

Influence Cross Membership and Qualifications of The Shari'ah Supervisory Board's Towards The Shari'ah Compliance related SSB Information

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Abstract

The purpose of this paper to analyze the influence of Shari'ah Supervisory Board Cross Memberships and Shari'ah Supervisory Board Qualification toward Shari'ah compliance related SSB information. In addition, this paper also explains the variable firm size as a control variable. The use of control variables so that the influence of SSB on compliance does not depend on other variables. This study reviews the Shari'ah compliance related SSB information as stated in the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standard, primarily compliance level with AAOIFI standards No 1 and No 5 related to Shari'ah Supervisory Board (SSB). This paper finds that's the coefficient estimates variable of SSB Cross membership is positive significant at the 10% level. The coefficient estimates on SSB Qualification is negative significant at the 5% level. Furthermore, we also find that the bank size as a control variable has a significant positive effect at 1% level.

Keywords – SSB cross membership, SSB qualification, Shari'ah Compliance, SSB information

1. INTRODUCTION

Islamic business organizations such as Islamic financial institutions have to operate in conformity with the rules and principles of Islamic Shari'ah. The establishment of Islamic financial institutions (IFIs) initially is an act of response towards Shari'ah prohibition of paying and receiving riba (interest) (Mohammed, Fahmi & Ahmad, 2015), (Rahman & Bukair, 2013). Shari'ah refers to a code of law or divine injunctions that regulates the conduct of human beings in their individual and collective lives. The sources of Shari'ah are Al-Qur'an and Sunnah (sayings, actions, and tacit agreements) of the Prophet, where all Muslims believe that the Al-Qur'an is the last revelation sent to prophet Muhammad Shalallahu 'Alaihi Wassalam as mentioned in Al-Qur'an Yusuf: 1-3.

In the context of Islam, the first and the major objective of IFIs to reporting their operations are in compliance with Shari'ah principles (Baydoun & Willet, 2000);(Haniffa, 2002). Shari'ah Compliance is one of the fundamental values of Islam. The implementation of corporate governance is proven in research in some IFIs in the Muslim world to enhance the reputation and trust of the community to Shari'ah banks According to Chapra and Ahmed (2002). Shari'ah Compliance disclosure related to the corporate governance in Islamic Financial Institutional. During the last decade, Islamic finance standard setting bodies such as AAOIFI (Accounting and Auditing Organization for Islamic Finance Institutions) made an attempt to issue guidelines on corporate governance and Shari'ah governance in IFIs.

Shari'ah compliance disclosure with AAOIFI works of literature and the compliance level referred by Vinnicombe (2010); Ullah (2013); Ahmed and Khatun (2013) and Rahman and Bukair (2013). Determinant of the compliance, considering SSB referred by Rahman and Bukair (2013) and El-Halaby and Hussainey (2016).

Shari'ah governance system in Indonesia Shari'ah banking is regulated in Law no. 21 of 2008 concerning Shari'ah Banking. The technical and operational concepts of Shari'ah governance system are described in the form of Bank Indonesia Regulation (PBI) and Bank Indonesia Circular Letter (SEBI). Based on Law no. 21 year 2008 Sharia Supervisory Board (SSB) has a role for the supervisory process of compliance related Shari'ah principles in sharia banking. SSB also has the role of giving advice and advice to the board of directors and oversee the bank's activities in accordance with the principles of Shari'ah. At the national level, there is a National Shari'ah Council (DSN) established by the Indonesian Ulama Council (MUI) which is in charge and has the authority to establish a fatwa on products and services in the business of a bank conducting business based on Shari'ah principles.

This study purpose to analyze influence of SSB Cross membership and SSB Qualification to Shariah compliance disclosure related SSB information. Information about SSB is very important to give confidence to the public about SSB. SSB will guarantee the application of sharia principles in sharia financial institutions. Educational background is a significant factor in the disclosure practice. Education can be used as a sole measure for determining the professional level. Cross membership directorship makes information more transparent through comparing the knowledge that is gained from other Islamic financial institution.

2. RESEARCH METHODOLOGY

The population in this study are financial institutions that operate according to Sharia principles in Indonesian Islamic banking. The sample of this study is an Islamic financial institution registered at the Central Bank of Indonesia. Data obtained through the website of the Central Bank of Indonesia (www.bi.co.id) and web sites that are part of the company example. Sample Technique used is Saturated Sampling. The Saturated Sampling Technique is a sample determination technique that makes all members of the population sample. Samples are 13 Islamic financial institutions in Indonesia. Final sample including 52 annual reports of Islamic banks in 2014-2017. The 2014-2017 fiscal year was chosen for this research because most banks have uploaded their annual report on their website. Data is also quite new to ensure access through the company's Internet. The data obtained gives a rational picture of the practice of disclosure of sharia compliance.

In this study using the dependent variable in the form of SSB information disclosure related to sharia compliance. This is done because information about SSB is very important to give confidence to the public about SSB. SSB is a party that will guarantee the application of sharia principles in sharia financial institutions. Educational background is a significant factor in the disclosure practice. Education can be used as a sole measure for determining the professional level. Cross membership is an important aspect of SSB members, which will influence the disclosure of Islamic banks. There is evidence that cross directorship makes information more transparent through comparing the knowledge that is gained from other companies.

The samples of this study are:

Table 2. IFIs Profile Samples

No.	IFIs	Establish Since
1.	PT. Bank Muamalat Indonesia (BMI)	1991
2.	Bank Syariah Mandiri (BSM)	1999
3.	Bank Syariah Mega Indonesia (BSMI)	2004
4.	Bank BRISyariah (BRIS)	2008
5.	PT. Bank Syariah Bukopin	2008
6.	Bank Panin Syariah	2009
7.	B.P.D. Jawa Barat Banten Syariah	2010
8.	PT. Bank Victoria Syariah	2010
9.	PT. BCA Syariah (BCAS)	2010
10.	Bank BNI Syariah (BNIS)	2010
11.	PT. Maybank Syariah Indonesia	2010
12.	PT Bank Aceh Syariah	2012
13.	PT Bank Tabungan Pensiunan Nasional Syariah	2014

This study uses multiple regression analysis to investigate the influence between the SSB Cross membership and SSB Qualification toward Shari’ah compliance level. Shari’ah Compliance Level with AAOIFI Governance Standards No 1 and No 5 related to Shari’ah Supervisory Board information. The equation of this regression is as follows:

$$SSB_INFO = \beta_0 + \beta_1SSB_CROSS + \beta_2SSB_QUALY + \beta_3BANK_SIZE + 0$$

Where:

SSB_INFO = Shari’ah Compliance Level with AAOIFI Governance Standards No 1 and No 5 related to Shari’ah Supervisory Board information

SSB_CROSS = SSB as measured by the number of SSB Membership in more than one Islamic Financial Institutions

SSB_QUALY = SSB as measured by Number of Shari’ah Supervisory Board Ph.D (Doctor) Qualification

BANK_SIZE = Bank as measured by LN Assets Total

3. FINDING

Descriptive Analysis

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SSB_INFO	52	5,00	11,00	8,4038	1,70650
SSB_CROSSMEMBER	52	1,00	6,00	3,5962	1,38987
SSB_QUALIFICATION	52	,00	3,00	1,4808	,75382
SIZE_LNTA	52	27,87	32,11	29,9194	1,18978

Table 1 reports the result of descriptive statistics analysis. It shows that the average compliance level on AAOIFI standard related SSB information is 8 items or 53% from 15 items about SSB information. For SSB cross membership, the average of 4 Islamic financial institutions for each SSB member. SSB Qualifications are 2 people who have doctoral qualifications for the average of each Islamic Financial Institution

Multiple Regression Analysis

Table 2. Regression Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
	(Constant)	-25,278	4,846		
1	SSB_CROSSMEMBER	,227	,125	,185	1,817
	SSB_QUALIFICATION	-,794	,262	-,351	-3,037
	SIZE_LNTA	1,138	,166	,793	6,858

a. Dependent Variable: SSB_INFO

Regression result are shown in Table 2. It shows that’s the coefficient estimates variable of SSB Crossmembership is positive significant at the 10% level. The coefficient estimates on SSB Qualification is positive significant at the 5% level. Furthermore, we also find that the size of the company as a control variable has a significant positive effect at 1% level.

4. DISCUSSION

Cross membership is an important aspect of SSB members, which will influence the disclosure of Islamic banks (El-Halaby & Hussainey, 2016). There is evidence that cross directorship makes information more transparent through comparing the knowledge that is gained from other companies (Farook, 2008). The decisions taken in one board may become part of the information for decisions in other boards (Dahya, Lonie & Power, 1996). Rahman and Bukair

(2013) finds a positive association between CSR disclosure and the SSBSCORE at five percent significance level. Fakhruddin and Jusoh (2018) found that the cross member has a positive influence on the shariah compliance disclosure. The result of this study implies that SSB cross memberships in Islamic financial institutions are effective for monitoring and controlling the Islamic banks' activities related to social issues according to both Shari'ah rules and principles. In this study, SSB crossing is only significant at the 10% level. This means that the application of compliance with Islamic principles requires Islamic banks limiting the number of cross membership positions on the SSB. This limitation is done so that SSB can work more focused and professional.

Understanding of IFIs comprehensively, it is very important to have some basic understanding of Shariah standards and compliance (Ho, 2015). Educational background is a significant factor in the disclosure practice. Education can be used as a sole measure for determining the professional level (Vinnicombe, 2010). Previous studies indicate that the increase in the education level of SSB members has a corresponding increase in the level of CSR disclosure by Islamic banks (Farook, 2008). With regards to the unique role that SSB members are expected to fulfill, SSB members should have the knowledge especially of Islamic law, economics, and financial and accounting practice, which will enable them to know not only the Shari'ah problems but also problems relating to law and economics, since such problems in many situations are brought about by the manner in which they are interpreted. Members of the SSB with a doctorate are evidently better-versed in the present implications of Islam for the banks, especially regarding the disclosure of CSR. Rahman and Bukair (2013) finds a positive association between CSR disclosure and the SSBSCORE at five percent significance level.

But, this study finds a negative association between Shari'ah Governance disclosure and the Members of the SSB with a doctoral at five percent significance level. This implies that SSB Qualification with a doctoral is not effective for monitoring and controlling the Islamic banks' activities related to social issues according to Shari'ah rules and principles. In Indonesia context, only about 25% of SSB in Indonesia have doctoral backgrounds in the fields of Islamic law, economics, and finance and accounting, and only about 10% SSB have doctoral backgrounds in the fields of economics, and finance and accounting. (SSB members should have expertise and background integral education both in muamalah fiqh science and economics modern Islamic finance. In practice, many Islamic financial institutions raised the SSB members only because of its popularity as a cleric, not because of its knowledge about the practices of Islamic financial institutions owned. This is what makes supervision not optimal conducted by SSB, because they do not know the technicalities in Islamic financial institutions. Therefore, it is very important for the National Board of Trustees (DSN, in the Indonesian context) to recruit graduates who have the potential to control economics and Islamic finance. With integral science, optimizing the role of SSB in supervision will be realized and the better.

Many Islamic banks have replaced them all their SSB because board members have knowledge and expertise which is limited to sharia principles and product knowledge. This limitation causes SSB to not function properly. SSB Members' with limited knowledge in the field of accounting and Islamic finance can have a negative impact on Islamic bank performance (Bakar, 2016).

Regarding bank size as a control variable, it is significant at the 1% level. The results are in line with Romlah, Takiah and Jusoh (2013), Farook (2008); Rahman and Bukair (2013) and El-Halaby and Hussainey (2016). The results of this study indicate that Islamic banks that have more assets will make disclosure of sharia compliance related to information of the Sharia Supervisory Board (SSB). Cooke (1989) research results also explain that larger companies face higher information requests from customers, analysts, and the general public

5. CONCLUSION

The aim of this paper has been to gauge the influence of Shari'ah Supervisory Board Cross memberships and Shari'ah Supervisory Board Qualification toward Shari'ah compliance related SSB information. This paper also explains the variable firm size as a control variable. The use of control variables so that the influence of SSB on compliance does not depend on other variables. This paper finds that's SSB Cross membership and bank size as a control variable are positive signs. But, this paper finds that's SSB Qualification is negative significant.

These results have suggested that more attention should be paid to variables that may explain the variation in Shari'ah concern with SSB characteristics. These results indicate that banks reporting that formally implement an AAOIFI standard significantly improves the disclosure level for Shari'ah compliance.

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