

# Analysis of Islamic Intellectual Capital Performance in Islamic Banking Industry: Study in Southeast Asia Countries

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**Abstract:** Currently, the success of company is not determined by how much capital or physical asset owned, but is determined by how much the company's ability to manage existing resources. One of the company's resources now starting to be taken into account is the role of intellectual capital (IC). Intellectual capital is defined as intangible assets that include human resources, customer information, reputation, corporate culture. Basically, Islamic banking has different characteristics with conventional banking. Islamic Banking should comply sharia rules in every activity. In banking sector, intellectual capital is the blood of organizations. Islamic banking has to comply an intellectual capital based on Islamic perspective. This paper aims to analysis Islamic intellectual capital, consisting of human capital, structural capital, and capital employed in Southeast Asia countries and their relationship in the Islamic banking industry.

## 1 INTRODUCTION

Guthrie (2001) noticed that there is the continuing quest to develop better systems for creating, capturing and disseminating knowledge within organizations as traditional accounting systems cannot be used to record and report an accurate value attributable to Intellectual Capital (IC). The concept of IC is also used to reflect the true value of a company. Organizations are motivated to measure their IC to assist with competitive benchmarking exercises and to provide structured information to the capital and labor markets to enhance perceptions of the company. Reporting on IC gains is important in the context of building investor relations and is particularly important for companies listed on the stock exchange. Therefore, managers are looking for the best ways to reflect the value of the IC the companies they manage. Currently the company's success is not only determined by how much capital or physical assets owned, but is determined by how much the company's ability to manage existing resources. One of the company's resources are now starting to be taken into account is the role of intellectual capital (IC) or intellectual capital. As stated by Pike et.al (2002), "When a business organization wants to expand, the key step to do is to increase the value creation of intellectual capacity".

## 2 LITERATUR REVIEW

### 2.1 Resource Based Theory

Resource-Based Theory (RBT) to analyze and interpret organizational resources to understand how organizations achieve sustainable competitive advantage. RBT focuses on the concept of corporate attributes that difficult-to-imitate as a source of superior performance and competitive advantage (Madhani, 2010). RBT pioneered by Penrose (1959) in Astuti (2005), argued that the company's resources are heterogeneous, not homogeneous, available productive services derived from the company about providing resources to the unique character of each company. Resources must meet the criteria in order to provide a competitive advantage and sustainable performance (Madhani, 2010). VRIN criterias are:

Value (V): resource can be valuable when delivering strategic value to the company. Resources provide value if it helps companies to take advantage of market opportunities or assist in reducing the threat of market. There is no advantage of having the resources if it does not add or increase the value of the company;

Rare (R): resources are difficult to find among competitors and become a potential company. Therefore, resources should be rare or unique to offer

competitive advantage. Resources owned by several companies in the market can not provide a competitive advantage, because they can not design and implement a business strategy that is unique compared to other competitors;

Imperfect Imitability (I): resources can be the basis of a sustainable competitive advantage only if the company is not holding these resources can not get them or can not imitate these resources; Non-substitusi (N): non-resource substitution indicates that the resource can not be replaced with other alternative power sources. Here, competitors can not achieve the same performance by replacing the resource with other alternative power sources. Further that according to the RBT, the resources can be generally defined to include assets, organizational processes, firm attributes, information, or knowledge that is controlled by a company which can be used to understand and implement their strategies (Learned, Christensen, Andrews, & Guth, 1969; Daft, 1983, Barney, 1991; Mata et al., 1995).

## 2.2 Stakeholder Theory

Stakeholders in the classic definition of the term (most often cited) is the definition of Freeman and Reed (1983: 91) which states that the stakeholders are: "any identifiable group or individual who can affect the achievement of an organisation's objectives, or is affected by the achievement of an organisation's objectives".

Based on stakeholder theory, organizational management are expected to perform activities that are important to their stakeholders and report back on the activities of the stakeholders. This theory states that all stakeholders have the right to be provided with information about how their activities affect the organization (for example, through pollution, sponsorship, security initiatives, etc.), even when they choose not to use such information, and even when they can not directly play a constructive role in the survival of the organization (Deegan, 2004). Further Deegan (2004) stated that the stakeholder theory emphasizes the accountability of organizations far exceeds the financial or economic performance is simple. This theory states that the organization will choose voluntarily disclose information on environmental performance, social and intellectual, over and above the obligatory request, to meet the real expectations or recognized by stakeholders.

The main purpose of the stakeholder theory is to help corporate managers understand their environment and managing stakeholders more effectively in the presence of the relationships in their

corporate environment. However, the broader objectives of the stakeholder theory is to help corporate managers in increasing the value of the impact of their activities, and minimize losses to the stakeholders. In fact, the whole core of stakeholder theory lies in what happens when corporations and stakeholders carry out their relationships. This theory can be tested in various ways by using a content analysis of the company's financial statements (Guthrie et al., 2006). According to Guthrie et al. (2006), the financial statements is the most efficient way for organizations to communicate with stakeholder groups that are considered to have an interest in controlling certain strategic aspects of the organization. Content analysis for the disclosure of Intellectual Capital can be used to determine whether it actually happened this communication. Does the company respond to the expectations of stakeholders, both real expectations and recognized by stakeholders, by offering Intellectual Capital accounts are not required to be disclosed? This question has gained attention, but a deeper study is needed to produce a conclusive opinion (Guthrie et al., 2006). In the context to explain the relationship VAIC™ with corporate efficiency, stakeholder theory should be viewed from two fields, both ethical (moral) and managerial fields. Ethics argues that all stakeholders have the right to be treated fairly by the organization, and managers should manage the organization for the benefit of all stakeholders (Deegan, 2004). When the manager is able to manage the organization's full potential, particularly in efforts to create value for the company, then it means the manager has met the ethical aspects of this theory. Value creation (value creation) in this context is to utilize the full potential of the company, both employees (human capital), physical assets (physical capital), and structural capital. Good management of the entire potential of this will create added value for the company (in this case called VAIC™) which then can encourage efficiency stakeholder. Company for the benefit of managerial stakeholder theory argues that the strength of stakeholders to influence the management of the corporation should be viewed as a function of levels stakeholders control over the resources needed organization (Watts and Zimmerman, 1986). When the stakeholders attempt to control the resources of the organization, then the orientation is to improve their welfare. Welfare is realized with the high returns generated by the organization. In this context, the concerned stakeholders to influence the management in the process of exploiting the full potential of the organization. Because only with proper management

and maximum over the entire potential of this organization will be able to create value added to then encourage the efficiency of a company which is the orientation of the stakeholders in the management intervened.

### 3 METHODOLOGY

The population is a region consisting of the generation of objects or subjects that have certain qualities and characteristics are determined by the investigator to be studied and then drawn conclusions (Sugiono, 2002:72). The population in this study were all Islamic Banks, namely Bank Muamalat Indonesia, Bank Syariah Mandiri, Bank Mega Syariah, Maybank Malaysia, CIMB Malaysia, Islamic Bank Berhad, Baiduri Bank, Bank Islam Brunei Darussalam, Perbadanan Tabung Amanah Islam Brunei.

The sample is defined as a part or the whole population with a certain method as a part or the whole population as a representative part of the population. The sampling technique used was purposive sampling in order to obtain a sample that is consistent with the objectives of the study. Purposive sampling is a sampling method that is based on several considerations or specific criteria. The criteria as follows:

- a. Firms belonging to the Islamic Banks
- b. Has total assets of the three greatest among Islamic Banks in Indonesia, Malaysia, and Brunei Darussalam.
- c. Published financial reports, statements and reports zakat charity fund published during the year 2009 to 2016.

Selection of the banking sector as an object of research refers to research Firer and William (2003) who calls the banking sector as one (of 4) sector potential. In addition, the banking sector has been on the intellectual aspects, overall, employees in the banking sector is more homogeneous compared with other economic sectors (Kubo and Saka, 2002). Homogeneity is important to ensure that all employees have a level of knowledge that is not very diverse (heterogeneous), so the treatment of the human capital becomes more objective. Treatment of human capital in this case related to salaries, training, career opportunity, and so on.

### 4 RESULTS

Data necessary to perform the calculations of VAIC method came from financial reports for the period 2009 – 2016. The table is shown in Appendix A. Intellectual capital is represented as a hidden wealth of the entity and often is not taken into account into financial reports and accounting system. The existence of intangible assets is recognized by the investors and strongly influences the strategic decisions of companies and their stakeholders. Intellectual capital continues to lack clear guidelines supported by best practices leading to a continuation of the problem.

The VAIC facilitates measurement of intellectual capital and the efficiency of its individual components. VAIC is objective method, because data used are derived directly from the financial reports. Thus, the source of data used, including the financial reports are reliable and verifiable. Despite some constraints, VAIC can be successfully used for statistical analysis. This methodology can be used in both business practice to report intellectual capital and in studies of the correlation between intellectual capital and the business performance of entities.

It should also be noted that VAIC has limitations. How to calculate the value added, as well as the components used to measure human capital by only using the expense of training or the expense of workshop based on both Islamic and non-Islamic rules and knowledge. This can lead to large discrepancies between the results. While it is important for the credibility of comparisons is the profile of the business.

Legitimacy theory is closely linked to stakeholder theory. Legitimacy theory states that organizations are looking for ways on an ongoing basis to ensure they are operating within the limits and norms prevailing in society (Deegan, 2004). According to Deegan (2004), in the perspective of legitimacy theory, a company will voluntarily report their activities if the management considers that this is the expected community. Legitimacy theory relies on the premise that there is a 'social contract' between the company and the communities in which it operates. The social contract is a way to explain the large number of people's expectations about how the organization should carry out its operations. This social expectation is not fixed, but change over time. This requires the company to be responsive to the environment in which they operate (Deegan, 2004).

Organizations can use the disclosure to demonstrate management's attention to social values, or to redirect the attention of the community of the

existence of the negative influence of an organization's activities (Lindblom, 1994 in Guthrie et al., 2006). A number of previous studies assessed the voluntary disclosure of the annual report and looked at the reporting of environmental and social information as the methods used by organizations to respond to public pressure (Guthrie et al., 2006).

Value added in this case is measured by looking at the value added intellectual coefficient (VAIC™). Some research on the analysis of disclosure items / components of Intellectual Capital in the financial statements are also using stakeholder theory as the primary basis (see eg Nielsen et al., 2006; Riahi-Belkaoui, 2003, and Guthrie et al., 2006). While legitimacy theory became the foundation underlying both in this study. In the view of legitimacy theory, companies will be compelled to show its capacitance Intellectual Capital in the financial statements to obtain public legitimacy of its intellectual property. Recognition of public legitimacy becomes important for the company to maintain its existence in the social environment of the company.

The proposed method provides the entities with a flexible means to deal with performance evaluation of Islamic Intellectual Capital in Islamic Banking. It should be noticed that the empirical material used in this paper is short-term. The limitations of the study are: way of estimation of value added, human capital and structural capital. In the last decade, intellectual capital is considered as an asset, but measuring the value and especially reporting the value of this asset is relatively new in practice. At the same time, the important point in Islamic Banking to measure Islamic Intellectual Capital is Temporary Syirkah Fund should be the first and the main consideration, because it plays the unique and differ Islamic Banking from conventional banking. Further studies may include companies not only in Islamic Banking industries but also from another Islamic financial institutions. Moreover, it could be interesting to check more methods and recommend the best methods for different sectors.

Agency theory perspective is used to understand the theory of corporate governance. Jensen and Meckling (1976) describe the agency relationship as a contract under which involve the principal agents to carry out their interests involving the delegation of decision-making by agents. Separation of ownership by the principal to control the agent in an organization tend to cause conflict between the principal agency to agency. Jensen and Meckling (1976), Watts and Zimmerman (1986) stating that the financial statements prepared by the accounting figures are

expected to minimize the conflict between the parties concerned.

What is meant by "whom" is the shareholders, while the "why" is because of the relationship between shareholders and various stakeholders in the company. Previous study of Jensen and Meckling (1976) indicate that the agency is to minimize conflict by increasing managerial ownership in the company and states that the greater the ownership of the management company, the management will tend to strive to improve its performance for the benefit of shareholders and for their own interests.

## 5 CONCLUSION

Currently the company's success is not only determined by how much capital or physical assets owned, but is determined by how much the company's ability to manage existing resources. Resource-Based Theory (RBT) to analyze and interpret organizational resources to understand how organizations achieve sustainable competitive advantage. At the same time, the important point in Islamic banking to measure Islamic Intellectual Capital is Temporary Syirkah Fund should be the first and the main consideration, because it plays the unique and differ Islamic banking from conventional banking. Further studies may include companies not only in Islamic Banking industries but also from another Islamic financial institutions.

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