

Sharia Supervisory Board Effectiveness in Islamic Corporate Governance: Examining Compliance Mechanisms, Challenges, and Strategic Enhancement Pathways

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Abstract

Background: The global expansion of Islamic finance has intensified the need for robust governance mechanisms to ensure authentic Sharia compliance in financial institutions. Within this context, Sharia Supervisory Boards (SSB) play a central role in maintaining alignment between business operations and Islamic principles.

Objective: This study aims to examine the roles, operational mechanisms, challenges, and enhancement strategies of SSB within Islamic corporate governance frameworks.

Methods: A qualitative approach was employed through a comprehensive literature review and regulatory analysis, integrating perspectives from Islamic governance and contemporary financial practices. The study also considers fatwa guidelines issued by Majelis Ulama Indonesia as part of the analytical framework.

Results: The findings reveal that SSB performs key functions including compliance monitoring, advisory roles, auditing, and strengthening public trust. However, implementation faces challenges such as limited independence, competency gaps in financial technology, multiple board memberships, and lack of standardized Sharia audit frameworks. Effective SSB governance is associated with improved institutional reputation, customer confidence, and compliance performance.

Conclusion: Strengthening SSB effectiveness requires competency standardization, enhanced regulatory oversight, digitalization of Sharia audits, and integration with risk management systems. These strategies are essential to ensure sustainable Sharia compliance in increasingly complex Islamic financial environments.

Keywords: Sharia Supervisory Board; Islamic corporate governance; Sharia compliance; Islamic finance; financial regulation

JEL Classification: G34, G38, Z12

Introduction

The global Islamic finance industry has experienced remarkable expansion over the past three decades, with total assets surpassing \$3 trillion and operations spanning across both Muslim-majority and non-Muslim countries worldwide (Hussainey & Lawati, 2023; Mohi-ud-Din Qadri et al., 2025). Indonesia, possessing the world's largest Muslim population exceeding 230 million individuals, represents a particularly significant market for Islamic financial services and halal industry development. This demographic advantage positions Indonesia as both a substantial consumer market and a potential global center for Islamic economic development. Consequently, the growth trajectory of Sharia-compliant financial institutions and

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halal businesses throughout Indonesia constitutes a pivotal milestone in national economic advancement, reflecting broader global trends toward ethical and values-based financial systems.

Islamic corporate governance fundamentally differs from conventional governance frameworks through its integration of religious principles alongside conventional management standards. While conventional Good Corporate Governance (GCG) emphasizes transparency, accountability, responsibility, independence, and fairness as core principles, Islamic corporate governance incorporates an additional foundational dimension: Sharia compliance. This compliance requirement necessitates that all organizational activities, products, services, and operational procedures strictly adhere to Islamic jurisprudence principles derived from the Quran, Hadith, ijma (scholarly consensus), and qiyas (analogical reasoning). The integration of religious compliance with conventional governance principles creates unique governance architectures distinguishing Islamic institutions from their conventional counterparts (Sadek et al., 2020).

Within this governance framework, the Sharia Supervisory Board (SSB), known in Indonesia as Dewan Pengawas Syariah (DPS), occupies a critical position as the primary mechanism ensuring authentic Sharia compliance throughout organizational operations (Alamer, 2022). SSB functions as an independent oversight body responsible for monitoring, evaluating, advising, and certifying that institutional activities align with Islamic principles as interpreted and codified through fatwas issued by national Sharia councils. In Indonesia's context, the National Sharia Council of the Indonesian Council of Ulama (Dewan Syariah Nasional-Majelis Ulama Indonesia, DSN-MUI) serves as the authoritative body issuing binding Sharia interpretations for Islamic financial institutions. SSB acts as the implementing agent translating these national-level fatwas into organizational-level compliance mechanisms, thereby bridging theological principles with operational practices.

The significance of SSB extends beyond mere regulatory compliance to encompass broader dimensions of institutional legitimacy, stakeholder trust, and market credibility. For Muslim consumers and investors, confidence that financial products and services genuinely adhere to Islamic principles represents a fundamental prerequisite for market participation. SSB serves as the primary institutional mechanism generating this confidence through independent verification and certification of Sharia compliance. Research demonstrates that effective SSB governance correlates positively with multiple organizational outcomes including enhanced institutional reputation, increased customer satisfaction and loyalty, improved product development capabilities, and superior financial performance (Khomsatun et al., 2021). These empirical findings underscore SSB's strategic importance transcending narrow compliance functions to influence comprehensive organizational effectiveness.

Despite widespread recognition of SSB importance, implementation quality and effectiveness vary considerably across institutions and jurisdictions. Multiple challenges constrain optimal SSB performance including questions regarding true independence given financial dependence on supervised institutions, competency gaps particularly concerning modern financial instruments and technology-enabled products, limited availability of qualified Sharia scholars possessing both theological expertise and contemporary financial knowledge, and insufficient regulatory frameworks establishing clear standards and accountability mechanisms. These challenges become increasingly acute as Islamic finance evolves toward greater sophistication, incorporating complex structured products, derivatives, digital currencies, and fintech innovations that strain traditional Sharia interpretation frameworks.

Indonesia's Islamic finance sector confronts additional context-specific challenges influencing SSB effectiveness. The archipelagic geography and significant regional variation in Islamic jurisprudential schools (madhahib) create interpretation challenges regarding appropriate Sharia standards (Dasopang, 2025; Triasari & de Zwart, 2021). Limited numbers of qualified Sharia scholars relative to the expanding number of Islamic financial institutions

necessitates multiple concurrent SSB appointments for individual scholars, raising concerns about adequate oversight capacity and potential conflicts of interest. Furthermore, the relative novelty of professional SSB roles compared with established religious scholarship traditions creates uncertainties regarding appropriate qualifications, appointment procedures, performance evaluation criteria, and accountability mechanisms.

This research addresses these critical issues through comprehensive examination of SSB roles, functions, operational mechanisms, implementation challenges, and enhancement strategies within Indonesian Islamic corporate governance contexts. The investigation pursues several specific objectives. First, the study analyzes the theoretical foundations of Islamic corporate governance and SSB positioning within governance architectures. Second, it examines SSB functions and responsibilities as defined through legal frameworks and organizational practices. Third, the research investigates operational mechanisms through which SSB conducts oversight activities and implements Sharia compliance monitoring. Fourth, it identifies and analyzes primary challenges constraining SSB effectiveness. Finally, the study develops evidence-based recommendations for strengthening SSB capabilities and enhancing overall Islamic corporate governance quality.

The significance of this research manifests across multiple dimensions. Theoretically, the study contributes to evolving literature examining governance mechanisms within faith-based organizations and values-driven enterprises, areas receiving insufficient attention in mainstream governance scholarship. Empirically, detailed analysis of SSB operations provides valuable documentation of Islamic governance practices in the world's largest Muslim-majority country, offering insights potentially applicable across diverse cultural and institutional contexts. Practically, research findings and recommendations offer actionable guidance for Islamic financial institutions seeking to enhance Sharia compliance effectiveness, regulatory authorities developing oversight frameworks, and SSB members striving to fulfill their responsibilities amid increasingly complex operational environments.

Literature Review

2.1. Islamic Corporate Governance Framework

Islamic corporate governance represents a distinctive governance paradigm integrating conventional management principles with Islamic ethical and jurisprudential foundations (Srivastava et al., 2025). While sharing certain objectives with conventional governance including protecting stakeholder interests, ensuring organizational accountability, and promoting sustainable value creation, Islamic governance incorporates additional theological dimensions fundamentally shaping governance philosophies and operational practices. Understanding this integrated framework requires examining both its conceptual foundations and practical manifestations within contemporary organizational contexts (Amin, 2025; Srivastava et al., 2025).

The conceptual foundation of Islamic corporate governance rests upon five primary principles derived from Islamic theology and jurisprudence. First, tauhid (divine unity) establishes that all organizational activities ultimately serve divine purposes beyond mere profit maximization, positioning business as a form of worship requiring ethical conduct and social responsibility (Sulaeman et al., 2025). Second, *adalah* (justice) mandates fair treatment for all stakeholders including shareholders, employees, customers, suppliers, and broader society, prohibiting exploitation and requiring equitable distribution of organizational benefits and burdens. Third, *amanah* (trusteeship) characterizes the relationship between organizational leaders and stakeholders, viewing management authority as a sacred trust requiring faithful stewardship rather than absolute ownership rights. Fourth, *maslahah* (public interest) obligates organizations to pursue activities benefiting broader society while avoiding harm, even when such activities might reduce short-term profitability. Fifth, *shura* (consultation) requires inclusive decision-making processes incorporating diverse stakeholder

perspectives, contrasting with autocratic or purely shareholder-centric governance models (Alamer, 2022; Sulaeman et al., 2025).

These theological principles translate into concrete governance practices distinguishing Islamic institutions from conventional counterparts. Islamic financial institutions must avoid interest-based transactions (riba), excessive uncertainty (gharar), and gambling (maysir) in all products and operations, necessitating alternative contractual structures based on profit-sharing, leasing, or sales arrangements. Organizations must implement comprehensive screening mechanisms ensuring business activities, investments, and partnerships avoid prohibited sectors including conventional banking, alcohol, pork products, gambling, pornography, and weapons manufacturing. Financial reporting must provide transparent disclosure regarding Sharia compliance status, enabling stakeholders to verify religious legitimacy alongside conventional financial performance. Additionally, Islamic institutions typically establish charitable dimensions including zakat (obligatory almsgiving) payments and social welfare programs, institutionalizing broader social responsibilities beyond shareholder wealth maximization (Amin, 2025; Dasopang, 2025; Mohi-ud-Din Qadri et al., 2025).

Research examining Islamic corporate governance identifies multiple mechanisms through which religious principles shape organizational structures and processes. Governance architectures typically incorporate multiple oversight bodies including conventional boards of directors and audit committees alongside specialized Sharia governance structures. Decision-making processes emphasize consultation and consensus-building reflecting shura principles, though implementation quality varies across organizations. Compensation structures avoid interest-based instruments, utilizing profit-sharing arrangements, equity participation, and performance-based bonuses aligned with Islamic principles. Risk management frameworks integrate Sharia compliance risks alongside conventional financial, operational, and reputational risks, recognizing that religious legitimacy challenges threaten fundamental organizational viability (Sadek et al., 2020).

2.2. Sharia Supervisory Board: Definitions and Legal Foundations

The Sharia Supervisory Board constitutes the primary institutional mechanism ensuring Islamic corporate governance principles translate into authentic organizational practices. Legal frameworks across jurisdictions define SSB responsibilities, authorities, and positioning within organizational structures, though specific provisions vary reflecting different regulatory philosophies and Islamic jurisprudential traditions. Understanding SSB roles requires examining both formal legal definitions and practical operational realities within diverse institutional contexts (Sulaeman et al., 2025; Triasari & de Zwart, 2021).

Indonesia's legal framework defines SSB through multiple regulatory instruments establishing comprehensive governance standards. Law Number 21 of 2008 concerning Islamic Banking provides the foundational legal definition, characterizing SSB as "a board tasked with providing advice, recommendations, and conducting oversight of business activities to ensure conformity with Sharia principles." This definition establishes three core functions: advisory services providing guidance on Sharia matters, recommendation authority offering formal opinions on product and practice compliance, and oversight responsibilities monitoring organizational adherence to Islamic principles. The law mandates SSB establishment as a legal prerequisite for Islamic banking operations, positioning Sharia governance as non-negotiable rather than voluntary best practice (Triasari & de Zwart, 2021).

Regulatory elaboration of SSB requirements appears in Financial Services Authority Regulation Number 8/POJK.03/2014 concerning Assessment of Sharia Supervisory Board Members. This regulation establishes detailed criteria for SSB member qualifications including educational backgrounds in Islamic jurisprudence, experience in Sharia advisory roles, demonstrated integrity and professional ethics, and absence of conflicts of interest compromising independence. The regulation specifies appointment procedures, term limits,

performance evaluation requirements, and removal processes, creating standardized frameworks governing SSB composition and operations. Additionally, the regulation addresses independence concerns by limiting the number of concurrent SSB appointments individual members may hold, though enforcement of these limitations remains inconsistent in practice.

The National Sharia Council of the Indonesian Council of Ulama (DSN-MUI) exercises supreme authority in establishing Sharia standards for Islamic financial institutions through its fatwa issuance functions. DSN-MUI fatwas provide authoritative interpretations of Islamic principles applicable to specific products, contracts, and practices, serving as binding references for SSB evaluation activities. Individual SSB members receive appointments from and remain accountable to DSN-MUI, creating dual reporting relationships wherein SSB serves organizational interests while maintaining ultimate accountability to the national Sharia authority. This dual accountability structure intends to preserve SSB independence by establishing external authority relationships transcending individual institutional pressures.

Comparative examination of international frameworks reveals varying approaches to SSB positioning and authority. Malaysian regulations grant SSB significant decision-making power including approval authority over new products and contracts, positioning Sharia governance as equal partner with management rather than purely advisory function (Hijriah et al., 2021). Gulf Cooperation Council countries typically embed SSB within broader Sharia governance ecosystems including centralized Sharia authorities providing binding interpretations and coordination across institutions. These international variations reflect different balances between institutional autonomy and centralized standardization, with implications for consistency, innovation, and regulatory burden (Hassan et al., 2021).

2.3. SSB Functions and Responsibilities in Islamic Finance

Academic literature and regulatory frameworks identify multiple overlapping functions through which SSB fulfills its core mandate of ensuring organizational Sharia compliance. These functions span advisory, oversight, audit, certification, and educational dimensions, collectively creating comprehensive governance mechanisms addressing diverse aspects of Islamic institutional operations. Understanding the breadth and complexity of SSB responsibilities illuminates both the critical importance of effective Sharia governance and the substantial challenges confronting SSB members navigating multifaceted obligations (Hassan et al., 2021).

The advisory function positions SSB as expert consultants providing Sharia guidance to organizational leadership across strategic and operational decisions. Management consults SSB regarding new product development initiatives, seeking preliminary assessments of proposed contractual structures, pricing mechanisms, and operational procedures against Islamic principles before committing substantial resources to product design and market testing. SSB reviews marketing materials and customer communications, ensuring promotional content accurately represents Islamic compliance status without misleading claims potentially attracting customers under false pretenses. Advisory responsibilities extend to human resource policies, investment decisions, corporate social responsibility programs, and stakeholder relationship management, reflecting the comprehensive scope of Islamic principles across all organizational dimensions (Mohi-ud-Din Qadri et al., 2025).

Oversight and monitoring functions require SSB to conduct systematic surveillance of ongoing organizational activities ensuring sustained compliance with Sharia standards. This surveillance encompasses multiple layers including transaction-level review of individual contracts and customer relationships, process-level examination of operational procedures and internal controls, and strategic-level assessment of business models and competitive positioning. SSB establishes monitoring mechanisms including regular management reporting requirements, access to transaction databases and operational records, participation in relevant committee meetings, and independent investigative authority enabling proactive problem identification. The oversight function demands both breadth covering all organizational

activities and depth enabling detection of subtle compliance violations potentially escaping superficial review (Dasopang, 2025).

The audit function operationalizes systematic compliance verification through structured review processes examining documentation, procedures, and outcomes against established Sharia standards. Sharia auditing methodologies adapt conventional internal audit approaches to incorporate religious compliance dimensions, developing specialized checklists, testing protocols, and evaluation criteria appropriate for Islamic principles assessment (Ab Ghani et al., 2025; Puad et al., 2023). Audit activities span multiple focus areas including contract documentation review verifying agreement structures match approved Islamic forms, pricing analysis ensuring profit margins and fee structures avoid prohibited interest elements, revenue source verification confirming income derives from Sharia-compliant activities rather than prohibited sectors, and customer fund management examination preventing commingling of Islamic and conventional assets.

Certification and reporting responsibilities require SSB to issue formal opinions regarding organizational Sharia compliance status, providing authoritative statements enabling stakeholders to assess Islamic legitimacy (Albarrak & El-Halaby, 2019). Annual SSB reports appearing in institutional financial statements represent primary certification mechanisms, typically including sections describing SSB oversight activities conducted during the reporting period, identifying any Sharia compliance violations discovered and remediation actions taken, evaluating overall organizational compliance levels, and offering forward-looking recommendations for governance improvements. These reports serve multiple audiences including regulators verifying legal compliance, customers evaluating product legitimacy, investors assessing governance quality, and DSN-MUI monitoring individual SSB performance.

Educational functions reflect SSB responsibilities extending beyond oversight to actively building organizational Sharia compliance capabilities. SSB members conduct training programs educating management and staff regarding Islamic principles applicable to their operational responsibilities, fostering broader organizational understanding transcending mere rule compliance toward internalized ethical commitments. SSB facilitates knowledge transfer from DSN-MUI fatwa developments to institutional implementation, interpreting national-level Sharia standards for local contexts and clarifying application procedures. Additionally, SSB contributes to broader Islamic finance knowledge development through participation in industry forums, academic research collaborations, and professional development activities advancing collective understanding of Sharia governance challenges and best practices (Albarrak & El-Halaby, 2019; Hassan et al., 2021; Sadek et al., 2020).

2.4. Prior Research on SSB Effectiveness

Empirical research examining SSB effectiveness reveals complex relationships between Sharia governance characteristics and organizational outcomes across multiple performance dimensions. Studies investigating these relationships employ diverse methodologies including surveys assessing stakeholder perceptions, archival analyses examining relationships between SSB attributes and performance metrics, case studies documenting implementation experiences, and experimental designs testing governance interventions. This accumulated evidence provides valuable insights regarding factors enabling or constraining effective SSB performance while highlighting persistent research gaps requiring further investigation.

Research examining SSB composition characteristics demonstrates that certain attributes correlate with superior governance outcomes. Studies find that SSB members possessing advanced Islamic jurisprudence credentials combined with financial expertise exhibit greater capability identifying subtle compliance issues compared with members lacking comprehensive backgrounds spanning both religious scholarship and contemporary finance. SSB size shows non-linear relationships with effectiveness, with very small boards potentially lacking diverse perspectives and oversight capacity while excessively large boards may suffer coordination

difficulties and diffused accountability. Educational diversity among SSB members, including representation of different Islamic jurisprudential schools and contemporary finance specializations, appears associated with more robust deliberation processes and balanced decision-making.

Investigations of SSB independence reveal persistent challenges balancing formal structural autonomy with practical operational realities. While regulatory frameworks establish SSB as independent bodies accountable to DSN-MUI rather than institutional management, financial dependence on supervised organizations inevitably creates potential influence channels. Research documents cases where SSB reluctance to issue unfavorable compliance opinions appears linked to concerns about appointment renewals or compensation adjustments, suggesting institutional pressures compromise genuine independence despite formal protections. Studies advocate strengthening independence through enhanced DSN-MUI oversight of SSB performance, mandatory rotation policies limiting consecutive terms, and transparent disclosure of SSB compensation and appointment processes enabling external scrutiny.

Analysis of SSB activities and processes identifies operational factors influencing governance effectiveness. Frequent SSB meetings enabling timely oversight and responsive guidance correlate with superior compliance outcomes compared with minimal meeting schedules insufficient for adequate monitoring. Written policies and procedures standardizing SSB review processes, documentation requirements, and escalation protocols enhance consistency and comprehensiveness compared with informal ad-hoc approaches vulnerable to oversights. Integration between SSB and internal audit functions, including regular information sharing and coordinated examination planning, strengthens overall governance architectures by leveraging complementary expertise and avoiding duplicative efforts or oversight gaps.

Studies examining SSB impact on organizational performance reveal generally positive relationships between effective Sharia governance and multiple outcome measures. Customer satisfaction surveys demonstrate that transparent SSB oversight and credible compliance certifications enhance trust and loyalty among religiously-motivated consumers valuing authentic Islamic practices. Market performance analysis suggests that Islamic financial institutions with reputable SSB members and robust Sharia governance frameworks achieve superior deposit growth and market share expansion, potentially reflecting enhanced credibility attracting religious customer segments. However, research also documents variation across contexts, with SSB impact appearing stronger in markets where consumers possess greater Islamic financial literacy enabling informed evaluation of governance quality.

Despite accumulating evidence, significant research gaps persist regarding SSB effectiveness. Limited longitudinal studies examining governance evolution over extended periods constrains understanding of maturation processes and long-term sustainability. Insufficient research addresses SSB roles in emerging areas including Islamic fintech, digital assets, and environmental finance where traditional frameworks may require substantial adaptation. Cross-national comparative studies remain scarce, limiting insights regarding how different regulatory approaches, cultural contexts, and jurisprudential traditions influence optimal SSB structures. These gaps present valuable opportunities for future research advancing both theoretical understanding and practical guidance.

Research Methods

3.1. Research Design and Approach

This investigation employs a qualitative research design utilizing comprehensive literature review methodology to examine SSB roles, functions, operational mechanisms, challenges, and enhancement strategies within Islamic corporate governance frameworks. The qualitative approach proves appropriate for exploratory investigation of complex governance phenomena requiring in-depth understanding of institutional structures, regulatory

frameworks, operational processes, and stakeholder perspectives. Literature review methodology enables systematic synthesis of accumulated knowledge across academic research, regulatory documentation, industry reports, and institutional practice, generating comprehensive understanding transcending individual empirical studies or isolated case observations (Paul & Barari, 2022).

The research design emphasizes descriptive and analytical objectives rather than hypothesis testing or causal inference establishment. Descriptive components document SSB structures, responsibilities, and operational procedures as codified through legal frameworks and implemented within organizational contexts. Analytical dimensions examine relationships between governance characteristics and organizational outcomes as documented through prior research, identify patterns and variations across institutional and jurisdictional contexts, and evaluate alignment between theoretical governance principles and practical implementation realities. This combined descriptive-analytical approach generates rich, contextualized understanding appropriate for informing both theoretical development and practical policy formulation.

3.2. Data Sources and Collection Procedures

The investigation draws upon multiple data sources providing complementary perspectives on SSB governance. Primary legal sources include Indonesian national legislation governing Islamic financial institutions, particularly Law Number 21 of 2008 concerning Islamic Banking establishing foundational SSB requirements. Regulatory materials encompass Financial Services Authority (Otoritas Jasa Keuangan, OJK) regulations detailing SSB member qualifications, appointment procedures, operational requirements, and performance evaluation standards. DSN-MUI fatwas and guidance documents provide authoritative interpretations of Islamic principles applicable to financial products and institutional practices, serving as reference standards for SSB compliance evaluation activities.

Academic literature constitutes a crucial data source, encompassing peer-reviewed journal articles examining SSB effectiveness, governance mechanisms, independence challenges, and performance impacts. These empirical studies employ diverse methodologies including surveys, archival analyses, case studies, and experimental designs, collectively generating evidence regarding factors enabling or constraining effective Sharia governance. The review prioritizes recent publications reflecting contemporary Islamic finance developments while incorporating foundational theoretical works establishing core governance frameworks. Literature search procedures utilize academic databases including Scopus, Web of Science, and specialized Islamic finance repositories, employing keyword combinations related to Sharia supervisory boards, Islamic corporate governance, and Sharia compliance mechanisms (Skelly et al., 2019).

Industry reports and institutional documentation provide practical insights complementing academic and regulatory sources. Annual reports published by Islamic financial institutions include SSB compliance certifications, oversight activity descriptions, and governance assessment narratives offering windows into actual implementation practices. Industry associations produce guidance materials, best practice frameworks, and training resources supporting SSB professional development and standardization efforts. International organizations including the Islamic Financial Services Board (IFSB) and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) publish standards and guidelines establishing international benchmarks for Sharia governance, enabling comparative analysis of Indonesian practices against global frameworks (Albarrak & El-Halaby, 2019).

3.3. Analytical Framework and Procedures

Data analysis follows systematic procedures appropriate for qualitative literature review methodology. The analytical process begins with comprehensive reading of collected materials,

developing familiarity with content and identifying major themes, patterns, and relationships. Initial coding applies descriptive labels to content segments addressing specific aspects of SSB governance including legal definitions, functional responsibilities, operational procedures, effectiveness factors, implementation challenges, and enhancement strategies. This open coding generates detailed categorization enabling systematic organization of diverse materials spanning regulatory documents, academic research, and industry reports (Paul & Barari, 2022; Skelly et al., 2019).

Subsequent analysis aggregates initial codes into broader thematic categories reflecting major dimensions of SSB governance. These categories organize findings regarding SSB positioning within Islamic corporate governance frameworks, specific functions and responsibilities discharged, operational mechanisms implementing oversight activities, factors influencing governance effectiveness, barriers constraining optimal performance, and potential enhancement strategies addressing identified limitations. Within each thematic category, analysis identifies convergent findings where multiple sources reach consistent conclusions, divergent perspectives reflecting genuine disagreement or context-specific variation, and knowledge gaps where existing evidence proves insufficient for definitive conclusions.

Synthesis procedures integrate findings across thematic categories, developing comprehensive understanding of SSB governance as an integrated system rather than isolated components. The synthesis examines relationships between different governance dimensions, considering how legal frameworks shape operational practices, how SSB characteristics influence effectiveness outcomes, and how implementation challenges interrelate creating compound barriers to optimal performance. Particular attention focuses on tensions and tradeoffs requiring balanced resolution, such as independence versus organizational integration, standardization versus contextual adaptation, and oversight rigor versus operational flexibility.

Throughout the analytical process, the research maintains reflexive awareness regarding potential interpretive biases and limitations inherent in literature review methodology. The analysis acknowledges that published research may systematically overlook certain perspectives, particularly those of smaller institutions or less-studied jurisdictions. Regulatory documents represent formal requirements potentially diverging from actual implementation practices. Academic research typically emphasizes problematic aspects requiring improvement while potentially underrepresenting successful governance examples. Awareness of these limitations informs cautious interpretation avoiding overgeneralization while recognizing valuable insights these diverse sources collectively provide.

Results

4.1. SSB Roles and Strategic Functions

Analysis of regulatory frameworks, institutional practices, and academic literature reveals that SSB performs multiple interconnected functions essential for ensuring authentic Sharia compliance within Islamic financial institutions. These functions transcend narrow compliance monitoring to encompass strategic advisory roles, comprehensive audit activities, public trust enhancement, and institutional capacity building. Understanding the breadth of SSB responsibilities illuminates both the critical importance of effective Sharia governance and the substantial expertise required for competent function discharge.

The primary oversight function, termed Sharia compliance monitoring, requires SSB to systematically verify that all organizational activities adhere to Islamic principles as codified through DSN-MUI fatwas and established jurisprudential frameworks. This monitoring encompasses multiple dimensions including product structure verification ensuring contractual arrangements avoid prohibited elements such as interest (*riba*), excessive uncertainty (*gharar*), and gambling (*maysir*). Revenue source examination confirms organizational income derives from permissible activities rather than prohibited sectors or transaction types. Investment

portfolio screening validates that asset holdings exclude companies primarily engaged in forbidden industries including conventional banking, alcohol production, pork products, gambling operations, and weapons manufacturing. Operational procedure review ensures transaction processing, documentation practices, and customer relationship management protocols align with Islamic requirements regarding transparency, fairness, and ethical conduct.

The advisory function positions SSB as expert consultants providing Sharia guidance across strategic and operational domains. Management consults SSB during new product development, seeking preliminary assessment of proposed contractual structures before committing resources to detailed design and market testing. SSB evaluates whether innovative financial instruments maintain substance over form, ensuring products genuinely embody Islamic principles rather than merely mimicking conventional structures through superficial modifications. Advisory services extend to organizational strategy formulation, with SSB providing input regarding market expansion plans, partnership opportunities, and competitive positioning to ensure strategic decisions align with Islamic values alongside commercial objectives. Additionally, SSB advises on exceptional situations requiring jurisprudential interpretation, such as handling non-performing financing, implementing corporate restructuring, or responding to regulatory changes affecting Islamic operations.

Audit responsibilities require SSB to conduct systematic, documented verification of Sharia compliance through structured review processes. Pre-implementation audits examine proposed products, procedures, and contracts before market introduction, providing formal approval certifications enabling operational deployment. Ongoing monitoring audits periodically review active products and procedures, detecting compliance drift potentially occurring through incremental operational modifications or staff misunderstandings of Islamic requirements. Post-transaction audits sample completed customer relationships, verifying executed contracts matched approved templates and transaction pricing, profit distribution, and documentation procedures followed prescribed protocols. These multi-layered audit processes create defense-in-depth approaches reducing risks that isolated compliance failures escalate into systematic violations.

Reporting and certification functions fulfill accountability requirements toward multiple stakeholder groups. SSB prepares annual compliance reports published within institutional financial statements, providing formal opinions regarding organizational Sharia adherence. These reports typically describe SSB oversight activities conducted during the reporting period, identify any compliance violations discovered and remediation measures implemented, assess overall organizational compliance levels, and offer recommendations for governance improvements. Additionally, SSB submits reports to DSN-MUI documenting individual member performance and institutional compliance status, enabling national-level monitoring of Sharia governance quality across the Islamic finance sector. These reporting mechanisms create transparency enabling stakeholders including regulators, customers, and investors to evaluate Islamic legitimacy alongside conventional financial performance.

Beyond monitoring and reporting, SSB performs important trust enhancement functions influencing organizational reputation and market credibility. The presence of respected scholars serving as SSB members signals serious commitment to authentic Islamic principles, differentiating institutions genuinely prioritizing Sharia compliance from those pursuing superficial religious branding for competitive advantage. SSB certifications provide independent verification that products and services meet Islamic standards, reducing information asymmetries preventing customers from assessing compliance quality themselves. Research demonstrates that effective SSB governance enhances customer satisfaction, loyalty, and willingness to recommend institutions to others, generating competitive advantages within religiously-motivated market segments valuing certified Islamic authenticity.

4.2. Operational Mechanisms and Implementation Procedures

Effective SSB governance requires systematic operational mechanisms translating formal responsibilities into concrete oversight activities. Analysis of institutional practices and best practice frameworks reveals several common procedural elements characterizing mature Sharia governance implementations, though significant variation exists across institutions reflecting different organizational sizes, resources, and governance philosophies. Understanding these operational mechanisms illuminates how abstract SSB functions manifest as practical activities generating actual compliance assurance.

Pre-implementation review procedures establish initial compliance verification before products or procedures become operational. Product development teams submit detailed documentation to SSB including proposed contractual structures, operational procedures, pricing methodologies, marketing materials, and customer disclosure documents. SSB conducts comprehensive review assessing whether submitted materials align with applicable DSN-MUI fatwas, established Islamic jurisprudential principles, and institutional Sharia compliance policies. Review processes may include multiple iteration cycles where SSB identifies concerns requiring modification, development teams revise proposals addressing identified issues, and subsequent SSB review verifies adequate correction. Final approval, typically documented through formal SSB resolution or certification, authorizes product deployment and establishes baseline compliance standards for ongoing monitoring.

Ongoing monitoring mechanisms provide continuous oversight of operational activities ensuring sustained compliance. Many institutions implement tiered monitoring approaches balancing comprehensive coverage with resource constraints. High-risk activities including new product implementations, large-value transactions, and complex structured arrangements receive intensive individual transaction review. Medium-risk standard operations undergo periodic sampling procedures examining representative transaction subsets. Lower-risk mature products with strong compliance histories receive lighter surveillance focusing on exception monitoring and trend analysis. This risk-based allocation enables SSB to concentrate limited oversight capacity on areas presenting greatest compliance vulnerabilities while maintaining reasonable coverage across all organizational activities.

Regular SSB meetings constitute important coordination mechanisms enabling collective deliberation and decision-making. Meeting frequency varies across institutions, with common patterns including monthly scheduled meetings supplemented by ad-hoc sessions addressing urgent issues requiring timely resolution. Meeting agendas typically encompass compliance report review from management and internal audit, new product or procedure proposals requiring approval, investigation findings regarding identified compliance concerns, regulatory development updates affecting Sharia requirements, and strategic issues requiring SSB input. Formal meeting minutes document deliberations, decisions, and action items, creating audit trails supporting accountability and enabling tracking of issue resolution over time.

Coordination with other governance bodies enhances overall institutional oversight effectiveness through information sharing and complementary expertise. SSB collaboration with internal audit departments enables leveraging audit capabilities for Sharia compliance verification while ensuring internal audit includes Islamic compliance dimensions in overall audit scope. Joint meetings or liaison arrangements with risk management committees facilitate integration of Sharia compliance risks into enterprise risk frameworks alongside conventional financial, operational, and reputational risks. Communication channels with boards of directors enable escalation of serious compliance concerns requiring senior leadership attention and strategic responses. These integration mechanisms embed Sharia governance within broader organizational governance architectures rather than isolating it as separate parallel function.

Documentation practices establish evidentiary foundations supporting SSB opinions and enabling quality assurance review. Comprehensive documentation includes approval certifications for products and procedures, periodic compliance assessment reports, investigation documentation regarding identified violations, correspondence with management

regarding compliance inquiries and recommendations, meeting minutes recording SSB deliberations and decisions, and annual compliance reports submitted to stakeholders and regulators. Systematic documentation serves multiple purposes including demonstrating SSB diligence in oversight responsibilities, providing defense against potential liability claims, enabling knowledge transfer during SSB member transitions, and facilitating external review by regulators or DSN-MUI overseers.

4.3. SSB Implementation in Different Islamic Financial Sectors

While SSB governance principles apply universally across Islamic financial sectors, specific implementation practices vary reflecting distinctive characteristics of different industries. Understanding sector-specific applications illuminates how general Sharia governance frameworks adapt to diverse operational contexts while maintaining fundamental compliance objectives. Examination of major Islamic financial sectors reveals both common patterns and context-specific variations in SSB implementation.

Islamic banking represents the most mature and extensively regulated sector for SSB implementation, with comprehensive legal frameworks, standardized procedures, and accumulated experience shaping established practices. SSB oversight in Islamic banks focuses substantially on financing contract structures, particularly scrutinizing profit-sharing (mudharabah and musyarakah), cost-plus sale (murabahah), and leasing (ijarah) arrangements that constitute primary Islamic financing mechanisms. Critical oversight dimensions include pricing methodology verification ensuring profit margins or lease payments genuinely reflect asset values and risk sharing rather than disguised interest rates, collateral arrangements ensuring security interests comply with Islamic property rights concepts, and default management procedures avoiding prohibited penalty charges while protecting institutional interests. Additionally, banking SSB monitors fund management ensuring customer deposits remain segregated by contract type, investment returns distribute according to specified profit-sharing ratios, and reserve requirements maintain adequate liquidity for withdrawal obligations.

Islamic insurance (takaful) introduces distinctive Sharia compliance challenges requiring specialized SSB expertise beyond conventional banking oversight. Takaful structures typically separate participant contributions into two pools: tabarru (donation fund) collectively bearing insurance risks and ujrah (fees) compensating the operator for management services. SSB oversight verifies this segregation maintains proper accounting separation preventing inappropriate cross-subsidization between pools. Surplus underwriting calculations require careful review ensuring excess premiums over claims and expenses distribute appropriately among participants, operators, and charitable purposes according to agreed arrangements. Claims processing procedures must align with Islamic principles regarding legitimate insurance purposes versus prohibited gambling or speculative elements. Additionally, takaful investment portfolios require screening ensuring compliance with Islamic investment criteria, as pool assets must generate returns through Sharia-compliant mechanisms avoiding conventional interest-bearing investments.

Islamic fintech platforms represent emerging frontiers presenting novel compliance challenges for SSB oversight. Peer-to-peer lending platforms operating under Islamic principles require SSB to evaluate whether digital intermediation structures genuinely implement Sharia-compliant financing contracts versus merely replicating conventional lending with Islamic labels. Particular scrutiny focuses on borrower-lender relationship structures, profit-sharing or fee calculation methodologies, default remedies, and platform operator compensation ensuring these elements align with established Islamic financing principles. Digital payment and money transfer services require verification that transaction processing avoids creating debt obligations or charging interest on delayed settlements. Cryptocurrency and blockchain applications introduce fundamental questions regarding Islamic permissibility of digital assets

lacking intrinsic value and potential for excessive speculation, requiring SSB to navigate evolving jurisprudential debates while providing practical guidance for innovative business models.

Investment management and asset management services operating under Islamic principles confront complex screening and portfolio construction challenges requiring sophisticated SSB oversight. Equity screening criteria must identify permissible investments avoiding companies primarily engaged in prohibited activities, maintaining acceptable financial ratios regarding debt levels and interest-based income, and meeting other Sharia compliance standards. Portfolio rebalancing procedures require periodic review ensuring holdings continue meeting screening criteria as company circumstances evolve. Dividend purification processes must calculate and distribute to charity any investment income deriving from non-compliant sources, requiring detailed income source analysis. Additionally, SSB oversees shareholder engagement activities ensuring investment managers vote proxies and engage corporate managements consistently with Islamic principles regarding corporate social responsibility and ethical business practices.

4.4. Major Implementation Challenges Constraining SSB Effectiveness

Despite widespread recognition of SSB importance, multiple interrelated challenges constrain governance effectiveness across institutions and jurisdictions. These challenges span structural issues regarding independence and competency, operational difficulties concerning oversight capacity and methodology, regulatory gaps affecting accountability and standardization, and environmental factors reflecting broader Islamic finance development constraints. Understanding these multifaceted challenges proves essential for developing effective enhancement strategies addressing root causes rather than superficial symptoms.

Independence challenges represent perhaps the most fundamental governance concern, as SSB members inevitably confront tensions between formal autonomy requirements and practical dependence on supervised institutions. While regulatory frameworks characterize SSB as independent bodies accountable primarily to DSN-MUI rather than institutional management, financial realities create potential influence channels compromising genuine independence. SSB members receive compensation from supervised institutions, creating potential incentives to avoid unfavorable compliance opinions that might jeopardize appointment renewals or compensation adjustments. Small Islamic financial institutions may lack resources to provide competitive SSB compensation, potentially affecting member recruitment quality and effort allocation. Additionally, close working relationships developing through ongoing advisory interactions may foster psychological identification with institutional interests rather than maintaining arm's-length objectivity. These independence challenges intensify when SSB members hold multiple concurrent appointments creating financial dependence on continued good standing across several institutions.

Competency gaps constitute another critical constraint, as effective SSB performance requires sophisticated expertise spanning traditional Islamic jurisprudence and contemporary financial knowledge. Classical Islamic scholarship emphasizes theological studies, jurisprudential methodology, and Arabic language proficiency but typically provides limited exposure to modern finance, accounting, risk management, and technological innovation. Conversely, financial professionals possess operational expertise but often lack deep grounding in Islamic jurisprudence enabling authoritative Sharia interpretation. This expertise bifurcation creates challenges identifying individuals possessing comprehensive qualifications across both domains. Consequently, some SSB members demonstrate strong religious credentials but struggle understanding complex financial instruments requiring oversight, while others possess financial sophistication but rely heavily on standardized fatwa applications without deeper jurisprudential reasoning. Additionally, rapid innovation in areas including fintech, digital assets, and sustainable finance strains both religious and financial expertise, as neither

traditional Islamic scholarship nor conventional financial training adequately addresses these emerging domains.

Limited availability of qualified SSB members relative to expanding institutional demand creates structural challenges affecting governance quality. Indonesia's Islamic finance sector has experienced rapid growth with hundreds of banks, insurance companies, investment managers, and fintech platforms requiring SSB oversight. However, the pool of scholars possessing requisite qualifications remains constrained by lengthy educational requirements, limited training capacity, and insufficient professional development infrastructure. Consequently, qualified scholars often serve multiple concurrent SSB appointments, raising concerns about adequate oversight capacity and potential conflicts of interest. Regulatory limitations on concurrent appointments provide partial mitigation but cannot fully resolve underlying supply-demand imbalances. Furthermore, geographic concentration of qualified scholars in major urban centers creates access challenges for institutions in smaller cities or remote regions, potentially forcing compromises on SSB member qualifications or oversight intensity.

Methodological underdevelopment in Sharia auditing constrains SSB ability to conduct systematic, rigorous compliance verification. While conventional financial auditing has evolved sophisticated methodologies, standardized procedures, and professional infrastructure over decades, Sharia auditing remains relatively nascent with limited consensus regarding appropriate techniques, documentation standards, or quality assurance mechanisms. Many institutions implement informal, experience-based oversight approaches rather than structured audit protocols, creating inconsistency and vulnerability to oversights. Sample size determination, materiality thresholds, testing procedures, and evidence requirements lack standardization, with individual SSB members applying widely varying rigor levels. Digital audit tools enabling automated compliance screening and continuous monitoring remain underdeveloped, requiring labor-intensive manual review processes struggling to provide comprehensive coverage. These methodological limitations reduce SSB oversight effectiveness while increasing costs and time requirements straining available resources.

Regulatory framework weaknesses create accountability gaps and standardization challenges. While regulations establish SSB appointment requirements and general responsibilities, detailed performance standards, evaluation criteria, and enforcement mechanisms remain underdeveloped. Regulators conduct limited active oversight of SSB quality, relying primarily on self-reporting through annual compliance certifications subject to minimal independent verification. Sanctions for inadequate SSB performance prove rare, reducing incentives for rigorous oversight. Additionally, regulatory frameworks provide insufficient guidance regarding many operational details including appropriate meeting frequencies, documentation requirements, audit scope expectations, or acceptable response timelines for management inquiries. This regulatory ambiguity permits wide practice variation, with some institutions implementing robust governance while others maintain minimal compliance with formal requirements.

Technological advancement in Islamic finance products and delivery channels outpaces SSB adaptation, creating emerging compliance risks. Digital platforms enable rapid product innovation, automated decision-making, and real-time transaction processing operating at speeds incompatible with traditional SSB review cycles. Algorithms determining pricing, credit decisions, or investment allocations may embed assumptions or optimization criteria potentially conflicting with Islamic principles, yet these embedded logics prove difficult for SSB members lacking technical expertise to evaluate effectively. Blockchain-based applications, cryptocurrency products, and artificial intelligence implementations introduce fundamental questions regarding Islamic permissibility that existing jurisprudential frameworks inadequately address. These technological challenges demand substantial SSB capability development in areas far removed from traditional religious scholarship, straining already-stretched competency and capacity resources.

Discussion

5.1. SSB Governance as Distinctive Islamic Finance Characteristic

The findings from this investigation illuminate SSB as a defining institutional characteristic distinguishing Islamic finance from conventional financial systems. While conventional governance emphasizes protecting shareholder interests, ensuring management accountability, and promoting sustainable value creation, Islamic governance incorporates the additional fundamental dimension of religious legitimacy verified through independent Sharia oversight. This theological accountability layer creates governance architectures qualitatively different from conventional frameworks, reflecting Islamic finance's dual character simultaneously pursuing commercial viability and religious authenticity.

SSB positioning as independent oversight body accountable to religious authorities rather than institutional management represents a governance innovation addressing principal-agent problems unique to faith-based finance. In conventional finance, shareholders serve as principals monitoring management agents potentially pursuing self-interest at shareholder expense. Islamic finance introduces additional principals Muslim customers and investors seeking assurance that products genuinely adhere to religious principles — who lack expertise to evaluate Sharia compliance independently. SSB serves as these religious principals' agent, exercising delegated authority to verify Islamic authenticity. This agency relationship operates alongside conventional shareholder-management relationships, creating complex multi-principal governance requiring balanced attention to commercial performance and religious legitimacy.

The breadth of SSB responsibilities spanning advisory, oversight, audit, certification, and educational functions reflects the comprehensive integration of Islamic principles across all organizational dimensions rather than treating religion as narrow add-on feature. Sharia compliance cannot be verified through isolated product reviews while ignoring operational procedures, strategic decisions, or organizational culture. Authentic Islamic finance requires holistic alignment between theological principles and organizational practices across governance, operations, human resources, marketing, and stakeholder relationships. SSB's multifaceted functions enable this comprehensive oversight, though simultaneously creating substantial expertise and capacity demands potentially overwhelming available resources.

5.2. Independence Tensions and Governance Quality Implications

The independence challenges documented in this research reflect fundamental tensions inherent in SSB governance structures requiring careful management rather than expecting complete resolution. SSB members must simultaneously maintain sufficient independence to provide objective compliance assessment while developing adequate organizational understanding to offer informed practical guidance. Excessive distance from management enables objectivity but may reduce practical relevance of oversight, while excessive closeness enhances operational insight but may compromise critical perspective. Optimal SSB governance navigates this tension through multiple mechanisms rather than relying solely on formal structural independence.

Financial dependence on supervised institutions creates inherent independence challenges requiring mitigation through countervailing mechanisms. Several approaches merit consideration including mandatory term limits preventing indefinite appointment tenure reducing financial security concerns, transparent disclosure of SSB compensation enabling external scrutiny, regulatory establishment of minimum compensation standards preventing institutional underpayment pressuring favorable opinions, and DSN-MUI oversight of SSB performance creating accountability beyond individual institutions. Additionally, developing alternative compensation models such as industry-funded SSB pools providing member remuneration independent of individual institutional payments might reduce direct financial

dependence, though implementation complexity and industry coordination challenges may constrain feasibility.

Multiple appointment limitations address both independence and capacity concerns, though implementation requires careful calibration balancing availability constraints against quality objectives. Excessively restrictive limits may create qualified member shortages forcing institutions to accept less-qualified SSB members, potentially reducing overall governance quality. Conversely, unlimited concurrent service enables excessive commitments preventing adequate oversight attention to any single institution. Optimal limits likely vary based on member experience, institution size and complexity, and geographic factors affecting travel burdens. Regulatory frameworks might implement graduated limits permitting more concurrent appointments for experienced members overseeing smaller institutions while imposing stricter restrictions for large complex organizations requiring intensive oversight.

5.3. Competency Development as Strategic Priority

Competency challenges identified in this research reflect both immediate practical problems constraining current SSB effectiveness and strategic workforce development priorities essential for Islamic finance sector maturation. Addressing competency gaps requires coordinated initiatives spanning educational institutions, professional associations, regulatory authorities, and industry stakeholders. Piecemeal approaches by individual actors prove insufficient given the scale and complexity of capability-building requirements.

Educational institutions bear primary responsibility for developing next-generation SSB talent through curriculum innovations integrating Islamic jurisprudence and contemporary finance. Traditional Islamic studies programs must incorporate financial economics, accounting, risk management, and regulatory frameworks enabling graduates to understand modern financial systems requiring oversight. Conversely, business and economics programs in Islamic universities should strengthen religious studies components ensuring finance graduates possess solid Islamic jurisprudential foundations beyond superficial familiarity. Collaborative programs bridging Islamic studies and business faculties, joint degree offerings combining religious and financial credentials, and specialized Islamic finance master's programs targeting mid-career professionals all represent promising educational models. Additionally, experiential learning through SSB internship programs, simulation exercises, and case study analyses can accelerate practical capability development complementing theoretical coursework.

Professional certification programs establish standardized competency benchmarks and create continuing education infrastructure supporting career-long capability maintenance. Several international organizations offer Islamic finance certifications though with varying recognition and rigor levels. Developing nationally-recognized SSB certification specifically addressing Indonesian contexts would establish clearer qualification standards while creating structured training pathways. Certification requirements might include examinations verifying Islamic jurisprudential knowledge, financial technical competence, regulatory framework familiarity, and ethical standards. Mandatory continuing education requirements ensure members maintain current knowledge amid evolving products, regulations, and best practices. Additionally, specialized advanced certifications addressing particular sectors (banking, insurance, fintech) or competencies (audit methodology, digital products) could enable members to demonstrate distinctive expertise while supporting appropriate matching between member qualifications and institutional oversight needs.

Knowledge-sharing platforms facilitate collective learning accelerating individual and sector-wide capability development. Industry associations might establish SSB forums providing venues for discussing challenging compliance issues, sharing innovative oversight approaches, and developing common positions on emerging products lacking clear jurisprudential guidance. Online communities and discussion platforms enable ongoing peer consultation extending beyond periodic formal gatherings. Case study databases documenting

real-world compliance challenges and SSB responses create valuable learning resources though requiring careful anonymization protecting institutional confidentiality. Mentorship programs pairing experienced SSB members with newer entrants accelerate capability transfer while fostering professional community building. These collective mechanisms leverage distributed expertise across the SSB community rather than expecting individual members to independently develop comprehensive capabilities.

5.4. Technological Integration as Efficiency and Effectiveness Enabler

The digital transformation opportunities and challenges discussed in findings suggest that technology adoption represents both necessity for maintaining oversight effectiveness amid increasing operational complexity and strategic opportunity for enhancing governance quality while improving efficiency. However, technology deployment requires careful implementation addressing SSB member digital literacy, system integration challenges, and data governance considerations alongside technical development.

Automated compliance screening systems could dramatically enhance SSB oversight capacity through continuous monitoring replacing periodic manual sampling. These systems analyze transaction databases applying rule-based algorithms detecting potential Sharia compliance violations including prohibited contract structures, incorrect profit calculations, inappropriate fee charges, or exposure to screened-out investments. Automated alerts notify SSB members of detected anomalies requiring investigation, enabling timely intervention before isolated errors compound into systematic problems. Machine learning algorithms might identify subtle patterns suggesting compliance drift not easily detectable through manual review. However, automated systems require substantial upfront investment in rule development, system integration, and validation testing ensuring algorithms accurately implement Sharia standards. Additionally, system limitations in addressing nuanced judgment calls necessitate appropriate balance between automation and human oversight rather than expecting full replacement of SSB discretion.

Digital audit platforms streamline documentation, standardize procedures, and enhance quality control addressing methodological underdevelopment challenges. These platforms provide structured workflows guiding auditors through systematic review processes, enforce documentation requirements ensuring adequate evidence collection, and enable supervisor review of audit work supporting quality assurance. Centralized repositories store audit documentation, SSB decisions, and compliance histories creating institutional knowledge bases surviving member transitions. Analytics capabilities identify trends across multiple audits revealing systemic issues requiring strategic responses beyond individual transaction corrections. Benchmarking modules compare institutional practices against industry standards or regulatory expectations highlighting potential improvement opportunities. However, platform development requires careful design balancing standardization benefits against flexibility needs accommodating institutional variations and evolving best practices.

Remote collaboration technologies enable more efficient SSB operations reducing time and cost burdens particularly for members serving geographically dispersed institutions. Video conferencing facilitates frequent virtual meetings supplementing less-frequent in-person gatherings, enabling responsive oversight without excessive travel demands. Shared digital workspaces allow collaborative document review, enabling asynchronous SSB member input on product proposals or compliance reports accommodating diverse schedules. Secure communication platforms protect confidential institutional information while enabling timely SSB-management dialogue on urgent issues. These digital tools prove especially valuable for smaller institutions potentially unable to afford frequent travel costs for out-of-town SSB members or for members based in other cities reducing their willingness to serve distant institutions. However, technology adoption requires addressing digital literacy variations

among SSB members and ensuring appropriate cybersecurity protecting sensitive institutional and customer information.

5.5. Regulatory Enhancement Opportunities

The regulatory framework weaknesses identified suggest multiple enhancement opportunities for strengthening SSB governance through improved standards, oversight mechanisms, and enforcement capacity. While primary responsibility for SSB governance quality rests with institutions and individual members, regulatory frameworks establish foundational requirements, monitor compliance, and create accountability mechanisms incentivizing diligent oversight. Strategic regulatory improvements could substantially elevate overall sector governance quality.

Detailed operational standards clarifying SSB responsibilities and performance expectations would reduce ambiguity constraining accountability. Current regulations establish general SSB functions but provide limited specificity regarding appropriate oversight intensity, methodology requirements, documentation standards, or response timeframes. Enhanced standards might specify minimum meeting frequencies adjusted for institutional size and complexity, required audit scope covering product reviews, operational process verification, and portfolio screening activities, documentation retention requirements ensuring adequate evidence trails, and timelines for responding to management inquiries or product approval requests. These operational standards create measurable performance benchmarks enabling objective assessment while reducing wide practice variations across institutions.

External Sharia audit requirements would introduce independent verification complementing institutional SSB oversight, analogous to external financial audit mandates supplementing internal audit functions. External auditors conduct periodic comprehensive reviews assessing both institutional Sharia compliance and SSB governance effectiveness, providing independent opinions to regulators, boards, and stakeholders. External review creates accountability pressure on both institutions and SSB members while potentially detecting issues escaping internal oversight. However, implementation faces challenges including limited availability of qualified external Sharia audit firms, substantial cost burdens particularly for smaller institutions, and developing appropriate audit standards and quality control mechanisms. Phased implementation beginning with larger institutions while building external audit infrastructure might enable gradual expansion without overwhelming available capacity.

Regulatory monitoring of SSB performance through systematic review of annual compliance reports, periodic regulator-SSB meetings, and follow-up investigations of compliance concerns would enhance accountability currently limited by minimal active oversight. Regulatory analysis of SSB reports across institutions could identify potential quality variations, detect concerning patterns suggesting inadequate oversight, and inform targeted examinations. Direct regulator engagement with SSB members through periodic meetings or required presentations regarding governance approaches would demonstrate regulatory attention to SSB quality while providing forums for discussing sector-wide challenges. Additionally, whistleblower mechanisms enabling confidential reporting of suspected SSB inadequacies could provide early warning of serious governance failures requiring regulatory intervention. However, enhanced regulatory oversight demands substantial regulator capacity development ensuring officials possess expertise for credible SSB evaluation.

Conclusions

This comprehensive investigation of Sharia Supervisory Board roles within Islamic corporate governance reveals multiple significant findings regarding SSB functions, operational mechanisms, implementation challenges, and enhancement strategies. SSB represents a distinctive governance innovation unique to Islamic finance, serving as independent oversight

body ensuring institutional compliance with religious principles alongside conventional business objectives. The multifaceted SSB responsibilities span advisory services providing Sharia guidance, comprehensive monitoring verifying ongoing compliance, systematic audit activities conducting structured verification, certification functions issuing formal compliance opinions, and trust enhancement roles building institutional credibility with religiously-motivated stakeholders.

Operational implementation varies substantially across institutions reflecting differences in organizational size, resources, governance philosophies, and sectoral characteristics. Mature implementations demonstrate systematic procedures including structured pre-approval processes for new products, risk-based ongoing monitoring allocating oversight intensity according to compliance risk profiles, regular SSB meetings enabling collective deliberation and decision-making, integration with other governance bodies creating coordinated oversight architectures, and comprehensive documentation establishing audit trails and supporting accountability. However, many institutions maintain less-developed practices characterized by informal ad-hoc approaches, limited documentation, and minimal integration with broader governance frameworks.

Despite SSB strategic importance, multiple interconnected challenges constrain governance effectiveness across the sector. Independence concerns arise from financial dependence on supervised institutions potentially creating incentive conflicts compromising objective oversight. Competency gaps reflect difficulties identifying individuals possessing comprehensive expertise spanning traditional Islamic jurisprudence and contemporary financial knowledge. Limited availability of qualified members relative to institutional demand necessitates multiple concurrent appointments raising capacity concerns. Methodological underdevelopment in Sharia auditing creates inconsistency and limits oversight rigor. Regulatory framework weaknesses provide insufficient operational guidance, accountability mechanisms, and enforcement capacity. Rapid technological innovation introduces emerging products and delivery channels challenging both SSB expertise and traditional oversight approaches.

Research evidence demonstrates that effective SSB governance correlates positively with institutional reputation, customer satisfaction, product development capabilities, and potentially financial performance, underscoring commercial benefits complementing religious compliance objectives. However, SSB impact varies across contexts, appearing stronger where consumers possess greater Islamic financial literacy enabling informed governance quality evaluation. Geographic, cultural, and regulatory variations create substantial heterogeneity in SSB structures and effectiveness, limiting generalization from individual institutional experiences to broader sector patterns.

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