

CHAPTER I

INTRODUCTION

A. Background

Islamic bank is a representative of Muslim community needs in the financial sector in accordance with the concept of *maslahat*. Furthermore, Islamic bank can be described literally as bank in its activities, both in terms of fund raising and in the context of distributing grants and assignments based on Islamic principles (Hamid and Rodoni, 2007). The development of Islamic finance industry has informally begun before the issuance of formal law as the basis of Islamic banking operation in Indonesia. Islamic finance in Indonesia has evolved since Bank Muamalat Indonesia was operates as the first bank in Indonesia was established on November 1 1991. Bank Muamalat is capable of combating economic crisis in 1998 and it distorting from loss to profit. While the monetary crisis happened, Bank Muamalat was able to survive with an insignificant profit (Apriyanti, 2017).

The development of Islamic bank in Indonesia develops very rapidly after The Act of RI No. 21 2008 about Islamic banks was issued. The development can be seen from the total number of banks and offices of the BUS, UUS, and BPRS. Based on Financial Services Authority (OJK) data in 2019 the development of Islamic banks in Indonesia has reached 14 banks, the number of Islamic Window (Unit Usaha Syariah) was 20 banks, and the number of BPR Sharia was 165 banks.

Along with the economic change and the growing number of financial institutions that develops, the foundation of business growth is changing from manpower into a business based on knowledge. Therefore, the Islamic institutions will create a way to manage knowledge to improve the company's performance or known as intellectual capital.

Referring to Ulum (2009), in Indonesia, intellectual phenomenon develops after the advent of PSAK no. 19 regarding intangible assets. Even though it is not explicitly stated as intellectual capital, but it has become a

serious concern in which intangible assets are Non - monetary assets identified without any physical form. In paragraph nine of PSAK no. 19 about intangible assets consist of knowledge, technology, licenses, intellectual property rights, implications of new system, knowledge of markets and trademarks.

Now, in the era of globalization, intellectual capital is one of the most important part in a company's success (Razael, 2014). Hence, companies have to set a renewal step by thinking globally and acting locally. In the development of industry 4.0 with many sophisticated technological innovations, it is beneficially able to accelerate all activities without any limitations and achieve significant debt. Thus, it can make the competition in the business world more competitive. Therefore, the higher of intangible asset can make a company more aware of the importance of intellectual capital to be applied in the company. This is in accordance with Q.S. Al - Mujaddilah verse 11, that are:



"O who you believed, when you are told, space yourselves in assemblies, then make space, Allah will make space for you. And when you

are told arise, then arise. Allah will raise those who have believed among you and those who were given knowledge, by degrees. And Allah is Acquainted with what you do.” (Al – Mujadalah:11)

The company's development is controlled by knowledge and technology that contains information to raise attention on intellectual capital. This effort is then utilized by the company to achieve all the objectives planned beforehand.

Undeniably, the Intellectual capital is important for sustainable business. in which rapid environmental can change by evolving innovations, information, and technologies that can improve the global competition. Companies need intellectual capital to achieve its main purposes which is the success of the company can be measured by the company's financial performance. The company has the main goal that is to gain profit, resulting in financial performance used as a benchmark in the success of a company. Thus, when company or financial institution has a good intellectual capital, it will able to improve company's performance. As a result, financial performance will be organized.

In general, financial performance in conventional and Islamic banks can be measured using return of profitability, such as return on asset, return on equity, return on investment, etc. Based on previous research by Siswanti *et.al* (2017), she stated that financial performance can be measured by using profit sharing system (PSR). While, research conducted by Khasanah (2016), the measurement of financial performance can be done with zakat performing ratio, equitable distribution ratio, and profit sharing ratio. Return on asset and return on equity can also be used as a tool to measure financial performance, like a research written by Musibah, *et.al* (2017).

The implementation of sustainable business practices can be achieved through the adoption of corporate social responsibility measures. Corporate social responsibility is form of responsibility of company for the development of established economies in the effort to improve the quality of people's lives

and environment. In Islamic perspective corporate social responsibility is not something new. It is often mentioned in Al – Qur’an : 17 verse 35:



“And give full measures when you measure, and weigh with an even balance. That is the best (way) and best in result.” (Al – Israa’:35)

Prior studies prove that the intellectual capital have an effect on sustainable business has been undertaken by Siswanti *et al.*, (2017). While, Setiantio *et al.*, (2016) find that Islamic bank in Malaysia have a better VAICTM scores compare to Indonesia. Its mean that intellectual capital in Indonesia has not developed well, while intellectual capital especially structural capital is not related to Islamic bank performance. Suroso *et al.*, (2017) research results, he indicate that intellectual capital has a positive and significance effect on financial performance and no effect on asset growth. Value Added Intellectual Capital (VAIC) is use as an instrument to measure company intellectual capital performance using physical and financial model. Ousama and Fatima (2015), they stated, that VAIC and the components of intellectual capital have an effect on Islamic banks financial performance. Thus, from the prior study, it can be concluded that Islamic bank is able to use intellectual capital as an indicator in which they can invest more than only get a profit.

Nowadays, financial institutions already reported the existence of intangible assets in the form of intellectual capital, which has contributed in creating competitive advantages which can compete in a very tight business world. On the other hand, in fact, intellectual capital is still not widely known in Indonesia, and tends to use conventional basis in building its business. Therefore, the resulting products is still poor technology. The difficulties in

measuring the intellectual capital will affect the existence of company to be known, especially if it is not balanced with proper financial reporting. Unfortunately, the company's financial reporting merely focuses only in the performance on the company. In fact, there is other information needed to be presented in the financial statements such as company value.

Many researchers just focused on intellectual capital, but they do studies used emerging worlds appear to evaluating the implications of intellectual capital for specific industries. However, in Indonesia, there are rarely researcher discussing intellectual capital and the effect of sustainable business. Therefore, this research will be discussing and focusing on Islamic finance or Islamic banking using Islamic banks in Indonesia as the object Intellectual capital is considered to be important for Islamic bank since it is a service business sector that intellectually intensive as seen in the customer service which relies heavily on human intellectuals. It is also proved by the employee who has a variety of innovations that become an attraction for customers in choosing an Islamic bank. Hence, the existence of Intellectual capital in Islamic bank has benefit to increase customer confidence to the Islamic banks as well.

Indonesia as a country that have Islamic Religion with the total 229,62 million people (BPS, 2019) is highly concerned with the performance of Islamic banks. It is because the capital that invested in Islamic bank is smaller than conventional banks, such as infrastructure that is not competitive and the lack of human resources in the field of Islamic finance either quantitatively or qualitatively, and also low of understanding and public awareness of the concept of Sharia (Apriyanti, 2017).

Therefore, the researcher wants to observe the bank development from banking performance especially on relational capital, human capital, and structural capital. In addition, sustainable business also important for the company to the economic, social, and environmental sectors that can improve the quality of human resources. Thus, the researcher eager to prove that intellectual capital running on Islamic banks is in accordance with Islamic

principles and has been running Islamic banks based on sustainable business criteria.

Based on the explanation and research phenomenon above, the researcher will do the research with entitled **“Sustainable Business of Islamic Banks Through The Intellectual Capital with Financial Performance As The Intervening Variable.”** This research is a development of prior study by Siswanti *et al.*, (2017). The main focus of this research is to obtain the effect of intellectual capital towards sustainable business in which Financial Performance serves as an intervening variable. The difference with previous research is on the intellectual capital and measurement of sustainable business. Moreover, this research also uses all full-fledged Islamic bank in Indonesia, which is different with Siswanti *et al.*, (2017), that she examined the impact of Islamic corporate governance and Islamic financial performance on Islamic social using 3 Islamic banks in Indonesia.

B. Research Objective

The objectives of the study, are as follows:

1. To obtain an empirical evidence of the positive effect of intellectual capital on the sustainable business of Islamic bank
2. To obtain an empirical evidence of the positive effect of intellectual capital on the Financial Performance.
3. To obtain an empirical evidence of indirect influence of intellectual capital through sustainable business which mediated by financial performance.

C. Research Question

From the background above, there are 3 (three) research questions formulated, they are:

1. Does intellectual capital have positive effect influencing sustainable business of Islamic bank?

2. Does intellectual capital have positive effect influencing financial performance of Islamic bank?
3. Does financial performance can mediate intellectual capital through sustainable business in Islamic bank?

D. Significance of the Study

This study is expected to provide benefits to all parties who read it. Those benefits are:

1. Theoretically
 - a. This research is expected to be a reference for subsequent studies related to the topic of this research.
 - b. This research can also offer new insight and information related to the sustainable business of Islamic banking.
2. Practically
 - a. This research can increase knowledge and direct experience of sustainable business of Islamic bank through the intellectual capital with financial performance as an intervening variable.
 - b. This research can provide the importance of intellectual capital in the performance of financial on sustainable business.