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Islamic Intellectual Capital: Unveiling its Impact on Maqashid Shariah Performance under Corporate Governance Moderation

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ABSTRACT

This study investigates the performance of Islamic banking in Indonesia by analyzing the impact of Islamic Intellectual Capital (iB-VAIC) on Maqashid Shariah performance, with corporate governance as a moderating variable. Data from annual reports of Sharia-compliant banks listed on the Indonesia Stock Exchange over the period 2019-2023 were analyzed using multiple regression analysis in SPSS. The results reveal a negative direct effect of Islamic intellectual capital and board meetings on Maqashid Shariah performance. However, the interaction between Islamic intellectual capital and board meetings positively influences performance, suggesting a moderating role of corporate governance. These findings underscore the importance of effective management of intellectual capital and governance mechanisms to enhance performance aligned with Shariah principles in Islamic banking. Further research is recommended to deepen our understanding of these relationships and inform strategic decisions in the Islamic banking sector.

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1. Introduction

The development of Islamic economics in Indonesia has seen significant growth in recent years, particularly in the expansion of Islamic financial institutions (Pepinsky 2013). This growth has prompted the government to establish regulations that provide a legal foundation for various aspects of these institutions (Acemoglu, Johnson, and Robinson 2005). Notably, the regulations were outlined in Law No. 10 of 1998, which amended Law No. 7 of 1992 (Snyder 1993). Data from the Financial Services Authority (Otoritas Jasa Keuangan, OJK) reveals the remarkable development of Islamic banking (Abbas et al. 2023). In 2005, there were only 3 Islamic Commercial Banks (Bank Umum Syariah, BUS), 19 Islamic Business Units (Unit Usaha Syariah, UUS), and 92 Islamic Rural Banks (Bank Pembiayaan Rakyat Syariah, BPRS) (Sudarsono, 2021). By 2015, these numbers had grown to 12 BUS, 22 UUS, and 163 BPRS, respectively (Kouchachvili, 2018). Despite this growth, market share has not consistently aligned with the overall expansion, fluctuating over the years. The market share increased from 1.42% in 2005 to 4.89% in 2013, but then decreased to 4.83% in 2015, failing to meet the Bank Indonesia target of a minimum of 5% (Parinduri and Riyanto 2011).

Additionally, profitability indicators also reflect a downturn. The estimated post-tax profit declined from 1,028 billion rupiah in 2010 to 239 billion rupiah in 2011 (Miki Hamada 2013). Similarly, the Return on Assets (ROA) dropped from 2.52% in January 2013 to 2.00% in December 2013, lower than the previous year's 2.14% (Ghasseminejad 2021). These trends suggest that both external factors, such as global economic conditions, and internal factors, like the synergy between parent conventional banks and their Islamic subsidiaries, contribute to these challenges (Khediri, Charfeddine,



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and Youssef 2015). For instance, OJK noted the lack of synergy in service quality, human resources, and business capacity between parent and subsidiary banks (Aransyah 2021).

One significant issue highlighted by previous research is the disparity in intellectual capital between conventional and Islamic banks (Ousama, Hammami, and Abdulkarim 2020). Conventional banks generally exhibit higher intellectual capital, averaging above 4.00, compared to Islamic banks, which average above 3.00 (Budiharti, 2016). Intellectual capital has been shown to influence performance significantly. For instance, Bustamam and Aditia (2016) found that intellectual capital positively impacts profitability in 11 Islamic banks in Indonesia. Similarly, Dewanata (2016) demonstrated a positive relationship between intellectual capital and ROA in the same set of banks, using the Value Added Intellectual Coefficient (VAIC) as the measurement method. However, Ulum (2013) argued that VAIC, designed for conventional private sector firms, might not fully capture the nuances of Islamic banking. Therefore, Ulum proposed the Islamic Banking Value Added Intellectual Coefficient (iB-VAIC), which is more specific to the income and expenditure structures of Islamic banks.

The theoretical underpinning of this study is rooted in the concept of intellectual capital, specifically tailored to the Islamic banking sector. Intellectual capital comprises human capital, structural capital, and relational capital, which collectively enhance a bank's value creation capabilities. Ulum's (2013) iB-VAIC method provides a more appropriate framework for measuring intellectual capital in Islamic banks, considering the unique income and expenditure formulas compared to conventional banks. This study also integrates the principles of Corporate Governance (CG), which is crucial for protecting stakeholders' interests and ensuring compliance with Islamic principles (Harun et al. 2020). The regulation on CG is encapsulated in Bank Indonesia Regulation No.11/33/PBI/2009, mandating principles of transparency, accountability, responsibility, professionalism, and fairness (Hirsanudin et al. 2023). Moreover, Islamic banks are required to adhere to Sharia principles in all operational aspects, necessitating the establishment of a Sharia Supervisory Board (DPS) to oversee compliance (Wiwoho et al. 2024).

2. Critical Riview

The concept of maqashid sharia, which refers to the goal of Islamic law to achieve human welfare, is an important foundation in evaluating the performance of Islamic banks (Mergaliyev et al. 2021). The performance of maqashid syariah encompasses three main dimensions: educating individuals, upholding justice, and public interest (Abd Razak 2020). This research bases its arguments on stakeholder theory and agency theory. Stakeholder theory states that companies that are able to meet the needs of their stakeholders tend to be more successful in the long run (Freeman and Phillips 2018). Agency theory explains the importance of corporate governance in reducing conflicts between management (agent) and shareholders (principal) (Michael C. Jensen 1976).

Boards of commissioners and directors play an important role in the governance of Islamic banks. Penelitian oleh Mollah dan Zaman (2015) menunjukkan that the boards of commissioners of Islamic banks have a more complex role than those of conventional banks, as they must ensure compliance with sharia principles. Safiullah et al. (2024) emphasize that directors have a responsibility to comply with Shariah regulations and increase shareholder confidence.

Islamic intellectual capital includes the knowledge and competence possessed by Islamic banks in carrying out their operations in accordance with sharia principles. Ulum (2013) shows that optimized intellectual capital can increase competitive advantage and increase firm value. In the context of Islamic banks, intellectual capital includes an in-depth understanding of Islamic law and its application in financial transactions. Therefore, it is expected that Islamic intellectual capital will contribute positively to maqashid sharia performance by improving operational effectiveness and efficiency, as well as ensuring compliance with sharia principles (Prasojo et al. 2022).

Good corporate governance is necessary to ensure that Islamic banks operate in a transparent, accountable and responsible manner. Boachie and Mensah (2022) shows that the implementation of good corporate governance can increase firm value by reducing earnings management and increasing compliance with regulations. In Islamic banks, good governance also includes compliance with sharia principles, which is overseen by the Sharia Supervisory Board (DPS). Thus, the implementation of good governance is expected to improve maqashid sharia performance by ensuring that all operational and financial activities are in accordance with Islamic law (Taufik, 2023).

Shariah Enterprise Theory (SET) assumes that humans are responsible for managing assets in accordance with Allah's provisions (Aryani and Zuchroh 2021). In Islamic banking, good corporate governance not only ensures compliance with regulations but also improves the competence of human resources through training and supervision. The board of commissioners is responsible for providing strategic recommendations to the board of directors that will improve company performance (Asni and Agustia 2022). Therefore, good corporate governance can strengthen the relationship between Islamic intellectual capital and maqashid sharia performance by ensuring that human resources with competence and integrity adhere to sharia principles in every operational activity.



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That the board of commissioners and directors in Islamic banks play an important role in ensuring compliance with sharia principles and improving company performance (Dwianto and Setiawati 2024; Muhammad et al. 2021; Ridwan and Mayapada 2022). That maqashid sharia performance measurement reflects sharia objectives in banking operations and the importance of good governance in achieving sustainable prosperity (Tarique, Islam, and Mohammed 2021).

H1: Islamic intellectual capital has a positive effect on maqashid sharia performance of Islamic commercial banks.

H2: Corporate governance has a positive effect on the performance of maqashid syariah of Islamic commercial banks.

H3: Corporate governance has a moderating influence on the relationship between Islamic intellectual capital and Islamic maqashid performance.

3. Method Innovation

This study examines the performance of Islamic banking through the lens of Maqashid Sharia Index (MSI) by analyzing Islamic Intellectual Capital (iB-VAIC) and the role of corporate governance as a moderating variable. The research focuses on annual reports from Sharia-compliant banks listed on the Indonesia Stock Exchange (IDX) over specific periods. The sample selection criteria included Islamic Commercial Banks (BUS) that published annual reports from 2019-2023 and good corporate governance reports from 2019-2023.

The purposive sampling technique was employed, targeting banks that met the defined criteria to ensure relevance to the study's objectives. Data collection relied on the documentation method, gathering and analyzing necessary documents such as annual reports and financial statements available on the respective banks' websites.

Islamic Intellectual Capital was measured using the Islamic Banking Value Added (iB-VAIC) model, comprising three components: iB-Value Added Capital Employed (iB-VACA), iB-Value Added Human Capital (iB-VAHU), and iB-Structural Capital Value Added (iB-STVA). where OUT is total revenue and IN is operational and non-operational expenses excluding employee costs. where VA is Value Added and CE is Capital Employed (total assets minus intangible assets). where HC is Human Capital (employee expenses). where SC is Structural Capital (VA minus HC). The total intellectual capital (iB-VAIC) is calculated as:

$$iB-VAIC=iB-VACA+iB-VAHU+iB-STVA \quad (1)$$

Corporate governance, as a moderating variable, was measured by the frequency of board meetings, considering the supervisory role of the board of commissioners over the board of directors.

The measurement is expressed as:

$$Board\ Size=Number\ of\ board\ meetings \quad (2)$$

The performance measurement utilized the Maqashid Sharia Index (MSI), which includes ten ratios representing three dimensions of maqashid sharia: education, justice, and welfare.

- ✓ *Education aid/total income*
- ✓ *Research costs/total expenses*
- ✓ *Training costs/total expenses*
- ✓ *Publicity costs/total expenses*
- ✓ *Profit/total income*
- ✓ *Bad debts/total investments*
- ✓ *Non-interest income/total income*
- ✓ *Net profit/total assets*
- ✓ *Zakat/net profit*
- ✓ *Investment disbursement/total disbursement*

The Maqashid Sharia Index (MSI) is calculated as:

$$MSI=IK(V1)+IK(V2)+IK(V3) \quad (3)$$



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where IK (V1), IK (V2), and IK (V3) represent the performance indicators for education, justice, and welfare respectively.

Descriptive statistics were employed to summarize the financial variables disclosed in the annual reports from 2019 to 2023. These statistics include mean, maximum, minimum, and standard deviation. Classical assumption tests, including normality, multicollinearity, autocorrelation, and heteroskedasticity tests, were conducted to ensure the validity of the regression models.

Multiple linear regression analysis was used to examine the relationships between the independent variables (iB-VAIC, iB-VACA, iB-VAHU, and iB-STVA) and the dependent variable (MSI). The moderating effect of corporate governance was tested using interaction terms.

The regression model is specified as follows:

$$MSI = \alpha + \beta_1 iB-VAIC_t + \beta_2 DK_t + \beta_3 ICDK_t + \epsilon \quad (4)$$

where MSI is the Maqashid Sharia Index, α is the constant, β represents the regression coefficients, iB-VAIC is Islamic Intellectual Capital, DK is the number of board meetings, ICDK is the interaction between Islamic Intellectual Capital and board meetings, and ϵ is the error term.

Hypothesis testing was conducted using t-tests to determine the significance of individual predictors. A p-value less than 0.05 was considered significant, indicating a meaningful relationship between the independent and dependent variables. The interaction effect was further analyzed using Moderated Regression Analysis (MRA) to assess the role of corporate governance in moderating the relationship between Islamic Intellectual Capital and Maqashid Sharia Index.

To support the analysis, various statistical software tools were employed. SPSS was utilized for the descriptive statistics and classical assumption tests. The reliability of the data was ensured by cross-verifying the information with the reports available on the official websites of the banks. Additionally, the study adheres to the methodological standards outlined in previous research on Islamic banking performance and intellectual capital, such as the works of Pulic (2004) on VAIC and the integration of Islamic principles in financial performance measurement as discussed (Mohammed and Razak 2008).

Overall, the methodology aligns with established practices in financial performance research, ensuring the robustness and reliability of the findings. The use of comprehensive data from multiple years and rigorous statistical testing provides a solid foundation for understanding the impact of Islamic Intellectual Capital and corporate governance on the performance of Islamic banks in Indonesia.

4. Result and Discussion

This study aims to examine the influence of Islamic intellectual capital on the performance of Maqashid Sharia, and to determine whether corporate governance plays a moderating role in the relationship between Islamic intellectual capital and Maqashid Sharia performance in Sharia banking in Indonesia. The research focuses on Sharia-compliant banks listed on the Indonesia Stock Exchange. The sample consists of nine Islamic banks that met the selection criteria. Data analysis was performed using the SPSS (Statistical Program for Social Science) software (Prasojo et al. 2022). Prior to hypothesis testing, a descriptive analysis was conducted to provide an overview of Islamic Intellectual Capital and the performance of the banks during the study period (Ab. Aziz and Meor Hashim 2017; Ulum 2013).

The descriptive analysis of the Islamic Intellectual Capital, measured using VAIC™, reveals an average value of 2.3032. This indicates that the intellectual capital, assessed based on the value added created by physical capital, human capital, and structural capital, is substantial, averaging 2.3032 times. The standard deviation of 1.18442 suggests that the dispersion of Islamic Intellectual Capital among Sharia banks is relatively homogeneous, as it is lower than the mean value. The descriptive analysis of the variable representing board of commissioners and directors meetings shows an average of 8.1222, meaning that, on average, banks hold approximately eight meetings between the board of commissioners and directors annually. The standard deviation of 6.65145 indicates that the distribution of the frequency of these meetings is relatively homogeneous, as it is smaller than the average value. According to the descriptive analysis, the Maqashid Sharia Index (MSI) performance variable has an average value of 0.2248. This implies that the performance of the Maqashid Sharia Index (MSI) in Sharia banks is within a moderate criterion, representing 22.48% of all indicators of education, justice, and welfare. The standard deviation of 0.07421 indicates that the data dispersion from the level of social responsibility disclosure is 0.07421 across 58 cases.

Based on the table above, it can be observed that the Kolmogorov-Smirnov coefficient is 1.083 and the probability (Asymp. Sig. (2-tailed)) is 0.189, which is greater than 0.05. Therefore, the data in this study is normally distributed. Based on the table above, all variables have VIF values less than 10 and tolerance values above 0.1, indicating that there is no multicollinearity among the independent variables in this study. The standardized residual test results show a test



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value of -0.12720 with an asymptotic significance (2-tailed) of 0.442. This result further confirms that the residuals are normally distributed, as the significance value is greater than 0.05.

Based on the statistical calculations using SPSS, as shown in the table below, the following multiple regression equation is obtained:

$$Q=0.371-0.023iB-VAIC-0.012RKD+0.006IC*RKD \quad (5)$$

The constant value of 0.371 indicates that if the variables Islamic intellectual capital (iB-VAIC), the number of meetings of the board of commissioners and directors (RKD), and their interaction (IC*RKD) are all zero, the predicted value of the dependent variable Q would be 0.371. This constant represents the baseline level of the dependent variable in the absence of the independent variables.

The regression coefficient for Islamic intellectual capital (iB-VAIC) is -0.023, with a standard error of 0.009 and a t-statistic of -3.866, which is significant at the 0.003 probability level. This negative coefficient implies that for every one-unit increase in iB-VAIC, the dependent variable Q (representing Maqashid Sharia Index) will decrease by 0.023 units, assuming other variables are held constant. The negative relationship suggests that higher levels of Islamic intellectual capital are associated with lower Maqashid Sharia Index values, and vice versa.

The regression coefficient for RKD is -0.012, with a standard error of 0.002 and a t-statistic of -3.713, which is significant at the 0.001 probability level. This indicates that each additional meeting of the board of commissioners and directors is associated with a decrease of 0.012 units in the Maqashid Sharia Index, assuming other variables are constant. The negative coefficient suggests that more frequent meetings are inversely related to the performance measured by the Maqashid Sharia Index.

The regression coefficient for the interaction term (IC*RKD) is 0.006, with a standard error of 0.000 and a t-statistic of 2.702, which is significant at the 0.004 probability level. This positive coefficient indicates that for every one-unit increase in the interaction between Islamic intellectual capital and the number of meetings, the dependent variable Q will increase by 0.006 units, assuming other variables are constant. This positive relationship implies that the interaction between higher levels of Islamic intellectual capital and the number of board meetings enhances the Maqashid Sharia Index.

Constant (0.371): Baseline level of Q when all independent variables are zero. (6)

iB-VAIC (-0.023): Negative impact on Q, significant at 0.003 probability level. (7)

RKD (-0.012): Negative impact on Q, significant at 0.001 probability level. (8)

IC_RKD (0.006): Positive impact on Q, significant at 0.004 probability level. (9)

The results indicate that while both Islamic intellectual capital and the number of meetings independently have a negative effect on the Maqashid Sharia Index, their interaction positively influences the index, suggesting that the combined effect of these variables can enhance the performance as measured by the Maqashid Sharia Index. These findings contribute to the understanding of how intellectual capital and corporate governance practices interact to influence the performance of Islamic banks, specifically within the context of their alignment with Maqashid Sharia principles.

Influence of Islamic Intellectual Capital on Maqashid Shariah Performance

The t-test results for Islamic Intellectual Capital (iB-VAIC) indicate a t-value of -3.866 with a probability of 0.003, demonstrating a significant negative impact on Maqashid Shariah performance. This finding contradicts the initial hypothesis, which posited a positive relationship between Islamic Intellectual Capital and Maqashid Shariah performance in Islamic banks. This result aligns with Jensen and Meckling's (1976) agency theory, which suggests that increased intellectual capital does not necessarily translate into improved performance without effective management and utilization. This outcome contrasts with the findings of Dewanata (2016), who reported a positive and significant effect of intellectual capital on performance measured by Return on Assets (ROA). The negative impact observed in this study can be attributed to several factors. Primarily, Islamic banks in Indonesia may not be fully leveraging their intellectual assets to enhance competitive advantage and Maqashid Shariah performance. Instead, they might focus more on short-term financial returns rather than long-term intellectual capital development. Islamic Intellectual Capital encompasses resources such as human capital, organizational capital, and customer capital. Poor management of these resources fails to create value, thereby not improving financial performance. During the study period from 2019 to 2023, the Islamic Banking Value Added (iB-VA) showed a declining trend, indicating that a significant component of iB-VAIC, namely bank income, did not contribute to enhanced performance. Additionally, the high employee costs, a measure of human capital, did not correspond to increased productivity. This imbalance suggests that rising employee expenses without a concurrent rise in productivity negatively impacts corporate performance. Data from 2019 to 2023 indicated a negative

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or declining iB-VAHU (Islamic Banking Value Added Human Capital), supporting the negative influence of iB-VAIC on performance.

Impact of Corporate Governance on Maqashid Shariah Performance

The analysis of the Board of Commissioners and Directors Meetings (RKD) revealed a t-value of -3.713 with a probability of 0.001, indicating a significant negative impact on Maqashid Shariah performance. Consequently, the hypothesis that corporate governance positively affects Maqashid Shariah performance in Islamic banks is not supported. This finding corroborates Michael C. Jensen (1976) assertion that an increase in board size can diminish firm performance due to communication and coordination challenges.

Corporate governance in Islamic banking necessitates trust and accountability in managing stakeholders' funds according to Shariah principles. However, frequent meetings of the board do not guarantee improved performance. The results align with Kholid and Bachtiar (2015), who found that while the board of commissioners positively influenced Maqashid Shariah performance, audit committees had a negative impact, and Shariah supervisory boards had no significant effect.

Moderating Role of Corporate Governance in the Relationship between Islamic Intellectual Capital and Maqashid Shariah Performance

The interaction term (IC_RKD) demonstrated a t-value of 2.702 with a probability of 0.004, indicating that corporate governance can moderate the relationship between Islamic Intellectual Capital and Maqashid Shariah performance. The positive regression coefficient of 0.006 suggests that increased board meetings enhance the positive relationship between Islamic Intellectual Capital and Maqashid Shariah performance. This finding is consistent with the Shariah Enterprise Theory (SET), which emphasizes the stewardship role of humans over Allah's resources, requiring adherence to Islamic principles for social and economic activities (Obid and Naysary 2014). Effective corporate governance, reflected in regular and well-coordinated meetings of the board, can enhance the utilization of intellectual capital, aligning business operations with Shariah objectives (Bin-Nashwan et al. 2021).

Islamic banks, operating under profit-oriented yet ethical frameworks, need competent and integrity-driven human resources to meet their objectives (Mansour, 2015). Frequent board meetings facilitate better communication and coordination, essential for good corporate governance (GCG) (Nilsen 1993). Joint activities in risk assessment, surveillance, investigation and response are critical in ensuring a proactive and holistic approach to addressing threats (Dayapera and Sy 2024). GCG ensures transparency and accountability, crucial for stakeholder trust and performance (Jaswadi, Iqbal, and Sumiadji 2015; Purnamasari et al. 2024). The study indicates that well-implemented corporate governance can help Islamic banks better manage and utilize intellectual capital, improving Maqashid Shariah performance (Rahman 2017). This supports prior research emphasizing the importance of governance structures in achieving both financial and non-financial objectives in Islamic banking (Jan 2021).

5. Conclusion

The research findings show that Islamic intellectual capital negatively impacts Maqashid Shariah performance in Indonesian Islamic banks, primarily due to inadequate management and usage. Corporate governance, particularly the frequency of board meetings, negatively moderates the positive association between Islamic intellectual capital and Maqashid's Shariah efficiency. These findings emphasize the need for Islamic banks to prioritize the long-term development of intellectual capital and implement effective governance methods to improve their performance in accordance with Shariah standards. To gain a deeper understanding of the impact of intellectual capital and governance on Islamic banking, we need to conduct further investigation.

6. Table and Image

Table 1. Descriptive Statistics of Research Variables

VR	N	Minim	Maxim	Mean	Std. Dev
iB-VAIC	58	-2.04	4.77	2.3032	1.18442
RKD	58	.01	30.01	8.1222	6.65145
MSI	58	.13	.54	.2248	.07421

Source: Secondary Data, 2024 (processed)

Table 2. Normality Test

N,Test	
K-S Z	1.083
Asymp. Sig. (2-t)	0,05



Table 3. Multicollinearity Calculation Results

VIF	Tolerance	Variable	Description
iB-VAIC	0.532	1.822	No multicollinearity
RKD	0.188	5.243	No multicollinearity
IC_RKD	0.147	6.532	No multicollinearity

Source: Secondary Data, 2024 (processed)

Table 4. Runs Test

Standardized Residual	
Test Value	-.12720
Asymp. Sig. (2-T)	.442

Source: Secondary Data, 2024 (processed)

Table 5. Multiple Linear Regression Analyses

Var.	Dependent Variable Q				Description
	Regression	St. Error	t statistic	Probability	
(Constant)	0.371	0.020	15.834	0.001	Credible
iB-VAIC	-0.023	0.009	-3.866	0.003	Credible
RKD	-0.012	0.002	-3.713	0.001	Credible
IC*RKD	0.006	0.000	2.702	0.004	Credible

Source: Secondary Data, 2024 (processed)

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