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SHARIA GOVERNANCE IN ISLAMIC MICROFINANCE INSTITUTIONS: THE ROLE OF THE SHARIA SUPERVISORY BOARD AT BMT ISLAM ABDURAB PEKANBARU

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Abstract:

Background: The rapid growth of Islamic microfinance institutions in Indonesia underscores the need for effective Sharia governance, particularly to ensure consistent compliance with Sharia principles at the operational level.
Purpose: This study aims to analyze the role of the Sharia Supervisory Board (SSB) in overseeing the implementation of Sharia principles at BMT Islam Abdurab Pekanbaru, Indonesia.
Design/methodology/approach: This study employed a descriptive qualitative methodology, utilizing in-depth interviews and document analysis. Thematic analysis was conducted to examine the SSBs'supervisory functions, challenges, and strategies.
Findings/Result: The findings show that the SSB plays a strategic role as a supervisor, advisor, and internal coach in ensuring compliance with fiqh muamalah. However, supervision is constrained by limited execution authority, insufficient human resources with integrated Sharia finance expertise, and rapid development of Sharia financial products and technology. To address these challenges, the SSB conducts periodic Sharia audits, strengthens Sharia-based standard operating procedures, enhances internal capacity, and coordinates with the National Sharia Council (DSN-MUI) and academic institutions.
Conclusion: SSB supervision at BMT Islam Abdurab operates effectively but requires institutional strengthening and support for an integrated system.
Originality/value (State of the art): This study offers empirical insights into Sharia supervision practices in Islamic microfinance, an underexplored area in the literature on Sharia governance.

Keywords: sharia supervisory board, sharia governance, compliance with sharia principles, sharia microfinance institutions, sharia audit

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INTRODUCTION

Islamic finance research in Indonesia has mainly focused on the banking sector and large financial institutions, especially regarding Sharia compliance and governance (Akbar et al. 2023; Anggoro et al. 2020). While some studies identify the Sharia Supervisory Board as the formal mechanism for monitoring compliance with Sharia fatwas and regulations (Akbar et al. 2023; Eriandani et al. 2024), this view does not fully capture the unique operations of Islamic microfinance institutions, such as BMTs. These institutions have distinct organizational structures and resource capacities and face the challenge of balancing social and business functions. Prior research often emphasizes formal compliance structures and outcomes rather than governance effectiveness or practical Sharia supervision in daily operations. The literature's focus on large Islamic banks has caused an analytical imbalance, with governance models from established institutions often generalized to smaller entities without proper contextual adaptation. Studies on BMTs usually highlight their roles in community economic empowerment and social fund distribution but offer limited analyses of internal Sharia supervisory practices (Pratiwi & Ansori, 2024; Fadzila et al. 2023). These studies focus on compliance outcomes rather than supervisory processes, decision-making, or the dynamics between the SSB and BMT management. Consequently, sharia compliance is often viewed as a static regulatory outcome rather than a dynamic governance process embedded in daily organizational practices. The core issue lies not only in compliance outcomes but also in the effectiveness of supervisory processes and governance enactment under institutional constraints at the microfinance level. This highlights a research gap in implementing Sharia principles in daily operations, especially in microfinance institutions with structural limitations. Previous empirical findings also indicate that the existence of the Sharia Supervisory Board (SSB) does not fully prevent deviations from Sharia principles in several BMTs (Hidayat, 2016).

This phenomenon demonstrates that the issue of Sharia compliance is not merely normative but is closely related to the effectiveness of the SSB's role, authority, and capacity in performing its supervisory function. From a governance perspective, this issue can be viewed through the lens of agency theory, in which the SSB serves as a monitoring mechanism to mitigate potential conflicts of interest between management and stakeholders. However, unlike conventional governance systems, Sharia governance introduces dual accountability, encompassing both horizontal accountability to stakeholders and vertical accountability to divine principles, thereby requiring not only technical competence but also moral legitimacy. Despite this, the theoretical framing is introduced but not fully integrated into a clear analytical framework that explains how governance mechanisms, supervisory processes and institutional constraints interact in practice. Other studies emphasize that the limited availability of human resources with expertise in Sharia and financial aspects, as well as the increasing complexity of Sharia financial products, pose serious challenges for SSB in maintaining the consistent implementation of Sharia principles (Yusuf & Al Arif, 2015; Sari et al. 2024). These challenges are further intensified in BMTs because of their hybrid organizational character, which combines commercial (tamwil) and social (maal) functions, requiring the SSB to supervise not only profit-oriented financing contracts but also the management of social funds such as zakat, infaq, and sadaqah, in accordance with maqasid al-shariah. The literature emphasizes that public trust in Shariah financial institutions depends on the consistent application of Shariah values in practice rather than on institutional labeling alone (Kholilurrahman, 2024). Within this framework, the SSB acts as a guardian of Sharia legitimacy, shaping institutional credibility (Rachman et al. 2023; Eriandani et al. 2024). However, governance effectiveness is influenced not only by formal authority but also by relational dynamics, communication patterns, negotiation processes, and organizational culture. These micro-level governance dynamics are essential for understanding supervisory effectiveness but remain underexplored in the context of Islamic microfinance institutions such as BMTs.

Research specifically examining the role of SSBs at the micro level, particularly through qualitative approaches grounded in their experiences and internal perspectives, is limited. This study addresses this gap by providing a qualitative analysis based on in-depth interviews, positioning the SSB as a strategic actor in Sharia governance practices within Islamic microfinance institutions. Unlike previous normative and descriptive studies, this research explicitly investigates the role, challenges, and strategies of the SSB in overseeing the implementation of Sharia principles at BMT Islam Abdurab Pekanbaru through a case study approach. By employing a qualitative case study method, this research moves beyond formal regulatory assessments to capture SSB's lived experiences, interpretive practices, and contextual constraints in supervisory activities.

This approach facilitates a contextualized understanding of Shariah supervision, including its limitations, institutional capacity, and responses to operational and technological developments in Islamic finance. Theoretically, the study advances the micro-level Sharia governance literature by conceptualizing Sharia supervision as a dynamic, negotiated, and context-dependent process rather than a purely formal compliance mechanism. Governance effectiveness, particularly supervisory processes under institutional constraints, is the central analytical focus. The novelty of this research lies in its comprehensive mapping of Sharia supervisory practices in Islamic microfinance institutions, an area that has received limited scholarly attention. The findings are expected to broaden the academic discourse on micro-level Sharia governance and provide practical recommendations for strengthening the SSB's role. Rather than reiterating existing compliance studies, this study offers a new empirical perspective on the implementation, negotiation, and optimization of Sharia supervision within the structural limitations of BMTs.

The novelty of this research lies in its analytical focus on internal Sharia supervisory practices in Islamic microfinance institutions, particularly BMTs, by positioning the Sharia Supervisory Board (SSB) as the primary strategic actor. Unlike previous studies, which were generally normative and focused on Sharia compliance outcomes, this study explores the supervisory process, decision-making, and the dynamics of the relationship between theSSB and management in the context of daily operations. A qualitative approach based on in-depth interviews reveals empirical realities that have been understudied in the literature, including limited authority, resource capacity, and SSB adaptive strategies for addressing the complexity of Islamic financial products and technologies. Thus, this study offers a new perspective on sharia governance at the micro level, which has been marginalized in Indonesian Islamic finance studies.

This study aims to develop an empirically grounded model of Sharia supervisory practices, illustrating how governance effectiveness is constructed through daily interactions, decision-making processes, and adaptive strategies employed by the SSB within institutional constraints. In addition, the findings will provide practical recommendations in the form of operational guidelines to strengthen the SSB's role, including strategies to improve supervisory capacity, enhance coordination with management, and optimize oversight mechanisms in BMTs. This study also contributes to the theory by clarifying the linkage between agency theory and Sharia governance in a micro-institutional context, particularly by demonstrating how dual accountability (horizontal and vertical) is operationalized in supervisory practices. Furthermore, this study offers policy-relevant insights for regulators and stakeholders by identifying specific gaps in the current supervisory frameworks and proposing context-sensitive improvements tailored to Islamic microfinance institutions. Finally, this study provides a contextualized framework that can serve as a reference for future research on micro-level sharia governance, particularly in developing countries with similar institutional characteristics.

This research problem is approached through a problem-solving strategy based on contextual understanding and the experiences of internal actors, namely, the Sharia Supervisory Board (SPS). A qualitative case study approach was used to comprehensively capture how the Sharia supervisory role is implemented within the structural limitations of BMTs in Indonesia. The selection of BMT Islam Abdurab Pekanbaru as the case study is based on its representativeness as an Islamic microfinance institution that reflects typical structural constraints, hybrid operational functions (maal and tamwil), and active involvement of the Sharia Supervisory Board in governance practices, making it a relevant and information-rich case. In-depth interviews were conducted to identify the real challenges faced by SPS, the decision-making mechanisms, and the strategies implemented to maintain a consistent application of Sharia principles. To ensure data validity and credibility, this study applies triangulation techniques, including cross-verification between interview data, institutional documents, and relevant regulations, as well as member checking to confirm the accuracy of the information obtained from the informants. The empirical data were then analyzed thematically to link the theoretical framework of Sharia governance with the actual practices in the field. Furthermore, the analytical process is explicitly guided by the theoretical frameworks of Sharia governance and agency theory, which inform the development of coding categories and interpretation of findings, thereby strengthening the linkage between theory and method. This approach enabled researchers to identify Sharia-compliance issues and formulate applicable, context-specific solutions in line with the characteristics of Islamic microfinance institutions.
This study aims to analyze the role of the Sharia Supervisory Board in overseeing the implementation of

Sharia principles in BMT Islam Abdurab Pekanbaru's operations. Specifically, this study aims to identify the form of the supervisory role and the mechanisms implemented by the Sharia Supervisory Board (SPS), examine the challenges and limitations in maintaining Sharia compliance, and analyze the strategies used by the SPS to respond to the operational dynamics and developments of Sharia finance. Through this understanding, this study is expected to make academic contributions to the development of sharia governance studies at the micro level and to produce practical recommendations for strengthening the SPS's effectiveness in increasing legitimacy and trust in BMT.

METHODS

This research was conducted at Baitul Maal wat Tamwil (BMT) Islam Abdurab Pekanbaru, which was selected as the case study location for this research. The selection of this BMT was based on specific criteria: (1) its representation as an active Islamic microfinance institution with both maal and tamwil functions, (2) the existence of a formally appointed Sharia Supervisory Board, and (3) the accessibility of data and willingness of institutional actors to participate, making it a suitable and information-rich case for examining Sharia supervisory practices. The research lasted approximately ten months, from September 2024 to July 2025, allowing sufficient time for in-depth, continuous data collection and prolonged engagement with the research setting, both of which are essential for enhancing the credibility and depth of qualitative inquiry. This study employed a qualitative research approach with a descriptive-analytical design to explore, interpret, and comprehensively understand the role of the Sharia Supervisory Board in overseeing the implementation of Sharia principles within the operational context of Islamic microfinance institutions. This qualitative approach was considered appropriate because it allowed for an in-depth examination of institutional practices, governance mechanisms, ethical oversight, and contextual realities that cannot be adequately captured through quantitative measurement alone. The research subjects included BMT leaders, members of the Sharia Supervisory Board, operational employees, and members of BMT Islam Abdurrahman. These informants were selected for their direct involvement, experience, and authority in Sharia governance and operational decision-making within the institution.

Informants were selected using a snowball sampling technique, which involves gradually identifying participants, beginning with key informants with in-depth knowledge of Sharia supervisory practices, and then adding other informants deemed relevant and capable of providing rich, reliable information. This technique was employed to ensure the depth, relevance, and completeness of the data obtained, particularly given the specialized and internal nature of Shariah supervision (Sugiyono, 2012). The sampling process continued until data saturation was achieved, as indicated by the repetition of information and the absence of new themes emerging from additional interviews. Data were collected using three main techniques: in-depth interviews, direct observation, and documentation analysis. Semi-structured interviews were conducted with BMT leadership and members of the Sharia Supervisory Board to capture their strategic perspectives, supervisory roles, and interpretive views on Sharia compliance. Each interview lasted approximately 30 min, was audio-recorded with the participant's consent, and was subsequently transcribed verbatim to ensure data accuracy. An interview guide was developed based on the research objectives and the theoretical framework. These interviews were followed by discussions with employees directly involved in Sharia operations and financing to understand how Sharia principles are translated into daily practices.

Observations were conducted by directly observing BMT operational activities, financing processes, member interactions, and internal meetings to collect contextual and behavioral data on the practical implementation of Sharia principles in the field. Observations were conducted non-participatively and systematically recorded in field notes to capture the behavioral patterns and interaction dynamics. Documentation analysis was used to collect and examine supporting data from internal reports, standard operating procedures, fatwas, meeting minutes, and other institutional documents relevant to Sharia supervision. The use of multiple data sources enabled data triangulation, thereby strengthening the validity and trustworthiness of the findings. To further ensure trustworthiness, this study applied credibility, transferability, dependability, and confirmability criteria using techniques such as triangulation, member checking, and audit trails.

Data analysis was conducted using the Miles and Huberman qualitative analysis model, which includes three main stages: data reduction, data presentation, and conclusion drawing. In this study, the analysis is guided by a theoretically informed coding framework derived from Sharia governance and agency theory to ensure consistency between the conceptual foundations and empirical findings. Data reduction involved sorting, focusing, and simplifying data from interviews, observations, and documentation to ensure relevance to the research. The reduced data were then presented in the form of a thematic narrative to facilitate understanding of emerging patterns, relationships, and meanings. The coding process involved open, axial, and selective coding to systematically identify key themes related to supervisory roles, challenges, and governance dynamics. The final stage involved drawing conclusions and conducting ongoing verification throughout the research process, resulting in valid findings.

Figure 1 illustrates the analysis process, which begins with data collection obtained through in-depth interviews, field observations, and documentation. The data collected at this stage are still raw, extensive, and diverse, requiring further analysis to be meaningful to the research. Data collection does not stop at the beginning of the research; it continues alongside the analysis requirements until data saturation is achieved. All qualitative data were managed and organized using a manual coding system, allowing for the systematic tracking of codes, categories, and emerging themes. themes. The manual coding process was conducted through the following systematic steps: (1) Data familiarization, where all interview transcripts, field notes, and documents were read repeatedly to gain an overall understanding of the data; (2) Initial coding (open coding), where meaningful units of text were identified and labeled with preliminary codes reflecting key ideas related to Sharia supervision; (3) Code categorization (axial coding), where similar codes were grouped into broader categories based on conceptual similarities, such as supervisory roles, challenges, and decision-making processes; (4) Theme development (selective coding), where categories were further refined into core themes that represent patterns and relationships in the data; (5) Codebook development, where all codes, categories, and themes were documented along with their definitions to ensure consistency in analysis; and (6) Data verification, where the coding results were reviewed and compared across data sources (interviews, observations, and documents) to ensure reliability and coherence of findings.

The next stage is data reduction, which is the process of sorting, simplifying, and focusing on data relevant to the research objectives. At this stage, researchers selected information related to the role, challenges, and strategies of the Sharia Supervisory Board while eliminating irrelevant data. Data reduction was carried out continuously throughout the research, not only after all data were collected. The reduced data then entered the data display stage. Data presentation is carried out in the form of thematic narratives, matrices, or analytical tables, which facilitate researchers' understanding of patterns, relationships among concepts, and the dynamics of the Sharia Supervisory Board's role in implementing Sharia principles.

At this stage, the data are systematically organized, allowing researchers to conduct more in-depth interpretations. The final stage is the conclusion drawing/verification. Initial conclusions were formulated based on patterns and meanings emerging from the data presentation and were continuously verified by returning to the field data. The verification process involved rechecking the results of the interviews, observations, and documentation to ensure the consistency and validity of the research findings. The two-way arrows in the figure indicate that these four stages influence each other and occur interactively. Conclusions can prompt researchers to collect additional data, while data presentation can elicit the need for clarification through follow-up interviews. Thus, the Miles and Huberman model enables in-depth, reflective, and contextual qualitative data analysis, resulting in valid and comprehensive findings in the research on Sharia supervision at BMTs.

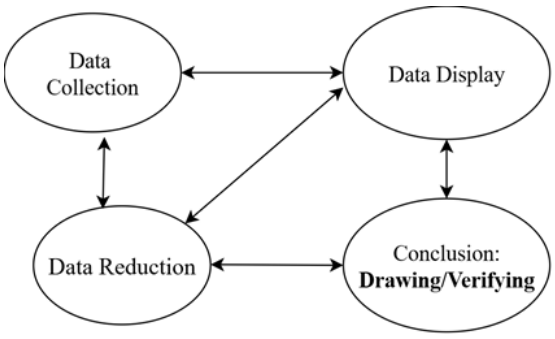


Figure 1. Qualitative Analysis (Miles & Huberman, 1994)

RESULTS

The development of Islamic financial institutions in Indonesia has demonstrated a consistently positive trajectory, driven by increasing public awareness and acceptance of financial systems based on Sharia principles. Among these institutions, Baitul Maal wat Tamwil (BMT) has emerged as a significant Islamic microfinance institution, particularly in expanding financial inclusion for micro, small, and medium-sized communities that conventional banks often under-serve. The strategic importance of BMTs lies in their dual institutional character, functioning simultaneously as social institutions (baitul maal) and business-oriented financial entities (baitut tamwil) while remaining firmly rooted in Sharia values. However, this dual role introduces greater operational and governance complexities. Consequently, effective oversight of Shariah compliance is critical to ensure institutional legitimacy, sustainability, and public trust.

In this context, phe presence of a Sharia Supervisory Board (SSB) is a fundamental governance mechanism for safeguarding adherence to Islamic law and ethical principles. The findings of this study highlight the importance of understanding not only the formal role of the SSB but also its practical functions, challenges, strategies, and effectiveness in the daily operations of Islamic microfinance institutions, particularly at BMT Islam Abdurrab Pekanbaru. To improve clarity and rigor, the study also presents the findings in a structured format, including tables and conceptual diagrams, to present the SSB roles, challenges, and strategies identified in the field more systematically.

Sharia Governance at BMT Islam Abdurrab Pekanbaru

The Sharia Supervisory Board (SSB) is a central governance organ within the institutional structure of Islamic financial institutions, including Baitul Maal wat Tamwil (BMT). At BMT Islam Abdurrab Pekanbaru, the SSB is primarily responsible for ensuring that all financial products, contracts, and operational activities comply with Sharia principles, particularly those derived from Fiqh Muamalah. The existence and active engagement of the SSB constitute a fundamental pillar in maintaining institutional integrity and strengthening public confidence, as Islamic finance is normatively anchored in halal transactions, justice, transparency, and ethical accountability (Hasan, 2020; Khan & Zahid, 2021). Empirical evidence suggests that effective Sharia governance significantly enhances stakeholders' trust and reinforces the legitimacy of Islamic microfinance institutions, especially at the grassroots level (Rahman et al. 2022). Within this context, the SSB at BMT Islam Abdurrab Pekanbaru can be analytically categorized into three interrelated core functions: supervisory, consultative, and educational ones.

In its supervisory capacity, the SSB undertakes systematic monitoring and evaluation of the BMT's operations. This supervision encompasses the review of financing contracts, assessment of financing structures, evaluation of investment mechanisms, and examination of financial reporting practices to ensure compliance with Sharia norms. The SSB ensures that operational activities are free from prohibited elements such as riba (usury), gharar (excessive uncertainty), and maysir (speculation), which remain central prohibitions in Islamic commercial jurisprudence (AAOIFI, 2021). In practice, supervisory functions are exercised through periodic Sharia audits, scheduled and unscheduled field inspections, and detailed examinations of transaction documents and financing portfolios. Recent studies emphasize that such audit-based supervision is crucial for mitigating Sharia non-compliance risk and enhancing operational discipline in Islamic microfinance institutions (Hassan et al. 2023).

Beyond supervision, the SSB serves as a Sharia advisory body for BMT management. This role involves issuing recommendations, interpretative guidance, and Sharia opinions concerning institutional policies, operational procedures, and developing new financial products. Given the increasingly dynamic and innovative nature of Sharia-based microfinance, this consultative function is essential to ensure that institutional adaptation does not deviate from the established Islamic legal frameworks (Ali et al. 2021). Moreover, the SSB serves as an institutional liaison between BMT Islam Abdurrab Pekanbaru and the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), particularly in matters requiring formal fatwas or authoritative clarifications of Sharia rulings. This coordination strengthens regulatory alignment and ensures consistency between institutional practices and national Sharia governance standards (Ascarya and Yumanita, 2022). The educational function of the SSB constitutes an integral dimension of Sharia governance at BMT Islam Abdurrab Pekanbaru. Through structured training programs, internal workshops, and routine discussions on fiqh muamalah, Islamic business ethics, and Sharia compliance standards, the SSB actively enhances Sharia literacy and institutional capacity among the management and operational staff. This educational engagement shows that the SSB is not only a supervisory authority but also a strategic partner

in building an organizational culture that embeds Sharia values in daily decision making. Recent literature highlights that sustained internal education is a key determinant of long-term Sharia compliance, particularly in Islamic microfinance institutions, where human resource constraints remain prevalent (Rahman & Kassim, 2021). At BMT Islam Abdurrab Pekanbaru, members of the Sharia Supervisory Board are predominantly academics and Sharia practitioners who hold certifications from DSN-MUI and possess strong scholarly and practical expertise in Islamic jurisprudence and Sharia economics. Their involvement extends beyond formal compliance oversight to include active participation in strategic deliberations, financing evaluations, and the formulation of Sharia-based standard operating procedures (SOPs).

Such substantive engagement reflects the functional, rather than symbolic, role of the SSB, aligning with contemporary Sharia governance models that emphasize the effectiveness, professionalism, and institutional embeddedness of Sharia supervisory mechanisms (Hasan & Abdullah, 2024). These findings are consistent with Sharia governance theory, which emphasizes the importance of embedded supervisory mechanisms in ensuring compliance. However, they also extend the theory by demonstrating that effectiveness is not solely determined by formal structures but also by the intensity of interaction and the SSB's practical involvement in daily operations.

Challenges Faced by the Sharia Supervisory Board (SSB) in Supervising BMT Operations

Despite its formal strategic position within the governance structure, the implementation of Sharia supervision at BMT Islam Abdurrab Pekanbaru confronts a range of structural, technical, and human resource-related challenges. One of the most salient challenges is the limitations in human resource capacity. Members of the Sharia Supervisory Board (SSB) generally possess strong academic or religious backgrounds in Islamic jurisprudence; however, they do not always have sufficient exposure to the technical and operational complexities of contemporary microfinance systems. Conversely, BMT management and operational staff often demonstrate financial and managerial competence but lack a deep understanding of Shariah principles. This asymmetry of expertise may result in miscommunication, divergent interpretations of Sharia requirements, and suboptimal decision-making in the practical implementation of Sharia-compliant operations, a condition widely documented in studies on Islamic microfinance governance (Ali et al. 2021; Rahman & Kassim, 2021).

Another significant challenge is the limited executive authority of the Sharia Supervisory Board. Although the SSB is institutionally mandated to issue guidance, recommendations, and Sharia opinions, the ultimate decision-making authority remains vested in BMT management. Consequently, the effectiveness of Sharia supervision is highly contingent on managerial commitment to Sharia compliance. Empirical evidence suggests that in certain contexts, business sustainability considerations and profit-oriented objectives may take precedence over strict adherence to Sharia principles, thereby constraining the SSB's practical influence (Khan & Zahid, 2021; Hassan et al. 2023). Technical challenges also arise in the form of incomplete or insufficient operational documentation. In several instances, financing contracts and supporting documents do not fully reflect Sharia requirements, complicating the Sharia audit process and increasing the risk of discrepancies between contracts and Sharia principles. This issue is particularly critical, as documentation constitutes the primary basis for transparency, accountability, and Sharia legitimacy in Islamic financial transactions, as emphasized in the international Sharia governance standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, 2021).

Moreover, rapid product innovation and increasing adoption of financial technology pose additional challenges for the Sharia Supervisory Board. Product development within BMT operations often advances more rapidly than the issuance of explicit fatwas or the availability of clear references in classical Fiqh literature. Consequently, SSB faces difficulties in conducting timely and comprehensive Sharia assessments for products that fall outside well-established jurisprudential frameworks (Hasan & Abdullah, 2024). This challenge is compounded by varying levels of Sharia awareness among BMT employees, necessitating continuous educational interventions by the SSB beyond its formal supervisory mandate (Rahman et al. 2022). These findings underscore the need to strengthen institutional capacity, authority, and coordination mechanisms to enhance the effectiveness of Shariah governance in Islamic microfinance institutions. From a theoretical perspective, these findings partially support agency theory, particularly regarding the SSB's monitoring role in mitigating information asymmetry. However, they

also reveal the limitations of the theory in explaining power constraints and institutional dependencies, indicating that supervisory effectiveness is influenced not only by monitoring mechanisms but also by organizational dynamics and resource limitations.

Sharia Supervisory Board (SSB) Strategy to Ensure Sharia Compliance at BMT Islam

In response to the multifaceted challenges encountered in supervising Sharia compliance, the Sharia Supervisory Board (SSB) at BMT Islam Abdurrab Pekanbaru adopted a set of strategic and adaptive measures to strengthen Sharia governance within the institution. One key strategy is to conduct periodic Sharia audits, at least annually or on an ad hoc basis, in response to significant policy or operational changes. These audits systematically verify contracts, analyze financing transactions, and evaluate financial reports from a Shariah perspective, serving as a formal governance mechanism to identify potential deviations and ensure timely corrective action. This approach is consistent with international Sharia governance standards, which emphasize audit-based supervision as the core pillar of Sharia compliance (AAOIFI, 2021; Hasan, 2020). In addition, the SSB collaborates closely with BMT management to develop and continuously refine Sharia-based Standard Operating Procedures (SOPs). These SOPs serve as institutional guidelines governing all operational processes, including member onboarding, fund disbursement, financing management, and handling non-performing financing. Through this collaborative procedural approach, Sharia principles are embedded more deeply into the BMT's operational framework, reducing reliance on reactive or ad hoc supervision. Previous empirical studies have shown that standardized Sharia-compliant SOPs significantly enhance consistency and transparency in Islamic microfinance operations (Ascarya & Yumanita 2022; Rahman et al. 2022).

Capacity building is another strategic pillar of Sharia supervision at BMT Islam Abdurrab Pekanbaru. The SSB actively promotes internal training programs and workshops focused on practical fiqh mu'amalah, Islamic business ethics, and Shariah compliance standards for both management and operational staff. This educational strategy aims to build internal awareness of Sharia and shared responsibility, positioning Sharia compliance as an organizational value rather than merely a supervisory obligation to the board. The importance of human capital development in strengthening Shariah compliance has been widely acknowledged in the literature on Islamic microfinance governance (Ali et al. 2021; Rahman & Kassim, 2021). Moreover, the Sharia Supervisory Board maintains active coordination with the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) and academic experts in Islamic finance. This collaborative engagement enables the SSB to seek authoritative guidance, fatwas, and scholarly input when addressing emerging issues or innovative financial products that lack a clear jurisprudential precedent. Such external coordination is considered essential for mitigating Sharia non-compliance risks amid rapid financial innovation (Hassan et al. 2023; Hasan & Abdullah, 2024). Finally, the SSB conducts ongoing monitoring and evaluation of Sharia compliance by preparing formal Sharia supervision reports, which are submitted to management and relevant stakeholders. These reports serve as accountability instruments, tools for strategic reflection, institutional learning, and continuous improvement.

Regular reporting and evaluation mechanisms have been shown to enhance transparency, stakeholder trust, and the overall effectiveness of Sharia governance within Islamic financial institutions (Khan & Zahid, 2021; Rahman et al. 2022). The strategic practices identified in this study largely align with the existing literature on proactive and preventive Sharia governance. Nevertheless, this study provides additional empirical nuance by showing that these strategies are often adaptive and negotiated rather than systematically implemented as normative models suggest.

Effectiveness of Sharia Supervisory Board (SSB) Supervision

The effectiveness of the Sharia Supervisory Board (SSB) in overseeing the implementation of Sharia principles in Islamic microfinance institutions, such as BMT Islam Abdurrab Pekanbaru, is a crucial aspect in determining the success of implementing Islamic values in every aspect of the institution's operations (Hassan et al. 2023; Rahman & Sulaiman, 2024). The existence of SSBs is not merely a symbol of compliance with Sharia regulations; it serves as a driving force in realizing microfinance that is halal (permissible), fair, and free from riba (usury), gharar (gharar), and maysir (gambling) (AAOIFI, 2023). The effectiveness of the SSB in practice can be measured through several key indicators: the level of operational compliance with Sharia principles, management's response to SSB recommendations and fatwas, and the level of member or customer trust and satisfaction with BMT products and services (Hassan et al. 2023). Based on observations and in-depth interviews with the management and SSB at BMT Islam Abdurrab,

the overall implementation of Sharia supervision is considered effective. The SSB actively monitors operational activities, identifies potential deviations, and provides inputs and corrections to management (Rahman & Sulaiman, 2024).

Furthermore, management generally implements follow-up on the Sharia Supervisory Board's recommendations effectively, although in some cases, there are delays in execution due to technical and resource constraints (Otoritas Jasa Keuangan, 2023). One indicator of the success of the Sharia Supervisory Board supervision is the increased public trust in BMTs as trustworthy and Sharia-compliant financial institutions (Otoritas Jasa Keuangan, 2023). BMT members feel more secure and confident that their funds are managed in a halal, transparent manner, and in accordance with Islamic principles (Hassan et al. 2023). This contributes to membership growth and customer loyalty. Furthermore, the rate of Sharia financing disputes is relatively low, indicating that the contracts used are Sharia-compliant and well communicated to the parties involved (Rahman & Sulaiman, 2024). These findings support the theoretical proposition that effective Sharia governance enhances institutional trust and legitimacy. However, the results also indicate that such effectiveness is conditional and not absolute, as it is influenced by practical constraints, such as limited time, technological support, and human resource capacity. However, the effectiveness of Shariah supervision is not yet optimal. Several limitations remain, hindering the comprehensive implementation of the Sharia's supervisory function. One of the main obstacles is the limited time and direct involvement of the Sharia Supervisory Board in the daily operations of BMT (Rahman & Sulaiman, 2024). Most Sharia Supervisory Board members have other commitments, whether as academics, religious scholars, or practitioners in other institutions, which prevent them from always being fully present in BMT activities. This situation tends to make supervision periodic or document-based rather than based on direct monitoring and in-depth analysis of field practices (AAOIFI, 2023). Furthermore, limited information technology system support hinders increased supervisory effectiveness. Sharia audits, contract monitoring, and transaction reporting are still conducted manually or semi-digitally, making it difficult for the Sharia Supervisory Board (SSB) to obtain real-time data (Otoritas Jasa Keuangan, 2023). In today's fast-paced financial world, delays in information can hinder the early detection of Sharia violations or potential deviations (Hassan et al. 2023). Supervision is still primarily documentary-based, meaning that the SSB focuses more on reviewing documents or financial reports than directly investigating the technical implementation of contracts in the field (Rahman & Sulaiman, 2024).

This results in supervision not reaching practical aspects, such as field staff behavior, customer understanding of contracts, and socio-economic dynamics in the financing process. Therefore, several strategic steps are necessary to improve the effectiveness of Sharia supervision. First, BMTs must provide a broader, more strategic space for the SSB, not only as advisors but also as decision-makers on policies related to Sharia matters (AAOIFI, 2023). Second, the development of an integrated digital-based information system is crucial to support efficient, transparent, and real-time data-driven supervision (Otoritas Jasa Keuangan 2023). Third, the Sharia Supervisory Board (SPS) should be actively involved in staff training and customer development to ensure that Sharia principles are not only administratively adhered to but also substantively understood (Hassan et al. 2023). By comprehensively optimizing the SPS's role across all aspects of supervision, consultation, and education, the implementation of Sharia principles at BMT Islam Abdurrab can be made more effective. Going forward, the effectiveness of SPS supervision will be measured not only by formal compliance but also by the BMT's ability to create a fair, transparent, and empowering financial ecosystem in accordance with Islamic values (Rahman and Sulaiman, 2024). Overall, this study demonstrates that while existing theories of Sharia governance and agency provide a useful foundation, they require contextual adaptation to fully explain supervisory practices in Islamic microfinance institutions, particularly in resource-constrained environments such as BMTs. To enhance clarity and organization, the findings are summarized in Table 1, which categorizes the roles, challenges, and strategies of the Sharia Supervisory Board (SSB). Furthermore, a conceptual model is developed to illustrate the interaction between institutional constraints, supervisory processes, and governance effectiveness in Islamic microfinance institutions.

Table 1. Roles, Challenges, and Strategies of the Sharia Supervisory Board (SSB)

SSB Roles	Key Activities	Challenges Identified	Strategies Implemented
Supervisory Function	Sharia audit (periodic & ad hoc)	Limited time involvement	Periodic sharia audits
	Review of contracts & financing	Documentation gaps	Document standardization (SOPs)
	Monitoring transactions	Lack of real-time data	Strengthening reporting system
Consultative Function	Providing fatwas & recommendations	Limited authority (non-binding decisions)	Intensive coordination with management
	Advising management on products	Management dominance	External consultation with DSN-MUI
	Liaison with DSN-MUI		Strengthening advisory role
Educational Function	Internal training	Low sharia understanding among staff	Regular training programs
	Sharia literacy programs	Resource limitations	Internal knowledge sharing
	Workshops on fiqh muamalah		Embedding sharia culture
Governance Integration	SOP development	Hybrid institutional complexity (maal & tamwil)	Sharia-based SOP development
	Participation in decision-making	Product innovation challenges	Adaptive supervision strategies

Managerial Implications

The managerial implications of this study emphasize the importance of strengthening the role of the Sharia Supervisory Board (SSB) within the BMT governance structure as a strategic element, rather than merely a compliance formality. BMT management needs to increase SSB's active involvement in product planning, operational policy evaluation, and strategic decision-making processes that could pose Shariah non-compliance risks. This strengthening can be achieved through the development of clear standard operating procedures (SOPs) for Sharia supervision, a clear division of authority between the SSB and management, and structured periodic reporting and evaluation mechanisms. Furthermore, improving human resource capacity is crucial, both through ongoing training in Islamic jurisprudence (fiqh muamalah) and Sharia finance and using information technology to support the monitoring and documentation of Sharia compliance. The findings of this study also imply the need for more intensive and collaborative communication between the SSB and management so that Sharia supervision is not perceived as a control function that hinders operations but rather as a strategic partner in maintaining the legitimacy, public trust, and sustainability of the BMT. By implementing these recommendations, BMTs can ensure the consistent application of Sharia principles, despite their structural limitations as microfinance institutions.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study concludes that the Sharia Supervisory Board (SSB) plays a highly strategic role in ensuring the implementation of Sharia principles at BMT Islam Abdurrab, Pekanbaru. The SSB not only functions as a supervisor of Sharia compliance but also acts as an internal advisor and educator, guiding the operations and development of financial products to align with the principles of muamalah fiqh (Islamic jurisprudence). Although the effectiveness of sharia supervision has generally been good, the SSB still faces various structural challenges, such as limited execution authority, a lack of human resources with dual competencies in sharia and microfinance, and the dynamic development of financial products and technologies that have not been fully balanced with adequate Sharia references. To respond to these conditions, SSB have implemented various strategies, including regular sharia audits, strengthening sharia-based standard operating procedures, internal training, and collaboration with the DSN-MUI and academics. These strategies have proven effective in maintaining consistent Sharia compliance and strengthening BMT's legitimacy in the public eye.

These findings are generally consistent with previous studies that emphasize the strategic role of the Sharia

Supervisory Board in maintaining compliance and institutional legitimacy. However, this study also reveals a contrasting insight: supervisory effectiveness is not solely determined by formal structures but is highly dependent on practical involvement, institutional constraints, and relational dynamics within the organization. From a theoretical perspective, this study reinforces the sharia governance theory by demonstrating that effective supervision requires not only formal compliance mechanisms but also embedded practices within organizational routines. In relation to agency theory, the findings confirm the SSB's monitoring role in mitigating conflicts of interest; however, they also highlight its limitations, particularly in contexts where the SSB lacks full decision-making authority. Furthermore, this study contributes to the micro-level governance perspective by showing that Sharia compliance is shaped by everyday interactions, communication patterns, and negotiation processes between the SSB and management, rather than being a purely formal or static outcome.

Recommendations

Based on the research findings, several recommendations can be made to optimize the role of the Sharia Supervisory Board (SPS) and strengthen Sharia governance in BMTs. First, SPS's capacity needs to be increased through ongoing training and coaching to ensure that members have a balanced understanding of Sharia and microfinance practices. Second, BMT management advises strengthening the SPS's authority by involving them more actively in strategic decision-making, particularly in contracts, product development, and financial policies. Third, BMTs should encourage the digitalization of Sharia supervision by developing an integrated information system that enables the SPS to monitor transactions and report in real time, thereby improving efficiency, transparency, and accountability. Fourth, the internalization of Sharia values across the organization needs to be strengthened through educational activities and regular training for all staff, so that commitment to Sharia principles is not only the responsibility of the SPS but also becomes part of the overall organizational culture.

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