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Digital Banking Program to Improve Performance in Sharia Banking in Indonesia

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ABSTRACT

The share of Sharia banking in Indonesia remains relatively low compared to its conventional counterparts, primarily due to challenges such as limited product innovation, expensive third-party funds, and inadequate digital infrastructure. As digital transformation becomes a necessity in the financial sector, this study aims to analyze the influence of digital banking programs on the performance of Sharia banking in Indonesia. The research adopts a descriptive and verification method using a census approach involving 27 Sharia banks across the country. Data were collected through a structured questionnaire and analyzed using Partial Least Squares (PLS). The results indicate a significant positive impact of digital banking implementation on Sharia banks' business performance, measured through financial and non-financial indicators. These findings suggest that effective digital strategies aligned with Sharia principles can enhance competitive advantage and institutional performance. This study contributes to the growing literature on Islamic digital finance and provides practical implications for decision-makers in optimizing digital transformation initiatives in the Sharia banking sector.

Keywords: Business Performance; Digital Banking Program; Financial Technology; Islamic Finance; Sharia Banking

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INTRODUCTION

Referring to the performance measurement framework introduced by Kaplan (2009), banking performance is generally assessed from two major perspectives: financial and non-financial indicators. Financial performance captures the outcomes of prior financial decisions and is typically measured using indicators such as Return on Assets (ROA), Return on Equity (ROE), Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), Financing to Deposit Ratio (FDR), and the ratio of Operating Expenses to Operating Income (BOPO) (Aebi et al., 2012; Naceur & Omran, 2011; Ongore & Kusa, 2013). On the other hand, non-financial or operational performance relates to areas like customer satisfaction, employee productivity, internal business processes, and the organization’s capacity for learning and growth.

In the Indonesian context, the Sharia banking sector continues to face considerable challenges (Sakifah & Masitoh, 2023). Despite its strong potential, it accounted for only 7.17% of total banking assets in 2021, far below its conventional counterparts (Indonesia Financial Services Authority [OJK], 2022). A number of factors contribute to this underperformance, including limited product innovation, high costs of third-party funding, and an underdeveloped technological infrastructure. Additionally, the human capital in Sharia banks, along with the reach and efficiency of their service networks, still lags behind conventional banking institutions. These obstacles underscore the urgent need for strategic digital transformation.

The rapid adoption of digital technology across sectors, especially in financial services, presents an opportunity for Sharia banks to address many of these long-standing structural limitations. According to data from the OJK, the number of e-banking users in Indonesia rose from 13.6 million in 2012 to over 50.4 million by 2016, accompanied by a 169% increase in transaction volume during the same period (Putra, 2017). Digital banking, which encompasses mobile banking, internet banking, and digital onboarding, is not merely a passing trend but reflects a fundamental shift in how financial services are accessed and delivered.

In the context of Islamic finance, however, the integration of digital banking must remain consistent with the principles of *fiqh muamalah* (Islamic commercial jurisprudence). Within the Shafi’iyah school of thought, *fiqh* is defined as the discipline of Islamic legal rulings pertaining to *amaliah* (actions) based on clear textual evidence. According to the rules of *muamalah* (social transactions), all types of transactions are considered permissible unless specifically prohibited by Islamic sources. This allows for the implementation of digital financial services provided the contracts and transaction mechanisms comply with fatwas issued by the National Sharia Board-Indonesian Council of Ulama (DSN-MUI), such as Fatwa No. 04/DSN-MUI/IV/2000 on *Murabahah* (cost-plus financing) and Fatwa No. 112/DSN-MUI/IX/2017 on *Ijarah* (leasing).

Taken together, these developments highlight the strategic importance of digital transformation for the continued relevance and competitiveness of Islamic banking in Indonesia. The extent to which Sharia banks can successfully adopt digital systems will likely determine their capacity to offer inclusive, efficient, and Sharia-compliant financial services to an increasingly tech-savvy population. In this regard, a well-designed and properly executed digital banking program can be a powerful catalyst for improving business performance, expanding customer outreach, enhancing cost efficiency, and encouraging service innovation, all while remaining fully aligned with Islamic principles.

Accordingly, this study aims to investigate the impact of digital banking programs on the performance of Sharia banks in Indonesia. This research is significant in that it seeks to bridge the divide between the demands of modern technological innovation and the foundational principles of Islamic finance. The novelty of this study lies in its integration of digital transformation with Sharia banking performance indicators in the Indonesian setting, an area that remains underexplored in the current literature. The study contributes both theoretically and practically by offering empirical evidence that can inform policy and managerial decisions aimed at advancing digital initiatives within the framework of Sharia compliance.

LITERATURE REVIEW

Digital Banking in the Islamic Finance Context

The rapid rise of digital banking has significantly transformed the way financial services are delivered and consumed. At its core, digital banking refers to the provision of banking services through digital channels, enabling customers to access their accounts, conduct transactions, and engage with other financial products anytime, anywhere (Mbama & Ezepue, 2018; Ortstad & Sonono, 2017; Sujadi & Saputro, 2010). Within the realm of Islamic finance, however, this shift carries an added layer of complexity. Not only must these innovations meet technical and functional expectations, but they must also align with Sharia principles, particularly in matters related to contractual integrity, transparency, and ethical behavior (Sahroni & Karim, 2019).

Islamic financial institutions around the world are increasingly embracing digital tools to enhance operational efficiency and remain competitive in a fast-evolving marketplace. Yet, as observed by Islamic banks, especially those in developing economies, they still trail behind conventional banks when it comes to fully integrating digital systems. In Indonesia, the challenge is twofold: adopting new technologies while ensuring that every aspect of the digital banking experience remains in full compliance with Islamic commercial jurisprudence. This dual demand represents both a constraint and an opportunity for Sharia banks to innovate in ways that reflect both technological advancement and religious fidelity. Every business person has the opportunity to reinvent their company's newness thanks to digital, according to Professor Jeanne Ross from MIT (Massachusetts Institute of Technology), who is motivated by what digital technology can do for human life (Hie, 2021; Sujadi & Saputro, 2010).

The Role of Digital Banking in Improving Business Performance

Business performance in the banking sector is generally assessed through both financial and non-financial dimensions. Business performance, according to Al-Ansari et al. (2013) and Pradana et al. (2023), is the company's ability to manage its internal resources effectively and adapt to its external environment. There are a few concepts that are very influential in measuring company performance, such as using parameters with the Malcolm Baldrige concept to see the quality of performance (Agustin, 2018; Evans, 2007; Mahpudin & Purnamasari, 2018; Pratama & Wardani, 2017). Financial indicators often focus on measures such as profitability, liquidity, and solvency, while non-financial aspects emphasize areas like service quality, innovation, and customer satisfaction (Azhari & Wahyudi, 2020; Grønholdt et al., 2015). Digital banking has emerged as a key contributor to improving performance on both fronts. By automating processes, lowering transaction costs, and offering more convenient and personalized services, it enhances operational efficiency and enriches the customer experience (Barnes et al., 2018; Mbama & Ezepue, 2018).

Digital platforms have enabled Islamic banks to reach previously underserved communities, which aligns closely with the broader goal of financial inclusion inherent in Islamic economic principles. However, the implementation of digital banking in Sharia-compliant contexts involves more than just technological innovation. It must also address critical concerns such as adherence to Islamic contracts, the prohibition of *riba* (interest), and the preservation of trust in electronic *akad* (agreements). These considerations make digital adoption within Islamic finance not just a matter of convenience or competitiveness, but a distinct and complex process that calls for deeper empirical exploration. In financial performance, you can use measuring tools from the financial side, such as profitability, liquidity, capital structure, activity, cost, revenue, and utilization (Azhari & Wahyudi, 2020; Barnes et al., 2018; Oner et al., 2016; Rachman et al., 2019). Meanwhile, according to Brammer et al. (2015), financial performance measurement is carried out by (1) ROA, (2) cost of equity, and (3) ROE.

Theoretical Framework and Previous Studies

The theoretical foundation of this study is grounded in the Technology-Organization-Environment (TOE) framework, which suggests that an organization's adoption of digital innovations is shaped by a combination of technological readiness, internal resources, and external pressures. When applied to Sharia banking, this framework offers a valuable lens for understanding how factors such as digital infrastructure, supportive regulation, and adherence to religious values interact to influence the success of digital adoption.

A number of studies have examined how digitalization impacts banking performance. Digital transformation is not simply about implementing new tools or systems; it fundamentally changes the way banks create and deliver value to their customers. In a more specific context, a study in Tunisian Islamic banks found that higher service quality in digital platforms was positively associated with customer satisfaction (Zouari & Abdelhedi, 2021). While these findings offer important insights, it is worth noting that much of the existing literature tends to be conceptual in nature or focused primarily on customer experiences. There remains a notable gap in research that empirically investigates how digital banking influences overall organizational performance, particularly within the context of Indonesian Sharia banking.

Research Gap and Justification

Although discussions around digital Islamic finance have gained considerable momentum in recent years, there remains a noticeable lack of empirical research examining how digital banking affects organizational performance in Sharia-compliant banks. Much of the existing literature has focused on customer behavior, adoption intentions, or service quality, with relatively few studies exploring the broader impact on business performance through rigorous metrics and quantitative analysis. Additionally, many of these studies are concentrated in regions such as Malaysia, the Gulf Cooperation Council (GCC) countries, or the United Kingdom, leaving the Indonesian Sharia banking sector underrepresented in scholarly research.

This study aims to address that gap by investigating the tangible effects of digital banking programs on both financial and operational performance indicators within Indonesian Sharia banks. By adopting a quantitative methodology, the research integrates elements of Sharia compliance and digital innovation into a unified analytical framework. In doing so, it not only adds empirical depth to the conversation but also provides insights that are highly relevant to the Indonesian banking context, where the interplay between faith-based values and modern technology presents both unique challenges and promising opportunities.

Hypotheses Development

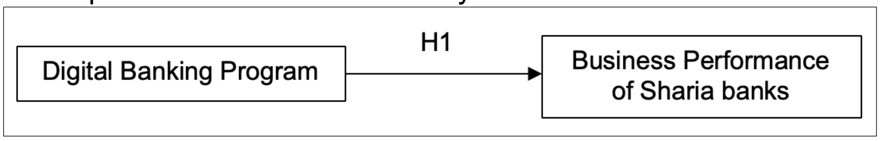
To examine the relationship between digital banking programs and Sharia banking performance, the following hypothesis is proposed:

H1: The digital banking program has a significant positive effect on the business performance of Sharia banks in Indonesia.

Conceptual Framework

The conceptual framework of this study illustrates the hypothesized relationship between the Digital Banking Program (independent variable) and the Business Performance of Sharia Banks (dependent variable), as depicted in Figure 1 below.

Figure 1. Conceptual Framework of the Study



RESEARCH METHOD

Research Design

This study employs a quantitative research approach using descriptive and verification methods. The descriptive method aims to provide an overview of the current implementation of digital banking programs and the performance of Sharia banks. Meanwhile, the verification method tests the causal relationship between digital banking and business performance based on hypotheses developed from existing literature (Sekaran & Bougie, 2016). The study design follows a causal-explanatory framework using survey data to measure and analyze the influence of variables. Causal studies basically focus on investigating the influence of a variable on another variable or answering why certain effects are obtained (Cooper & Emory, 1995). Verification Descriptive research is a research method that is useful for confirming, ensuring, checking, and proving hypotheses, the process of which refers to the mechanisms used during the research process in order to ensure validity and reliability, as well as data justification (Stratonovitch & Semenov, 2015).

Population and Sampling Technique

The population in this study comprises all Sharia General Banks (BUS) and Sharia Business Units (UUS) in Indonesia, totaling 34 institutions. Due to the manageable population size (i.e., under 100 entities), the study uses a census technique (saturated sampling) involving 27 banks that responded to the distributed questionnaire.

This approach is justified by the need for broad representation and reduced sampling error. Including nearly the entire population enhances the generalizability and robustness of findings, especially in a specialized and relatively small banking segment like Islamic finance in Indonesia. The basis of verification research is to test the validity of a research hypothesis that is built from data collection in the research area (Arikunto, 2010). If this population cannot be identified properly, it is possible to provide conclusions that are not in accordance with research expectations (Hermawan, 2006).

Data Collection and Instrumentation

Primary data were collected using a structured questionnaire developed based on validated indicators from previous research and regulatory guidelines (Suhartono, 2012). The questionnaire comprised two main sections: the first focused on the Digital Banking Program, incorporating indicators such as strategy, accessibility, customer trust, and Sharia compliance; the second addressed Sharia Banking Business Performance, which included both financial metrics—such as profitability and capital adequacy—and non-financial metrics, including customer satisfaction, growth, and institutional image. Each item in the questionnaire was rated on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). A simple descriptive analysis was employed to examine the form, size, existence, or distribution of each variable, following the approach suggested by Cooper and Emory (1995).

Instrument Validation and Reliability

Prior to full deployment, the questionnaire underwent expert validation by academics and practitioners in Islamic finance and banking technology. A pilot test was conducted with five respondents from three different Sharia banks to ensure clarity and consistency. The validity of items was assessed using corrected item-total correlation, while instrument reliability was tested using Cronbach's Alpha, with thresholds above 0.7 considered acceptable (Malhotra, 2015). Verification research is a study conducted in order to test the truth of various existing scientific knowledge, which can take the form of theories, principles, procedures, propositions, and practices of the science itself (Arifin, 2011). All constructs showed reliability scores above 0.8, indicating high internal consistency.

Data Analysis Technique

The data analysis technique employed in this study involved two primary stages. First, a descriptive analysis was conducted to evaluate the frequency and distribution of responses related to the implementation of digital banking and various business performance indicators. This step provided an overview of how respondents perceive digital banking and its potential impact. Second, an inferential analysis was carried out using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is particularly effective for exploring complex relationships in studies with small to medium-sized samples. The choice of PLS-SEM is appropriate given the exploratory nature of the research and its focus on analyzing latent constructs. The data were processed using SmartPLS software, and the analysis focused on key statistical outputs such as path coefficients, R^2 values, t-statistics, and p-values to determine the significance of the proposed hypotheses.

RESULTS

Descriptive Findings

Descriptive Variables of Sharia Banking Business Performance

Table 1. Recapitulation of Sharia Banking Responses to Sharia Banking Business Performance Dimensions

Dimensions	Total Score	Σ Items	Average Score	Minimum Score	Ideal Score	%
Business Performance	720	7	102.86	27	135	72.04
Growth	317	3	105.67	27	135	72.84
Company Image	350	3	116.67	27	135	83.02
Total	1.387	13	106.69	351	1.755	73.79

Source: Data Processing Results (2022)

Based on the data presented in Table 1, the average score for business performance across all measured dimensions stands at 73.79% of the ideal benchmark. Among these dimensions, Company Image receives the highest score at 83.02%, followed by Growth at 72.84%. Interestingly, the dimension labeled Business Performance itself records the lowest score at 72.04%. While these numbers suggest that Sharia banks in Indonesia are performing relatively well overall, a deeper look reveals several areas that still require focused attention and strategic improvement.

The high score in Company Image indicates that Sharia banks enjoy strong public trust and positive perception, particularly due to their alignment with Islamic financial principles. This perception could stem from the values these institutions represent, such as ethical banking practices, risk-sharing mechanisms, and social responsibility, which often resonate well with a segment of customers who seek financial services grounded in religious values. The image of integrity and trustworthiness is a powerful asset, especially in the financial services sector, where confidence plays a pivotal role in customer loyalty and engagement.

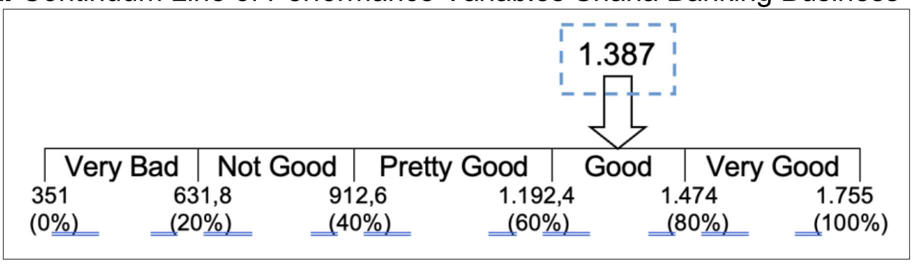
However, the relatively lower scores in Business Performance and Growth raise important concerns. These dimensions are crucial indicators of an institution's financial health, operational efficiency, and ability to scale sustainably. The gap between a strong public image and more modest actual performance suggests a disconnect between how these banks are perceived and how they are performing in measurable business terms. In other words, while customers may view Sharia banks favorably, this positive sentiment has not yet translated into tangible business outcomes such as higher profitability, increased market share, or rapid innovation.

One possible explanation for this gap could be related to the pace of technological adoption within the Sharia banking sector. Many traditional Sharia banks may still be in the early stages of digital transformation, and as a result, may lag behind in terms of operational efficiency, product innovation, or customer experience enhancements. In today's highly digital and competitive financial landscape, the ability to innovate, especially through scalable digital infrastructure, is no longer optional. Banks that fail to invest in digital capabilities may struggle to grow or even sustain their current performance levels over the long term.

Moreover, challenges such as regulatory constraints, limited access to skilled digital talent, and internal resistance to change could further slow down progress in bridging this performance gap. These factors may explain why business performance and growth remain at moderate levels despite a well-established brand image.

The data thus presents a clear opportunity for Sharia banks in Indonesia. By leveraging their strong brand equity and customer trust, these institutions are well-positioned to embark on a more aggressive and strategic digital transformation journey. If managed effectively, this transformation could help align perception with performance, turning reputational capital into concrete business value. Investing in technology, fostering a culture of innovation, and strengthening human resources in digital finance are all steps that could drive stronger outcomes in the years ahead.

Figure 2. Continuum Line of Performance Variables Sharia Banking Business



Source: Data Processing Results (2022)

Figure 2 provides a visual representation of the cumulative assessment results for the business performance of Sharia banking institutions in Indonesia. According to the data, the total score obtained from all respondents is 1,387. This figure represents approximately 73.79% of the ideal score, which stands at 1,755. The minimum possible score, based on interpolation, is 351. When plotted on a continuum line developed for this study, this cumulative score places Sharia banks firmly within the "good" performance category.

This positioning on the continuum scale is meaningful, as it reflects a composite evaluation of various performance dimensions, both financial and non-financial. The continuum line itself serves as a benchmark tool to assess the relative level of achievement attained by these banks. By scoring just under 74% of the ideal, it is evident that Sharia banks in Indonesia are performing at a solid, respectable level. However, this result also highlights that there is still significant space for improvement before reaching the higher performance classifications of "very good" or "excellent," which are typically represented by scores exceeding 80% or 85%.

The fact that the performance is classified as "good" should be acknowledged as a positive sign. It shows that, overall, Sharia banks have been successful in establishing a strong foundation in both customer engagement and operational delivery. Achieving this level of performance suggests that the institutions have managed to build trust, uphold regulatory compliance, and maintain relatively consistent service quality. However, the score also suggests a level of stagnation or unrealized potential, particularly in an era where innovation, speed, and adaptability are central to business success in the financial sector.

Interpreting these results further, it becomes clear that several strategic gaps still need to be addressed. While the public perception of Sharia banks may be favorable, thanks in part to their religiously grounded principles and ethical banking practices, this perception has not yet been fully translated into high-impact business outcomes. Elements such as operational efficiency, responsiveness to digital innovation, diversification of financing portfolios, and scalability of services remain areas where many institutions could do more.

Moreover, in today's rapidly evolving financial ecosystem, standing still can be as detrimental as declining. A score of 73.79% may be adequate in the short term, but it does not guarantee long-term competitiveness, especially in a landscape increasingly dominated by agile fintech players and customer expectations for seamless digital services.

Thus, while the continuum line places Sharia banks in a relatively safe and positive "good" category, the challenge now lies in pushing beyond that. To move toward the "very good" or "excellent" levels, Sharia banks in Indonesia need to prioritize strategic transformation efforts. These efforts may include strengthening human capital, improving technology infrastructure, implementing more data-driven decision-making, and expanding innovative financial products that meet the evolving needs of their customer base.

In conclusion, the performance of Sharia banks, as illustrated in Figure 2, reflects a promising but incomplete story. The foundations are in place, and the direction is broadly correct. What is needed now is a sharper, more proactive approach to innovation, efficiency, and market responsiveness to fully unlock their potential and move to the next tier of business excellence.

Descriptive Variables of Digital Banking Program

Figure 3. Digital Variable Continuum Line Banking Program

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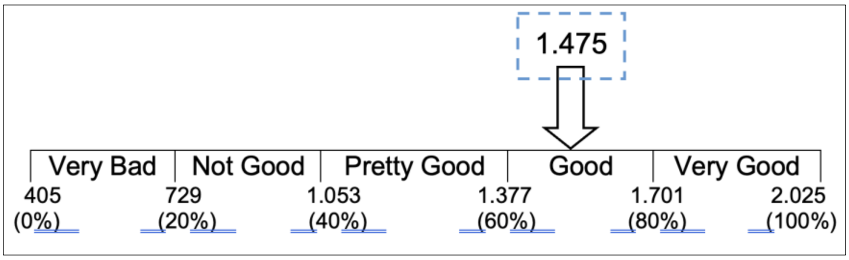

Source: Data Processing Results (2022)

Figure 3 presents the assessment results for the Digital Banking Program variable, which received a cumulative score of 1,475 out of a possible ideal score of 2,025. This translates to approximately 66.05% of the ideal value. According to the continuum scale applied in this study, this percentage places the performance of the digital banking program in the “good” category. However, it is important to highlight that this score is notably lower than the index recorded for overall business performance, which reached 73.79%.

The discrepancy between digital banking adoption and broader business performance points to an area of concern. While the Sharia banking sector in Indonesia has taken clear steps toward embracing digital transformation, the results suggest that the process remains in its formative stages. A score of 66.05% indicates that while foundational digital initiatives may be in place, such as online banking platforms or mobile applications, they have not yet matured into a fully integrated, high-impact digital ecosystem.

This relatively moderate score reflects the fact that several critical aspects of a comprehensive digital strategy have yet to be fully developed or implemented. For instance, automation of internal processes may still be partial or inconsistent, reducing efficiency and responsiveness. System integration across departments and services may be limited, leading to disjointed user experiences and operational silos. Furthermore, one of the most unique challenges for Sharia banks is ensuring that digital innovations are compatible with Islamic financial principles. The current score implies that many banks are still struggling to develop or deploy digital solutions such as Sharia-compliant fintech platforms or fatwa-validated contract systems that meet both customer expectations and religious requirements.

In practical terms, this could manifest as limited availability of advanced digital features for customers. For example, while conventional banks may offer streamlined digital services for tasks like investment planning or instant lending, Sharia banks may lack equivalent tools that are aligned with Islamic law. Services such as digital zakat payments, mobile-based *akad* confirmations, or Islamic robo advisors that provide personalized financial guidance in compliance with fatwas may either be underdeveloped or entirely absent.

The gap between the promise of digital banking and its current implementation poses a strategic risk. In an increasingly competitive financial landscape where customer preferences are shifting rapidly toward convenience, speed, and digital engagement, failing to meet these expectations could undermine the trust and loyalty that Sharia banks have worked hard to build. Moreover, the relatively low score suggests that current digital strategies may not be robust enough to support long-term scalability or resilience, especially in times of crisis or rapid market change.

Despite these challenges, the score of 66.05% should still be seen as a foundation to build upon. It reflects a meaningful start and an acknowledgment by Sharia banks that digitalization is necessary and underway. The key moving forward is to intensify efforts in specific strategic areas. This includes investing in secure and scalable digital infrastructure, enhancing mobile banking capabilities, integrating digital offerings with Sharia principles, and fostering partnerships with Islamic fintech startups that can accelerate innovation.

Hypothesis Testing Findings

Table 2. Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STERR|)	P Values
DBP → SBBP	0.866	0.863	0.349	2.479	0.013

Source: Data Processing Results (2022)

Table 2 presents statistical evidence indicating a significant relationship between the Digital Banking Program (DBP) and Sharia Banking Business Performance (SBBP). Specifically, the analysis yields a T-statistic value of 2.479, which exceeds the commonly accepted critical value of 1.96, along with a p-value of 0.013, which is well below the 0.05 significance threshold. These values confirm that the relationship between DBP and SBBP is statistically significant. Furthermore, the original sample estimate, or path coefficient, is 0.866, a strong positive value, which suggests that improvements or advancements in digital banking programs are closely and positively associated with enhancements in business performance among Sharia banks.

Based on this result, the null hypothesis (H0), which posits that there is no significant effect of digital banking on Sharia banking performance, is rejected. In contrast, the alternative hypothesis (H1) is accepted, confirming the presence of a meaningful and positive relationship between the two variables. Simply put, the data strongly supports the conclusion that digital banking initiatives have a tangible, beneficial influence on the overall business performance of Sharia-compliant financial institutions in Indonesia.

This finding is particularly valuable in the context of the broader digital transformation occurring in the global banking industry. Sharia banks, which operate under a set of religious and ethical principles, face unique challenges in integrating modern digital tools while maintaining compliance with Islamic commercial jurisprudence. Yet, despite these constraints, the evidence suggests that digitalization not only aligns with the operational goals of Sharia banks but actually enhances their ability to deliver both financial and non-financial value.

For example, Sharia banks that have adopted mobile-based onboarding processes, integrated Islamic e-wallet systems, or enabled digital payment gateways for zakat and waqf contributions are not just offering convenience; they are expanding their customer reach. These innovations are particularly impactful in Indonesia, where a significant portion of the population remains underbanked. Digital tools make banking services more accessible to rural and younger demographics, many of whom prefer mobile-first experiences.

The positive path coefficient of 0.866 reinforces the argument that digital programs do not merely serve as technological upgrades but as strategic enablers for growth, efficiency, and competitiveness. Digital platforms allow Sharia banks to streamline their internal operations, reduce costs, accelerate transaction speeds, and improve customer service without compromising on religious compliance. Moreover, digital tools can offer new channels for customer interaction, data-driven decision making, and product personalization based on user behavior and needs, all within an Islamic finance framework.

Ultimately, the results presented in Table 2 highlight a compelling insight: digital innovation is not only compatible with Sharia banking but is increasingly essential to its success. In an era where customer expectations are shaped by speed, convenience, and interactivity, digital banking programs serve as critical infrastructure for maintaining relevance and achieving sustainable performance in a competitive market.

DISCUSSION

The Influence of Digital Banking Program on Sharia Banking Business Performance

This study finds compelling evidence that digital banking plays a significant role in enhancing the business performance of Sharia banks in Indonesia. The statistical results, particularly the path coefficient of 0.866, a T-value of 2.479, and a p-value well below 0.05, point to a strong and reliable connection between the extent of digital banking implementation and improved organizational performance.

In practical terms, this means that when Sharia banks invest more deliberately in digital solutions, whether that is through user-friendly mobile applications, seamless digital onboarding, or automated customer services, they are likely to see tangible benefits across both financial and operational performance metrics. For many institutions, especially in a post-pandemic landscape where digital interactions have become the norm, these systems are no longer optional. They are essential.

These findings support previous research (Mbama and Ezepue 2018). For example, it was shown that digital transformation enhances customer experience, which in turn contributes to better financial results. Likewise, Azhari and Wahyudi (2020) noted that digital innovation helped Islamic financial institutions remain resilient during periods of economic disruption. What this study adds is a clearer organizational perspective showing that digital transformation does not just matter to customers; it has direct consequences for the bank's own performance outcomes.

Strategic Implications of Digitalization in the Islamic Financial Sector

In addition to its statistical influence, digital banking holds strategic value in enhancing accessibility, reducing operational costs, and broadening outreach, particularly in regions and communities that are underserved. Several Sharia banks in Indonesia have developed applications with Sharia-compliant features, such as *zakat* (obligatory charity) payments, digital *waqf* (endowment) transactions, and financing simulators based on *murabahah* and *ijarah* contracts. These initiatives contribute not only to service innovation but also reinforce the ethical identity that distinguishes Islamic banking.

Nonetheless, the moderate implementation score (66.05%) underlines a persistent gap between aspiration and execution. Many institutions remain in the early to intermediate stages of digital maturity. Compared to counterparts in Malaysia or Bahrain, where digital Sharia services have become mainstream and integrated with advanced technologies like AI and blockchain, Indonesia's Sharia banks are still building foundational systems.

This reality affirms the relevance of the TOE framework adopted in the study. Technology adoption depends not just on availability, but on internal capabilities and external regulatory support. For decision-makers in Sharia banking, this underscores the importance of long-term digital strategies supported by investments in training, compliance integration, and infrastructure.

Sharia Compliance as a Competitive Advantage in the Digital Age

The success of digital transformation in Islamic banking hinges on more than just technology; it must also uphold the integrity of Sharia principles. Sarif and Ariyanti (2024) stated that Islamic law permits innovation as long as transactions remain free from elements such as *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation). In this regard, the study found that banks that integrate digital tools with guidance from DSN-MUI fatwas, such as those regulating *ijarah* and electronic money, tend to perform better.

This is reinforced by Judijanto et al. (2024), who found that service digitalization, when aligned with Sharia-compliant product innovation, led to higher customer satisfaction, which in turn increased customer loyalty among Islamic bank users in West Java. Their research highlights that when digital services are packaged with Sharia authenticity, it resonates more strongly with value-conscious customers.

Compared to previous studies that focused mainly on financial ratios like CAR or FDR (e.g., Hakiim and Rafsanjani, 2016), this research offers a more holistic view by combining quantitative metrics with institutional values and customer perception. It positions digital transformation as both a technological and spiritual imperative in the context of Islamic finance.

CONCLUSION

This study aimed to examine the influence of digital banking programs on the business performance of Sharia banks in Indonesia. Drawing on data collected from 27 Sharia Commercial Banks and Sharia Business Units across the country, the research employed a descriptive and verification approach, supported by PLS-SEM, to analyze both financial and non-financial performance dimensions.

The findings indicate a strong and statistically significant relationship between the implementation of digital banking and the overall performance of Sharia banking institutions. The analysis shows that digital banking, when effectively aligned with Sharia principles, can substantially enhance operational efficiency, expand service accessibility, and improve the institutional image of Islamic banks. However, despite the positive perception that many of these banks enjoy, the study also reveals that digital banking programs are still under-optimized in terms of infrastructure, integration, and user experience, with their implementation scoring only 66.05% of the ideal.

These results underscore the strategic importance of digital transformation in Sharia banking. Enhancing digital capabilities is not merely about adopting technology, but about embedding Sharia-compliant innovation into the core of banking operations. To achieve this, banks must invest not only in technological systems but also in human capital development, internal governance structures, and cross-functional integration to ensure that digital services uphold Islamic legal and ethical standards.

For regulators and policymakers, the findings offer a strong rationale to accelerate digital infrastructure development, provide guidance on Sharia fintech standards, and encourage collaborative innovation through sandbox mechanisms. For bank executives, the results suggest that a long-term digital strategy grounded in customer needs and religious values is key to unlocking sustainable growth and competitive advantage.

Overall, this study contributes both theoretically and practically by integrating digital innovation with Islamic financial values, offering a comprehensive perspective on how technology and ethics can jointly shape the future of Sharia banking in Indonesia.

LIMITATION

This study is limited by its reliance on self-reported survey data, which may be subject to response bias. Furthermore, the use of cross-sectional data limits the ability to infer long-term causal effects. Nevertheless, the inclusion of nearly the entire population of Sharia banks strengthens the study's internal validity.

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DECLARATION OF CONFLICTING INTERESTS

The authors have declared no potential conflicts of interest concerning the study, authorship, and/or publication of this article.

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