

Sharia Supervisory Boards and Their Role in Strengthening the Competitive Advantage of Islamic Banks

A Case Study of Al-Salam Bank and Al-Baraka Bank (M'sila Branch)

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Abstract:

This study aims to analyse the role of Sharia boards in enhancing the competitive advantage of Islamic banks, with a focus on a case study of Al Salam Bank and Al Baraka Bank, M'sila branch. The research adopted a descriptive-analytical approach, using a questionnaire as a primary tool for data collection from a sample of employees and customers.

The study concluded that Sharia boards enhance the competitiveness of Islamic banks by ensuring Sharia compliance and building customer trust. They also contribute to the development of innovative financial products that meet market needs within Sharia guidelines. The results indicated that the transparency of Sharia reports enhances the credibility and attractiveness of these banks. It affirmed that the presence of effective Sharia boards represents a decisive competitive advantage for Islamic banks.

Keywords: Sharia Supervisory Board, Islamic Banks, Competitive Advantage.

Jel Classification Codes: : G21, G34, Z12

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1. INTRODUCTION

Islamic banks have witnessed remarkable growth in recent years, supported by their distinctive commitment to Islamic Sharia principles. Sharia Supervisory Boards (SSBs) constitute a fundamental element in regulating these banks and ensuring their Sharia compliance, which positively impacts customer trust and loyalty. Additionally, these boards contribute to developing Sharia-compliant financial products that meet diverse market needs.

Thus, SSBs emerge as a key driver for enhancing the competitive edge of Islamic banks. Through their ongoing oversight and development of Sharia-compliant financial products, they ensure these banks' differentiation from conventional counterparts. They also foster trust and transparency in financial transactions, granting Islamic banks a proportional advantage in attracting customers seeking financial solutions aligned with Islamic values.

Research Problem:

Accordingly, the central research question is: What is the role of Sharia Supervisory Boards in enhancing the competitive advantage of Islamic banks?

This research problem gives rise to the following sub-questions:

- To what extent do SSBs influence customer trust and loyalty?
- Do SSBs contribute to developing innovative financial products that grant Islamic banks a competitive advantage?

Hypotheses:

To address this problem, the following null hypotheses were adopted:

H₀: There is no statistically significant effect of SSBs' role in enhancing customer trust in Islamic banks.

H₀: There is no statistically significant effect of SSBs' contribution to developing innovative financial products that increase Islamic banks' competitive advantage.

Study Significance:

This study's significance stems from Islamic banks' need to strengthen their competitiveness amid increasing competition with conventional banks. SSBs serve as a cornerstone for ensuring Sharia compliance and transactional trust. The study also provides a practical framework to measure these boards' impact on service quality and customer loyalty, contributing to banking policy development.

Study Objectives:

- Analyze SSBs' role in ensuring Sharia compliance of banking transactions.
- Assess SSBs' impact on enhancing customer trust and loyalty.
- Determine the extent of SSBs' contribution to developing innovative financial products that increase Islamic banks' competitiveness.

Methodology:

Given that scientific research must adopt an approach to address the research problem, this study employs a **descriptive-analytical approach** as the optimal method. It examines the nature of competitive advantage and Sharia supervisory boards to elucidate their role in enhancing Islamic banks' competitiveness.

The theoretical framework will be applied to the practical aspect through a case study of Al-Baraka and Al-Salam banks.

Thus, a questionnaire was administered to employees of both banks Al-Baraka and Al-Salam Banks, Branch of M'sila, to evaluate SSBs' role in strengthening competitive advantage.

Study scope: To define the research scope, the following boundaries were established:

- Temporal scope: The fieldwork was conducted during April 2025.
- Geographical scope: The study was limited to Al-Salam Bank and Al-Baraka Bank (M'sila Branch) for data collection and questionnaire distribution among employees.

2. Sharia Supervisory Boards

2-1 The Concept of Sharia Supervisory Boards

The Sharia Supervisory Board is an independent body of specialists in Islamic jurisprudence of transactions (Fiqh al-Mu'amalat) and Islamic finance, with expertise in banking, financial, and legal matters in general. It consists of at least (five) members, three of whom are specialists in Islamic jurisprudence (Fiqh) and its principles (Usul), Islamic economics,

and Islamic financial and banking transactions, and (two) with expertise in banking, financial, and legal affairs who are knowledgeable about the Sharia requirements of Islamic banking (Instructions Division, 2018, p. 3).

2-2 Functions of the Sharia Supervisory Board:

The Sharia Supervisory Board undertakes a large number of tasks. It is worth noting that the integrity of Sharia application is not the sole responsibility of the Sharia Supervisory Board; rather, all employees are also responsible for it:

The board supervises all Sharia aspects within the institution to ensure that its transactions conform to the principles of Islamic Sharia and the board's fatwas, and to object to any non-compliant transactions.

The board follows up on the implementation of the fatwas and Sharia opinions it issues to address any practical problems that may arise during application, which is also part of ex-post supervision.

Auditing processes are among the most important functions carried out by Sharia Supervisory Boards in Islamic financial institutions, known as ex-post supervision processes. This includes reviewing all business, operations, contracts, and files by verifying the institution's assets and reviewing the balance sheet and final accounts to ensure they have all been prepared in accordance with the principles of Islamic Sharia.

The board is responsible for submitting, receiving, and then discussing periodic reports. The Sharia supervision in Islamic financial institutions issues reports on the operations it has conducted, as both the Sharia and financial auditors are accountable to depositors and shareholders for presenting a report on the integrity of the business operations.

The Sharia Supervisory Board works on evaluating the social performance of Islamic financial institutions on two levels. The first level includes the role of the internal social responsibility audit and the Sharia Supervisory Board in assessing social performance. The second level involves the objective relationship between the external social responsibility audit and the Sharia Supervisory Board, and the impact of this relationship on evaluating the social performance of Islamic financial institutions (Atia, 2015, p. 297).

2-3 The Importance of Sharia Supervisory Boards in Islamic Banks:

The presence of a Sharia Supervisory Board (SSB) in an Islamic bank carries the following implications:

- **Ensuring Sharia Compliance:** The SSB confirms that the Islamic bank adheres to Sharia rulings in all its transactions. One of its primary responsibilities is to verify the Islamic character of the bank in both form and substance—starting from its foundational policies, through its banking tools and methods, including services, investment, and credit activities.

- A Key Regulatory Body: “The Sharia Supervisory Board is considered one of the most important regulatory bodies newly introduced in the institutions of this industry. It engages in more than one type of supervision recognized in Islamic law and constitutes the foundation upon which many stakeholders rely to assess the extent of these institutions’ adherence to Sharia rulings. It also represents one of the fundamental distinctions between Islamic and conventional banks. These boards have played a significant role in this regard, making it unsurprising to state that Islamic banks owe a great deal to their Sharia Supervisory Boards.” (Souhila, 2023, p. 408)

3. Competitive Advantage

3-1 Definition of Competitive Advantage

Competitive advantage refers to an institution's ability to compete with other institutions in the same market, offering similar goods and services, while maintaining continuous improvement and achieving efficiencies that match or surpass competitors. Its primary sources include **cost, quality, productivity, innovation, responsiveness, and reaction speed** (Thierry Bertrand, 1998, p. 360).

3-2- Sources of Competitive Advantage

The main sources are as follows: (Nahassia, 2002-2003, pp. 57-60):

- **Innovation:** The rapid increase in the number of institutions and the accompanying global competition have led firms to prioritize innovation alongside cost and quality. Innovation has become a renewable source of competitiveness.
- **Time Efficiency:** Whether in production management or service management, time has become an increasingly critical source of competitive advantage. The ability to reach customers more quickly than competitors provides a distinct edge. In this regard, time-based competitive advantage can be defined in terms of reducing customer cycle times and accelerating the delivery of new services, which is realized through the shortening of the product life cycle.
- **Knowledge:** If knowledge is the accumulated experience, information, and expertise of individuals or societies at a given time, then we are undoubtedly witnessing a "knowledge explosion." Knowledge has become the most crucial resource in creating competitive advantage.

In an era of rapid market evolution, technological advancement, and intense competition, successful institutions are those that **integrate new knowledge** and translate it into innovative technologies, methods, products, and services.

3-4The Role of Sharia Boards in Enhancing the Competitive Advantage of Islamic Banks.

Sharia boards play a pivotal role in enhancing the competitive advantage of Islamic banks through several aspects, the most important of which are:

➤ **Ensuring Sharia Compliance**

- Sharia boards review banking products and operations to ensure their compliance with the principles of Islamic Sharia, which enhances customer trust and attracts segments that prefer Islamic financial transactions.
- This compliance distinguishes Islamic banks from conventional banks, making them the first choice for investors and depositors seeking Sharia commitment.

➤ **Enhancing Trust and Transparency**

- Issuing periodical fatwas and Sharia reports increases the credibility of the Islamic bank and demonstrates its commitment to ethical and Sharia principles.
- Transparency in disclosing the mechanism for profit distribution and fund allocation attracts customers seeking fairness and clarity in financial transactions.

➤ **Innovation in Financial Products**

- Sharia boards work with bank teams to develop innovative products that meet customer needs while adhering to Sharia (such as Sukuk, deferred Murabaha).
- These innovations grant Islamic banks a competitive advantage in the market and expand their customer base.

➤ **Sharia Risk Management**

- “The evaluation of risks arising from Sharia non-compliance—such as riba (usury), gharar (excessive uncertainty), and jahalah (ambiguity)—serves to protect the bank against violations that could undermine stakeholder trust or expose it to legal liabilities.”
- The presence of precise Sharia controls reduces the bank's exposure to operational and legal risks.

➤ **Marketing and Brand Differentiation**

- Focusing on the ethical dimension in marketing campaigns attracts customers who value social and Sharia aspects.

➤ **Compliance with International Standards**

- Keeping pace with global Sharia standards (such as AAOIFI and Islamic Financial Services Board standards) facilitates the bank's integration into international markets and attracts the interest of foreign investors.

➤ **Supporting Sustainable Growth**

- Focusing on responsible financing and investing in real economy sectors (such as infrastructure, agriculture) enhances financial stability and reduces volatility, giving the Islamic bank an advantage in economic crisis.

Sharia boards are not merely regulatory bodies but strategic partners in building the Islamic bank's reputation and distinction in the market. By ensuring compliance, enhancing trust, and fostering innovation, these boards contribute to making Islamic banks an attractive option for customers, thereby enhancing their market share and competitive ability.

3- The Applied aspect:

3-1 Research Methodology

The researcher adopted a **descriptive-analytical approach** by referring to specialized books, research papers, and studies, in addition to a **questionnaire** designed and developed to collect the required data. The data were analyzed using **SPSS (Version 26)** for statistical processing.

3-2 Data Collection Sources

The data for this study were collected from:

- **Secondary sources:** Books, academic journals, scientific research, and reports.
- **Primary sources:** Responses from the study sample participants through the administered questionnaire.

3-3 Study Population and Sample

One of the fundamental steps in research is defining the study sample, which consists of all units relevant to the research problem. The sample size varies depending on the study's objectives and desired precision.

In this study, the research sample included **40 employees—20 from Al-Salam Bank (M'sila Branch) and 20 from Al-Baraka Bank (M'sila Branch)**. A total of **40 questionnaires** were distributed, with **35 valid responses** retained for analysis, while the remaining were discarded due to incompleteness.

3-4 Research Instrument

The researcher used a **questionnaire** as the primary data collection tool, given its suitability for field studies in gathering factual information linked to a specific context. The collected data were processed using **SPSS**.

The questionnaire covered the following axis:

Axis 1: Demographic Data

Axis 2: The Role of Sharia Supervisory Boards in Ensuring Compliance and Trust

Axis 3: The Role of Sharia Supervisory Boards in Enhancing Competitive Positioning and Market Image

The questionnaire was designed in a **closed-ended format**, with predefined response options for each question. A **5-point Likert scale** was used for measurement, as shown in **Table 1**.

Table 1 : Likert Scale Grading

Response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Score	5	4	3	2	1

Source: Prepared by the researcher

3-5 Presentation and Analysis of the Study

➤ Descriptive Analysis of the Study Sample

For the comprehensive study of the research sample and to identify the sources of information provided through the questionnaire, data related to the members of the sample were collected. This was done based on the elements shown in Table No. (02), which pertain to the characteristics and attributes associated with the sample members, as follows:

Table No. 02: Characteristics and Attributes of the Sample Members

Demographic Data	Category	Frequency	Percentage (%)
Age	Under 25 years	2	5%
	25-35 years	10	29%
	36-45 years	9	26%
	Over 45years	14	40%
Total		35	100%
Educational Qualification	Higher Technician Diploma	2	5%
	Bachelor's Degree (Licence)	18	51%
	Master's Degree	8	23%
	PhD	3	9%
	State Engineering Diploma	4	12%
Total		35	100%
Academic Specialization	Banking	8	23%
	Commercial, Economic & Financial Sciences	9	26%
	Administrative & Legal Sciences	7	20%
	Other Fields	11	31%
	Total		35

Source: Prepared by the researcher based on SPSS outputs.

Its results will be interpreted as follows:

- **Age:** Within the study sample, the most represented age category was individuals above 45 years, accounting for 40%. Those aged between 25 and 35 years constituted 29%, while respondents below 25 years represented only 5%. This distribution highlights that clients above 45 years old form the predominant segment utilizing the bank's services."
- **Educational Qualification:** We note that the Bachelor's degree is predominant among the sample members, representing 51% of the total sample. 23% hold a Master's degree, and 12% hold a State Engineer degree, while only 9% have obtained

a PhD within the bank. The lowest percentage is for those with a Higher Technician degree at 5%. This indicates a diversity of groups using the bank's services.

- **Academic Specialization:** The common academic specializations among the bank's clients are "Other" at 31%, followed by "Commercial, Economics, and Financial Sciences" at 26%. The "Banking" specialization accounts for 23%, and "Administrative and Legal Sciences" for 20%. We observe that the "Other" category is dominant due to the diverse segments of society that seek banking services.
- **Analysis of Study Data:** In this section, we will study a set of variables, including:
 - **Reliability of the Questionnaire:** The reliability of the questionnaire was estimated on the selected sample using the Cronbach's Alpha coefficient. This method is used because it seeks to measure the internal consistency among the responses of the study population. A Cronbach's Alpha value is considered statistically acceptable if it is 60% or higher; if it is lower, it is considered weak. In this test, we will extract the Cronbach's Alpha coefficient for the items of the questionnaire.

Table No. 03: Result of the Cronbach's Alpha Coefficient Test

Cronbach's Alpha	Number of Items
0,703	11

Source: Prepared by the researcher based on SPSS Version 26 outputs.

Table (03) shows that the Cronbach's alpha coefficient for all items of the questionnaire, which consists of 14 items across the first, second, and third axes, is estimated at 70%. Since this percentage exceeds 60%, it indicates a high level of reliability and consistency of the measurement instrument.

- **Questionnaire Axis Analysis Results:** For an accurate interpretation of the results, the analysis scale categories were determined as follows:

Range Calculation: This is the difference between the highest and lowest value on the Likert scale: $5 - 1 = 4$

Class Interval Determination: $\text{Range} \div \text{Number of classes} = 4 \div 5 = 0.8$
 $4 / 5 = 0.8$

Accordingly, the scale categories are classified as follows:

Category	Score Range	Interpretation
Strongly Disagree	1.00 – 1.80	Very Weak Degree
Disagree	1.81 – 2.60	Weak Degree
Neutral	2.61 – 3.40	Moderate Degree
Agree	3.41 – 4.20	High Degree
Strongly Agree	4.21 – 5.00	Very High Degree

✓ **First Hypothesis:**

Table (4): Arithmetic Means and Standard Deviations for the First Hypothesis

Item	Arithmetic Mean	Standard Deviation	Category	Rank
Sharia boards contribute to enhancing customer trust in Islamic banks through Sharia supervision.	4.68	0.471	Very High	2
The existence of an independent Sharia board increases the credibility of the Islamic bank compared to conventional banks.	4.71	0.458	Very High	1
Sharia boards periodically review financial products to ensure their compliance with Sharia principles.	4.28	0.788	Very High	5
The Sharia board facilitates business procedures without compromising Sharia compliance.	4.34	0.639	Very High	3
Sharia compliance reduces legal and reputational risks for Islamic banks.	4.31	0.796	Very High	4
Overall Mean	4.46	0.630	Very High	

Source: Prepared by the researcher using SPSS outputs.

The results show an **arithmetic mean of 4.46** and a **standard deviation of 0.630**. Responses from the study sample ranged between:

- A **high of 4.71** for **Item (2):** *The presence of an independent Sharia supervisory board enhances the credibility of Islamic banks compared to conventional banks."*
- A **low of 4.28** for **Item (3):** *The Sharia board facilitates operational procedures without compromising Sharia compliance."*

These findings **support rejecting the null hypothesis (H_0)**. This conclusion is further confirmed by a **Student's t-test**, with detailed results presented in **Table (5)** below:

Table (5): t-Test Results for the First Hypothesis

	Test Value 3.14					
	95% Confidence Interval		Mean Difference	Sig	df	t
	Upper	Lower				
The Role of Sharia Supervisory Boards in ensuring Sharia compliance and trust	4.6099	4.3272	4.46857	.000	34	64,254

Source: Prepared by the researcher based on SPSS program outputs.

It is evident from the data in the preceding table (5) that the calculated t-value for this hypothesis reached (64.254), which is greater than the t-value of (2.021). The decision rule indicates that the null hypothesis is rejected if the calculated t-value is greater than the t-value. Therefore, the alternative hypothesis is accepted, which states that "There is a statistically significant effect of the role of Sharia boards on enhancing customer trust in Islamic banks." This is confirmed by the significance value (Sig) of .000, which is less than 5%.

✓ **Second Hypothesis:**

Table No. (6): Arithmetic Means and Standard Deviations for the Second Hypothesis

Item	Arithmetic Mean	Standard Deviation	Category	Rank
Periodic SSB reports significantly improve service quality	4.37	0.490	Very High	3
SSB report transparency enhances customer loyalty	4.28	0.667	Very High	5
Sharia compliance provides strong marketing advantage	4.14	0.974	High	6
SSBs facilitate market-driven product development while ensuring compliance	4.61	0.493	Very High	1
SSB frameworks enhance competitive positioning among Islamic banks	4.37	0.689	Very High	3
SSB reputation and member expertise are key customer acquisition factors	4.60	0.603	Very High	2
Overall Mean	4.39	0.652		

Source: Prepared by the researcher using SPSS outputs.

Statistical Analysis Results:

- **Overall Mean:** 4.39 (SD = 0.652) on 5-point Likert scale
- **Highest-Rated Item (4.61):** *Sharia supervisory boards assist in developing new market-responsive products while maintaining Sharia compliance"*
- **Lowest-Rated Item (4.14):** *Sharia compliance provides strong marketing advantages for our products/services"*

These results **support rejecting the null hypothesis (H₀)**. The statistical significance is confirmed through Student's t-test as shown in:

Table 7: t-Test Results for the Second Hypothesis

	Test Value 3.14					
	95% Confidence Interval		Mean Difference	Sig	df	t
	Upper bound	Lower bound				
The role of the Sharia board in enhancing the competitive position and image of the bank in the market	4.527	4.2961	4.41	.000	34	77.625

The data in **Table (7)** reveals that the calculated *t*-value for this hypothesis reached (**77.625**), which is higher than the *t*-value of (**2.021**). Since the calculated *t*-value exceeds the t tablevalue, the **alternative hypothesis**—which posits a statistically

significant impact of *Sharia* boards' contributions to developing innovative financial products that enhance the competitive advantage of Islamic banks—is accepted.

This conclusion is further supported by the **significance value (Sig)** of **0.000**, which is below the 5%.

Through questionnaire analysis and inductive examination of the hypotheses, the results confirm their validity at the hypothesis level for both *Al-Salam Bank* and *Al-Baraka Bank* (M'sila Branch). This underscores the role of *Sharia* supervisory boards in strengthening the competitive edge of Islamic banks.

4. Conclusion:

Sharia supervisory boards (SSBs) are among the most critical pillars of the Islamic banking industry, serving as a bridge between *Sharia* principles and modern banking requirements. These boards play a pivotal role in preserving the Islamic identity of banks through continuous oversight of financial products and services, while striving to keep pace with developments in the financial sector without compromising *Sharia* compliance. They also enhance customer and investor confidence by ensuring transparency and adherence to Islamic rulings. Their vital role becomes particularly evident in light of the competitive challenges Islamic banks face against conventional counterparts, making them a key factor in achieving excellence and sustainability in this sector.

Key Findings:

- The study confirmed a positive relationship between the effectiveness of SSBs and increased customer trust in Islamic banks.
- SSBs have significantly contributed to developing innovative financial products that meet market demands while maintaining *Sharia* compliance.
- Transparency in *Sharia* reports has strengthened the credibility and competitive appeal of Islamic banks.

Recommendations :

- ✓ **Enhancing SSB Independence:** Strengthening the autonomy of SSBs to ensure effective oversight and developmental roles.
- ✓ **Investing in Member Competencies:** Developing the expertise of SSB members to keep pace with financial innovations.
- ✓ **Improving Transparency:** Increasing disclosure of SSB activities and decisions to bolster stakeholder confidence.
- ✓ **Standardizing *Sharia* Standards:** Promoting harmonization of *Sharia* guidelines across Islamic banks to enhance sector-wide trust.

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