Asian Journal of Management Entrepreneurship and Social Science
ISSN: 2808 7399
https://ajmesc.com/index.php/ajmesc Volume 03 Issue 03

The Influence of Board of Directors Personal Characteristics On the Work Performance of Sharia Bank: The Sharia Supervisory Board's Function as a Moderating Variable

Indarti Purwa Andarini[1], Salamah Wahyuni[2]

[1,2] Fakultas Ekonomi dan Bisnis, Universitas Sebelas Maret, Indonesia

*Coresponding author-email: *indartipurwaandari@gmail.com*

abstract

The purpose of this study is to provide empirical evidence about the effect of size, educational background, and board independence on the performance of Sharia bank, as well as the role of the Sharia supervisory board in moderating the effect of size, educational background, and board independence on Sharia bank performance. From 2015 through 2021, the sample for this study is Sharia commercial banks and Sharia business units. Purposive sampling is used in the corporate sampling methodology. According to the findings of this study, the size and independence of the board of directors have a favorable and significant impact on the performance of Sharia bank, however educational background has no impact on the performance of Sharia bank. The Sharia supervisory board is proven to moderate the influence of size, educational background, and independence of the board of directors on the performance of Sharia bank.

Keywords: Characters of the board of directors, Sharia bank performance, Sharia Supervisory Board

1. INTRODUCTİON

In 2019, Indonesia's total Sharia financial assets reached US$99 billion, an increase from the previous year of US$86 billion. This increase in total assets placed Indonesia in 7th position with the largest total Sharia financial assets in the world (Zaharman et al., 2022). During the Covid-19 pandemic, the performance of Sharia Commercial Banks (BUS) during

2020 showed a significant decline where in 2019 the ROA value decreased from 1.73 to 1.4 in 2020. The trend of Sharia bank performance based on ROA can be seen in Figure 1 below.

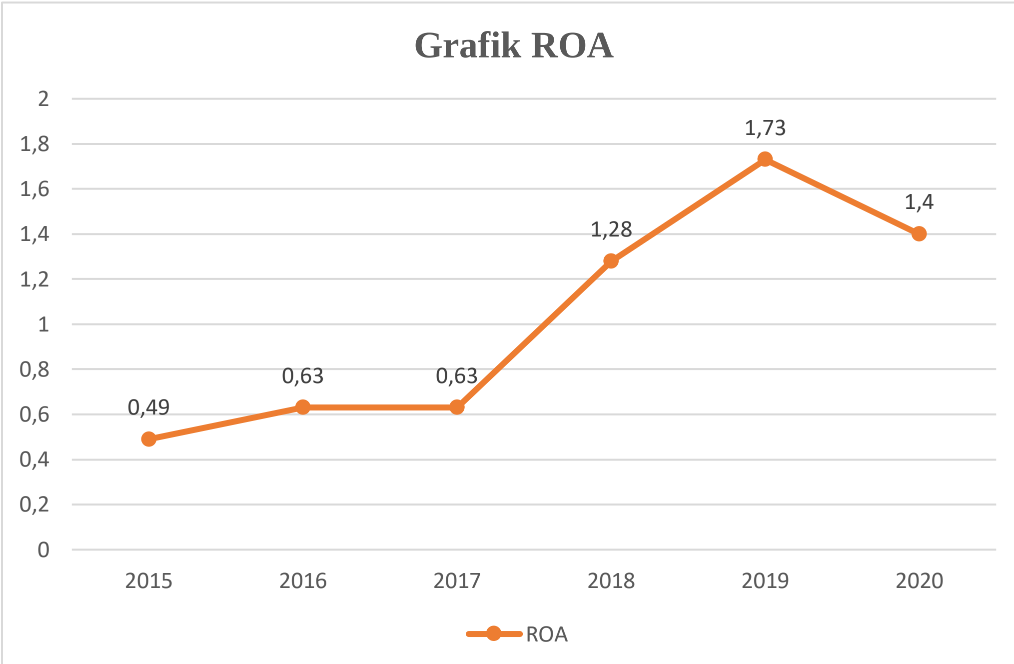

Figure 1 2015-2020 ROA chart
Source: Financial Services Authority, 2022

Based on Figure 1, it can be seen that there was an increasing trend from 2015 to 2019, but in 2020 there was a decline. The decline in ROA in 2020 was caused by the Covid 19 Pandemic. This could happen because during the Covid-19 pandemic, government policies were implemented which greatly affected people's lives. Government policies that occurred during the Covid-19 pandemic included: lockdown, physical distancing, Large-Scale Social Restrictions (PSBB) and Implementation of Restrictions on Community Activities (PPKM) (Hidayat et al., 2021). By limiting community activities or the like, this will also reduce the intensity of banking operational activities, both channeling and raising funds. Apart from that, another reason for the decrease in ROA was the operational costs that had to be incurred, while the income received was reduced due to the ongoing Covid-19 pandemic. This shows that the existence of the Covid-19 pandemic can have an impact on the ROA of Sharia banking in Indonesia. Based on this phenomenon, it is important to examine the important factors that can affect the performance of Sharia banking in a comprehensive manner.

This study conceptualizes the characteristics of the board of directors as a factor that can influence the financial performance of Sharia bank. Much research has been done on the characteristics of the board of directors at conventional banks (Belkhir, 2009; Adusei, 2011; Rachdi & Ben Ameur, 2011). Meanwhile, not much research has been conducted on Sharia bank (Audio & Serly, 2022). This researcher wants to examine in depth the characteristics of the board of directors on the performance of Sharia bank. The results of previous research on the relationship between the characteristics of the board of directors and the financial performance of Sharia bank still indicate mixed results. In this study, there are 3 characteristics of the board of directors that will be studied in depth, namely: the size of the board of directors, the educational background of the board of directors, and the independence of the board of directors.

First, related to the size of the board of directors and the financial performance of Sharia bank. Several previous studies have found that board size has a negative and significant impact on bank performance (Al-Saidi & Al-Shammari, 2013; Liang et al., 2013; Mamatzakis & Bermpei, 2015; Mollah & Zaman, 2015; Sakawa & Watanabel, 2018). These findings suggest that smaller board sizes tend to be more efficient. On the other hand, Juras & Hinson (2008) found that the size of the board of directors has a positive impact on the performance of Sharia bank. This finding means that a large board of directors size tends to provide better financial performance. In addition to these findings, Belkhir (2009) and Rachdi & Ben Ameur (2011) found that the size of the board of directors has no significant effect on the performance of Sharia bank.

Second, related to the educational background of the board of directors and the financial performance of Islamic banks. Ness et al., (2010) and Syafiqurrahman et al., (2014) found that the educational background of the Board of Directors has a significant effect on the bank's financial performance. Board of directors who have an educational background in economics and business tend to have more knowledge and understanding of the mechanics and management of business in banking, thus having a greater impact on company performance. Although there have been several studies that have found significant results, the study by Kusumastuti et al., (2007) found different results. In his research concluded that educational background has no effect on the bank's financial performance. Differences in the educational background of the board of directors do not affect the financial performance of Sharia bank.

Finally, related to the influence of the independence of the board of directors and the financial performance of Sharia bank. Several previous studies have found a positive effect between the independence of the board of directors and the financial performance of Islamic banks (Lee & Carlson, 2007; Pathan et al., 2007; Liang et al., 2013; Dong et al, 2017; Gafoor et al., 2018). This result means that the higher the independence of the board of directors, the better the bank's performance. In addition, there are several studies that find different results, namely that the independence of the board of directors has a negative effect on the financial performance of Sharia bank (Pathan & Faff, 2013; Sarkar and Sarkar, 2018). Different results were also found by Adams & Mehran's research (2012) which found that the independence of the board of directors had no effect on the financial performance of Sharia bank. These results indicate that the independence of the board of directors is not an important factor in determining the financial performance of Sharia bank.

The diversity of research results that have been described indicates that there are important factors that have not been conceptualized to explain the relationship between the variables formed. A supervisory board is required which is tasked with overseeing the financial performance of Sharia bank. In this regard, it becomes important to conceptualize the role of the Sharia supervisory board to explain the various relationship patterns between the characteristics of the board of directors and the financial performance of Sharia bank.

The novelty of this study is conceptualizing the Sharia Supervisory Board (DPS) as a moderating variable on the effect of the characteristics of the board of directors on the financial performance of Sharia bank. The DPS is expected to be able to provide a detailed explanation of the various relationship patterns. The influence of the characteristics of the board of directors on the financial performance of Islamic banks depends on the Sharia supervisory board. The Sharia supervisory board, in this study, was conceptualized based on 3 characteristics, namely: the number of members of the DPS, the expertise of the DPS, and the doctoral qualifications of the members of the DPS. Much research has been done on the role of Sharia Supervisory Board in the performance of Sharia bank (Matoossi & Grassa, 2014; Mollah & Zaman, 2015; Nomran et al., 2018). Although there have been studies examining the role of DPS in the financial performance of Sharia bank, no research has been found that conceptualizes DPS as a moderating variable on the effect of the characteristics of the board of directors on the financial performance of Sharia bank.

2. LİTERATURE REVİEW

2.1 Agency Theory

The first theoretical underpinnings of this research are enshrined in popular agency theory in business. Jensen & Meckling (1976) define agency theory as a theory that addresses relationships in which in a contract 'one or more persons (principals) engage another person (agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. This theory looks at how to ensure that agents (executives, managers) act in the best interests of the principals (owners, shareholders) of an organization. According to Jensen & Meckling (1976), there are real reasons to accept that the best interest of the principal will not always be exercised by the agent if both parties to the relationship are utility maximizers. In this case, how to write contracts so that agent performance can be measured and given incentives so that they act in accordance with the principal's interests is the main concern of agency theory as proposed by Jensen & Meckling (1976).

Agency theory pays attention to two main problems, how to align conflicting interests between managers and owners and how to ensure that agents carry out the way desired by principals (Al-Saidi & Al-Shammari, 2013). Problems can arise when managers make selfish decisions and manipulate performance information, for example by shifting numbers to create a favorable picture of performance. The answer to this problem is to make the manager the owner of the company and ensure that the manager acts in the interests of the owner (Bendickson et al., 2016, Eisenhardt, 1989).

From the point of view of agency theory, the implications for corporate governance are, that adequate monitoring is necessary to be implemented to protect and minimize conflicts of interest that exist between management and shareholders, between shareholders, and between debt holders and the company such conflicts lead to agency costs (Fama & Jensen, 1983; Al-Saidi & Al-Shammari, 2013). Jensen & Meckling (1976) argue that the principal can minimize differences in his interests through creating appropriate incentives for the agent and through incurring monitoring costs intended to limit the aberrant activities of the agent. This is to ensure that the agent makes the best decision from the principal's point of view.

By doing this the principal incurs several costs which are often known as monitoring costs. Also, in certain circumstances the principal may require the agent to use resources (bonding costs) to ensure that certain actions which would be detrimental to the principal will not be taken by the agent. Again, according to Jensen & Meckling (1976), there is a difference between agent decisions and decisions that mix up the welfare of the principal. The dollar value of the decline in the principal's welfare as a result of this divergence is also part of the cost of the agency relationship known as the residual loss. Therefore, the sum of monitoring expenditures by principals, bonding expenditures by agents, and residual losses is agency costs (Jensen & Meckling, 1976).

2.2 Size of the Board of Directors and Financial Performance of Sharia bank

Empirical studies have reported mixed results on the relationship between board size and firm performance. Several studies have found a positive relationship between board size and bank performance (Chahine & Safieddine, 2011; Adams & Mehran, 2012; Salim et al., 2016; O'Sullivan et al., 2016), between board size and bank performance. Chahine & Safieddine (2011) investigated the impact of board size and composition on bank performance in an emerging market context. This study uses a data sample of 749 companies in the Lebanese banking sector from 1992 to 2006. The data includes all national banks operating in any year during the entire study period. After controlling for a number of factors that can affect the performance of Lebanese banks, the results found that there is a positive relationship between the size of the board of directors and the performance of Lebanese banks, as measured by return on assets (ROA) and return on equity (ROE).

The findings provide evidence that an increase in board size as a result of adding a director with subsidiary directors can increase value for the bank because these directors may be suitable in principle to deal with organizational complexities as they arise. Gafoor et al., (2018) found a significant and positive relationship between board size and bank performance, measured by ROA. Furthermore, Nahar et al., (2016) reported a significant and positive relationship between board size and bank performance (measured by ROA and ROE) using a sample of 30 banks registered in Bangladesh from 2006 to 2012. Also, using a sample of 372 banks . Aebi et al., (2012) reported a significant and positive relationship between board size and bank performance. Therefore we state the hypothesis as follows:

H1: The size of the board of directors has a positive effect on the performance of Sharia bank

2.3 Educational Background of the Board of Directors and Bank Performance

A director's ability to lead can be viewed from two perspectives: observable characteristics and unobservable characteristics (Elsharkawy et al., 2018). Observable characteristics include work experience, career reputation, and education. While the characteristics that cannot be observed include leadership skills, the ability to gain trust and build a team. Measuring characteristics that cannot be measured can be a big challenge (Falato et al., 2015).

One characteristic that can be observed is the educational background. Educational background has an important role in selecting leaders. Papadimitri et al., (2020) in their research, found that companies whose board members have a higher level of education tend to get a higher credit rating. Other research has also found evidence that company leaders with higher education qualifications have a positive impact on company performance (Falato et al., 2015; Mulyaningsih et al., 2021).

On the other hand, some researchers doubt the effect of the educational background of company leaders on the performance of the company itself. In his research, Gottesman & Morey (2010) found no relationship between company performance and the educational background of its leaders. Even a company leader without a college degree can benefit more than those with a degree (Jalbert et al., 2011). Therefore we state the hypothesis as follows:

H2: Educational background has a positive effect on the performance of Islamic banks

2.4 Independence of the Board of Directors and Financial Performance of Sharia bank

Lee & Carlson's (2007) study used a sample of S&P 500 companies and found that boards with a large number of independent board members performed significantly better than companies with less independent boards. Furthermore, Gafoor et al., (2018) found a significant and positive relationship between board independence and bank performance using a sample of 36 commercial banks. Furthermore, Dong et al., (2017) showed that board independence is associated with increased bank profit efficiency. In addition, Yeh et al., (2011) explored whether the performance of financial institutions was higher with more independent directors in different committees during the 2007-2008 financial crisis. This means that there is a positive relationship between committee independence and firm performance during a crisis. Sarkar & Sarkar (2018) found that the proportion of independent directors has a positive effect on the performance of private banks in India.

In light of the above discussion, we expect that an independent board of directors should provide proper oversight of management decisions and strategies to bring about better performance. Therefore we state the hypothesis as follows:

H3: The independence of the board of directors has a positive effect on the performance of Sharia bank

2.5 The Role of the Sharia Supervisory Board as a Moderator of the Influence of the Characteristics of the Board of Directors on the Financial Performance of Sharia bank

The issue of the Sharia Supervisory Board (DPS) is related to the functions carried out by the Sharia board. Independence, confidentiality, competence, consistency and disclosure are important issues related to functions (Grais & Pellegrini, 2006). The quality of the Sharia board is determined in the literature by various variables such as independence, size, reputation, education, experience, directorship, and information disclosed (Rahman & Bukair, 2013). Larger DPS involve scholars with various skills from different fiqh schools and with rich experience, leading to better interpretation of products and operations and in fact better performance. Several researchers have examined the effect of DPS size on Sharia bank performance such as the studies of Matoossi & Grassa (2014), Mollah & Zaman (2015) and Nomran et al., (2018), who found that DPS size has a significant impact on Sharia bank performance.

In explaining the relationship between the characteristics of the board of directors and the financial performance of Sharia bank, it is necessary to consider that the Sharia supervisory board is one of the variables that can be used to provide a detailed explanation of the relationship. Previous studies indicated that the sharia supervisory board is an important variable that needs to be considered in explaining the relationship between the characteristics of the board of directors, which include the size of the board of directors, the educational background of the board of directors, and the independence of the board of directors on the financial performance of Sharia bank (Matoossi & Grassa, 2014; Mollah & Zaman, 2015; Juras & Hinson, 2008; Nomran et al., 2018; Ilyas, 2021; Patulak et al., 2022). This is because the sharia supervisory board will have a different impact on the influence of the characteristics of the board of directors and the financial performance of Islamic banks.

Previous studies indicated that the Sharia supervisory board has been conceptualized as a moderating variable on the effect of bank financing and profitability, this study found that the Sharia supervisory board can moderate the effect of financing on the profitability of Sharia commercial banks in Indonesia (Masykuroh, 2012).

The influence of the characteristics of the board of directors can have a different impact on the financial performance of Sharia bank depending on the Sharia supervisory board. Islamic banks with a large board of directors size will have better financial performance if there is a good Sharia supervisory board. Likewise for Sharia bank with boards of directors who have an educational background in economics and business, their financial performance tends to be better if there is a Sharia supervisory board in the company's operations. Furthermore, Sharia bank with high board of directors independence tend to have better financial performance, if there is a quality Sharia supervisory board.

Based on the theoretical explanation of the influence between the variables formed, the hypotheses proposed in this study are as follows:

H4: The Sharia supervisory board moderates the effect of the size of the board of directors on the financial performance of Sharia bank.

H5: The Sharia supervisory board moderates the influence of the educational background of the board of directors on the financial performance of Sharia bank.

H6: The Sharia supervisory board moderates the influence of the independence of the board of directors on the financial performance of Sharia bank.

3. RESEARCH METHOD

3.1 Sample and Procedures

The sample in this research is 30 Sharia commercial banks and Sharia business units registered with the Financial Services Authority (Otoritas Jasa Keuangan) for the 2015-2021 period. The sampling technique uses purposive sampling with the following criteria: The bank issues a complete annual financial report or annual report and the required data is available during the research period from 2015 to 2021.

3.2 The measurement of Research Variable

A. Dependent Variable

The dependent variable in this study is banking financial performance which is proxied in Return on Assets (ROA) and Return on Equity (ROE). ROA is the ratio between net income to total assets. ROE is the ratio between net income to total equity. Return on Assets (ROA) and Return on equity (ROE) are formulated (Bukair, 2015) as follows:

Return on Assets (ROA) = Net profit before taxes and Zakat/total assets
Return on equity (ROE) Net profit before tax and Zakat/total equity

B. Independent Variable

There are 3 independent variables in this study. First, the Size of the Board of Directors is calculated by the number of directors on the board (Freihat & Farhan, 2019). Second, the independence of the Directors is calculated by the percentage of total independent directors (%) (Dogan & Eksi, 2020). Finally, the educational background of the directors is calculated by calculating the proportion of those with a business education background and those without a business education background (Kanakriyah, 2021).

C. Moderation Variable

The Sharia supervisory board (DPS) in this study is conceptualized as a moderating variable. DPS index is used as a proxy to measure DPS quality. This index contains three attributes, namely the number of DPS, DPS expertise, and doctoral qualifications of DPS members. Ajili & Bouri (2018) calculates the score for the DPS index by summing the values assigned to the associated attributes.

The following is the measurement of the DPS index. The number of DPS members is coded 1 for banks with 3 or more DPS members and coded 0 for the others. The financial expertise of DPS members is coded 1 if the DPS member has experience in Sharia banking institutions and 0 otherwise. DPS member doctoral qualifications are coded 1 if the DPS member holds a doctorate and 0 otherwise.

3.3 Control Variables

This study uses two control variables, namely company size and company age. Firm size is measured using the total assets owned by Sharia bank. The age of the company is measured by looking at the year the Sharia bank was founded until now.

3.4 Data analysis technique

The method used in this study is to use the panel data analysis method with the E-views software program. To test the hypothesis, the following model is used:

a. The regression equation of the research model for hypotheses 1, 2, and 3:

$ROE = \alpha + \beta_1 XI + \beta_2 X2 + \beta_3 X3 + \beta_4 X5 + \beta_5 X6 + e$

$ROA = \alpha + \beta_1 XI + \beta_2 X2 + \beta_3 X3 + \beta_4 X5 + \beta_5 X6 + e$

b. Moderation regression equation research model hypothesis 4:

$ROE = \alpha + \beta_1 X1 + \beta_2 X4 + \beta_3 X1*X4 + \beta_4 X5 + \beta_5 X6 + e$

$ROA = \alpha + \beta_1 X1 + \beta_2 X4 + \beta_3 X1*X4 + \beta_4 X5 + \beta_5 X6 + e$

c. Hypothesis 5 research model moderation regression equation:

$ROE = \alpha + \beta_1 X2 + \beta_2 X4 + \beta_3 X2*X4 + \beta_4 X5 + \beta_5 X6 + e$

$ROA = \alpha + \beta_1 X2 + \beta_2 X4 + \beta_3 X2*X4 + \beta_4 X5 + \beta_5 X6 + e$

d. Hypothesis 6 research model moderation regression equation:

$ROE = \alpha + \beta_1 X3 + \beta_2 X4 + \beta_3 X3*X4 + \beta_4 X5 + \beta_5 X6 + e$

$ROA = \alpha + \beta_1 X3 + \beta_2 X4 + \beta_3 X3*X4 + \beta_4 X5 + \beta_5 X6 + e$

Keterangan:

ROE = *Return on Equity*
ROA = *Return on Asset*
α = Constanta
β = Regression Coefficient
X1 = Size of the board of directors
X2 = Independent Board of Directors
X3 = Background of the Board of Directors
X4 = Sharia Supervisory Board
X5 = Company Size
X6 = Company Age
e = *Error*

4. RESULT

4.1 Results of Hypothesis Testing 1, 2 and 3

The results of the regression analysis with the control variables company size and company age show that the board of directors size variable has a coefficient value of 2,253 and is significant at the 1% level (See Table 1). This means that the size of the board of directors has a positive and significant effect on the company's financial performance as measured by ROE and ROA. Therefore, the first hypothesis in this study is declared supported. That is, it can be concluded that the more the number of boards of directors, can improve the financial performance of Sharia bank.

Furthermore, the results of the regression analysis with the control variables company size and company age show that the board of directors education variable has a coefficient value of -1.640 and has an insignificant effect (see Table 1). This means that the business education of the board of directors has a negative and insignificant effect on the company's financial performance as measured by ROE and ROA. Therefore, the third hypothesis in this study was declared not supported. That is, it can be concluded that the board of directors with business and non-business education in this context produces the same financial performance of Sharia bank. In addition, the business education of the board of directors is not an important factor that can affect the financial performance of Sharia bank.

Finally, the results of the regression analysis with the control variables company size and company age show that the board of directors independence variable has a coefficient value of 0.521 and is significant at the 1% level (see Table 1). This means that the independence of the board of directors has a positive and significant effect on the company's financial performance as measured by ROE and ROA. Therefore, the second hypothesis in this study is declared supported. That is, it can be concluded that the higher the independence of the board of directors, can improve the financial performance of Sharia bank.

Table 1 Results of Hypothesis Testing 1, 2 and 3

	Dependent Variable			
Variable	**ROE**		**ROA**	
	Coefficient	**Value t**	**Coefficient**	**Value t**
Independent Variable				
Board size	2.253	3.180 ***	0.305	2.037 **
Board of Directors Education	-1.640	-0.516	-0.543	-0.695
Board of Directors independence	0.521	11.529 ***	0.105	10.107 ***

Control Variables				
Company Size	3.429	0.963	-0.960	-1.453
Company Age	-0.368	-1.218	0.029	1.207
Adj. R^2	0.730		0.358	
F-Statistics	17.693		24.315	
Sig.	0.000		0.000	
N	210		210	

Source: Processed data, 2023.
Note : *** Significant at the 1% level
** Significant at the 5% level

4.2 Hypothesis Testing Results 4

The results of the moderated regression analysis test by including the control variables company size and company age show the coefficient value of the interaction results of the variable size of the board of directors and the Sharia supervisory board of -1.718 on ROE and -0.448 on ROA with a significance level of each at the level 1% (See Table 2). This indicates that the variable of the Sharia supervisory board moderates the effect of the size of the board of directors on the financial performance of Sharia bank. The effect of moderation in this study is negative, meaning that the Sharia supervisory board weakens the effect of the size of the board of directors on the financial performance of Sharia bank. Therefore, it can be concluded that hypothesis 4 in this study is supported.

Table 2 Hypothesis Testing Results 4

	Dependent Variable			
Variable	**ROE**		**ROA**	
	Coefficient	**Value t**	**Coefficient**	**Value t**
Independent Variable				
Board size	4.554	4.634 ***	0.966	4.366 ***
Moderation Variable				
Sharia Supervisory Board	17.449	8.449 ***	4.471	9.729 ***

Interaction				
Board size x Sharia Supervisory Board	-1.718	-4.382 ***	-0.448	-5.115 ***
Control Variables				
Company Size	-1.572	-0.581	-1.094	-1.762 *
Company Age	0.116	1.133	0.039	1.601
Adj. R^2	0.410		0.440	
F-Statistics	30.147		33.947	
Sig.	0.000		0.000	
N	210		210	

Source: Processed data, 2023.
Note : *** Significant at the 1% level
** Significant at the 5% level
* Significant at the 10% level

4.3 Hypothesis Testing Results 5

The results of the moderated regression analysis test by including the control variables company size and company age show the coefficient value of the interaction results of the education variable of the board of directors and the sharia supervisory board of -9.251 on ROE and -2.583 on ROA with a significance level of each at level 1% (See Table 3). This indicates that the variable of the sharia supervisory board moderates the influence of the board of directors' education on the financial performance of Sharia bank. The effect of moderation in this study shows a negative sign, meaning that the Sharia supervisory board weakens the educational influence of the board of directors on the financial performance of Sharia bank. Therefore, it can be concluded that hypothesis 6 in this study is supported.

Table 3 Hypothesis Testing Results 5

Variable	Dependent Variable			
	ROE		ROA	
	Coefficient	Value t	Coefficient	Value t
Independent Variable				
Board of Directors Education	15.726	2.194 **	4.506	2.777 ***
Moderation Variable				
Sharia Supervisory Board	16.316	6.509 ***	4.410	7.922 ***
Interaction				
Board of Directors Education x Sharia Supervisory Board	-9.251	-2.708 ***	-2.583	-3.342 ***
Control Variables				
Company Size	0.607	0.220	-2.008	-2.324 **
Company Age	0.161	1.508	0.140	1.936 *
Adj. R^2	0.368		0.685	
F-Statistics	25.362		14.371	
Sig.	0.000		0.000	
N	210		210	

Source: Processed data, 2023.
Note : *** Significant at the 1% level
** Significant at the 5% level
* Significant at the 10% level

4.4 Hypothesis Testing Results 6

The results of the moderated regression analysis test by including the control variables company size and company age show the coefficient value of the interaction results of the independent variables of the board of directors and the Sharia supervisory board of -0.088 on ROE and -0.042 on ROA with a significance level of 5% on ROE and 1% on ROA (See Table 4). This indicates that the variable of the Sharia supervisory board moderates the effect of the independence of the board of directors on the financial performance of Sharia bank. The effect of moderation in this study shows a negative sign, meaning that the Sharia supervisory board weakens the influence of the independence of the board of directors on the financial performance of Sharia bank. Therefore, it can be concluded that hypothesis 5 in this study is supported.

Table 4. Hypothesis Testing Results 6

	Dependent Variable			
Variable	**ROE**		**ROA**	
	Coefficient	**Value t**	**Coefficient**	**Value t**
Independent Variable				
Board of Directors independence	0.436	8.041 ***	0.092	7.265 ***
Moderation Variable				
Sharia Supervisory Board	12.577	3.565 ***	5.238	6.344 ***
Interaction				
Independence of the Board of Directors x Sharia Supervisory Board	-0.088	-2.304 **	-0.042	-4.749 ***
Control Variables				
Company Size	-0.393	-0.174	-0.851	-1.560
Company Age	0.162	1.923 *	0.033	1.579
Adj. R^2	0.498		0.488	
F-Statistics	42.511		40.924	
Sig.	0.000		0.000	
N	210		210	

Source: Processed data, 2023.
Note : *** Significant at the 1% level
** Significant at the 5% level
* Significant at the 10% level

5. DİSCUSSİON

5.1 The effect of the size of the board of directors on the performance of Sharia bank

Based on the results of hypothesis testing that has been carried out in this study, it was found that the size of the board of directors has a positive and significant effect on the financial performance of Sharia bank. This indicates that the more the number of directors, the better the financial performance of Sharia bank. The results of this study support the results of previous studies examining the effect of board size on the performance of Sharia bank (Chahine & Safieddine, 2011; Adams & Mehran, 2012; Salim et al., 2016; O'Sullivan et al., 2016; Gafoor et al. ., 2018).

Increasing the size of the board of directors can provide benefits for companies, in this case, especially Islamic banks because it creates networking/cooperation with parties outside the company and guarantees the availability of resources owned (Widyati, 2013). This is also in line with research conducted on 300 listed companies in Malaysia (Sukeri et al., 2012) and 700 companies in Malaysia (Johl et al., 2015) which found a positive and significant relationship between board size and company performance. as measured by ROE. In addition, the same results were found in a study conducted in Nigerian companies (Uadiale et al., 2010).

Previous studies on the influence of the size of the board of directors and the performance of Sharia bank explained that with a certain number of boards of directors it is hoped that banking management will be created in accordance with the wishes of all stakeholders and can improve overall banking performance (Audio & Serly, 2022). The increasing number of directors is generally realized in certain areas under their control, so that the directors can focus on the duties and authorities according to their field which in turn can have an impact on the banking performance they manage.

5.2 The influence of the educational background of the board of directors on the performance of Sharia bank

Based on the results of hypothesis testing that has been carried out in this study it was found that the board of directors education variable has a negative and not significant effect on the performance of Sharia bank. This result is not in accordance with the hypothesis which explains that the business education of the board of directors is a variable that influences the financial performance of Sharia bank. The results of this study found that the business education of the board of directors is not an important variable in influencing the financial performance of Sharia bank. The results of this study are inconsistent with previous studies which state that the education of the board of directors can affect the performance of Sharia bank (Gottesman & Morey, 2010; Jalbert et al., 2011; Falato et al., 2015; Papadimitri et al., 2020).

This insignificant effect may be caused by several factors. In this study, the board of directors with an educational background in economics or business can still be said to be unable to improve the financial performance of Sharia bank, where the board of directors should be more sensitive to current economic conditions that may have an impact on the company. Boards of directors who have an educational background in economics or business cannot be sure of a good understanding of the current economic situation, causing them to be less responsive to economic issues related to the company (Syafiqurrahman et al., 2014). In addition, in running and managing a company, which in this case is Sharia banking, soft skills are needed which are sometimes not obtained when taking formal education. Networking, communication and negotiation skills in this case are needed especially to improve the financial performance of Sharia bank (Kusumastuti et al., 2007).

5.3 The effect of the independence of the board of directors on the performance of Sharia bank

Based on the results of hypothesis testing that has been carried out in this study, it was found that the independence of the board of directors has a positive and significant effect on the financial performance of Islamic banks. This indicates that the higher the independence of the board of directors, the better the financial performance of Islamic banks. The results of this study support the results of previous studies that examined the effect of the independence of the board of directors on the performance of Sharia bank (Lee

& Carlson, 2007; Yeh et al., 2011; Dong et al., 2017; Gafoor et al., 2018; Sarkar & Sarkar, 2018).

An independent board of directors is a member of the board of directors who does not have a close relationship with the company's shareholders who have authority and play an important role in the company's decision-making process, especially Islamic banks. Many previous studies have stated that the greater the proportion of independent board of directors in a company, the company's management cannot commit acts of fraud so that the company's performance becomes better and healthier.

5.4 The role of the sharia supervisory board in moderating the effect of the size of the board of directors on the performance of Sharia bank

Based on the results of hypothesis testing that has been carried out in this study it was found that the sharia supervisory board significantly moderates the effect of the size of the board of directors on the financial performance of Sharia bank. The moderating effect of the Sharia supervisory board is negative, meaning that the effect of the size of the board of directors on the financial performance of Sharia bank is stronger when the number of members of the Sharia supervisory board is small, they do not have doctoral education, and do not have financial expertise. Although there are previous studies which state that the number of Sharia supervisory boards is directly proportional to the company's financial performance, that if the number of Sharia supervisory boards in financial institutions increases, the supervision of company management will be better, and the management of the company's financial performance will be in accordance with Sharia principles. (Dewayanto, 2010).

The results in this study indicate that the effect of the size of the board of directors on the financial performance of Sharia bank will be better when the number of Sharia supervisory boards is less. This is because the smaller number of supervisory boards is actually more efficient and faster in the process of making important decisions within the company, so that the effectiveness and smooth running of the company is better. Likewise, when members of the Sharia supervisory board do not have doctoral education qualifications and have low financial expertise, it will tend to produce better Islamic bank financial performance. This is probably because the role and function of the sharia supervisory board is to oversee the bank's management process so that it is in accordance with sharia principles, so that doctoral qualifications and expertise in financial matters are not really needed.

5.5 The role of the sharia supervisory board in moderating the educational influence of the board of directors on the performance of Sharia bank

Based on the results of hypothesis testing that has been carried out in this study it was found that the Sharia supervisory board significantly moderates the effect of the board of directors' business education on the financial performance of Sharia bank. The moderating effect of the Sharia supervisory board is negative, meaning that the effect of the business education of the board of directors on the financial performance of Sharia bank is stronger when the number of members of the Sharia supervisory board is small, they have no doctoral education, and do not have financial expertise. Although there are previous studies which state that the number of Sharia supervisory boards is directly proportional to the company's financial performance, that if the number of Sharia supervisory boards in financial institutions increases, the supervision of company management will be better, and the management of the company's financial performance will be in accordance with Sharia principles (Dewayanto, 2010).

The results in this study indicate that the influence of board of directors business education on the financial performance of Sharia bank will be better when the number of Sharia supervisory boards is less. This is because the smaller number of supervisory boards is actually more efficient and faster in the process of making important decisions within the company, so that the effectiveness and smooth running of the company is better. Likewise, when members of the Sharia supervisory board do not have doctoral education qualifications and have low financial expertise, it will tend to produce better Sharia bank financial performance. This is probably because the role and function of the Sharia supervisory board is to oversee the bank's management process so that it is in accordance with Sharia principles, so that doctoral qualifications and expertise in finance are not really needed in this context.

5.6 The influence of the sharia supervisory board in moderating the effect of the independence of the board of directors on the performance of Sharia bank

Based on the results of hypothesis testing that has been carried out in this study, it was found that the Sharia supervisory board significantly moderates the effect of the independence of the board of directors on the financial performance of Sharia bank. In this study, the moderating effect of the Sharia supervisory board is negative, meaning that the influence of the independence of the board of directors on the financial performance of Sharia bank is stronger when the number of members of the Sharia supervisory board is small, they do not have doctoral education, and do not have financial expertise.

The results in this study indicate that the effect of the independence of the board of directors on the financial performance of Islamic banks will be better when the number of Sharia supervisory boards is less. This is because the smaller number of supervisory boards is actually more efficient and faster in the process of making important decisions within the company, so that the effectiveness and smooth running of the company is better. Likewise, when members of the Sharia supervisory board do not have doctoral education qualifications and have low financial expertise, it will tend to produce better Sharia bank financial performance. This is probably because the role and function of the Sharia supervisory board is to oversee the bank's management process so that it is in accordance with Sharia principles, so that doctoral qualifications and expertise in financial matters are not really needed.

6. CONCLUSİON

This study aims to provide empirical evidence about the influence of the size of the board of directors, the independence of the board of directors, and the business education of the board of directors on the performance of Sharia bank. In addition, conceptualizing the Sharia supervisory board as a moderating variable is also the goal of this research. Based on the results of the data analysis that has been done, it can be concluded that the size of the board of directors and the independence of the board of directors has proven to have a positive and significant effect on the performance of Sharia bank, while the business education of the board of directors has proven to have an insignificant effect on the performance of Sharia bank. In addition, this study also proves that the Sharia supervisory board moderates the influence of the size of the board of directors, the independence of the board of directors and the business education of the board of directors on the financial performance of Sharia bank.

7. IMPLİCATİON

Theoretically, this study proposes a conceptual model of the important factors that influence the financial performance of Sharia bank in Indonesia. The results of this study provide evidence that the characteristics of the board of directors consisting of the size of the board of directors and the independence of the board of directors have an effect on the financial performance of Sharia bank. Furthermore, this study also provides evidence about the role of the Sharia supervisory board which functions as a moderator which can weaken the effect of board size, board of directors independence, and board of directors business education on the financial performance of Sharia bank. The research model conceptualized in this study is expected to provide a theoretical contribution, especially in an effort to improve the financial performance of Sharia bank.

Practically, the results of this study provide an overview to company stakeholders about the important factors that influence the financial performance of Sharia bank. Particularly with regard to the variable characteristics of the board of directors and the Sharia supervisory board. The size of the board of directors and the independence of the board of directors are important variables in improving the financial performance of Sharia bank. In addition, the existence of a sharia supervisory board is also an important factor in improving the financial performance of Islamic banks when it is in the right proportions. This means that the Sharia supervisory board plays a role in accordance with its function and authority as a supervisor related to bank management based on Sharia principles.

8. Limitations and suggestions for further research

In addition to having advantages and strengths, this study has several limitations that cannot be avoided in the research process. First, this study only focuses on the variable characteristics of the board of directors which are portrayed through the size of the board of directors, the independence of the board of directors, and the education of the board of directors. Future research is expected to broaden the scope of conceptualizing the characteristics of the board of directors, for example in terms of age and gender of the board of directors. Second, this study conceptualizes the Sharia supervisory board in terms of the proxy number of the Sharia supervisory board, doctoral education of the Sharia supervisory board, and the financial expertise of the Sharia supervisory board. Future studies are expected to be able to add other proxies to obtain a more comprehensive picture of the Sharia supervisory board, for example the activity level of the Sharia supervisory board, the age and/or gender of the Sharia supervisory board members. Lastly, this research is only limited to a sample of Sharia bank in Indonesia. Further research will be better if it can expand the scope of research by using samples of Sharia banking from various countries. In addition, conducting comparative studies with other countries is also expected to provide a comprehensive picture in the context of Sharia banking.

REFERENCES

Adams, R. B., & Mehran, H. (2012). Bank board structure and performance: Evidence for large bank holding companies. *Journal of financial Intermediation,* 21(2), 243-267.

Adusei, M. (2011). Board structure and bank performance in Ghana. Journal of Money, Investment and Banking, 19(1), 72-84.

Aebi, V., Sabato, G., & Schmid, M. (2012). Risk management, corporate governance, and bank performance in the financial crisis. Journal of Banking & Finance, 36(12), 3213-3226.

Ajili, H. & Bouri, A. (2018). Corporate governance quality of Islamic banks: measurement and effect on financial performance. International Journal of Islamic and Middle Eastern Finance and Management, Vol. 11 No. 3, pp. 470-487

Al-Saidi, M., & Al-Shammari, B. (2013). Board composition and bank performance in Kuwait: an empirical study. Managerial auditing journal.

Audio, R., & Serly, V. (2022). Pengaruh Karakteristik Dewan Direksi terhadap Kinerja Bank Sharia. Jurnal Eksplorasi Akuntansi, 4(1), 232-247.

Bendickson, J., Muldoon, J., Liguori, E., & Davis, P. E. (2016). Agency theory: the times, they are a-changin'. Management decision.

Belkhir, M. (2009). Board of directors' size and performance in the banking industry. International Journal of Managerial Finance.

Bukair, A. A., & Rahman, A. A. (2015). Bank performance and board of directors attributes by Islamic banks. International Journal of Islamic and Middle Eastern Finance and Management.

Chahine, S., & Safieddine, A. (2011). Is corporate governance different for the Lebanese banking system?. Journal of Management & Governance, 15(2), 207-226.

Dewayanto, Totok. 2010. Pengaruh Mekanisme Good Corporate Governance terhadap Kinerja Perbankan Nasional Studi pada Perusahaan Perbankan yang terdaftar di Bursa Efek Indonesia Periode 2006-2008. Fokus Ekonomi. Vol. 5 No.2. p. 104-123.

Doğan, B., & Ekşi, İ. H. (2020). The effect of board of directors characteristics on risk and bank performance: Evidence from Turkey. Economics and Business Review, 6(3), 88-104.

Dong, Y., Girardone, C., & Kuo, J. M. (2017). Governance, efficiency and risk taking in Chinese banking. The British Accounting Review, 49(2), 211-229.

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. Academy of management review, 14(1), 57-74.

Elsharkawy, M., Paterson, A., & Sherif, M. (2018). Now you see me: Diversity, CEO education, and bank performance in the UK. Investment management and financial innovations.

Falato, A., Li, D., & Milbourn, T. (2015). Which skills matter in the market for CEOs? Evidence from pay for CEO credentials. Management Science, 61(12), 2845-2869.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. The journal of law and Economics, 26(2), 301-325.

Freihat, A. F., Farhan, A., & Shanikat, M. (2019). Do board of directors characteristics influence firm performance? evidence from the emerging market. Journal of Management Information and Decision Sciences, 22(2), 148-166.

Gafoor, C. A., Mariappan, V., & Thiyagarajan, S. (2018). Board characteristics and bank performance in India. IIMB management review, 30(2), 160-167.

Gottesman, A. A., & Morey, M. R. (2010). CEO educational background and firm financial performance. Journal of Applied Finance (Formerly Financial Practice and Education), 20(2).

Grais, W., & Pellegrini, M. (2006). Corporate governance and Shariah compliance in institutions offering Islamic financial services (Vol. 4054). World Bank Publications.

Hidayat, R., Umam, R., & Tripalupi, R. I. (2021). Kinerja Keuangan Perbankan Sharia Pada Masa Covid-19 Dan Strategi Peningkatannya. Finansha: Journal of Sharia Financial Management, 2(2), 77-91.

Ilyas, R. (2021). Peran Dewan Pengawas Sharia Dalam Perbankan Sharia. JPS (Jurnal Perbankan Sharia), 2(1), 42-53.

Jalbert, T., Jalbert, M., & Furumo, K. (2011). Does AACSB accreditation matter? Evidence from large firm CEOs. Journal of Applied Business Research, 27(3), 93-106.

Jensen, M.C. and W.H. Meckling. (1976), "Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure", Journal of Financial Economics 3 (4), 305-360

Johl, S.K., Kaur, S., & Cooper, B.J. (2015). Board Characteristics and Firm Performance: Evidence from Malaysian Public Listed Firms. Journal of Economics, Business and Management, 3(2), 239–243

Juras, P. E., & Hinson, Y. L. (2008). Examining The Effect of Board Characteristics on Agency Costs And Selected Performance Measures In Banks. Academy of Banking Studies Journal, 7.

Kanakriyah, R. (2021). The impact of board of directors' characteristics on firm performance: a case study in Jordan. The Journal of Asian Finance, Economics and Business, 8(3), 341-350.

Kusumastuti, S., Supatmi, S., & Sastra, P. (2007). Pengaruh board diversity terhadap nilai perusahaan dalam perspektif corporate governance. Jurnal Akuntansi dan Keuangan, 9(2), 88-98.

Lee, S. K., & Carlson, L. R. (2007). The changing board of directors: Board independence in S & P 500 firms. Journal of Organizational Culture, Communications and Conflict, 11(1), 31.

Liang, Q., Xu, P., & Jiraporn, P. (2013). Board characteristics and Chinese bank performance. Journal of Banking & Finance, 37(8), 2953-2968.

Mamatzakis, E., & Bermpei, T. (2015). The effect of corporate governance on the performance of US investment banks. Financial Markets, Institutions & Instruments, 24(2-3), 191-239.

Masykuroh, E. (2012). Eksistensi DPS dalam Memoderasi Pengaruh Pembiayaan, Kinerja Keuangan dan Pengungkapan CSR pada Bank Umum Sharia di Indonesia. Al-Tahrir: Jurnal Pemikiran Islam, 12(1), 113-132.

Matoossi, H., & Grassa, R. (2014). Is corporate governance different for Islamic banks?. International Journal of Business Governance and Ethics, 9(1), 27-51.

Mollah, S., & Zaman, M. (2015). Shari'ah supervision, corporate governance and performance: Conventional vs. Islamic banks. Journal of Banking & Finance, 58, 418-435.

Mulyaningsih, T., Adhitya, D., & Rosalia, A. C. T. (2021). Education, skills and labour market outcome in Indonesia: An instrumental variable approach. Economic Journal of Emerging Markets, 168-177.

Nahar, S., Azim, M., & Jubb, C. (2016). The determinants of risk disclosure by banking institutions: Evidence from Bangladesh. Asian Review of Accounting.

Ness, R. K., Miesing, P., & Kang, J. (2010). Board of director composition and financial performance in a Sarbanes-Oxley world. Academy of Business and Economics Journal, 10(5), 56-74.

Nomran, N. M., Haron, R., & Hassan, R. (2018). Shari'ah supervisory board characteristics effects on Islamic banks' performance: Evidence from Malaysia. International Journal of Bank Marketing.

Papadimitri, P., Pasiouras, F., Tasiou, M., & Ventouri, A. (2020). The effects of board of directors' education on firms' credit ratings. Journal of Business Research, 116, 294-313.

Pathan, S., & Faff, R. (2013). Does board structure in banks really affect their performance?. Journal of Banking & Finance, 37(5), 1573-1589.

Pathan, S., & Skully, M. (2010). Endogenously structured boards of directors in banks. Journal of Banking & Finance, 34(7), 1590-1606.

Patulak, M. R., Tania, M., Pratitha, N. K., & Wafaretta, V. (2022). Peran Dewan Pengawas Sharia dalam Perbankan Sharia di Indonesia. In Prosiding National Seminar on Accounting, Finance, and Economics (NSAFE), Vol. 2 (7).

O'Sullivan, J., Mamun, A., & Hassan, M. K. (2016). The relationship between board characteristics and performance of bank holding companies: Before and during the financial crisis. Journal of Economics and Finance, 40(3), 438-471.

Rachdi, H., & Ameur, I. G. B. (2011). Board characteristics, performance and risk taking behaviour in Tunisian banks. International Journal of Business and Management, 6(6), 88-97.

Raman, A. A., & Bukair, A. A. (2013). The influence of the Shariah supervision board on corporate social responsibility disclosure by Islamic banks of Gulf Co-operation Council countries. Asian Journal of Business and Accounting, 6(2).

Sakawa, H., & Watanabel, N. (2018). Board structures and performance in the banking industry: Evidence from Japan. International Review of Economics & Finance, 56, 308-320.

Salim, R., Arjomandi, A., & Seufert, J. H. (2016). Does corporate governance affect Australian banks' performance?. Journal of International Financial Markets, Institutions and Money, 43, 113-125.

Sarkar, J., & Sarkar, S. (2018). Bank ownership, board characteristics and performance: Evidence from commercial banks in India. International Journal of Financial Studies, 6(1), 17.

Shukeri, S.N., Shin,O.W., &Shaari,M.S. (2012). Does board directors characteristics affect firm performance? Evidence from Malaysian public listed companies. International Business Research.

Syafirqurrahman, M., Andiarsyah, W., & Suciningsih, W. (2014). Analisis pengaruh corporate governance dan pengaruh keputusan pendanaan terhadap kinerja perusahaan perbankan di indonesia. Jurnal Akuntansi, 18(1), 21-44.

Uadiale, O.M. (2010). The Impact of Board Structure on Corporate Financial Performance in Nigeria. International Journal of Business and Management, 5 (10)

Widyati, M.F. (2013). Pengaruh Dewan Direksi, Komisaris Independen, KomiteAudit, Kepemilikan Manajerial dan Kepemilikan Institusional Terhadap Kinerja Keuangan. Jurnal Ilmu Manajemen, 1-(1), 234–249.

Yeh, Y. H., Chung, H., & Liu, C. L. (2011). Committee independence and financial institution performance during the 2007-08 credit crunch: Evidence from a multi-country study. Corporate Governance-An International Review, 19(5), 437-458.

Zaharman, Z., Arini, A., & Novianti, S. (2022). Analisis Perkembangan Aset, Pembiayaan, Dan Dana Pihak Ketiga Perbankan Sharia Di Indonesia Dimasa Pandemi Covid-19. Jurnal Akuntansi Kompetif, 5(2), 174-179.