



Exploring *Sharia* Compliance and Intellectual Capital for a New Approach to *Maqasid* Performance

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Abstract

This study examines the role of *Sharia* governance as a mediator in the relationship between *Sharia* Supervisory Board compliance and *maqasid* performance, and as a moderator, focusing on intellectual capital and its impact on *maqasid* performance in Islamic banking. The number of members and the frequency of meetings of the *Sharia* Supervisory Board determines the function of *Sharia* compliance. At the same time, intellectual capital consists of human intellectual capital, structured intellectual capital, and capital employed efficiency. This study focuses on Islamic Commercial Banks from 2015 to 2020. The research data were obtained from secondary data from financial reports using smartPLS SEM. The findings of this study explain empirical evidence that *sharia* compliance can improve *maqasid* performance. In addition, Islamic Banks with high human intellectual capital can directly and substantially impact *maqasid* performance. However, the existence of structured intellectual capital and capital employed efficiency in Islamic banks does not directly affect *maqasid* performance. Implementing *Sharia* governance is very important in improving *maqasid* performance and can also strengthen the relationship between *Sharia* compliance and *maqasid* performance. The main implications of this research are the design, formation, and development of constructive *maqasid* performance measurements, followed by strengthening *Sharia* governance regulations at the level of developing asset infrastructure and adding distribution to the *Sharia* banking network.

Keyword: *Sharia* governance, *Maqasid* performance, Intellectual capital, Islamic banking

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Introduction

Maqasid performance is one of the alternative performance measurements in Islamic economics that is important to implement. This measurement provides an alternative framework for evaluating the performance of Islamic financial institutions, especially Islamic banks (Laldin, 2022; Mergaliyev et al., 2021; Noor et al., 2016). This is done to consider higher goals and provide a more comprehensive and ethical approach to assessing performance in Islamic financial businesses. In addition, conventional performance measurements in Islamic financial institutions have not been appropriate because they cannot accommodate *Sharia* aspects (Kuppusamy et al., 2010). This ongoing effort is made to align the role of Islamic economics and expand the scope of objectives, namely, beyond material profit to achieve all *maṣlaḥah* for society (Mohammed & Taib, 2015).

One way to improve financial performance is a reliable *sharia* governance mechanism (Md. K. Alam et al., 2021). The role of *Sharia* governance in achieving *maqasid* performance goals is essential to ensure that *Sharia* compliance has been carried out consistently (Iqbal & Mirakhor, 2011). Strong *Sharia* governance is expected to be able to regulate and supervise operational implementation comprehensively, with the goals that *Sharia* banks want to achieve. In addition, healthy *Sharia* governance can improve performance and create economically healthy profits (Jumansyah & Syafei, 2013).

Previous studies differ in their findings on the impact of human resource development on financial performance. Islamic banking management has received significant attention because it is closely related to organizational performance in functions oriented to organizational goals (Mansoor et al., 2020). Internal improvement and supervision in Islamic banking are also determined by the expertise of the *Sharia* Supervisory Board (SSB) in accounting, finance, and economics, even in Islamic law (Mukhibad et al., 2021). Increased fraud is often associated with compliance and governance based on *Sharia* principles (Farida et al., 2021). However, according to research by Djuwita et al. (2019), *Sharia* conformity has a detrimental impact on performance.

Sharia compliance indicators in achieving *maqasid* performance are in accordance with the duties and responsibilities of the *Sharia* Supervisory Board (SSB) in supervising the operational activities of *Sharia* Banking. Coordination related to the provision of information, guidance and regulations to achieve goals in accordance with Islamic values is one form of *Sharia* compliance carried out by the SSB. Cooperation between SSBs through regular meetings can improve reputation, minimize risk and affect banking performance. In addition, effective supervision is expected to have a positive impact on *maqasid* performance in Islamic banks. One of the roles of compliance of the *Sharia* Supervisory Board (SSB) in achieving *maqasid* performance is very important to consider. Members of this board play an important role as supervisors and provide input on things that banks can do to comply with *Sharia* principles. Including the determination of *sharia* rules and principles, issuing decisions (*fatwas*) and supervising compliance in ensuring bank policies and procedures are in accordance with *sharia* (Nawaz, 2019).

The nature of banking, especially Islamic banking, relies on physical and intellectual capital to achieve and maintain superior performance (Nawaz et al., 2021). In addition, Islamic banking is a knowledge-intensive industry and is required to increase competitive advantage due to the similarity of products and services. Therefore, intellectual capital management for banks is an essential need as one of the competitive advantages to maintain performance (Chen et al., 2014). The responsibility for developing intellectual capital lies in the role of Islamic governance to encourage Islamic financial institutions to achieve superior *maqasid* performance. Intellectual

capital is one of the strategic developments in Islamic banking to improve superior performance. Business entities with high intellectual resources contribute significantly to the dynamic efficiency of the economic system (Nawaz, 2019). Therefore, the focus of this study is to explain the role of Islamic governance in mediating the influence of Islamic compliance on *maqasid* performance and moderating the strength between intellectual capital and performance by Islamic demands. Strengthening *Sharia* Enterprise Theory (SET) and Resource Based View (RBV) are the basis for this research concept.

This research is motivated by several things. First, the measurement of the performance of Islamic financial institutions has been widely carried out, but these measurements are limited to the use of conventional ratios such as ROA, ROE, and CAMEL (Darwanto & Chariri, 2019; Mursyid et al., 2022). Research related to *maqasid* performance still needs to be improved. The financial assessment of Islamic businesses must show social strength and financial capability. Second, the role of governance in the influence of intellectual capital on *maqasid* performance has never been explored by previous research. These limitations are because achieving Islamic banking goals requires effective *Sharia* governance to develop intellectual capital, so the role of governance is essential and worthy of investigation. Literacy on the role of governance can also encourage global performance competition (Zuhroh, 2022).

This study provides novelty in the finance field. Measurement development is carried out in the refinement of the *Maqasid* Syariah Index (MSI) by dividing the objectives into 2 aspects, namely social and economic objectives. Therefore, this study is likely to answer the problem of measuring the performance of Islamic banking in Indonesia.

Theoretical literature review

Syariah Enterprise Theory

Sharia Enterprise Theory (SET) is an enterprise theory adapted to Islamic values and is built on the metaphor of amanah, which concerns fellow creatures of God (Triuwono, 2003). The adjustment of this theory is expected to enable the realization of a humanistic and transcendental theory (Abdullah, 2020). SET acknowledges that accountability applies to the interests of shareholders and broader stakeholders (Kusmiati, 2021). In addition, SET explains that Islam teaches the principle of Tauhid, namely believing that Allah is the One and the Creator. All muamalah activities must be accounted for in their deeds and actions. Believing in the principle of Allah's Oneness means accepting Allah's provisions. This theory prioritizes Allah SWT as the primary source of amanah as a form of accountability because Allah is the sole and absolute owner of life (Meldona et al., 2020).

The SET view is based on the idea that companies function as social institutions with broad and complex economic influences, so social accountability is required (Meldona et al., 2020). Companies can no longer be run solely for the benefit of shareholders. Although shareholders have legal rights as owners, stakeholders' interests must be prioritized for the sake of the company's sustainability. As explained in Pramono (2013), all parties who are bound or not directly bound can contribute to the company's operations because it is based on the fact that humans are Khalifatul fil Ardh who carry the mission of creating and distributing welfare for the benefit of stakeholders, society and the natural environment.

Resource Based View

Resource-based Theory (RBV) is a theory that describes how companies can increase their competitive advantage by developing their resources in order to survive in the long term (Barney, 1991). This theory emphasizes the need for internal company capabilities to formulate strategies to achieve sustainable market and industry competition (Hashim et al., 2015).

Long-term performance in a company is the motivation of the RBV theory, which comes from valuable resources so that they can last a long time and are not easily imitated, transferred or replaced (Ulum et al., 2014). Resources are tangible and intangible assets companies use to develop and implement strategies (Barney, 1991).

Empirical literature review and hypothesis development

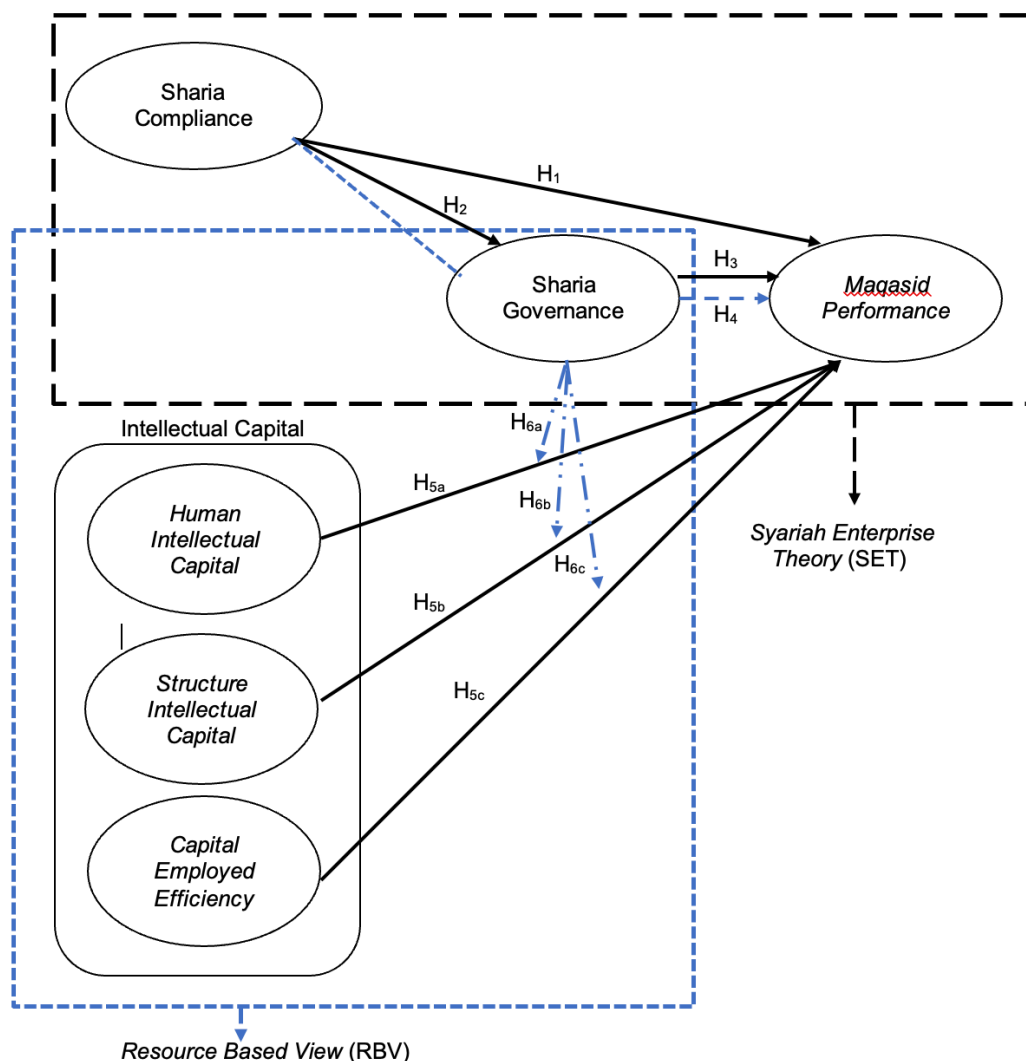


Figure 1 Conceptual Framework

One form of responsibility of Islamic banks, both vertically and horizontally, is reflected in the *Sharia* compliance carried out in the business operations. The *Sharia* Supervisory Board is a vital component because it carries out the fiduciary duties of all stakeholders, one of which is *Sharia* compliance. Indicators of *Sharia* compliance in achieving *Maqasid* performance are the duties and responsibilities of the *Sharia* Supervisory Board (SSB) in supervising the implementation of Islamic Banking operational activities. One of the efforts of SSB compliance with *Sharia* rules is by demonstrating character, integrity, and credibility so that implementing Islamic banking operational activities leads to performance that is according to the objectives of *Maqasid* Al-Syariah. The supervisory function of SSB can be carried out better to improve the performance of Islamic banks (Sueb et al., 2022).

H1: *Sharia* compliance has a positive effect on *Maqasid*'s performance

Islamic banking demonstrates its commitment to responsibility by establishing solid Islamic governance. Implementing Islamic compliance can promote transparency, accountability, and honesty (Ayub, 2007). Islamic compliance guarantees that banking operations comply with and obey Islamic principles and laws. In addition, Islamic compliance is a manifestation or evidence of the fulfillment of all Islamic principles by demonstrating the character, integrity, and credibility of Islamic banking. To ensure this, it is necessary to have an organizational structure that has special authority as a *sharia* supervisor in fulfilling Islamic governance. In addition, Islamic compliance can determine the responsibilities of all stakeholders, which can help minimize agency problems between different stakeholder groups (Chen & Yu, 2023). This explains that Islamic compliance can promote transparency, accountability, and ethical behavior in the organization.

Sharia compliance with the correct implementation of *Sharia* governance is a method that is believed to guarantee that management acts in the interests of stakeholders. This is believed to be important information that is a form of transparency and accountability of management to stakeholders (Faquihuddin, 2019). This is also reinforced by research conducted by Mardian (2019), which shows that *Sharia* compliance is the key to implementing governance in *Sharia* banking. Maintaining provisions, schemes, steps, operations, and *Sharia* principles complies with the *Sharia* principles of *Sharia* banking. On the other hand, there is no clear and concrete evidence that *Sharia* compliance has no effect on *Sharia* governance because the existence of *Sharia* governance can affect the quality of *Sharia* compliance (Grais & Pellegrini, 2006). Thus, *sharia* compliance has a positive effect on *sharia* governance.

H2: *Sharia* compliance has a positive effect on *Sharia* governance

One form of guidance in Islamic banking is the implementation of Islamic governance that upholds the basic principles of Islamic law. Islamic governance must strive to align social and economic goals with individual and societal priorities (Khan, 2019). The OECD (Organization for Economic Cooperation and Development) emphasizes that governance must be based on principles, not rules and regulations (OECD, 2016). The principles upheld in Islamic governance include transparency, accountability and fairness. Islamic governance can increase trust from stakeholders and ensure that banking has an efficient and effective structure and process. In addition, Islamic banking can fulfill its responsibility to positively contribute to society and the

surrounding environment, which will improve the performance of Islamic banking according to the objectives of *Maqasid*.

Elghuweel et al.'s (2017) research provides further evidence that *Sharia* governance is considered more transparent than banking, which does not have governance. Furthermore, the study suggests that governance can improve compliance and that law enforcement can monitor performance disclosure. In addition, this is also supported by research conducted by Fitriasari et al. (2018), which explains that the principles of *Sharia* governance, such as accountability, responsibility, professionalism, and fairness, can drive the performance of *Sharia* banks to be higher because they are related to the delivery of information and convenience received by stakeholders so that banking loyalty will be better.

H3: *Sharia* governance has a positive effect on *Maqasid*'s performance.

One of Islamic banking's contributions can be seen through *Sharia* compliance, where *Sharia* operational activities will be consistent if a structural framework is implemented that regulates operational implementation, namely *Sharia* governance. *Sharia* governance can regulate and supervise Islamic financial institutions to ensure compliance with *Sharia* law in all of their operations (Elasrag, 2014). By implementing strong *Sharia* governance, Islamic banking can ensure comprehensively integrated compliance with all aspects of operations, thereby effectively achieving objectives based on *Maqasid* in accordance with *Sharia* principles.

Governance ensures that *Sharia* compliance is carried out consistently (Iqbal & Mirakhor, 2011) to achieve *Maqasid* performance. In addition, *Sharia* governance is essential to implement *Sharia* principles, confirm *Sharia* compliance and monitor banking functions. This is necessary to obtain adequate and efficient *maqasid* performance. Thus, *sharia* governance mediates the relationship between *sharia* compliance and *Maqasid* performance.

H4: *Sharia* governance mediates the relationship between *Sharia* compliance and *Maqasid* performance.

Human intellectual capital (HCE) is essential for Islamic banking to create and support products that meet ethical and *Sharia* requirements. This requires human resources who have a higher awareness of fiqh muamalat (Islamic jurisprudence that handles commercial and business activities) and competence in knowledge related to Islamic banking (Nawaz et al., 2021) to improve banking performance. Comprehensive training and strengthening a work culture based on *Sharia* can improve operational efficiency and product innovation and ultimately strengthen customer trust in Islamic banking institutions.

Human intellectual capital (HCE) is essential for Islamic banking to create and support products that meet ethical and *Sharia* requirements. To improve banking performance, this *Sharia* requires human resources with a higher awareness of fiqh muamalat (Islamic jurisprudence that handles commercial and business activities) and competence in knowledge related to Islamic banking (Nawaz et al., 2021). Comprehensive training and strengthening a work culture based on *Sharia* can improve operational efficiency and product innovation and ultimately strengthen customer trust in Islamic banking institutions.

H5a: Human Intellectual Capital has a positive influence on *Maqasid* performance

Products and services in Islamic banking require different treatment when contracts and transactions differ from conventional banking (Nawaz et al., 2021). Therefore, Islamic banking must invest in databases, computer networks, management systems, and technology to handle the complexity of transactions. The ease of operational routines and banking strategies will increase their value beyond their material value, improving overall performance.

Research conducted by Tran and Vo (2018) found no significant relationship between structural intellectual capital and performance proxied by ROA (Return on Assets). One reason is that Thai banking, the subject of the study, is still in the process of recovery and development. As a result, banks need significant innovation to remain consistent and grow consistently in this competitive industry.

H_{5b}: Structural Intellectual Capital has a positive effect on *Maqasid* performance.

RBV theory explains that the resources owned should be strategic innovators because other companies cannot understand and implement the strategy, thus creating sustainable competitive value and advantages. One of the value creation in Islamic banking depends on efficient and effective investment in human capital and structural capital, which will produce accurate outputs such as new products and processes and better bank performance (Nawaz et al., 2021). Infrastructure and relationships with customers and stakeholders will also improve overall banking performance.

This study is supported by Prasojito et al. (2022) and Tran and Vo (2018), who state that Islamic banks must empower all physical and financial assets to increase profitability, manage risk, and thus reduce financing costs. Therefore, using more efficient capital-employed efficiency (CEE) will improve the performance of Islamic banks. These results show that optimal Capital Employed Efficiency (CEE) positively affects achieving Islamic bank performance. Islamic banks can maximize the management of their capital resources to generate higher income, support long-term growth, and maintain Islamic principles in their operations.

H_{5c}: Capital Employed Efficiency has a positive effect on *Maqasid* performance

Increasing intellectual capital, especially human intellectual capital (HCE), can strengthen governance practices in Islamic banks. Professional human resources have the ability to think managerially, which will lead to wise decision-making in practice. Thus, human intellectual capital (HCE) not only plays a role in better internal management but also in building a reputation for customers and other stakeholders.

In addition, research by Alizadeh et al. (2014) also explains that governance plays a vital role in making important investment decisions. Governance ensures that decisions from managers are formulated to improve shareholder interests through the efficient use of intellectual capital. Keenan and Aggestam (2001a) suggest that the responsibility for intellectual capital investment lies with governance.

H_{6a}: *Sharia* governance strengthens the relationship between Human Intellectual Capital and *Maqasid* performance

Internal capital / structural intellectual capital (SCE) includes the philosophy and management practices owned by the company, internal networking between divisions, communication and technology structures, levels of administration and management,

organizational climate and culture, values in organizational actions, training and development processes, and relationships between functions and business departments (Keenan & Aggestam, 2001). This is an essential sustainable foundation to be managed through a system that can be managed comprehensively.

In addition, product and service development and innovation, *sharia*-compliant relationships are in the corridor and ethics are oriented towards achieving *Maqasid*. The responsibility for developing intellectual capital lies entirely with the *Sharia* governance of Islamic banking (Aslam & Haron, 2021). *Sharia* governance is responsible for developing systems, procedures, and technology supporting Islamic banking operations through *Sharia* principles. This involves implementing policies that ensure the integration of Islamic values in every aspect of operations, including risk management, product innovation, and technological efficiency. Good *Sharia* governance can create an environment and support intellectual capital development and optimal utilization.

Strong *Sharia* governance in Islamic banks ensures that every product and service innovation produced is not only by regulations but also in line with the primary objective of *Maqasid*, namely the welfare of the people. In addition, effective governance allows for continuous monitoring and evaluation of intellectual capital, thus creating synergy between communication and relationships that are ultimately committed to *Sharia* principles in achieving sustainable and ethical performance.

H_{6b}: *Sharia* governance strengthens the relationship between Structural Intellectual Capital and *Maqasid* performance.

Capital employed efficiency (CEE) includes orientation and procedures, channels, efficiency, and quality of customer relationships; intellectual property, brand loyalty, distribution channels, licensing, customer loyalty and repeat business; order backlog; and relationships with investors and the financial community. This concept can include relationships with all external stakeholders, suppliers, communities, governments, etc. (Keenan & Aggestam, 2001).

Having sufficient Capital Employed Efficiency (CEE) enables Islamic banks to maximize the value of invested capital through increased operational efficiency and service quality. Strong relationships with customers, brand loyalty, and effective distribution create a solid foundation for the sustainability of bank operations. All of this contributes to improving the overall performance of Islamic banks. In contrast, Islamic governance plays a role in ensuring that every activity remains ethical and in accordance with Islamic principles. Strong governance also maintains integrity and public trust, which are essential in maintaining long-term customer relationships.

H_{6c}: *Sharia* governance strengthens the relationship between Capital Employed Efficiency and *Maqasid* performance

Methodology

This study uses a quantitative approach, namely calculating statistical data to explain the research results and objectively assess the phenomena, indicators, and research variables (Riswan & Dunan, 2019). The population in this study includes active Islamic banks registered with the Financial Services Authority (OJK) in 2015-2020. The sample in this study is Islamic banks included in the category of Islamic general banks (BUS). The Islamic General Bank (BUS) group was taken as a sample because, in its activities, it provides services in payment traffic. In addition, BUS also has

a complete annual financial report and issues a governance report, which is the purpose of this study.

The dependent variable is *maqasid* performance, which refers to assessing and measuring performance based on *maqasid* principles. The measurement development is derived as follows.

1. Economic Objectives

Justice (*'adilah*) is essentially placing something only in its place, giving something to those who are entitled, and treating something according to its position. The implementation of justice in business activities is in the form of muamalah principle rules that prohibit the existence of elements: a. Usury (interest elements in all forms and types, *riba nasiah* and *fadhl*); b. injustice (elements that harm oneself, others, and the environment); c. *maysir* (elements of gambling and speculative attitudes); d. *gharar* (elements of uncertainty); and e. *haram* (haram elements in goods and services and related operational activities). This concept is derived from 4 (four) dimensions as follows.

- a. Fair return = $\frac{\text{Profit Sharing has not been shared}}{\text{Clean Investment}}$
- b. Distribution function = $\frac{\text{Mudharabah \& Musyarakah Financing}}{\text{Total Financing}}$
- c. Interest-free products = $\frac{\text{Interest Free Income}}{\text{Total Revenue}}$
- d. Profit ratio = $\frac{\text{Net profit}}{\text{Total Assets}}$

2. Social Objectives

Brotherhood (*ukhuwah*) is essentially a universal value that regulates social interaction and harmonizes the parties' interests for the general benefit of mutual assistance. *Sharia* transactions uphold the value of togetherness in obtaining benefits (sharing economics) so that one person may not gain an advantage over the loss of others. *Ukhuwah* in *sharia* transactions is based on the principle of knowing each other (*ta'aruf*), understanding each other (*tafahum*), helping each other (*ta'awun*), guaranteeing each other (*takaful*), synergizing each other and forming alliances (*tahaluf*). This concept is derived into 4 (four) dimensions as follows.

- a. Educational Assistance = $\frac{\text{Educational Assistance}}{\text{Income distribution allocation}}$ [external Islamic bank]
- b. Training = $\frac{\text{Training Load}}{\text{Total Load}}$ [internal Islamic bank]
- c. Individual income = $\frac{\text{Zakat Paid}}{\text{Net Assets}}$
- d. Behavior that cares about the welfare of others = $\frac{\text{Qardhul Hasan and Good Deeds}}{\text{Total Assets}}$

The independent variables in this study are as follows:

- 1) *Sharia Compliance* is an absolute requirement that must be met by financial institutions that carry out business activities based on *Sharia* (Andini et al., 2023). The first measurement uses the number of members of the *Sharia* Supervisory Board as a form of integrity in ensuring that *Sharia* banking operational activities fully comply with *Sharia* laws. The second measurement uses the frequency of meetings held in 1 year as a form of SSB compliance in determining *Sharia* rules and principles, issuing decisions (*fatwas*) and supervising bank compliance by *Sharia*.

- 2) Intellectual capital is a process carried out by intangible assets based on knowledge resources, which are not written in the balance sheet and provide benefits in increasing the value of the Company (Bontis, 2001). Measurement using iB-VAICTM developed by Ulum

$$iB-VAIC^{TM} = iB-VACA + iB-VAHU + iB-STVA$$

Moderation and mediation variables in this study are governance, which is the relationship between shareholders, stakeholders, and other stakeholders related to their rights and obligations, or in other words. This system regulates and controls the Company (Abidin, 2019). Self-assessment measurements are divided into four ranks, namely:

Rank 1 = very good (composite value <1.5)

Rank 2 = good (1.5 <composite value <2.5)

Rank 3 = quite good (2.5 <composite value <3.5)

Rank 4 = less good (3.5 <composite value <4.5), and

Rank 5 = not good (4.5 <composite value <5)

Empirical results and discussion

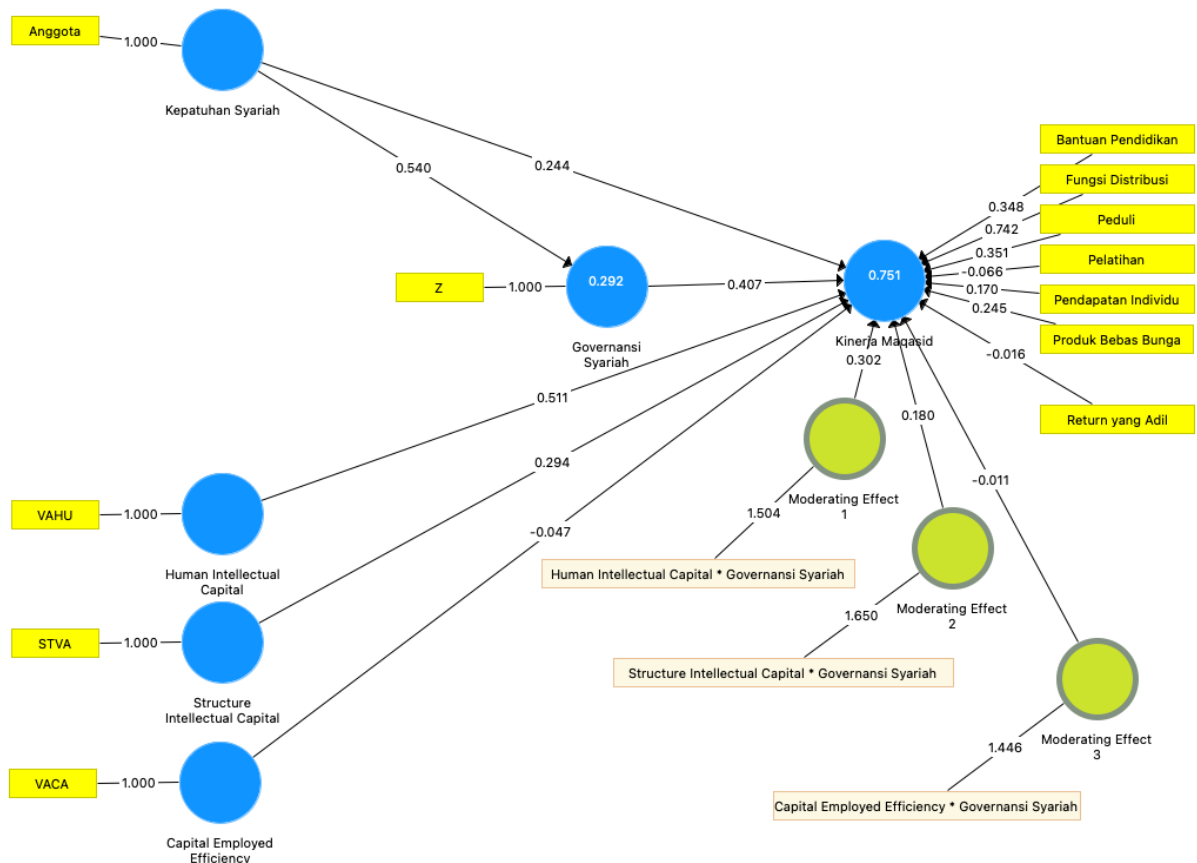


Figure 2 Outer loading

Indicators with loadings below 0.4 should be removed from the model, as shown in Figure 5.10. However, for indicators with loadings between 0.4-0.7, the impact of the decision to remove the indicator on AVE and composite reliability should be analyzed. We can remove indicators with loadings between 0.4 and 0.7 if the indicator increases AVE and composite reliability above its threshold. The AVE threshold is 0.50, and the composite reliability is 0.7. Another consideration when removing indicators is their impact on the validity of the content of the construct. Indicators with small loadings are sometimes retained because they contribute to the validity of the content of the construct (Hair et al., 2022).

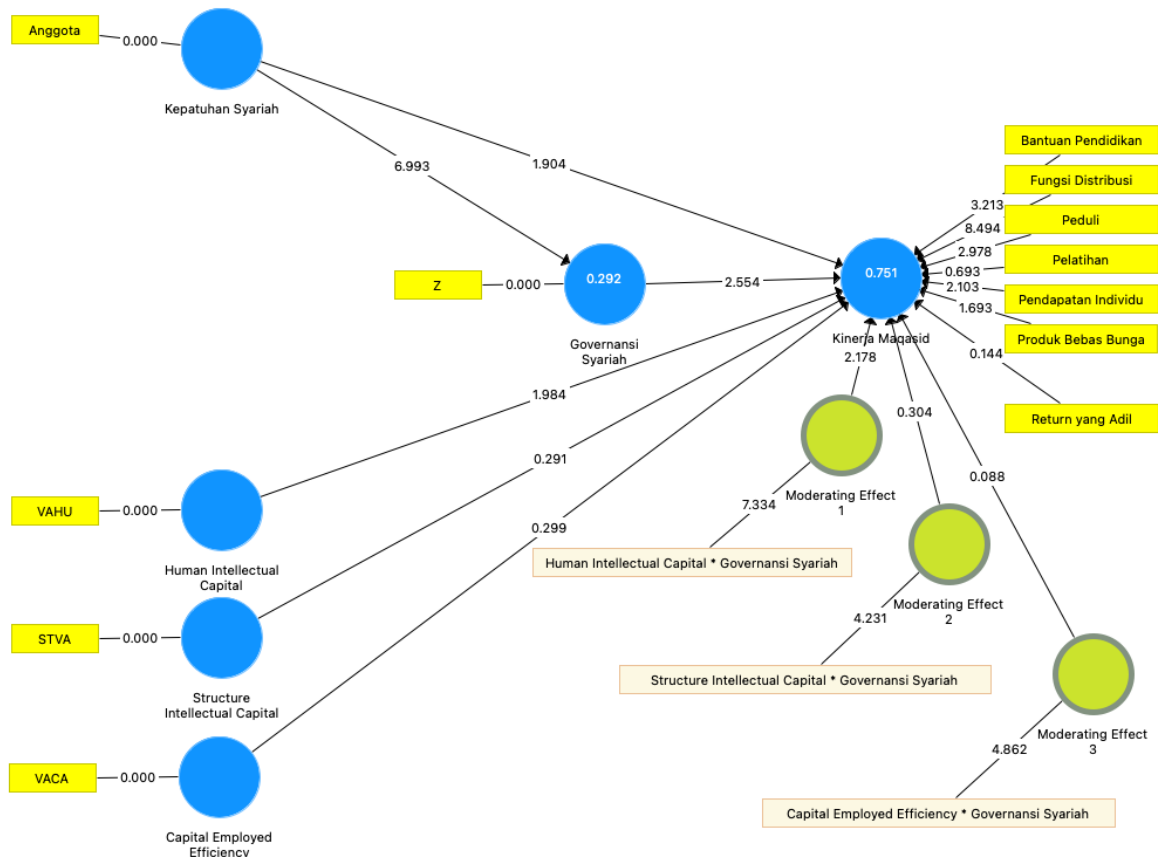


Figure 3. Inner Loading

Inner or structural model testing is conducted to see the relationship between the research model's significance value construct and R-square. The structural model is evaluated using R-square for the dependent construct of the t-test and the significance of the structural path parameter coefficient.

Discussion

Sharia Compliance and Maqasid Performance

The results of testing the first hypothesis, namely *sharia* compliance (X_1), affect *maqasid* performance (Y). The results of the empirical study of this study explain that the implementation of *Sharia* compliance through the effectiveness of supervision by the *Sharia* Supervisory Board to

achieve *Maqasid* performance shows that the character, integrity and credibility of the operational activities of Islamic Banking lead to performance that is aligned with the objectives of *Maqasid* Al-Syariah. The supervisory function of the SSB can be carried out correctly to improve the performance of Islamic banks (Sueb et al., 2022) because it is one of the vital components in *Sharia* compliance.

***Sharia* compliance and *Sharia* governance**

The results of testing the second hypothesis, namely *Sharia* compliance (X_1), have an effect on *Sharia* governance (Z). The results of the empirical study explain that *Sharia* compliance with the implementation of *Sharia* governance is a method that is believed to guarantee that management acts in the interests of stakeholders. This is believed to be important information, a form of transparency and accountability of management to stakeholders (Faqihuddin, 2019). Maintaining the provisions, schemes, steps, rations and principles of *Sharia* comply with the principles of *Sharia* owned by *Sharia* banking and promoting transparency, accountability, and honesty, which are the principles of *Sharia* governance, can be achieved through the implementation of *Sharia* compliance (Ayub, 2007). *Sharia* compliance can also determine the responsibilities of all stakeholders, which can help minimize agency problems between different stakeholder groups (Chen & Yu, 2023). This study supports the research conducted by Mardian (2015), which shows that *Sharia* compliance is the key to implementing governance in *Sharia* banking. According to Grais and Pellegrini's research (2006), *Sharia* compliance has an influence on the quality of *Sharia* governance. A solid organizational structure with special authority as a *Sharia* supervisor can realize the existence of *Sharia* governance that adheres to *Sharia* principles in carrying out its operations.

***Sharia* governance and *maqasid* performance**

The results of the third hypothesis test show that *sharia* governance (Z) affects *maqasid* performance (Y). The empirical study's results explain that Islamic banks will be considered more transparent if they have *Sharia* governance (Elghuweel et al., 2017). Increasing governance can increase compliance, law enforcement monitoring, and performance disclosure. In addition, contributions to achieving *maqasid* performance must be guided by the ownership of Islamic good corporate governance to create profit (Jumansyah & Syafei, 2013).

The implementation of *Sharia* governance must uphold the basic principles of *Sharia*, including transparency, accountability and justice. *Sharia* governance can increase trust from stakeholders and ensure that banking has an efficient and effective structure and process. In addition, *Sharia* banking is able to fulfill its responsibility of providing positive contributions to society and the surrounding environment, which will improve the performance of *Sharia* banking in accordance with the objectives of *Maqasid*.

HCE and *maqasid* performance

The results of the five hypothesis tests, namely human intellectual capital (X_2), have an effect on the performance of *maqasid* (Y). The results of the empirical study explain that human intellectual capital (HCE) is essential for Islamic banking in creating and supporting products that must meet ethical and *Sharia* requirements. This requires human resources who have a higher awareness of *fiqh muamalat* (Islamic jurisprudence that handles commercial and business activities) and have

competence in knowledge related to Islamic banking (Nawaz et al., 2021) to improve banking performance.

SCE and *maqasid* performance

The five b hypothesis test results, namely the structure of intellectual capital (X_2), have no effect on the performance of *maqasid* (Y). The results of the empirical study explain that the structure, database, computer network and technology must be developed in the long term. Moreover, in 2019, all economic sectors in Indonesia were affected by the COVID-19 pandemic, so it would also impact Islamic banking products and services, which are long-term bank investments in transaction complexity.

Technology integration is usually complex and takes time to plan until the final part of the implementation. The integration process will involve various departments and stakeholders in the bank, so it will take quite a long time to ensure that all aspects function harmoniously. In addition, optimizing the use of technology must be done in a balanced and sustainable manner in order to achieve optimal performance. This large investment needs to be considered and planned carefully to substantially affect performance.

CEE and *maqasid* performance

The five c hypothesis test results, namely capital employed efficiency (X_2), have no effect on *maqasid* performance (Y). The theoretical implications of the results of the empirical study of this study are that the actual output expected in capital employed efficiency requires substantial human capital and capital structure so that it will improve overall *maqasid* performance. However, Islamic banks still need to obtain this, especially regarding intellectual capital structure, because the Covid-19 pandemic hampered them.

Investment in Capital Employed Efficiency (CEE) takes a long time because building customer trust requires intensive and transparent communication. Cultivating a sense of security that the bank has implemented *Sharia* principles is an important component of the loyalty aspect. A trusted distribution network involves a complex process to improve and build trust in bank operations, which ultimately improves performance.

Mediation of *Sharia* governance on the relationship between *Sharia* compliance and *maqasid* performance

The results of the fourth hypothesis test are that *Sharia* governance (Z) mediates the relationship between *Sharia* compliance (X_1) and *maqasid* performance (Y). The results of the empirical study explain that governance ensures that *Sharia* compliance is carried out consistently (Iqbal & Mirakhor, 2011) to achieve *maqasid* performance. In addition, *sharia* governance is essential for implementing *sharia* principles, confirming compliance with *sharia* and monitoring banking functions. This is necessary to obtain adequate and efficient *maqasid* performance. Directing *Sharia* banks to obtain increasingly better transaction increases due to customer loyalty and trust. In addition, reputation is one of the factors in increasing banking performance, and the implementation of *Sharia* governance also influences it because banks need strategies and tactical implementations to explore market potential (Junusi, 2012). This condition can be fully achieved if *Sharia* banking is optimally compliant and able to protect the interests of all stakeholders.

Governance moderation strengthens the relationship between HCE and *maqasid* performance

The results of hypothesis test six a, namely *Sharia* governance (M), strengthen the relationship between human intellectual capital and *maqasid* performance. The results of the empirical study explain that *Sharia* governance has a fiduciary responsibility for intellectual capital and the company's financial and physical capital (Keenan & Aggestam, 2001). The intellectual capital paradigm, which consists of human intellectual capital (HCE), requires all interested members to think holistically about all intangible aspects that can be used to create change and stability in the company and to create value through internal and external relationships within the organization. HCE-added value would only be optimal if managed properly so that performance is likely to be better (Keenan & Aggestam, 2001).

Governance moderation weakens the relationship between SCE and *maqasid* performance

The results of hypothesis test six b, namely *Sharia* governance (M), weaken the relationship between intellectual capital structure (X_2) and *maqasid* performance (Y). The results of the empirical study explain that the responsibility for developing intellectual capital structure does not lie entirely with the *Sharia* governance owned by the bank. The development of the company's management philosophy and practices, internal networking between divisions, communication and technology structures, levels of administration and management, organizational climate and culture, values in organizational actions, training and development processes, and relationships between functions and business departments (Keenan & Aggestam, 2001) require a relatively long period. *Sharia* banks do not need this foundation in the short term.

Governance moderation weakens CEE's relationship to *maqasid* performance

The results of the six c hypothesis testing are that *Sharia* governance (M) weakens the relationship between capital employed efficiency (X_2) and *maqasid* performance (Y). The results of the empirical study of this study explain that the wisdom and expertise of *Sharia* governance cannot strengthen the utilization of capital employed efficiency on *maqasid* performance. It takes a long time to strengthen *Sharia* governance, which ultimately provides essential investment in the strength of capital employed efficiency.

This study strengthens the research conducted by Prasajo et al. (2022) that *Sharia* governance, as measured by board size, has a negative moderation between intellectual capital and *Sharia* banking performance, where the amount of information will increase management conflict, which ultimately results in lower performance. In addition, research by Tran et al. (2020) also explains that there is no relationship between governance and intellectual capital efficiency.

Conclusion

The results of the analysis and discussion provide several conclusions. First, *Sharia* compliance can be implemented effectively through supervision by the *Sharia* Supervisory Board (SSB) on the performance of *maqasid*. This ensures that the operational activities of *Sharia* banks are carried out with character, integrity, and credibility so that they can produce performance that is in line with the objectives of *maqasid*. In addition, providing guidance information and regulations as a form of SSB compliance will provide confidence and assurance to the broader community that *Sharia* banks have fulfilled Islamic principles in achieving the effectiveness of *Sharia* bank

performance.

Second, *Sharia* governance, as one of the indicators of the success of *Sharia* banks, ensures that *Sharia* compliance is carried out consistently. Fulfilling *Sharia* aspects can confirm *Sharia* compliance that is comprehensively integrated into all operational aspects, thereby effectively achieving the objectives of *maqasid* by *Sharia* principles. In addition, *Sharia* governance also functions as a pillar that maintains the effectiveness of *Sharia* compliance and remains in its corridor so that *maqasid* performance is realized perfectly.

Third, intellectual capital affects the performance of *maqasid* at the level of human resources who have a higher awareness of *fiqh muamalat* (Islamic jurisprudence that deals with commercial and business activities) and have competence in knowledge related to Islamic banking. This is because the creation of products and services develops and increases according to the performance of *maqasid* if these intangible resources have special education on Islamic character, considering that the core business of Islamic banks is closely related to Islamic teachings.

Fourth, fiduciary responsibility in achieving *maqasid* performance lies in the role of *Sharia* governance. *Sharia* governance ensures that managers' decisions can be formulated to improve shareholder interests through the efficient use of intellectual capital. Intellectual capital owned by *Sharia* banks, such as competitive resources, is able to direct and strengthen the position of *Sharia* banks in making important decisions. This role is also needed to obtain adequate and efficient *maqasid* performance in increasing and improving transactions because of customer loyalty and trust. Implementing *Sharia* governance also influences reputation as one of the factors in increasing banking performance because banks need strategies and tactical implementation to explore market potential (Junusi, 2012). This condition can be achieved in full if *Sharia* banking is optimally compliant and able to protect the interests of all stakeholders.

Implications

First, *Sharia* banking should be encouraged to establish policies and regulations independent of conventional banking performance measurements. The performance of *maqasid* should improve social goals in an appropriate and balanced manner in the study of *Sharia* goals in general. Second, additional development of goals other than economic and social goals, such as political, cultural, and policy goals. This is intended so that the performance of the *maqasid* runs according to the formula to be built while remaining compliant with *Sharia* values, which can ultimately create benefits.

The limitations of this study are as follows. First, this study would be ideal if the data used were close to the latest phenomenon, namely the 2015-2022 time span. However, researchers cannot implement this due to government policies that will strengthen the *Sharia* economy in 2020. The OJK took this step as the authorized authority by forming a merger of three *sharia* banks, namely Bank Rakyat Indonesia Syariah (BRIS), Bank Syariah Mandiri (BSM) and Bank Negara Indonesia Syariah (BNIS).

Second, Islamic banks do not yet have a standard for measuring *maqasid* performance, so the development of *maqasid* performance measurement in this study still has much room for improvement. Some parts of the measurement aspects are not summarized in the objectives to be achieved because understanding indicators related to *maqasid* performance cannot be fully interpreted narratively and relevantly.

The suggestions for this research include the following. First, further research can expand the scope of data in terms of geographical areas and different financial systems in the same year. The existence of this comparative study can provide a broader picture of *maqasid* performance,

allowing for more complex conclusions in terms of regulation, society, culture and economy. Second, building a structured framework for measuring *maqasid* performance is necessary because there is no standard. One is by compiling relevant and specific performance indicators with the objectives that Islamic banks want to convey.

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Data Availability Statement

The data that support the findings of this study are openly available in Zenodo at <https://doi.org/10.5281/zenodo.15400796>.

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