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Strategy to Increase Sharia Banking Performance through Value-added Creation Intellectual

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Abstract

Based on the continuous flourishing of Sharia banking all over the globe, the current study aims to examine the impact of various factors on Sharia banking performance. These factors include cost efficiency, financial risks, funding, board characteristics, environmental analysis, and strategic value-added creation intellectual. A quantitative research methodology with a survey technique was employed to collect 421 respondents' data from 33 financial institutions, including 20 Sharia business units and 13 Sharia commercial banks. Descriptive analysis and structural equation modeling were performed in SmartPLS 3.0 software. The findings revealed the significant positive impact of environmental analysis on board characteristics, financial risk, cost efficiency, and funding. Likewise, results revealed the significant impact of board characteristics on financial risks, cost efficiency, funding, and value-added creation intellectual. Strategic value-added creation intellectual was found to positively impact the performance of Sharia banking in Indonesia. Except funding that has a moderate influence on Sharia banking performance, all other variables reflected the strong presence and impact on Sharia banking performance. The current study is novel in the existing body of literature by introducing this strategic value-added creation intellectual as a predictor of Sharia banking performance in Indonesia, along with the impacts of various other factors. Theoretically, the current study adds to the body of literature by providing a comprehensive framework related to the factors that impact Sharia banking performance. Moreover, based on the study results, the banks should keep a fair track of their capital and returns to enhance their performance. Simultaneously, it helps Sharia banks identify the significance of winning the investors' confidence by providing them security and catering to their needs cost-effectively.

Keywords : Board Characteristic; Cost Efficiency; Environmental Analysis; Financial Risk; Funding; Sharia Banking; Performance; Value Added Creation Intellectual.
JEL Classification : M12, G24, P17

1. INTRODUCTION

The development of Islamic banking can be traced back to 1970, which is now expanded all over the globe (Alafianta, Aziz, & Sahputra, 2021). Besides, the Sharia banking system in Indonesia started in 1992 after the issuance of Regulation No. 7/1992, which

allows Sharia banks to operate their functions based on profit sharing system (Zaini & Shuib, 2021). Bank Muamalat Indonesia (BMI) was the first Sharia bank established in 1992 in Indonesia (Aziz & Amanda, 2021). However, the development of Sharia banking in Indonesia is much slower than in conventional banks (Aziz & Amanda, 2021). The conventional banks dominate the Indonesian economy even though Indonesia is the largest Islamic country in Asia and even in the world (Abidin et al., 2021). Overall, Indonesia's total Islamic financial assets amounted to Rp 1,741.87 trillion as of October 2020. The assets consisted of banks amounting to Rp 585.34 trillion, the non-bank financial industry (IKNB) amounting to Rp 112.16 trillion, and the capital market amounting to Rp 1,044.38 trillion.

Based on these data, it can be seen that the penetration of Islamic finance in Indonesia is still low, meaning that there are fewer people who transact through Sharia banking compared to conventional banking. This is in line with the Islamic financial literacy and inclusion index, which is still low at only 8.93 percent and 9.1 percent, respectively (Satria et al., 2021a). Hence, it is very important to analyze the factors that positively influence the Sharia banking system to enhance its performance and develop fast. In addition, currently, in Indonesia, the growth of Sharia banking has not depicted a positive performance (Abidin et al., 2021). Since the growth of the banking system has been calculated based on the number of banks, the valuable assets owned by the banks, and the number of funds raised by the bank's (Ichsan et al., 2021), all these criteria show less growth as compared to conventional banking in Indonesia. In contrast, in Malaysia, the neighboring country, the Sharia banking market is growing fast and has reached 20%, whereas, in Indonesia, it has just achieved a figure of 5% (Satria, Faizal, & Choirunnisak, 2021b).

Besides, among the various sectors affecting the growth rate of the Sharia banking system in Indonesia Financial Services Authority (OJK) is considered liable based on various limitations, i.e., unnecessary delays in financial matters, the value of capital owned by the Sharia banks, low government sport, complicated structure of Sharia banking funds, fewer variations in product and services, lack of quality human resources, inadequate use of public awareness knowledge and technology, non-optimal supervision and regulations, etc., (Aulia, Yustiardhi, & Permatasari, 2020). Moreover, based on the delay faced by the customers in the Sharia banking industry, there is a need to analyze the problems of such delays and the factors that can improve the financial banking performance in line with the economic condition in Indonesia.

In addition, performance valuation is an important criterion for analyzing the organization's achievements for the set objectives. Additionally, business performance analysis in the Sharia banks ensures and evaluates that all banks' activities follow the Sharia codes and principles (Alam et al., 2021). Studies related to company performance revealed the significance of value-added intellectual creation to positively improve company performance (Wang, Jiang, & Liu, 2016). Simultaneously, advances in technology and information today have given birth to a new trend in the economic field. The term value-added creation intellectual supports a company's business performance, namely, adding value to create intellectual ability (Batubara, Sahari, & Jais, 2021). At the same time, Intellectual ability itself has now become an important part of companies in improving their business performance (Dalwai & Salehi, 2021).

Moreover, so far, research on business performance, especially in the Syariah banking industry, is still focused on the financial side. At the same time, there is very little research on business performance related to the management strategy (Aziz & Amanda, 2021; Zaini

& Shuib, 2021). Besides, the studies on business performance seen from the study of management strategy involve asserted that business performance is influenced by other factors such as Environmental Analysis (Gupta, 2013; Kolios & Read, 2013), value creation (Teti, Perrini, & Tirapelle, 2014), Cost Efficiency (Niţoi & Spulbar, 2015), Financial Risk (Platon, Frone, & Constantinescu, 2014), Board Characteristics (Nomran, Haron, & Hassan, 2018; Titova, 2016), and Funding (Pachter et al., 2007). Besides, the relationship between business performance and value-added creation intellectual variable is relatively in line. However, it has been least explored in the context of sharia banking performance evaluation. Hence the current study aims to bridge this literature gap and empirically examines the influence of the value-added creation intellectual in enhancing sharia banking performance.

Hence, the current study aims to examine the effect of multiple factors, including funding cost-efficiency, financial risks, board characteristics, environmental analysis, and strategic value-added intellectual on Sharia banking performance in a single comprehensive framework.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Environmental Analysis, Board characteristics, Cost efficiency, Financial Risk, and Funding

The strategic environmental analysis develops strategic assumptions and tests them with the organization's vision and mission to obtain critical success (Erlangga, 2022). Environmental analysis is a process that strategic planners use to monitor the environmental sector in determining opportunities or threats to the company (Torinelli & da Silva, 2021). The implementation of strategic environmental analysis is part of the strategic planning component and is a process always of placing the organization in a strategic position so that in its development, it will always be in a good position (Huang, Punzi, & Wu, 2021). The scope of strategic environmental analysis includes external and internal environmental analysis. The external environment further presents the opportunities and threats available to the banks based on the country's economic situation and are considered very important predictors of the performance of financial institutions (Huang et al., 2021). In comparison, the internal environment presents the employees and the leaders in the form of human resources, which is considered a significant part of enhancing the efficiency and effectiveness of the banking system (Junaidi et al., 2021).

Besides, the banks' business activities for the collection of ferns from depositors that they further distribute among their creditors by acting as an intermediary between creditors and depositors is known as the funding (Olivia, Atahau, & Martono, 2022). are two principles used depending on the type of bank, namely conventional banks and Sharia banks. Among financial institutions, funding plays a vital role because it presents the foundation of any financial institution. (Pradesyah & Triandhini, 2021). The sources of fundraising in the Sharia banking industry in Indonesia are divided into two sources, namely the Wadiah saving fund and the non-profit sharing investment fund (Witro, Nuraeni, & Januri, 2021). Wadiah contract saving is saving with a deposit scheme. This saving account is suitable for customers who prioritize the security of funds and ease of daily transactions (Hidayati, Setyowati, & Mulyani, 2021)id. Savers can choose iB Saving with a deposit scheme, and the money "deposited" with an Islamic bank is free to be taken at any time when they need funds. In a Wadiah contract, the customer acts as a custodian who gives the bank the right to use the deposited fund (Witro et al., 2021). Meanwhile,

regarding the management of the fund, Sharia banking which acts as the party entrusted with the fund, has the right to utilize the stored fund and is fully responsible for the use of the fund. Sharia banking is also required to return deposit funds if the customer wishes (Alam et al., 2021). Hence, based on the significance of the funding, it is considered a significant determinant of Sharia banking performance.

This further affects the performance of the banks. Hence, we postulated the following hypothesis;

Hypothesis 1: *Environmental Analysis (EA) affects Boards Characteristics (BC)*
Hypothesis 2: *Environmental Analysis (EA) affects Cost Efficiency (CE)*
Hypothesis 3: *Environmental Analysis (EA) affects Financial Risk (FR)*
Hypothesis 4: *Environmental Analysis (EA) affects Funding (FUND)*

Board Characteristics, Cost efficiency, Financial Risk, and Funding

Board Characteristics present the governor structure it's a framework that exists in all kinds of organizations that comply with the governance principles to share, implement, and control those principles (Nomran et al., 2018). Moreover, board characteristics present the structure of responsibility and role distribution among the various main organ of the company, namely owners/shareholders, supervisor/commissioner, and manager/director/management (Alam et al., 2021). Specifically, the board characteristic must be designed to support the organization's activity responsibly and controlled manner (Putri, Rustiarini, & Dewi, 2021). The dimensions of board characteristics consist of the non-executive directors' percentage, board members' attendance, independent directors percentage, and board size (Titova, 2016). The board characteristics with highly specialized individuals directly impact the Sharia banks' performance (Alam et al., 2021), which has been further empirically examined in the current study. Hence, the following hypotheses are posited;

Hypothesis 5: *Boards Characteristic (BC) affects Cost Efficiency (CE)*
Hypothesis 6: *Boards Characteristic (BC) affects Financial Risk (FR)*
Hypothesis 7: *Boards Characteristic (BC) affects Funding (FUND)*

Cost Efficiency and Value-Added Creation Intellectual (VACI) Strategy

Cost efficiency is a change in incentives and barriers in banking related to structural and institutional reform (Robin, Salim, & Bloch, 2018). The cost that bands incurred to generate the net incomes and other incomes, excluding interest rates, presents the noninterest cost of the banks (Köksal, Katircioglu, & Katircioglu, 2021). This noninterest cost further reflects the cost efficiency of the banking sector. The value of this ratio for the very good predicate is 50-55%, and the larger the value, the more cost-inefficient the banking system is (Handayani & Fitriati, 2019). Since there are fewer hidden charges and interest rates costs in the Sharia banking system, it is considered more cost-efficient, which attracts customers to invest in this kind of banking sector (Budiman, 2021). Moreover, cost efficiency has been linked with higher performance (Badunenko, Kumbhakar, & Lozano-Vivas, 2021). This can also be considered in terms of Sharia banking that more cost-efficient Sharia banks will be better able to cater to the needs of their customers, and hence their performance will be high based on the higher level of Value-Added Creation Intellectual. Hence, it is hypothesized that;

Hypothesis 8: *Cost Efficiency (CE) affects the Value-Added Creation Intellectual (VACI) Strategy*

Financial Risk

Financial risk is the main problem facing the company related to survival and development and the key to profit (Fan, Dong, & Luo, 2018). The financial risk dimension consists of 4 dimensions, namely 1) returns, 2) capital structure, 3) cost of capital, and 4) cash flow (Štreimikienė, Baležentis, & Kriščiukaitienė, 2016). Hence, it can be asserted that when the Sharia banks are getting ideal returns, enhancing capitalization, with low cost of capital and high cash flows, they are exposed to fewer financial risks (Ichsan et al., 2021). Moreover, research reports that compared to conventional banks, financial risks in Sharia banks are less based on the foundation of Sharia banks (Usdeldi, Nasir, & Ahsan, 2022). That is embedded in the teachings and guidelines of Islam. Hence, it can be considered a valuable determinant of Sharia banking performance and Value Added Creation Intellectual (VACI) Strategy, and the following hypothesis is posited;

Hypothesis 9: *Financial Risk (FR) affects Value Added Creation Intellectual (VACI) Strategy*

Syariah Banking Performance and Value Added Creation Intellectual

In terms of financial performance, Sharia banking is considered better than conventional interest-based banks. Interest-free Sharia banking in developing business, solvency, liquidity, and profitability has been reported to be higher than conventional banks that follow an interest-based system (Asad et al., 2018). Research reports on the intermediation ratio, assets quality, and better capitalization in the Sharia banking industry (Junaidi et al., 2021). Moreover, during the financial crisis, stocks in Sharia banks performed better based on their high asset quality and a higher level of capitalization (Velliscig, Floreani, & Polato, 2022). Simultaneously, small Shariah banks are more stable compared to small conventional banks, having reserves for larger banks (Ullah & Khanam, 2018). Moreover, following Ichsan et al. (2021), Sharia banking performance can be assessed based on the profitability of the whole system that can further be determined with the help of equity to asset ratio, return on total equity, return on share capital, return on asset, net profit ratio, and operating profit ratio. Additionally, research also shows that several factors impact banking performance. Hence, the current study also examines the various factors that affect Sharia banking performance to provide policy insights for their practitioners to enhance Sharia banks' performance further.

Value presents the degree to which customers feel that their needs and wants are fulfilled by certain goods or services joy. As a result, they are willing to pay for such goods and services (Batubara et al., 2021). Moreover, this measure of the value is more dependent on the customers' perceptions regarding the value of that good or service instead of the intrinsic value of that good or service (Wang et al., 2016). Besides, after reading all outputs and subtracting inputs, the value-added net output attained by the industry is called the value-added creation (Signori et al., 2021). The value-added index in economics is calculated after deducting the cost of capital from operating profit and involves the use of adjustment items to reflect the true value of a company which is useful in determining the true value of the bank (Wang et al., 2016). A strategy in which the main intentions of a business are to maximize total profit by bringing in the services and goods in a market along with value-added features of that product or service based on the customers' demands presents the value-added intellectual of that organization (Marzo, 2021). Therefore, strategic value-added creation intellectual can be considered an important predictor of Sharia banking performance based on the customers' satisfaction with the provision of value linked with their demands. Hence, the following hypothesis is posited;

Hypothesis 10: *The Value-Added Creation Intellectual (VACI) strategy affects Sharia Banking Performance (IBP).*

3. METHODOLOGY

The current used the quantitative approach with a descriptive survey methodology. This study aims to examine the impact of various factors on Sharia banking performance in Indonesia. These factors include funding, cost efficiency, financial risk, board characteristics, and environmental analysis. To collect the data from study respondents, a survey methodology was used to visit 33 Islamic financial institutions in Indonesia. These institutions include 20 Sharia business units and 13 Sharia commercial banks. A survey questionnaire was developed consisting of respondent's demographic characteristics and items of the study constructs, i.e., two items for environmental analysis, board characteristics, and cost efficiency each, four items were related to financial risks, five items were linked with funding, three items were related to value-added creation intellectual, and finally, Sharia banking performance was measured with six items. The data collection procedures started on March 30th, 2021. The policyholders in Sharia banks were approached and were requested to fill out the questionnaire. They were insured about the anonymity of their responses and briefed about the current study's design. Those respondents who agreed to participate in the survey were handed over the questionnaire. Until September 30th, 2021, the authors collected 421 responses from all selected financial institutions. Moreover, Table 1 presents the representatives' characteristics based on gender, age, marital status, qualification, and occupation.

Table 1. Respondents' Demographic Characteristics

Variables		**Number**	**%age**
Gender	Males	239	56.77%
	Females	182	43.23%
Age	18-25years	67	15.91%
	26-35 years	136	32.30%
	36-45 years	129	30.64%
	46 and above	89	21.14%
Marital Status	Married	311	73.87%
	Unmarried	110	26.12%
Degree level	Undergraduate	87	22.66%
	Graduate	233	55.34%
	Post-graduate	101	23.99%
Occupation	Students	37	08.78%
	Employees	165	39.19/%
	Self-Employed	123	29.21%
	Others	96	22.80%

4. RESULT AND DISCUSSION

Measurement Model Evaluation

The current study used the SmartPLS 3.0 software to analyze the hypothesized relationships. In the first step, simulation analysis was performed to examine the impact of respondents' demographic characteristics on the dependent variable. Results revealed that none of the demographic characteristics significantly impacted the shariah banking performance. Hence, no demographic characteristics were controlled during the further analysis. Next, the measurement model was assessed by examining items' reliability, internal consistency, and constructs' reliability and validity. For that, factor loadings of all

the study constructs were assessed. Moreover, Composite Reliability (CR) and Cronbach alpha (CA) values were calculated. The factor loadings above 0.70 are considered ideal for accurately loading items of a sturdy construct (Mansoor & Paul, 2022). As shown in Table 2, the factor loadings for all the items of study variables are above 0.699 hence reflecting that each item represents its respective latent variable. At the same time, "Average Variance Extracted (AVE) describes the amount of variance that items can explain compared to the variance caused by measurement error"(Mansoor & Wijaksana, 2021, p. 11). Moreover, to establish the convergent validity, the value of AVE should be above 0.50 to establish the measures' convergent validity (Amka & Dalle, 2021; Henseler, Ringle, & Sarstedt, 2015). As depicted in Table 2, all the AVEs values of the study variables are above 0.50, reflecting the good measures of convergent validity. Moreover, scholars demonstrated that the CA and CR values should be more than 0.7 to establish the composite reliability of the study constructs (Henseler et al., 2015; Mansoor & Wijaksana, 2021). Simultaneously, scholars also asserted that reliability values in between the range of 0.80 and 0.9 are very satisfactory (Dalle et al., 2021). As shown in Table 2, all the CR and CA values are above 0.80, reflecting the good reliability of the measures.

Table 2. Factor Loadings Reliability and Validity Results

Latent Variable	**Items**	**Loadings**	**AVE**	**CR**	**CA**
Environmental Analysis			0.895	0.945	0.884
	EA1	0.953			
	EA2	0.939			
Boards Characteristic			0.736	0.847	0.758
	BC1	0.785			
	BC2	0.925			
Financial Risk			0.731	0.915	0.875
	FR1	0.760			
	FR2	0.903			
	FR3	0.824			
	FR4	0.922			
Funding			0.711	0.925	0.900
	FUND1	0.781			
	FUND2	0.829			
	FUND3	0.867			
	FUND4	0.832			
	FUND5	0.901			
Cost Efficiency			0.871	0.931	0.851
	CE1	0.928			
	CE2	0.938			
Strategic Value-Added Creation Intellectual			0.750	0.900	0.838
	SVAC1	0.885			
	SVAC2	0.905			
	SVAC3	0.804			
Sharia/Islamic banking performance			0.626	0.909	0.881
	IBP1	0.788			
	IBP2	0.699			
	IBP3	0.846			
	IBP4	0.903			
	IBP5	0.711			
	IBP6	0.779			

Finally, to establish the discriminant validity of the measures, the Heterotrait-Monotrait Ratio (HTMT) has been considered an appropriate measure by several scholars (Henseler et al., 2015; Noor, Mansoor, & Rabbani, 2021). Moreover, comparing the AVE value with the guardant correlation between constructs is also considered for establishing discriminant validity among the latent constructs. The HTMT ratio of less than 0.90 is considered good for establishing discriminant validity among the latent variables (Mansoor, 2021; Sarstedt, Ringle, & Hair, 2017). As shown in Table 3, all the constructs' HTMT ratio is less than 0.90, and square roots of AVEs are greater than the correlation values among the constructs; hence discriminant validity is established among the study constructs.

Table 3. Heterotrait-Monotrait Ratio (Discriminant Validity)

Constructs	Mean	STD.	1	2	3	4	5	6	7
EA	3.94	0.160	0.946						
BC	3.25	0.157	0.553	0.857					
FR	4.00	0.185	0.601	0.543	0.854				
FUND	3.76	0.176	0.677	0.622	0.582	0.843			
CE	3.58	0.189	0.573	0.589	0.431	0.519	0.933		
SVAC	4.16	0.150	0.495	0.442	0.528	0.679	0.573	0.866	
IPS	4.40	0.137	0.513	0.489	0.471	0.539	0.633	0.597	0.791

Note: The square roots of AVEs of the constructs are shown in bold in diagonal. Where: EA= Environmental Analysis; BC= Board Characteristics; FR= Financial Risk; FUND= Funding; CE= Cost Efficiency; SVAC= Strategic Value-Added Creation Intellectual; IPS= Sharia Banking Performance

Structural Model Evaluation

Path coefficients are calculated to assess the hypothesized relationship between the study variables. We applied a 500-bootstrapping technique to assess the hypothesized relationships. Moreover, standardized Beta values and R^2 values are calculated. Table 4 presents R^2 values for the study variable.

Table 4. Path Coefficient

Study variables	R^2
Board Characteristics	0.151
Cost Efficiency	0.325
Financial Risk	0.443
Funding	0.453
Strategic Value-added Creation Intellectual	0.125
Sharia Banking Performance	0.442

Table 4 shows that the R2 value for the board characteristic construct is 0.151. This means that environmental analysis can explain the characteristic board variant of 15.1%. The R2 value for the cost efficiency construct is 0.325, meaning that the environmental analysis and board characteristics are able to explain the cost efficiency variance of 32.5%. The R2 value for the financial risk construct is 0.443, meaning that the environmental analysis and board characteristics are able to explain the 44.3% cost efficiency variance. The R2 value for the funding construct is 0.453, meaning that the environmental analysis and board characteristics are able to explain the funding variance of 45.3%. While the value of R2 for the value-added creation intellectual strategy construct is 0.125. It further shows that cost efficiency, funding, and financial risks are able to explain the variance of the value-added creation intellectual strategy of 12.5%. The value of R2 for the Sharia banking

performance construct is 0.442. it further reflects that the value-added creation intellectual strategy is able to explain the variance of Sharia banking performance by 44.2%.

Hypothesis testing

Results in Table 5 show that environmental analysis significantly impacts board characteristics, as t-statics values of 2.239 (> 1.96) present a significant association. Moreover, the impact size is 0.381, reflecting a significant positive association between environmental analysis and board characteristics. Hence, hypothesis one has been approved by the results. Likewise, the impact of environmental analysis on cost efficiency is significant, with an impact size of 0.346 and a t-statistic value of 2.148 (> 1.96). Thus, hypothesis two of the study, which states that environmental analysis positively impacts cost efficiency, has been approved by the results. At the same time, results showed the impact of environmental analysis on financial risk (t=.151 and B= 0.416) and funding (B= 0.380 and t= 2.790) is significant. Thus the hypotheses H3 and H4 are also supported by the results. In addition, as shown in Table 5, results also revealed a positive and significant impact of board characteristics on cost efficiency (B= 0.341 and t= 2.272), financial risks (B= 0.386 and t= 2.030), and funding (B= 0.440 and t= 3.132). Hence, hypotheses H5, H6, and H7 are also proved by the study results. In addition, cost efficiency (B= 0.380 and t= 2.527) and financial risks (B= 0.384 and t= 2.488) were found to be positively related to strategic value-added creation intellectual thus, in support of H8 and H9, it can be stated that cost efficiency and financial risks positively impact VACI. Finally, results depicted a positive and significant impact of VACI on Sharia banking performance with a t-statistic value of 2.049 (> 1.96) and impact size of 0.349, supporting the H10 of the study (Figure 1).

Table 5. Hypothesis Testing Results

	Hypotheses	Std. Beta	t-Value	p-values	Supported
H1	EA → BC	0.389	2.436	0.015	Supported
H2	EA → CE	0.346	2.194	0.029	Supported
H3	EA → FR	0.409	2.211	0.027	Supported
H4	EA → FUND	0.380	2.790	0.005	Supported
H5	BC → CE	0.338	2.226	0.024	Supported
H6	BC → FR	0.390	2.168	0.031	Supported
H7	BC → FUND	0.430	3.132	0.002	Supported
H8	CE → VACI	0.380	2.426	0.016	Supported
H9	FR → VACI	0.383	2.422	0.016	Supported
H10	VACI → IPS	0.354	2.030	0.043	Supported

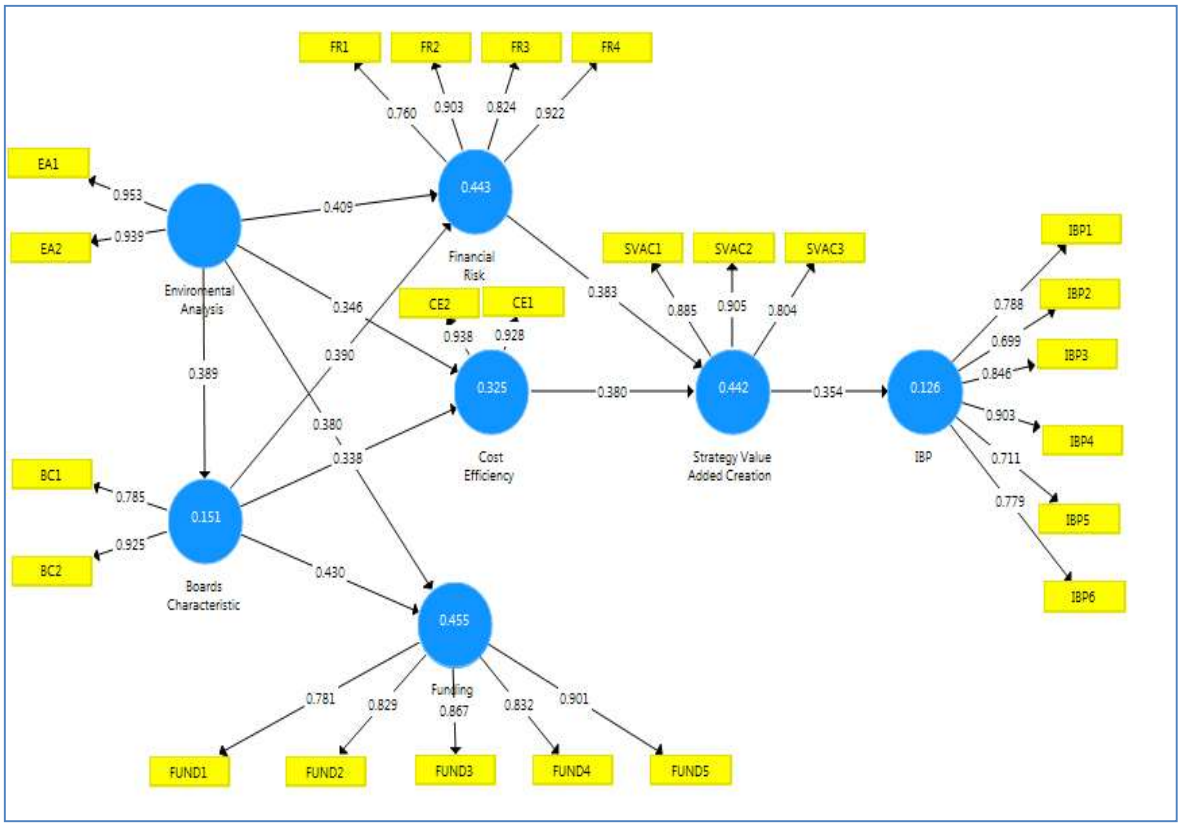

Figure 1. Structural Diagram

5. DISCUSSION AND CONCLUSION

Results revealed a significant and positive impact of environmental analysis on cost efficiency, financial risk, board characteristics, and funding in the Sharia financial system. These results further depict the importance of analyzing the market environment and examining the country's economic situations while investing in the Sharia banking system. Previously research shows that shariah banking performance gives a deep intuition regarding the financial risks in the Islamic banking system (Fan et al., 2018). Besides, the financial risk involved in the Sharia banking system is quite different from that of the conventional banking system based on the kind of security available in Islamic teachings and guidelines (Štreimikienė et al., 2016). As the foundation of Sharia banking lies in the principle of fairness and fair dealings; hence people do not feel reluctant to invest in such banks based on the security that religion provides to the citizen's (Budiman, 2021).

Moreover, the Sharia banking sector's performance is increasing from 10 to 15% every year, which helps individuals to understand the Sharia banking structure easily and find the solutions to agency problems. Since the Sharia banking system follows the rule of profit and loss, it is cost-effective because it does not provide a limited profit on a fixed basis (Alam et al., 2021). Rather it fluctuates and can be enhanced based on favorable market situations. Moreover, there are no hidden charges linked with investments in the Sharia banking system; hence, it is more cost-effective than the conventional banking system. Simultaneously, Sharia banking is developed on Islamic principles regarding financial transactions. It is more appealing to the people who want to invest their amounts in a financial system without any interest (Alafianta et al., 2021).

In addition, results also showed the significant impact of board characteristics on cost efficiency, financial risk, and funding. It further reflects the significance of the stakeholders' characteristics involved in Sharia financial institutions. The credibility of the individuals involved in the Sharia banking system is very important to attract the people to invest their money and perceive financial risks as lower as possible (Fan et al., 2018). This perception of lower financial risk is further developed based on the security available on behalf of the credibility of the people involved in the structure of financial institutions (Nomran et al., 2018). Besides Shariah, banking performance evaluation is very important nowadays based on globalization effects (Junaidi et al., 2021). Globalization has made the Sharia banking system compete with traditional banks in a well-developed financial market. Simultaneously, several countries have completely transformed their banking system into the Sharia model (Velliscig et al., 2022), which further reflects the credibility of the Islamic banking system and encourages people to invest in this banking system to the traditional banking sector.

The current study also revealed the significance of strategic value-added creation of intellectual in hand in enhancing the performance of the Sharia banking system. Since the value-added creation intellectual represents bank's investment of capital and the returns it earns over a certain (Batubara et al., 2021). Hence VAC has been considered an important predictor of a bank's performance (Wang et al., 2016). Besides, the Sharia banking profit-sharing system that has been implemented has relatively maintained its performance and has not been swept away by soaring deposit interest rates, resulting in lower operating expenses than conventional banks. Sharia banking performance in general, the effectiveness of the intermediation function is maintained in line with the growth of fundraised and financing, which is relatively high compared to conventional banks (Signori et al., 2021), as well as the provision of increased network access and reaches the needs of the wider community so that this can make the financial performance of Sharia banking better (Marzo, 2021).

This study is valuable for academicians and policymakers in providing a comprehensive framework related to the factors that impact Sharia banking performance. Moreover, the results revealed that it is very important for the banks to keep a fair track of their capital and returns to enhance the bank's performance. Additionally, the Sharia banking system can enhance its performance by winning the investors' confidence and providing security to the investors based on fair dealings. Moreover, the cost-efficiency attracts individuals to invest in the Sharia banking system, which the banks must further consider attracting more and more investors. Simultaneously, the development of the national Sharia banking industry has an adequate legal basis and has encouraged the rapid growth of Islamic banking. Finally, the current study relied on a quantitative research methodology and collected cross-sectional data. In contrast, future research can be conducted on a mixed-method approach where interviews can be conducted with the policyholders as well as the key investors to analyze and explore their views on how they want to see the Sharia banking system and what features they want to add it to further enhance and promote the Sharia banking system.

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