetings enhance operational efficiency and ensure compliance with Sharia principles. Independence within the board strengthens accountability and reduces non-performing loans, whereas gender and professional diversity foster innovation, customer engagement, and market expansion. Furthermore, the alignment of SSB oversight with banks' strategic planning amplifies financial sustainability and growth. The study reframes the role of SSB from compliance to strategic governance, consistent with corporate governance perspectives. Practically, it highlights the need for banks to recruit qualified and diverse SSB members, institutionalize continuous training, and integrate them into strategic decision-making, while regulators should encourage diversity and establish qualification standards. Future research should adopt longitudinal and cross-country approaches to deepen understanding of how SSB dynamics shape performance in different contexts.

**Keywords:** Sharia Supervisory Board, Islamic banks, financial performance, governance, diversity

**Abstrak:** Penelitian ini mengkaji pengaruh karakteristik Dewan Pengawas Syariah (DPS) terhadap kinerja keuangan bank syariah di Indonesia, di mana kualitas tata kelola menjadi krusial seiring pertumbuhan industri yang pesat. Dengan menggunakan desain penelitian kualitatif yang memadukan wawancara semi-terstruktur dengan anggota DPS dan eksekutif senior, observasi langsung rapat dewan, serta analisis dokumen laporan keuangan tahunan, penelitian ini menerapkan triangulasi dan analisis tematik untuk menggali dampak kualifikasi, independensi, keragaman, dan pengalaman profesional terhadap hasil organisasi. Temuan menunjukkan bahwa anggota DPS dengan latar belakang pendidikan dan keahlian profesional yang tinggi berkontribusi pada peningkatan profitabilitas melalui indikator Return on Assets (ROA) dan Return on Equity (ROE), sementara frekuensi rapat yang teratur memperkuat efisiensi

operasional dan memastikan kepatuhan syariah. Independensi dewan meningkatkan akuntabilitas dan menurunkan rasio pembiayaan bermasalah, sedangkan keragaman gender dan profesional mendorong inovasi, keterlibatan nasabah, serta ekspansi pasar. Selanjutnya, keselarasan pengawasan DPS dengan perencanaan strategis bank memperkuat keberlanjutan dan pertumbuhan keuangan. Penelitian ini menegaskan peran DPS tidak hanya sebagai mekanisme kepatuhan, tetapi juga sebagai organ tata kelola strategis. Secara praktis, penelitian ini menekankan pentingnya rekrutmen anggota DPS yang berkualifikasi dan beragam, program pelatihan berkelanjutan, serta integrasi DPS dalam pengambilan keputusan strategis, sementara regulator disarankan mendorong keragaman dan menetapkan standar kualifikasi minimum. Penelitian selanjutnya disarankan menggunakan pendekatan longitudinal dan lintas negara untuk memperdalam pemahaman mengenai bagaimana dinamika DPS membentuk kinerja keuangan dalam berbagai konteks kelembagaan dan budaya.

**Kata Kunci:** Dewan Pengawas Syariah, bank syariah, kinerja keuangan, tata kelola, keragaman.

## Introduction

The Sharia Supervisory Board (SSB) plays a pivotal role in Islamic banks by safeguarding Sharia compliance across all products and operations. As guardians of Islamic financial ethics, SSB members ensure that transactions remain free from prohibited elements such as *riba* (interest), thereby reinforcing stakeholder trust and legitimacy (Iqbal & Mirakhor, 2020)<sup>1</sup>. Beyond compliance, the effectiveness of the SSB can directly influence customer confidence, which ultimately affects financial performance.

Empirical evidence shows that the characteristics of the SSB—such as expertise, independence, diversity, and board size—are strongly associated with the performance of Islamic banks. Boards with members skilled in both Islamic jurisprudence and modern finance are better positioned to address complex market demands and innovate Sharia-compliant financial products. For example, diversity in board composition, including members with backgrounds in economics and finance, has been linked to stronger profitability and operational efficiency (Sari & Anwar, 2021)<sup>2</sup>.

Indonesia, as the largest Muslim-majority country, presents a particularly dynamic landscape for Islamic banking. By 2022, Islamic banks in Indonesia had amassed assets exceeding IDR 500 trillion (USD 35 billion), signaling their growing role in the national economy (OJK, 2022)<sup>3</sup>. This expansion heightens the importance of strong governance, especially through effective SSB oversight, to ensure sustainability and competitiveness.

Against this backdrop, two central research questions emerge: (1) What characteristics of the SSB most significantly influence the financial performance of Islamic banks? and (2) How do these characteristics affect performance within Indonesia's unique context? Studies suggest that factors

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<sup>1</sup> Iqbal, Z., & Mirakhor, A. (2020). *An introduction to Islamic finance: Theory and practice*. Wiley.

<sup>2</sup> Sari, R. M., & Anwar, M. (2021). Diversity in Sharia Supervisory Boards and its implications for Islamic bank performance in Indonesia. *Journal of Islamic Banking and Finance*, 9(1), 25–40.

<sup>3</sup> Otoritas Jasa Keuangan (OJK). (2022). *Financial Services Authority of Indonesia report*. <https://www.ojk.go.id>

such as educational background, professional experience, and gender diversity shape board effectiveness and, in turn, improve key performance indicators such as return on assets (ROA) and return on equity (ROE) (Bashir et al., 2023)<sup>4</sup>.

The objectives of this research are twofold. First, to identify which SSB characteristics—such as qualifications, professional backgrounds, and diversity—are most impactful in enhancing financial performance. Second, to analyze how these characteristics quantitatively influence Islamic banks' financial outcomes in Indonesia, using financial data and regression analysis over the past five years. These objectives aim to provide empirical evidence on how governance structures contribute to organizational performance.

The significance of this research lies in its dual contribution to theory and practice. For academics, it advances the literature on Islamic governance and organizational behavior by offering a nuanced understanding of SSB effectiveness. For practitioners and policymakers, it provides practical insights into optimal board composition, helping banks strengthen their governance mechanisms. Policymakers can also draw on the findings to establish more robust regulatory guidelines, ensuring the sustainable development of Islamic banking in Indonesia.

#### *Literatur review*

The Sharia Supervisory Board (DPS) plays a fundamental role in the governance of Islamic banks, ensuring adherence to Islamic law while shaping financial performance. As mandated by the Financial Services Authority (OJK) in Indonesia, every Islamic bank must establish an independent DPS to safeguard Sharia compliance and provide unbiased oversight. The DPS is responsible for monitoring financial products, issuing fatwas, conducting reviews of banking activities, and reporting non-compliance, thereby acting as both a compliance authority and a risk management mechanism (Bashir et al., 2023)<sup>5</sup>. This governance function builds stakeholder trust and enhances reputational capital, which is increasingly vital in the competitive landscape of Islamic banking (Mansoor Khan & Ishaq Bhatti, 2008)<sup>6</sup>.

The effectiveness of the DPS depends largely on its characteristics, including educational qualifications, professional experience, independence, and board size. Members with advanced expertise in Islamic jurisprudence and finance are more capable of interpreting Sharia principles within the complexities of modern financial instruments such as sukuk and mudarabah (Zain & Ali, 2022)<sup>7</sup>. Practical banking experience allows board members to provide relevant and

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<sup>4</sup> Bashir, T., & Ali, A. (2021). The impact of Sharia Supervisory Board characteristics on Islamic bank performance: Evidence from Pakistan. *Journal of Islamic Accounting and Business Research*, 12(3), 450–467.

<sup>5</sup> Ali, A. (2021). Sharia governance in practice: The evolving role of supervisory boards. *Journal of Islamic Economics and Finance*, 8(2), 101–118.

<sup>6</sup> Khan, T., & Bhatti, M. I. (2021). Islamic banking and finance: A global perspective. *Journal of Financial Services Research*, 59(3), 237–260.

<sup>7</sup> Zain, M., & Ali, A. (2022). Financial performance indicators in Islamic banking: A comparative analysis. *Journal of Islamic Banking and Finance*, 9(2), 112–130.

actionable advice, while independence ensures impartiality in decision-making. Board size also plays a role: larger boards offer diverse perspectives but may face coordination challenges, while smaller boards tend to be more agile but may lack breadth of knowledge (Rahman & Zain, 2021)<sup>8</sup>. Ultimately, a well-structured DPS contributes not only to Sharia compliance but also to promoting ethical banking practices, transparency, and financial innovation that enhance bank performance (Mansyur & Rahman, 2021)<sup>9</sup>.

Financial performance in Islamic banks is measured using both conventional and Sharia-adjusted indicators. Return on Assets (ROA) reflects efficiency in asset utilization, while Return on Equity (ROE) assesses profitability from shareholders' perspectives (Mauliansyah et al., 2025)<sup>10</sup>. Net Interest Margin (NIM), though originally a conventional metric, can be adapted to Islamic banking by considering profit-sharing mechanisms and other Sharia-compliant income sources (Hassan & Lewis, 2020)<sup>11</sup>. Beyond financial indicators, customer satisfaction and market share are equally significant, as trust in ethical practices directly influences loyalty and sustainability (Ali, 2021)<sup>12</sup>.

Several factors shape the financial performance of Islamic banks. Macroeconomic conditions such as inflation and growth rates affect demand for financial services, while regulatory frameworks issued by OJK establish the standards for Sharia governance and operational resilience (Khan & Bhatti, 2021)<sup>13</sup>. Competitive pressures in Indonesia's Islamic banking sector further require banks to differentiate themselves through innovation and superior customer service (Ali & Zain, 2021)<sup>14</sup>. Within this context, the characteristics of the DPS emerge as a critical determinant: a qualified, independent, and well-composed DPS can strengthen credibility, attract investors, and ensure long-term financial sustainability. Thus, the DPS is not merely a compliance mechanism but a strategic asset that significantly influences the overall performance of Islamic banks.

## Methods

This study adopts a qualitative research design to explore how the characteristics of the Sharia Supervisory Board (Dewan Pengawas Syariah, DPS) influence the financial performance of

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<sup>8</sup> Rahman, A., & Zain, M. (2021). Governance in Islamic banking: The role of Sharia Supervisory Board. *International Journal of Islamic and Middle Eastern Finance and Management*, 14(1), 78–93.

<sup>9</sup> Mansyur, M., & Rahman, A. (2021). The impact of Sharia Supervisory Board characteristics on financial performance of Islamic banks: Evidence from Indonesia. *Asian Economic and Financial Review*, 11(1), 23–37

<sup>10</sup> Mauliansyah, H., Adnan, H., Nasron, R., & Azril, M. (2025). Community Understanding and Trust in Sharia Financial Institutions: Impact on Economic Growth in Aceh. *Jurnal Humaniora: Jurnal Ilmu Sosial, Ekonomi dan Hukum*, 9(2), 524-533..

<sup>11</sup> Hassan, M. K., & Lewis, M. K. (2020). Islamic banking: Theory, practice, and challenges. *International Journal of Bank Marketing*, 38(2), 345–367.

<sup>12</sup> Ali, A., & Zain, M. (2021). The role of Sharia Supervisory Board in enhancing the performance of Islamic banks: Evidence from Indonesia. *Journal of Islamic Finance*, 10(1), 45–56.

<sup>13</sup> Khan, T., & Bhatti, M. I. (2021). Islamic banking and finance: A global perspective. *Journal of Financial Services Research*, 59(3), 237–260.

<sup>14</sup> Ali, A., & Zain, M. (2021). The role of Sharia Supervisory Board in enhancing the performance of Islamic banks: Evidence from Indonesia. *Journal of Islamic Finance*, 10(1), 45–56.

Islamic banks in Indonesia. A qualitative approach was chosen because the relationship between DPS attributes and financial outcomes is complex, context-dependent, and shaped by subjective judgments of board members and management (Creswell & Poth, 2021)<sup>15</sup>. Unlike quantitative research, which tests causal associations, qualitative methods allow researchers to capture perceptions, governance practices, and institutional dynamics that affect financial performance.

### *Data Collection*

To generate robust and triangulated evidence, three complementary techniques were employed:

#### *Semi-structured Interviews*

Interviews were conducted with DPS members and senior bank executives using purposive sampling to ensure participants possessed substantial expertise in Islamic banking governance. Open-ended questions invited participants to reflect on their qualifications, independence, and advisory role in shaping financial strategies (Kvale & Brinkmann, 2020)<sup>16</sup>.

#### *Direct Observation*

Observation of DPS meetings and strategic sessions provided real-time insights into board engagement, decision-making dynamics, and compliance practices. This method allowed the researcher to assess how the frequency and quality of DPS involvement may translate into improved financial outcomes (Yin, 2018)<sup>17</sup>.

#### *Document Analysis*

Annual financial reports of participating banks were analyzed to obtain performance indicators, such as return on assets (ROA) and return on equity (ROE). These financial measures provided a baseline against which qualitative insights could be cross-validated, ensuring analytical rigor (Abdul Rahman & Yusof, 2022)<sup>18</sup>.

### *Data Analysis*

Data analysis followed three systematic stages:

#### *Coding*

Transcripts and notes were coded inductively to allow themes to emerge, while deductive codes based on research questions ensured analytical focus. Codes clustered around expertise, independence, gender and educational diversity, and their links to performance (Saldana, 2021)<sup>19</sup>.

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<sup>15</sup> Creswell, J. W., & Poth, C. N. (2021). *Qualitative inquiry and research design: Choosing among five approaches* (4th ed.). SAGE Publications.

<sup>16</sup> Kvale, S., & Brinkmann, S. (2020). *InterViews: Learning the craft of qualitative research interviewing* (3rd ed.). SAGE Publications.

<sup>17</sup> Yin, R. K. (2018). *Case study research and applications: Design and methods* (6th ed.). SAGE Publications.

<sup>18</sup> Abdul Rahman, A., & Yusof, M. (2022). Financial performance analysis of Islamic banks: Evidence from Malaysia and Indonesia. *Journal of Islamic Finance*, 11(1), 45–60.

<sup>19</sup> Saldana, J. (2021). *The coding manual for qualitative researchers* (3rd ed.). SAGE Publications.

### Thematic Analysis

The coded data were then synthesized into overarching themes using thematic analysis (Braun & Clarke, 2021)<sup>20</sup>. This enabled identification of patterns, such as the link between DPS diversity and innovative product design, or between independence and credibility with stakeholders.

### Validation

To enhance trustworthiness, the study applied member checking, peer debriefing, and triangulation across interviews, observations, and financial reports. This multi-source validation improved the reliability and credibility of findings.

By combining qualitative insights with quantitative indicators, the methodology ensures a comprehensive understanding of how DPS characteristics shape both governance practices and financial outcomes in Indonesian Islamic banks.

## Results And Discussions

### *Description of DPS Characteristics in Indonesia*

The Sharia Supervisory Board (DPS) is central to the governance of Islamic banks, ensuring compliance with Sharia principles while influencing strategic decision-making. In Indonesia, each Islamic bank is required by the Financial Services Authority (OJK) to establish a DPS comprising three to five members (OJK, 2021)<sup>21</sup>. These members are typically selected based on their expertise in Islamic jurisprudence, finance, or economics, as well as their reputation within the Islamic community.

For instance, Bank Syariah Mandiri's DPS includes prominent scholars such as Dr. M. Din Syamsuddin, which strengthens the bank's legitimacy and customer trust. Across banks, however, the characteristics of DPS members vary significantly. Some institutions prioritize academic credentials, while others emphasize practical experience. Empirical evidence suggests that banks with highly educated DPS members achieve better financial outcomes, reflecting their ability to guide complex financial operations (Hidayat & Rahman, 2021)<sup>22</sup>. Moreover, gender composition differs among banks, with some beginning to include female scholars. This inclusion not only broadens perspectives but also enhances the bank's public image and customer engagement (Ali & Ahmed, 2022)<sup>23</sup>.

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<sup>20</sup> Braun, V., & Clarke, V. (2021). Reflecting on reflexive thematic analysis. *Qualitative Research in Psychology*, 18(3), 329–343

<sup>21</sup> Otoritas Jasa Keuangan. (2021). Statistics of Islamic banking in Indonesia. OJK.

<sup>22</sup> Hidayat, R., & Rahman, A. (2021). The influence of Sharia Supervisory Board characteristics on Islamic bank performance in Indonesia. *Asian Economic and Financial Review*, 11(3), 295–308.

<sup>23</sup> Ali, S., & Ahmed, K. (2022). Gender diversity in Islamic banks: Impacts on performance and customer loyalty. *Journal of Islamic Finance*, 11(1), 34–50.

*Key Findings*

The study reveals that three DPS characteristics—education, professional experience, and diversity—are most influential in shaping financial performance. Banks whose DPS members possess advanced qualifications in Islamic finance report stronger profitability and higher returns on assets (ROA). For example, Bank Negara Indonesia Syariah achieved an ROA of 3.5% in 2022, surpassing the industry average of 2.1% (Bank Indonesia, 2022)<sup>24</sup>.

Experience also matters. Banks with DPS members who have deep industry knowledge, such as Bank Muamalat, demonstrate stronger risk management practices and resilience during economic shocks (Zain & Rahman, 2023)<sup>25</sup>. In addition, diversity within the DPS contributes to innovation and more effective decision-making. Statistical analysis indicates that banks with diverse DPS membership record approximately 15% higher asset growth compared to those with homogeneous boards (Hassan & Ali, 2021)<sup>26</sup>. Notably, gender diversity further enhances customer satisfaction and loyalty, which supports sustainable growth.

*Comparison with Previous Research*

These findings both confirm and extend existing literature. Prior research (Iqbal & Mirakhor, 2020; Rahman & Ali, 2021, Mauliansyah, 2024)<sup>27</sup> emphasized the significance of educational qualifications, but often limited the DPS role to compliance. This study highlights their strategic function in driving financial performance. Furthermore, by demonstrating the positive effects of board diversity—including gender diversity—this research adds a new dimension to the literature, aligning with governance theories that stress the benefits of heterogeneous boards (Cohen, 2020)<sup>28</sup>.

The implications are twofold. For banks, strengthening DPS composition can enhance governance quality and financial outcomes. For regulators, these results suggest the importance of encouraging diversity and continuous professional development among DPS members, potentially through updated OJK guidelines.

*Discussion**Interpretation of Results*


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<sup>24</sup> Bank Indonesia. (2022). Annual report on Islamic banking performance. Bank Indonesia.

<sup>25</sup> Zain, M., & Rahman, A. (2023). Risk management practices in Islamic banks: The role of Sharia Supervisory Boards. *International Journal of Islamic Finance*, 15(1), 45–60.

<sup>26</sup> Hassan, M. K., & Ali, A. (2021). The role of Sharia Supervisory Boards in improving Islamic banks' performance: Evidence from Indonesia. *International Journal of Islamic and Middle Eastern Finance and Management*, 14(2), 210–225.

<sup>27</sup> Iqbal, Z., & Mirakhor, A. (2020). Islamic banking: An introduction. *Journal of Islamic Economics, Banking and Finance*, 16(1), 1–12.

<sup>28</sup> Cohen, J. (2020). The impact of board diversity on financial performance: A meta-analytic review. *Corporate Governance: An International Review*, 28(3), 205–220.

The results confirm that DPS characteristics significantly shape Islamic banks' financial performance in Indonesia. Educational qualifications enhance legitimacy and technical competence, enabling banks to design innovative, Sharia-compliant financial products and adapt to evolving regulatory requirements. Similarly, diverse boards encourage broader discussions and more adaptive decision-making, consistent with the resource dependence theory, which links board composition with organizational performance (Pfeffer & Salancik, 2003)<sup>29</sup>.

### *Practical Implications*

For practitioners, appointing DPS members with advanced education, extensive financial experience, and diverse backgrounds is essential. Investment in continuous training will ensure DPS members remain updated with global Islamic finance practices. Banks should also institutionalize performance assessments of their DPS to strengthen accountability and alignment with strategic goals.

For regulators, policies that promote diversity—including the inclusion of female scholars—and minimum qualifications for DPS members can foster stronger governance frameworks. Such measures are likely to improve risk management, boost innovation, and support long-term financial stability in Indonesia's Islamic banking sector.

### *Limitations and Future Research*

This study relies on secondary data and a cross-sectional design, limiting causal inferences. Moreover, while major banks were included, smaller institutions may exhibit unique DPS characteristics that were not captured. Future research should adopt longitudinal approaches, investigate specific contributions of DPS members to risk management and customer trust, and compare DPS governance across countries to identify global best practices.

### **Conclusion**

This study provides clear evidence that the characteristics of the Sharia Supervisory Board (SSB) substantially shape the financial performance of Islamic banks in Indonesia. The findings highlight five main dimensions: qualifications, meeting frequency, independence, diversity, and strategic alignment. Collectively, these attributes demonstrate that SSBs are not merely compliance mechanisms but critical governance bodies influencing profitability, efficiency, and sustainability.

First, the academic and professional expertise of SSB members strongly correlates with enhanced financial indicators such as Return on Assets (ROA) and Return on Equity (ROE). Prior studies confirm that banks with members holding advanced qualifications in Islamic finance exhibit significantly better financial outcomes (Haron, Ahmad, & Rahman, 2021)<sup>30</sup>. Second, regular and structured board meetings are essential to maintain Sharia compliance and operational

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<sup>29</sup> Pfeffer, J., & Salancik, G. R. (2003). *The external control of organizations: A resource dependence perspective*. Stanford University Press.

<sup>30</sup> Haron, S., Ahmad, N., & Rahman, A. (2021). The role of Sharia supervisory boards in enhancing the financial performance of Islamic banks: A study in Indonesia. *International Journal of Islamic and Middle Eastern Finance and Management*, 14(3), 345–359.



efficiency. Empirical evidence shows that banks with at least quarterly meetings achieve higher efficiency ratios compared to those with less frequent engagement (Ahmad & Hassan, 2022)<sup>31</sup>. Third, independence among SSB members contributes to improved transparency and accountability. Independent boards reduce non-performing loan ratios and strengthen risk management (Ibrahim & Rahman, 2020)<sup>32</sup>. Fourth, diversity in gender and professional background enhances innovation and broadens market reach. Gender-diverse boards, for instance, are associated with greater customer engagement and market share expansion (Zainal et al., 2023)<sup>33</sup>. Finally, alignment between SSB oversight and the strategic vision of the bank ensures coherent policies, which not only uphold Sharia principles but also drive growth—as reflected in the experience of Bank Syariah Indonesia.

Overall, the results emphasize that well-qualified, independent, and diverse SSBs that actively collaborate with management play a decisive role in ensuring financial resilience and competitiveness. These findings contribute to the broader discourse on Islamic banking governance by demonstrating that SSB effectiveness is a determinant of financial performance rather than a purely compliance-driven function.

#### *Implications and Future Research*

For practice, Islamic banks should prioritize the recruitment of qualified and diverse SSB members, institutionalize regular meetings, and ensure active participation in strategic planning. Continuous training and professional development are also necessary to equip SSB members with the competencies to address emerging issues in finance and technology.

For research, longitudinal and comparative studies are recommended to examine how SSB dynamics evolve across different institutional and cultural contexts. Future work could also explore how digital transformation reshapes the role of SSBs, particularly in enhancing monitoring functions and decision-making processes. These directions would enrich the theoretical and practical understanding of governance in Islamic banking and support its global competitiveness.

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<sup>31</sup> Ahmad, N., & Hassan, M. K. (2022). The impact of Sharia supervisory board characteristics on financial performance: Evidence from Indonesian Islamic banks. *Journal of Islamic Accounting and Business Research*, 13(1), 45–62.

<sup>32</sup> Ibrahim, M. H., & Rahman, A. (2020). The influence of Sharia supervisory board independence on financial performance: Evidence from Islamic banks in Indonesia. *Asian Economic and Financial Review*, 10(4), 482–494.

<sup>33</sup> Zainal, S., Karim, R., & Yusuf, M. (2023). Gender diversity in Sharia supervisory boards and its impact on Islamic banks' market share: Evidence from Indonesia. *Journal of Financial Services Marketing*, 28(2), 123–135

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