

# Financial Performance of Islamic Banking: Overview of the Intellectual Capital of Bank Syariah Indonesia

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**Abstract-**This think about points to analyze the impact of mental capital (IC) on budgetary execution at Indonesian Sharia Banks. The theory in this ponder was tried utilizing the variant-based Auxiliary Condition Modeling (SEM) strategy or Fractional Slightest Square (PLS) including a few factors from mental capital (IC) altered for Islamic managing an account to be specific iB-VACA, iB-VAHU, iB- STVA. The comes about of the think about appear that iB-VAIC and iBVACA have an impact on money related execution. Though iB-VAHU has no impact on budgetary execution, and iBSTVA contains a negative impact on budgetary execution.

**Keywords:** Financial Performance; VAIC; VACA; VAHU; STVA

## 1. INTRODUCTION

The travel of sharia managing an account in Indonesia has been exceptionally long, beginning with the foundation of a sharia country bank (BPRS) in 1991 in Bandung and PT. BPRS Heraukat in Nangroe Aceh Darussalam which was started by the Get together Indonesian Ulama (MUI) through a arrangement of workshops on "Bank and Keeping money Intrigued" in Cisarua, Bogor on the 18th- Admirable 20, 1990. After the foundation of the BPRS which was started by the MUI, it afterward created into PT Bank Muamalat Indonesia (BMI) in 1991 and started working in 1992. The development of Islamic managing an account was still moderate in At that time within the period 1992 - 1998 there was as it were one Islamic bank unit (Latumaerissa 2011).

Until presently, the travel of Islamic banks has appeared a quick increment, until December 2020 it was recorded number of Islamic Commercial Banks (Transport) 14 banks, 20 Islamic Commerce Units (UUS) and 163 Islamic People's Financing Banks (BPRS). Of the whole resources possessed by the Islamic keeping money industry summing to Rp. 545.4 trillion. (Administrations Specialist Back, 2021). Indeed so, the challenges of Islamic managing an account are gigantic, in terms of open proficiency Indonesian Muslims almost Islamic banks, the proficiency list of Islamic banks is distant underneath the common keeping money proficiency record of 28.94%. In the interim, the level of Islamic monetary incorporation is no less moo, as it were 8%, exceptionally distant absent compared to the national keeping money consideration record of 63% (Rahman 2018).

This will have an affect on the execution of Islamic banks. Moo proficiency can influence salary or for the comes about of the clients themselves, moo wage too influences Islamic companies or banks to be able to buying settled resources for the purpose of proceeding and proceeding to function a company and create merchandise or a benefit, paying accounts payable and accounts receivable, making collections and keeping up a cash supply companies, invest in arrange to preserve company liquidity (Olivia 2019).

Pointers of a great company can be seen from the money related execution. Budgetary execution may be a arrangement of analyzing exercises to see how distant the company has utilized budgetary usage rules legitimately and accurately. The budgetary execution in address is the movement of making monetary reports that have been comply with appropriate benchmarks (Fahmi 2014). Money related execution concerns viewpoints of raising stores as well as conveyance of stores, as measured by two pointers, to be specific Return On Resources (ROA) and Return On Value (ROE).

ROA may be a proportion utilized to degree a company's capacity through its resources. Whereas ROE is the proportion utilized to degree a company's capacity to generate net benefit for financial specialists. Budgetary execution is additionally a benchmark to evaluate how a company oversees the assets it has. Inquire about from Dandung et al (Dandung, M. E., Amtiran, P. Y., & Ratu 2020) appears the money related execution of banks sharia (from ROA, ROE and LDR) is better than customary banks. Another ponder moreover from (Vivin, Y. A., & Wahono 2017) appears that the financial execution of Islamic banks is additionally better than ordinary banks.

Right now, the world's financial division is encountering changes, this is due to propels in data technology that lead to nonstop advancement development (Wijayani 2017). A worldview move within the unique economy and trade based on labor based business (trade based on labor) towards information based commerce (trade based on information) based on information. In this knowledge-based administration capital ordinary, specifically budgetary assets and physical resources are not as well critical, compared to technology-based capital and information (Wijayanti 2012).

Intellectual capital (IC) may be a unused investigate consider that has received significant consideration from financial analysts, at the side the development of the knowledge-based economy. (Stähle, P., Stähle, S., & Aho 2011). One of the endeavors made by the company nowadays to appear execution is by creating quality human assets, dependable innovation and great connections with client. These are all components of Intellectual Capital.

Intellectual Capital (IC) got to be celebrated in Indonesia after PSAK No. 19. Agreeing to PSAK 19, Intangible resources are non-monetary resources that can be distinguished and don't have a physical form. PSAK 19 states that intangible resources are recognized in the event that, and as it were in case: 1) the company will get benefits within the future from the resource, and 2) the taken a toll of the resource can be measured dependably. This necessity is troublesome to fulfill, so that the mental capital for that date cannot be detailed within the monetary explanations. This condition makes it troublesome for (imminent) financial specialists to be able to carry out examination and appraisal of the company's prospects within the future based on their mental potential (Ulum 2013).

Troubles in measuring Intellectual capital (IC) specifically make it troublesome to know its nearness within the company. Pulic (1998) in (Ulum, I., Ghozali, I., & Purwanto 2014) says value added (VA) is the foremost objective pointer for assessing business victory and illustrating a company's capacity to make esteem. (esteem creation). VA is gotten from the contrast between yield and input. Where Yield (OUT) depicts income and incorporates all items and administrations sold within the showcase, whereas input (IN) incorporates all costs utilized in getting income. In this case, labor costs are not included within the IN. Subsequently, a key angle of Pulic's strategy is treating labor as a esteem making substance.

Furthermore, Pulic (1998) at that point proposed an circuitous estimation of Intellectual capital (IC) with a degree to evaluate the effectiveness of included esteem as a result of the company's mental capacity, specifically utilizing the Value Added Mental Coefficient (VAIC). Fundamental component of VAIC can be seen from the company's assets, to be specific physical capital (VACA– Esteem Included Capital Utilized), human capital (VAHU– Esteem Included Human Capital), and auxiliary capital (STVA– Auxiliary Capital Esteem Included). (Harianto, N., & Syafruddin 2013).

Intellectual Capital (IC) in Islamic managing an account isn't much distinctive from the Pulic show, the contrast lies within the accounts utilized to develop the VA equation. VA in Pulic's model is developed from add up to wage, while in iB-VAIC, VA in Islamic banking is developed from Islamic exercises. So to see VAIC in Islamic keeping money a altered demonstrate is utilized (Ulum 2013). specifically  $iB\text{-VAIC} = iBVACA + IB\text{-VAHU} + iB\text{-STVA}$ , (iB demonstrates the Islamic Keeping money code).

There are numerous considers on Intellectual capital (IC) in companies and keeping money (particularly Islamic keeping money). Kartika's inquire about (Kartika & Hatane, 2013) found that VAHU has no noteworthy impact on benefit. STVA and VACA impact and have a positive heading of impact on productivity in keeping money companies that are on the Indonesia Stock Trade. Besides, Asmah (Karimah 2016) appears that Intellectual capital (IC) influences the money related execution of Islamic managing an account. (Lipunga 2014)

Based on the above phenomena, analysts are inquisitive about looking at whether Intellectual capital (IC) has an impact on financial performance in Islamic banks. Intellectual capital (IC) is measured utilizing the Pulic (1998) show adjusted for Islamic managing an account. The discoveries from this investigate are expected to be valuable inputs for Islamic banks to oversee their venture in Intellectual capital (IC).

## 2. RESEARCH METHOD

### 2.1. Basic Reasearch Framework

Assets Based Hypothesis which states that the contrast in assets and capabilities of a company with competing companies will give a competitive advantage. The competitive advantage had by the company will make strides the execution of the company itself. Santi et al (Lestari, S. D., Paramu, H., & Sukarno 2018) explored the relationship Intellectual capital proxied by VAIC states that intellectual capital (IC) features a positive impact on the execution of Islamic banks in Indonesia. This ponder too states that final year's intellectual capital (IC) had a positive impact on the execution of Islamic banks in consequent a long time.

Seriously competition between Islamic commercial banks and routine banks, makes Islamic keeping money must make strides techniques in society in advancing Islamic managing an account items and administrations. The greatest challenge is expanding open education almost Islamic keeping money, since indeed though the larger part of Indonesian individuals are Muslim, there's negligible Islamic financial literacy. Islamic bank administration has to mobilize all accessible assets to extend advertise share and execution in arrange to compete with customary banks in Indonesia.

(Deep, R., & Narwal 2014) The improvement of sharia managing an account must be backed by the usage of a knowledge-based administration framework in its operational framework. (Kartika, M., & Hatane 2013) The utilize of science and innovation will empower companies to utilize other assets effectively and financially so that they can give an advantage within the world of Islamic managing an account in Indonesia. (Girma 2017)

The basic framework of the proposed research is the basis of the relationship between the independent (free) variables and the dependent variable. In this research, we will look at the effect of modified intellectual capital (IC) in Islamic banking as an independent variable based on Value Added Capital Employed (iB-VACA), Value Added Human Capital (iB-VAHU) and Structural Capital Value Added (iB-STVA) to financial performance as the dependent variable. To make it easier, you can see in the image below:

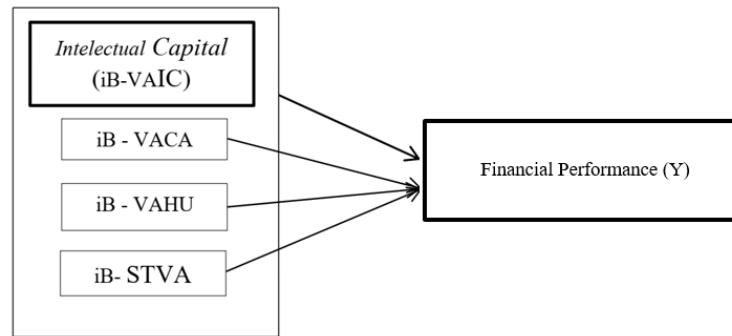


Figure 1. Research Framework

Based on the framework above, it can be concluded that the hypothesis is as follows:

- H1: iB-VAIC has a positive effect on financial performance
- H2: iB-VACA has a positive effect on financial performance
- H3: iB-VAHU has a positive effect on financial performance
- H4: iB-STVA has a positive effect on financial performance

## 2.2 Population and Sample

The population of this study is the annual financial reports from 2013 to 2020 regularly (quarterly) by the Bank. Indonesian Sharia (BSI). In this study the census method was used, meaning that the entire population was used as an object of research.

## 2.3 Research Variables

Variable The dependent variable is financial performance and is independent, namely intellectual capital (IC). intellectual capital (IC) specifically for sharia banking which is named IB-VAIC (Islamic Banking Value Added Intellectual Coefficient). This formulation is a modification of IC performance assessment in general. If the IC assessment is generally only can be used to measure the company, then this IB-VAIC can be used to measure bank performance sharia. There are several indicators to calculate IB-VAIC, namely:

1. IB-VACA (Islamic Banking Value Added Capital Employed). VACA is an indicator used to show the added value (VA) obtained with the amount of equity.

$$IB-VACA = VA/CE \quad (1)$$

Information :

VA : value added

CE : capital employed or available funds (Equity)

2. IB-VAHU (Islamic Banking Value Added Human Capital). VAHU is used to measure added value (VA) generated with funds issued for labor.

$$IB-VAHU = VA/HU \quad (2)$$

Information :

VA : value added

HU: human capital or employee expenses

3. Calculating IB-STVA (Islamic Banking Structural Capital Value Added). STVA is used to measure the number of SC needed to produce one rupiah from IB-VA.

$$IB-STVA = SC/VA \quad (3)$$

Information :

VA : value added

SC : Structural Capital (structural capital) obtained from VA - HU

4. IB-VAIC (Islamic Banking Value Added Intellectual Coefficient). VAIC is an indicator used to assess the intellectual ability of an organization/company.

$$IB-VAIC = VACA + VAHU + STVA \quad (4)$$

## 2.4 Data Analysis Techniques

This research will use the variant-based Structural Equation Modeling (SEM) method or Partial Least Square (PLS) involving several variables such as iB-VACA, iB-VAHU, iB-STVA and financial performance. SEM is a multivariate analysis technique developed to cover the limitations of the previous analysis model.

### 3. RESULTS AND DISCUSSIONS

#### 3.1 Outer Model Test

The measurement model for validity and reliability tests, the model determination coefficient and the path coefficient for equation modeling, can be seen in the following figure:

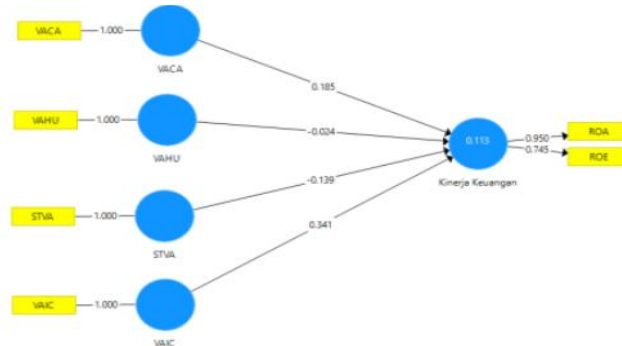


Figure 2. Outer Model Test PLS Algorithm

##### 3.1.1 Convergent Validity

Convergent validity of the measurement model can be seen from the correlation between the indicator scores and the variable scores. An indicator is considered valid if it has an AVE value above 0.5.

Table 1. AVE and Communality

	AVE	Communality
<b>Financial Performance</b>	0,728	0,938
<b>VAIC</b>	1,000	1,000
<b>VACA</b>	1,000	1,000
<b>VAHU</b>	1,000	1,000
<b>STVA</b>	1,000	1,000

Based on testing the measurement model shown in Figure 2 and table, it can be seen that the loading factor and communality are above 0.5 both in financial performance, VAIC, VACA, VAHU and STVA. So it can be concluded that the construct has good convergent validity.

##### 3.1.2 Discriminate Validity

Discriminate validity testing is carried out to prove whether the indicator in a construct will have the largest loading factor in the construct it forms compared to the loading factor with other constructs.

Table 2. Cross Loading

	Financial Performance	VACA	VAHU	STVA	VAIC
<b>VAIC</b>	0,282	0,077	0,703	0,401	1,000
<b>VACA</b>	0,153	1,000	0,290	0,363	0,703
<b>VAHU</b>	0,192	0,290	1,000	0,552	0,703
<b>STVA</b>	0,052	0,363	0,552	1,000	0,401
<b>ROA</b>	0,950	0,155	0,184	0,093	0,319
<b>ROE</b>	0,745	0,095	0,139	-0,095	0,101

Based on the results of the discriminate validity test in table 2 above, it shows that the cross loading value also indicates good discriminate validity, because the correlation value of the indicator to the construct is higher than the correlation value of the indicator to other constructs.

##### 3.1.3 Composite Reliability and Cronbach's Alpha

In addition to the construct validity test, a construct reliability test was also carried out as measured by composite reliability and Cronbach's alpha from the indicator block that measures the construct. The following are the results of composite reliability and cronbach's alpha testing from SmartPLS:

Table 3. Composite reliability and Cronbach's alpha

	Composite Reliability	Cronbach's alpha
<b>Financial Performance</b>	0,841	0,665
<b>VAIC</b>	1,000	1,000

	Composite Reliability	Cronbach's alpha
VACA	1,000	1,000
VAHU	1,000	1,000
STVA	1,000	1,000

The construct is declared reliable if it has a composite reliability value above 0.7 and Cronbach's alpha is 0.7. From the results of the SmartPLS output above, all constructs have a composite reliability value above 0.7 and Cronbach's alpha is 0.7. So it can be concluded that the construct has good reliability.

### 3.2. Inner Model Test

The structural model in PLS is evaluated using R-Square for the dependent variable and the path coefficient value for the independent variable which is then assessed for its significance based on the t-statistic value of each path. The structural model of this research can be seen in the following figure:

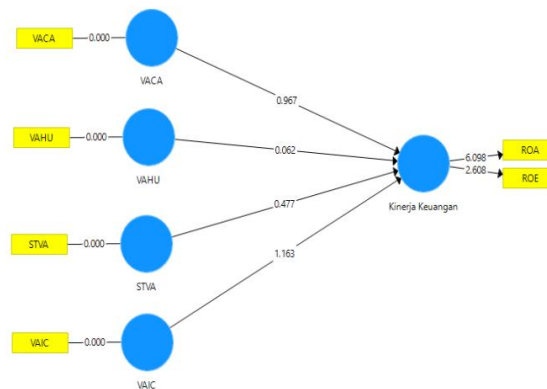


Figure 3. Boothstrapping PLS

To assess the significance of the prediction model in testing the structural model, it can be seen from the t-statistic value between the independent variables and the dependent variable in the Path Coefficient table in the SmartPLS output below:

Table 4. Path Coefficients (Mean, STDEV, T-Statistic)

	Original Sample	Sample Mean	STDEV	T-Statistic
VAIC -> Financial Performance	0,341	0,325	0,305	1,119
VACA -> Financial Performance	0,185	0,201	0,199	0,927
VAHU -> Financial Performance	-0,024	0,087	0,396	0,062
STVA -> Financial Performance	-0,139	-0,086	0,307	0,451

## 4. CONCLUSION

This study provides empirical evidence regarding the effect of Intellectual Capital as measured through iB-VAIC (iBVACA, iB-VAHU and iB-STVA) on financial performance. This study used a sample of 32 respondents, which is the quarterly financial report from Bank Syariah Indonesia from 2013 to 2020. The Value Added Intellectual Coefficient (iB-VAIC) has an effect on financial performance. Where an effective iB-VAIC can increase the value of financial performance. The better the value and use of Intellectual Capital will also increase a company's performance. Value Added Capital Employed (iB-VACA) has an effect on financial performance. This indicates that the relatively large value of the company's equity can increase the company's ability to earn income. In other words, the value of the company's equity contributes to the company's ability to improve the company's financial performance. The company has succeeded in increasing the productivity of its assets, where the total assets are part of intellectual capital which is an intangible asset that has an important role in advancing the company's financial performance. Value Added Human Capital (iB-VAHU) has no effect on financial performance. This makes it possible that Indonesian Sharia Banks tend to use Physical Capital rather than Human Capital. In other words, the capital owned by Bank Syariah Indonesia has more significant influence compared to the value of human capital owned. Structural Capital Value Added (iB-STVA) has a negative effect on financial performance. In this case, the higher the value of the structural capital provided by the company, the lower the level of the company's financial performance. Conversely, the lower the value of structural capital, the lower the value of the company's financial performance is high. This indicates that structural capital has not been able to fulfill the company's routine processes in producing optimal performance without being accompanied by good management such as management of information systems, procedures, databases which will hinder productivity in generating added value.

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