The Role Of Sharia Supervisory Boards in Meeting Maqasid Syariah – Study on Islamic Banks in Indonesia

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Abstract— **Islamic and conventional banks have real operational differences, so it would be better to measure the performance of these two kinds of banks with different tools. One alternative performance measure is *Maqasid Syariah*. The research has been conducted to prove whether the Corporate Governance, Sharia Supervisory Boards (SSB), and Corporate Ethics have contributed to the achievement of *Maqasid Syariah*. The research sample is commercial Islamic banks in Indonesia with an observation period from 2009-2017. The data processing uses Equation Model Structure. The result studies are *Maqasid Syariah* have not yet become a matter of concern for Islamic banks in Indonesia. This fact is proven by the lack of any role for the corporate governance and SSB in ensuring that *Maqasid Shariah* are met. Corporate Governance have a positive influence on profitability. Islamic banking makes a positive contribution to Corporate Ethics, and has a positive effect on profitability and *Maqasid Syariah*.**

Keywords-component; Maqasid Syariah, The Role of Sharia Supervisory Boards, Corporate Governance

I. INTRODUCTION

The growth of Islamic banks is an integral part of the growth of the global sharia economy. Kustin (2015) mentioned that, in 1970, Islamic financial institutions had assets of USD 500,000 and this had increased to more than USD 1 billion in 2009 with an average increase of 14% per year. Ernst & Young estimates that the total assets of sharia financial institutions reached USD 3.4 billion in 2018.

Indonesia has seen a rapid growth in Islamic banking. Statistics on this sector in Indonesia show that the average growth in the assets of the nation’s Islamic banks is 28.42% with an average increase in Return on Assets (ROA) of 5.20%. The following table shows data on Islamic banking from 2010 to September 2017.

Table 1. Islamic Banking Statistics 2010 - 2017

Indicators	**2010**	**2011**	**2012**	**2O13**	**2014**	**2015**	**2016**	**Sep-17**	**Mean**
ROA	1.67%	1.79%	2.14%	2.00%	0.79%	0.84%	0.95%	1.41%	1.50%
Operating Expense Ratio (OER)	80.54%	78.41%	74.97%	78.21%	94.16%	94.38%	93.62%	87.46%	83.09%
Σ Asset (Billion IDR)	97.519	145.467	195.018	242.276	272.343	296.262	356.504	395.093	395.093
ROA Increased	12.73%	7.28%	19.29%	-6.29%	-60.69%	6.61%	12.90%	49.06%	5.20%
OER Increased	-4.56%	-2.64%	-4.39%	4.32%	20.39%	0.24%	-0.81%	-6.58%	1.08%
Asset Increased	47.56%	49.17%	34.06%	24.23%	12.41%	8.78%	20.33%	10.82%	28.42%

Source : Bank Indonesia, 2017

The performance of Islamic banks in Indonesia, as shown by the data from Bank Indonesia, has many weaknesses, namely weaknesses in determining performance indicators. The iindicators formulated by Bank Indonesia in its Circular Letter No.9/24/DPbS pertaining to "Commercial Bank Soundness Rating System Based on Sharia Principles", indicate that Islamic banks are measured based on six indicators, namely (1) Capital; (2) Asset quality; (3) Earnings; (4) Liquidity; (5) Sensitivity to market risk; (6) Management. These indicators are measured by financial ratios that are commonly referred to as CAMEL ratios.

Syafii, Sanrego, & Taufiq (2012) consider CAMEL ratios to be commonly used to assess the performance of conventional banks. This approach to measuring the performance of Islamic banks, where the financial ratios used are also commonly used for conventional banks, is very inappropriate (Hartono & Sobari, 2017; Syafii, Sanrego & Taufiq, 2012; Kuppusamy, et al. 2010; Mohammed & Tarique, Kazi; Islam, 2015; Hurayra, 2015). This is because the objectives of Islamic banks and conventional banks are different in principle as well as in theory and practice (Syafii et al., 2012). Thus, with the use of financial ratios as a measure of the performance of Islamic banks being not appropriate, other more comprehensive measures are needed (Syafii et al., 2012).

Some researchers have developed alternative performance measures to replace financial ratios, namely *Maqasid Syariah* which essentially means Islamic goals or purpose. The basis for the development of this measurement model is that the principles used by Islamic banks are those of Islamic law, so the performance measurement must also be in line with the goals of Islam (*Maqasid Syariah*) [5], [6].

Some researchers have used *Maqasid Syariah* in measuring the performance of Islamic banks. Asutay & Harningtyas (2015), who examined 13 Islamic banks in six countries, produced findings showing that the performance of *Maqasid Syariah* Islamic banks was still low and there were no differences in the level of *Maqasid Syariah* between countries. Hurayra (2015) also found that Islamic banks in Bangladesh have a low level of MS due to unavoidable debt from benefits received by banks due to macroeconomic conditions. Research by Hartono & Sobari (2017) produced findings that showed BUS and BPRS in Indonesia had small values in terms of *Maqasid Syariah*.

As can be seen from the several studies cited above, most of the research that has been conducted has been into measuring achievement of *Maqasid Syariah* goals and conducting inter-bank comparisons. However, Kolid & Bachtiar (2014) identified factors that influence the level of *Maqasid Syariah* performance and found the size of boards of commissioners and audit committees had a positive relationship with MS performance.

Based on the description above, it can be seen that research related to the measurement of MS performance is still limited to the measurement of the number of MS values that there are, and to comparative tests between several banks; existing research that explores the factors that affect *Maqasid Syariah* performance is still limited. Therefore, it is necessary to conduct research that can explore the factors that affect MS performance.

This study has been conducted in order to complement the existing research [8] in exploring the factors that influence *Maqasid Syariah* performance in Islamic banks. In this study, new propositions are developed that have the potential to have an impact on the level of MS performance. The variables that strongly influence *Maqasid Syariah* are Corporate Governance (CG), Sharia Supervisory Board (SSB) profile, and Corporate Ethics Disclosure (CED).

II. THEORETICAL FRAMEWORK AND HYPOTESIS

A. *Stakeholder Theory*

Islamic banks have principles, theories and practices that are different from conventional banks [2]. The main difference between Islamic and conventional banks is the use of Islamic law as the main basis for developing their business concepts, theories and practices. Islamic banks are banks that use Islamic law for their business practices, so there must be compliance with Islamic principles.

Stakeholder theory explains that companies must be oriented towards meeting all stakeholders' interests. Stakeholders are "groups and individuals who can influence or be affected" by actions related to the value creation and operations of the company [9]. The operation of a company is basically a team performance that cannot be separated from the participation of all stakeholders, so the fulfillment of all stakeholders' rights fairly is normal. Freeman, Harrison, Wicks, Parmar, & De Colle (2010) assessed that the aim of stakeholders' theory is to create value for all stakeholders.

In the concept of an entity based on having religious law as its operational basis, Islamic entities have a wider range of stakeholders than conventional entities. Islamic entities have an orientation towards holistic performance which includes performance in this world and in the hereafter (*falah* oriented). So, the stakeholders of Islamic entities are concerned with God. The fulfillment of God's interests is carried out by the operationalization of Islamic banks in accordance with Islamic law.

To guarantee the fulfillment of Islamic law, Islamic banks have a Sharia Supervisory Board (SSB). This SSB has functions as a supervisor and as a consultant for the management regarding the running the bank so that its operation is in accordance with Islamic law (Mohammed & Muhammed, 2017). Thus, the effectiveness of the role of SSB in carrying out its functions determines, to a large degree, whether the bank achieves its objectives, that is to say, from the point of view of stakeholder theory, the fulfillment of all stakeholders' interests.

In addition to SSB, banks also need other parties who guarantee that banks can meet the needs of stakeholders. From the point of view of agency conflict, there is an asymmetry of information between the owner and management. Management, as the agent, and the owner, as the principal, have different information pertaining to the company's performance. Management, as the party running a company, certainly has more information than the owner. Corporate governance is needed to reduce agency conflict. Thus, corporate governance is needed to guarantee the interests of all stakeholders.

B. *Maqasid Syariah*

In textual terms, *Maqasid Syariah* means the purposes or goals of Islamic law. Serving the public interest to maximize benefits and reduce losses for society is the main principle of the *maqasid syariah* [12]. Islamic law is basically derived from several sources (Qur'an, hadith, Ijtihad) and has several objectives, namely to promote the welfare of society by protecting their religion (*din*), life (*nafs*), intellect (*'aql*), posterity (*nash*) , and prosperity (*mal*) [2], [5], [7], [13], [17] [18].

Several previous studies have developed the extent to which MS can be applied by Islamic banks. Syafii et al. (2012); Hartono & Sobari (2017) and Rusydiana (2016), in measuring the level of *Maqasid Syariah* performance in Islamic banks in Indonesia and Jordan, measured its performance by using three targets, namely in terms of education (*Tahdhib Al-fard*), justice (*Al-Adl*), and welfare (*Al-Maslahah*). Educational goals are measured by the ratio of educational scholarships to total donations, the ratio of reseach costs to total costs, the ratio of training costs to total costs, the ratio of advertising costs to total costs. The purpose of justice is measured by using the indicator of ratio of profit to total income, the ratio of bad loans to total investment, the ratio of interest free income to total income. The purpose of public interest is measured by the ratio of net profit to total assets, the ratio of spending on *zakah* (religious donations) to total assets, and the ratio of investment deposit to total deposits. Meanwhile, (Syafii, et al., 2012; Asutay and Harningtyas, 2015; Rusydiana, 2016; Hartono and Sobari, 2017) used the value of *Maqasid Syariah* disclosure to measure MS bank performance. MS performance is measured by several indicators, including justice, educating individuals, and public interest.

C. *Development of Hypotheses*

Some research related to the measurement of *Maqasid Syariah* performance in Islamic banks was conducted previously by Asutay & Harningtyas (2015); Hurayra (2015); Kolid & Bachtiar (2014); Mohammad & Shahwan (2013); Mohammed et al. (2015); Muchlis, et al. (2016); Rusydiana (2016); Shinkafi et al. (2017); Soleh (2016); Syafii et al. (2012); Tarique & Ahmed (2017). However, most of the above studies measure the performance of Islamic banks using the MS method and comparisons between the *Maqasid Syariah* performances of banks. These studies are still limited to research that connects several variables that allegedly influence the *Maqasid Syariah* performance of a bank. For this reason, this research will develop propositions derived from theory and logical analysis. In addition, propositions will be strengthened by several studies that are commensurate with the propositions developed.

Corporate governance is a system by which the company is directed and controlled including in terms of compliance, accountability and transparency (Jamali, et al. 2008). This control is exerted in order to improve the company in achieving its goals. In addition, CG is needed to ensure that managers carry out their functions while adhering to existing rules, laws and codes of ethics (Jamali, et al, 2008).

Some researchers have proven empirically that CG has a positive effect on achieving company goals. Generally, company goals are measured by profitability [see Sakawa & Watanabel (2011); Rehman, et al. (2010); Mayur & Saravanan (2017) Shittu, et al. (2016), and a relationship between CG and profitability has been found. However, Mayur & Saravanan (2017) found that the number of board meetings had no significant influence on performance.

In this study, the achievement of company goals is measured by MS performance. This is in line with the opinion of Al Ghozali which is that the goal of implementation of Islamic law is *Maqasid Syariah* performance. CG is measured using the ratio of independent commissioners, the size of audit committees, and the size of boards of commissioners.

H1: Corporate Governance (ratio of independent commissioners, size of audit committees, and size of board of commissioners) has a Positive Influence on Maqasid Syariah Performance

The characteristic of Islamic financial institutions is that they use Islamic law. In carrying out their operations, these entities will be supervised by a SSB. SSBs have a function of monitoring and guaranteeing that the banks have complied with Islamic law in all their operations.

The study of stakeholder theory discusses the role of all company managers in meeting the interests of all stakeholders. According to the Islamic view, stakeholder theory provides an overview of the role of SSB in meeting the interests of all corporate stakeholders (Mohammed & Muhammed, 2017). The participation of SSBs in meeting stakeholders' interests is based on the view that all parties have a contribution to make to achieving company performance. That is to say, it is very possible to develop the role of the SSBs in achieving the performance of Islamic banks.

Some researchers have developed SSB functions that go further than just bank compliance with Islamic law, such as the functions of improving the quality of financial statements (Rini, 2014), reducing earnings management (discretionary loan loss provisions) [27], increasing profitability (Nomran, et al., 2017; Shittu et al., 2016). It is found that SSBs have a role in improving bank performance because SSBs have been proven empirically to carry out monitoring and management consultancy for the running of the company (Almutairi & Quttainah, 2016; dan Farook et al., 2011). However, Asrori (2014) and Matoussi & Grassa (2012) found that SSB has no influence on financial performance.

In this study, SSBs have been measured using size of the SSB, the number of meetings held, the cross membership of board members, and their education level and background. These five indicators are used to assess the effectiveness of SSBs in monitoring and supervising bank performance. In addition, these five indicators have also been used for several previous studies, such as Ghayad, (2008), Nomran et al. (2017), Mohammed & Muhammed (2017), Matoussi & Grassa (2012), Mersni & Othmanc (2016), Almutairi & Quttainah (2016); dan Farook et al. (2011).

H2: Sharia Supervisory Boards (number of members, number of meetings, cross membership, members' educational level and background) have a Positive Influence on Maqasid Syariah Performance

In the study of stakeholders' theory, values are part of the management of the company's business (Freeman, et al., 2004). Ethical values and economic activities cannot be separated (Freeman, et al., 2004). Ethics are needed to improve the company's economic morality which can further improve moral performance.

Hörisch et al., (2014) divide stakeholder theory into four types, namely descriptive/empirical stakeholders, instrumental stakeholders, normative stakeholders, and integrative stakeholders. The focus of descriptive/empirical stakeholder theory is describing how the company is regulated (identification of relevant stakeholders). Instrumental stakeholder theory discusses the role of management stakeholders in achieving company goals. Normative stakeholder theory has a focus on corporate goals and moral justification from stakeholder theory. The scope of Integrative stakeholder theory considers descriptive, instrumental and normative aspects of stakeholder theory to become more closely related.

In the formulation of company goals, there has been a major development. The purpose of the company is not only focused on fulfilling the interests of the owner, which are proxied by profitability, but also meets the interests of all stakeholders. One of the ways to increase the effectiveness of the company in realizing the company's goals is by using corporate ethics. [35] found that ethical disclosures improved the performance of company shares in the long run. Persons (2013) found that there is a relationship between ethics and company performance. Berrone, et al. (2005) revealed that ethics have information value and increase shareholder value, and that applied ethics have a positive impact through increasing stakeholder satisfaction. Cuomo, et al. (2016) have identified the existence of inverse causality between positive financial performance and ethical orientation in banking companies in Italy

In the study of instrumental stakeholders theory, ethics formulation is carried out by company management. This is because management, in setting the "tone at the top", has the authority to manage the company. The director has an important role in developing ethical codes and reducing the occurrence of corporate inequality [39]. In line with Felo (2011) with, Carcello (2009) Corporate Governance can be an important defense against unethical corporate behaviour.

H3: Corporate Governance (ratio of independent commissioners, Size of audit committees, and size of board of commissioners) has a Positive Influence on Islamic Ethics

In the management of Islamic banks, there is one unique board, the Sharia Supervisory Board. It has been proven empirically that SSBs are effective in supervising company management and providing management consultancy (Almutairi & Quttainah, 2016; and Farook et al., 2011). In managing the company, there are many activities that can improve the achievement of company goals, including ethics. That is, SSBs are likely to have a role in developing corporate ethics, so the hypotheses that can be developed is follows:

H4: The Sharia Supervisory Board (number of members, number of meetings, cross membership, education level and background) has a Positive Influence on Corporate Ethics Disclosure.

Ethics is one of the corporate tools used to manage a company. Business ethics have had an important role because of the occurrence of financial scandals, due to the fact that unethical behaviour can lead to bankruptcy of companies such as seen in the Enron and Worldcom cases [36]. This is because behaviour that is not ethical will have an impact in terms of reduced profitability and stock prices [36].

This is evidenced by several studies, such as those conducted by (Jo & Kim, 2008; Persons, 2013; Berrone et al., 2005). Jo & Kim (2008) found that ethical disclosures improved the performance of company shares in the long run. Persons (2013) found that there is a relationship between ethics and company performance. Berrone, et al. (2005) revealed that ethics have information value and increase shareholder value, and that applied ethics have a positive impact through increasing stakeholder satisfaction. Cuomo, et. al. (2016) have identified the existence of inverse causality between positive financial performance and ethical orientation in banking companies in Italy.

In this study, the measure of company goals are the levels of profitability and *Maqasid Syariah*. So, the hypothesis can be developed as follows:

H5: Corporate Ethics Disclosure has a Positive Influence on Maqasid Syariah Performance

III. Method

The population of this research is 11 Islamic banks in Indonesia. The research sample was determined based on purposive sampling, where the sample was selected with the following criteria: the banks published their financial reports and complete Good Corporate Governance reports between 2009 and 2017.

The variables and measurement methods used in this study are as follows:

a. Corporate governance is measured by the ratio of independent commissioners, size of audit committees, and number of meetings between the board of commissioners and the management.
b. Sharia Supervisory Board (SSB) is measured by the number of SSB members, number of SSB meetings with management, SSB members with cross membership, and education level and background of SSB members.
c. Profitability is measured by Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin.

d. Corporate Ethic Disclosure (CED) is measured by indicators that have been developed by Haniffa & Hudaib (2007) and have been implemented by Zaki, Sholihin, & Barokah (2014). Haniffa & Hudaib (2007) who called this method the corporate ethics identity model. The indicators used include (1) vision and mission statements, (2) BOD and top management, (3) products and services, (4) *zakah*, charity and benevolent loans, (5) commitment to employees, (6) commitment to society, and (7) SSB [41].
e. *Maqasid Syariah* (MS) performance is measured by three indicators that have been developed by [2], [3], [7], [16] which include justice, educating individuals, and public interest.

The analytical method used is Structure Equation Model analysis with the WarpPLS approach. This approach was chosen because it can test all models at once. So, from each measurement, the decision to reject or accept the hypothesis can be evaluated. The levels of significance used are 10% and 5%.

IV. Results

Islamic banks in Indonesia have a Sharia Supervisory Board (SSB) with between 2-3 members who hold 14 meetings. This number of members and meetings is still very limited in terms of carrying out supervision duties for Islamic banks that have thousands of branch offices. However, an SSB with two members meets the minimum standards set by Bank Indonesia. The SSB's effectiveness in carrying out its tasks is strengthened when one board member performs the SSB tasks in three institutions. The factor that reinforces SSBs in carrying out their duties is the level of education of SSB members which, on average, is a master's degree with 50% having a background in the field of Islamic law, finance, and accounting.

Islamic banks in Indonesia have an audit committee comprising 3-4 auditors. This number of members is enough for the committee to carry out its bank auditing duties. However, in the composition of the board of commissioners, there are still banks that do not have independent commissioners. The absence of independent commissioners has the potential to diminish the effectiveness of monitoring. This condition is strengthened by the number attending meetings that are still held once a year. However, on average, 66.50% of commissioners are independent. This ratio is categorized as large because more than half of the committee members are drawn from independent commissioners.

The average value of profitability, measured both by ROA and NPM, shows a positive average value. However, if measured by ROE, the resulting average value is negative. The low ROE value is due to the large number of banks that have negative ROA such as Victoria, Maybank and Bank Jabar Banten. The average NPM value is 45.13%. This score illustrates that the amount of profit sharing given to the owners of deposits and savings is 45% of income from the financing.

Table 2. Descriptive Analysis

Variables	**Max**	**Min**	**Mean**	**Std. Deviation**
Size of SSB	3	2	2.37	0.4860
SSB Meetings	30	5	14	4.093
Cross Membership of SSB Members	5.5	1	3.21	1.0287
Bacground Education of SSB	3	1,5	2.29	0.4356
Education Level of SSB	3	1	2.41	0.4531
Audit Committee	9	1	3.53	1.0646
Independent Board	100	0	0.67	0.1879
Meeting Board	9	1	3.53	1.0646
ROA	0.0732	-0.1687	0.0029	0.0289
ROE	0.2979	-3.6046	-0.021	0.5310
NPM	1.1225	0,0001	0.451	0.208
CED	0.7083	0.40422	0.536	0.118
Maqasid Shariah	0.705	0.179	0.570	0.103

Islamic banks in Indonesia have revealed a CED of 53.59% and a MS disclosure rate of 57.02%. Both of these disclosure values are far from ideal. MS disclosures are detailed in the following table:

Table 3. *Maqasid Syariah* disclosures

No	**Indicators**	**Max**	**Mean**	**Std. Deviation**
1	Faith	0,75	0,502659574	0.12959138
2	Rights and Stakeholding	0.8	0.744680851	0.135691793
3	Self	1	0.212765957	0.411457949
4	Intellect	0.67	0.443258865	0.164963543
5	Posterity	1	0.957446809	0.20292981
6	Social Entity	1	0.787234043	0.411457949
7	Wealth	0.4	0.365957447	0.091054977
8	Ecology	0.5	0.010638298	0.072539326
9	**Average**	**0.71**	**0.570240235**	**0.102989308**

Table 3 shows that the disclosures that have been carried out by Islamic banks are posterity, social entity, rights and stakeholder indicators. The least disclosure is in terms of the ecology indicator. Islamic banks in Indonesia still have little disclosure related to a bank's concerns about the environment.

The results of the hypothesis testing are presented in the table below:

Table 4. Acceptance or Rejection of Hypotheses

Independent Var.	Dependent Var.	Beta	Sig.
Corporate Governance Mechanism	Maqasid Syaria Disclosure	0.05	0.31
	Profitability	0.17	0.04*
	Corporate Ethics Disclosure	0.32	<0.01*
Sharia Supervisory Board	Maqasid Syaria Disclosure	0.01	0.44
	Profitability	0.10	0.15
	Corporate Ethics Disclosure	0.54	<0.01*
Corporate Ethics Disclosure	Maqasid Syariah Disclosure	0,29	<0.01*
	Profitability	0.81	<0.01*

* Sig at 5%

The research results shown in Table 4 indicate that the corporate governance mechanism has impact on MS disclosure. Islamic banks that use Islamic law in their operationalization do not yet seem to have made all of their operations compliant with Islamic principles. The purpose of implementing Islamic law is *Maqasid Syariah* (MS) or to meet Islamic performance goals. Corporate governance is needed to provide assurance that the management of a company's resources is conducted in order to realize company goals, including compliance with Islamic principles. However, the results of this study indicate that bank managers have not used performance in terms of MS as the target. We surmise that compliance with Islamic principles in Islamic banks in Indonesia emphasizes the use of contracts or transactions in accordance with the rulings of the National Sharia Council (DSN fatwa). This is in line with Law No.21 of 2008 pertaining to Islamic banking which states that Islamic principles that must be complied with are the DSN fatwas. That is to say, compliance with Islamic principles in Islamic banks in Indonesia does not yet cover all the objectives of sharia (*Maqasid Syaria*) which include protecting their religion (*din*), life (*nafs*), intellect (*'aql*), posterity (*nash*), and property (*mal*).

In this study, the measurement of corporate governance mechanisms was conducted using the ratio of independent commissioners, audit committees, and number of commissioner meetings. Table 4 shows that there is no effect of CG on MS performance. The size of the ratio of independent commissioners, the number of audit committees and the number of commissioner meetings has no effect on improving MS performance. These findings reinforce the previous statement that MS performance has not become a goal that must be directly achieved in managing bank resources.

In contrast to *Maqasid Syariah*, if the measurement of bank performance uses profitability, it shows that corporate governance mechanisms have a positive impact on it. This finding corroborates the findings of Sakawa & Watanabel (2011); Rehman, et al. (2010); Mayur & Saravanan (2017) Shittu, et al. (2016), who found that there was a relationship between CG and profitability. If a comparison is made between the results of research that uses performance based on MS and performance based on profitability, it produces contradictory findings. These findings indicate that for Islamic banks in Indonesia, achieving profitability performance is more important than MS performance. In addition, these findings prove that corporate governance has more of a role in improving profitability performance than MS performance. We surmise that one of the reasons Islamic banks in Indonesia focus more on profitability performance than MS performance is because profitability is the bank's main measurement tool. Moreover, Bank Indonesia, as the banking regulator in Indonesia, also uses profitability indicators as a measure for evaluating the health of banks [43]–[45]. This indicator is the same as the indicator used to assess the health of conventional banks. Bank Indonesia Circular Letter No.9/24/DPbS, dated 30 October 2007, pertaining to the rating system for commercial banks based on Islamic principles, explains that the assessment indicators of the health of Islamic banks concern the aspects of capital, asset quality, earnings, liquidity, sensitivity to market risk, and management. Meanwhile, Bank Indonesia Circular Letter No.6/23/DPNP, pertaining to the Commercial Bank Health Assessment System, explains that conventional bank health indicators are measured by capital, asset quality, earnings, liquidity, and sensitivity to market risk. From the two circular letters, we can conclude that profitability is the main performance measurement tool for both Islamic and conventional banks.

Table 4 shows that corporate governance mechanisms have a positive influence on Corporate Ethics Disclosure. Ethics cannot be separated from business, because ethics will increase company effectiveness in achieving company goals (Jo & Kim, 2008; Persons, 2013). Developing and implementing ethics that have an important role in achieving company goals have become a priority for banks. More specifically, implementing corporate ethics developed from Islam. The aim of Islamic teachings is to establish ethics. [41] developed a model to reveal the ethics of Islamic banks which they called ethical identity and which had, as indicators, the bank's philosophy, governance, products, services, *zakah* and charity, the SSB, and their commitment to society, debtors and employees. The results of this study indicate that Islamic bank management cares about the implementation of CED. The average CED for Islamic banks in Indonesia is 53.59%. Islamic ethics applied to Islamic banks are an important key for banks to carry out their operations. Corporate ethics are a moral obligation that guides corporate behaviour (Zaleha, et al., 2012). In fact, in their conclusion, [46] state that ethics are the heart of CG and are a requirement for CG implementation.

In addition to playing the role of independent commissioners, the SSB also has a positive role in Corporate Ethics Disclosure. The results show that the role of SSB, as measured by the number of meetings, the number of members, their cross membership, and their educational background and level, had a positive impact on Corporate Ethics Disclosure. Assuming that what is reported in the annual reports is the same as what is being implemented, the number of SSB members will increase bank effectiveness in implementing corporate ethics. This effectiveness is also strengthened by the number of meetings between SSB and BOD, along with the education background and level of the board members. Board members with a doctorate in Islamic economics are more effective when carrying out their duties than those with other educational backgrounds. An education in Islamic economics will provide a board member with more comprehensive understanding and skills with regard to Islamic law, economics and finance. Board members with skills in the fields of Islamic law and finance will find them very supportive in carrying out their duties [47] as external auditors (Farook, et al., 2011).

The research findings also show that SSBs have no role in achieving bank performance as measured against Islamic goals (MS). These findings corroborate other studies that show that the management of Islamic banks in Indonesia has not prioritized the achievement of performance in terms of MS goals. MS performance has not become a goal that must be achieved by Indonesian Islamic banks. We surmise that the priorities for the management of healthy bank operations are those that are in accordance with the rules issued by Bank Indonesia.

Apart from not having an impact on performance in terms of Islamic goals (MS), the role of the SSB also does not affect the bank's profitability. The size of the SSB, the number and level of meetings that are held, and the education level and background of its members, do not have an impact on improving a bank's profitability performance. SSBs in Islamic banks in Indonesia have the duty to ensure that DSN fatwa (national Islamic rulings) are complied with by the banks in all transactions. SSBs in Indonesia have no duty to improve the profitability performance of banks. This finding corroborates the results of research by Asrori (2014), Kolid & Bachtiar (2014) and Matoussi & Grassa (2012) which shows that SSBs have no influence on financial performance. SSBs have the duty to provide consulting services and to conduct monitoring of management, but the services provided are related to bank compliance with the principles Islamic law (Farook, et al., 2011). Managers consult SSBs regarding products that have been developed. This consultation is needed in order to assess whether the new products comply with the principles Islamic law (Farook, et al., 2011).

The results of testing the influence of corporate ethics disclosure on profitability performance and Islamic goals performance (MS) show a significance value below 5% and beta positive. The results of this study indicate that corporate ethical disclosure (CED) will make a bank more effective in achieving its objectives, namely increasing bank profit and its performance in terms of *Maqasid Syaria*. Assuming that the CED policy implemented by banks is the same as that which is actually applied, the results of this study corroborate the findings of previous researchers, such as (Jo & Kim, 2008; Persons, 2013; Berrone et al., 2005) who found that ethics had a positive impact on financial performance. The application of ethical values is an important tool for banks to increase the effectiveness of their corporate operations as measured by profitability and MS performance.

Corporate Ethics Disclosure (CED) in this study is measured by ethical disclosures based on mission, vision, management, product, service, *zakah* (religious donations), charity, Sharia Supervisory Boards (SSB), and commitment to employees, debtors, and society (Haniffa & Hudaib, 2007; Farook et al., 2011). This means that the identification of the implementation of ethics in this study was carried out indirectly, namely through disclosures in the bank's annual report. The results of this study, which show that disclosure of Islamic ethics has a positive impact on bank performance, are in line with the results of previous research [48]. Ethical disclosure can provide benefits: (1) it increases the attractiveness of a company's shares to investors who are ethical and socially responsible; (2) it provides clear signals through information about the attitudes and beliefs of the company which reduces uncertainty about risks and long-term actions; (3) it meets investors' needs for ethical and social information; (4) it is a valuable tool for creating reputation capital in the form of a good corporate image and increasing reputation, which gives the company a competitive advantage; (5) it establishes trust and commitment between shareholders and top management, thereby reducing opportunistic behaviour and transaction costs [48].

V. Conclusions

The results of this study indicate that CG and SSB mechanisms have a positive role in CED disclosures. It is very important for CED to be implemented because it has a positive influence on performance, both in terms of profitability and in terms of the *Maqasid Syariah* (Islamic performance goals). The bank's profitability performance is influenced by the CG mechanism and is not influenced by the role of the SSB. *Maqasid Syariah* performance has not yet become a concern of banks because the mechanisms of GCG and SSB have no influence on fulfilling *Maqasid Syariah* performance goals. Islamic banks in Indonesia still make financial performance the measure of bank performance in the same way as conventional banks do.

In this study, there are variables whose measurements are based on content analysis from annual reports, so the researchers' judgements were possibly less objective when assessing disclosures made by banks. In addition, the information presented by the banks was often very incomplete and this caused the sample that was used to be smaller. Therefore, researchers in the future could develop a more objective measurement method and avoid the judgements made by the researchers when making measurements in this study.

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