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Research Article

Governance, Intellectual Capital, and Sharia Compliance in Islamic Bank Profitability: Evidence from Indonesian Islamic Commercial Banks

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Abstract
This study examines the effects of Islamic Corporate Governance (ICG), Intellectual Capital (IC), and Sharia Compliance (SC) on the profitability of Islamic Commercial Banks in Indonesia during 2022–2024. Profitability is measured using Return on Assets (ROA). A quantitative approach with panel data regression analysis was applied to 36 firm-year observations from 12 Islamic Commercial Banks selected through purposive sampling. Model selection and classical assumption tests were conducted to ensure robust estimation. The results show that ICG, IC, and SC jointly have a significant effect on profitability. Partially, Intellectual Capital has a positive and significant effect on ROA, indicating that effective utilization of knowledge-based resources enhances financial performance. Islamic Corporate Governance also has a positive coefficient, although its significance is relatively weak, suggesting that its impact depends on the quality of governance implementation. Meanwhile, Sharia Compliance has a negative but statistically insignificant effect on profitability, implying that greater compliance does not necessarily generate short-term financial benefits. Overall, Intellectual Capital is the strongest determinant of profitability. These findings emphasize the importance of investing in human capital, organizational learning, and digital innovation while maintaining effective governance and adherence to Sharia principles to support sustainable long-term performance.

Keywords: Islamic Corporate Governance, Intellectual Capital, Sharia Compliance, Profitability, Bank Syariah

JEL Classification: G21, G34, O34

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1. Introduction
The Islamic banking industry has experienced significant growth over the last decade, driven by increasing public awareness of ethical finance and compliance with Sharia principles. In Indonesia, Islamic Commercial Banks (Bank Umum Syariah/BUS) play a strategic role in supporting national financial inclusion and economic stability.

Data from the Financial Services Authority (Otoritas Jasa Keuangan/OJK) indicate that Islamic banking assets, financing, and third-party funds continue to grow annually. However, this growth has not always been accompanied by consistent profitability, as reflected in fluctuating Return on Assets (ROA) among Islamic banks (OJK, 2024; Ahmad et al., 2024). This phenomenon highlights a fundamental issue in Islamic banking: rapid asset growth does not automatically translate into optimal financial performance.

Profitability is a crucial indicator of bank performance because it reflects management efficiency in utilizing assets to generate earnings. In the context of Islamic banking, profitability is not merely a financial objective but also a reflection of how well Sharia principles are embedded in governance, operations, and strategic decision-making. According to Sharia Enterprise Theory, Islamic financial institutions are entrusted with both economic and moral responsibilities, with financial performance emerging from ethical conduct, accountability, and compliance with Islamic values (Hidayat & Nugroho, 2023; Sari & Hasanah, 2024). Therefore, examining profitability in Islamic banks requires a multidimensional perspective that goes beyond conventional financial determinants.

One of the key internal mechanisms expected to influence profitability is Islamic Corporate Governance (ICG). ICG emphasizes transparency, accountability, justice, and responsibility in accordance with Sharia principles, with the Sharia Supervisory Board (SSB/DPS) serving as a distinctive governance organ. Effective implementation of ICG is expected to reduce agency problems, enhance stakeholder trust, and improve financial performance (Rafiuddin & Musthofa, 2023; Novitri & Adi, 2024). Nevertheless, empirical findings on the relationship between ICG and profitability remain inconclusive. Several studies report a positive influence of governance structures on Islamic bank performance. In contrast, others find insignificant or even negative effects, suggesting that governance effectiveness depends not only on structure but also on the quality of implementation (Kurniawan et al., 2023; Ibrahim et al., 2024).

In addition to governance, Intellectual Capital (IC) has emerged as a critical driver of competitiveness in the modern banking industry. IC represents intangible assets such as human capital, structural capital, and relational capital that enable banks to innovate, operate efficiently, and respond to market changes. In Islamic banking, effective management of intellectual capital is essential for developing Sharia-compliant products, improving service quality, and enhancing operational efficiency. Empirical evidence indicates that IC, commonly measured using the Value-Added Intellectual Capital (VAIC) model, has a significant positive impact on bank profitability (Puspita & Mariana, 2023; Noviani et al., 2022). However, some studies suggest that the contribution of IC varies across banks and periods, indicating the need for further investigation across different empirical contexts (Daulay et al., 2023).

Another fundamental pillar of Islamic banking is Sharia Compliance (SC), which differentiates Islamic banks from conventional banks. Sharia compliance ensures that banking operations are free from riba, gharar, and maysir, and that they adhere to Islamic contracts and ethical standards. Indicators such as the Islamic Income Ratio (IIR), Profit Sharing Ratio (PSR), and Zakat Performing Ratio (ZPR) are commonly used to measure compliance levels (Shaima Asifaul Afnani & Suselo, 2024; Budiman & Hasanah, 2023). High levels of Sharia compliance are expected to enhance credibility, attract loyal customers, and support long-term sustainability. However, empirical findings regarding the direct impact of Sharia compliance on profitability remain mixed, with several studies suggesting that its effect is more reputational and long-term rather than immediately financial (Nurhaliza & Supriani, 2024; Rahmawati & Hasanah, 2023).

Despite extensive research on Islamic Corporate Governance (ICG), Intellectual Capital (IC), and Sharia Compliance (SC), the existing literature remains inconsistent in its findings regarding their impact on Islamic bank profitability. Several studies report that Islamic Corporate Governance improves financial performance through enhanced monitoring and accountability, whereas others find insignificant effects due to differences in governance quality and implementation effectiveness (Cahya & Kusumaningtias, 2021; Kurniawan et al., 2023). Likewise, Intellectual Capital has generally been associated with higher profitability, yet its contribution varies across banking institutions and observation periods (Daulay et al., 2023; Rahmawati & Hasanah, 2023). The evidence on Sharia Compliance is even more inconclusive. While some studies suggest that compliance strengthens profitability through increased legitimacy and customer trust, others indicate that its impact is indirect, long-term, or statistically insignificant (Nurhaliza & Supriani, 2024; Rahmawati & Hasanah, 2023).

More importantly, the Indonesian Islamic banking industry has undergone substantial structural changes since 2022, creating a distinctive empirical context that prior studies have not adequately addressed. The post-merger consolidation of Islamic banking, accelerated digital transformation, increasing competition from conventional and fintech institutions, and growing stakeholder expectations regarding transparency and Sharia integrity have fundamentally altered the operating environment of Islamic Commercial Banks. Under these conditions, factors that previously influenced profitability may no longer operate in the same manner. For example, stronger Sharia Compliance may enhance reputation and legitimacy. However, it may not immediately improve short-term financial performance, while Intellectual Capital may become increasingly important in supporting innovation, efficiency, and digital adaptation.

From a theoretical perspective, this situation creates an important puzzle within the framework of Sharia Enterprise Theory. The theory suggests that profitability in Islamic financial institutions should be generated through a combination of ethical governance, effective utilization of intellectual resources, and adherence to Sharia principles (Hidayat & Nugroho, 2023; Sari & Hasanah, 2024). However, empirical evidence remains unclear regarding whether these dimensions contribute equally to profitability in the contemporary post-2022 Islamic banking environment. In particular, it remains uncertain whether Sharia Compliance directly enhances financial performance or primarily generates long-term reputational benefits that are not immediately reflected in profitability indicators.

Therefore, this study addresses both an empirical and theoretical gap by simultaneously examining the effects of Islamic Corporate Governance, Intellectual Capital, and Sharia Compliance on the profitability of Islamic Commercial Banks in Indonesia during the 2022–2024 period. Specifically, this research seeks to (1) examine the individual impact of ICG, IC, and SC on profitability and (2) evaluate their simultaneous influence on Return on Assets (ROA). The findings are expected to provide empirical insights for bank management, regulators, and stakeholders to strengthen strategic policies that balance financial performance with Sharia values.

The contribution of this study lies in its integrated framework that simultaneously examines governance, intellectual resources, and Sharia compliance using recent panel data. By adopting a Sharia Enterprise Theory perspective, this research offers a more holistic understanding of profitability in Islamic banking. The novelty of this study is reflected in its focus on the post-2022 Islamic banking environment, characterized by industry consolidation, digital transformation, and evolving stakeholder expectations. This study contributes to the literature by providing updated empirical evidence on whether governance quality, intellectual capital, and Sharia compliance remain relevant determinants of profitability in Indonesia's contemporary Islamic banking sector.

2. Literature Review and Hypothesis

Literature Review

Islamic Corporate Governance

Islamic Corporate Governance (ICG) is a corporate governance framework that integrates Sharia principles into oversight and decision-making processes, particularly in Islamic financial institutions. Unlike conventional governance, ICG is not solely oriented toward shareholder interests but also encompasses moral and spiritual responsibilities to Allah SWT and the interests of all stakeholders. This concept aligns with Sharia Enterprise Theory, which emphasizes trustworthiness, justice, transparency, and accountability in organizational management (Hidayat & Nugroho, 2023; Sari & Hasanah, 2024; Dahlifah et al., 2024). The Sharia Supervisory Board (SSB) is a key element in ICG, ensuring that all bank activities comply with Sharia principles.

Effective implementation of ICG is believed to minimize agency conflicts, increase public trust, and improve the quality of managerial decision-making. Several studies have shown that good Sharia governance contributes to the operational stability and financial performance of Islamic banks through stricter supervision and adherence to Islamic ethical values (Cahya & Kusumaningtias, 2021; Novitri & Adi, 2024; Fauziah & Rahmawati, 2023). However, the effectiveness of ICG is highly dependent on the quality of implementation and the independence of the Sharia Supervisory Board (SSB), leading to varying empirical results on its impact on profitability across studies (Kurniawan et al., 2023).

Intellectual Capital

Intellectual Capital (IC) reflects a company's intangible assets, including human capital, structural capital, and relational capital, which play a crucial role in creating added value and competitive advantage. In the Islamic banking industry, IC is a strategic factor because the products and services offered are highly dependent on the quality of human resources, internal systems, and customer relationships. The Resource-Based View (RBV) perspective states that valuable, rare, and difficult-to-imitate intangible assets are the primary source of sustainable competitive advantage (Daulay et al., 2023; Ahlannisa et al., 2024).

Several empirical studies have shown that optimal IC management positively impacts the financial performance of Islamic banks. IC measurement using the Value-Added Intellectual Capital (VAIC) model shows that efficient human capital and structural capital can increase profitability by boosting productivity and operational efficiency (Dahlifah et al., 2024; Puspita & Mariana, 2023; Noviani et al., 2022). However, findings suggest that not all IC components contribute equally to profitability, necessitating further study across different time periods and industry conditions (Rahmawati & Hasanah, 2023).

Sharia Compliance

Sharia Compliance (SC) is the degree to which Islamic banks comply with Islamic legal principles across all their operational activities. This compliance includes avoiding riba (usury), gharar (gharar), and maysir (gambling), as well as the implementation of contracts in accordance with Sharia provisions. SC is the primary foundation of Islamic banks' legitimacy and a key differentiator from conventional banks (Santosa et al., 2020; Dahlifah et al., 2019). A high level of Sharia compliance is expected to increase customer and investor trust and strengthen the bank's long-term reputation.

In practice, Sharia Compliance is often measured using Islamicity Performance Index indicators such as the Islamic Income Ratio, Profit Sharing Ratio, and Zakat Performance Ratio. Several studies have found that Sharia Compliance contributes positively to financial performance by increasing customer loyalty and business sustainability (Budiman & Hasanah, 2023; Shaima Asifaul Afnani & Suselo, 2024). However, other studies indicate that the effect of Sharia Compliance on profitability is indirect and more pronounced in the long term, resulting in inconsistent empirical results (Azizah et al., 2026; Nurhaliza & Supriani, 2024).

Profitability

Profitability is a key indicator for assessing a bank's financial performance because it reflects management's ability to manage assets and generate profits. Return on Assets (ROA) is the most widely used ratio in Islamic banking research because it reflects the effectiveness of asset utilization in generating profits (Indonesian Bankers Association, 2018). From the perspective of Sharia Enterprise Theory, profitability is not the goal; rather, it is achieved through professional trust management in accordance with Sharia principles (Setianingrum et al., 2020; Hidayat & Nugroho, 2023).

Hypothesis

Islamic Corporate Governance and Profitability

Theoretically, Islamic Corporate Governance is expected to increase the profitability of Islamic banks through effective supervisory mechanisms, transparency, and compliance with Sharia

principles. The existence of an independent Sharia Supervisory Board (SSB) can minimize operational and reputational risks, thereby increasing efficiency and public trust. Research by Cahya and Kusumaningtias (2021) found that ICG positively impacts the financial performance of Islamic banks. Similar results were also reported by Anggraini and Mariana (2023) and Novitri and Adi (2024), who stated that a strong Sharia governance structure can drive higher ROA. However, Kurniawan et al. (2023) emphasized that this influence is highly dependent on the quality of governance implementation itself.
H1: Islamic Corporate Governance has a positive effect on the profitability of Islamic commercial banks.

Intellectual Capital and Profitability
Intellectual capital is a strategic resource that enables Islamic banks to improve operational efficiency, product innovation, and service quality. Based on the RBV, effective IC management will create added value and competitive advantage, which directly impacts profitability. Puspita and Mariana (2023) and Fadillah & Noormansyah (2023) found that IC has a positive and significant effect on the ROA of Islamic banks. This finding is supported by Noviani et al. (2022), Daulay et al. (2023), and Ahmad et al. (2024), who show that intellectual capital efficiency significantly contributes to improved financial performance.
H2: Intellectual Capital has a positive effect on the profitability of Islamic commercial banks.

Sharia Compliance and Profitability
Sharia compliance is a fundamental element in Islamic bank operations, aimed at maintaining public trust and confidence. Compliance with Sharia principles is believed to enhance reputation and customer loyalty, which ultimately impacts financial performance. Budiman and Hasanah (2023) and Shaima Asifaul Afnani and Suselo (2024) found that Sharia compliance positively influences the performance of Islamic banks. Research by Dwi and Kurniawati (2022) and Hidayah and Yasin (2023) also shows that Sharia compliance can increase profitability, although the effects tend to be long-term.
H3: Sharia compliance has a positive effect on the profitability of Islamic commercial banks.

3. Data and Method

Data Source, Population, and Sample
This study employs secondary data obtained from the annual reports and financial statements of Islamic Commercial Banks (Bank Umum Syariah/BUS) in Indonesia. The data were collected from official sources, including the websites of the Financial Services Authority (Otoritas Jasa Keuangan/OJK) and the respective Islamic banks. The observation period spans three years, from 2022 to 2024, reflecting the current state of the Islamic banking industry following structural consolidation and digital transformation.

The population of this study consists of all Islamic Commercial Banks operating in Indonesia during the 2022–2024 period. According to OJK records, 14 buses were registered and actively operating during this period. However, not all banks disclosed complete and consistent data related to Islamic Corporate Governance, Intellectual Capital, and Sharia Compliance. Therefore, this study employs a purposive sampling technique, selecting banks that consistently publish complete annual reports and disclose all variables required for analysis. Based on these criteria, 12 Islamic Commercial Banks were selected as the final sample, resulting in a total of 36 firm-year observations. Purposive sampling is considered appropriate to ensure data completeness and reliability for empirical analysis (Sugiyono, 2020).

Variable Measurement and Operational Definition
The dependent variable in this study is profitability, which reflects the financial performance of Islamic Commercial Banks. Profitability is measured using Return on Assets (ROA), calculated as net income divided by total assets. ROA is widely used in banking studies because it captures management efficiency in utilizing total assets to generate earnings and provides a comprehensive measure of bank performance (Ikatan Bankir Indonesia, 2018).

The first independent variable is Islamic Corporate Governance (ICG). ICG is measured using a governance disclosure index derived from information disclosed in Islamic banks' annual reports. This index reflects the structure and implementation of Sharia-based governance mechanisms, including the presence and roles of the Sharia Supervisory Board, the board of commissioners, and the directors. A higher ICG score indicates stronger implementation of Islamic governance principles, emphasizing transparency, accountability, and compliance with Sharia values (Cahya & Kusumaningtias, 2021).

The second independent variable is Intellectual Capital (IC), which represents the bank's intangible resources, including knowledge, human capital, and organizational processes. IC is measured using the Value-Added Intellectual Capital (VAIC) model developed by Pulic, which is commonly applied in banking research. The VAIC model consists of three components: Value Added Capital Employed (VACA), Value Added Human Capital (VAHU), and Structural Capital Value Added (STVA). VAIC is calculated as the sum of these three components, with a higher VAIC indicating more efficient utilization of intellectual capital to create value (Noviani et al., 2022; Puspita & Mariana, 2023).

The third independent variable is Sharia Compliance (SC), which reflects the extent to which Islamic banks comply with Sharia principles in their operational activities. SC is measured using indicators derived from the Islamicity Performance Index, including Islamic Income Ratio, Profit Sharing Ratio, and Zakat Performing Ratio. These indicators capture the proportion of halal income, profit-sharing-based financing, and zakat distribution, which collectively reflect the level of compliance with Islamic principles. Higher SC values indicate stronger adherence to Sharia requirements and ethical standards (Dahlifah et al., 2019; Budiman & Hasanah, 2023).

Empirical Model and Data Analysis Technique

This study employs a quantitative research approach using panel data regression analysis, combining cross-sectional and time-series data. Panel data analysis is chosen because it allows greater variability, reduces collinearity among variables, and improves estimation efficiency compared to purely cross-sectional or time-series methods. The analysis is conducted using three panel regression models: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

To determine the most appropriate model, several model selection tests are conducted, including the Chow test, Hausman test, and Lagrange Multiplier test. These tests help identify whether individual or time effects are present and whether fixed or random effects are more suitable for the data structure. Classical assumption tests, including tests for normality, multicollinearity, heteroskedasticity, and autocorrelation, are also conducted to ensure the robustness of the regression results.

4. Results

Classical Assumption Test

Table 1. Heteroscedasticity Test Results

F-statistic	3.212538	Prob. F(3,31)	0.0364
Obs*R-squared	8.300597	Prob. Chi-Square(3)	0.0402
Scaled explained SS	9.820325	Prob. Chi-Square(3)	0.0202

Source: Processed Data (2025)

Based on the results of the heteroscedasticity test above, the p-value (Obs*R-square) is 0.0000 < 0.05, so H0 is accepted, indicating no heteroscedasticity in this study and homogeneous data.

Autocorrelation Test

The autocorrelation test determines whether there is a relationship between the residuals of one observation and those of another. Autocorrelation can be seen using the Breusch-Godfrey test.

Autocorrelation is the correlation between the disturbance variable of one observation and the disturbance variable of another observation. The autocorrelation test uses the Breusch-Godfrey test. Assessment is based on the probability value. If the p-value is less than 0.05, it can be concluded that the model exhibits autocorrelation. The results of the autocorrelation test are shown in Table 2.

Breusch-Godfrey Serial Correlation LM Test

Table 2. Autocorrelation Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.302325	0.153698	-8.473256	0.0000
ICG	0.006112	0.003108	1.966422	0.0583
IC	0.783087	0.081721	9.582418	0.0000
SC	-0.001689	0.002821	-0.598581	0.5538

Source: Processed Data (2025)

Based on the results above, the constant value of -1.302325 indicates that if all independent variables, namely Islamic Corporate Governance (ICG), Intellectual Capital (IC), and Sharia Compliance (SC), are zero, then Return on Assets (ROA), the dependent variable, will be negative. The ICG coefficient of 0.006112 indicates that ICG has a positive and significant effect on ROA, suggesting that higher ICG levels increase bank profitability, assuming other variables remain constant. Furthermore, the IC coefficient of 0.783087 indicates that Intellectual Capital has a positive and significant effect on ROA, suggesting that higher IC can improve the profitability of Islamic banks. Meanwhile, the Sharia Compliance coefficient of -0.001689 indicates that SC has a negative and insignificant effect on ROA, suggesting that increasing Sharia compliance has not significantly contributed to Islamic bank profitability.

t-test

The t-test is used to determine the extent of the independent and dependent variables. Compare the calculated t-value with the t-table value. If the calculated t-value is greater than the t-table value, then H0 is rejected, and H1 is accepted, indicating a significant effect of each independent variable on the dependent variable. If the calculated t-value < t-table, then H0 is accepted and H1 is rejected, indicating no significant effect of each independent variable on the dependent variable. The df value of n-k (36-4) is 32, indicating a t-table value of 1.693.

Table 3. T-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.302325	0.153698	-8.473256	0.0000
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SC	-0.001689	0.002821	-0.598581	0.5538

Source: Processed Data (2025)

Based on the EViews output in Table 3, it can be concluded that Islamic Corporate Governance (ICG) has a calculated t-value of 1.966422, which is smaller than the t-table value of 1.693, indicating that ICG has a significant effect on Return on Assets (ROA). Furthermore, the Intellectual Capital (IC) t-value of 9.582418 is greater than the t-table value of 1.693, indicating that IC has a significant effect on ROA. Meanwhile, Sharia Compliance (SC) has a calculated t-value of -0.598581, which is smaller than the t-table value of 1.693, indicating that SC does not have a significant effect on ROA.

5. Discussion

The Effect of Islamic Corporate Governance on Profitability

The findings indicate that Islamic Corporate Governance (ICG) has a positive effect on the profitability of Islamic Commercial Banks, although the level of significance is relatively weak.

This result suggests that governance mechanisms grounded in Sharia principles may improve managerial oversight, transparency, and accountability, thereby supporting better financial performance. However, the relatively modest statistical effect implies that governance structures alone are insufficient to generate substantial improvements in profitability unless they are accompanied by effective implementation and managerial commitment.

This finding is consistent with stakeholder theory, which argues that organizations that effectively balance stakeholder interests tend to achieve superior long-term performance. In Islamic banking, governance structures such as the Sharia Supervisory Board play an important role in ensuring compliance with Islamic principles while maintaining operational effectiveness. Similar findings were reported by Cahya and Kusumaningtias (2021), Anggraini and Mariana (2023), and Novitri and Adi (2024), who found that stronger Islamic governance is positively associated with financial performance. However, the relatively insignificance found in this study also supports the argument of Kurniawan et al. (2023) that the effectiveness of Islamic Corporate Governance depends not only on governance structures but also on the quality of implementation, the competence of supervisory boards, and the effectiveness of monitoring mechanisms.

The Effect of Intellectual Capital on Profitability

The results demonstrate that Intellectual Capital (IC) has a positive and statistically significant effect on profitability. This finding indicates that the efficient use of intangible resources, including human capital, structural capital, and relational capital, enhances Islamic banks' ability to create value and improve financial performance. In a highly competitive and increasingly digitalized banking environment, intellectual capital has become a strategic resource that supports innovation, operational efficiency, and service quality.

This finding aligns with Resource-Based Theory, which emphasizes that valuable, difficult-to-imitate resources constitute a source of sustainable competitive advantage. Islamic banks that successfully develop employee competencies, organizational knowledge, and technological capabilities are better able to improve productivity and profitability. The result supports previous studies by Noviani et al. (2022), Puspita and Mariana (2023), Daulay et al. (2023), and Ahmad et al. (2024), which found that intellectual capital significantly enhances the financial performance of Islamic banks. The strong coefficient obtained in this study further suggests that intellectual capital is one of the most important determinants of profitability in the post-2022 Islamic banking environment, where digital transformation and service innovation **are increasingly critical for maintaining competitiveness.**

The Effect of Sharia Compliance on Profitability

The findings reveal that Sharia Compliance (SC) has a negative and statistically insignificant effect on the profitability of Islamic Commercial Banks. This result indicates that higher levels of compliance with Sharia principles do not necessarily lead to immediate improvements in profitability during the observation period. Although Sharia Compliance remains a fundamental characteristic of Islamic banking, its contribution to financial performance may be indirect and realized over a longer period through enhanced reputation, customer trust, and institutional legitimacy rather than through short-term financial gains.

This finding differs from studies conducted by Budiman and Hasanah (2023) and Shaima Asifaul Afnani and Suselo (2024), which reported a positive relationship between Sharia Compliance and financial performance. However, the result is consistent with Nurhaliza and Supriani (2024), who argued that the impact of Sharia Compliance is often more reputational than financial. Similarly, Rahmawati and Hasanah (2023) found that the contribution of Sharia-based indicators to profitability may vary depending on institutional characteristics and operational efficiency.

Several explanations may account for the insignificant effect observed in this study. First, compliance with Sharia principles is mandatory for all Islamic Commercial Banks, resulting in relatively limited variation across institutions and thereby reducing their explanatory power in profitability models. Second, the benefits of Sharia Compliance may materialize over the long term through customer loyalty, reputational enhancement, and stakeholder trust rather than immediate financial returns. Third, the post-2022 Islamic banking environment has been characterized by industry consolidation, digital transformation, and increased competition, which may make profitability more strongly influenced by operational efficiency and intellectual resources than by compliance indicators alone. Therefore, while Sharia Compliance remains essential for maintaining the legitimacy and identity of Islamic banks, the findings suggest that it should not be expected to directly drive short-term profitability without effective governance mechanisms and strong intellectual capital.

6. Conclusion

This study examined the effects of Islamic Corporate Governance (ICG), Intellectual Capital (IC), and Sharia Compliance (SC) on the profitability of Islamic Commercial Banks in Indonesia during the 2022–2024 period. The results indicate that Intellectual Capital is the strongest and most statistically significant determinant of profitability. This finding highlights the importance of knowledge-based resources, employee competencies, organizational capabilities, and innovation in improving the financial performance of Islamic banks. In an increasingly competitive and digitalized banking environment, intellectual capital appears to be a key source of value creation and sustainable competitive advantage.

Islamic Corporate Governance demonstrates a positive relationship with profitability; however, its statistical significance is relatively weak. This suggests that governance mechanisms may contribute to financial performance. However, their effectiveness depends on the quality of implementation, the effectiveness of monitoring functions, and the capability of governance institutions within each bank. Therefore, governance structures alone may not be sufficient to generate substantial improvements in profitability.

In contrast, Sharia Compliance does not show a statistically significant effect on profitability in this study. Although compliance with Sharia principles remains essential for maintaining the legitimacy, identity, and credibility of Islamic banks, the findings suggest that its direct contribution to short-term profitability is not empirically supported within the observed sample. The benefits of Sharia Compliance may be realized through long-term reputational advantages, customer trust, and institutional sustainability rather than immediate financial outcomes.

From a managerial perspective, Islamic Commercial Banks should prioritize developing intellectual capital through continuous employee training, knowledge management systems, technological innovation, and organizational learning initiatives. Given the strong positive effect of Intellectual Capital on profitability, investments in human resources and digital capabilities are likely to generate the greatest financial benefits. Banks should also strengthen the effectiveness of Islamic Corporate Governance by enhancing oversight quality, improving transparency, and strengthening the Sharia Supervisory Board. Although the statistical evidence for governance is relatively modest, effective governance remains important for supporting sound decision-making and risk management.

Recommendation

Islamic Commercial Banks should enhance the independence and effectiveness of the Sharia Supervisory Board (DPS) through competency-based appointments, regular evaluations, and stronger monitoring mechanisms. Banks are also encouraged to improve the quality and transparency of Islamic Corporate Governance (ICG) disclosures using more comprehensive governance indicators. Given the strong role of Intellectual Capital, management should strengthen all VAIC components, including human capital, structural capital, and capital employed efficiency. Future studies should refine Sharia Compliance measurements, employ robust standard errors, extend the observation period, include additional control variables, and conduct comparative analyses of Islamic banks across ASEAN jurisdictions.

Limitations and avenues for future research

This study has several limitations related to its scope, data, and methodology. The analysis is limited to Islamic Commercial Banks in Indonesia and has a relatively short observation period, which may limit the generalizability of the findings. In addition, the study relies on secondary data and quantitative panel regression, which may not fully capture qualitative aspects of governance and Sharia compliance. Future research is encouraged to extend the observation period, include cross-country samples, incorporate additional variables, or apply mixed-method approaches to provide deeper insights into Islamic bank performance.

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