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Driver of Islamic banking market share in Indonesia

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Abstract

The growth of Islamic banks in Indonesia remains relatively low and unsatisfactory. Furthermore, the study of the Islamic banking market share is still lacking and crucial. This study aims to test the effect of market orientation, technology adoption, ambidextrous leadership, intellectual capital, and competitive advantage on the market share of Islamic banks in Indonesia. The unit of analysis for this study comprises the senior leaders and middle management of Islamic banks in Indonesia. Data were collected in 2024 through a sample size of 400 participants. Structural Equation Modeling (SEM) was utilized for data analysis, employing LISREL software. The findings suggest that market orientation, technology adoption, ambidextrous leadership, and intellectual capital contribute to competitive advantage. Market orientation, technology adoption, and ambidextrous leadership do not directly influence market share, but intellectual capital has a direct impact. Competitive advantage contributes to market share, with its influence being more significant when supported by market orientation, technology adoption, and ambidextrous leadership. This shows a crucial contribution of competitive advantage in expanding the market share of Islamic banking in Indonesia, where the support of intellectual capital will have a greater impact. These findings offer valuable managerial implications to enhance the market share of Islamic banks.

Keywords: Ambidextrous leadership, Competitive advantage, Intellectual capital, Islamic bank market share, Market orientation, Technology adoption.

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1. Introduction

Islamic banks have an operational system that differs from conventional banks as well as to promote economic justice and the welfare of society and its environment [1] aim to enhance economic and social welfare [2]. Islamic banks are very

suitable for developing countries [3-6]. The market share of Islamic banks in Indonesia, as a developing country, is interesting to study because the majority of the population is Muslim. Meanwhile, research on sharia banks in Indonesia has largely focused on bank performance and efficiency [7]. Much of the research on sharia banks in Indonesia is based on the premise that the country has a large market potential and was the first to reform its financial system into a dual banking regulation framework. However, the growth of sharia banks remains relatively low and unsatisfactory. This shows that the study of the Islamic banking market share is still lacking and crucial.

Selecting the right competitive advantage strategy can encourage a company's market share [8]. Competitive advantage results from characteristics that enable better customer value than its competitors [9-12]. Moreover, market orientation has been identified as a crucial determinant of competitive advantage [13, 14]. The adoption of information technology has proven to be more resilient during the global financial crisis [15] and affect competitive advantage [16, 17].

Ambidextrous leadership can foster competitive advantages within organizations [18] and organizational performance [19, 20]. Intellectual capital is important for companies, including banking [21], but there is still a lack of discussion regarding this issue in the Islamic banking literature [22]. Thus, intellectual capital is important to study in the context of Islamic banks, especially in Indonesia. This is supported by Rehman et al. [23] who suggest that intellectual capital can lead to winning market share.

Studies have explored the interrelation between market share and market orientation, technological innovation, ambidextrous leadership, intellectual capital, and competitive advantage in different sectors. However, research examining the interrelationships among these factors within the specific context of Islamic banking in Indonesia remains limited. Thus, this study aims to examine the influence of market orientation, technology adoption, ambidextrous leadership, intellectual capital, and competitive advantage on the market share of Islamic banks in Indonesia. The findings of this study can provide an alternative solution to increase the market share of Islamic banks in Indonesia.

2. Hypothesis Development

Managers should pay attention to the relationship between business-level strategy, customer-focused resources, and innovation capabilities to produce the best products [24]. Effective marketing implementation enhances a bank's competitive advantage [25]. Market-oriented companies have a better understanding of their customers' needs, which enables them to develop superior solutions and gain a competitive advantage [26]. Based on the aforementioned theories, the first hypothesis is:

H_1: Market orientation influences competitive advantage.

Technological capability has a positive effect on competitive advantage [16, 17] Innovation capability affects competitive advantage and performance, where competitive advantage also affects performance [27]. Based on this, the second hypothesis is:

H_2: Technology adoption influences competitive advantage.

Ambidextrous leadership has a unique advantage in dealing with dynamic elements to provide encouragement and positive behavioral changes for the organization [28] to create competitive advantages [18]. The characteristics of ambidexterity increase competitive advantage and organizational performance [19]. Based on this, the third hypothesis is:

H_3: Ambidextrous influences competitive advantage.

Intellectual capital and knowledge management determine innovation and competitive advantage [29] and organizational performance [30]. Social capital has a direct positive effect on competitive advantage [31]. Based on this, the fourth hypothesis is:

H_4: Intellectual capital influences competitive advantage.

Adopting a market-oriented approach aligns company strategies with customer needs and improves overall business performance [26]. Customer orientation increases organizational creativity and innovation capabilities, which enhances company revenue and financial performance [32]. Based on this, the fifth hypothesis is:

H_5: Market orientation influences market share.

Product, service, and marketing innovations are positively correlated with company performance [33-35] and impact market share [36]. Based on this, the sixth hypothesis is:

H_6: Technology adoption influences market share.

Ambidextrous leadership positively influences company performance in facing changes in market share [37]. The ambidexterity characteristics of Islamic banks can increase competitive advantage and organizational performance [19]. Based on this, the seventh hypothesis is:

H_7: Ambidextrous leadership influences market share.

Intellectual capital mediates the influence of leadership on organizational performance [38, 39] and is also a supporting factor for maintaining competitive advantage and increasing bank productivity [23]. Based on this, the eighth hypothesis is:

H_8: Intellectual capital influences market share.

Competitive advantage can improve performance [11, 12] and profitability [25] and creates above-average profit achievements that are not possessed by competitors [40]. Choosing the right competitive advantage strategy can enhance a company's market share [8]. Based on this, the ninth hypothesis is:

H_9: Competitive advantage influences market share.

Organizational performance increases when customer orientation leads to the creation of a competitive advantage [41]. Effective marketing strategies can enhance the competitive advantage that contributes to overall performance and profitability [25]. Innovation capability can create a competitive advantage that impacts performance improvement [27]. Companies with a higher level of digital technology implementation can provide better service to customers, which in turn can increase sales

volume [42]. Competitive advantage affects market share [37]. Effective leadership can encourage innovation and achieve organizational goals efficiently, which will determine a positive culture and affect the overall success of the company [43]. In addition, ambidextrous leadership can lead to increased market share [20]. Revenue diversification affects bank profitability, moderated by the Value-Added Intellectual Coefficient (VAIC) and human resource efficiency [21]. Intellectual capital is a supporting factor for maintaining competitive advantage and increasing bank productivity [23]. Competitive advantage mediates the relationship between intellectual capital and organizational performance [30]. Based on this, the hypotheses are formulated:

H_{10}: Market orientation influences market share through competitive advantage.
H_{11}: Technology adoption influences market share through competitive advantage.
H_{12}: Ambidextrous leadership influences market share through competitive advantage.
H_{13}: Intellectual capital influences market share through competitive advantage.

3. Materials and Methods

This is a quantitative study. The population for this study comprises senior leaders and middle management within Islamic banks in Indonesia, with these managerial levels serving as the primary units of analysis. The choice to focus on these roles is based on precedents in existing literature [2, 44-46] so that this study measures variables from a managerial perspective, targeting senior and middle management in Indonesian Islamic banks.

Based on the research model outlined in the hypothesis, it is known that the research is causal in nature with unobservable variables, so the data is analyzed accordingly using Structural Equation Modeling (SEM) with LISREL software. The sample size refers to the Rule of Thumb of the Structural Equation Model (SEM) method as a data analysis tool used in this study. A sample size of 5 to 10 times the number of indicators [47]. The number of statement items used to measure all construct variables is 80, so the sample size in this study, referring to Hair et al. [47] and Chou and Bentler [48] is at least 80 times 5, which is 400.

4. Result and Discussion

4.1. Model Evaluation

Model evaluation in Structural Equation Modeling (SEM) was carried out using chi square as presented in Table 1.

Table 1.
Goodness of Fit.

Degree of Fit Measure	Value	Acceptable Rate	Description
Absolute Fit Test			
Chi Square	2993.06	P -value>0.05	Fit
Normed Chi Square (x2/df)	P -value = 0.74976		
Goodness of Fit Index (GFI)	0.923	>0.80	Fit
Root Mean Square Error of Approximation (RMSEA)	0.005	RMSEA< 0.05 (close-fit)	Fit
Incremental Fit Measures			
Adjusted Goodness of Fit Ind ex (AGFI)	0.918	AGFI> 0.8	Fit
Normed Fit Index (NFI)	0.954	NFI > 0.90	Fit
Parsimonious Fit Measures			
Parsimonious Normed Fit Index (PNFI)	0.919	PNFI > 0.80	Fit
Parsimonious GFI (PGFI)	0.868	PGFI > 0.80	Fit

Source: Jöreskog and Sörbom [50].

Chi-Square value measures the suitability of the model where the p-value (0.74976) is greater than 0.05, with other suitability tests being the Goodness of Fit Indices (GFI) and Adjusted Goodness of Fit Index (AGFI) each more than 0.90, and the Root Mean Square Error of Approximation (RMSEA) less than 0.05, so it can be concluded that the research model is appropriate and supported by empirical conditions [49].

Table 2.
Measurement Model.

Variable	Dimension-Indicator	Loading factor	t *value*	P Values	Average variance extracted (AVE)	Construct reliability (CR)
Market Orientation	Customer Orientation	**0.862**	**15.681**	**0.000**	0.692	0.971
	Customer satisfaction from a brand perspective	0.844	-	0.000		
	Customer satisfaction from the perspective of reputation	0.808	14.348	0.000		
	Customer satisfaction from the perspective of bank officers	0.845	14.858	0.000		
	Customer satisfaction from the point of view of ease of using products and services	0.829	14.636	0.000		
	Customer satisfaction from the perspective of low service fees	0.854	14.968	0.000		
	Customer satisfaction in terms of ATM availability	0.850	14.919	0.000		
	Customer satisfaction in terms of service area	0.800	14.234	0.000		
	Customer satisfaction in terms of technology used/developed	0.839	14.777	0.000		
	Customer satisfaction in terms of product diversity	0.820	14.510	0.000		
	Customer satisfaction from the perspective of customer care	0.829	14.636	0.000		
	Customer satisfaction from the perspective of the availability of vehicle parking facilities	0.848	14.895	0.000		
	Understand customer needs	0.833	14.686	0.000		
	Create customer value	0.823	14.554	0.000		
	Measure customer satisfaction	0.819	14.460	0.000		
	After-sales service	0.837	14.745	0.000		
	Competitor Orientation	0.837	14.276	0.000	0.689	0.869
	Extracting information to learn about competitor banks' strengths (challenges)	0.854	-	0.000		
	Extracting information to learn about the weaknesses of competing banks (opportunities)	0.791	11.870	0.000		
	Understanding of bankwide strategy in facing competition	0.843	12.332	0.000		
Technology Adoption	*IT Governance*					
	Determination of the authority and responsibility of the Board of Directors	0.792	14.324	0.000	0.752	0.940
	Determination of the authority and responsibility of the IT implementation work unit	0.874	-	0.000		
	IT Architecture	0.847	11.673	0.000		
	IT Strategic Plan Ownership	0.801	14.627	0.000	0.764	0.942
	IT Strategic Plan Changes	0.880	-	0.000		
	Risk Management in IT Implementation	0.847	11.867	0.000		
	Implementation of Risk Management Process	0.767	15.305	0.000	0.767	0.929
	Information System Adequacy	0.895	-	0.000		
	Implementation of Disaster Recovery Plan	0.862	13.880	0.000		

Variable	Dimension-Indicator	Loading factor	t *value*	P Values	Average variance extracted (AVE)	Construct reliability (CR)
	Implementation of Early Warning System automation in the implementation of information technology in branches	0.890	14.183	0.000		
	Cyber Resilience and Security	0.855	13.797	0.000		
	Cyber resilience	0.769	15.631	0.000	0.836	0.974
	Cyber resilience handling unit	0.970	-	0.000		
	Utilization of IT Service Providers	0.855	12.360	0.000		
	Supervision over the implementation of the Bank's activities	0.702	14.618	0.000		
	Placement of Electronic Systems	1.000	-	-		
	Placement of electronic systems in the Data Center (DC) and Disaster Recovery Center (DRC)	0.804	14.443	0.000	0.722	0.935
	Integrated electronic system	0.868	-	0.000		
	Data management and personal data protection	0.861	11.930	0.000		
	Effective data management	0.900	15.387	0.000	0.675	0.945
	Principles of personal data protection	0.820	-	0.000		
	Internal control and audit IT	0.823	12.316	0.000		
	Effective internal control system in the implementation of IT	0.710	14.797	0.000		
	Capital support resource	1.000	-	0.000	1.000	1.000
	Adequate financial support for technology development	0.682	14.134	0.000		
Ambidext-Rous Leadership	*Opening Leader Behavior Fostering Exploration*	1.000	-	0.000	1.000	1.000
	Transparency, accountability, responsibility, independence, fairness					
	Flexibility of work completion methods	0.847	14.134	0.000	0.666	0.941
	Encouragement of experimentation with innovative ideas	0.822	-	0.000		
	Risk-taking motivation with strong risk mitigation	0.806	13.297	0.000		
	Encouragement of independent thinking	0.814	13.390	0.000		
	Space to express opinions	0.797	13.195	0.000		
	Encourage learning from mistakes	0.800	13.222	0.000		
	Transparency, accountability, responsibility, independence, fairness	0.865	13.977	0.000		
	Closing leader behavior fostering exploitation	0.808	13.322	0.000		
	Monitoring the achievement of organizational goals	0.816	13.420	0.000		
	Ensuring the Bank's operational activities run in accordance with applicable rules and regulations and apply Sharia principles.	0.833	14.596	0.000	0.670	0.942
	Corrective action	0.834	-	0.000		

Variable	Dimension-Indicator	Loading factor	t *value*	P Values	Average variance extracted (AVE)	Construct reliability (CR)
	Evaluation of compliance with regulations, policies, systems and procedures	0.773	13.019	0.000		
	Completion of tasks that are effective, efficient and in accordance with management direction	0.819	13.597	0.000		
	Determination of sanctions / punishments	0.868	14.175	0.000		
	Zero failure	0.781	13.122	0.000		
	High integrity and commitment	0.824	13.652	0.000		
Intellectual Capital	*Human capital*	0.850	13.967	0.000		
	Skills of employees	0.796	13.315	0.000		
	Skills of managers					
	Structural capital	0.854	15.198	0.000	0.751	0.943
	Organizational strategic planning (fulfillment of the target achievement of the bank's business plan which includes aspects of profitability)	0.898	-	0.000		
	Organizational strategic planning (fulfillment of the target achievement of the bank's business plan which includes aspects of fulfilling social functions)	0.875	12.429	0.000		
	Formulation of appropriate group-level strategy	0.900	14.881	0.000	0.679	0.864
	Customer capital	0.826	-	0.000		
	Customer satisfaction	0.839	12.390	0.000		
	Customer loyalty	0.806	12.101	0.000		
	Partner capital	0.866	14.438	0.000	0.738	0.938
	Gain Access to Resources	0.849	-	0.000		
	Islamic Ecosystem	0.887	12.161	0.000		
Competitive Advantage	*Location & availability*	0.886	14.653	0.000	0.709	0.916
	Outlet location selection	0.840	-	0.000		
	Office network	0.844	11.873	0.000		
	Syariah ATMs					
	Functional branch office	0.842	3.218	0.000	0.697	0.933
	Branches meet aesthetic aspects	0.822	-	0.000		
	Branchless banking, online banking, and other digital-based services are reliable and resilient	0.807	13.301	0.000		
	Product and services	0.870	14.023	0.000		
	Fulfillment of sharia principles	0.851	13.813	0.000		
	Unique products and services of Islamic banks	0.834	13.614	0.000		
	Promotion & awareness	0.825	13.512	0.000		
	Literacy and Awareness	0.779	3.208	0.001	0.772	0.945
	Promotion	0.845	-	0.000		
	Maqasid shariah	0.902	12.126	0.000		
	Raising funds and channeling financing based on no return	0.806	3.222	0.001	0.739	0.938
	Fulfillment of social functions and in this case, it becomes the uniqueness of Islamic banks	0.888	-	0.000		
	Self (Nafs)	0.884	12.842	0.000		
	Intellect (‘Aql)	0.853	3.215	0.001	0.635	0.912

Variable	Dimension-Indicator	Loading factor	t *value*	P Values	Average variance extracted (AVE)	Construct reliability (CR)
	Posterity (Nasl)	0.804	-	0.000		
	Wealth (Mal)	0.865	13.781	0.000		
Islamic Banking Market Share	*New customer acquisition*	0.871	13.842	0.000		
	Achievement of new customer acquisition target	0.843	13.549	0.000		
	Customer Information File (CIF)	0.826	13.355	0.000		
	Existing customer Retention	0.813	13.207	0.000		
	Cross-selling based service utilization					
	Customer win-back	0.953	11.591	0.000	0.686	0.951
	Pro-actively build communication with customers whose transactions are less active	0.836	-	0.000		

Source: Jöreskog and Sörbom [50].

4.2. Measurement Model

Table 2 presents that that each question item against its construct (dimensions and variables) has a loading factor of more than 0.50. All question items have a t value greater than the critical t of 1.96, so that all question items iarevalid. All constructs have a composite reliability greater than the critical value of 0.7 and an AVE value > 0.50) [49] showing reliability. AVE value > 0.50 shows measurement model has a good discriminant validity [49].

Table 3.
Hypothesis Testing.

No	Structural Model	Path Coefficients	SE	t*value*	P $_{Values}$	R^2	Description
1	Market Orientation -> Competitive Advantage	0.487	0.160	3.049	0.002	0.237	Significant
2	Technology Adoption -> Competitive Advantage	0.445	0.140	3.182	0.002	0.198	Significant
3	Ambidextrous Leadership -> Competitive Advantage	0.368	0.120	3.076	0.002	0.135	Significant
4	Intellectual Capital -> Competitive Advantage	0.191	0.066	2.911	0.004	0.036	Significant
5	Market Orientation -> Islamic Banking	0.034	0.290	0.116	0.908	0.001	Not Significant
6	Technology Adoption -> Islamic Banking	0.017	0.262	0.066	0.947	0.000	Not Significant
7	Ambidextrous Leadership-> Market Share	0.033	0.221	0.149	0.882	0.001	Not Significant
8	Intellectual Capital -> Market Share	0.328	0.117	2.799	0.005	0.108	Significant
9	Competitive Advantage -> Market Share	0.516	0.168	3.071	0.002	0.266	Significant
10	Market Orientation -> Competitive Advantage -> Market Share	0.251	0.116	2.162	0.031	0.251	Significant
11	Technology Adoption -> Competitive Advantage -> Market Share	0.230	0.104	2.209	0.028	0.230	Significant
12	Ambidextrous Leadership-> Competitive Advantage -> Market Share	0.190	0.088	2.170	0.031	0.190	Significant
13	Intellectual Capital -> Competitive Advantage -> Market Share	0.099	0.047	2.106	0.036	0.010	Significant

Source: Jöreskog and Sörbom [50].

4.3. Hypothesis Testing

Table 3 describes the following results:

a. Market orientation, technology adoption, ambidextrous leadership, and intellectual capital significantyly indluence competitive advantage (t statistic > 1.96 and P values < 0.05) [51]. Market orientation has a dominant influence (R^2 = 0.237).
b. Intellectual capital significantly influences market share (t statistic > 1.96 and P values < 0.05) with R^2 = 0.108, while market orientation, technology adoption, and ambidextrous leadership do not have a significant influence.
c. Competitive advantage significantly influences market share (t statistic > 1.96 and P values < 0.05) with R^2 = 0.266.
d. Market orientation, technology adoption, and ambidextrous leadership, as well as intellectual capital, influence market share through competitive advantage (t statistic > 1.96 and P values < 0.05), where market orientation has a dominant influence with R^2 = 0.251.

4.4. Discussion

The first to fourth hypothesis tests show that all exogenous variables have a significant role in creating a competitive advantage. Market orientation plays a dominant role. This proves that market-oriented companies can gain a competitive advantage in the market [24-26]. The next aspect that contributes to competitive advantage is the adoption of technology, which supports previous studies Susanti et al. [12], Al Karim et al. [16], Rhee and Stephens [17] and Ferreira and Coelho [27]. The next aspect that plays a role in building competitive advantage is ambidextrous leadership, supporting [18, 19], However, the results of the third hypothesis test contradict the findings of Wahyudi and Santoso [31], revealing that ambidextrous leadership does not affect competitive advantage. The last aspect that influences competitive advantage is intellectual capital. This supports the findings of Rehman et al. [29], Ibarra-Cisneros et al. [30] and Wahyudi and Santoso [31]. The results of hypothesis 8 testing are supported, which means that intellectual capital can increase market share directly, supporting [23, 38, 39]. The hypothesis 9 test results show that competitive advantage influences the market share of Islamic banks in Indonesia significantly, supporting [9-12, 25, 37, 40] but contrary with Durand [52] who reported that competitive advantage does not always have an impact on performance.

The research findings are obtained as follows in Figure 1.

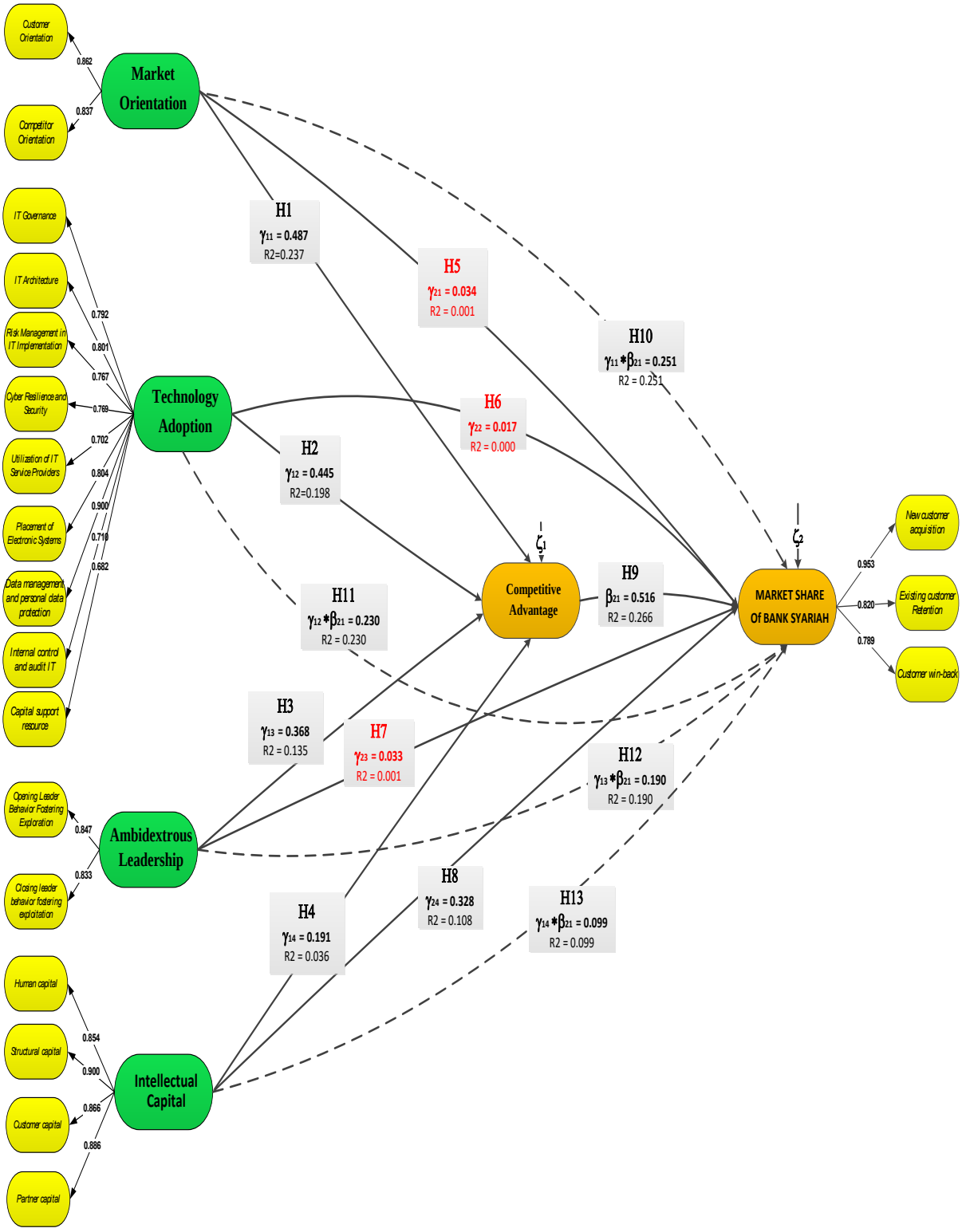

Figure 1.
Research Finding.

Market orientation, technology adoption, ambidextrous leadership, and intellectual capital play a significant role in the competitive advantage of Islamic banks. Competitive advantages that are built by market orientation, technology adoption, ambidextrous leadership, and intellectual capital drive the market share of Islamic banks in Indonesia. Meanwhile, intellectual capital has a greater role in market share directly, compared to through competitive advantages. This indicates that intellectual capital is crucial in driving the market share of Islamic banks. Therefore, competitive advantages built by market orientation, technology adoption, and ambidextrous leadership, supported by strengthening intellectual capital, will have a greater impact on increasing market share.

5. Conclusion and Implications

This study highlights the fundamental role of market orientation, technology adoption, ambidextrous leadership, and intellectual capital in building the competitive advantage of Islamic banks. Market orientation, technology adoption, and ambidextrous leadership are not able to directly drive market share. Intellectual capital can directly increase market share. Competitive advantage can increase market share, and the contribution is greater if it is supported by market orientation, technology adoption, and ambidextrous leadership.

5.1. Managerial Implications

The managerial implications show that Islamic bank management needs to prioritize the development of a competitive advantage built on market orientation, technology adoption, and ambidextrous leadership. Strengthening intellectual capital will have a greater impact on increasing market share.

5.2. Implication for Regulator

Regulators should encourage Islamic banks to strengthen data management and personal data protection for enhancing the quality of bank operation. Furthermore, policymakers should refine the regulatory framework to prioritize *Maqasid Shariah* principles as a foundation for sustainable competitive advantage and market share growth. Providing incentives for Islamic banks that balance profitability with social responsibility can further strengthen their unique position in the financial sector.

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