



Board expertise and Islamic bank performance in a two-tier system

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Abstract

Purpose - The purpose of this study is to analyze the influence of the expertise of the directors, board of commissioners, and sharia supervisory board on the performance of Islamic banking.

Method - This study uses three areas of expertise, namely accounting/finance, business, and sharia expertise. The sample of this study is Islamic banking from 2014 to 2024, which meets the research criteria.

Result - This study found that the expertise of the directors, board of commissioners, and sharia supervisory board improves the performance of Islamic banking.

Implication - This study provides implications for companies and regulators to encourage and develop regulations that require the composition of the directors, board of commissioners, and sharia supervisory board with accounting/finance, business, and sharia expertise.

Originality - As far as the author knows, research on board expertise in Islamic banking in countries that adopt a two-tier system has never been conducted.

Keywords: board expertise; Islamic bank performance; two-tier system

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Introduction

After the global financial crisis that occurred in 2008, there was an increase in the number of Islamic banks in more than 75 countries in the world (Tashkandi, 2022). Islamic banking is seen as an alternative to conventional banking because it provides macroeconomic and financial stability (Al-Hashel, 2015). Srairi (2013) argues that state-owned Islamic banks are more stable and have lower credit risk than conventional banks. In addition, Islamic banking is unique because its financial practices are based on Islamic law, such as the prohibition of interest, speculative activities, and investment in illegal industries such as alcohol and gambling (Mamatzakakis et al., 2023), which has caused its growth to increase rapidly to serve a quarter of the world's population (S&P Global Ratings, 2022). Therefore, this phenomenon has sparked the interest of practitioners and academics to study it further.

Based on Company Law number 40 of 2007, Indonesia adopts a two-tier system that distinguishes the roles of the directors and the Board of Commissioners (BOC). The directors are responsible for managing the company, while the BOC oversees the company's operations and provides advice and suggestions to the directors. Unlike conventional banks, the uniqueness of Islamic banks means that they must maximize the welfare of stakeholders in accordance with Islamic law. Therefore, the Financial Services Authority issued POJK number 16/POJK.03/2022 concerning Islamic general banks, and POJK number 2 of 2024, which focuses on the implementation of sharia governance for Islamic general banks and Islamic business units. This regulation requires the establishment of a sharia supervisory board (SSB), which is tasked with supervising and providing advice and suggestions to the director so that the bank's activities are in accordance with sharia principles. With the existence of the SSB, it increases investor confidence that the bank is truly managed based on sharia principles.

The expertise possessed by the director, BOC, and SSB is an important resource for their decision-making, strategy, problem-solving, innovation, and creativity (Nainggolan et al., 2023; Shahrier et al., 2020). POJK requires the director and BOC to have expertise in the fields needed by the company. Therefore, it is better for the directors and BOC in Islamic banks to be those who have expertise in accounting/finance, business, and sharia. Meanwhile, POJK requires the SSB to be filled by people who have expertise and experience in sharia and knowledge in finance and business. Tumewang et al. (2025) suggested researching SSB with doctoral-level education with various fields of expertise (sharia, law, and accounting/finance).

The Islamic banking industry is a complex industry, so the expertise of directors is needed in managing Islamic banks, such as in managing risks, formulating effective strategies, and complying with Islamic banking and sharia regulations, as well as in risk

management. Directors who have expertise in accounting/finance, banking, and sharia will strengthen the capacity of directors for strategic decision-making so that they can improve company performance (Dwekat et al., 2025). This aligns with research indicating that the expertise of the directors can enhance company performance (Mukhibad et al., 2024), boost digital innovation (Yu et al., 2025), foster company innovation (Li & He, 2023; Wang, 2022; Zona, 2014; Zona et al., 2013), and improve financial reporting quality (Caglio et al., 2018; Hashed & Almaqtari, 2021; Musa et al., 2023). However, Boadi et al. (2023) found that the expertise of the directors negatively impacted company performance, while Vafaei et al. (2021) reported a decline in company innovation.

BOC expertise is needed to provide effective supervision of the company's operations and provide the best advice to the directors. This is in accordance with research by Nainggolan et al. (2023), which found that BOC with Islamic education reduces the risk of bankruptcy, funding risk, and credit risk; improves company performance (Agrawal & Chadha, 2005; Mukhibad et al., 2024); and reduces bankruptcy and credit risk (Umar et al., 2024), but Mollik et al. (2020) found that the accounting and financial expertise of the audit committee did not affect earnings management. Meanwhile, SSB expertise is needed to oversee the company's operational activities in accordance with Islamic law so that it can improve company performance. This is in accordance with the research of Umar et al. (2024), who found that SSB with sharia expertise reduces bankruptcy and portfolio risk but increases credit risk; SSB with Islamic and financial/economic education backgrounds tend to reduce risk-taking, while those with financial and economic education backgrounds increase performance (Nainggolan et al., 2023). However, several studies found no effect on company performance (Al Thnaibat et al., 2024; Mukhibad et al., 2024). Therefore, the expertise of the directors, BOC, and SSB is very relevant to be studied in relation to company performance.

Indonesia is a country with a Muslim majority, which is around 86.8% of the population of Indonesia, making Indonesia the country with the largest Muslim population in the world. This makes Indonesia a market with great potential for Islamic banking, so that many conventional banks form Islamic financial institutions or Islamic business units. In addition, the Indonesian government has also merged three Islamic business units of conventional banks owned by the government into Bank Syariah Indonesia (BSI) as a reflection of the face of Islamic banking in Indonesia. Previous studies on board expertise have been conducted, such as Mukhibad et al. (2024), which examined board diversity and SSB (education level, educational background, and the interaction between the two) on the profitability of Islamic banks, but this study has not separated directors and BOC. Al Thnaibat et al. (2024) examined the characteristics of SSB on the performance of Islamic banks, but have not examined the directors and BOC.

Umar et al. (2024) examined the financial expertise of directors, risk management committees, audit committees, and SSB on the risk-taking of Islamic banks, but have not examined BOC. Meanwhile, Nainggolan et al. (2023) examined the characteristics of BOC and SSB on the risk-taking and performance of Islamic banks, but have not examined directors as bank managers. Unlike previous studies, the purpose of this study is to test the effect of directors' expertise, BOC, and SSB on the performance of Islamic banks in Indonesia.

This study has several contributions to the Islamic banking literature. First, it expands the literature on Islamic bank performance in terms of board and SSB expertise. Second, this study was conducted in Indonesia, which adopts a two-tier system. Therefore, as far as the author knows, there has never been a study examining the directors and BOC in Islamic banks. Third, this study provides input for regulators and companies. Based on Islamic banking statistics published by the OJK, the profit and total assets of Islamic banking in Indonesia have continued to increase from 2021 to 2024. Therefore, this study provides input for regulators and Islamic banks to create regulations regarding the composition of expertise of the directors, BOC, and SSB because I found that the accounting/finance, business, and sharia expertise of the directors, BOC, and SSB improve the performance of Islamic banking in Indonesia.

Literature Review

Agency theory explains that there is a contract between the principal, as the owner of the company, and the agent who is authorized to use and manage the company's resources, resulting in information asymmetry and opportunistic behavior from the agent (Jensen & Meckling, 1976). This theory explains that supervision is needed to align the interests of the agent and the principal. Based on regulations in Indonesia, the agent is the director; the Board of Commissioners represents the shareholders (principals) and is tasked with overseeing the company's operations and providing advice to the board of directors (Putra et al., 2024; Putra & Setiawan, 2025), and the Financial Services Authority (FSA) confirms that supervision of sharia principles is carried out by the DPS. Meanwhile, resource dependence theory states that companies need valuable resources to overcome the challenges they face in their environment (Pfeffer & Salancik, 1978). This theory explains that the directors, BOC, and SSB are resources that can provide resources for the company and its environment. This theory believes that board members with different backgrounds will provide various resources to the company, thereby improving the company's performance. The accounting/finance, business, and sharia expertise possessed by the directors, BOC, and SSB is needed in managing and supervising the operational policies of Islamic banking so that it can increase the legitimacy and performance of the company, which ultimately benefits the people.

Tumewang et al. (2025) argue that these two theories are commonly used to explain corporate governance in Islamic banking.

Hypotheses Development

Mukhibad et al. (2024) examined the attributes of board diversity (education level and educational background) in profitability. They found that cognitive diversity among the board and SSB increased profitability. This means that they believe that diverse skills and education levels can provide benefits for Islamic banking. The expertise of directors in accounting principles, reporting of finance, banking regulations and operations, and sharia provisions is very important for Islamic banking. This expertise can be used in managing the company, formulating strategies, product development, evaluation, and strategic decision-making (Mukhibad et al., 2024). However, Islamic banking is not as free as conventional banking because Islamic banks must comply with sharia provisions (Safiullah & Shamsuddin, 2018); therefore, sharia knowledge is essential for directors. Of course, this will cause debate among directors based on their areas of expertise. Directors who are experts in accounting and finance will have views on the standard of accounting practices and financial reporting, while directors who are experts in business and sharia will have perspectives on customer needs and compliance with sharia principles before rejection occurs at SSB (AlAbbad et al., 2019; Mukhibad et al., 2024). This is in accordance with agency theory because directors will supervise each other according to their expertise in running the company's operations. In addition, this is also in line with the resource dependency theory, which states that diversity of knowledge can increase creativity in strategic decision-making. Previous studies have found that directors' expertise can improve company performance (Mukhibad et al., 2024), company innovation (Li & He, 2023; Wang, 2022; Zona, 2014; Zona et al., 2013), increase digital innovation in banking (Yu et al., 2025), and improve financial reporting quality (Caglio et al., 2018; Hashed & Almaqtari, 2021; Musa et al., 2023). However, Boadi et al. (2023) found a decrease in company performance, a decrease in company innovation (Vafaei et al., 2021), and directors with business school degrees increase the credit risk of Islamic banks (Jabari & Muhamad, 2022).

H1: The expertise of the directors has a positive impact on company performance.

Nainggolan et al. (2023) examined the characteristics of SSB and BOC on risk-taking and performance of Indonesian and Malaysian Islamic banks. They found that SSB with sharia education and financial/economics backgrounds reduces risk-taking; BOC with sharia education reduces insolvency risk, funding risk, credit risk, and sharia non-compliance risk; and SSB and BOC with financial/economic education improve performance. BOCs that have expertise in accounting, financial reporting, business, and sharia will enhance their ability to supervise and provide operational advice, decision-

making, and directors' performance. BOCs that have accounting and financial capabilities will improve the company's image and offer credibility to the directors (Jabari & Muhamad, 2022). Based on the agency theory perspective, they can enhance the company's operational supervision and reduce the risk of fraudulent financial reporting. This is in accordance with research that found independent BOCs with accounting or financial expertise improve company performance (Agrawal & Chadha, 2005; Haniffa & Cooke, 2002). Meanwhile, based on resource dependence theory, BOCs with expertise in business and sharia have a positive impact on risk-taking because they are better able to understand the banking industry environment, recognize potential risks, and monitor management activities more effectively (Jabari & Muhamad, 2022). Previous studies have found that BOCs with sharia expertise reduce bankruptcy risk, funding risk, credit risk, and sharia non-compliance risk (Nainggolan et al., 2023), while those with financial/economic expertise improve firm performance (Agrawal & Chadha, 2005; Mukhibad et al., 2024; Nainggolan et al., 2023) and reduce bankruptcy and credit risk, but BOCs with business expertise increase credit risk (Umar et al., 2024); and Mollik et al. (2020) found that the audit committee's accounting and financial knowledge did not affect earnings management.

H2: The expertise of the board of commissioners has a positive influence on company performance.

Permatasari et al. (2024) examined the combined effect of accounting background and cross-membership SSB in Islamic banking institutions on the investment efficiency. They found that the accounting background of SSB members reduced investment efficiency. However, when SSB members were also members of other SSBs, these banks achieved higher investment efficiency. This occurs because SSBs with accounting expertise should better consider the benefits and risks of their investment prospects. Based on POJK and agency theory, SSB is obliged to ensure that bank operations are in accordance with sharia principles. SSB conducts monthly inspections. If there are findings that are not in accordance with sharia, then SSB is obliged to resolve them by providing solutions in accordance with sharia. This process certainly requires expertise in accounting/finance, business, and sharia (Mukhibad et al., 2024). Meanwhile, resource dependence theory states that with the diversity of SSB expertise, it will increase SSB supervision of sharia compliance. This is in accordance with the opinion that SSB effectiveness increases when sharia expertise is combined with accounting/finance and business (Grassa & Chakroun, 2016; Mukhibad et al., 2024; Nomran & Haron, 2019). In line with this opinion, research by Mukhibad et al. (2024) found that SSB with higher education levels and expertise in accounting/finance and business made it easier for SSB to respond to customer needs, thereby improving company performance. Other studies found that SSB with sharia expertise reduced bankruptcy and portfolio risk but

increased credit risk (Umar et al., 2024); SSB with Islamic and financial/economic education reduced risk-taking, while those with financial and economic expertise improved company performance (Nainggolan et al., 2023). However, several studies found that SSB expertise did not affect company on company performance (Al Thnaibat et al., 2024; Mukhibad et al., 2024).

H3: The expertise of the sharia supervisory board has a positive effect on company performance.

Research Methods

The sample of this study is Islamic banks in Indonesia from 2014 to 2024. The calculation of the number of research samples can be seen in Table 1. The dependent variable in this study is financial performance as measured by return on assets (ROA). Meanwhile, the independent variables in this study are the expertise of the directors (DIR_EXP), the expertise of the board of commissioners (BOC_EXP), and the expertise of the sharia supervisory board (SSB_EXP). This study also uses control variables consisting of the size of the directors (DIR_SIZE), the size of the board of commissioners (BOC_SIZE), the size of the sharia supervisory board (SSB_SIZE), the size of the company (FS), the age of the company (FA), non-performing financing (NPF), the capital adequacy ratio (CAR), and Covid-19 (COVID). In addition, this study also controls the year of observation. All definitions and operational variables are presented in Table 2. To test the effect of DIR_EXP, BOC_EXP, and SSB_EXP on ROA, this study uses the following regression equation:

$$ROA = \alpha + \beta_1 DIR_EXP_{it} + \beta_2 BOC_EXP_{it} + \beta_3 SSB_EXP_{it} + \beta_4 DIR_SIZE_{it} + \beta_5 BOC_SIZE_{it} + \beta_6 SSB_SIZE_{it} + \beta_7 FS_{it} + \beta_8 FA_{it} + \beta_9 NPF_{it} + \beta_{10} CAR_{it} + \beta_{11} COVID_{it} + \varepsilon_{it}$$

Table 1

Research sample

Criteria	Total
Number of Islamic general banks in Indonesia	17
Bank Islam's annual report for the period 2014-2024 is available	140
Incomplete data	4
Inaccessible annual report	2
Number of samples for annual observation reports	134

Source: Authors' work

Table 2*Definition and operational variables*

Variable	Variable Name	Acronym	Measurement
Dependent	Return on Asset	ROA	Net profit to total assets ratio (Al Thnaibat et al., 2024; Tashkandi, 2022)
Independent	Director's expertise	DIR_EXP	The ratio of expertise of directors, board of commissioners, and sharia supervisory boards members in the fields of accounting/finance, business, and sharia (Al Thnaibat et al., 2024; Mukhibad et al., 2024)
	Board of commissioners' expertise	BOC_EXP	
	Sharia supervisory board expertise	SSB_EXP	
Control	Director's size	DIR_SIZE	Number of directors in the company (Al Thnaibat et al., 2024; Jabari & Muhamad, 2020; Mukhibad et al., 2024)
	Board of commissioners' size	BOC_SIZE	Number of board of commissioners in the company (Al Thnaibat et al., 2024; Jabari & Muhamad, 2020; Mukhibad et al., 2024)
	Sharia supervisory board size	SSB_SIZE	Number of sharia supervisory boards in the company (Al Thnaibat et al., 2024; Jabari & Muhamad, 2020; Mukhibad et al., 2024)
	Firm size	FS	Natural logarithm of total assets (Jabari & Muhamad, 2020; Mukhibad et al., 2024)
	Firm Age	FA	Natural logarithm of the company's age since the company operated in accordance with sharia (Jabari & Muhamad, 2022)
	Non-Performing Financing	NPF	The ratio of impaired loans to net loans (Mukhibad et al., 2024)
	Capital Adequacy Ratio	CAR	The ratio of total equity over total assets (Mukhibad et al., 2024)
	COVID-19	Covid	Dummy variable, given a value of 1 during the Covid-19 period (2020, 2021, and 2022) and a value of 0 otherwise Tashkandi, 2022).

Source: Authors' work

Results and Discussion

Description statistics

Table 3 presents descriptive statistics; the mean ROA is 0.009 with a standard deviation of 0.040 and minimum and maximum values of -0.201 and 0.135. Mean DIR_EXP and BOC_EXP are 0.616 and 0.657 with standard deviations of 0.211 and 0.217, while the minimum values are 0.200 and 0 and the maximum values are 1 and 1. Meanwhile, the mean value of SSB_EXP is 0.975 with a standard deviation of 0.101 and minimum and maximum values of 0.500 and 1. These results indicate that the majority of directors, BOC, and SSB have accounting/finance, business, and sharia expertise. For the control variables, the means of DIR_SIZE and BOC_SIZE are 4.716 and 3.843 with standard deviations of 1.693 and 1.535 and minimum values of 2 and 1 and maximum values of 12 and 12. The mean SSB_SIZE is 2.365 with a standard deviation of 0.799 and minimum and maximum values of 2 and 6. Mean FS and FA are 30.220 and 2.040, with standard deviations of 1.280 and 0.989 and minimum values of 27.218 and -1.386 and maximum values of 33.643 and 3.526. The means of NPF and CAR are 0.016 and 0.350 with standard deviations of 0.016 and 0.511 and minimum values of 0 and 0.003 and maximum values of 0.058 and 3.906. These results indicate that the majority of Islamic banks in Indonesia have good NPF and CAR because, based on regulations in Indonesia, the maximum limit of NPF is 5% and the minimum CAR is 8%. Finally, the mean Covid value is 0.291 with a standard deviation of 0.455 and minimum and maximum values of 0 and 1.

Table 3

Descriptive statistics

Variables	Obs.	Mean	Std. Dev	Min	Max
ROA	134	0.009	0.040	-0.201	0.135
DIR_EXP	134	0.616	0.211	0.200	1
BOC_EXP	134	0.657	0.217	0	1
SSB_EXP	134	0.975	0.101	0.500	1
DIR_SIZE	134	4.716	1.693	2	12
BOC_SIZE	134	3.843	1.535	1	12
SSB_SIZE	134	2.365	0.799	2	6
FS	134	30.220	1.280	27.218	33.643
FA	134	2.040	0.989	-1.386	3.526
NPF	134	0.016	0.016	0	0.058
CAR	134	0.350	0.511	0.003	3.906
COVID	134	0.291	0.455	0	1

Source: Authors' work

Table 4*Correlation analysis*

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) ROA	1.000											
(2) DIR_EXP	0.066* (0.047)	1.000										
(3) BOC_EXP	0.383* (0.000)	0.170* (0.049)	1.000									
(4) SSB_EXP	0.047* (0.092)	-0.156* (0.071)	-0.136 (0.118)	1.000								
(5) DIR_SIZE	0.034 (0.693)	-0.136 (0.117)	0.076 (0.381)	-0.283* (0.001)	1.000							
(6) BOC_SIZE	0.081 (0.351)	-0.041 (0.639)	0.001 (0.989)	-0.090 (0.302)	0.661* (0.000)	1.000						
(7) SSB_SIZE	0.028 (0.652)	0.095 (0.273)	0.191* (0.027)	-0.011 (0.603)	0.516* (0.000)	0.690* (0.000)	1.000					
(8) FS	0.174* (0.044)	-0.025 (0.772)	0.169* (0.051)	-0.195* (0.024)	0.684* (0.000)	0.644* (0.000)	0.574* (0.000)	1.000				
(9) FA	-0.193* (0.025)	0.179* (0.038)	0.200* (0.021)	-0.269* (0.002)	-0.034 (0.600)	-0.003 (0.973)	0.091 (0.294)	0.077 (0.377)	1.000			
(10) NPF	-0.405* (0.000)	-0.025 (0.772)	0.267* (0.002)	-0.060 (0.492)	-0.107 (0.219)	0.074 (0.398)	0.100 (0.250)	-0.082 (0.345)	0.266* (0.002)	1.000		
(11) CAR	0.051 (0.555)	-0.052 (0.551)	-0.182* (0.036)	0.064 (0.462)	-0.046 (0.601)	-0.099 (0.256)	-0.150* (0.083)	-0.406* (0.000)	0.023 (0.694)	-0.282* (0.001)	1.000	
(12) COVID	0.009 (0.920)	-0.043 (0.625)	-0.034 (0.693)	-0.032 (0.713)	0.108 (0.215)	0.033 (0.702)	-0.088 (0.313)	0.059 (0.500)	0.087 (0.318)	-0.180* (0.038)	0.181* (0.036)	1.000

* $p < 0.1$

Source: Authors' work

Correlation matrix

Correlation analysis is conducted to determine the relationship between two variables and detect multicollinearity. If the correlation coefficient of the independent variable is greater than 0.8, then multicollinearity occurs. The correlation analysis is presented in table 4, which shows that this study is free from multicollinearity. Table 4 also shows that DIR_EXP, BOC_EXP, SSB_EXP, and FS are positively correlated with ROA. Meanwhile, FA and NPF are negatively correlated, but DIR_SIZE, BOC_SIZE, SSB_SIZE, CAR, and COVID are not correlated with ROA.

Regression analysis

This study uses the Chow test, the Lagrange multiplier (LM) test, and the Hausman test to select a regression model. After conducting these tests, random effects were selected as the regression model used in this study. In addition, this study uses robust standard error techniques so that it is free from heteroscedasticity and autocorrelation (Gujarati & Porter, 2009). DIR_EXP has a positive effect on ROA with a coefficient of 0.008 ($p < 0.1$). This result is in line with the agency theory because the attitude of supervising fellow directors according to their respective expertise has successfully improved performance. Directors who are experts in accounting and finance use their thinking for corporate finance by minimizing high-risk decision-making, thereby increasing bank stability (Umar et al., 2024) and compliance with accounting and financial reporting standards. Meanwhile, business and sharia expertise are needed to understand the community's needs for Islamic banking products (AlAbbad et al., 2019; Mukhibad et al., 2024), both in terms of savings, credit, and investment based on Islamic law. Meanwhile, based on resource dependence theory, directors with diverse expertise composition will increase strategic thinking, focus on problem - solving, and increase the effectiveness of directors in carrying out their responsibilities (Trinh et al., 2021). In addition, the Financial Services Authority also requires that Islamic banks be staffed by directors with the expertise required by the bank. Therefore, Islamic banking requires expertise in accounting/finance, business, and sharia to improve company performance. These results support previous studies that found that board expertise increases corporate innovation (Li & He, 2023; Wang, 2022; Zona, 2014; Zona et al., 2013), increases digital innovation in banking (Yu et al., 2025), and decreases insolvency and credit risks (Umar et al., 2024), thereby increasing company performance (Mukhibad et al., 2024). Therefore, H1 is accepted.

BOC_EXP has a positive effect on ROA with a coefficient of 0.060 ($p < 0.01$). This result is in accordance with the agency theory because BOC has succeeded in supervising the alignment of the interests of directors and shareholders so that company performance increases. Supervision carried out by BOC according to its expertise is very

important because BOC is a representative of shareholders to protect their investments in Islamic banking. BOCs who are experts in accounting/finance will supervise accounting and financial reporting so as to reduce errors and fraud in reporting (Agrawal & Chadha, 2005; Jabari & Muhamad, 2022); those who are experts in business understand the business environment and risks (Jabari & Muhamad, 2020), while those who are experts in Sharia monitor the company's operational activities based on Sharia principles (Nainggolan et al., 2023). The results of this study are in accordance with the opinion of Nainggolan et al. (2023), who said that BOC's experience and special expertise can be used to monitor management effectively. Based on resource dependence theory, BOC's expertise is an important resource because it provides the best ideas, critical thinking, problem solving, innovation, and creativity for better decision-making (Nainggolan et al., 2023; Shahrier et al., 2020). Thus, the diversity of BOC's expertise provides more complex knowledge, thereby improving the supervisory function and providing advice to directors. Therefore, H2 is accepted.

Table 6*Regression results*

Independent Variable	(1)	(2)	(3)	(4)
DIR_EXP	0.016** (0.035)			0.008* (0.063)
BOC_EXP		0.061*** (0.000)		0.060*** (0.000)
SSB_EXP			0.006* (0.085)	0.012* (0.072)
DIR_SIZE	-0.007** (0.023)	-0.005* (0.070)	-0.007** (0.049)	-0.006* (0.067)
BOC_SIZE	0.009** (0.018)	0.005* (0.081)	0.009** (0.022)	0.005* (0.062)
SSB_SIZE	-0.009 (0.108)	-0.005 (0.307)	-0.010* (0.090)	-0.005 (0.367)
FS	0.007** (0.031)	0.009** (0.035)	0.007** (0.034)	0.009** (0.038)
FA	-0.001 (0.665)	-0.001 (0.698)	-0.002 (0.502)	-0.001 (0.728)
NPF	-1.198*** (0.000)	-0.921*** (0.000)	-1.140*** (0.000)	-0.953*** (0.000)
CAR	-0.007 (0.339)	-0.007 (0.305)	-0.007 (0.376)	-0.007 (0.304)
COVID	-0.014 (0.406)	-0.008 (0.614)	-0.013 (0.463)	-0.007 (-0.649)
Year	Yes	Yes	Yes	Yes
Prob > chi2	0.000	0.000	0.000	0.000
Overall r-squared	0.311	0.389	0.305	0.390
Number of samples	134	134	134	134

Source: Authors' work

Table 7*Robustness tests using ROE*

Independent Variable	(1)	(2)	(3)	(4)
DIR_EXP	0.012* (0.081)			0.035* (0.087)
BOC_EXP		0.142*** (0.003)		0.146*** (0.003)
SSB_EXP			0.064* (0.066)	0.069* (0.053)
DIR_SIZE	-0.022** (0.041)	-0.018* (0.067)	-0.019* (0.079)	-0.014* (0.096)
BOC_SIZE	0.016* (0.078)	0.006* (0.064)	0.014** (0.031)	0.004* (0.072)
SSB_SIZE	-0.029 (0.120)	-0.018 (0.307)	-0.030 (0.105)	-0.020 (0.252)
FS	0.056*** (0.000)	0.061*** (0.000)	0.056*** (0.000)	0.061*** (0.000)
FA	-0.024** (0.044)	-0.022** (0.038)	-0.022* (0.057)	-0.022* (0.058)
NPF	-3.623*** (0.000)	-3.419*** (0.000)	-3.828*** (0.000)	-3.287*** (0.000)
CAR	-0.011 (0.656)	-0.002 (0.926)	-0.005 (0.822)	-0.002 (0.921)
COVID	-0.014 (0.792)	-0.009 (0.860)	-0.025 (0.647)	-0.013 (-0.803)
Year	Yes	Yes	Yes	Yes
Prob > chi2	0.000	0.000	0.000	0.000
Overall r-squared	0.452	0.491	0.455	0.494
Number of samples	134	134	134	134

Source: Authors' work

SSB_EXP has a positive effect on ROA with a coefficient of 0.012 ($p < 0.1$). These results support the agency theory and POJK number 16/POJK.03/2022 and POJK number 2 of 2024, which require Islamic commercial banks to form an SSB whose task is to supervise and provide advice so that the operations of Islamic banks in Indonesia are in accordance with Islamic principles. Meanwhile, based on resource dependence theory, the diversity of expertise in the SSB provides knowledge resources so that the function of Islamic banking remains in accordance with Islamic sharia provisions. The SSB is a representative of shareholders and depositors of Islamic banks who ensure that financial contracts, transactions, and banking activities are in accordance with Sharia (Alman, 2012), so the SSB should also have expertise in accounting/finance and Islamic banking business that can provide considerations in terms of financial contract risks in banking products and services (Nainggolan et al., 2023; Ramly & Nordin, 2018). Permatasari et al. (2024) stated that SSBs with accounting expertise use quantitative data and financial metrics in their decision-making processes, thus averting risk. However, when members

of these SSBs also serve as members of SSBs elsewhere, they have more time and expertise to accurately evaluate investment projects and mitigate the risk of investment failure, thereby increasing investment efficiency. This is in accordance with previous studies that found that SSBs with expertise in accounting/finance and business improve performance (Mukhibad et al., 2024); SSBs with expertise in sharia can reduce bankruptcy and portfolio risks (Umar et al., 2024); and SSBs with Islamic and financial/economic education reduce risk-taking, while those with expertise in finance and economics improve company performance (Nainggolan et al., 2023). Therefore, H3 is accepted. Meanwhile, for the control variables, BOC_SIZE and FS have a positive effect, DIR_SIZE and NPF have a negative effect, but SSB_SIZE, FA, CAR, and COVID have no effect on ROA. The regression results of this study are shown in Table 6.

Table 8

Regression using SYS GMM estimation

Independent Variable	(1)	(2)	(3)	(4)
ROA L1	0.049* (0.053)	0.087* (0.085)	0.048* (0.087)	0.186* (0.077)
DIR_EXP	0.004* (0.056)			0.024** (0.034)
BOC_EXP		0.021* (0.076)		0.026* (0.088)
SSB_EXP			0.018* (0.073)	0.021* (0.074)
DIR_SIZE	-0.003** (0.046)	-0.004* (0.074)	-0.004* (0.045)	-0.002* (0.069)
BOC_SIZE	0.003* (0.055)	0.004** (0.043)	0.003** (0.049)	0.002* (0.062)
SSB_SIZE	-0.004 (0.707)	-0.006 (0.947)	-0.002 (0.825)	-0.001 (0.797)
FS	0.010** (0.049)	0.020* (0.053)	0.010* (0.065)	0.008* (0.073)
FA	-0.031 (0.761)	-0.005 (0.798)	-0.002 (0.810)	-0.006 (0.989)
NPF	-0.825** (0.028)	-0.479** (0.026)	-0.838** (0.024)	-0.207* (0.066)
CAR	-0.002 (0.769)	-0.006 (0.644)	-0.003 (0.499)	-0.011 (0.491)
COVID	-0.007 (0.954)	-0.003 (0.989)	-0.007 (0.962)	-0.003 (0.594)
Year	Yes	Yes	Yes	Yes
Prob > chi2	0.000	0.005	0.000	0.030
AR (1)	-1.011 (0.003)	-0.523 (0.006)	-1.044 (0.002)	-0.978 (0.003)
AR (2)	-0.388 (0.697)	-0.015 (0.987)	-0.480 (0.630)	-0.389 (0.698)
Number of samples	117	117	117	117

Source: Authors' work

Table 9*Additional test using characteristics of directors', BOC, and SSB expertise*

Independent Variable	(1)	(2)	(3)	(4)
DIR_ACCOUNTING	0.001* (0.086)			0.001* (0.081)
DIR_BUSINESS	0.004** (0.025)			0.003** (0.036)
DIR_SHARIA	0.012 (0.604)			0.003 (0.863)
BOC_ACCOUNTING		0.015*** (0.001)		0.019*** (0.000)
BOC_BUSINESS		0.014*** (0.003)		0.015*** (0.002)
BOC_SHARIA		0.021*** (0.002)		0.028*** (0.000)
SSB_ACCOUNTING			0.000 (0.998)	0.009 (0.611)
SSB_BUSINESS			0.013* (0.086)	0.023* (0.087)
SSB_SHARIA			0.001** (0.027)	0.006* (0.076)
DIR_SIZE	-0.007* (0.055)	-0.004* (0.097)	-0.007** (0.047)	-0.005* (0.084)
BOC_SIZE	0.009* (0.019)	0.015*** (0.000)	0.009** (0.022)	0.018*** (0.000)
SSB_SIZE	-0.010* (0.078)	-0.004* (0.091)	-0.012** (0.041)	-0.001* (0.098)
FS	0.008* (0.080)	0.008* (0.061)	0.006* (0.061)	0.005* (0.093)
FA	-0.003 (0.926)	-0.003 (0.413)	-0.001 (0.671)	-0.004 (0.310)
NPF	-1.208*** (0.000)	-0.893*** (0.000)	-1.236*** (0.000)	-0.973*** (0.000)
CAR	-0.007 (0.358)	-0.008 (0.269)	-0.008 (0.309)	-0.011 (0.143)
COVID	-0.012 (0.496)	-0.005 (0.736)	-0.014 (0.427)	-0.001 (0.944)
Year	Yes	Yes	Yes	Yes
Prob > chi2	0.000	0.000	0.000	0.000
Overall r-squared	0.317	0.390	0.313	0.411
Number of samples	134	134	134	134

Source: Authors' work

Conclusion

This study examines the influence of the expertise of directors, boards of commissioners, and sharia supervisory boards on the performance of Islamic banks in Indonesia that adopt a two-tier system. The expertise variables consist of

accounting/finance, business, and sharia expertise. This study presents strong and reliable empirical data on the expertise of directors, boards of commissioners, sharia supervisory boards, and Islamic banking performance with various controls, robustness tests, and further analysis using a sample of 134 observations from 2014 to 2024. This study finds that the expertise of directors, boards of commissioners, and sharia supervisory boards improves the performance of Islamic banks because it improves management and monitoring functions, reduces agency problems by aligning management and stakeholder interests, and increases resources through various expertise and knowledge. Furthermore, this study explains that one way to improve corporate governance is to increase the diversity of expertise in the directors, board of commissioners, and the Sharia supervisory board. The results of the study prove that the directors, the board of commissioners, and Sharia supervisory board with accounting/finance, business, and Sharia expertise can improve the performance of Sharia banks. This improvement in the performance of sharia banks will certainly contribute to the country, thus supporting the vision of Indonesia Gold in 2045.

This study has important implications for companies and regulators. Companies and regulators can enhance the performance of Islamic banks by encouraging and developing policies that require expertise from the directors, board of commissioners, and sharia supervisory board of Islamic banking in the fields of accounting/finance, business, and sharia. The presence of directors with such expertise not only improves the management and supervision functions of the board of commissioners and sharia supervisory board but also allows companies to gain access to important external resources through their expertise. As a result, shareholders in the general meeting of shareholders can assess the composition of the directors, board of commissioners, and sharia supervisory board based on their expertise because the composition affects the company's objectives.

This study has several limitations that can be considered for improvement in future research. First, this study only uses expertise as an indicator to improve the performance of Islamic banks. We suggest that future research examine other cognitive abilities, such as education level, tenure, and experience. Second, this study only relies on quantitative methods and does not include interviews or other qualitative data. Therefore, this study suggests that future research combine quantitative and qualitative methods to better understand the underlying mechanisms of the relationship between board expertise and firm performance. Finally, this study was conducted in Indonesia, which adopts a two-tier system. Therefore, this study suggests comparing countries that adopt a one-tier system and a two-tier system, as well as countries with large Muslim populations, such as Arab countries, Gulf countries, and Islamic countries in Africa and other Asian countries, so that they can be compared and provide greater contributions.

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