



Analysis of Influence of Characteristics of Islamic Supervisory Board toward Islamic Financial Performance

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Abstrak

Tujuan dari penelitian ini adalah untuk menguji dan menganalisis karakteristik Dewan Pengawas Syariah yang direpresentasikan dengan DPS Scientific Backgrounds, Attendance of DPS Meeting, dan DPS Multi-positions terhadap Islamic Financial Performance melalui kesesuaian pelaporan syariah sebagai mediasi. Populasi penelitian adalah seluruh bank umum syariah yang ada Indonesia periode tahun 2011-2015. Jumlah sampel yang diuji sebanyak 8 bank umum syariah yang dipilih dengan metode purposive sampling. Penelitian ini menganalisis laporan tahunan bank umum syariah dengan metode content analysis. Metode analisis yang digunakan adalah Structural Equation Modelling (SEM) dengan Partial Least Square (PLS) Path Modelling dengan alat analisis SmartPLS 3.0. Hasil penelitian menunjukkan bahwa Attendance of DPS Meeting dan kesesuaian pelaporan syariah berpengaruh secara langsung terhadap Islamic Financial Performance. Variabel DPS Scientific Backgrounds dan rangkap jabatan tidak berpengaruh secara signifikan terhadap Islamic Financial Performance. Sedangkan variabel kesesuaian pelaporan syariah berpengaruh positif dan signifikan memediasi hubungan DPS Scientific Backgrounds terhadap Islamic Financial Performance, namun tidak mampu memediasi hubungan Attendance of DPS Meeting dan DPS Multi-positions terhadap Islamic Financial Performance.

Abstract

The purpose of this study is to examine and analyze the characteristics of the Sharia Supervisory Board (SSB) is represented by the SSB scientific background, SSB meeting attendance, and SSB dual position on Islamic financial performance through sharia conformance reporting as mediation. The population is all existing Islamic banks Indonesia period 2011-2015. The number of samples tested by 8 Islamic commercial bank selected by purposive sampling method. This study analyzed the annual reports of Islamic banks with content analysis. The analytical method used is Structural Equation Modelling (SEM) with Partial Least Square (PLS) path modelling analysis tool SmartPLS 3.0. The results showed that the presence of SSB meeting attendance and sharia conformance reporting have a direct impact on the Islamic financial performance. SSB scientific background variables and SSB dual position do not significantly affect the Islamic financial performance. While variable sharia conformance reporting positive and significant effect mediates the relationship DPS scientific background to the Islamic financial performance, but is not able to mediate the association SSB meeting attendance and SSB dual position on the Islamic financial performance.

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INTRODUCTION

The Islamic bank performance needs to be assessed so that investors know the development of funds they have invested. The performance of banks, in general, can be measured using financial ratios such as liquidity, profitability and others. However, the assessment of the performance of Islamic banks is much more complex, and it is not only seen from the level of profitability, but also its compliance to the Islamic principles (Kuppusamy, M., 2010). The fundamental difference between Islamic banks and conventional banks not only lies on their business practices, but also the operations and views are guided by Islamic values. These values apply in the ideals of Islamic rules expressed not only in the details of transactions, but also their roles in the society. The internalization of Islamic principles in Islamic financial transactions is done in form, spirit, and substance. This symbolizes the Islamic purposes in achieving both economic and social welfare (Dusuki, 2008).

The obligation of Islamic bank management providing compliance information toward the Islamic principles has been mandated by AAOIFI (2003) in Accounting, Auditing and Governance Standards for Islamic Financial Institutions (AAGSIFI) 1424-5 H / 2003. Hameed, Wirman, Alrazi, Nazli, & Pramono (2004) recommended the Islamicity Disclosure Index (IDI) in the provision of compliance information for the Islamic banking. IDI is based on three components of Islamic disclosure indicators, i.e. sharia compliance, corporate governance and social / environment disclosures and Islamicity Performance Index (IPI) developed based on the five components of Islamic financial performance indicators, namely: islamic investment ratio, profit sharing ratio, Islamic income ratio, *qardhul hasan* ratio, and *zakah* ratio. Of the three components of the IDI indicators, the most suitable one as an accountability form of providing sharia compliance information, according to the accountants and managers of sharia banks, is the disclosure of sharia compliance, to ensure the compliance of Islamic banks to the principles of sharia (Asrori, 2011). Table 1 shows the Sharia financial performance index at sharia commercial banks in Indonesia from 2011 to 2015.

Table 1. Sharia Financial Index BUS in Indonesia year 2011-2015

Ratio	2011	2012	2013	2014	2015
Islamic Investment Ratio	87.11	87.24	86.59	88.90	90.53
Sharing-Financing Ratio	27.43	29.64	31.95	36.86	40.38
Islamic Revenue ration	90.67	90.25	91.34	93.05	89.23
Qardhul Hasan Financing Ratio	10.01	6.74	4.77	2.20	1.36
Zakat Ratio	0.25	0.39	0.36	0.19	0.15

Source : BUS Annual Report 2011-2015, processed data

Based on Table 1, it can be seen that most of the sharia financial performance indexes during 2011-2015 have changed from year to year. In 2012, all the index ratios increased, except for the ratio of Islamic income and *qardhul hasan* financing ratio (policy funds). The Islamic investment ratio increased every year, except in 2013 in which there was a decrease of 0.65. The sharing-financing ratio has increased annually for five consecutive years. The profit-sharing financing becomes the main contract that supports the business operations of Islamic commercial banks as a *mudharib* party. The intended profit-sharing financing outcomes are *mudharabah* and *musyarakah*. This is in line with the higher level of Islamic income ratio in sharia commercial banks. The Islamic income ratio was rising in 2013 and 2014. Although in 2012 and 2015 it decreased, however, for five consecutive years, it still stands at 85% - 90%. This indicates that the revenue of Sharia commercial

banks is still in line with the Islamic principles. In *qardhul hasan* financing ratio, it is shown that it decreased annually, and this is in line with the change in the sharing-financing ratio that conversely increased. This indicates that the financing sharing is able to catch the society's interest most, while the ratio of zakat decreased from 2013 to 2015.

One indicator of sharia performance measurement is the implementation of duties and responsibilities of the Islamic Supervisory Board (DPS). Based on a research by Arifni (2015), the implementation of Islamic Supervisory Board duties and responsibilities has no effect on the sharia compliance, but the implementation of Islamic Supervisory Board duties and responsibilities has a positive effect on the profit sharing through the sharia compliance. Meanwhile, according to Usama (2010), DPS scientific background does not affect the sharia compliant financing, but the multi-position of DPS has a significant effect on the compliance of profit-sharing financing compliance. In a research conducted by Vedayoko (2016), it is stated that the implementation of the duties and responsibilities of DPS has a positive and significant influence on the performance of Sharia conformity. Meanwhile, a research (Rama & Novela, 2015) concluded that the sharia governance represented by the number of DPS members, their education level, and DPS meetings have a significant effect on the quality of GCG of of the Islamic banks. A research (Open & Abdul-Rahman, 2015) concluded that the characteristics of the Islamic Supervisory Board have a significant and positive effect on the disclosure of Corporate Social Reporting.

Based on the descriptions above, the purpose of this study is to analyze the influence of Islamic Supervisory Board (DPS) characteristics on the Sharia financial performance with the Sharia compliance reporting as an intervening variable. The development of this research hypothesis is taken based on previous studies related to Islamic financial performance. This study develops one type of research variable, namely conformity of sharia reporting used as a mediator, and there has been previously no research to prove it. The reason why the writers refer to this kind of variable is based on the previous research (Febianto, 2011) revealing the lack of harmonization of sharia reports in some Islamic banks in Indonesia, and it is reinforced by the theory of Islamic accountability. The grand theory of this research is used to strengthen the relationship between variables in the model, where in this research there are 5 main theories, namely: (1) Sharia Enterprise Theory to support the variable of Islamic financial performance in the research framework, (2) Islamic Corporate Governance to support all relationships between variables, including the DPS scientific background, the presence of DPS meetings as well as the DPS multi-position, as well as the dependent variable of Islamic financial performance and the compliance of Sharia reporting as the intervening variable; (3) Islamic accountability is used to strengthen the Sharia compliance reporting on the Islamic financial performance; (4) Competency Theory is used to strengthen the DPS scientific backgrounds and DPS multi-position on the Islamic financial performance, and (5) *Al-Wala'* theory is to strengthen the relationship between DPS meeting attendance variable and the Islamic financial performance.

The existence of the Islamic Supervisory Board in the implementation of Islamic banking business is an implementation of the theory of Islamic corporate governance, where it explains that in the structure of Islamic financial governance institutions, it is required the existence of an agency that serve as an Islamic supervisor board (*Bank Indonesia*, 2009). Meanwhile, Umam (2015) explained that in carrying out its operations, the Islamic financial institutions must have conformity with the Islamic principles. An independent institution is needed to analyze the conformity of Islamic financial institutions toward the Islamic principles. In Indonesia, the Islamic Supervisory Board (DPS) is an independent institution granted by the National Sharia Council to supervise the conformity of Islamic financial operations and practices toward the Sharia compliance. Antonio (2001) disclosed that ensuring the independence of the Islamic Supervisory Board is important, since it is not a bank staff that must subject to administrative authorities, but is elected by the board of

commissioners through a general meeting of the shareholders based on recommendations from Indonesian Ulama Council (MUI).

The roles of the Islamic Supervisory Board (DPS) are very important in providing advices for the implementation of Islamic banking performance based on Islamic principles. DPS's capability is represented through the scientific background its members have. An Islamic/sharia bank is an institution that operates based on *sharia* and *muamalah* and banking or finance. The theory of competence also states that DPS should have specific scientific backgrounds that support the advancement of Islamic banks, the sciences of *fiqh muamalah* or *sharia muamalah* and banking sciences, or financial management. Based on research by Usama (2010), DPS's scientific backgrounds are not proven to have an effect on the sharia compliance of profit-sharing financing. The sharia-based financing conformity is not influenced by the scientific background of DPS.

H₁: Scientific Backgrounds of DPS positively influences the Islamic financial performance

The tasks and responsibilities of DPS include supervision and advices through the DPS meetings. DPS as a supervisory and advisory board should be guided by Islamic principles. Monitoring conducted by DPS is reflected in good supervision on the implementation of Islamic bank operations. DPS supervises with other boards through some discussions at a meeting. In line with *Al-Wala's* theory, the implementation of *Al-Wala's* attitude towards the Islamic entities is by planning, coordinating, implementing, and controlling all the energy and mind to increase their productivity so that the activities of these entities can generate much benefit for the customers, society, and surrounding environment (Jayanto, 2016). Usamah in his research describes that the number of supervision days have been proven to influence the compliance of sharia-based financing based on profit-sharing financing, thus the more the time allocation for the supervision, the higher the level of sharia compliance.

H₂: DPS meeting attendance positively influence the Islamic financial performance

Competence is required by DPS because through the competence, all works can be completed based on their ability and capacity. The theory of competence as described in Qur'an also explains a work should be done according to proper ability or capacity. DPS performs Islamic missions through multiple positions in several Islamic financial institutions, disseminates the understanding of Islamic economics in the form of work activities accompanying the supervision, and gives advice on the implementation of Islamic principles in *muamalah* activities. Usama (2010) conducted a study related to DPS multi-position activities, and it is concluded that the multi-position has an effect on the sharia compliance based on profit-sharing financing.

H₃: Multi-position of DPS negatively influences the Islamic financial performance

The ability of the Islamic Supervisory Board becomes important in giving opinion related to the sharia compliance in Islamic commercial banks through a sharia report made by DPS. The scientific backgrounds of DPS are an important foundation to assess the performance of sharia compliance in the Islamic banks. Islamic bank is an institution that operates based on Islamic knowledge and banking or finance. It is in line with the theory of competence, stating that the Islamic Supervisory Board must have certain scientific backgrounds that support the progress of Islamic banks, including *fiqh muamalah* or *sharia muamalah*, as well as banking science, or financial management.

H₄: Scientific backgrounds of DPS positively influences the Sharia financial reporting

The Sharia report assesses the Islamic banks based on their fulfilment of Islamic principles, made by DPS as a form of opinion in assessing the performance of sharia compliance. In assessing the performance of sharia compliance, DPS conducts internal meetings between DPS and management, as well as with external parties such as independent auditors and DSN-MUI. The DPS meetings are usually held at least once a month as part of a sharia review. The attendance of DPS in the meeting is very important, because its existence determines the decisions regarding the

fulfilment of Islamic principles. The attendance of the DPS meeting is an implementation of *Al-Wala's* attitude towards the entity. The attendance of the DPS meeting is one form of DPS activities in participating and planning, coordinating, implementing and controlling all the energy and mind to improve the productivity of Islamic banks, so that the activities can be beneficial for customers, society, and environment.

H₅: The attendance of DPS meeting positive influences the compliance of Sharia reporting

The independence of DPS will influence its decisions. The independence of DPS can be in form of its multi-position. The DPS multi-position will reduce its performance. DPS has the responsibility to report the conditions of Islamic banks through the sharia review and provides opinions on the adherence of Islamic principles through the sharia report. When DPS is in concurrent position, it will affect its performance, so it will work only on the job descriptions. DPS will only assess the activities of Islamic at glance, without looking at more detail parts due to its business in other agencies. Consequently, in the reporting, DPS only expresses what they should tell and conveys things that it deems necessary to be published, so that DPS' functions such as supervisory, coordinating and reporting functions will be less optimal.

H₆: The multi-position of DPS negatively influences the compliance of sharia reporting

As a form of accountability, DPS issues an opinion on the implementation of sharia principles in Islamic banks. DPS opinions are embodied in the annual report of Islamic banks through DPS sharia reports made on each period to explain the extent of sharia principles that have been implemented by Islamic banks. In line with the theory of Islamic accountability, this report represents the Islamic bank in the delivery of the community's mandate which contributes to the activities of fund raising and disbursement. With the publication of *sharia* report, the public perception towards the Islamic bank will getting higher on the implementation of sharia principles in the Islamic bank business operations. This will have an impact on increasing public trust toward the Islamic banks, which will increase market share for the *sharia* banking in Indonesia.

H₇: The compliance of sharia reporting positively influences the Islamic financial performance

The knowledge backgrounds possessed by DPS members are a form of guidance in the implementation of sharia principles. In achieving the sharia compliance, DPS assumes full responsibility for the implementation of sharia banking. The competent members of DPS in the science of *fiqh mualamah* and financial will be very helpful in providing supervision and advices for the implementation of sharia compliance in the Islamic banks. This form of competence is set forth in a DPS' sharia report. A member of DPS who has a competent scientific background, will know exactly how he/she judges the compliance of sharia principles written in an annual sharia report by expressing their opinion on the performance of Islamic banks.

H₈: Scientific backgrounds of DPS positively influences the Islamic financial performance through the compliance of sharia reporting

The forms of attitudes based on *Al-Wala's* theory toward the entities are by planning, coordinating, implementing, and controlling all the energy and mind to increase the productivity of Islamic entities so that their activities can be beneficial for the customers, society, and environment. DPS as an agency that oversees and advises the Islamic banks in fulfilment of sharia principles, must hold tightly to monotheism and purify worship to Allah SWT through good performance planning and coordination through DPS meeting agendas. In the DPS meetings, there should be discussed a series of work programs for the fulfilment of sharia principles in the Islamic banks. The results of the work programs are then evaluated together in the DPS meetings, whether the operational of sharia bank already meets the sharia principles or not through the review activities. At the end of the period, the DPS reviews reports made into a DPS sharia report for the current year.

H₉: The attendance of DPS meeting positively influences the Islamic financial performance through the compliance of sharia reporting.

The multi-position of DPS is set in a GCG report as an implication of Islamic governance. The independence of DPS is questioned by his multi- positions because the works will not be focused. The sharia report of DPS is believed to be a representative of the DPS's job responsibilities for the performance of its duties and responsibilities as the supervisor and advisor.

H₁₀: Multi-positions of DPS negatively influences the Islamic financial performance through the compliance of sharia reporting

According to the explanation above, the research framework can be described in Figure 1.

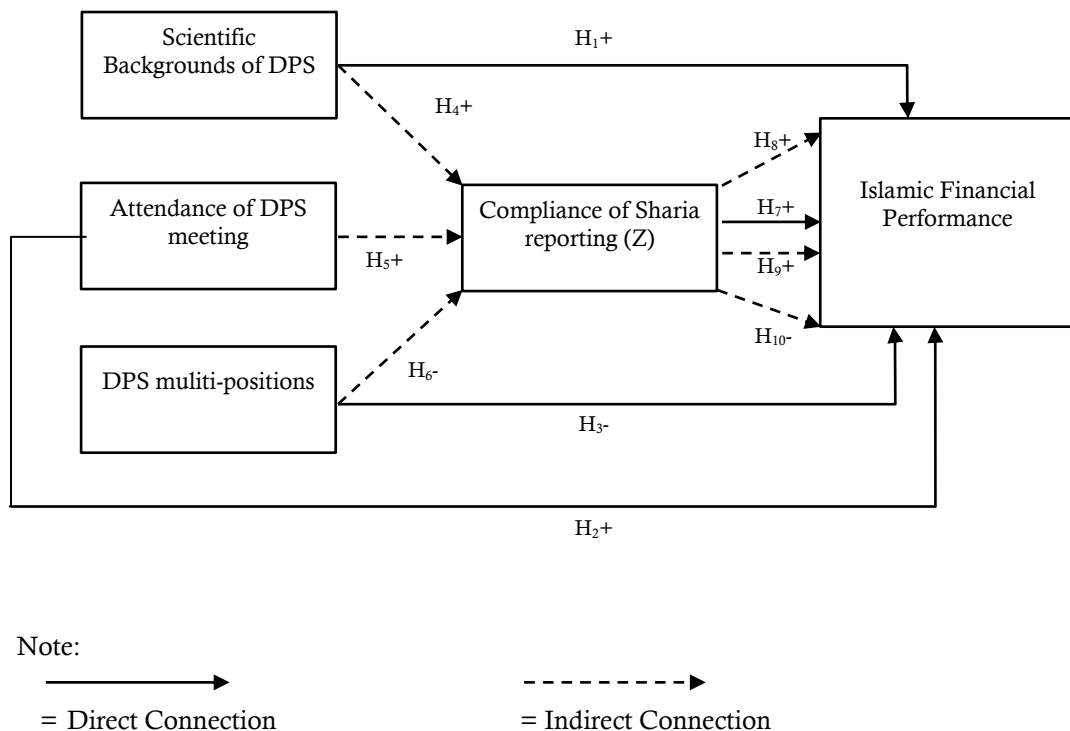


Figure 1. Research Model

METHODS

The was a quantitative research, the data used were secondary obtained from the annual reports consisting of financial report, DPS report, and Good Corporate Governance implementation report published by the Islamic Commercial Banks from 2011 to 2015. The population used in this research was all BUS in Indonesia. Based on the Islamic Banking Statistics data, the total number of BUS were 13 units. The observation time for the research was from 2011 to 2015. The sample was taken using non-probability method including the non-random sampling using purposive sampling method based on the criteria determined by the researchers.

Table 2 Sampling Criteria

Note	Number
Number of BUS	13
Qualified BUS	8
Unqualified BUS	5
Number of Samples	8
Research Period	5
Number of Analysis Units (8 x 5)	40

Source: Islamic Banking Data, Processed secondary data, 2016

This study used five variables consisting of one dependent variable, three independent variables, and one intervening variable. The operational definition of each variable was presented in table 3 as follows.

Table 3 Operational Definitions of Variables

Research Variables		
Islamic Financial Performance (KKS)	Operational Definition Measurement	The performance used to assess the Islamic banks in running their operational activities according to sharia principles $\frac{(AixRII) + (AixRPBH) + (AixRPI) + (AixRPQH) + (AixRZ)}{5}$
Scientific Backgrounds of DPS (LBKDPS)	Operational Definition Measurement	Science and knowledge owned by a member of DPS in implementing his duties and responsibilities as a supervisor and advisor. $\frac{LBKDPS1 + LBKDPS2 + LBKDPS3 + \dots + LBKDPSn}{Total\ Number\ of\ DPS\ Members}$
Attendance of DPS Meeting (KRDPS)	Operational Definition Measurement	A form of participation of DPS members in attending internal meetings of DPS or with the board of direction, auditing committee / external auditor $\sum Attendance\ of\ DPS\ Meeting = KRDPS1 + KRDPS2 + KRDPS3 + \dots + KRDPSn$
DPS Multi-positions (RJDPS)	Operational Definition Measurement	The member of DPS holding a structural position in an Islamic bank structure, and at the same time he/she also hold certain structural position in other Islamic institutions $\sum DPS\ Multi - positions = RJDPS1 + RJDPS2 + RJDPS3 + \dots + RJDPSn$
Compliance of Sharia Reporting (KPS)	Operational Definition Measurement	The fitness of sharia reports prepared by DPS compared with the applied standards i.e. AAOIFI-GSIFI No.1 on the sharia reporting $\frac{Number\ of\ elements\ in\ DPS\ reports}{Number\ of\ elements\ of\ shariah\ reporting\ based\ on\ AAOIFI\ Stan}$

Source: Authors' Summary, 2017

The data analysis method used in this research was descriptive analysis using SmartPLS version 3.0. This study examined the direct and indirect influences on the dependent variables. In addition, the data analysis techniques used were test of measurement model (outer model),

structural model test (inner model), hypothesis test, and mediation effect test to calculate the influence of the intervening variable.

RESULTS AND DISCUSSIONS

The descriptive statistics is a method in analyzing quantitative data, so that it is obtained a regular description of an activity (Ghozali, 2011). The descriptive statistics in this study is used to describe the data consisting of Islamic financial performance, DPS scientific background, attendance of DPS meetings, DPS multi-positions, and compliance of sharia reporting as shown in table 4 below:

Table 4. Results of Descriptive Statistics Analysis

Variable	N	Mean	Standard Variance	Maximum Score	Minimum Score
Islamic Financial Performance	40	43.41275	13.96482	78.85	18.51
Scientific Backgrounds of DPS	40	2.20	0.24427	2.50	1.50
Attendance of DPS Meeting	40	29.05	6.92431	38	14
DPS Multi-positions	40	6.45	2.14774	11	1
Compliance of Sharia Reporting	40	0.5405	0.13331	0.82	0.36

Source: Processed Secondary Data, 2017

Table 4 shows the descriptive statistics of each research variable. The Islamic financial performance has an average value of 43.41275, standard deviation of 13.96482, maximum score of 78.85 and the minimum value of 18.51. The DPS scientific backgrounds variable has an average score of 2.20, standard deviations of 0.24427, maximum score of 2.50 and the minimum of 1.50. The attendance of DPS meeting has the mean of 29.05, standard deviations of 6.92431, maximum score of 38 and minimum one of 14. The DPS multi-position has an average value of 6.45, standard deviation of 2.14774, maximum value 11 and a minimum value of 1, while the variable of compliance of syariah reporting has the average value of 0.5405, standard deviation of 0.13331, maximum value of 0.82 and minimum one of 0,36. The measurement model or outer model shows how the manifest variable represents the latent one to be measured (Latan, 2012). The data in this research will be firstly tested by outer test model before conducting the inner model and hypothesis tests. The outer model test is performed to determine whether the test has met the significance of the model. The outer model test results will be presented in Table 5.

Table 5. Outer Weights (Mean, STDEV, T-Values)

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>
KKS <- Islamic Financial Performance	1.000	1.000	0.000
KPS <- Compliance of Sharia Reporting	1.000	1.000	0.000
LBKDPS <- Scientific Backgrounds of DPS	1.000	1.000	0.000
KRDPS <- Attendance of DPS Meeting	1.000	1.000	0.000
RJDPS <- DPS Multi-positions	1.000	1.000	0.000
KKS <- Islamic Financial Performance	1.000	1.000	0.000
KSP <- Compliance of Sharia Reporting	1.000	1.000	0.000

Table 5 shows that the exogenous variables with each indicator all have a standard deviation value of 0.000 and no errors detected. Due to the absence of the error rate, the t-statistical value is infinite. This indicates that the indicators forming the variables of DPS scientific backgrounds, attendance of DPS meetings, DPS multi-positions, compliance of Sharia reporting and Islamic financial performance have significant t-statistics. The p-values of all indicators that illustrate the latent variable construct have values below 0.05 at 5% error rate. Therefore, the model shows that the data obtained are valid and passes from the outer model evaluation. After the data are stated value, then they will be examined in the inner model test. The inner model test is conducted to find out the correlation and direct influence between the latent constructs by considering the result of estimation of path parameter coefficient and its significance level. The inner model test results will be presented in Table 4.

Table 6. Path Coefficients (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
KRDPS -> KPS	-0.169	-0.167	0.108	1.567	0.059
KRDPS -> KKS	0.298	0.320	0.181	1.694	0.050
KPS -> KKS	0.649	0.690	0.354	1.834	0.034
LBKDPS -> KPS	0.733	0.731	0.075	9.749	0.000
LBKDPS -> KKS	-0.229	-0.272	0.328	0.701	0.242
RJDPS -> KPS	-0.126	-0.122	0.102	1.238	0.108
RJDPS -> KKS	0.309	0.282	0.168	1.839	0.033

The result of inner model test shows that the attendance of DPS meeting and DPS multi-positions have p-values higher than 0.050 toward the compliance of sharia reporting, and this does not significantly affects the compliance of sharia reporting. Meanwhile, the DPS scientific backgrounds variable has the p-values lower than 0.050 toward the compliance of sharia reporting, which significantly influences the compliance of sharia reporting. For the influence on the Islamic financial performance, the DPS scientific backgrounds variable has p-values above 0.050 which does not significantly influence the Islamic financial performance. Meanwhile, the attendance of DPS meetings, DPS multi-positions and sharia reporting have the p-values less than 0.050, and this gives a significant influence on the Islamic financial performance variable. Besides looking at direct relationship and influence, in inner test model we can also see indirect relationship, because the research model uses an intervening variable. To see the relationship and influence indirectly, we can see the table 6 below:

Table 7. Indirect Effect (Mean, STDEV, T-Values, P Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
KRDPS -> KPS					
KRDPS -> KKS	-0.110	-0.120	0.103	1.063	0.144
KPS -> KKS					
LBKDPS -> KPS					
LBKDPS -> KKS	0.476	0.509	0.277	1.715	0.044
RJDPS -> KPS					
RJDPS -> KKS	-0.082	-0.075	0.083	0.984	0.163

Table 7 shows that the influence of DPS scientific backgrounds on Islamic financial performance has a positive and indirect effect with the coefficient value of 0.476, and p-value significance level of 0.044. This indirect p-values of 0.044 is less than 0.050, it means that the DPS scientific backgrounds has an indirect effect through a positive and significant intermediary (mediation) variable on the Islamic financial performance. The attendance of DPS meeting on the Islamic financial performance has a negative and indirect effect with coefficient value of -0.110 and p-value significance level of 0.144. The p-value is higher than 0.050, meaning that the attendance of DPS meetings has no indirect effect through a negative and insignificant mediator variable on Islamic financial performance. Meanwhile, the DPS multi-positions variable on the Islamic financial performance also has a negative and indirect influence with the coefficient value of -0.082 with p-value significance level of 0.163. The p-values of 0.163 is higher than 0.050, it means that DPS multi-positions variable does not have an indirect effect through the negative and insignificant mediator variable on the Islamic financial performance. The mediation effect indicates the relationship between exogenous and endogenous variables via linking or mediation variables. The first step in the mediation testing procedure is the direct influence of the exogenous variable on the endogenous one that must be significant. Second, the indirect influence must be significant, and each path of exogenous variable toward the mediation variable, and the mediation variable toward the endogenous one must be significant to meet this condition.

Table 8 VAF Calculation

Calculation	Result
Indirect effect 0.733×0.649 (LBKDPS \rightarrow KSP = 0.733; KSP \rightarrow KKS = 0.649)	0.476
Direct effect (LBKDPS \rightarrow KKS)	-0.229
Total effect	0.247
VAF = indirect effect/total effect = $0.476/0.247$	1.927

Source: Processed Data 2017

Table 9 Results of Hypothesis Testing

Influence	Original Sample (O)	P-Value	α	Hypothesis
DPS Scientific Backgrounds \rightarrow Islamic Financial Performance	-0.229	0.242	0.05	H ₁ rejected
Attendance of DPS Meeting \rightarrow Islamic Financial Performance	0.298	0.050	0.05	H ₂ accepted
DPS Multi-positions \rightarrow Islamic Financial Performance	0.309	0.033	0.05	H ₃ rejected
DPS Scientific Backgrounds \rightarrow Sharia Reporting Conformity	0.733	0.000	0.05	H ₄ accepted
Attendance of DPS Meeting \rightarrow Sharia Reporting Conformity	-0.169	0.059	0.05	H ₅ rejected
DPS Multi-positions \rightarrow Sharia Reporting Conformity	-0.126	0.108	0.05	H ₆ rejected
Sharia Reporting Conformity \rightarrow Islamic Financial Performance	0.649	0.034	0.05	H ₇ accepted
*DPS Scientific Backgrounds \rightarrow Islamic Financial Performance	0.476	0.044	0.05	H ₈ accepted
*Attendance of DPS Meeting \rightarrow Islamic Financial Performance	-0.110	0.144	0.05	H ₉ rejected
*DPS Multi-positions \rightarrow Islamic Financial Performance	-0.082	0.163	0.05	H ₁₀ rejected

*Through the intervening variable (compliance of sharia reporting)

Source: Processed Secondary Data, 2017

The VAF calculation of the compliance of sharia reporting variable as the mediator between the DPS scientific backgrounds and the Islamic financial performance results in a value of 1.927 or 192.7%, indicating the compliance of sharia reporting as the full mediator. This picture shows that the eighth hypothesis (H_8) which states that there is a positive influence on DPS scientific background on Islamic financial performance through the compliance of sharia reporting is accepted. The hypothesis test is conducted by looking at the value of path coefficient showing parameter coefficient and t-statistic value. The significant parameter estimated provides information on the relationship between the variables in this study and compares the t-statistic value with the t-table significance at 5% ($t\text{-count} > t\text{-table } 1.684$) (Ghozali and Latan, 2012)

The research by Usama (2010) concluded that the scientific backgrounds variable does not significantly influence the *sharia*-based profit sharing at the level of 5% (α) ($p = 0.210$; $p > 0.05$). The reason for the rejection of the first hypothesis is most of DPS in Islamic banks in Indonesia have a common similar scientific background, i.e. *sharia muamalah*. Of the 20 DPS from 8 Islamic Commercial Banks in Indonesia, 15 of them have a background of *muamalah* or about 75%. This is not in accordance with the principles of performance in Islamic banking, which balances the *sharia* of *muamalah* and banking/finance. There are only limited number of DPS in the Islamic banks that have *sharia-muamalah* and banking background, fewer than those who only have *muamalah-sharia* background. This is in line with Al-Wala's theory which explains that the attendance of DPS meeting is a manifestation of Al-Wala' attitude in planning, coordinating, implementing and controlling all the energy and mind to improve the productivity of Islamic banks so that they can be useful for the benefit of society based on a sense of loyalty (love). The average attendance of DPS meetings every year is 29.05. Based on PBI 11/33 / PBI / 2009, if the meeting is held once a month, then in a period, there will be maximally 12 meetings. If in one Islamic bank has 3 members of DPS, the total attendance of the meetings are 36. So, the average percentage of attendance of DPS meetings is still within 80.69%.

The multi-positions variable, according to Usama's research (2010) significantly influences the performance of *sharia*-based profit-sharing compliance performance at 5% (α) level ($p = 0.002$; $p > 0.05$). This affect may occur because most members of DPS have their multi-positions for not more than four (4) agencies. The average value of DPS multi-positions in descriptive statistics is 6.45 for the Islamic banks consisting of 2 to 3 DPS members. This figure shows that each member of DPS only serves as a DPS only in some institutions of Islamic financial institutions, not exceeding the limits of the provisions, (maximum of 4 agencies). This means that the multi-positions variable in supervising BUS / UUS is relatively low, so it does not obstruct the performance of DPS in conducting supervision on the Islamic banks. This is in accordance with the theory of competence which explains that the ability of the Islamic Supervisory Board becomes very important in providing opinions on the compliance of implementation of *sharia* principles in the Islamic commercial banks through *sharia* reports prepared by DPS. The *sharia* reports contain opinions of DPS regarding the compliance with the *Sharia* principles. Based on the average descriptive statistics, the DPS scientific backgrounds value is 2.20. This means that some of DPS's scientific backgrounds are mostly *sharia muamalah*. The DPS members who have *sharia- muamalah* background will more easily assess the compliance of the principles of *sharia* in the implementation of Islamic commercial banks through the *sharia* report by providing *sharia* opinion on the implementation of *Sharia* principles in the Islamic banks.

The reason for the rejection of the attendance of the meeting is that most of the attendance of the DPS meetings is still not yet maximal. Based on descriptive statistics, the minimum number for the attendance of DPS meetings is 14. This is because the data obtained for the attendance of the meetings are less maximum. From several samples, it is found some members do not reveal how many meetings they have already attended, so this variable has not been yet maximized in

examining the effect on the compliance of sharia reporting. In addition, less maximum attendance of the DPS meetings indicates that there are still DPS members who do not attend the meetings due to several factors. In fact, the attendance of the meeting will have an effect on the decision-making in preparing sharia reports by DPS. The reason for the rejection of multi-positions is the number of DPS multi-positions is still within the fair value (average value of 6.5 from the maximum number of 12). This is certainly not an obstacle for DPS to carry out its duties in coordination, monitoring and reporting, so that DPS can still manage its time to carry out its duties and responsibilities as the supervisor and adviser as well as in reporting the compliance of sharia principles in Islamic commercial banks. DPS performs the reporting function of *sharia* compliance as a form of Islamic accountability as an implication of Islamic banking governance in Islamic commercial banks. Thus, the multi-positions of DPS variable do not affect the compliance of sharia reporting because it is still considered in a reasonable number.

The sharia enterprise theory that explains that the Islamic banks play a role to collect and channel public funds based on the principles of sharia, placing the deposit fund as a mandate. Then the funds are accounted for through a sharia report. Sharia report as a form of accountability to financial performance must be in accordance with the principles of sharia. Based on descriptive statistics, the average value of sharia reporting compliance is 0.54. This means that the level of compliance of sharia reporting is still moderate. So, with the publication of sharia reports, the public perception of Islamic banks will be more confident in the implementation of sharia principles. This will impact the increasing public trust toward the Islamic banks, which will also increase market share for the Islamic banks in Indonesia. The results of this research are in line with the theory of competence, where the forms of competence are set forth in a DPS sharia report. A member of DPS who has a competent scientific background, will know exactly how he judges the compliance of sharia principles written in an annual sharia report by conveying his opinion on the performance of Islamic banks. Thus, the scientific backgrounds of DPS will strongly influence the financial performance with the compliance of sharia reporting. The results of this study are not in line with Al-wala 'theory which explains that the love or loyalty in the entity is done by planning, coordinating, implementing, and controlling all the energy and mind to increase the productivity of the Islamic entities. This implies that there is no influence between the attendance of DPS meetings on the compliance of Sharia reporting, although the compliance of sharia reporting has an effect on Islamic financial performance. This can be seen from the r-square variable of the compliance of sharia reporting as much as 73%, and the rest 27% is explained by other variables. The multi-positions variable of DPS is set forth in a GCG report as an implication of Islamic governance. Meanwhile, the DPS sharia report is believed to represent the responsibility of DPS's works on the implementation of its duties and responsibilities as the supervisor and advisor. This implies that there is no influence between the multiple-positions of DPS towards the compliance of sharia reporting, although the compliance of sharia reporting has an effect on Islamic financial performance. This can be seen from the r-square variable of the compliance of sharia reporting as much as 73%, and other 27% is explained by other variables.

CONCLUSIONS

Based on the results of the research and discussions, it can be concluded that the attendance of DPS meetings and the compliance of sharia reporting directly influence the Islamic financial performance. DPS scientific backgrounds and multi-positions have no significant effect on the Islamic financial performance. Meanwhile, the variable of compliance of Sharia reporting has positive and significant effect to mediate the DPS scientific backgrounds and Islamic financial performance, but it is not able to mediate the attendance of DPS meetings and DPS multi-positions

on the Islamic financial performance. The writers suggest for further researcher o develop a model about the implementation mechanism of duty and responsibility of Islamic Supervisory Board on the Islamic financial performance by using other intervening variable in identifying the influence toward the Islamic financial performance, and the research sample can use other Islamic financial institutions, besides the Islamic commercial banks.

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