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The Relationship Between Sharia Governance and Social Performance of Islamic Banks: A Comparative Study Across Countries

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Abstract: This study aims to examine the relationship between sharia governance and the social performance of Islamic banks through a library research approach with an integrative literature review method. This study reviews various scientific literature published between 2015 and 2024 from reputable databases such as Google Scholar, Scopus, DOAJ, and Scispace. By following the PRISMA model, 25 relevant articles were selected and analyzed thematically. The results of the study indicate a significant relationship between sharia governance which includes compliance with sharia principles, transparency, and accountability and improving the social performance of Islamic banks. A comparative study between Indonesia and Malaysia reveals that differences in regulations, the role of the Sharia Supervisory Board (SSB), and social financial management also affect the achievement of social performance. Instruments such as the Islamicity Performance Index (IPI) and the Maqashid Syariah Index confirm that effective governance practices can encourage more optimal social contributions. This study provides a conceptual contribution to the understanding of the relationship between governance and social goals in Islamic banking, and offers a basis for developing more adaptive institutional policies and practices across countries.

Keywords: Sharia Governance, Social Performance, Islamic Bank, Integrative Literature Review, Sharia Supervisory Board, Islamicity Performance Index, Maqashid Syariah.

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A. INTRODUCTION

Sharia governance and social performance of Islamic banks are two integral aspects of the Islamic banking system that influence each other. Sharia governance, which involves the Sharia Supervisory Board (SSB), is tasked with ensuring that bank operations are in accordance with sharia principles. The social performance of Islamic banks, on the other hand, reflects the bank's contribution to the social and economic welfare of the community, such as through the distribution of zakat, qardh al-hasan, and microfinance. Research by Meskovic et al. (2024) shows that the quality of sharia governance has a significant positive impact on the social performance of Islamic banks. In addition, research by Nugraheni (2020) in Indonesia found that the characteristics of the SSB, such as size and reputation, affect the level of social performance of Islamic banks.

Previous studies have shown a relationship between sharia governance and the social performance of Islamic banks. Meskovic et al. (2024) found that a quality SSB can improve the social performance of Islamic banks. Nugraheni (2020) also showed that the size and reputation of the DPS have a significant effect on the social performance of Islamic banks in Indonesia. However, research by Mukhibad (2020) shows that the role of the DPS in improving the social performance of Islamic banks is not yet effective. This indicates the need for further evaluation of the effectiveness of the DPS in improving the social performance of Islamic banks.

In addition, research by Pratama et al. (2023) shows that intellectual capital (IC) has a positive impact on the social performance of Islamic banks, and the frequency of DPS meetings strengthens this relationship. However, gender diversity in DPS does not affect the social performance of Islamic banks. This suggests that certain aspects of DPS, such as meeting frequency, have a greater impact on social performance than other aspects. On the other hand, research by Iryani and Wahyudiono (2020) shows that the sharia governance structure, as measured by the proportion of independent commissioners, board size, audit committee, and DPS, has a significant influence on the social performance of sharia banks in Indonesia. This study highlights the importance of the quality of the sharia governance structure in improving the social performance of sharia banks.

However, there is a gap in existing research, especially related to the role of the National Sharia Supervisory Board (DPSN) in the social performance of Islamic banks. Meskovic et al. (2024) found that the DPSN is ineffective and its existence can be detrimental to the social performance of Islamic banks. This suggests the need for further research to understand the role of the DPSN in the context of the social performance of Islamic banks. The purpose of this study is to investigate the relationship between sharia governance and the social performance of Islamic banks, focusing on the characteristics of the DPS and DPSN. This study aims to provide new insights into the role of sharia governance in improving the social performance of Islamic banks, as well as to identify factors that influence the effectiveness of the DPS and DPSN in this context.

B. METHOD

This study uses a library research approach with an integrative literature review method, which aims to synthesize and analyze the results of previous studies on the relationship between sharia governance and the social performance of Islamic banks in a cross-country context. This approach was chosen because it is able to provide a comprehensive understanding of the phenomena studied, identify patterns, inconsistencies, and research gaps, and provide conceptual and practical contributions to the field of Islamic economics (Snyder, 2019). Integrative reviews allow the combination of various types of research methodologies (quantitative and qualitative) to obtain a complete and in-depth picture of the topic being studied.

Data sources were obtained from various reputable electronic databases, namely Google Scholar, Scispace, Directory of Open Access Journals (DOAJ), and Scopus, with a publication period of articles between 2015 and 2024. The articles included were scientific articles that had gone through a peer-review process, both from accredited national journals and reputable international journals. Inclusion criteria included: (1) articles discussing sharia governance and/or social performance of Islamic banks; (2) articles in Indonesian or English; and (3) articles with full access (full text). Meanwhile, exclusion criteria included: (1) non-scientific articles such as opinions, news, or popular articles; (2) publications before 2015; and (3) articles that were not relevant to the focus of the research. The search process used keywords such as: "sharia governance", "Islamic social performance", "Shariah Supervisory Board", "comparative Islamic banking", and "maqashid al-shariah performance".

All literature found was then selected through the identification, screening, and eligibility stages as recommended by the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) model (Page et al., 2021). The selection procedure includes: removal of duplicates, assessment of titles and abstracts, and review of the full content of the article. Each article that passed the selection stage was analyzed using the thematic analysis method, where researchers grouped data into major themes such as forms of sharia governance, characteristics of SSBs, social performance indicators, and comparative approaches between countries. Synthesis was carried out to find relationships, similarities, and differences between studies and extract their theoretical and practical contributions.

To maintain the validity and reliability of the data, the literature selection process was carried out systematically and documented, and used source triangulation through cross-checking between several databases and previous studies. Content validity was strengthened by only using articles from peer-reviewed journals, and to increase objectivity, an inter-reviewer agreement process was carried out in the initial screening stage (Miles, Huberman & Saldaña, 2014). This process aims to minimize bias and ensure that the findings obtained truly reflect existing conditions scientifically and empirically.

C. RESULTS AND DISCUSSION

1. Analysis of Sharia Governance in Islamic Banks in Various Countries

Sharia governance in Islamic banks plays a crucial role in improving the social performance of these financial institutions. This is due to the structures and mechanisms adopted by Islamic financial institutions, which emphasize compliance with sharia principles as an effort to achieve better social performance. In this context, there are several relevant dimensions of sharia governance, including supervision by the Sharia Supervisory Board (SSB) and the implementation of good governance principles such as transparency and accountability, which serve to optimize the social performance of Islamic banks (Anas et al., 2022; Faozan, 2013).

Research shows that SSB has a central role in ensuring that Islamic banks carry out operations in accordance with Islamic principles. SSB is tasked with auditing and assessing the suitability of banking products and practices carried out, which has an impact on increasing the bank's social responsibility (Anas et al., 2022; Rama & Novela, 2015). By educating the public about Islamic financial products and distributing funds through various social programs, Islamic banks can demonstrate a positive impact on the communities they serve (Amran et al., 2017). This is in line with the concept of corporate social responsibility

(CSR) in the context of Islamic banking, which emphasizes the bank's involvement in improving social conditions around it (Amran et al., 2017).

In addition, effective and comprehensive internal sharia audits also play a role in maintaining the quality of sharia governance, which in turn affects the transparency and integrity of financial reports (Arifin et al., 2023). Research shows that strong involvement of the DPS and a good audit system directly contribute to the quality of social disclosures made by Islamic banks, which is a reflection of their commitment to social responsibility (Rama & Novela, 2015; Darmadi, 2013). In this context, the concept of Maqasid al-Shari'ah, which emphasizes the social objectives of sharia, becomes increasingly relevant in assessing the performance of Islamic banks in the social dimension (Tarique et al., 2021).

Furthermore, the implementation of a good governance framework in Islamic banking shows that more transparent and accountable banks will not only operate more efficiently but also be better able to achieve their social goals. This suggests that there is a positive relationship between good Islamic governance and better social outcomes in the context of Islamic banks, creating a synergy between Islamic compliance and social responsibility (Faozan, 2013; Sudarni & Puspitasari, 2023). Therefore, Islamic banks need to continue to develop and implement comprehensive Islamic governance to improve their social performance sustainably.

In conclusion, there is a significant relationship between sharia governance and the social performance of Islamic banks. With a structure that focuses on compliance with sharia principles, transparency, and accountability, Islamic banks can play a greater role in positive social development, indicating that social performance is inseparable from good implementation of sharia governance (Amran et al., 2017).

2. Comparison of Islamic Bank Social Performance Between Countries

Comparison of Islamic bank social performance between countries, especially between Indonesia and Malaysia, shows significant variations influenced by the implemented Islamic governance framework and local factors affecting the operations of Islamic banks in each country. Research by Echa and Shalauddin revealed that although Indonesia and Malaysia have a committed attitude towards Islamic audit governance, there are clear differences in practices and regulations that lead to variations in social performance (Echa & Shalauddin, 2024).

One important aspect of the social performance of Islamic banks is the implementation of the Islamicity Performance Index (IPI), which measures the bank's commitment to sharia principles in managing social finance. According to Kristianingsih and Wildan, the IPI revealed that Bank BNI Syariah from Indonesia has a larger allocation for social activities compared to other Islamic banks, such as Bank Mega Syariah, which shows a small gap in the comparison of employee and board welfare (Kristianingsih & Wildan, 2021). This shows that the practice of distributing social finance among Islamic banks in Indonesia is uneven and there is potential for further development to improve social performance.

In a broader context, Supriyaningsih also highlighted that although there are many Islamic banks in Indonesia that claim to have implemented Islamic law well, there are significant shortcomings in zakat management that need to be addressed so that social performance can be optimized (Supriyaningsih, 2020). This phenomenon reflects the challenges faced by Islamic banks in Indonesia in fulfilling their social goals, especially in resources for zakat and channeling funds for the public interest.

Furthermore, Dewindaru et al. identified the characteristics of the Sharia Supervisory Board (SSB) as an important determinant in improving the social performance of Islamic banks. An analysis of boards operating in Indonesia shows that a more experienced and diverse SSB can be more effective in promoting transparency, social responsibility, and improving social performance disclosure (Dewindaru et al., 2019). Adequate SSB involvement helps Islamic banks comply with sharia principles and create a positive impact on society.

Therefore, it is clear that the comparison of the social performance of Islamic banks in Indonesia and Malaysia, although both are developed within the same Islamic framework, shows differences influenced by regulatory factors, social financial management practices, and have implications for how to align bank performance with expected social goals. Through the development of better policies in Islamic governance and social financial distribution, opportunities to improve the social performance of Islamic banks in both countries can be realized.

D. CONCLUSIONS AND SUGGESTIONS

This study concludes that there is a significant relationship between sharia governance and the social performance of Islamic banks. The implementation of governance that emphasizes compliance with sharia principles, transparency, and accountability has been proven to encourage an increase in the social contribution of Islamic banks. A comparison between Indonesia and Malaysia reveals that differences in regulations, governance practices, and social financial management have a significant impact on the variation in social performance of each bank. Indices such as the Islamicity Performance Index (IPI) and the Maqashid Syariah Index show that not only the system affects the results, but also internal structures such as the competence of the Sharia Supervisory Board and zakat management. This confirms that optimal social performance requires strong, structured, and responsive sharia governance to the needs of the community.

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