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The Evolving Role of Sharia Supervisory Boards in a Volatile, Uncertain, Complex, and Ambiguous (VUCA)

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ABSTRACT

This paper examines the evolving role of Sharia Supervisory Boards (SSBs) in Islamic finance within a Volatile, Uncertain, Complex, and Ambiguous (VUCA) environment. Employing a systematic literature review (SLR) of 15 peer-reviewed articles published between 2009 and 2024 from reputable databases such as Scopus and SpringerLink, the study identifies key challenges SSBs face, including ensuring Sharia compliance amidst rapid technological advancements and dynamic regulatory landscapes. The findings highlight the importance of adaptability, interdisciplinary expertise, and enhanced collaboration in enabling effective governance. SSBs are urged to transition from traditional compliance-focused roles to adaptive governance frameworks capable of addressing the complexities of contemporary financial systems. The study contributes to the existing literature by offering a comprehensive analysis of SSB adaptability in the VUCA era and providing actionable recommendations for policymakers and financial institutions, such as strengthening SSB autonomy, fostering member proficiency, and encouraging cross-border collaboration to address global uncertainties.

INTRODUCTION

The Sharia Supervisory Board (SSB) is a key component that distinguishes Islamic banking governance from conventional banking (Hamza, 2013; Hassan et al., 2015). Its role in ensuring Sharia compliance, maintaining governance standards, and managing unique risks underscores its importance in the Islamic financial system (Alamer, 2022). The structure of Islamic banks mandates the establishment of a DPS, supported by internal controls (Alatassi & Pillai, 2024; Hamza, 2013). The legal framework reinforces this obligation, Law No. 21 of 2008 regulating Islamic Banking in Indonesia. Nonetheless, despite its legal basis, the SSB encounters many obstacles, especially in executing its duty and function within the intricacies of the VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) period.

The term "VUCA" is an acronym that encapsulates the concepts of "volatile," "uncertain," "complicated," and "ambiguous." It is used to describe environmental conditions that are volatile and unpredictable (Bennett & Lemoine, 2014). In this context, it refers to rapid political, economic, social, and technological fluctuations (Kaivo-oja & Lauraeus, 2018). Therefore, companies, especially Islamic financial institutions, are forced to demonstrate unwavering adaptability to evolving global issues (Iqbal Anjum, 2008). This requires a deep understanding to identify unfamiliar patterns. For SSBs, this means ensuring Shariah compliance while embracing emerging financial technologies and innovations such as electronic money, mobile banking, and blockchain, while maintaining ethical and legal integrity (Bhatt & Sisodia, 2024; Chowdhury et al., 2022; Hassama et al., 2024).

Despite the crucial role of Sharia Supervisory Boards (SSBs) in Islamic finance, there is a notable paucity of research examining their adaptability and performance within the VUCA (Volatile, Uncertain, Complex, and Ambiguous) framework. For instance, SSBs have faced significant challenges in addressing compliance issues related to emerging financial technologies, such as the integration of e-money and mobile banking systems, which require rapid decision-making and technical expertise (Ali et al., 2024). Additionally, regulatory shifts in countries like Indonesia and Malaysia have necessitated greater agility from SSBs to align Sharia principles with evolving legal frameworks (Taufik et al., 2023). These examples underscore the pressing need for a deeper understanding of how SSBs navigate such challenges to sustain Sharia compliance in an increasingly dynamic environment.

This study addresses this gap by systematically analyzing existing literature on the roles and functions of SSBs. Specifically, it seeks to identify critical concerns, such as technological adaptation and cross-jurisdictional standardization, evaluate the obstacles impeding effective governance, and investigate viable strategies to enhance SSB governance in the VUCA age. By aligning the research questions with gaps in the literature, this study aims to contribute to the development of more adaptive and resilient governance models for SSBs, ensuring their continued relevance in a rapidly evolving financial landscape.

LITERATURE REVIEW

The Role and Significance of Sharia Supervisory Boards (SSBs)

The Sharia Supervisory Board (SSB) holds a central position in Islamic finance by ensuring compliance with Sharia principles. Normative studies emphasize the critical role of SSBs in determining the success or failure of Sharia implementation, as they interpret and enforce fatwas issued by the National Sharia Council (Djumardin & Isnaini, 2018). SSBs oversee operations, assess banking activities and products, and monitor the alignment of services with Sharia guidelines. The organizational supervision provided by SSBs is pivotal in maintaining the integrity of Sharia principles in Islamic banking.

Several studies highlight the positive impact of SSB governance on institutional performance. Alam et al. (2020) explored governance in dual banking systems, demonstrating the importance of SSBs in safeguarding ethical and financial integrity. Similarly, Darwanto & Chariri (2019) underscored the role of SSBs in navigating multi-tiered management complexities while upholding Sharia principles. Research by

Mezzi (2018) and Tok & Yesuf (2022) further affirmed that the existence of well-functioning SSBs leads to improved performance and operational efficiency in Islamic banks.

Challenges in Sharia Governance

Despite their significance, SSBs face numerous challenges in adapting to dynamic and uncertain environments. A recurring issue is their limited capacity to address the complexities introduced by the VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) framework. The integration of Sharia principles into rapidly evolving sectors, such as halal finance, food, and logistics, adds layers of complexity that remain underexplored.

Research by Neifar et al. (2020) pointed out the growing need for SSBs to develop expertise in emerging technologies, such as e-money, mobile banking, and blockchain. However, the independence and integrity of SSBs remain critical concerns, as cross-membership and external pressures may compromise decision-making and, consequently, Sharia compliance (M. K. Alam & Miah, 2021). Additionally, Al-Nasser Mohammed and Muhammed (2017) highlighted the vulnerability of SSBs to external influences, which can undermine their effectiveness and autonomy.

The VUCA Framework and SSB Adaptability

The VUCA framework provides a valuable perspective for examining the adaptability and resilience of SSBs. Volatility and uncertainty, characterized by rapid technological advancements and shifting regulatory landscapes, demand a reevaluation of static governance models. The integration of advanced financial technologies introduces significant challenges, such as ensuring compliance in digital transactions while managing risks associated with innovative financial instruments like Sukuk. Kaivo-oja & Lauraeus (2018) argued that businesses must develop agility and resilience to navigate VUCA challenges, but discussions in the context of Islamic finance governance remain limited. The complexity of aligning Sharia principles with modern financial systems and the ambiguity in their interpretation across jurisdictions further highlight the need for adaptive strategies.

Gaps in SSB Expertise and Multidisciplinary Needs

A recurring gap in the literature is the lack of multidisciplinary expertise among SSB members. Traditional roles have focused primarily on ensuring Sharia compliance, but emerging trends require broader competencies in technology, finance, and regulatory knowledge. Imaniyati et al. (2019) emphasized the importance of equipping SSB members with diverse skill sets to address the intricate challenges of Islamic finance. Furthermore, many studies have focused on static governance models, overlooking the dynamic capabilities needed to adapt to VUCA conditions. This gap highlights the urgency for developing governance frameworks that enable SSBs to remain effective and relevant in a rapidly changing environment.

RESEARCH METHODS

This study adopts a qualitative approach using a Systematic Literature Review (SLR) methodology to explore the evolving role of Sharia Supervisory Boards (SSBs) in navigating the challenges of the VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) era. The SLR approach was selected to minimize research bias, ensure the precision of the study's scope, and provide a comprehensive understanding of the topic.

Thematic coding was employed to identify and categorize recurring patterns, themes, and gaps in the reviewed literature. This process involved Data Extraction, Theme Identification, Theme Categorization, and Validation. The extracted data were analyzed to identify recurring themes, such as SSB governance practices, technological adaptation, regulatory shifts, and cross-jurisdictional Sharia compliance. The themes were organized into four primary categories aligned with the VUCA dimensions to enhance the analytical coherence of the findings. The thematic coding process was iteratively refined to ensure consistency and accuracy, with cross-checking conducted to minimize bias and subjectivity. The process involved five systematic steps:

1. Formulating the Research Question
   This study's primary research question is: “How do Sharia Supervisory Boards (SSBs) adapt their roles and functions to enhance Sharia compliance in the VUCA era?”
2. Identifying Relevant Literature
   Relevant literature was collected from reputable databases: Scopus-indexed e-journal data sites. Keywords such as "Sharia Supervisory Board," "Sharia governance," and "VUCA era" were used to retrieve peer-reviewed journal articles. The inclusion criteria were:
   a. Articles published between 2009 and 2024. The selected timeframe captures the critical evolution of governance frameworks and technological advancements that have significantly impacted the roles of SSBs. The starting point of 2009 coincides with the aftermath of the global financial crisis, which brought heightened scrutiny to governance practices in financial institutions, including Islamic banking.
   b. Studies written in English.
   c. Focus on governance, adaptability, and challenges of SSBs in Islamic finance.
3. Assessing the Quality of the Literature
   A rigorous selection process was conducted to ensure the credibility and relevance of the included studies. Articles were evaluated based on their methodological robustness, theoretical contributions, and relevance to the research question. Of the initial search results, 15 articles were selected for in-depth analysis.
4. Summarizing the Evidence
   The selected articles were coded thematically, focusing on key areas such as:
   a. Governance practices of SSBs.
   b. Challenges faced in adapting to technological and regulatory shifts.
   c. The impact of VUCA dynamics on Sharia compliance.
5. Interpreting the Findings
   The data were synthesized to identify recurring patterns, gaps in the literature, and emerging themes relevant to the study's objectives. This synthesis provides insights into the strategies SSBs can adopt to navigate the complexities of the VUCA era.

Rationale for the Methodology

The SLR methodology was deemed appropriate for this study as it allows for the comprehensive examination of existing knowledge while identifying gaps and potential research directions. Unlike empirical studies, which focus on primary data collection, the SLR approach enables the integration of diverse perspectives from a wide array of secondary sources, offering a holistic view of the topic.

RESULT AND DISCUSSION

The results of this study provide insights into the evolving role of Sharia Supervisory Boards (SSBs) in addressing the challenges of the VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) era. A systematic evaluation of 15 papers was performed to comprehend these problems. The results emphasize critical aspects of the VUCA framework and pinpoint deficiencies in the existing literature that this research aims to rectify.

Table 1 summarizes the key findings and identified gaps from the reviewed literature. The gaps emphasize the need for Sharia Supervisory Boards to adapt their governance practices to address challenges associated with the VUCA framework, such as agility in response to volatility, and the integration of Sharia principles in complex financial products.

Table 1. Summary of Reviewed Articles and Identified Gaps

No	Name, Year	Focus of the Study	Key Findings	Identified Gaps	Relevance to VUCA
1.	Alam et.al. (2020)	Governance in dual banking systems	SSB governance improves performance but lacks the agility to respond to rapid changes.	Limited focus on technological challenges and VUCA adaptability.	Highlights the need for agility and adaptability in volatile markets.

No	Name, Year	Focus of the Study	Key Findings	Identified Gaps	Relevance to VUCA
2.	Al-Nasser Mohammed & Muhammed (2017)	Agency and stakeholder theory in Islamic banking	The independence of SSBs is critical but often compromised by external pressures.	Need for standardized frameworks to enhance autonomy.	Addresses uncertainty in stakeholder relationships.
3.	Imaniyati et al. (2019)	Role and responsibilities of SSBs in Sharia compliance	SSB expertise impacts compliance effectiveness, but multidisciplinary knowledge is often lacking.	Lack of strategies for addressing complexities in modern financial products.	Demonstrates the complexity of integrating Sharia compliance with modern finance.
4.	Garas & Pierce (2010)	Independence of SSBs in GCC countries	Emphasizes collaboration among Sharia councils to harmonize principles.	Minimal exploration of global challenges, such as cross-jurisdictional ambiguity.	Provides insights into reducing ambiguity through collaboration.
5.	Kaivo-oja & Lauraeus (2018)	VUCA framework and organizational management	Agility, knowledge management, and experimentation are critical to navigating the VUCA world.	Limited application of the VUCA framework to Islamic finance governance.	Offers a framework for addressing volatility, uncertainty, complexity, and ambiguity.
6.	Ullah et al. (2018)	Ethical challenges in Sharia compliance	SSBs need to address ethical concerns and ensure consistency in applying Sharia principles.	Insufficient focus on digital and ethical governance in dynamic markets.	Links ambiguity in ethical compliance with technological advancements.
7.	Darwanto & Chariri (2019)	Multi-layer governance in Islamic banking	SSB contributes to financial performance but faces challenges in adapting to regulatory changes.	Limited discussion on dynamic governance within volatile markets.	Shows the importance of restructuring governance to handle volatility.
8.	Neifar et al. (2020)	Sharia governance and operational risk transparency	Strong governance mechanisms reduce operational risks, but SSB size and expertise remain critical factors.	Lack of focus on SSB adaptability to complexity and risk in dynamic environments.	Highlights the importance of governance in managing complexity.
9.	Elamer et al. (2020)	SSBs, governance structures, and operational risk disclosures in MENA Islamic banks	SSB size and governance quality positively influence operational risk disclosures, enhancing transparency.	Lack of exploration of dynamic governance in response to complexity and ambiguity in risk management.	Highlights complexity in integrating governance practices and risk management frameworks.
10.	Nurkhin et al. (2018)	The role of SSB and corporate governance in Islamic performance	SSB size and education positively impact zakah performance and reduce non-halal income; corporate governance improves PLS financing.	Lack of focus on the adaptability of SSB governance in responding to volatile market conditions.	Links volatility and uncertainty with governance impact on performance.
11.	Yusmad et al. (2024)	Revitalization of Islamic banking supervision in Indonesia and Malaysia.	Supervisory institutions (DPS, Shariah Compliance Directorate, OJK) operate independently, causing overlaps.	Lack of integrated supervision; need for stronger DPS authority.	Highlights inefficiency and complexity in Islamic banking governance, especially in a dynamic regulatory environment.
12.	Wijayanti & Setiawan (2023)	Impact of Board of Directors and Sharia Supervisory Board on sustainability reporting in Islamic banks.	Larger SSB size and cross-membership positively influence sustainability reporting.	Limited studies on Islamic banking governance during crisis periods.	Addresses adaptability of governance structures in uncertain contexts like crises (e.g., COVID-19).

No	Name, Year	Focus of the Study	Key Findings	Identified Gaps	Relevance to VUCA
13.	Jihad et al. (Jihad et al., 2024)	Role of DPS in accelerating sharia cooperative conversions in Aceh after the enactment of Qanun LKS.	DPS contributed but progress of conversions remains low; only 6% of cooperatives converted by 2023.	Need for more trained DPS members; low efficiency in monitoring processes.	Reflects challenges in scalability and resource adequacy within a volatile financial system under new legal mandates.
14.	Garas (2012)	Conflicts of interest within Sharia Supervisory Boards in Islamic Financial Institutions (IFIs)	Conflicts arise due to cross-memberships, executive roles, and remuneration structures of SSB members, limiting their independence.	Limited investigation into conflict mitigation strategies under VUCA environments where decision-making complexities increase.	Examines governance challenges in IFIs, particularly relevant as VUCA conditions exacerbate conflicts of interest and the complexity of SSB roles.
15.	Muslihun (2023)	Role of SSBs in Sharia compliance and risk mitigation in Bank NTB Syariah, Indonesia	SSBs contribute to Sharia compliance through active monitoring, product reviews, and customer engagement, mitigating risks of reputation, financial losses, and adherence.	Does not address the scalability of these practices in large-scale, volatile environments, or how SSB roles evolve with increased uncertainty and complexity in global banking systems.	Demonstrates SSB adaptability in monitoring and compliance but requires further research into how these roles are redefined in volatile and complex environments, such as global crises.

Source: processed by the author, 2024

Key Issues and Findings

The challenges faced by SSBs in the VUCA era are categorized based on the VUCA dimensions, integrating insights from the reviewed literature and the study's analysis. The main issues raised in modern VUCA management generally include agility (response to volatility), information and knowledge management (response to uncertainty), restructuring (response to complexity), and experimentation (response to ambiguity) (Kaivo-oja & Lauraeus, 2018). The existence of the sharia council and sharia supervisory board also of course faces the problems that occurred in the VUCA era.

The rapid changes in technology and information currently impact the application of sharia principles, such as the use of e-money and m-banking, as well as other transactions in banking. The Sharia board must be able to answer public concerns about the need for Sharia compliance in these transactions (Ullah et al., 2018) so that adequate expertise and knowledge are needed from the board members and the Sharia supervisory board as has been revealed by various studies.

Another issue that needs to be highlighted is the independence of the Sharia supervisory board. This is also related to the opinion of Al-Nasser Mohammed & Muhammed (2017) that SSB's relationship with stakeholders follows theory. Violations of Sharia compliance can also be committed by SSB members if they do not carry out their supervisory duties properly. SSB members are supposed to be independent and not influenced by pressure from any party. Based on this, SSB may be subject to sanctions from aspects of civil law and consumer protection law. If the Sharia supervisory board does not carry out its obligations, it can be subject to sanctions from the aspect of civil law, namely responsibility based on errors known as unlawful acts.

The findings highlight critical gaps in the traditional governance models of Sharia Supervisory Boards (SSBs), emphasizing the need for a transition to adaptive governance frameworks that can effectively address the challenges of the VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) era. A primary gap lies in the limited agility of SSBs to respond to rapid technological and regulatory changes, such as the proliferation of e-money, mobile banking, and blockchain technology. To address this, SSBs must implement mechanisms that enable swift decision-making and proactive responses to dynamic market conditions. Another gap involves the inadequate interdisciplinary expertise among SSB members, which constrains their ability to evaluate and approve complex financial products. This calls for comprehensive training programs to equip members with knowledge in digital finance, risk management, and regulatory compliance. Furthermore, the independence of SSBs is often undermined by external pressures and cross-membership, jeopardizing their ability to uphold ethical governance. Strengthening regulatory frameworks to safeguard the autonomy of SSBs is essential to ensure impartial decision-making. Lastly, the lack of harmonization in Sharia principles across jurisdictions creates ambiguities that complicate global operations in Islamic finance. Enhanced international collaboration between Sharia councils is necessary to establish consistent standards and mitigate these ambiguities.

The theoretical contribution of this study lies in its integration of the VUCA framework with stakeholder theory, offering a novel perspective on how SSBs can balance organizational objectives with ethical governance. Practically, this research provides actionable strategies for policymakers and financial institutions, including continuous professional development for SSB members, the implementation of advanced governance frameworks to address volatility and complexity, and the promotion of cross-border collaboration to foster consistency and reduce ambiguity in Sharia compliance.

CONCLUSIONS

This study explores the evolving roles of Sharia Supervisory Boards (SSBs) in navigating the challenges posed by the Volatile, Uncertain, Complex, and Ambiguous (VUCA) environment within Islamic financial governance. By synthesizing insights from 15 peer-reviewed articles, the research underscores the critical need for SSBs to transition from static compliance frameworks to adaptive governance models. This transition is essential to maintain Sharia compliance amidst rapid technological advancements, shifting regulatory landscapes, and the increasing complexities of global financial systems. The findings highlight the importance of agility in governance, where SSBs must develop mechanisms to respond swiftly to technological and regulatory changes. At the same time, the study emphasizes the need to enhance multidisciplinary expertise among SSB members through continuous professional development, enabling them to address the complexities introduced by emerging financial technologies and cross-jurisdictional Sharia compliance.

Strengthening the independence of SSBs is also identified as a crucial factor for preserving ethical governance and stakeholder trust. Regulatory frameworks should ensure that SSBs operate autonomously, free from external pressures, to uphold their integrity and effectiveness. Furthermore, the study underscores the significance of global collaboration in harmonizing Sharia principles across jurisdictions to reduce ambiguity and foster consistency in Islamic financial practices. Such efforts can enable more robust international operations while ensuring alignment with Sharia principles.

This study offers actionable recommendations for policymakers and practitioners. Policymakers are encouraged to establish regulatory frameworks that mandate ongoing training for SSB members in areas such as digital finance, risk management, and governance. Financial institutions should invest in internal mechanisms to enhance transparency and agility, such as digital monitoring tools and independent auditing processes. International Sharia councils can play a pivotal role by fostering collaboration through standardized guidelines, joint initiatives, and knowledge-sharing platforms. Additionally, educational institutions are urged to design specialized training programs to bridge knowledge gaps and equip SSB members with the interdisciplinary skills required in today’s dynamic financial landscape.

Despite its contributions, this study is not without limitations. Its reliance on a systematic literature review constrains empirical validation and may overlook region-specific challenges or industry nuances. Future research should address these gaps through empirical investigations, case studies, and comparative analyses across jurisdictions to examine the practical implementation of adaptive governance models in

Islamic finance. Such research could provide deeper insights into the contextual factors influencing SSB performance and offer tailored solutions for enhancing governance.

In conclusion, this study bridges significant gaps in the literature by providing a comprehensive analysis of the challenges and opportunities faced by SSBs in a VUCA environment. It establishes a foundation for future research and offers a roadmap for policymakers and practitioners to strengthen the governance of Islamic financial institutions. By adopting the proposed strategies, SSBs can uphold ethical and financial integrity while ensuring that Islamic finance remains resilient, relevant, and aligned with Sharia principles in a rapidly evolving world.

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