

Abstract

Ideally, Islamic banks should have a different performance assessment methodology from conventional banks because there are transcendent elements that must be taken into account. The deconstruction of sharia performance used the epistemological procedure of burhani mindset, which was to conduct a logical analysis of the synchronization of qauliyah and qauniyah verses based on the purpose of sharia, resulting in a measure of sharia performance. In the information technology era, company performance can be driven by human resource optimization, and ESG practices were expected to produce better company performance.

This study aimed to examine the effect of intellectual capital in improving sharia performance in Islamic banks with ESG as a mediating variable. This was a quantitative study with *purposive* sampling, obtaining 126 observations from 18 Islamic commercial banks in 2017-2023. The research objects are in 8 countries in Asia. Data was obtained from the company's official website and *Bloomberg*. The data was tested using path analysis.

Intellectual capital had a significant negative effect on sharia performance. Investment in intellectual capital requires a consistently long-term period so that at a certain equilibrium point, awareness of the environment and sharia compliance increase, ultimately having a positive impact on sharia performance. Intellectual capital had a negative effect on ESG. This result showed that high ESG practices were due to international pressure. ESG had a significant positive effect on sharia performance because the dimensions used to build both had the same character between the concept of maqashid sharia and SGDs. ESG partial mediated the effect of intellectual capital on sharia performance, as evidenced by the value of the *indirect effect* path was lower than the *direct* path and remains significant.

Keywords: Sharia performance, intellectual capital, ESG.