

Improving Indonesia's Sharia Banking Performance Through Intellectual Capital Efficiency and Sharia Compliance

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Abstract: This research aims to analyze improving sharia banking performance, which has become the main focus for sharia banks worldwide, including PT. Bank Syariah Indonesia in Semarang and Salatiga. It examines the role of intellectual capital efficiency and sharia compliance as mediating variables in improving sharia banking performance. The research methodology uses a quantitative approach through SEM PLS data collected by surveys using questionnaires. The research respondents were employees of PT Bank Syariah Indonesia in Semarang and Salatiga, with a total of 250 employees, consisting of 145 male and 105 female employees. The sampling technique used was a census, where the entire population was directly sampled, so the number of respondents was 250. The results of the analysis show that intellectual capital efficiency and sharia compliance have a significant influence on increasing sharia banking performance at PT. Bank Syariah Indonesia in Semarang and Salatiga. Sharia compliance has also been proven to be a mediating variable influencing intellectual capital efficiency and banking performance. This research provides a deeper understanding of the relationship between intellectual capital efficiency, sharia compliance, and increasing sharia banking performance in the context of Islamic banks in Indonesia. The implications of this research can help bank management identify areas that need improvement and optimize resources to improve their overall performance. By increasing the efficiency of intellectual capital management and ensuring compliance with sharia principles, PT. Bank Syariah Indonesia in Semarang and Salatiga improved its overall performance and strengthened the trust of customers and other stakeholders.

Keywords: Intellectual capital efficiency; sharia compliance; sharia banking performance

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INTRODUCTION

In Indonesia, Islamic banks have become an integral part of the financial system, aiming to provide banking services in accordance with sharia principles. Despite this, a number of problems have emerged that affect the performance of Islamic banks in the country. In the era of globalization and growing economic dynamics, the Islamic finance industry has become an increasingly prominent sector. In the midst of increasingly complex market demands and increasingly fierce competition, Islamic banks throughout the world are trying to strengthen their performance to meet the expectations of customers and other stakeholders (Reboredo, 2022). Improving Sharia Banking Performance is a significant challenge for PT. Bank Syariah Indonesia. To achieve the desired level of performance, these banks need a holistic and sustainable approach. Intellectual Capital Efficiency highlights the importance of managing intellectual capital in Islamic banks. Intellectual capital includes valuable assets such as knowledge, skills and innovation owned by bank employees and management (Shahzad, 2021). This efficiency in intellectual capital management paves the way for banks to increase their operational effectiveness, increase product innovation, and respond quickly to market changes (Karyani, 2022).

In the context of the growth of the Islamic finance industry, Islamic banks are often faced with challenges in expanding their market share. Even though awareness about Islamic financial products and services is increasing, there are still many people who do not understand or even have the wrong perception about the concept and its benefits (Amalia, 2021). Therefore, Islamic banks need to increase marketing and educational efforts to build public awareness and trust in their products and services. One of the main challenges facing Islamic banks is changing public perceptions about the halalness, safety and benefits of their products and services. . This requires a comprehensive approach involving creative marketing campaigns, effective public education, and active engagement with local communities (Djuwita, 2019). By addressing these issues effectively, Islamic banks can face the challenges facing the financial industry today. this with more confidence. By increasing Intellectual Capital Efficiency, Islamic banks can ensure that they have quality and skilled human resources in managing their sharia operations (Makki, 2014). Additionally, by strengthening Sharia Compliance, Islamic banks can ensure that every aspect of their business complies with strict sharia principles.

Sharia Compliance is the main foundation in PT. Bank Syariah Indonesia operations. Compliance with sharia principles is a non-negotiable aspect that must be fulfilled by every sharia banking (Desiana, 2021). By ensuring that every transaction, product and policy complies with sharia principles, Sharia Banking can build strong trust from customers and other stakeholders, as well as strengthening their position in the market. However, it needs to be understood that improving Sharia Banking Performance is not an easy journey (Fadhistri, 2019). In facing market complexity and regulatory

changes, Islamic banks must be able to overcome various challenges and obstacles that may arise along the way.

In addition, in managing Intellectual Capital Efficiency, Islamic banks often face problems in recruiting and retaining high-quality human resources. Competition to attract a skilled and knowledgeable workforce is increasing, while Islamic banks need to ensure that their employees have a deep understanding of Sharia principles and their business needs (Gangi, 2019). Regarding Sharia Compliance, Islamic banks often face challenges in adapting their operations to evolving and diverse regulatory frameworks across jurisdictions. Compliance with sharia principles can also be complicated due to different interpretations of Islamic teachings and fatwas issued by sharia authorities (Farahami, 2016). In addition, Islamic banks also face challenges in building systems and infrastructure capable of facilitating compliance with sharia. sharia principles effectively. This includes investment in information technology and adequate risk management systems to ensure that every transaction and product offered complies with strict sharia standards (Aslam, 2020).

Most research on Intellectual Capital uses the VAIC (Value Added Intellectual Coefficient) model in conventional banking and has not been explicitly applied in the context of sharia banking, which has different basic principles. There is no consensus on which dimension of ICE (HCE, SCE, CEE) is most dominant in the performance of Islamic banks, especially in the context of developing countries such as Indonesia (Meles et al. 2016). However, according to Widarjono et al. (2020) explain that integrated studies of the relationship between Intellectual Capital Efficiency & Sharia Compliance are still very limited, but preliminary results from experimental and quantitative studies show that in the context of Islamic banks, intellectual capital tends to be more effective in improving performance when combined with spiritual values and sharia compliance.

By understanding and addressing these issues, Islamic banks can strengthen their position in facing the challenges facing the financial industry today. By improving Intellectual Capital Efficiency and Sharia Compliance, Islamic banks can improve their overall performance and strengthen the trust of customers and other stakeholders in the long term (Chang, 2012). Regarding Intellectual Capital Efficiency, Islamic banks often face challenges in recruiting, developing and retaining staff who have adequate knowledge of sharia principles and bank operational needs (Albertini, 2021). Global competition to attract and retain the best talent can be a serious obstacle for Islamic banks, especially amidst technological advances and strict immigration policies in some countries.

In addition, in the context of the growth of the Islamic finance industry, Islamic banks are often faced with challenges in expanding their market share. In some cases, public perceptions of sharia financial products and services are still poorly understood or even wrong. Therefore, Islamic banks need to increase marketing and educational efforts to build public awareness and trust in their products and services (Alfraih, 2018). By

addressing these problems effectively, Islamic banks can face the challenges facing the industry current finances with more confidence (Muhammad, 2019). By improving Intellectual Capital Efficiency and Sharia Compliance, Islamic banks can improve their overall performance and strengthen the trust of customers and other stakeholders in the long term.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Intellectual Capital Efficiency

Intellectual Capital Efficiency refers to the effectiveness and productivity with which a company utilizes its intellectual capital to generate value and achieve its strategic goals (Bayraktaroglu, 2019). Intellectual capital includes the intangible assets of an organization, such as human capital (employee skills, knowledge, and expertise), structural capital (organizational processes, systems, and databases), and relational capital (relationships with customers, suppliers, and stakeholders). Measuring intellectual capital efficiency involves assessing how well a company leverages its intellectual assets to innovate, create competitive advantage, and generate sustainable growth (Aslam, 2020). This efficiency can be evaluated through various metrics, such as the rate of return on invested intellectual capital, the process of knowledge creation and dissemination, employee retention rates, innovation output, and the effectiveness of knowledge management systems (Gangi, 2019). Ultimately, a high level of intellectual capital efficiency implies that a company effectively utilizes its intellectual resources to drive innovation, improve operational performance, and create long-term value for stakeholders (Alfraih, 2018).

A high level of intellectual capital efficiency also reflects the company's ability to manage and support the growth of employee knowledge and expertise, maintain a competitive advantage in the industry, and build strong relationships with customers and business partners. Apart from that, intellectual capital efficiency also shows the extent to which a company is able to manage risks related to knowledge and innovation, as well as building a basis for long-term growth through investment in internal and external intellectual development (Farahami, 2016). Thus, a deep understanding of intellectual capital efficiency is crucial for companies in carrying out their business strategies and ensuring the continuity and sustainability of their operations amidst ever-changing market dynamics.

In addition, intellectual capital efficiency can also be reflected in a company's ability to identify, measure and manage its intellectual assets effectively. This includes developing appropriate recording and measurement systems to monitor intellectual capital performance over time, as well as implementing best practices in knowledge management and innovation (Chang, 2012). Companies that succeed in increasing the efficiency of their intellectual capital tend to be more adaptive to changes in the business environment and better able to respond to new opportunities that arise. According to

(Makki, 2014) by optimizing the use of intellectual capital, companies can strengthen their position in the market, increase their competitiveness, and expand market share and growth opportunities in the future. Therefore, monitoring and improving the efficiency of intellectual capital is an integral part of a successful company management strategy.

Intellectual Capital Efficiency in Islamic banks refers to the bank's ability to optimize the use of its intellectual capital, such as knowledge, skills, processes and relationships, in order to achieve its business goals in accordance with sharia principles (Aslam, 2020). In the context of Islamic banks, intellectual capital is very important because it includes aspects such as knowledge of sharia law, expertise in sharia-based financing, and sharia risk management expertise.

The efficiency of intellectual capital in Islamic banks can be reflected in various indicators according to (Farahami, 2016) including:

1. **Knowledge and Skills:** Islamic banks need to have personnel who understand sharia principles, Sharia Banking operational processes, and sharia financial products. They must have the necessary skills to provide services in accordance with sharia principles to customers.
2. **Product Innovation:** Sharia banks need to continuously develop products and services that comply with sharia principles and meet the needs and preferences of their customers. This requires innovation supported by in-depth knowledge of the market and expertise in Islamic financial transaction structures.
3. **Risk Management:** Intellectual capital efficiency is also reflected in the ability of Islamic banks to manage risks unique to sharia operations, such as sharia legal risks, compliance risks, and reputation risks. Special knowledge and skills are required in sharia risk management.
4. **Relationship Development:** Sharia Banking also needs to build and maintain good relationships with stakeholders, including customers, ulama, regulators, and the general public. This requires a deep understanding of sharia values as well as skills in communicating and interacting with various parties.

Sharia Compliance

Sharia Compliance is a condition where an entity, such as a bank, company, or other financial institution, complies with sharia principles in all its activities and operations. This means that the entity operates in accordance with Islamic law and moral principles regulated in Islamic sharia (Zirman, 2019). In the financial context, Sharia Compliance includes aspects such as the prohibition of usury (interest), the prohibition of transactions involving usury or other haram elements, as well as adhering to the principles of justice and togetherness in financial transactions. Sharia Compliance also includes strict internal monitoring and audit aspects to ensure that every transaction and activity carried out by the entity is in accordance with sharia principles (Usman, 2017). This involves implementing procedures and internal control mechanisms that are in accordance with sharia principles to prevent violations and ensure compliance in every operational stage. In addition, in practice, commitment to Sharia Compliance also includes education and

training for staff and employees to understand the principles - sharia principles underlying company operations. This aims to increase their awareness and understanding of sharia compliance and ensure that every decision and action taken is in accordance with these principles (Sobari, 2017).

Sharia Compliance also includes the involvement of Sharia experts and a Sharia supervisory committee, which is responsible for providing guidance and reviewing company activities for compliance with Sharia principles. This committee plays an important role in ensuring that every business decision and product offered by the entity does not conflict with Islamic law (Mulazid, 2016). Overall, Sharia Compliance is a concept that requires financial entities or companies to comply with Sharia principles in all aspects of their operations and activities. This involves compliance with the prohibitions in Islam, such as *riba* (interest), *maisir* (speculation), *gharar* (uncertainty), and another haram (Djuwita, 2019). This compliance not only includes aspects of legal formalities but also reflects an ethical commitment to operate with integrity, fairness, and transparency in accordance with Islamic principles. The importance of Sharia Compliance is reflected in the involvement of Sharia experts and a Sharia supervisory committee, which is responsible for providing guidance, reviewing activities, and ensuring that every transaction and product offered complies with Sharia principles (Amaroh, 2018). By ensuring compliance with Sharia Compliance, the entity not only meets legal requirements but also gains trust and compliance from customers and stakeholders, which in turn can improve reputation and business sustainability in the long term (Aslam, 2020). Thus, Sharia Compliance is not only about compliance with rules, but also a manifestation of moral commitment and Islamic values in business practices.

Sharia Compliance indicators, according to (Usman, 2017), are parameters or metrics used to measure the extent to which a financial entity or company complies with sharia principles in its operations. Some of the main indicators of Sharia Compliance include:

1. **Product Preparation:** This indicator measures the extent to which the products and services offered by the entity comply with sharia principles, such as the prohibition of usury, *gharar*, and *maisir*.
2. **Transaction Process:** This indicator covers the procedures and mechanisms used in carrying out financial transactions, including submission, approval, and settlement processes, to ensure that they comply with sharia principles.
3. **Sharia Risk Management:** This indicator measures the extent to which an entity has an adequate risk management system to identify, assess and manage risks related to sharia financial activities.
4. **Monitoring and Control:** Ensure that there is an effective monitoring and control mechanism to ensure compliance with sharia principles in all aspects of bank operations.

Sharia Banking Performance

Sharia Banking Performance is a measure or evaluation of the performance and results achieved by sharia financial institutions, such as Sharia Banking, in carrying out their business operations in accordance with sharia principles. This performance covers various aspects, including finance, customer service, compliance with sharia principles, product innovation, operational efficiency, as well as the social and economic impacts produced by Sharia Bankings (Nurullaily, 2016). In this context, the performance of Sharia Bankings is assessed based on its ability to provide financial services in accordance with sharia principles, such as the prohibition of usury, *gharar* and *maisir*, as well as its ability to create added value for customers, society and other stakeholders (Hafiez, 2012). Evaluation of Islamic bank performance can be carried out through various indicators, including asset growth, profitability, capital adequacy ratio, asset quality, operational efficiency and product innovation.

Sharia Banking Performance also includes evaluation of Sharia Banking's compliance with international standards in sharia banking practices as well as regulations and guidelines set by financial supervisory authorities and relevant sharia bodies (Mifrahi, 2018). This includes assessing the transparency and accountability of Islamic banks in carrying out their operational activities as well as the quality of risk management and compliance with sharia audit standards (Hasan, 2020). Apart from that, in a broader context, Sharia Banking Performance also reflects the impact produced by Sharia Bankings in encouraging financial inclusion, inclusive economic growth and poverty alleviation in society (Aslam, 2018). This includes support for micro and small financing, infrastructure development, and sustainable economic development programs, as well as participation in social and philanthropic activities in accordance with sharia principles (Hasan, 2020). Taking into account these various dimensions, evaluate Sharia Banking Performance is important for Islamic banks to measure their performance, identify areas that need improvement, and ensure that they continue to make a significant contribution to economic growth and stability as well as the social welfare of society (Mutia, 2019).

Overall, Sharia Banking Performance is a measure of the performance and results achieved by Sharia Bankings in carrying out their operations in accordance with sharia principles (Omar, 2015). Evaluation of Islamic bank performance includes financial aspects, customer service, compliance with sharia principles, product innovation, operational efficiency, as well as the resulting social and economic impacts (Said, 2019).

Sharia Banking Performance indicators according to (Hachicha, 2015) are parameters or metrics used to measure the performance and effectiveness of Sharia Bankings in carrying out their operations in accordance with sharia principles. Some of the main indicators of Sharia Banking Performance include:

1. **Sharia Compliance:** One of the main aspects of Islamic bank performance is compliance with sharia principles in all aspects of its operations, including products, transactions and risk management.

2. **Service Quality:** The quality of service to customers is an important factor in assessing the performance of Sharia Bankings, including ease of access, speed of process, and level of customer satisfaction.
3. **Product Innovation:** The ability of Islamic banks to develop new products and services that are innovative and in line with market needs and sharia principles is also an important aspect in performance assessment.
4. **Economic Empowerment:** Sharia Bankings are also assessed based on their contribution to community economic empowerment, including micro and small financing, as well as social and economic programs that support sustainable development.
5. **Transparency and Social Responsibility:** This aspect includes transparency in operations and disclosure of information to stakeholders, as well as involvement in social activities and corporate social responsibility in accordance with sharia principles.
6. **Management Quality:** The quality of bank management, including policies, procedures, and managerial decisions, is also an influential factor in Sharia Banking Performance.

DEVELOPMENT OF A HYPOTHESIS

The Influence of Intellectual Capital Efficiency on Sharia Banking Performance

By optimizing the use of intellectual capital, Islamic banks can create a solid foundation for sustainable business growth (Al-Musali, 2014). They can identify new market opportunities, respond quickly to changes in the business environment, and continually expand their capacity to meet customer needs. Efficient intellectual capital can also contribute to better compliance with sharia principles (Dzenopoljac, 2017). Banks that have a deeper understanding of sharia and better processes for implementing it are likely to reduce compliance risks and increase customer confidence. The influence of Intellectual Capital Efficiency on Islamic banking performance is a phenomenon that is the main focus in the study of Islamic economics and financial management (Nimtrakoon, 2015). In an era where intellectual capital is becoming an increasingly valuable asset, Islamic banks that are able to manage and use their intellectual capital efficiently have the potential to achieve better and more sustainable performance (Ousama, 2015). In research, Rosińska-Bukowska, M. (2019), Thiagarajan (2018), and Ulum (2013) stated that there is a positive and significant influence of Intellectual Capital Efficiency on Sharia Banking Performance, because efficient intellectual capital can also increase the ability of Islamic banks to manage risk. With sophisticated information systems and a deep understanding of relevant aspects of sharia, banks can better identify and mitigate operational, compliance and market risks.

H1: Intellectual Capital Efficiency has a positive and significant effect on Sharia Banking Performance

The Influence of Intellectual Capital Efficiency on Sharia Compliance

The influence of Intellectual Capital Efficiency on Sharia Compliance has become an important focus in the context of Islamic finance. In the era of globalization and economic complexity, companies operating within a sharia framework are increasingly paying attention to aspects of sharia compliance and also managing their intellectual capital (Yuniasari, 2018). Intellectual Capital Efficiency (ICE) refers to a company's ability to manage and utilize its intellectual capital efficiently to achieve its business goals. Meanwhile, Sharia Compliance refers to a company's compliance with Islamic principles and laws in its business activities and transactions (Djuwita, 2019).

The influence of ICE on Sharia Compliance is significant because efficient intellectual capital can influence various aspects of Sharia Compliance. For example, careful risk management, compliance with the principles of fairness in contracts, transparency in financial reporting, and ethical use of funds are part of the broader responsibility of a company's intellectual capital (Azzahra, 2020). By improving the efficiency of intellectual capital, companies can better understand sharia-oriented customer needs and preferences, develop appropriate products and services, and manage risks more effectively (Mubarik, 2021). Thus, ICE can contribute to improving the company's sharia compliance performance. This is in line with research by Dewanata (2018), Nawaz (2020) and Rahayu (2020) which states that Intellectual Capital Efficiency has a significant effect on Sharia Compliance.

Apart from that, efficient management of intellectual capital can also increase the reputation and trust of customers and other stakeholders in the company, which in turn can strengthen the company's position as an entity that complies with sharia principles (Affandi, 2021). Companies that succeed in optimizing their intellectual capital can improve their sharia compliance, strengthen their reputation, and achieve long-term success in an increasingly complex and diverse business environment.

H2: Intellectual Capital Efficiency has a positive and significant effect on Sharia Compliance

The Influence of Sharia Compliance on Sharia Banking Performance

Compliance with sharia principles strengthens customer and stakeholder trust in Sharia Banking. This creates a strong foundation for long-term relationships and expands the customer base (Fahlevi, 2017). Sharia Banking that consistently comply with sharia principles tend to be more innovative in developing products and services that suit sharia-oriented market needs. This encourages business growth and strengthens the competitiveness of Islamic banks in the banking industry (Maghfuriyah, 2019). Research has shown that Islamic banks that consistently comply with sharia principles tend to

achieve better financial performance in the long term. This can be reflected in profitability ratios, asset growth and overall financial stability.

In a broader context, the influence of Sharia Compliance on Sharia Banking Performance reflects the commitment of Islamic banks to provide financial services in accordance with Islamic values, while achieving business goals and long-term sustainability (Sumarno, 2021). Thus, sharia compliance is not only an aspect of obligation, but also a major driver of competitive advantage and growth for Sharia Banking in an increasingly complex global market. The influence of Sharia Compliance on Sharia Banking Performance is a key aspect in understanding the dynamics of the Islamic banking industry (Rahman, 2013). In this context, Sharia Compliance refers to a Sharia Banking's compliance with Islamic principles and laws in all aspects of its operations, while Sharia Banking Performance refers to the performance and results achieved by a Sharia Banking in meeting its business objectives.

It is important to note that sharia compliance is not only a legal obligation, but also a moral and ethical foundation for Islamic banks. Compliance with Islamic principles, such as the prohibition of usury (interest), the prohibition of transactions containing elements of speculation (*gharar*), and the avoidance of moral risk (*maysir*), is the core of the identity and existence of Islamic banks (Alhammadi, 2021). In research by Nomran (2018), Ullah (2014) and Abdullah (2013) explained that there is a positive and significant influence of Sharia Compliance on Sharia Banking Performance, reflecting the commitment of Sharia Banking to provide financial services that are in accordance with Islamic values.

H3: Sharia Compliance has a positive and significant effect on Sharia Banking Performance

The Mediating Role of Sharia Compliance on Intellectual Capital Efficiency and Sharia Banking Performance

In the sharia banking ecosystem, Sharia Compliance mediation plays an important role in influencing intellectual capital efficiency and overall sharia banking performance. The Sharia Compliance concept emphasizes compliance with Islamic sharia principles in all aspects of banking operations and finance (Omar, 2015). First of all, Sharia Compliance mediation acts as a link between sharia principles and their practical implementation in banking operational activities. By ensuring that all banking activities and products are in line with sharia principles, this mediation helps build trust and compliance with customers and other stakeholders (Rahayu, 2020).

Basically, Sharia Compliance mediation also influences the Intellectual Capital Efficiency (ICE) of sharia banking. By ensuring that human and intellectual resources in financial institutions are focused on developing products and services that comply with sharia principles, this mediation helps increase the efficiency of the use of intellectual capital (Fahlevi, 2017). Good ICE will lead to more efficient resource management and

sustainable innovation in sharia banking. The mediating influence of Sharia Compliance on the overall performance of sharia banking is very significant. By maintaining integrity and compliance with sharia principles, sharia banking can gain higher public trust and expand market share (Rahman, 2013). This can result in better financial performance, including asset growth, sustainable profitability and more effective risk management.

This study examines the mediating role of Sharia Compliance in the relationship between Intellectual Capital Efficiency (ICE) and Sharia Banking Performance. In the context of Islamic banking, ICE, which consists of human capital efficiency (HCE), structural capital (SCE), and capital employed (CEE), is believed to be able to increase the competitiveness and operational efficiency of banks (Pulic, 2004; Meles et al., 2016). However, in a Sharia-based financial system, achieving optimal performance depends on the efficiency of intellectual resources and compliance with Sharia principles, which serve as the moral and legal foundation of Islamic banks (Haniffa & Hudaib, 2007). Therefore, Sharia Compliance acts as a mediating mechanism linking ICE and bank performance, as compliance with Sharia can increase customer trust, strengthen institutional legitimacy, and create spiritual and social values that support the sustainability of Islamic banks' performance (Rahman & Bukair, 2013; Hassan & Aliyu, 2018). In other words, high intellectual efficiency will have a greater impact on bank performance when accompanied by strong Sharia compliance. This model is based on the Resource-Based View and Stakeholder Theory, which emphasise the importance of intangible assets and the satisfaction of all stakeholders in driving competitive advantage and institutional performance (Barney, 1991; Freeman, 1984).

H4: Sharia Compliance can mediate Intellectual Capital Efficiency and Sharia Banking Performance

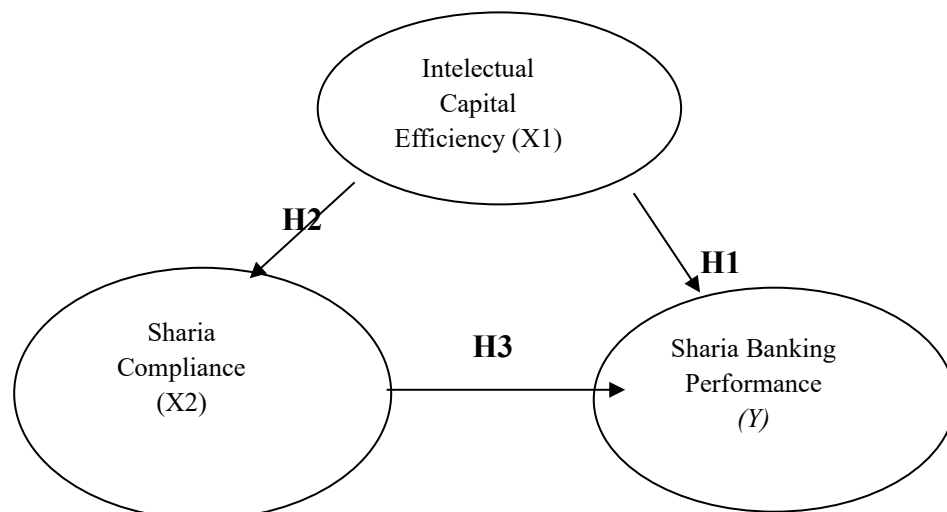


Figure 1. Research Framework

METHODS

Using the method of strengthening or rejecting theories or hypotheses from previous research, this research aims to test the hypothesis. The type of research applied in this framework is " *Explanatory research*" or research that is explanatory. Therefore, this research emphasizes the relationship between research variables by conducting hypothesis testing. Although there is description in the research, the main focus is on the relationship between variables. Population, according to Sugiyono's (2012) definition, is a general area consisting of subjects or objects with special qualities and characteristics determined by the researcher to be studied and then drawn conclusions. In this study, the population consisted of permanent employees of PT Bank Syariah Indonesia in Krasidenan Semarang and Salatiga who worked at PT Bank Syariah Indonesia, with a total of 250 people, consisting of 145 male employees and 105 female employees.

The selection of Semarang and Salatiga as research locations is based on strategic and representative considerations. Semarang as the capital city of Central Java Province is an economic and financial center that has a significant presence of Islamic banks, both in terms of the number of branches and transaction volume. Meanwhile, Salatiga city was chosen because although it is a small city, it has an active and inclusive Muslim community, as well as an increasing potential for the growth of Islamic banking services. By combining these two regions, the researcher can capture the diversity of customer and internal characteristics of Islamic banks, from the urban and semi-urban sides, and obtain richer and more relevant research results for the regional context. The sampling technique used was a census, where the entire population was directly sampled, so that the number of respondents was 250 people. This census sample is also known as a saturated sample, namely a sampling technique where the entire population is sampled (Riduwan, 2010:64). The following is data on the number of sample distributions:

Table 1. Distribution of PT Bank Syariah Indonesia Research Samples throughout Krasidenan, Semarang and Salatiga

Branch Name	Address	Number of employees
PT Bank Syariah Indonesia KCP East Semarang	Jl. Majapahit Kav. A No. 339, Gemah, Pedurungan	30 Employees
PT Bank Syariah Indonesia KC Semarang Pandanaran	Jl. Pandanaran No. 90	85 Employees
PT Bank Syariah Indonesia KC MT Haryono	Jl. MT. Haryono No. 657	75 Employees
PT Bank Syariah Indonesia KCP Semarang Sudiarto	Jl. Brigadier General Sudiarto No. 234, Kalicari, Kec. Protection	36 Employees
PT Bank Syariah Indonesia KCP Salatiga	Ruko Diponegoro Jl. Diponegoro No.77, Sidorejo Lor, Kec. Sidorejo, Salatiga City	24 Employees
Number of Employee Samples		250 Employees

Table 2. Operational definitions of variables and indicators of each variable

Variable	Definitions	Indicators	Reference
Intellectual Capital Efficiency (ICE)	The bank's ability to utilize intellectual assets (human, structural, and deployed capital) to create added value.	1. Human Capital Efficiency (HCE) 2. Structural Capital Efficiency (SCE) 3. Capital Employed Efficiency (CEE)	Pulic (2004); Meles et al. (2016)
Sharia Compliance (SC)	The level of bank compliance with sharia principles and rules in all operations and financial products.	1. Keberadaan dan peran Dewan Pengawas Syariah (DPS) 2. Kepatuhan terhadap prinsip akad 3. Laporan keuangan dan audit syariah	Haniffa & Hudaib (2007); Rahman & Bukair (2013)
Sharia Banking Performance (SBP)	The level of success of Islamic bank performance from both financial and non-financial aspects.	1. Return on Assets (ROA) 2. Non-Performing Financing (NPF) 3. Customer satisfaction and loyalty 4. Sharia reputation and image	Hassan & Aliyu (2018); Alzaidiyeen et al. (2011)

Table 3. Respondent Characteristics

Position		
Sample		Percentage
Tellers	55	22%
Customer Service	40	16%
Operational Unit/IT	60	24%
Relationship Marketing	55	22%
Supervisors	20	8%
Managerial	20	8%
Amount	250	100%
Education		
Sample		Percentage
Diploma	77	31%
Bachelor	146	58%
Postgraduate	27	11%
Amount	250	100%
Gender		
Sample		Percentage
Man	145	58%
Woman	105	42%

Sample		Percentage
Amount	250	100%

This study involved 250 respondents who came from various work positions in the Islamic banking environment in Semarang and Salatiga. Based on position, the majority of respondents worked in the Operations/IT department as many as 60 people (24%), followed by the Teller and Relationship Marketing positions of 55 people each (22%). Customer Service is represented by 40 respondents (16%), while Supervisor and Managerial positions are represented by 20 respondents each (8%). Most of the respondents came from the Operations and Information Technology units (24%), followed by the Teller and Relationship Marketing sections which accounted for 22% each. This composition indicates that the majority of respondents come from front-liner and support system functions, which have direct exposure to operational efficiency and sharia compliance in daily business processes. The number of respondents from Supervisory and Managerial levels, totaling 16% (8% each), also makes an important contribution from a strategic and decision-making perspective.

In terms of education level, most of the respondents had a Bachelor's degree (S1) as many as 146 people (58%), followed by 77 Diploma graduates (31%), and the rest were Postgraduate graduates (S2) as many as 27 people (11%). Most of the respondents (58%) were undergraduate graduates, indicating a relevant level of education for understanding the concepts of intellectual capital efficiency, compliance management, and organizational performance. Respondents with Diploma education (31%) reflect the dominance of technical and administrative executives at the operational level, while Postgraduate graduates (11%) who come from managerial or supervisory levels provide a reflective dimension to the strategic policies of Islamic banks. Meanwhile, based on gender, the respondents were dominated by 145 men (58%), and 105 women (42%). The distribution of respondents by gender shows that the majority of respondents are men (58%), while women (42%). This proportion is relatively balanced and reflects the general condition of the Islamic banking sector workforce in Indonesia, where the role of women is quite significant, especially in customer-facing roles, while men are more in technical and managerial units.

RESEARCH RESULTS AND DISCUSSION

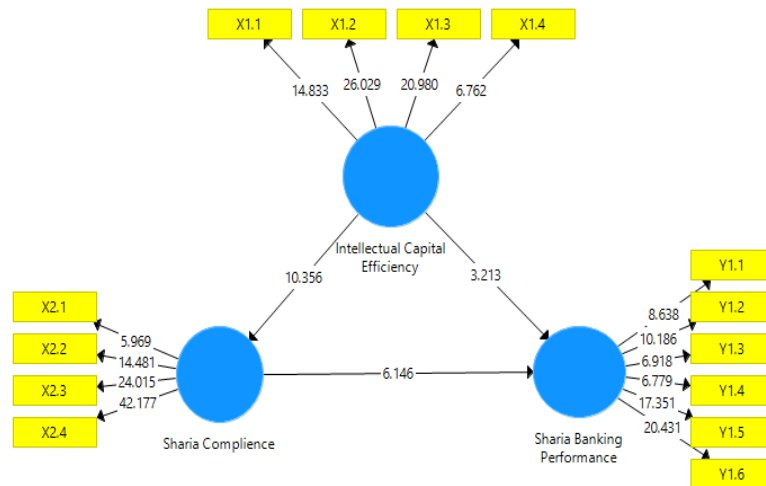


Figure 2. Structural Model Testing

Table 4. Measurement Evaluation Models

Latent Variables	Convergent Validity		Internal Composite Reliability			Discriminant Validity
	Indicators	Loading	AVE	CR	C.A	HTMT
		0.70	>0.50	>0.70	>0.70	<1
Intellectual Capital Efficiency	CE.1	771				YES
	CE.2	789	0.787	0.937	0.910	
	CE.3	882				
	CE.4	794				
Sharia Compliance	C.1	743				YES
	C.2	766				
	C.3	865	0.822	0.932	0.891	
	C.4	812				
Sharia Banking Performance	BP.1	796				YES
	BP.2	823	0.716	0.926	0.900	
	BP.3	712				
	BP.4	0.777				
	BP.5	0.896				
	BP.6.	0.776				

This research uses *Partial Least Square* (PLS) to analyze and evaluate the validity and reliability of the model construct using Smart PLS. SmartPLS was carried out to test *the Outer Model* and *Inner Model* of the research. The *outer model* test is carried out to see the validity and reliability of indicators and variables in the research. This can be seen based on 3 categories, namely (1) Convergent Validity which consists of an *outer loading*

value with a value of >0.7 and an AVE value >0.5 . (2) Internal consistency is seen based on *Cronbach's alpha value* >0.7 and *Composite Reliability* with criteria >0.7 . (3) Discriminant validity is seen based on the *Fornell-Lacker value* where the root value of AVEsquare (diagonal) is greater than all other variable values and HTMT (*heterotrait-monotrait* correlation ratio) is less than 1. Based on the provisions, the indicators and variables in this research can be said to be valid and reliable. The statement that Table 1.3 is presented as valid and reliable indicates that the measurement instruments in this study have met adequate statistical criteria, namely validity that reflects the ability of indicators to accurately measure the intended construct (convergent and discriminant), and reliability that shows internal consistency between indicators in one construct. Validity is tested through factor loading values ≥ 0.70 and Average Variance Extracted (AVE) ≥ 0.50 , while reliability is proven by Composite Reliability and Cronbach's Alpha values ≥ 0.70 . Thus, the data obtained are reliable and suitable for further analysis such as hypothesis testing and structural modeling (Hair et al., 2019; Ghazali & Latan, 2015).

Table 5. Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Statistics (O/STDEV)	Values Sig.)	Conclusion
CE – SBP	0.320	0.322	0.100	3,213	0,001	Significant Positive
CE– SC	0.681	0.686	0.066	10,356	0,000	
C – SBP	0.601	0.603	0.098	6,146	0,000	

Table 6. Testing Mediation Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Statistics (O/STDEV)	Values Sig.)	Conclusion
ICE – SC	0.419	0.411	0.063	6,537	0.00 0	Able to Mediate
– SBP						

Hypothesis testing is carried out after fulfilling the data quality test requirements or when indicators that do not meet the requirements have been removed from the model. Hypothesis testing conditions have a significance probability level (α) = 0.05. Acceptance of the hypothesis is carried out when the statistical t value $>$ the t table value, namely 1.96 (for $p < 0.05$). The direction of hypothesis testing is indicated by the *original sample value*.

Discussion

First, *Intellectual Capital Efficiency* has a positive and significant effect on *Sharia Banking Performance* as indicated by the p value of 0.001, less than the standard of 0.05 and the T statistic of 3.213 . By owning, controlling and utilizing strategic assets (tangible and intangible) the company will excel in business competition and have good performance (Al-Musali, 2014). Banks that better understand and implement better procedures are likely to reduce risk and increase customer confidence. In the field of financial management and Islamic economic studies, the effect of intellectual capital efficiency on Islamic banking performance is a major problem (Nimtrakoon, 2015). Islamic banks that are able to manage and use their intellectual capital effectively can achieve better and more sustainable performance in an era where intellectual capital is becoming an increasingly valuable asset (Ousama, 2015). This supports the opinion in the research of Rosińska-Bukowska, M. (2019), Thiagarajan (2018), and Ulum (2013) which states that there is a positive and significant influence of Intellectual Capital Efficiency on Sharia Banking Performance, because efficient intellectual capital can also improve capabilities. Islamic banks in managing risk. Banks can better identify and mitigate operational, compliance and market-related risks by using sophisticated information systems and a deep understanding of relevant sharia elements. However, this finding contradicts research conducted by Rismawati and Sanjaya (2013), which found that intellectual property does not have a significant influence on business performance.

Second, *Intellectual Capital Efficiency* has a positive and significant effect on *Sharia Compliance* as indicated by a p value of 0.000, less than the standard of 0.05 and a T statistic of 10.356 . According to Zirman (2019), Sharia Compliance is when an organization (banking) complies with sharia principles in all its operations. This shows that the organization operates based on Islamic law and moral principles contained in Islamic law. Because effective intellectual power can influence various aspects of sharia compliance, causing the influence of ICE on sharia compliance to be significant. For example, a company's intellectual capital responsibilities include careful risk management, compliance with the principles of fairness in contracts, transparency in financial reporting, and ethical use of funds (Azzahra, 2020). By increasing the efficiency of intellectual capital, businesses can better understand the needs and preferences of sharia-oriented customers, create appropriate products and services, and better manage risk (Mubarik, 2021). Thus, ICE can contribute to improving the company's sharia compliance performance. This is in line with research by Dewanata (2018), Nawaz (2020) and Rahayu (2020) which states that Intellectual Capital Efficiency has a significant effect on Sharia Compliance.

Third, *Sharia Compliance* has a positive and significant effect on *Sharia Banking Performance* as indicated by a p value of 0.000, less than the standard of 0.05 and a T statistic of 6.146 . In general, sharia banking performance is a measure of the results and performance achieved by Sharia Bankings when carrying out their operations in

accordance with sharia principles (Omar, 2015). Sharia banking performance also includes evaluating the compliance of Sharia Bankings with regulations and regulations set by financial supervisory authorities and relevant sharia bodies (Mifrahi, 2018). It is important to remember that sharia compliance is not only a legal obligation, but also a moral and ethical foundation for Islamic banks. Submitting to Islamic rules, such as the prohibition of usury (interest), speculative transactions (gharar), avoiding moral risk (maysir) is the core of the identity and existence of Islamic banks (Alhammadi, 2021). This supports the research results of Nomran (2018), Ullah (2014) and Abdullah (2013) explaining that there is a positive and significant influence of Sharia Compliance on Sharia Banking Performance.

Fourth, Sharia Compliance plays an important role in mediating intellectual capital efficiency and overall sharia banking performance. indicated by a p value of 0.000, less than the standard of 0.05 and a T statistic of 6.537. Thus, Sharia Compliance mediation plays an important role in shaping Intellectual Capital Efficiency and improving the overall performance of sharia banking. Through compliance with sharia principles, sharia banking can build a strong foundation for sustainable growth and positive contributions to the economy and society at large. Sharia Compliance mediation strengthens the need to develop professional and competent human resources in the context of sharia banking (Fahlevi 2017). This includes employee training and development in understanding sharia principles, appropriate banking practices, as well as Islamic business ethics. Quality human resources are a valuable asset in improving the quality of services and overall performance of sharia banking (Rahayu, 2020).

Thus, through these various methods, Sharia Compliance mediation not only influences Intellectual Capital Efficiency and sharia banking performance, but also strengthens a solid foundation for the growth and sustainability of the sharia banking industry in the future.

CONCLUSION

The results of the analysis show that Intellectual Capital Efficiency and Sharia Compliance have a significant influence on increasing Sharia Banking Performance at PT. Bank Syariah Indonesia in the cities of Semarang and Salatiga. Apart from that, Sharia Compliance is also proven to be a mediating variable that influences intellectual capital efficiency and sharia banking performance. This research provides a deeper understanding of the relationship between Intellectual Capital Efficiency, Sharia Compliance, and Increasing Sharia Banking Performance in the context of Islamic banks in Indonesia. The implications of this research can help bank management in identifying areas that need improvement and optimizing resources to improve their overall performance. By increasing the efficiency of intellectual capital management and ensuring compliance with sharia principles, PT. Bank Syariah Indonesia in the cities of

Semarang and Salatiga were able to improve their overall performance and strengthen the trust of customers and other stakeholders.

By focusing on improving the efficiency of intellectual capital management and ensuring compliance with sharia principles, banks can increase their competitiveness in an increasingly tight market. In this way, they can attract more customers, retain existing customers, and overall strengthen their positive image in the eyes of the public. In addition, by applying the findings from this research, PT. Bank Syariah Indonesia in the cities of Semarang and Salatiga can increase their transparency and accountability in carrying out daily operations and manage risks better. This not only increases customer confidence, but also helps banks maintain their reputation in a changing market.

Thus, the conclusions of this study provide a solid basis for bank management to take strategic steps that will lead to increased overall performance and trust from various stakeholders. This confirms the bank's commitment to maintaining high quality standards and the sharia principles underlying their operations, while continuing to adapt to changes in the business environment and optimizing the use of available resources. Despite its contributions, this study has several limitations. First, the sample is geographically limited to only two cities—Semarang and Salatiga—which may not fully represent the diverse operational contexts of PT. Bank Syariah Indonesia across Indonesia. Second, the data is cross-sectional, capturing only a snapshot in time and not accounting for potential dynamic changes in intellectual capital or compliance practices. Third, the study relies primarily on perceptual data from employees, which, while valuable, may not fully reflect actual performance outcomes or customer perceptions.

Future research is encouraged to expand the geographical coverage to include other regions in Indonesia, especially areas with different socio-economic and cultural characteristics. Longitudinal studies could also provide deeper insights into how the relationship between Intellectual Capital Efficiency, Sharia Compliance, and performance evolves over time. Additionally, integrating financial performance data, customer satisfaction metrics, and qualitative interviews with Sharia board members could enrich the robustness of the analysis and offer a more holistic perspective.

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