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Board Characteristics and Islamic Bank Performance: The Role of Size as the Moderating Variable – Evidence from Indonesia

Muhamad Umar Mai*

Associate Professor, Department of Accounting, Politeknik Negeri Bandung, Indonesia

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ABSTRACT

This study examines the influence of board characteristics on bank performance with bank size as the moderating variable. The study was performed on Islamic Commercial Bank (BUS, Bank Umum Syariah) in Indonesia for the period of 2010-2019. The samples were 127 BUS-year observations. They were analyzed by applying ordinary least square method and processed with Warp-PLS application. Board characteristics are served as proxy variables with board of directors size, board of directors meetings, and female board of directors while bank performance is served as proxy with Return On Asset. The result conveys that female directors in the board and board of directors meeting have positive and significant influence on Return On Asset. On the other hand, board of directors size shows an insignificant influence. The results also show that size moderates negatively the effect of board of directors as well as board of directors meeting on Return on Asset. However, it is insignificant in moderating the influence of female directors in the board over Return On Asset.

KEYWORDS

Board characteristics
Bank performance
Islamic commercial bank
Bank size
ROA

INTRODUCTION

Bank corporate governance has more earnestly become the center of attention from academics and practitioners since the global financial crisis happened in 2008 (Bezawada & Adaelli, 2020). Poor corporate governance, in banks specifically and other companies generally, is considered as one of the main causes of the global financial crisis (Deakin, 2010). It is depicted in a number of studies presenting that corporate governance practice improves organization performance in a stable economic condition and provides protection against negative impacts of the financial crisis in a volatile economic situation (Gupta, Krishnamurti, & Tourani-Rad, 2013; Hwang & Jung, 2016; Ntim, Soobaroyen, & Broad, 2017). However, Orazalin, Mahmood, & Jung Lee (2016) state that corporate governance does not result in higher operational performance in Russian banks during the crisis period. In addition to that, Arora & Sharma (2016) report that profitability is unrelated to corporate governance indicator in Indian manufacture companies; Al-Nasser & Muhammed (2017) convey that financial crisis causes performance reduction of Islamic banks in developing countries if it is viewed

*Corresponding Author: umar.mai@polban.ac.id; doi: 10.35313/ijabr.v3i1.123

from a conventional banking perspective; Allam (2018) provides proofs that not all non-financial companies in the United Kingdom have a lower agency conflict and higher company performance; Aslam & Haron (2020) conclude that board size and risk management committee, two important indicators of corporate governance, negatively affect Islamic banks performance in the Middle East, South Asia, and Southeast Asia. Their study suggests Islamic banks improve their financial performance through better governance mechanisms.

Board characteristic is the most vital aspect in corporate governance aside from ownership structure, audit committee, and reputation of the public accountant who examines a company's financial reports (Detthamrong, Chancharat, & Vithessonthi, 2017). A number of studies have been conducted to verify the effect of board characteristics on company performance, such as Shettima & Dzolkarnaini (2018), Haris, Yao, Tariq, Malik, & Javaid (2019), Al-Jaifi (2020), and Aslam & Haron (2020). However, those studies report inconsistent results. Shettima & Dzolkarnaini (2018) and Bezawada & Adaelli (2020), for instance, document a positive correlation between board size and bank performance in which the board size is ranging from six to nine people. Meanwhile, Hakimi et al. (2018) present that board size does not affect Islamic banks' performance. On the contrary, Haris et al. (2019) and Aslam & Haron (2020) report that board size negatively affects Islamic banks' performance. Referring to the discrepancy of previous studies results, presumably, the correlation between board size and Islamic banks performance should be re-analyzed, in the Indonesian context specifically.

Board activity and board gender diversity are other two important indicators of board characteristics a side from board size. However, previous studies regarding the effect of these two on company performance also provide jumbled proofs. Concerning the correlation between board activity and company performance, Ghazali (2020) depicts that board activity positively influences the performance of the entire non-financial companies in the Malaysia Stock Market. Meanwhile, Lin, Yeh, & Yang (2014) state that if independent directors do not fully involve in essential ideas exchange among themselves and/or with the management, board activity possibly is not beneficial. Bezawada & Adaelli (2020) claim that board activity is related to banks' performance in India. However, the study of Aslam & Haron (2020) in Islamic banks in the Middle East conveys that board activity is unrelated to bank performance when it is served as a proxy with Return on Asset (ROA), but it will be positive when it is served as a proxy with Return on Equity (ROE). The discussion related to the correlation between board activity and bank performance is more directed at the discrepancy of previous studies. Therefore, it is essential and intriguing to re-analyze it, specifically for Islamic banks in Indonesia.

In relation to the correlation between board gender diversity and company performance, Al-Jaifi (2020) reports that board gender diversity enhances the corporate governance performance of banks in ASEAN. Furthermore, Jubilee, Khong, & Hung (2018) report that it positively affects banks' performance in Malaysia. Kramarić, Aleksic, & Pejic-Bach (2018) discover that board gender diversity is not vital for the performance of insurance companies in Croatia. On the other hand, Jadah, Murugiah, & Adzis (2016) claim that female board of directors becomes one of the causes for banks performance fall in Iraq. It is claimed that female directors can raise some conflicts (Richard, Barnett, Dwyer, & Chadwick, 2004), decrease gratification, cohesion, and commitment (Jackson, Joshi, & Erhardt, 2003) which will reduce company performance. Islam proposes a gender stereotype and assumes that women's roles and responsibilities are centered on family (Khan, Fraz, Hassan, & Abedifar, 2020). This stereotype leads to a perception that the presence of women in a company board of directors is not aligned with the perception of most Muslims. However, Jabari & Muhamad (2020) conclude that Islamic banks in Indonesia and Malaysia with gender diversity in their board of directors exhibit better performance.

Islamic banking is a segment of the global financial industry that has grown most rapidly. World Islamic Banking Competitiveness (2018-2019) reports that the growth of Islamic banking and finance is at the level of 15-20%. The total assets have been accumulated to USD 2.19 trillion by the end of 2018. However, the Financial Service Authority (OJK, *Otoritas Jasa Keuangan*) of Indonesia records the growth of the national sharia financial industry by 11,25% in May 2019, which was stunted compared to 2018 by 13.98%.The market value of the Islamic financial industry hit IDR 727.08 trillion and the total asset was IDR 484.62 trillion (https://www.ojk.go.id/). OJK also records that in the last two years (2017-2018), the asset growth of Islamic banking experienced significant deceleration. This was due to, first, the rapid growth of Islamic banking assets several years ago which occurred because of minor asset value of this industry subject. Thus, no matter how minor every asset increase was, it would look as significant effect. Second, it was difficult for the Islamic banking industry to look for client financing (https://cashcashpro.id/blog/Syariah/OJK).

However, the observation on the performance of Islamic commercial banks for the period of 2015-2019 indicated a significant jump, especially from 2018 to 2019. The observation result is illustrated in Figure 1 below.

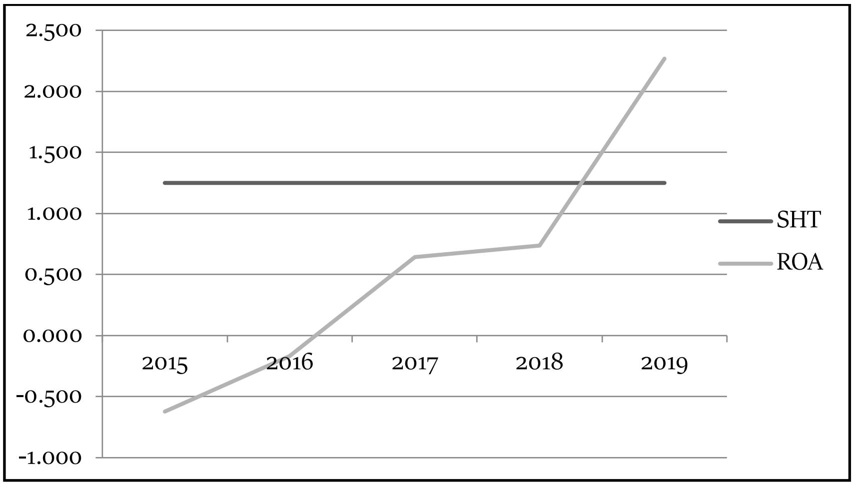

Figure 1. ROA of Islamic commercial banks for the period of 2015-2019

Figure 1 indicates that the ROA average of Islamic Commercial Banks in 2019 has met, and even exceeded, the healthy criteria according to RGEC method (Risk Profile, Good Corporate Governance, Earning and Capital) even though, in that year and the previous two years, the asset growth experienced significant deceleration. The results of these observations are in accordance with Ramdhoni & Fauzi (2020) study using a sample of 13 Indonesian Islamic Banks Bank for the period 2012 – 2016 which concluded that all Islamic banks are relatively healthy. This phenomenon indicates that the asset growth of Indonesian Islamic banking in the last several years has possibly ignore the important role of the optimum size. Olson & Zoubi (2011) discover that banks in MENA region are less efficient compared to those in Europe, but they are similar to banks in developing countries. The researchers conclude that it is because almost all banks in MENA region are below the optimum size. However, Bahrini (2017) recommends that Islamic banks' managers in MENA must focus more on their management practice improvement rather than size improvement. Based on the data and previous studies' results, this study aims to verify the effect of board characteristics on Islamic commercial banks' performance with size as the moderating variable. Besides its capability to reveal the immediate effect of board characteristics on Islamic commercial bank performance, this study is also capable to answer whether bank size strengthens or weakens that particular effect.

LITERATURE REVIEW

The available literature about bank corporate governance is more leaning toward the effect of board characteristics on bank performance (Liang, Xu, & Jiraporn, 2013). According to Tai (2015) and Wintoki, Linck, & Netter (2012), regulation and company operational activities affect the correlation between board characteristics and performance. It means that within a semi-governed environment, there is a positive correlation between board characteristics and bank performance (Hassan, Naser, & Hijazi, 2016; McCahery, Sautner, & Starks 2016). Meanwhile, in a governed environment, Hwang & Jung (2016) and Adams, Hermalin, & Weisbach (2010) discover an insignificant correlation between these two. This is possible due to the limited conflict of interest among stakeholders since companies give equal rights to them (Alsartawi, 2019).

Islamic bank in Indonesia is determined based on The Decree of the Capital Market and Financial Institution Supervisory Board Number Kep-208/Bl/2012 regarding Criteria and Issuance of Sharia Securities List. It states that the company that can be listed into a category of Indonesia Sharia Stock Index must meet two requirements: first, the company business activities do not violate Islamic law, and second, it meets the financial ratio as follows: (a) the total interest-based debt compared to the total asset is not more than 45%, and (b) the total interest and other non-halal revenue compared to the total business revenue and other revenue are 10% maximum. According to this, Islamic banks in Indonesia tend to be categorized into semi-governed environment. Therefore, it is expected that there is a positive correlation between board characteristics and Islamic commercial banks' performance, as predicted by Hassan et al. (2016) and McCahery et al. (2016).

Board Size and Bank Performance

Hussien, Alam, Murad, & Wahid (2019) explain that board of directors provides feedbacks, guidance and capabilities, authenticity and reputation, channels to discuss data with the outside association and exclusive access to assurances or provisions from significant factors outside the organization. The available literature concerning board size that is suitable for an organization is still vague. A larger board possesses greater capabilities to oversee top management, make decisions, and allocate as well as increase organization assets (Grassa & Matoussi, 2014). However, Haris et al. (2019) observe that a larger board of directors is less motivated to maintain management. This is due to the free-riding issue among directors in an organization. Besides, it is claimed that a larger board often have difficulties with coordination and correspondence, and they require more time in decision making. Otherwise, Faisal, Hassan, Shahid, Rizwan, & Qureshi (2016) explain that a smaller board of directors is more efficient and able to make optimum decisions in enhancing organization strengths.

In the context of Islamic banks, empirical evidence for the correlation between board size and performance is also problematic. A negative correlation between them is reported by Aslam & Haron (2020) on Islamic banks in the Middle East, South Asia, and Southeast Asia. Meanwhile, Khan & Zahid (2020) convey that board size does not affect the performance of Islamic banks in Asia. Meanwhile, a positive correlation between board size and performance is presented by Hakimi et al. (2018) on Islamic banks in Bahrain. Similarly, Mezzi (2018) states that board size is a strong determinant of Islamic banks' efficiency in Malaysia and GCC countries which then leads to performance improvement. Literature concerning the correlation between board size and Islamic banks' performance provides inconsistent evidence. Nonetheless, in the context of Islamic banks in Indonesia, Islamic commercial banks with larger boards are expected to have better performance, as the results of the study of Hakimi et al. (2018) in Bahrain. Therefore, the hypothesis proposed is:

H_1: Board size has a positive influence on Islamic bank performance

Board Activity and Bank Performance

Academics and policy makers have argued over whether board activity is beneficial or detrimental for a company (Brick & Chidambaran, 2010). Literature has considered board meeting frequency as a measure of directors' involvement and commitment to supervise top management, and it is utilized as the proxy for board activeness, board perseverance, and board effectivity (Min & Chizema, 2018). A routine and frequent board meeting is considered a vital indicator for board members' capability to control executive managers and to ensure the equity protection of stockholders (Ntim et al., 2017). Ghazali (2020) conveys that board activity positively affects the entire non-financial companies' performance in Malaysia. However, Vafeas (1999) argues that routine meetings may contribute negatively to performance since the majority of meetings are dominated by protocol and independent board always spends their time to understand the company's matters. Besides, a board meeting is always accompanied by expense hikes for preparing and conducting it, which leads to weaker company performance. Similarly, Bezawada & Adaelli (2020) also present a negative correlation between board meeting frequency and performance.

In the context of Islamic banks, Aslam & Haron (2020) state that board activity does not affect Islamic bank performance in the Middle East, South Asia, and Southeast Asia when it serves as a proxy with ROA, but it affects positively when it serves as a proxy with ROE. Alsartawi (2019) presents that board activity negatively affects the performance of Islamic banks in GCC countries. He argues that most institutional investors refuse to appoint independent members, hence it decreases the meeting frequency which then improves performance (ROA). In Indonesia, board independence is determined by a board of commissioners. It is in accordance with The Decree of Financial Service Authority No. 55 /POJK.03/2016 about Implementation of Governance for Commercial Banks, Article 31: Paragraph (2) Board of Commissioners requires to supervise the duties and responsibilities implementation of directors as well as to provide feedbacks; Paragraph (3) In performing the supervision, a board of commissioners requires to guide, oversee, and evaluate the implementation of bank strategic policy. Referring to the argument of Alsartawi (2019), board activity is intended more to meet the board of commissioners' expectations, thus it is predicted that board activity may increase the performance of Islamic commercial banks. Therefore, the hypothesis proposed is:

H_2: Board activity has a positive influence on bank performance

Board Gender Diversity and Bank Performance

Gender diversity has garnered lots of government awareness as well as academics and practitioners with a fierce argument regarding its positive or negative impact on meeting a company's dynamics and performance (Al-Jaifi, 2020). A more diverse board indicates more diverse experiences, skills, and abilities, which are able to enhance control and supervision and also to reduce agency conflicts (Sharif & Ming Lai, 2015; Terjesen, Couto, & Francisco (2016). Gul, Srinidhi, & Ng (2011) support the existence of female in a board since it can lessen information asymmetry and enhance decision making as well as company legitimacy. Contrarily, other previous studies are against the size of female proportion in a board because female directors face more obstacles within a group and more potentiality for discrimination, which later may raise conflicts(Richard et al., 2004). Apart from that, female directors may reduce gratification, cohesion, and commitment (Jackson et al., 2003).

In the context of Islamic banks, Khan et al. (2020) argue that the presence of female directors in Islamic banks may be more representative for the inclusive culture of Islamic banks. Thus, it is expected that there is a positive correlation between company performance and female representation in the board. Align with the view of Khan et al. (2020), Jabari & Muhamad (2020) suggest that Islamic banks in Indonesia and Malaysia with more gender diversity in their board of directors have better performance. Hence, the proposed hypothesis is:

H_3: Board gender diversity has a positive influence on bank performance

Bank Size as the Moderating Variable

Size has an ambiguous influence over conventional bank performance. On one hand, large banks may be more efficient since they tend to exploit scale economies and hire more skilled managers, also, their formal procedure leads to better performance (Sarkar, Sarkar, & Bhaumik, 1998). On the other hand, other scholars claim that the expansion of bank size does not always result in some improvement in performance (Heffernan & Fu, 2010). Bank scale economies can hit a certain upper limit, and the improvement of scale economies which is caused by product diversification will reduce the risks of bank credit as well as return level (Sufian & Chong, 2008). The negative correlation between size and bank profitability rate is also conveyed by Aladwan (2015).

In the context of Islamic banks, size and performance are more likely to convey a positive correlation. When bank size is enlarged, fixed costs remain the same and the unit product costs will drop and profit rate will increase (Petria, Capraru, & Ihnatov, 2015). Chowdhury & Rasid (2016) in their study toward Islamic banks in GCC and Alharbi (2017) in a study on almost all the Islamic banks in the world also convey a positive correlation between bank size and its performance. Moreover, Mezzi (2018) discovers that Islamic banks in Malaysia and GCC experience improvement in their cost efficiency, and most parts are described by scale efficiency where bank realizes large scale economies to achieve optimum size.

This study examines the influence of board characteristics on the performance of Islamic commercial banks in Indonesia with size as the moderating variable. Phenomena in the Indonesian Islamic banking industry in the last three years convey that there were significant decreases in the growth of the total assets although it was followed by a significant improvement in the banks 'performance. In addition to that, the Islamic banking industry in Indonesia experienced difficulty in looking for client financing. It indicates that when banks have product diversification that makes them larger, it will be followed by profitability ratio. Referring to the results of the literature review and phenomena that occurred in the Indonesia Islamic banking industry, the proposed hypotheses are:

H_4: Size moderates the board size influence on bank performance
H_5: Size moderates the board activity influence on bank performance
H_6: Size moderates the board gender diversity influence on bank performance

A clearer picture of the relationship between variables that forms a moderated regression model is presented in Figure 2 below.

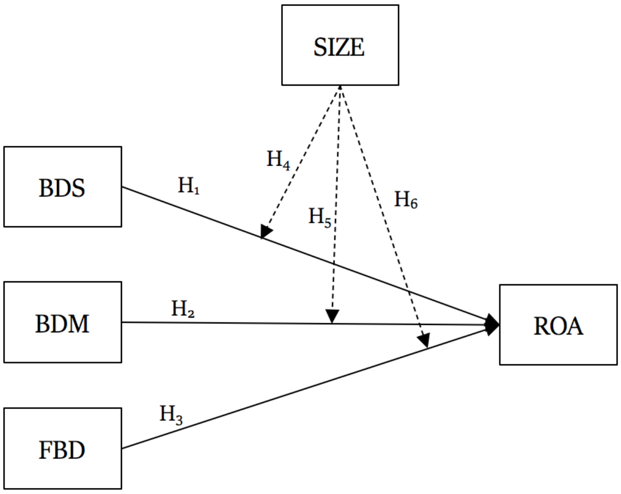

Figure 2. The moderated regression conceptual model

RESEARCH METHOD

The objects of this study are 138 Islamic Commercial Banks (BUS, *Bank Umum Syariah*) which are registered in the Financial Service Authority (OJK, *Otoritas Jasa Keuangan*) for the period of 2010-2019. This study used purposive sampling technique with criteria as follow: (1) BUS publishes annual report for the period that is being analyzed; (2) BUS annual report contains data and information needed for this study. It resulted in 127 BUS that met the criteria.

The data were analyzed by applying the ordinary least squares method and processed with Wrap-PLS application. WRP-PLS was used because the data were not distributed normally, and its amount was relatively small with only 127 BUS-year observations.

Table 1. Operationalization of research variable

Code	Variable name	Operationalization
Dependent variable		
ROA	Return on Asset, as a proxy variable for Islamic bank performance	Earnings after tax/total assets x 100%
Independent variables		
BDS	Board of Directors Size, as a proxy variable for the board size.	Number of directors in the board
BDM	Board of Directors Meeting, as a proxy variable for the activity board.	Total number of board meetings during the year
FBD	Female Board of Directors, as a proxy variable for the board gender diversity.	Total number of female directors on the board / total number of directors
Moderating variable		
SIZE	Total Asset, as a proxy variable for the bank size	Logarithm of total assets

RESULTS

The descriptive statistic which depicts mean, maximum, minimum, and deviation standard from the data analysed in this study is served in Table 2 below.

Table 2. Descriptive statistic

	ROA	BDS	FBD	BDM	SIZE	SIZE*BDS	SIZE*FBD	SIZE*BDM
Mean	1.142	4.362	0.192	33.094	12.909	56.618	2.425	430.184
Maximum	13.600	10	0.670	108	14.228	126.354	8.559	1329.472
Minimum	-20.130	2	0.000	6	11.527	25.658	0.000	77.616
Std. Dev.	3.682	1.418	0.211	16.267	0.570	19.457	2.645	213.922

Source: https://www.idx.co.id/that has been processed

ROA has a mean value of 1.142%, a maximum of 13.600%, and a minimum of 20.130%, which imply that the companies experience losses. BDS has a mean value of 4.362 or 4 people, a maximum of 10 people, and a minimum of 2 people. FBD has a mean value of 0.192, a maximum of 0.670, and a minimum of 0.000, which imply that there are no female directors in the board. BDM has a frequency mean value of 33.094 times, a maximum of 108 times, and a minimum of 6 times. SIZE has a mean value of 12.909, a maximum of 14.228, and a minimum of 11.527. SIZE*BDS is the moderating variable value of SIZE on BDS influence over ROA or the interaction value between SIZE and BDS which has a mean value of 56.618, a maximum of 126.354, and a minimum of 25.658. SIZE*FBD is the moderating variable value of SIZE on FBD influence over ROA or the interaction value between SIZE and FBD which has a mean value of 2.425, a maximum of 8.559, and a minimum of 0.000. SIZE*BDM is the moderating variable value of SIZE on BDM influence over ROA or the interaction value between SIZE and BDM which has a mean value of 430.184, a maximum of 1,329.472, and a minimum of 77.616.

Wrap-PLS output conveys that all the model components are fit, and quality indices have been met which means the model achieves goodness of fit. P-value average adjusts R-squared (AARS) = 0.139, $P<0.001$. The average of full collinearity VIF (AFVIF) = 1.227 is smaller than 5.00, which means that there is no issue of multicollinearity among indicators and exogenous variables. The index of Sympson's Paradox Ratio (SPR) = 0.857 is bigger than 0.700; the index of Nonlinear Bivariate Causality Direction Ratio (NLBCDR) = 0.750 is bigger than 0.700. It implies that there is no causality issue in the constructed model. The summaries of path coefficients and P values as well as the results of hypothesis verification are presented in Table 3 and Figure 3 below.

Table 3 and Figure 3 show that three proxy variables of board characteristics (BDS, BDM, and FBD) positively affect the performance of Islamic commercial banks (ROA). However, BDS positive influence over ROA is insignificant. The influence of three proxy variables of board characteristics (BDS, BDM, and FBD) over ROA is moderated negatively by SIZE. Although, SIZE negative moderating on FBD influence over ROA is insignificant.

Table 3. Path coefficients, p values, and hypothesis test results

Information	Dependent Variable: ROA			Hypothesis Test Results
	Coeff.	Std. Error	P-Value	
Independent Variable				
BDS	0.064	0.087	0.234	Rejected
BDM	0.185	0.085	0.016**	Accepted
FBD	0.217	0.084	0.005***	Accepted
Moderating Variable				
SIZE*BDS	-0.139	0.086	0.045**	Accepted
SIZE*BDM	-0.154	0.086	0.037**	Accepted
SIZE*FBD	-0.020	0.086	0.413	Rejected

Notes: **statistically significant at 5%; ***statistically significant at 1%.

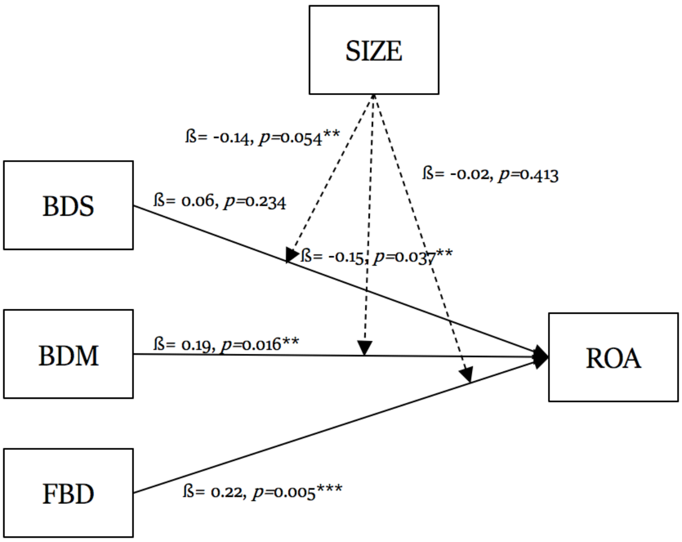

Figure 3. The results of testing the moderated regression model

DISCUSSION

The analysis results convey that the size of board of directors does not have a significant influence on bank performance. This portrays that a larger board of directors owned by Islamic commercial banks tend to function less in providing feedback and guidance, opening a channel to discuss data with the external association, and providing exclusive access to assurances or provisions from significant factors outside the banks (Hussien et al., 2019). The results also indicate that larger board does not have greater ability to supervise top management, make decision, and allocate as well as increase banks ‘assets (Grassa & Matoussi, 2014). On average, the size of board of directors in Islamic commercial banks needs to be re-evaluated since it is possibly too large or, contrarily, too small. Gafoor, Mariappan, & Thyagarajan (2018) discover the positive correlation and significance of the size of board of directors and bank performance only when the board of directors is ranging from six to nine people.

The analysis results show that board meetings affect bank performance positively and significantly. Islamic commercial banks whose board of directors frequently hold meetings have greater performance. This finding indicates that routine and frequent board of directors meetings are essential to control executive managers and to ensure equity protection of stockholders (Ntim et al., 2017). Routine and frequent meetings contribute to achieving actual controls over the entire transactions made, and in making rational decisions which then result in better bank performance (Mangena, Tauringana, & Chamisa, 2011). This empirical finding is aligned with Ghazali (2020) who states that board activity positively influences company performance in Malaysia.

The results show that female board of directors has a positive and significant influence on bank performance. It indicates that the presence of female directors in the board of Indonesian Islamic commercial banks makes the board more active in performing supervision and improving independence as well as efficiency (Terjesen et al., 2016). It is aligned with the theory of sociological and psychological economy which explains that a female director can affect the dynamics of board consideration and encourage better information communication, it is because women tend to have a stronger trustworthy image and better interpersonal skills (Gul et al., 2011). This empirical finding is in line with a perspective that the presence of female directors in Islamic banks is more representative for the inclusive culture of the banks, thus the positive correlation occurs between bank performance and female representation in the board of directors (Khan et al., 2020).

The analysis results also indicate that SIZE negatively moderates the influences of three proxy variables of board characteristics (BDS, BDM, and FBD) over Islamic commercial bank performance (ROA). Although in this case, SIZE negative moderating on FBD influence over ROA is insignificant. The bigger the size of an Islamic commercial bank, the weaker the contribution of board of directors in improving the performance. This finding also indicates that the size of Islamic commercial bank in Indonesia is enlarged by product diversification. This result is in line with Friantina (2019)'s finding which reveals that Indonesian Islamic banks have more varied service activities and relatively more stable risks compared to conventional banks. Larger scale economies with this kind of method can reduce the risk of bank financing, however, this will also reduce high risk, high return, low risk, low return (Sufian & Chong, 2008; Heffernan & Fu, 2010; Aladwan, 2015). Product diversification is conducted since it is difficult for Islamic commercial banks in Indonesia to look for client financing (https://cashcashpro.id/blog/Syariah/OJK). It can be seen from the financial reports of Islamic commercial banks which indicate that there is an improvement in non-operational revenue, but a reduction in profitability rate.

MANAGERIAL IMPLICATION

The results of this study provide several implications to the management of Islamic commercial banks in Indonesia, related to the characteristics of board of directors (size, meeting frequency, and female directors in the board) and their influences on bank performance. The results provide an implication that size may weaken board characteristics influences over performance. Therefore, management needs to re-analyze the execution of tasks and functions of board of directors. In addition, board size needs to be evaluated to not get too small nor too big. It should be considered that board of directors is ranging between six to nine people. The size of board of directors is related to the complexity and total asset of banks. Concerning the growth of bank size which also carries the consequence of increasing business complexity, this should not be the result or coming from the activity of product diversification which only aim to reduce risk. This will initiate a reduction in profitability and/or bank performance (including the board of directors' performance) since high risk, high return, low risk, low return. The growth of bank size is supposed to be maintained by keeping the previous performance and even improving it. Bank management should also maintain the proportion of female directors in the board and the frequency of their boards of directors' meetings. Furthermore, banks need to improve those two indicators proportionally according to the growth of each bank.

LIMITATIONS AND FUTURE RESEARCH

Board characteristic in this study is served as a proxy variable with board of directors' size, frequency of board of directors' meetings, and bank performance that are only measured by Return on Asset (ROA). Therefore, further research should consider other variables such as CEO characteristics, which contain CEO duality, age, length of service, and competency. It is suggested to include Return on Equity (ROE) and Economic Value Added (EVA) as the proxy variables for bank performance. Macroeconomics indicator is supposed to also be considered as the determinant of Islamic commercial bank performance.

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