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Digital Mediation in Institutional Theory: How Transactional Digitalization Bridges Pressures and Performance in Islamic Finance

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ABSTRACT

Purpose: This study aims to examine the influence of institutional pressures coercive, normative, and mimetic on the financial performance of Islamic banks in Indonesia, with digital transactions serving as a mediating variable in the context of rapid digital transformation.

Design/methodology/approach: This research adopts a quantitative approach using Partial Least Squares Structural Equation Modeling (PLS-SEM). Secondary data were collected from Indonesian Islamic banks over the period 2020–2024. The model analyzes both direct and indirect relationships between institutional pressures and financial performance, measured by return on assets (ROA), through the mediation of digital transactions.

Findings: The findings indicate that coercive, normative, and mimetic institutional pressures significantly drive the adoption of digital transactions in Islamic banks. Digital transactions have a positive and significant effect on financial performance. Coercive pressure influences profitability both directly and indirectly, while normative and mimetic pressures primarily affect financial performance through the mediating role of digital transactions.

Practical implications: The results provide valuable insights for policymakers and banking practitioners. Policymakers are encouraged to strengthen regulatory frameworks and digital infrastructure, while Islamic bank managers should leverage competitive and peer-driven digital strategies to enhance operational efficiency, competitiveness, and long-term sustainability.

Originality/value: This study contributes to the literature on Islamic banking and institutional theory by empirically demonstrating the mediating role of digital transactions in linking institutional pressures to financial performance within an emerging market context.

Keyword: Institutional Pressure, Digital Transactions, Islamic Banking, Financial Performance.

Paper type: *Research paper*

A. INTRODUCTION

The rapid digital transformation of the global banking industry has fundamentally reshaped the way financial institutions design services, respond to market expectations, and generate financial performance (Atz, Van Holt, Liu, & Bruno, 2023). Digital technologies have become essential not only for improving operational efficiency and customer experience but also for ensuring organizational legitimacy in increasingly competitive and regulated environments (Timotheou et al., 2023). Within this dynamic landscape, Islamic banks face unique challenges, as they are required to simultaneously comply with conventional financial regulations and Shariah principles while adapting to accelerating digitalization (Nelly, Siregar, & Sugianto, 2022). As a result, understanding the mechanisms through which external pressures influence digital strategies and financial outcomes has become a critical issue in Islamic banking research.

Institutional Theory provides a robust framework for explaining how organizations respond to external pressures through processes of institutional isomorphism, namely coercive, normative, and mimetic pressures (Horodnic, 2018). Coercive pressures arise from regulatory authorities and supervisory bodies, normative pressures stem from professional standards and industry norms, and mimetic pressures reflect the tendency of organizations to imitate successful peers under conditions of uncertainty (Munir & Baird, 2016). In the banking sector, these pressures increasingly manifest in expectations for digital transformation, compelling banks to adopt digital financial services in order to maintain legitimacy, competitiveness, and stakeholder trust. For Islamic banks, institutional pressures are further intensified by the need to ensure Shariah compliance in digital service delivery, making digital adaptation both a strategic necessity and an institutional obligation (Sudarwanto, Kharisma, & Cahyaningsih, 2024).

Recent studies have shown that institutional pressures significantly influence technological adoption and innovation in financial institutions, including Islamic banks. Regulatory mandates, professional expectations, and competitive dynamics have been found to encourage digital banking adoption and fintech collaboration (Haridan, Hassan, & Karbhari, 2018). However, much of the existing literature conceptualizes digitalization primarily as an outcome of institutional forces, with limited attention given to its role as a strategic process through which institutional pressures are translated into financial performance (Asutay & Ubaidillah, 2024). Moreover, prior research often relies on broad measures of digital adoption, overlooking digital transactions, such as mobile banking usage, electronic payments, and other digital financial services, which more accurately capture banks' operational responses to institutional demands (Asif, Khan, Tiwari, Wani, & Alam, 2023).

Digital transactions can be defined as financial activities conducted through electronic platforms that enable real-time, technology-driven interactions between banks and customers (Bashori, Mutho'am, & Jusoh, 2023). These transactions not only reflect the extent to which banks internalize institutional expectations but also serve as a key mechanism for enhancing efficiency, expanding market reach, and improving asset utilization (Divi, Sahoo, & Minampati, 2024). Despite their strategic importance, empirical evidence remains limited regarding whether digital transactions effectively

mediate the relationship between institutional pressures and financial performance. In particular, the pathway through which coercive, normative, and mimetic pressures influence profitability, measured by return on assets (ROA), remains insufficiently explored in Islamic banking contexts (Mulbah, Kurbonov, & Nasriddinov, 2024).

The literature further reveals a significant research gap in emerging economies, where Islamic banking systems operate within rapidly evolving regulatory and technological environments (Samsudin, Mukhlas, & Rusyana, 2024). While several studies have examined institutional quality, governance, or digital readiness in isolation, few have integrated institutional pressures, digital transactional behavior, and financial performance into a unified empirical model (Gimigliano, 2021). This gap is especially pronounced in the post-pandemic period, during which digital financial services experienced unprecedented acceleration, reshaping customer behavior and competitive dynamics in the banking sector. Consequently, the lack of empirical evidence on how institutional pressures are operationalized through digital transactions represents a critical limitation in current Islamic banking research.

Addressing this gap, the present study extends Institutional Theory by positioning digital transactions as a mediating mechanism linking institutional pressures to financial performance in Islamic banks (Balzano, Marzi, & Turzo, 2025). The novelty of this research lies in its conceptualization of digital transactions not merely as technological outcomes but as strategic instruments through which Islamic banks respond to coercive, normative, and mimetic pressures to achieve profitability and sustainability. By empirically distinguishing the effects of different forms of institutional pressure and examining their direct and indirect impacts on financial performance, this study offers a more nuanced understanding of institutional isomorphism in the context of digital Islamic banking.

Accordingly, this study aims to examine how coercive, normative, and mimetic institutional pressures influence digital transaction adoption and how digital transactions, in turn, mediate the relationship between institutional pressures and financial performance, measured by return on assets (ROA), in Islamic banks (Mulbah et al., 2024). Using secondary data from Indonesian Islamic banks during the post-pandemic digital expansion period from 2020 to 2024, this research provides empirical evidence from an underrepresented emerging market and offers valuable insights for regulators and banking practitioners seeking to strengthen digital strategies, institutional legitimacy, and long-term competitiveness in Islamic banking.

B. LITERATURE REVIEW

1. Coercive pressures significantly influence digital transaction adoption

Coercive pressures refer to formal and informal forces exerted by regulatory authorities, governments, central banks, and supervisory institutions that compel organizations to conform to established rules and legal frameworks (Lu & Wang, 2023). In the context of Islamic banking, coercive pressures are particularly salient due to the dual regulatory structure that requires compliance with both conventional banking regulations and Shariah governance standards. These pressures manifest through

regulations related to financial transparency, risk management, anti-money laundering (AML), consumer protection, and Shariah compliance reporting (Abayomi, Zhang, Peng, & Zhao, 2020). Digital transaction systems such as mobile banking, internet banking, and electronic payment platforms serve as critical tools that enable Islamic banks to meet these regulatory requirements by enhancing transaction traceability, real-time monitoring, and standardized reporting. Prior studies indicate that stronger regulatory enforcement accelerates digital adoption, as banks seek efficient mechanisms to reduce compliance costs and regulatory risk (Kreuzer, 2017). Therefore, coercive pressures are expected to exert a significant positive influence on digital transaction adoption in Islamic banks. Therefore, this study proposes that coercive pressures have a positive and significant effect on digital transaction adoption in Islamic banks (H1).

2. Normative pressures significantly influence digital transaction adoption

Normative pressures arise from shared values, professional norms, and standards promoted by industry associations, professional bodies, educational institutions, and banking networks (Lin, Luo, & Luo, 2020). These pressures shape organizational behavior by defining what is considered legitimate, appropriate, and professional within an industry. In the banking sector, digital transaction services have increasingly become institutionalized as symbols of modernity, professionalism, and service quality. Islamic banks are subject to normative expectations from stakeholders, including customers, auditors, and industry peers, to offer digital financial services that align with best practices in banking operations (Arshad, Farooq, Afzal, & Farooq, 2020). Professional training programs and industry benchmarking further reinforce digital adoption as a normative standard. Empirical evidence suggests that banks operating in environments with strong professional norms are more likely to adopt digital innovations to maintain legitimacy and reputational standing (Durrani et al., 2014). Accordingly, normative pressures are expected to positively influence the adoption of digital transactions in Islamic banking. Accordingly, this study hypothesizes that normative pressures positively and significantly influence digital transaction adoption in Islamic banks (H2).

3. Mimetic pressures significantly influence digital transaction adoption

Mimetic pressures occur when organizations imitate the practices of successful competitors, particularly in environments characterized by uncertainty and rapid change (Lin et al., 2020). The digital transformation of the banking industry has created significant strategic uncertainty regarding optimal technologies, investment timing, and customer acceptance. In response, Islamic banks often engage in mimetic behavior by replicating digital transaction systems implemented by leading Islamic or conventional banks that demonstrate superior performance (Arshad et al., 2020). Such imitation reduces uncertainty, lowers perceived risk, and accelerates the diffusion of proven digital solutions. Prior research shows that mimetic pressures play a critical role in digital banking adoption, as banks benchmark themselves against high-performing peers to sustain competitiveness (Özbek, Melén Hånell, Tolstoy, & Rovira Nordman, 2024). Thus, mimetic pressures are expected to significantly and positively influence digital transaction adoption in Islamic banks. Thus, this study proposes that mimetic pressures have a positive and significant effect on digital transaction adoption in Islamic banks (H3).

4. Digital transaction adoption positively influences financial performance

Digital transaction adoption refers to the extent to which banks utilize electronic platforms to conduct financial activities, including fund transfers, payments, financing, and account management (Nurchayati, Ariyanti, & Marianingsih, 2024). From a performance perspective, digital transactions enhance operational efficiency by reducing transaction processing costs, minimizing manual errors, and shortening service delivery times. They also expand customer access, increase transaction frequency, and improve asset utilization, thereby contributing to revenue growth (Ngwengeh, Messomo, & Mbu, 2021). In Islamic banking, digital transaction systems further support Shariah compliance by enabling transparent monitoring of contracts and transactions. Empirical studies consistently demonstrate that higher levels of digital transaction adoption are associated with improved financial performance, particularly in terms of profitability and return on assets (ROA) (Musa & Njeru, 2023). Therefore, digital transaction adoption is expected to have a positive and significant effect on financial performance in Islamic banks. Based on this reasoning, digital transaction adoption is hypothesized to positively and significantly influence the financial performance of Islamic banks (H4).

5. Coercive pressures have a direct effect on financial performance

Beyond their influence on digital adoption, coercive pressures may directly affect financial performance by strengthening governance structures, risk management practices, and operational discipline. Regulatory compliance can reduce agency problems, mitigate financial misconduct, and enhance transparency, thereby lowering operational and reputational risks (Sukoco et al., 2022). In Islamic banking, compliance with Shariah governance frameworks also reinforces stakeholder trust and institutional credibility. Studies suggest that banks operating under strong regulatory environments often exhibit more stable financial performance due to improved efficiency and reduced risk exposure (Huo et al., 2013). Consequently, coercive pressures are expected to exert a direct positive influence on financial performance. Therefore, this study hypothesizes that coercive pressures have a direct and significant effect on the financial performance of Islamic banks (H5).

6. Normative pressures have a direct effect on financial performance

Normative pressures influence financial performance by encouraging Islamic banks to adhere to professional standards, ethical conduct, and service quality norms. Alignment with industry best practices enhances organizational reputation, customer confidence, and legitimacy, which are critical drivers of financial success in service-oriented industries (Durrani et al., 2014). In Islamic banking, adherence to professional and ethical norms reinforces trust among customers and investors, potentially leading to higher customer retention and improved financial outcomes. Although empirical findings on the direct effect of normative pressures are mixed, several studies suggest that conformity to professional norms contributes to long-term performance advantages (Huo et al., 2013). Therefore, normative pressures are hypothesized to have a direct influence on financial performance. Accordingly, normative pressures are hypothesized to have a direct and significant effect on the financial performance of Islamic banks (H6).

7. Mimetic pressures have a direct effect on financial performance

Mimetic pressures may directly influence financial performance by accelerating the adoption of effective business models and operational strategies (Zampone, Sannino, & García-Sánchez, 2023). By imitating successful peers, Islamic banks reduce experimentation costs and adopt practices that have already demonstrated profitability (Huo et al., 2013). Such imitation can enhance competitiveness, market positioning, and efficiency, thereby improving financial outcomes. Prior research indicates that mimetic behavior can lead to performance gains when imitation is based on well-established and successful practices (Yang & Kang, 2020). Accordingly, mimetic pressures are expected to have a direct positive effect on financial performance. Thus, this study proposes that mimetic pressures directly and significantly influence the financial performance of Islamic banks (H7).

8. Coercive pressures indirectly influence financial performance through digital transaction adoption

Coercive pressures compel Islamic banks to adopt digital transaction systems as mechanisms for regulatory compliance and governance efficiency. These digital systems, once implemented, improve operational efficiency, transparency, and asset utilization, which in turn enhance financial performance (Ke, Liu, Wei, Gu, & Chen, 2009). In this relationship, digital transaction adoption serves as a mediating variable that translates regulatory pressure into tangible financial outcomes. Prior studies highlight that regulatory-driven digital adoption indirectly improves profitability by reducing compliance costs and operational inefficiencies (Huo et al., 2013). Thus, coercive pressures are expected to indirectly influence financial performance through digital transaction adoption. Therefore, this study hypothesizes that digital transaction adoption mediates the relationship between coercive pressures and the financial performance of Islamic banks (H8).

9. Normative pressures indirectly influence financial performance through digital transaction adoption

Normative pressures encourage Islamic banks to conform to industry standards that increasingly emphasize digital service provision. Compliance with these norms leads to greater adoption of digital transaction platforms, which enhance service quality, customer satisfaction, and operational efficiency (Kurniasari, Lestari, & Tannady, 2023). Improved digital performance subsequently contributes to higher profitability. This suggests that the financial impact of normative pressures is realized primarily through digital mediation rather than direct effects. Therefore, digital transaction adoption is expected to mediate the relationship between normative pressures and financial performance (Lin et al., 2020). ccordingly, digital transaction adoption is proposed to serve as a mediating mechanism in the relationship between normative pressures and the financial performance of Islamic banks (H9).

10. Mimetic pressures indirectly influence financial performance through digital transaction adoption

Mimetic pressures arise when Islamic banks imitate the digital strategies and technological practices of successful competitors in order to reduce uncertainty and

enhance legitimacy within the financial industry. In highly competitive and digitally evolving banking environments, Islamic banks tend to replicate proven digital transaction models such as mobile banking, e-wallet integration, and automated payment systems adopted by leading conventional and Islamic peers (Zibarzani, Abumalloh, & Nilashi, 2024). This imitative behavior accelerates digital transaction adoption and allows banks to benefit from established best practices without incurring excessive innovation risks.

The increased adoption of digital transaction platforms driven by mimetic pressures enhances operational efficiency, reduces transaction costs, and improves customer convenience and accessibility. These improvements contribute to stronger customer engagement and broader market reach, which ultimately translate into improved financial performance (Jiao, Yang, & Cui, 2022). Consequently, the influence of mimetic pressures on profitability is not primarily direct, but rather occurs through the effective utilization of digital transaction systems that support scalable and efficient banking operations. Accordingly, digital transaction adoption is proposed to serve as a mediating mechanism in the relationship between mimetic pressures and the financial performance of Islamic banks (H10).

C. METHODOLOGY

1. Research Design and Paradigm

This study adopts a quantitative research design grounded in the positivist paradigm, which is appropriate for examining causal relationships among latent constructs and minimizing subjective interpretation (Putranto, 2022). Positivism assumes that social reality can be objectively measured and statistically analyzed, making it suitable for hypothesis testing in institutional and financial research. This approach is consistent with prior studies integrating institutional theory and digital transformation in banking and financial services (Hair, M.Hult, M.Ringle, & Sarstedt, 2017).

2. Research Context and Time Horizon

The empirical setting of this study is the Islamic banking sector in Indonesia, one of the largest Islamic finance markets in Southeast Asia. The observation period spans from 2020 to 2024, a timeframe selected to capture the acceleration of digital transformation following the COVID-19 pandemic, regulatory reforms, and increased customer demand for digital financial services. This period also reflects heightened institutional pressures arising from regulators, professional standards, and competitive forces within the Islamic banking industry.

3. Population, Sample, and Data Structure

The population comprises all Islamic commercial banks operating in Indonesia during the study period. Using purposive sampling, banks were selected based on two criteria: (1) consistent disclosure of digital transaction indicators and (2) availability of complete financial performance data. Based on these criteria, the final sample consists of 12 Islamic commercial banks observed over five years, resulting in 60 bank-year observations. This sample size meets the minimum requirements for PLS-SEM analysis with mediation effects (Sarstedt, Ringle, & Hair, 2021).

4. Variables and Measurement

The conceptual framework includes four core constructs (Ningsih & Maharani, 2022):

a. Independent variables: coercive pressure, normative pressure, and mimetic pressure
b. Mediating variable: digital transactions
c. Dependent variable: financial performance, measured by Return on Assets (ROA)

Table 1. Operational Definitions, Indicators, and Measurement Items

Variable	Operational Definition	Indicators	Measurement Items
Coercive Pressure (CP)	The extent to which Islamic banks experience formal and regulatory pressures from authorities that compel compliance with digital transaction policies and financial regulations.	Regulatory enforcement	CP1: Our bank adopts digital transaction systems due to regulatory requirements imposed by OJK and Bank Indonesia.
		Legal compliance	CP2: Compliance with digital banking regulations strongly influences our bank's operational decisions.
		Supervisory control	CP3: Supervisory monitoring encourages our bank to intensify the use of digital transaction services.
Normative Pressure (NP)	The degree to which Islamic banks are influenced by professional norms, industry standards, and stakeholder expectations regarding digital transaction adoption.	Industry standards	NP1: Digital transaction adoption is encouraged by professional standards within the Islamic banking industry.
		Professional norms	NP2: Providing digital transaction services is considered a professional obligation for Islamic banks.
		Stakeholder expectations	NP3: Customers and business partners expect our bank to offer advanced digital transaction services.
Mimetic Pressure (MP)	The tendency of Islamic banks to imitate successful competitors in adopting digital transaction technologies to maintain competitiveness and legitimacy.	Competitive imitation	MP1: Our bank adopts digital transaction systems similar to leading Islamic banks.
		Benchmarking	MP2: Successful digital strategies of competitors influence our bank's digital transaction decisions.
		Market uncertainty	MP3: Uncertainty in the banking market encourages our bank to follow competitors' digital innovations.
Digital Transactions (DT)	The extent to which Islamic banks integrate and utilize digital transaction platforms to support operational efficiency and customer services.	Mobile banking usage	DT1: Mobile banking transactions in our bank have increased significantly over recent years.
		Electronic payment intensity	DT2: Customers actively use electronic payment services provided by our bank.
		Digital integration	DT3: Digital transaction platforms are fully integrated into our bank's core banking services.
Financial Performance (FP)	The ability of Islamic banks to generate profits efficiently through asset utilization.	Profitability	ROA = Net Income ÷ Total Assets
		Asset efficiency	Objective financial indicator extracted from audited annual reports

Institutional pressure constructs and digital transaction indicators were adapted from validated multi-item scales in institutional theory and fintech literature (Hermawan & Amirullah, 2021). Perceptual indicators were operationalized using a five-point Likert scale (1 = strongly disagree to 5 = strongly agree). Digital transactions were measured through indicators capturing mobile banking usage intensity, electronic payment volume, and online account activity (Suasapha, 2020). Financial performance was assessed using ROA, calculated as net income divided by total assets, which is widely employed as a robust indicator of banking profitability (Radjab, Enny Jam'an, 2017).

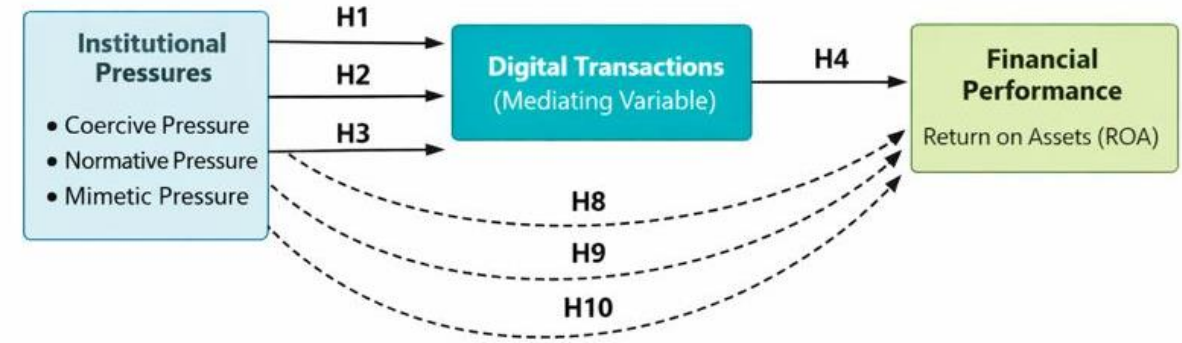

Figure 1. Conceptual framework of the research

5. Data Sources and Collection

Secondary data were collected from publicly available sources, including annual reports of Islamic banks, official publications of Bank Indonesia, and regulatory disclosures from the Financial Services Authority (Otoritas Jasa Keuangan/OJK). The use of multiple authoritative sources enhances data reliability and reduces single-source bias. Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4 software. PLS-SEM was selected due to its suitability for complex mediation models, latent constructs, and relatively small to medium sample sizes. It is also robust to non-normal data distributions and emphasizes predictive accuracy, making it appropriate for emerging market contexts such as Indonesia (Sarstedt et al., 2021). The estimation model for financial performance is expressed in the following simplified form:

$$ROAt=\alpha+\beta1CPt+\beta2NPt+\beta3MPt+\beta4DTt+\epsilon t$$

Where:

ROAt = Return on Assets at time ttt
CPt = Coercive Pressure
NPt = Normative Pressure
MPt = Mimetic Pressure
DTt = Digital Transactions
ϵt = error term

This formula represents the causal model tested through PLS-SEM to examine both direct and indirect effects of institutional pressures on financial performance.

D. RESULTS

1. Descriptive Statistics

Descriptive statistics serve as an essential starting point to understand the basic characteristics of the research variables. This preliminary analysis outlines the central tendency and variability within the data, helping to identify general trends and any irregularities across the Islamic banks observed in Indonesia from 2020 to 2024. The variables examined in this study include coercive pressure, normative pressure, and mimetic pressure as dimensions of institutional isomorphism, along with digital transactions as the mediating variable, and financial performance, which is measured by

Return on Assets (ROA). This assessment also helps to identify potential outliers and provides a foundational understanding before conducting hypothesis testing using Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS. A detailed summary of the descriptive findings is displayed in Table 2 below.

Table 2. Descriptive Statistics

Variable	Mean	Median	Min	Max	Standard Deviation	Excess Kurtosis	Skewness
Digital (M) – total digital transactions (in billion IDR)	65.3	64.1	35.2	97.6	18.9	-0.12	0.47
Coercive (X1) – regulation pressure (Likert 1–5 scale)	4.10	4.12	3.6	4.7	0.34	0.88	0.31
Normative (X2) – industry/professional pressure	3.94	3.92	3.2	4.6	0.41	-0.44	0.19
Mimetic (X3) – peer imitation pressure	4.06	4.00	3.4	4.8	0.37	1.11	0.51
Profit (Y) – ROA (%)	1.47	1.45	0.82	2.13	0.39	-0.25	0.36

Source: Processed SmartPLS Output, 2025

The descriptive statistics presented in Table 2 offer a foundational overview of the study's key variables, providing insights into their distribution, central tendencies, and variability across the sampled Islamic banks in Indonesia during the 2020–2024 period. This preliminary analysis ensures that each construct, namely, digital transactions, coercive pressure, normative pressure, mimetic pressure, and financial performance (measured by ROA), is suitable for further inferential analysis using PLS-SEM. It also helps in identifying potential issues such as outliers, skewness, or lack of variance that may affect model estimation accuracy.

Digital transactions, as the mediating variable, show a mean of IDR 65.3 billion with a minimum of IDR 35.2 billion and a maximum of IDR 97.6 billion. The standard deviation of 18.9 indicates moderate variability among Islamic banks in terms of digital activity adoption. The skewness of 0.47 and a near-zero kurtosis value suggest a moderately right-skewed but relatively normal distribution, which is acceptable for PLS-SEM input. This confirms that digital financial services are increasingly used across banks, though some variability remains depending on institutional readiness.

The coercive pressure variable, representing regulatory and policy-driven expectations, has a mean score of 4.10 on a 5-point Likert scale, reflecting generally high institutional pressure from government and shariah authorities. A relatively low standard deviation (0.34) and mild skewness (0.31) suggest consistent perceptions among banks regarding regulatory mandates. Similarly, normative pressure, reflecting expectations from professional norms and industry standards, shows a slightly lower mean of 3.94 and a standard deviation of 0.41, indicating moderate agreement with some variation in institutional influence through norms.

Mimetic pressure, indicating the extent to which banks imitate peer behavior, exhibits a mean of 4.06 with a slightly higher skewness (0.51) and kurtosis (1.11), suggesting some Islamic banks may be highly influenced by perceived industry leaders.

The relatively low standard deviation (0.37) implies consistency in the responses. Overall, these institutional dimensions appear normally distributed with acceptable variability, meeting basic assumptions for use in reflective measurement models in SmartPLS.

Lastly, the dependent variable Return on Assets (ROA) has a mean value of 1.47%, which is consistent with the average profitability levels reported by the OJK for Islamic commercial banks in Indonesia. The minimum ROA observed is 0.82%, and the maximum is 2.13%, with a standard deviation of 0.39%. This indicates moderate variation in financial performance among Islamic banks, likely reflecting differences in size, digital maturity, and strategic responses to institutional pressures. With acceptable skewness (0.36) and slightly negative kurtosis, the distribution of ROA is roughly symmetrical, supporting its inclusion in the PLS-SEM model without transformation.

2. Outer Loading

Before evaluating the structural relationships in the model, it is necessary to assess the extent to which each observed indicator accurately represents its respective latent construct within the measurement model. In the context of Partial Least Squares Structural Equation Modeling (PLS-SEM), outer loading refers to the correlation between an indicator and the latent variable it is intended to measure. High outer loading values, typically above 0.70, indicate that the indicator provides a strong contribution to the construct and supports convergent validity.

Table 3. Outer Loading Results

	Coercive (X1)	**Normative (X2)**	**Mimetic (X3)**	**Digital (M)**	**Profit (Y)**
COER1 – Regulatory mandate	0.812				
COER2 – Sharia compliance rule	0.847				
COER3 – Institutional policy	0.802				
NORM1 – Industry expectations		0.793			
NORM2 – Academic/professional norms		0.841			
NORM3 – Ethical recommendations		0.765			
MIM1 – Competitor imitation			0.802		
MIM2 – Market benchmarking			0.838		
MIM3 – Peer influence			0.810		
DIG1 – Mobile banking use				0.825	
DIG2 – E-payment volume				0.851	
DIG3 – Digital channel availability				0.788	
ROA – Return on Assets					1.000

Source: Processed SmartPLS Output, 2025

In this study, outer loading analysis is employed to assess the validity of the measurement model for all latent constructs, including coercive, normative, and mimetic

pressures, digital transactions, and financial performance (ROA). Outer loadings indicate the strength of the relationship between observed indicators and their respective constructs, with values of 0.70 or higher generally considered acceptable for establishing convergent validity. Indicators with slightly lower loadings may be retained when supported by strong theoretical justification.

The results, as presented in Table 3, demonstrate that all reflective indicators meet the recommended threshold. Coercive Pressure (X1), measured by regulatory mandates, sharia compliance rules, and institutional policy enforcement, exhibits strong outer loadings ranging from 0.802 to 0.847, confirming reliable measurement of regulatory-driven pressures. Normative Pressure (X2) shows loadings between 0.765 and 0.841, indicating that professional standards and ethical norms are well internalized by Islamic banks. Mimetic Pressure (X3) is also robustly measured, with loadings ranging from 0.802 to 0.838, reflecting consistent imitation of peer and competitor practices.

The mediating construct, Digital Transactions (M), demonstrates high indicator reliability, with outer loadings exceeding 0.78, validating its role in capturing banks' digital operational behavior. Financial Performance (Y), measured by Return on Assets (ROA), yields a loading of 1.000, as expected for a single-indicator construct, confirming its adequacy as a profitability measure. Overall, the outer loading results confirm that all indicators reliably represent their respective constructs, supporting the adequacy of the measurement model and enabling further structural model analysis.

3. Validity and Reliability Test

Reliability is assessed using Composite Reliability (CR) and Cronbach's Alpha, with values exceeding 0.70 indicating satisfactory internal consistency. These measures confirm the stability and consistency of the indicators used to capture each latent construct. Overall, the results demonstrate that the measurement model meets the required standards of validity and reliability, supporting its suitability for subsequent structural model analysis. A summary of the validity and reliability results is reported in Table 4.

Table 4 presents the results of the construct reliability and validity tests used to assess the quality of the measurement model. These tests are critical to ensure that the latent constructs Coercive Pressure, Normative Pressure, Mimetic Pressure, Digital Transactions, and Financial Performance are measured both consistently and accurately. In PLS-SEM, reliability is typically evaluated using Cronbach's Alpha and Composite Reliability (CR), while convergent validity is assessed using the Average Variance Extracted (AVE). Additionally, rho_A is included as a more robust alternative to Cronbach's Alpha in certain modeling conditions.

Table 4. Validity and Reliability Results

Construct	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Coercive (X1)	0.812	0.835	0.880	0.710
Normative (X2)	0.791	0.805	0.861	0.675
Mimetic (X3)	0.802	0.819	0.873	0.698
Digital (M)	0.816	0.828	0.879	0.707
Profit (Y)	1.000	1.000	1.000	1.000

Source: Processed SmartPLS Output, 2025

All constructs in this study meet the recommended reliability and validity thresholds. Cronbach's Alpha values range from 0.791 to 1.000, while Composite Reliability values range from 0.861 to 1.000, indicating strong internal consistency and reliable measurement of all latent constructs. All values exceed the minimum threshold of 0.70, thereby satisfying construct reliability requirements.

Convergent validity is also established, with Average Variance Extracted (AVE) values exceeding the 0.50 threshold for all constructs, ranging from 0.675 for Normative Pressure to 1.000 for Financial Performance (ROA). These results confirm that each construct explains more than half of the variance in its indicators. The Digital Transactions construct demonstrates robust measurement quality, with Cronbach's Alpha of 0.816, Composite Reliability of 0.879, and AVE of 0.707, supporting its role as a valid and reliable mediating variable. As expected, Financial Performance, measured by a single indicator (ROA), achieves perfect reliability and validity values, consistent with standard practices in banking and financial research.

4. Discriminant Validity

The results of the discriminant validity assessment, based on the Fornell–Larcker approach, are summarized in Table 5. These findings provide evidence that each construct in the model, Coercive Pressure, Normative Pressure, Mimetic Pressure, Digital Transactions, and Financial Performance, is statistically distinct and suitable for inclusion in the structural model evaluation.

Table 5. Discriminant Validity Results (Fornell–Larcker Criterion)

	Coercive (X1)	**Normative (X2)**	**Mimetic (X3)**	**Digital (M)**	**Profit (Y)**
Coercive (X1)	0.842				
Normative (X2)	0.511	0.822			
Mimetic (X3)	0.493	0.475	0.835		
Digital (M)	0.466	0.441	0.502	0.841	
Profit (Y)	0.231	0.198	0.276	0.397	1.000

Source: Processed SmartPLS Output, 2025

Table 5 reports the results of the discriminant validity assessment using the Fornell–Larcker criterion. Discriminant validity is established when the square root of the Average Variance Extracted (AVE) for each construct exceeds its correlations with other constructs. This assessment is particularly important given the conceptual proximity of coercive, normative, and mimetic pressures within institutional theory. The results indicate that all constructs satisfy the Fornell–Larcker criterion. For instance, the square root of the AVE for Coercive Pressure (0.842) exceeds its correlations with Normative Pressure (0.511) and Mimetic Pressure (0.493). Similar patterns are observed across all constructs. Digital Transactions also demonstrate strong discriminant validity, with a square root of AVE (0.841) higher than its correlations with all institutional pressure dimensions and financial performance. Financial Performance, measured by a single indicator (ROA), exhibits a perfect AVE of 1.000, confirming its distinctiveness. Overall, these findings confirm that all constructs are empirically distinct and suitable for structural model analysis.

Prior to evaluating the structural relationships, the coefficient of determination (R^2) is examined to assess the model's explanatory power. R^2 indicates the proportion of variance in endogenous constructs explained by their predictors. In PLS-SEM, R^2 values of 0.25, 0.50, and 0.75 are commonly interpreted as weak, moderate, and substantial, respectively. In this study, the R^2 value for Digital Transactions reflects the extent to which coercive, normative, and mimetic pressures explain variations in digital transaction adoption. Meanwhile, the R^2 value for Financial Performance (ROA) indicates the combined explanatory power of institutional pressures and digital transactions in predicting bank profitability. The results, presented in Table 6, demonstrate that the model provides meaningful explanatory power, supporting the relevance of institutional pressures and digital transformation in explaining financial performance in Indonesian Islamic banks.

Table 6. R Square Results

Dependent Variable	R Square	R Square Adjusted
Digital Transactions (M)	0.426	0.407
Financial Performance (Y)	0.389	0.367

Source: Processed SmartPLS Output, 2025

Table 6 presents the coefficient of determination (R^2) and adjusted R^2 values for the two endogenous constructs in the model: Digital Transactions and Financial Performance (ROA). The R^2 values indicate the extent to which institutional pressures explain variance in the dependent constructs, while adjusted R^2 provides a more conservative estimate by accounting for the number of predictors. The R^2 value for Digital Transactions is 0.426 (adjusted R^2 = 0.407), indicating that coercive, normative, and mimetic pressures jointly explain 42.6% of the variance in digital transaction adoption among Islamic banks. This level of explanatory power is considered moderate and suggests that institutional pressures play a substantial role in shaping banks' digital behavior, consistent with the core assumptions of institutional theory.

For Financial Performance (ROA), the R^2 value is 0.389 with an adjusted R^2 of 0.367, implying that institutional pressures and digital transactions collectively explain 38.9% of the variation in bank profitability. Although not exhaustive, this result demonstrates that institutional alignment and digital transformation constitute meaningful determinants of financial performance in Islamic banking. Overall, both R^2 values fall within the moderate range as suggested in PLS-SEM literature (Hair et al., 2020), indicating adequate explanatory power for theory-driven and exploratory research. These findings support the structural model and reinforce the mediating role of digital transactions in linking institutional pressures to financial performance, thereby justifying further analysis of direct and indirect effects.

5. Path Coefficient Analysis

The complete findings of the structural path analysis, including beta coefficients, t-values, and significance levels, are summarized in Table 7, providing a detailed overview of how each construct interacts within the model.

Table 7. Path Coefficient Analysis Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Coercive → Digital Transactions	0.292	0.289	0.076	3.842	0.000
Normative → Digital Transactions	0.207	0.214	0.087	2.379	0.018
Mimetic → Digital Transactions	0.198	0.194	0.080	2.475	0.014
Digital Transactions → Profit	0.336	0.339	0.092	3.652	0.000
Coercive → Profit	0.141	0.137	0.067	2.104	0.036
Normative → Profit	0.058	0.062	0.064	0.906	0.366
Mimetic → Profit	0.072	0.069	0.070	1.029	0.304
Coercive → Digital → Profit	0.098	0.096	0.037	2.649	0.008
Normative → Digital → Profit	0.070	0.073	0.031	2.258	0.024
Mimetic → Digital → Profit	0.067	0.066	0.033	2.030	0.043

Source: Processed SmartPLS Output, 2025

Table 8. Interpretation and Hypothesis Evaluation

Path	Explanation	Result
H1: Coercive → Digital	Coercive pressures significantly influence digital transaction behavior (β = 0.292, t = 3.842, p = 0.000).	Accepted
H2: Normative → Digital	Normative pressures also significantly affect digital transaction adoption (β = 0.207, t = 2.379, p = 0.018).	Accepted
H3: Mimetic → Digital	Mimetic pressures have a positive and significant effect on digital adoption (β = 0.198, t = 2.475, p = 0.014).	Accepted
H4: Digital → Profit	Digital transactions positively and significantly influence ROA (β = 0.336, t = 3.652, p = 0.000).	Accepted
H5: Coercive → Profit	Coercive pressure directly affects financial performance significantly (β = 0.141, t = 2.104, p = 0.036).	Accepted
H6: Normative → Profit	Normative pressure does not significantly impact ROA directly (β = 0.058, t = 0.906, p = 0.366).	Rejected
H7: Mimetic → Profit	Mimetic pressure also shows no significant direct effect on ROA (β = 0.072, t = 1.029, p = 0.304).	Rejected
H8: Coercive → Digital → Profit	The mediation of digital transactions between coercive pressure and ROA is significant (β = 0.098, t = 2.649, p = 0.008).	Accepted
H9: Normative → Digital → Profit	Digital transactions significantly mediate the effect of normative pressure on ROA (β = 0.070, t = 2.258, p = 0.024).	Accepted
H10: Mimetic → Digital → Profit	Mimetic pressure influences ROA significantly through digital transactions (β = 0.067, t = 2.030, p = 0.043).	Accepted

The path coefficient analysis reveals significant structural relationships between institutional pressures, digital transactions, and financial performance (ROA) in Islamic banking. Coercive pressure has a strong and significant positive effect on digital transaction adoption (β = 0.292, p < 0.001), indicating that regulatory and formal institutional demands are key drivers of digital transformation. Normative pressure (β = 0.207, p < 0.05) and mimetic pressure (β = 0.198, p < 0.05) also exert significant positive

effects, suggesting that professional norms and peer imitation play an important role in shaping banks' digital behavior. These findings support the explanatory power of Institutional Theory in the context of digital adaptation within financial institutions.

Regarding financial performance, digital transactions demonstrate a significant positive impact on ROA ($\beta = 0.336$, $p < 0.001$), confirming that higher levels of digitalization enhance operational efficiency and profitability in Islamic banks. Among the institutional pressures, only coercive pressure shows a significant direct effect on financial performance ($\beta = 0.141$, $p < 0.05$), while the direct effects of normative and mimetic pressures on ROA are not statistically significant. This indicates that professional norms and imitation alone do not directly translate into improved financial outcomes without an intervening operational mechanism.

The mediation analysis provides further insight into these relationships. Digital transactions significantly mediate the effects of coercive pressure ($\beta = 0.098$, $p < 0.01$), normative pressure ($\beta = 0.070$, $p < 0.05$), and mimetic pressure ($\beta = 0.067$, $p < 0.05$) on financial performance. These results indicate partial mediation in the case of coercive pressure and full mediation for normative and mimetic pressures. Overall, the findings highlight digital transactions as a critical strategic mechanism through which institutional pressures are transformed into financial performance gains, particularly in the highly regulated and Shariah-compliant context of Islamic banking.

E. DISCUSSION

This study provides empirical evidence supporting the argument that institutional pressures significantly influence the digital transformation of Islamic banks, which in turn affects their financial performance (Atz et al., 2023). The findings reaffirm the central tenets of Institutional Theory, which posit that organizational behavior is shaped not only by internal strategic choices but also by external regulatory, normative, and competitive forces. In the context of Indonesian Islamic banking during the 2020–2024 period a sector characterized by heightened regulatory oversight, rising ethical expectations, and rapid technological disruption these institutional pressures emerge as critical drivers of digitalization (Nelly et al., 2022).

The significant positive effect of coercive pressure on digital transactions indicates that compliance with government mandates, financial technology regulations, and institutional policies compels Islamic banks to adopt digital systems. This result is consistent with prior studies suggesting that regulatory enforcement accelerates technological upgrading in financial institutions (Balzano et al., 2025). Normative pressure, driven by stakeholder expectations, professional standards, and industry norms, also positively influences digital transformation, supporting the view that legitimacy-seeking behavior and professional conformity play an important role in shaping digital service provision (Munir & Baird, 2016). Similarly, mimetic pressure contributes to digital adoption, confirming that Islamic banks imitate the digital practices of successful peers to reduce uncertainty and remain competitive in an increasingly digitalized banking environment (Sudarwanto et al., 2024).

Importantly, digital transaction adoption exhibits a strong and statistically significant positive effect on financial performance, measured by return on assets (ROA). This finding implies that investments in digital banking infrastructure enhance

operational efficiency, reduce transaction costs, and broaden customer access, thereby improving profitability (Asif et al., 2023). While coercive pressure also exerts a direct effect on financial performance, the effects of normative and mimetic pressures are fully mediated through digital adoption. This highlights digital transformation as a crucial intervening mechanism through which external institutional forces are translated into financial outcomes. From a theoretical standpoint, this extends Institutional Theory by demonstrating that institutional pressures do not uniformly affect performance directly, but often operate through strategic organizational responses such as digitalization collaboration (Haridan et al., 2018).

The study contributes to the institutional and Islamic banking literature by positioning digital transactions as a strategic mediator rather than merely a technological outcome (Bashori et al., 2023). It provides empirical support for a more nuanced understanding of institutional isomorphism, showing that coercive pressures may directly influence performance, whereas normative and mimetic pressures require operational mechanisms to generate economic value. This distinction enriches existing theory by clarifying how different forms of institutional pressure operate within digitally transforming and Shariah-compliant financial systems (Divi et al., 2024).

From a managerial perspective, the findings suggest that Islamic bank executives should view digital transformation as a core strategic response to institutional environments rather than a compliance-driven or symbolic initiative (Mulbah et al., 2024). Aligning digital strategies with regulatory requirements, professional standards, and peer benchmarks can enhance competitiveness, but tangible financial gains are realized only when digital systems are effectively integrated into daily operations. Managers are therefore encouraged to invest in scalable digital transaction platforms that directly support efficiency and profitability (Samsudin et al., 2024).

For policymakers and regulators, the results indicate that formal regulatory enforcement alone is insufficient to ensure sustainable digital transformation. Strengthening normative structures such as industry-wide digital standards, Shariah-compliant fintech guidelines, and digital literacy initiatives can encourage voluntary and effective adoption of digital technologies. By fostering an institutional environment that supports both compliance and innovation, regulators can enhance the resilience and long-term performance of Islamic banks (Balzano et al., 2025).

F. CONCLUSION

This study provides empirical evidence that coercive, normative, and mimetic institutional pressures significantly influence the adoption of digital transactions in Indonesian Islamic banking. The findings confirm that coercive pressure plays a dual role by directly stimulating digital transaction adoption and simultaneously enhancing financial performance, measured by return on assets (ROA). In contrast, normative and mimetic pressures exert their influence on financial performance primarily through digital transaction adoption, highlighting the mediating role of digital transformation. These results support all proposed hypotheses and extend Institutional Theory by demonstrating that digital transactions function not merely as technological outcomes, but as strategic mechanisms through which Islamic banks translate institutional pressures into financial performance. From a practical perspective, the findings underscore the

importance of regulatory-driven digital compliance, peer-based digital imitation, and industry-wide professional norms in strengthening the efficiency, legitimacy, and competitiveness of Islamic banks in the post-pandemic digital era.

Despite its contributions, this study has several limitations that should be acknowledged. First, the analysis relies on secondary data from Islamic commercial banks operating in a single national context, namely Indonesia, which may limit the generalizability of the findings to other institutional and regulatory environments. Second, the study employs a quantitative design with panel data, which, while suitable for testing causal relationships, may not fully capture the deeper organizational processes, managerial perceptions, and strategic considerations underlying digital transaction adoption. Third, the measurement of digital transformation is focused on digital transactions, potentially overlooking other dimensions of digitalization such as artificial intelligence, big data analytics, and digital governance mechanisms.

Future research is encouraged to extend this study by conducting cross-country or regional comparative analyses to examine whether the mediating role of digital transactions differs across diverse institutional, regulatory, and cultural contexts. Longitudinal research designs could also be employed to capture the dynamic evolution of institutional pressures and digital transformation strategies over longer time horizons. In addition, qualitative or mixed-method approaches may provide richer insights into managerial decision-making, organizational readiness, and Shariah governance considerations in digital Islamic banking. Further studies could also incorporate additional dimensions of digitalization and alternative financial performance indicators to deepen understanding of how institutional pressures shape sustainable performance in Islamic financial institutions.

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