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## Sharia Supervisory Board Reconstruction Strategy in Islamic Banking Management Based on SWOT Analysis Approach

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### Abstract

The application of sharia principles in Islamic banking management has not run optimally. One of the problems is that the role and function of SSB (Sharia Supervisory Board) has not run optimally in supervising Islamic banking. The aim of this research is to formulate strategies and strategic policies for the reconstruction of SSB in the management of Islamic banking. The research method was carried out using a literature survey approach and the search results were analysed using a SWOT analysis approach. The results of the analysis show that the frequency of occurrence of organizational internal factors, namely weaknesses (1.00) and strengths (0.95) of SSB is the most dominant issue that can affect the presence of SSB in an organization and the management structure of Islamic banking, while the external environment, namely threats (0.24) and opportunities (0.56) are supporting issues that can affect the existence of SSB. In addition, four SSB reconstruction strategies were obtained which included: (i) reconstruction of the role and function of the SSB, (ii) institutional reconstruction of the SSB, (iii) optimizing the position and strategic position of the SSB, and (iv) legal reconstruction of the SSB in Indonesia. The four SSB construction strategies are expected to become a bridge in efforts to optimize supervision inherent in sharia principles in Islamic banking in Indonesia.

**Keywords:** SSB institutions, KeKePAn, strengths and weaknesses, opportunities and threats, strategic policies.

### 1. Introduction

The Sharia Supervisory Board (SSB) is one of the determinants of whether or not the implementation of Islamic sharia principles is running in the financial sector, even though the need for sharia supervision is also required by other sectors. The role of the National Sharia Council (NSC) of the Indonesian Ulama Council (IUC) as an external supervisor and SSB as an internal supervisor currently only has a major influence on compliance with the application of sharia principles in the financial sector, while the real sector has not been closely monitored, so there is a lot of real sector activity, specifically for the halal tourism industry labelled sharia, it still does not fulfil the principles of sharia compliance specified in the NSC-IUC fatwa [1].

The implementation of establishing sharia principles in each Islamic bank and sharia business unit is carried out by SSB which must be established in each Islamic bank [2]. SSB should play a very fundamental role in Islamic banking governance and in fulfilling sharia compliance. However, in reality at this time the role of SSB is still not optimal. According to [3], this lack of optimality is caused by the lack of independence of the SSB, because in carrying out its supervisory function, the SSB is still a structural part of the Islamic bank itself. This needs to be anticipated, because ignoring compliance with the principles of implementing sharia can reduce public trust in the image of Islamic banks [4, 5].

Trust, social influence, government support and public knowledge (customers) are important factors that must be considered in good management of Islamic banks [6]. Therefore, it is important to note that the management of Islamic banks must be able to foster public trust, so

that it can impact and become social capital which in turn can have a social impact on the wider community to be able to partner with Islamic banks. In addition, government support in providing guarantees and access to professional and proportional management of Islamic banks can encourage people to choose Islamic banks as partner banks. Besides that, of course continuous socialization can encourage people to become more familiar with Islamic banks, what makes them different with conventional banks and what benefits can be received and more compared to conventional banks, both in this world and in the hereafter. Public trust and customer perceptions of Islamic banks can be influenced by factors of relative advantage, risk management and customer involvement [7]. According to [7], customer involvement is the most influential on the emergence of trust and perceptions of middle to lower income people. Therefore, the management of Islamic banks should refer to how customers can be involved in various choices of investment decisions and the development of Islamic products that are run by banks. SSB, as the most important element of sharia supervision, should be able to provide input and supervision based on customer perceptions, so that the sharia management recommendations submitted can fulfil better benefits.

Islamic banking products and services are increasingly popular among non-Muslims around the world. Not a few people in the world have begun to look at Islamic banks as an alternative to be partners in financial management, both in making deposits and lending. Some of the driving factors that can influence and become the main reason that attracts non-Muslim customers' decisions to partner and use Islamic banking services include lower transaction costs and better service [8]. Although non-Muslim customers know that there are social benefits that can be obtained from the principle of interest-free Islamic banking, this is not the main reason for utilizing Islamic banking services in Bangladesh. In addition, the majority of non-Muslim customers in Bangladesh consider that the Islamic banking services provided by Islamic banks are currently suitable for meeting their banking needs.

Islamic finance literature has formed a different and inconsistent system that does not really appreciate the importance of the quality and practice of the SSB, even though the SSB plays an important role in assisting and encouraging bank managers to always consider and pay attention to bank management to stay on sharia track [9]. According to [9], the successful implementation of SSB in carrying out its functions as an institution entrusted with the mandate to supervise Islamic banking governance with reference to the full and comprehensive application of sharia principles is the size of the SSB, the number of meetings and attendance of sharia supervisors. In addition, the three SSB performance can also improve the financial performance of Islamic banks themselves.

SSB, as an internal institution of Islamic banks, is an important element that can create guarantees of sharia compliance and is the main pillar in the implementation of Good Corporate Governance (GCG) of Islamic banks [10]. As a representative of the NSC-IUC and IB, SSB functions and is responsible for overseeing the services and products offered by banks and whether their operations have implemented and/or complied with sharia principles. According to [11], more experienced SSB members will be able to improve business skills through collective decision

making and strategic decision actions. However, at present, the role and function of SSB is still not optimal [3], as mentioned one of the reasons is the position of SSB in the management structure of Islamic banks [4], which tends to limit the space for independence in making decisions and making policy recommendations, as well as the actual implementation of sharia principles. Therefore, it is necessary to make strategic efforts to provide improvement efforts in the form of institutional reconstruction of SSB, so that the management of Islamic banking can be carried out in a transparent, accountable, responsible, independent and fair manner in accordance with the actual principles of Islamic sharia.

## 2. Material and Method

The SSB reconstruction strategy in the management of Islamic banking in Indonesia can be determined using a variety of approaches. This study uses a SWOT analysis approach as a tool to synchronize existing strengths, weaknesses, opportunities and threats in order to produce an accommodative and conclusive strategy, so that the supervisory function carried out by SSB in managing Islamic banking can be carried out optimally, comprehensively and sustainably. SWOT analysis is a tool used for strategic planning and strategic management in organizations that can be used effectively to build organizational strategy and competitive strategy [12]. Furthermore, according to [1] SWOT analysis is an analytical method used to evaluate the strengths, weaknesses, opportunities and threats involved in organizations, plans, projects, people or business activities. The use of SWOT analysis in several ways and steps that are carried out in stages, so that the strategy that is built can be in accordance with the objectives to be achieved from conducting a SWOT analysis. The following are the steps that must be considered in using the SWOT analysis approach [13]:

1. Select the purpose of the SWOT analysis
2. Examine the position and existence of SSB in the management structure of Islamic banks
3. Identify and list SSB strengths
4. Categorizing and listing SSB weaknesses
5. Classifying and listing potential opportunities in various SSB perspectives
6. Organize and list potential threats to the position and existence of SSB
7. Ascertain the priority of the SWOT elements and analyse them
8. Build and improve strategies to address SWOT problems and challenges in various contexts of SSB positions and presence.

Figure 1 below is the SWOT analysis framework used in the study. This framework is adopted from [13] and combined with the SWOT theoretical review framework as mentioned in [12].

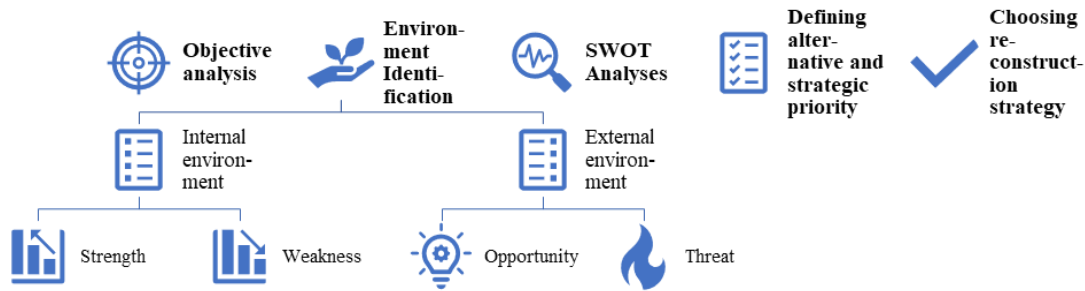


Fig. 1: Framework of SWOT analyses.

The choice of the SSB reconstruction strategy was determined based on the results of a SWOT analysis using a Two-By-Two Matrix (TBTM) approach (2x2 matrix).

This TBTM was created by synchronizing the internal and external environment (Table 1).

Table 1: TBTM approach [12].

	Strength (S)	Weaknesses (W)
Opportunity (O)	Strategies for pursuing opportunities that closely match organizational strengths	Strategies for overcoming weaknesses to seize opportunities
Threat (T)	Strategies use strengths to reduce an organization's vulnerability to threats	Strategies prevent weaknesses to avoid making the organization more vulnerable to threats

3. Results

The purpose of conducting a SWOT analysis is to determine the choice of strategy for the reconstruction of the SSB. Therefore, it is necessary to first identify the factors that influence the position and existence of SSB. These factors can be seen based on the identification of the internal and external environment. The internal

environment includes organizational strengths and weaknesses institutions, while the external environment consists of opportunities and threats. Table 2 below presents the differences between the internal environment (strengths and weaknesses) and the external environment (opportunities and threats).

Table 2. Differences in the internal and external environment [12].

			Internal Environment	
			S	W
External Environment	O	Opportunity means a situation or condition that is suitable for an activity, so that it is an advantage and a driving force for an activity to take place and of course it has positive and profitable characteristics.	Strength is a characteristic that adds value to something and makes it more special than others, so that it is something that is more advantageous when compared to something else and of course refers to characteristics that are positive, fun and creative.	Weakness tends to refer to not having the necessary form and competence for something, so that it is something that is more disadvantaged than something else and of course refers to characteristics that are negative and unfavourable.
	P	Threat is a situation or condition that endangers the actualization of an activity, so it refers to an unfavourable situation and of course it has negative characteristics that must be avoided.		

Based on the characteristics of each component of the SWOT analysis as described in Table 2, the process of identifying all internal organizational issues and the external environment can be carried out. Based on the search results on the availability of secondary data (journal

articles) that have been collected, several issues that have arisen can be mapped which are then coded and classified based on the organization's internal issues and external environmental issues. The complete mapping of issues and classification of SWOT components can be seen in Table 3.

Table 3: Mapping of issues and classification of SWOT components.

Nr	References	Strategic Issues	SWOT Component Classification
1	Hidayati <i>et al.</i> [1]	SSB as an internal supervisor of Islamic banks	S
2	Syahrial [2]	SSB must exist in every Islamic bank	O
3	Kurrohman [3]	SSB independence	S, W
4	Misbach [4]	Public trust	O, T
5	Prabowo & Jamal [5]	Abandonment of compliance with the application of sharia principles	T
6	Ezeh & Nkamnebe [6]	Public trust	O, T

		Social influence	O, T
		Government support	O
		Community (customers) knowledge	O
7	Rahman <i>et al.</i> [7]	Customer involvement in SSB decisions	O
		Public trust on SSB	O, T
		Customers perception on SSB	O, T
		Customer involvement in SSB supervision	O, T
8	Uddin <i>et al.</i> [8]	SSB services	S, W
9	Haddad & Bouri [9]	SSB size	S, W
		Number of board of directors meetings	S, W
		Frequency of attendance of sharia supervisors	S, W
		SSB quality	S, W
		SSB role and function	S, W
10	Musibah & Alfattani [13]	SSB member experience	S, W
11	Jasin & Yanlua [14]	The existence of IUC fatwas related to sharia principles	O
12	Mahipal <i>et al.</i> [15]	Islamic banking operational activities must obtain DPS recommendations	O
		Position and role of SSB in Islamic banks	S, W
		Business activities and sharia banking service products offered to customers	O
		Problem solving duration	S, W
		Integrity, competence and financial reputation of SSB members	S, W
		SSB does not have an independent office	T
13	Hasibuan <i>et al.</i> [16]	Monitoring effectiveness	S, W
		SSB performance	S, W
		Financial performance	O, T
14	Elamer <i>et al.</i> [17]	Presence of SSB	S
		SSB size	S, W
		Number of board of directors meetings	S, W
		SSB governance mechanism	S, W
15	Nurwakhidah [18]	SSB effectiveness	S, W
		Compliance maintenance	S, W
		SSB governance	S, W
16	Zakiyah <i>et al.</i> [19]	SSB performance	S, W
		Service quality	S, W
		SSB governance	S, W
17	Ali [20]	SSB reputation	S, W
		Service quality	S, W
		Feedback acceptance	O
		Responsiveness	S, W
		Service intensity	S, W
18	Nurkhin <i>et al.</i> [21]	SSB size	S, W
		Educational background of SSB members	S, W
		SSB governance	S, W
19	Triasari & de Zwart [22]	Competence of SSB members	S, W
		SSB operational legal basis	O, T
		Educational background of SSB	S, W
		Supervision quality	S, W
		Product innovation	O, T
		Social needs	O, T
20	Heradhyaksa [23]	The legal basis for the existence of SSB	S, O
		SSB governance	S, W
		SSB effectiveness	S, W
		SSB performance	S, W
		Compliance monitoring	S, W
		Technical guidance	S, W
21	Prayitno & Setyowati [24]	Limited human resources in the field of Islamic economics	W
		Consider SSB as a complement	W
		Independen regulation	O, T

The results of mapping the issues and classification of the SWOT components as presented in Table 3 are then processed to see the relationship between the sub-components in each SWOT component as presented in Figure 2, Figure 3, Figure 4, Figure 5 and Figure 6. The weight value of each component and sub-components is

calculated using the weighted value approach. Following are some formulations related to the calculations used to determine the weight value of each SWOT component:

$$w_{C_i}^{SWOT} = \frac{C_i^{SWOT}}{C_{max}^{SWOT}}$$

$$C_i^{SWOT} = \sum_{j=1}^m SC_{ij}$$

$$SC_{ij} = f_j^{SC_{ij}}$$

Note:

$C_{max}^{SWOT}$  is the SWOT component with the highest cumulative number of occurrences of the sub-component

$wC_i^{SWOT}$  is the weighted value of the  $i$ -th SWOT component

$C_i^{SWOT}$  is the  $i$ -th SWOT component

$i$  is a sequence of SWOT components (strengths, weaknesses, opportunities and threats)

$SC_{ij}$  is the  $j$ -th sub-component of the  $i$ -th component

$j$  is the sequence of sub-components in each SWOT component

$m$  is the number of sub-component sequences in each SWOT component

$f_j^{SC_{ij}}$  is the number of times the issue occurs from the  $j$ -th sub-component to the  $i$ -th component

The calculation used to determine the sub-component weight value of each SWOT component follows the following formulation:

$$wSC_{ij} = \frac{f_k^{SC_{ij}}}{f_{max}^{SC_{ij}}}$$

Note:

$wSC_{ij}$  is the weight value of the  $j$ -th sub-component of the  $i$ -th component

$i$  is a sequence of SWOT components (strengths, weaknesses, opportunities, and threats)

$j$  is the sequence of sub-components in each SWOT component

$f_j^{SC_{ij}}$  is the number of times the issue occurs from the  $j$ -th sub-component to the  $i$ -th component

$f_{max}^{SC_{ij}}$  is the sum of the frequency of occurrence of the highest issue from the  $j$ -th sub-component in the  $i$ -th component



Fig. 2: Comparison of the occurrence frequency of issues on the strength component.

Figure 2 shows that the quality of supervision and service is high (1.00), the effectiveness of supervision and service is relatively good (0.83), the integrity, competence and financial reputation of members is quite good (0.83) and the clarity of SSB mechanisms and governance (0.83) are the four strengths most frequently mentioned by

researchers who have a major influence on the existence of SSB in Islamic banking institutions. As for the frequency of supervisors' presence which is quite optimal, the existence of routine technical guidance as well as the high reputation and independence of the SSB are strategic issues that are at least mentioned by the researchers.

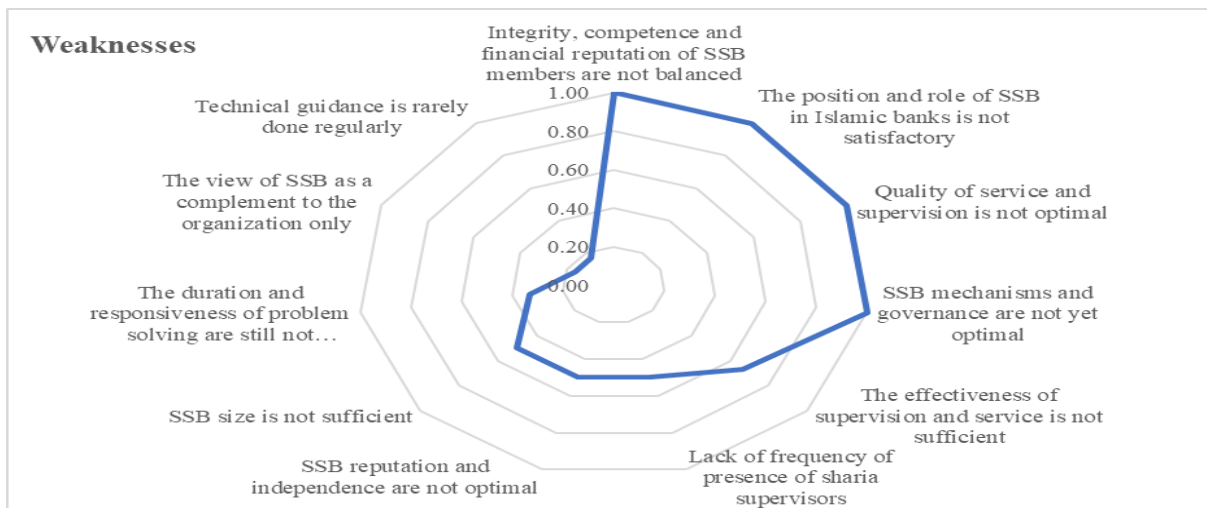


Fig. 3: Comparison of the frequency of occurrence of issues on the weakness component.

Figure 3 shows that the integrity, competence and financial reputation of SSB members who are placed in each Islamic bank are not balanced (1.00), the position and role of SSB in Islamic banks are not satisfactory (1.00), the quality of service and supervision is not yet satisfactory. optimal (1.00) and suboptimal SSB mechanisms and governance (1.00) are the four weaknesses most mentioned by researchers and have a major influence on the existence of SSB in Islamic banking institutions. While technical guidance is rarely carried out periodically, the perception that SSB is only a complement to the organization and the duration and responsiveness of problem solving that is not satisfactory is a strategic issue that is at least mentioned by researchers.

Following Figure 4 shows that there is public trust in the implementation of sharia principles (1.00), there is a legal basis for position, role and function of DPS (0.75), customer involvement in SSB supervision (0.75) and positive customer perceptions and feedback on SSB (0.75) are the four opportunities most mentioned by researchers and are very likely to have a more positive influence on the existence of SSB in Islamic banking institutions. As for the provisions that every Islamic bank must have SSB, the existence of good Islamic financial performance and Islamic banking operational activities must receive SSB recommendations to be a strategic issue that is at least mentioned by researchers.

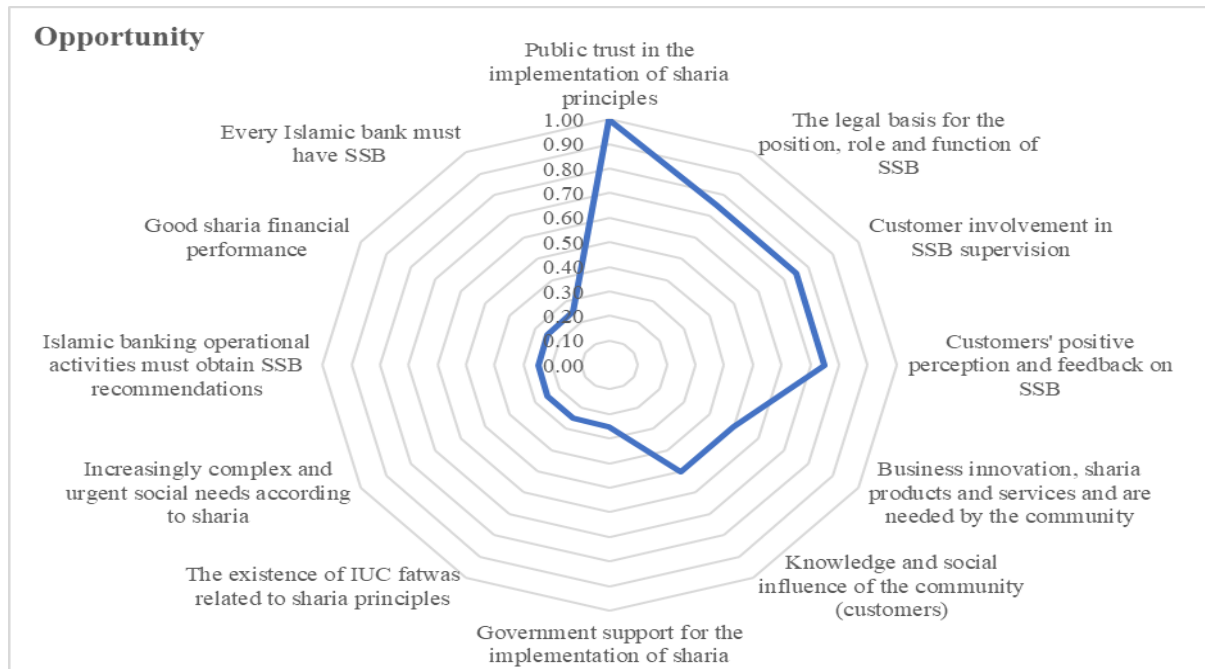


Fig. 4: Comparison of the frequency of occurrence of issues on the opportunity component.

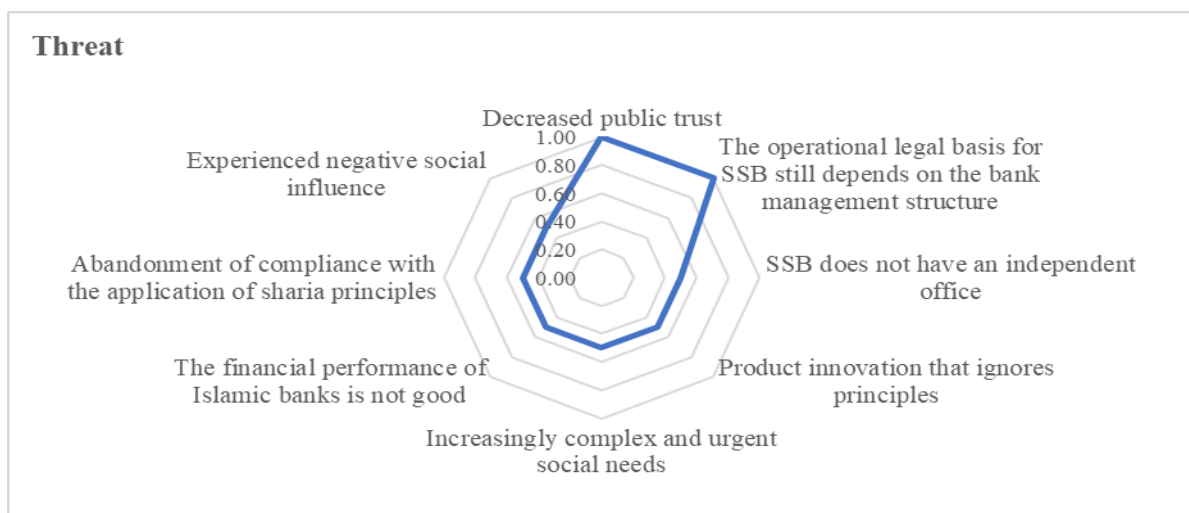


Fig. 5: Comparison of the frequency of occurrence of issues in the threat component.

Figure 5 shows that when there is a decrease in public confidence in the implementation of sharia principles (1.00) and that the operational legal basis for SSB which still depends on the bank's management structure (1.00) are the two most threatened issues mentioned by researchers and need attention because can have a negative influence on the existence of SSB in Islamic banking institutions. As for the

negative social influences, the neglect of compliance with the application of sharia principles, the unfavourable financial performance of sharia banks, increasingly complex and urgent social needs, product innovations that ignore sharia principles and the fact that SSB does not have offices independently are strategic issues that are equally diverse and at least mentioned by the researchers.

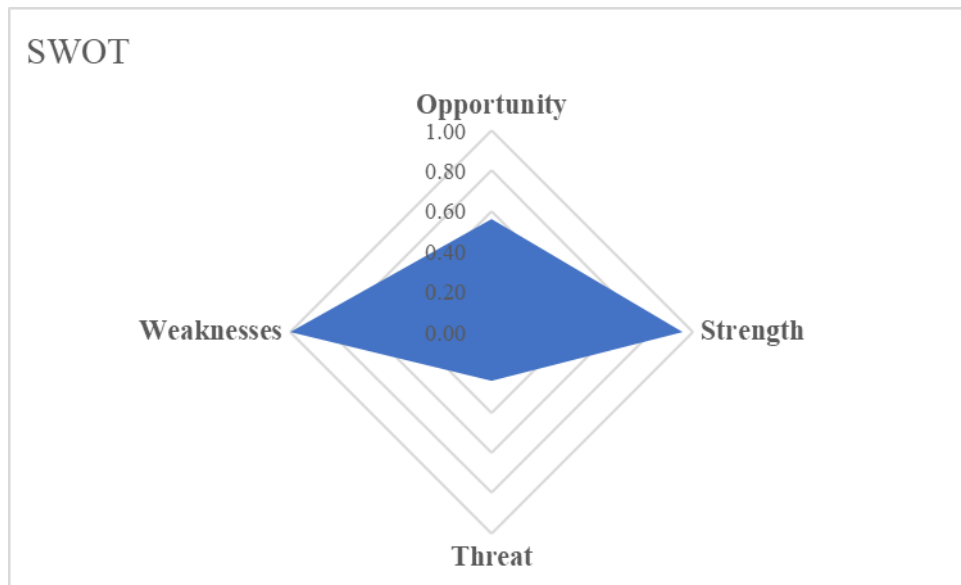


Fig. 6: Weight comparison between SWOT components.

Figure 6 shows that the occurrence frequency of internal organizational factors, namely weaknesses (1.00) and strengths (0.95) of SSB is the most dominant issue that can affect the existence of SSB in an organization and the management structure of Islamic banking, while the external environment, namely threats (0.24) and opportunity (0.56) are supporting issues that can affect the existence of SSB. This shows that the existence of SSB in Islamic banking institutions is largely determined by the performance of the SSB itself. This performance is influenced by the competency and individual reputation of the SSB members and of course this can be influenced by the educational background and experience of the human resources (HR) members of the SSB themselves. Meanwhile, if competence and reputation are not the root

of the SSB's internal problems, then the supporting factors come from the external environment which can be the main obstacle for the implementation of the best supervision that should be carried out, including the external environment of the DPS in the form of the internal factors of Islamic banking itself.

The TBTM approach, as can be seen in Table 1, is used as a SWOT analysis tool in this study. Table 4 below presents a 2x2 matrix based on the results of the identification of the SWOT sub-components as classified in Figure 2, Figure 3, Figure 4, Figure 5 and Figure 6 The analysis process is carried out by synchronizing the four SWOT components to produce several alternative DPS development strategies.

Table 4: TBTM analysis.

	<b>Strength (S=0,95)</b> S1=1,00; S2=0,83; S3=0,83; S4=0,83; S5=0,67; S6=0,50; S7=0,50; S8=0,33; S9=0,33; S10=0,33; S11=0,17; S12=0,17	<b>Weaknesses (W=1,00)</b> W1=1,00; W2=1,00; W3=1,00; W4=1,00; W5=0,67; W6=0,50; W7=0,50; W8=0,50; W9=0,33; W10=0,17; W11=0,17
<b>Opportunity (O=0,56)</b> O1=1,00; O2=0,75; O3=0,75; O4=0,75; O5=0,50; O6=0,50; O7=0,25; O8=0,25; O9=0,25; O10=0,25; O11=0,25; O12=0,25	<b>Strategy – 1</b> Optimizing position and strategic Position of the SSB (S4, S5, S10, O1, O2, O7, O8, O10, O12)	<b>Strategy – 2</b> Reconstruction of the roles and functions of the SSB (W1, W3, W5, W6, W8, W9, W11, O3, O4, O5, O6, O9, O11)
<b>Threat (T=0,24)</b> T1=1,00; T2=1,00; T3=0,50; T4=0,50; T5=0,50; T6=0,50; T7=0,50; T8=0,50	<b>Strategy – 3</b> Institutional reconstruction of the SSB (S1, S2, S3, S6, S7, S8, S9, S11, S12, T1, T3, T5, T6, T8)	<b>Strategy – 4</b> Legal reconstruction of the SSB in Indonesia (W2, W4, W7, W10, T2, T4, T7)

Note:

- S1 = High quality of supervision and service (S1=1.00)
- S2 = Effectiveness of supervision and service is good (S2=0.83)
- S3 = Integrity, competency and financial reputation of SSB members is quite good (S3=0.83)
- S4 = Clarity of SSB mechanism and governance (S4=0.83)
- S5 = Clarity of legal basis, position, role and function of DPS in Islamic banks (S5=0.67)
- S6 = Very promising SSB performance (S6 = 0.50)
- S7 = Adequate SSB size (S7=0.50)
- S8 = Adequate intensity and responsiveness of service

- (S8=0.33)
- S9 = Number of proportional directors meetings (S9=0.33)
- S10 = High SSB reputation and independence (S10=0.33)
- S11 = Technical assistance is carried out regularly (S11 = 0.17)
- S12 = Frequency of presence of sharia supervisors is quite optimal (S12=0.17)
- W1 = Integrity, competence and financial reputation of SSB members are not balanced (W1=1.00)
- W2 = The position and role of SSB in Islamic banks is not satisfactory (W2 = 1.00)

- W3 = Quality of service and supervision is not optimal (W3 = 1.00)
- W4 = SSB mechanism and management is not optimal (W4=1.00)
- W5 = Insufficient effectiveness of supervision and service (W5=0.67)
- W6 = Lack of frequency of presence of sharia supervisors (W6=0.50)
- W7 = DPS reputation and independence are not optimal (W7 = 0.50)
- W8 = Insufficient SSB size (W8=0.50)
- W9 = The duration and responsiveness of problem solving are still not satisfactory (W9=0.33)
- W10 = Perception of SSB as a complement to the organization only (W10=0.17)
- W11 = Technical assistance is rarely carried out periodically (W11=0.17)
- O1 = Public trust in the implementation of sharia principles (O1=1.00)
- O2 = Legal basis for position, role and function of SSB (O2=0.75)
- O3 = Customer involvement in SSB supervision (O3=0.75)
- O4 = Customer's positive perception and feedback on SSB (O4=0.75)
- O5 = Business innovation, sharia products and services and needed by society (O5=0.50)
- O6 = Knowledge and social influence of the community (customers) (O6=0.50)
- O7 = Government support for the application of sharia principles (O7=0.25)
- O8 = Existence of IUC fatwas related to sharia principles (O8=0.25)
- O9 = Social needs that are increasingly complex and urgent according to sharia (O9=0.25)
- O10 = Islamic banking operational activities must receive SSB recommendations (O10 = 0.25)
- O11 = Good Islamic financial performance (O11=0.25)
- O12 = Every Islamic bank must have SSB (O12 = 0.25)
- T1 = Decrease in public trust (T1=1.00)
- T2 = Legal basis for SSB operations that still depends on the bank management structure (T2=1.00)
- T3 = SSB does not have an independent office (T3=0.50)

- T4 = Product innovation that ignores sharia principles (T4 = 0.50)
- T5 = Social needs that are increasingly complex and urgent (T5=0.50)
- T6 = Unfavourable Islamic bank financial performance (T6=0.50)
- T7 = Abandonment of compliance with the application of sharia principles (T7 = 0.50)
- T8 = Experienced negative social influence (T8 = 0.50)

The alternative strategy generated from the SWOT analysis is the result of multiplying the weight values of the sub-components and component weights of each SWOT which are then accumulated to obtain strategic priorities that will be put forward in this study. Determining the alternatives and priorities of the chosen strategy is approached by using the following formulation:

$$SP_i = \sum_{j=1}^n (wC_i^{SWOT} wSC_{ij})$$

Note:  
 $wC_i^{SWOT}$  is the weighted value of the *i*-th SWOT component  
 $wSC_{ij}$  is the weight value of the *j*-th sub-component of the *i*-th component  
*i* is a sequence of SWOT components (strengths, weaknesses, opportunities, and threats)  
*j* is the sequence of sub-components in each SWOT component  
*n* is the number of sub-components in the TBTM analysis (Table 4).

Table 5 below shows the choice of SSB reconstruction strategy based on the calculation results using the formula above. The calculation results show that the strategic priorities chosen consist of the strategy for reconstructing the roles and functions of the SSB (5.85) as priority I, the strategy for institutional reconstruction of the SSB (5.15) as priority II, the strategy for optimizing the position and strategic position of the SSB (4.73) as priority III and the SSB legal reconstruction strategy in Indonesia (3.15) as priority IV.

**Table 5:** Reconstruction strategy options.

Nr	Strategy Options	Score	Priority
1	Optimizing position and strategic position of the SSB	4,73	III
2	Reconstruction of the roles and functions of the SSB	5,85	I
3	Institutional reconstruction of the SSB	5,15	II
4	Legal reconstruction of the SSB in Indonesia	3,15	IV

Based on the choice of strategy as can be seen in Table 5 above, several policy alternatives that need to be taken to improve and develop the SSB reconstruction pattern need to be identified. The determination of strategic policy alternatives is carried out by still referring to the entire TBTM analysis as presented in Table 4.

Alternative strategic policies in the reconstruction strategy for the role and function of the SSB include the following:

- Improving and tightening the recruitment and development standards for SSB members with high integrity, competence and reputation
- Optimizing the effectiveness of supervision and the

quality of SSB services through various supervisory media

- Confirmation and strengthening of SSB mechanisms, governance and performance with optimal, intensive, responsive, collaborative, reputable, independent, aspirational, professional and proportionate measures in service
- Increased public trust through various media publications to demonstrate professional, transparent, accountable, responsible, independent and fair SSB performance
- Recommendations for development models based on



sharia characteristics and principles in business innovation, sharia products and services needed by society

Strategic policy alternatives to the SSB institutional reconstruction strategy include the following:

- Optimizing the effectiveness of supervision and the quality of SSB services through various supervisory media
- Improving and tightening the recruitment and development standards for SSB members with high integrity, competence and reputation
- Affirmation and strengthening of SSB mechanisms, governance and performance with optimal, intensive, responsive, collaborative, reputable, independent, aspirational, professional and proportionate measures in service
- Increased public trust through various media publications to demonstrate professional, transparent, accountable, responsible, independent and fair SSB performance
- Construction of SSB offices in every Islamic banking

Alternative strategic policies on the strategy of optimizing the position and strategic position of SSB include the following:

- Affirmation and strengthening of SSB mechanisms, governance and performance with optimal, intensive, responsive, collaborative, reputable, independent, aspirational, professional and proportionate measures in service
- Determination of SSB is not in the management structure of Islamic banking but as a partner of the directors who are consultative and recommendative
- Improving and tightening the recruitment and development standards for SSB members with high integrity, competence and reputation
- Increased public trust through various media publications to demonstrate professional, transparent, accountable, responsible, independent and fair SSB performance
- Construction of SSB offices in every Islamic banking

Strategic policy alternatives to the SSB legal reconstruction strategy include the following:

- Confirmation and strengthening of SSB mechanisms, governance and performance with optimal, intensive, responsive, collaborative, reputable, independent, aspirational, professional and proportionate measures in service
- Improving and tightening the recruitment and development standards for SSB members with high integrity, competence and reputation
- Increased public trust through various media publications to demonstrate professional, transparent, accountable, responsible, independent and fair SSB performance
- Internalization and implementation of the principles of sharia-based incentives and disincentives in formal legal instruments in order to maintain reputation, independence, and inherent compliance and supervision of sharia implementation
- Determination of SSB is not in the management

structure of Islamic banking but as a partner of the directors who are consultative and recommendative.

The strategic policy formulation above shows that there is a link between the selected strategies. Following are the accumulated results of the SSB reconstruction strategic policy formulation:

1. Internalization and implementation of the principles of sharia-based incentives and disincentives in formal legal instruments in order to maintain reputation, independence, and inherent compliance and supervision of sharia implementation
2. Optimizing the effectiveness of supervision and the quality of SSB services through various supervisory media
3. Construction of SSB offices in every Islamic banking
4. Affirmation and strengthening of SSB mechanisms, governance and performance with optimal, intensive, responsive, collaborative, reputable, independent, aspirational, professional and proportionate measures in service
5. Stipulation of SSB not in the Islamic banking management structure but as a partner of the directors who is consultative and recommendative
6. Increasing and tightening standards for the recruitment and development of SSB members with high integrity, competence and reputation
7. Increasing public trust through various publication media to demonstrate professional, transparent, accountable, responsible, independent and fair SSB performance
8. Recommendations for development models based on sharia characteristics and principles in business innovation, sharia products and services needed by society.

#### 4. Discussion

The strategic policy of providing incentives and disincentives in the management supervision system of Islamic banks can provide a stimulus for compliance with sharia implementation. At least these incentives and disincentives have been successfully applied to other sectors, such as in revenue management [25], waste management [26], agricultural development [27], innovative pharmaceutical development [28] and increased purchases of food and nutrition [29]. However, the provision of incentives and disincentives must still pay attention to sharia principles that are fair and proportionate, because they are designed to maintain reputation, independence, compliance and supervision attached to the implementation of sharia. Maintaining the reputation of SSB is very important [30, 31] considering that this institution is the basic foundation of supervision inherent in Islamic banking and can increase public trust [32].

The effectiveness and quality of supervisory services is an indicator of whether or not an oversight is running [33] that must be carried out by SSB. A high level of internal control activity and a high level of oversight result in a highly effective internal control system [33, 34]. Accommodative supervision can be carried out through various media, one of which is social media [35-37].

Currently, the SSB office is more of a special room among the management rooms of Islamic banks. This certainly provides its own constraints for SSB to be independent in

carrying out the inherent supervisory function of the bank [38]. In fact, independence is important so that the roles and functions carried out will not be burdened by tolerance towards non-compliance with the application of sharia principles that occur.

Effective institutional mechanisms and governance is a reflection of the success of an organization. Clear and firm mechanisms, good governance and the best management performance can boost public trust in these institutions. However, in some cases, the roles of governance and supervisory boards have been found to be hindered by concentration of ownership, rendering supervisory boards unable to enhance the institution's current performance [39, 40]. This of course applies to the SSB, because in fact institutionally the SSB is also still in the bank management structure [4], so that the ownership factor is a separate obstacle to the implementation of its duties and functions as an internal supervisory institution [39-41]. Therefore, it is necessary to design a more independent mechanism, governance and institutional form for the position and existence of SSB in every Islamic bank.

The standard for recruiting and coaching SSB members is an absolute requirement that must be implemented so that the reputation and credibility of the SSB can be maintained and give public trust. Skills/work experience is a reflection of the competence and professionalism of SSB members. Workers are generally expected to have a set of skills and additional attributes (work skills) which are very important issues in national, regional and international labour markets [42]. According to [42], communication skills, problem solving skills, decision making, and teamwork skills are attributes of work skills with the highest level of importance needed, including for the recruitment of SSB members. SSB members are also expected to have a number of personal attributes including: self-awareness, self-confidence, independence, emotional intelligence, flexibility and adaptability, stress tolerance, creativity and initiative, willingness to learn, reflective, lifelong learning, and professional behaviour [42].

Increasing public trust through various media publications to demonstrate professional, transparent, accountable, responsible, independent and fair SSB performance is necessary to guarantee the best supervisory performance carried out. Good corporate governance can be demonstrated by the existence of five management pillars, namely: transparent, accountable, accountable, independent and fair [43, 44]. Increasing public trust through media publications must be supported by valid, accurate and reliable data and information. According to [45], there are four questions that can show that media publications can be trusted by the public, namely: (i) what news sources and platforms are and how they are used, (ii) how does the public assess the trustworthiness of the sources and platforms used, (iii) to what extent public perception that these sources and platforms can provide inaccurate information, and (iv) what is the role of the sources and platforms used.

Sharia contains the principles and foundations, whereby the financial system from an Islamic perspective, is established and acts as a guideline and framework directing the direction of the industry following the entire process starting from product concept, developing sharia product compliance manuals, developing product structures, reviewing legal documentation, and generate reports or

opinions about product applications in the market [46]. Therefore, SSB should be able to provide recommendations for development models based on sharia characteristics and principles in business innovation, sharia products and services needed by society. This is important to do, bearing in mind that product development requires in-depth studies so that it does not deviate from the established principles.

## 5. Conclusion

SSB is an independent Islamic bank internal supervisory body and is a representative of the NSC-IUC and IB. The supervisory role and function carried out by SSB is considered not optimal. Reconstruction of SSB needs to be done so that the role and function of SSB can be optimized in supervising the application of sharia principles in Islamic banking. The reconstruction based on the SWOT analysis includes four strategies, namely: (i) reconstruction of the role and function of the SSB, (ii) institutional reconstruction of the SSB, (iii) optimizing the position and strategic position of the SSB, and (iv) legal reconstruction of the SSB in Indonesia. The SSB reconstruction strategic policy formulation includes: (i) internalization and implementation of the principles of sharia-based incentives and disincentives in formal legal instruments in order to maintain reputation, independence, as well as inherent compliance and supervision of sharia implementation, (ii) optimizing the effectiveness of supervision and quality SSB services through various supervisory media, (iii) development of SSB offices in every Islamic banking, (iv) confirmation and strengthening of SSB mechanisms, governance and performance with optimal, intensive, responsive, collaborative, reputable, independent, aspirational, professional and proportional in supervisory services, (v) the appointment of SSB is not in the Islamic banking management structure but as a consultative and recommendative partner of the directors, (vi) increasing and tightening standards for recruitment and development of SSB members with integrity, competence and high reputation, (vii) increasing public trust through various publication media to demonstrate professional, transparent, accountable, responsible, independent and fair SSB performance, as well as (viii) recommendations for development models based on sharia characteristics and principles in business innovation, sharia products and services needed by society.

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