Does the Risk Profile, Liquidity Ratio, Good Corporate Governance and Intellectual Capital Able to Affect the Financial Performance of Islamic Banks in Indonesia?

Abdurrahman[1], Ahmad Rodoni[2] and Muhammad Yusuf[3]

[1]University Of Esa Unggul
[2]UIN Syarif Hidayatullah
[3]University Of Sahid

Abstract: Financial performance is one consideration for investors in investing in a bank. The decline in financial performance can affect banks in obtaining future earnings. the prospect of a bank is highly dependent on the ability of management in managing risk, the level of liquidity, banking governance, and managing intangible assets. The sample in this study were all Islamic commercial banks operating in Indonesia, the observation period of this study was 2012 to 2016. The variables used were Performance measured through the Return On Asset approach, Risk Profile measured through the Non Performance Financing ratio, Liquidity through Capital Adequacy Ratio ratio approach, Good Corporate Governance through the IPCG index approach, and Intellectual capital through the Value Added Capital Employed approach, Value Added Human Capital, and Structural Capital Value Added. This study uses Multiple Regression as an analytical tool. The results of this study indicate that only the risk profile, level of liquidity and Intellectual capital of Value Added Capital Employed have influence while Good Corporate Governance, Intellectual capital from Value Added Human Capital and Structural Capital Value Added have no influence over financial performance of Islamic Banking in Indonesia.

1 INTRODUCTION

Financial performance is one of the big cnsiderations for investors in investing in a bank. The decline in financial performance can affect banks in obtaining future earnings. the prospect of a bank is highly dependent on the management's ability to manage risk, the level of liquidity, banking governance, and managing intangible assets.

Financial system (financial system) is a collection of institutions. market. provisions of legislation. law / regulations. and ways or techniques where securities (securities) are traded. interest rates are determined and financial services are produced and offered to all corners of the world (A.Rose et.al 2006). Financial experts agree that in the financial system there are seven important main functions, namely the savings function. wealth function. liquidity function. credit function. payment fuction function. risk function and policy function.

Banking systems in Indonesia are the largest part of the financial system. Its role is very strategic and significant in accelerating national economic growth. The interaction between the financial system and the real sector has actually occurred in various business cycles. Although in general the financial system is only a derivation of the real sector but in reality what happens is that both of them influence each other in forming a long-term balance. The development of the financial sector through improving the structure and integration of financial markets within it is certainly expected to be able to increase the acceleration of economic activity in the community and accelerate the turnaround of the national economy.

The need for banks is vital because all activities carried out by the community are always related to money, and money is always related to the world of banking. In Indonesia the majority of the population is Muslims also need banking services. Started in 1992 but only fully operational in 1998 The first Sharia Bank was operational, namely Bank

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Mualamat, Tbk and was followed by 12 other Islamic banks until 2018. The development of sharia-based banks indicated that the Islamic economy had developed in Indonesia Falikhatun and Assegaf, 2012).

The banking business is a business of trust, where banks must have very much Human Resources, which have a role as intermediaries between those who have excess funds and those who lack funds and institutions that function to facilitate payment flow, as well as the Sharia banking needs to be trusted in carrying out its activities. This can be seen from the 2016 data which states that the market share of Islamic banking is only 5.33% of Indonesia's national banking.

Growth and development of profitability (Return On Asset) from 2011-2016 in Islamic banking in Indonesia tends to fluctuate.
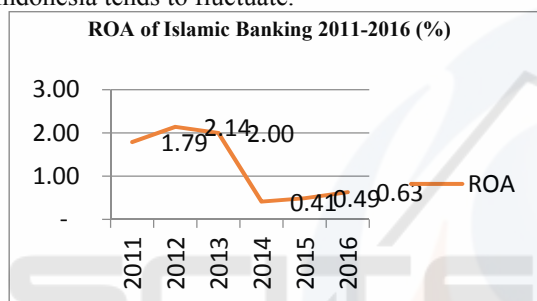

Figure 1: Growth and development

The future and prospects of the organization, especially banking management, are highly dependent on the ability of management to manage risk, manage liquidity, and how management's ability to increase company value. The role and standard of Risk profile, Liquidity level, Good Corporate Governance and Intellectual Capital are very significant in influencing the performance of Islamic banking so it is interesting to be investigated further.

2 THEORICAL FRAMEWORK

The decision making role of the firm has progressed from the neoclassical standpoint of profit maximization to sales maximization, utility maximization, and satisficing. From the Operation Research point of view. The ideal picture is that someone, presumable the firm that hires the operations researcher, hands him, on a silver platter, an objective function. By talking to the engineers, or by looking into a few scientific laws, he determines the policy alternatives available and also the model. (Arrow, 1984).

Resource Based Theory (RBT)

Resource Based Theory is a theory that illustrates that a company can increase its competitive advantage by developing resources so that it can direct the company to survive in the long term. The key to the RBT approach is the strategy of understanding the relationship between resources, capabilities, competitive advantage, and profitability in particular to be able to understand the mechanism by maintaining competitive advantage over time. This model requires the use of unique characteristics of the company.

This theory was first put forward by Wernerfelt (1984) in his work entitled "A Resource-based view of the firm". But much of the reference research is articles by Barney (1991) "Firm Resource and Sustained Competitive Advantage". Firm resource explained helps companies improve the efficiency and effectiveness of the company's operations. Furthermore, competitive competitiveness can be understood by instilling an understanding that the company consists of heterogeneous and immovable elements. Steps to maximize competitive advantage, companies must meet four criteria, namely valuable, awareness, inimitability and non-substitutability.

Risk Profile

The bank's risk profile is a description of the main risks that exist in bank activities. Banks in running a business contain a variety of risks. The risk profile is a summary that provides an overview for risk management what needs attention.

The risk profile is measured by identifying the inherent risks in various business activities, or the risks inherent in bank activities, and evaluating the quality of controls, and the plan to improve quality control.

Bank Indonesia makes the risk category consisting of credit risk, market risk, liquidity risk, operational risk, compliance risk, strategic risk, reputation risk and legal risk. For the eight risks, it can be determined what risks need to be prioritized by management's attention to be managed properly, because they are seen as potentially harming the bank. (Bank Indonesia Regulation Number: 13/1 / PBI / 2011)

Liquidity Level

The term liquidity is basically a term absorbed from English, namely the word liquid which means liquid. This term usually indicates the level of liquidity of funds or wealth owned by a company organization.

According to KBBI (Indonesian dictionary) itself, the definition of liquidity is the position of

money or cash of a company and its ability to fulfill obligations that are due on time; ability to fulfill obligations to pay debts on time.

The company's liquidity level is usually indicated in the form of certain numbers such as fast ratio numbers, current ratio numbers, and cash ratio figures. The whole number in these three ratios is a comparison between the level of current assets and the amount of liabilities held by the company.

Good Corporate Governance

Good Corporate Governance (GCG) is the principle that directs and controls the company in order to achieve a balance between the strength and authority of the company in providing its accountability to the shareholders in particular, and stakeholders in general. Of course this is intended to regulate the authority of Directors, managers, shareholders and other parties related to the development of companies in certain environments.

The Center for European Policy Studies (CEPS) has another formula. GCG, said the center of study, is an entire system formed from rights, processes, and controls, both within and outside the management of the company. For the record, rights here are the rights of all stakeholders, not limited to shareholders only. Rights are the various strengths that individual stakeholders have to influence management. The process, meaning the mechanism of these rights. Control is a mechanism that allows stakeholders to receive the information needed about various company activities.

Meanwhile, ADB (Asian Development Bank) explained that GCG contains four main values, namely: accountability, transparency, predictability and participation. Another understanding came from the Finance Committee on Corporate Governance in Malaysia. According to the agency, GCG is a process and structure used to direct and manage the business and business of the company towards increasing business growth and corporate accountability. The ultimate goal is to increase the value of shares in the long term but still pay attention to the various interests of other stakeholders.

Intellectual Capital

In There are many corporate valuation methods. Nevertheless, studies find contradictory results, and the corporate finance community is not even close to a universal methodology of company valuation. Different methods have different advantages in different situations, and some capture important aspects of valuing a business, which are not

recognized by others. Traditional company valuation methods pay more attention to either historical figures (based on the balance sheet, income or cash flow statement) or inexact forecasting [for example, free cash flow and weighted average cost of capital (WACC) for subsequent periods]. These methods are mostly taking into consideration the physical assets of the company, while in the knowledge-based economy more emphasis is put on employees and intellectual capital. Therefore, afore mentioned corporate valuation methods are not suitable in today's world.

Intellectual capital has been recognized as knowledge applied to practice, reflecting organizations ability to perform and not just calculating the value of knowledge in financial terms. The application of knowledge in innovation and agility to succeed in business is what differentiates today's organizations, i.e., the distinctive capacity of these organizations is their 'knowledge in action' (Davenport and Prusak, 1998). For this knowledge to be reflected, organizations should disclose an IC report showing the transactions on knowledge, as the annexto financial statements reflects the transactions within the accounting system (Mouritsen, 2006).

We live in an economy where dematerialization of production, and information and communication echnologies, especially the internet, have a leading role, creating a network economy with intensive use of knowledge and innovation in the production of goods and services. Knowledge is then the main factor of production and competitive pressures have made innovation the key factor for businesses survival. The type of IC disclosure is valuable information for investors, as it can help them reducing the uncertainly of the bank's future prospect and facilitate in valuing the bank. Table 1 provides the main contributions of some of the IC disclosure models available in the literature.

3 RESULT METHODS

This study examines the level of influence of Independent variables (X) in this case are Non Performance Finance (NPF), Capital Adequacy Ratio (CAR), Good Corporate Governance (GCG) and Intellectual Capital (Value Added Capital Employed-VACA, Value Added Human Capital-VAHU, and Structural Capital Value Added-STVA) on the dependent variable (Y) in this case is Return On Assets (ROA). The design of this study is causality. The type of data used is quantitative data

data in the form of numbers that have been processed from the financial statements of Islamic banks sourced from the site www.bi.go.id and www.ojk.go.id.

The research population is Islamic banking registered at Bank Indonesia for the period from 2012 to 2016. The samples in this study were 11 (eleven) Islamic banks in Indonesia. The operational definitions in this study are as follows:

Table 1: Operating Variable

Variable	Formula	Scale
Return on Asset (ROA)	ROA = Earning Before Tax x 100% Total Credit	%
Risk Profile (NPF)	NPF = Problem Credit x 100% Total Credit	%
Good Corporate Governance (GCG)	IPCG = Item scor disclosure x 100% Maximum scor	%
Capital Adequacy Ratio (CAR)	CAR = Capital x 100% ATMR	%
Intellectual Capital (VAIC)	VACA = Value Added x 100% Capital Employed	%
	VAHU = Value Added x 100% Human Capital	%
	STVA = Structural Capital x 100% Value Added	%

The data analysis technique in this study uses multiple linear regression techniques using statistical software. The following is the data technique used in this study, namely: 1). Descriptive statistics are used to give an overview of variables and data seen from the mean, standard deviation, maximum, minimum, variance and so on. 2). Classical Assumption Test which includes normality test, multicollinearity, autocorrelation and heteroscedasticity. and 3). Hypothesis Test consists of F Test and t Test 4) Determinant Coefficient Test.

4 ANALYSIS

This study shows the results in the form of descriptive statistics, the results of testing the quality of data and the results of statistical tests for hypotheses that are suitable or not in accordance with the theory used by researchers in this study

Descriptive statistics
Descriptive statistics provide an overview of research data in the form of Non-performance Financing (NPF), Good Corporate Governance (GCG), Capital Adequacy Ratio (CAR), Intellectual Capital (Value Added Capital Employed-VACA, Value Added Human Capital-VAHU, and Structural Capital Value Added-STVA) and Return On Assets (ROA). As stated in table 1. The following descriptive statistics:

Table 2: Deskriptive Statistics

Descriptive Statistics					
	N	Min	Max	Mean	S. Deviation
NPF	55	.10	13.00	4.5864	7.32093
GCG	55	11.63	77.91	48.3721	17.06835
CAR	55	7.91	89.16	23.9973	17.57944
VACA	55	-.48	.92	.2376	.22478
VAHU	55	-12.52	4.24	1.1425	2.22429
STVA	55	-5.90	3.07	.2091	1.12440
ROA	55	-5.57	4.31	.5566	1.35334
Valid N (listwise)	55				

Based on table 2 that this study has 55 sample data. The variables discussed are as follows: NPF shows an average of 4.5864%, which means that Islamic banking has a risk that is close to the maximum value set by Bank Indonesia which is 5% so that it can be said that Islamic banking still has high risk, GCG shows an average amounting to 48.37% which means that Islamic banking is still not serious in implementing GCG, CAR shows an average of 23.99%, which means that Islamic banking has a good level of liquidity, while Intellectual Capital including VACA shows an average of 0.2376 or 23.76% meaning that the ownership of a sharia banking company has a pretty good added value, VAHU shows 1.1425 or 114.25%, which means that Islamic banking gets a considerable value added from employees, and STVA shows an average of 0.2091 or 20.91% which means that structural capital has a contribution for value added banking sharia and ROA show an average of 0.5566 or 55.66%, which means that Islamic banking has a performance that can be said to be good because it is able to manage its assets well in earning profits.

F Test
The F test is used to determine the extent to which the independent variables are able to explain together the dependent variable.

Table 3: F Test Output

ANOVA[a]

	Sum of Squares	df	Mean Square	F	Sig.
Regression	70.808	6	11.801	20.163	.000[b]
Residual	28.095	48	.585		
Total	98.903	54			

Based on the table above shows a significant value of 0.000 <0.05. meaning independent variables are able to influence together Dependent Variables. It can be concluded that the variables are Non-performance Financing (NPF), Good Corporate Governance (GCG), Capital Adequacy Ratio (CAR), Intellectual Capital (Value Added Capital Employed-VACA, Value Added Human Capital VAHU, and Structural Capital Value Added-STVA) able to explain together the ROA variable.

t Test

This test is used to find out whether the regression coefficient has a partial or significant influence between the independent variable (X) on the dependent variable (Y)

Table 4: t Test Output

Coefficients[a]

	Unstandardized Coefficients		Standar-dized Coeffi-cients			Collinearit Statistics	
	B	Std. Error	Beta	t	Sig.	Tol	VIF
(Constant)	-.881	.420		-2.100	.041		
NPF	-.130	.049	-.239	-2.679	.010	.741	1.350
GCG	-.000	.006	-.006	-.073	.942	.887	1.127
CAR	.031	.007	.404	4.340	.000	.684	1.462
VACA	4.582	.694	.761	6.599	.000	.445	2.247
VAHU	.065	.060	-.107	1.090	.281	.611	1.637
STVA	-.074	.097	-.061	-.760	.451	.908	1.101

a. Dependent Variable: ROA

Based on the table above it can be concluded that NPF is able to influence ROA, GCG is not able to influence ROA, CAR is able to influence ROA, VACA is able to influence ROA, VAHU is unable to influence ROA, and STVA is unable to influence ROA

Determinant Coefficient Test

The coefficient of determination is used to find the contribution of the independent variable (X) to the dependent variable (Y)

Table 5: Determinant Coefficient Test Output

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.846[a]	.716	.680	.76506	2.192

a. Predictors: (Constant), STVA, VACA, GCG, CAR, VAHU, NPF
5. Dependent Variable: ROA

Based on table 5 shows that the number of coefficients (R) is 0.846 which indicates that the relationship between the independent variable and the dependent variable is strong because it has R> 0.5. The R^2 value is 0.716, indicating that 71.6% of the dependent variable variation (ROA) can be explained by variations in the independent variables (NPF, CAR, GCG, VACA, VAHU, and STVA) in this study. While the remaining 28.4% is explained by other variables outside the model.

5 RESULT

The results of this study indicate that basically a sharia banking company is one company that is categorized as an industry that has so many provisions in its operational management that are not immune from risk management, capital adequacy, good corporate governance, and management of intangible assets.

However, in this study it can be explained that only risk management, capital adequacy and the management of intangible assets of value added capital employed have an influence on the performance of Islamic banking.

Risk management is important in banking performance given that Islamic banking is a company engaged in services. Whereas the level of liquidity is an absolute provision for a bank to operate in Indonesia, and Intellectual Capital in Value Added Capital Employed (VACA) is important because in VACA it consists of physical capital and financial assets. This means that Islamic banking companies must be efficient in running the company by optimally utilizing existing assets.

6 CONCLUSIONS

This study concludes as follows: where the research model is feasible because the independent variables in this study jointly influence the performance of Islamic banking. while the results of the partial test found that only NPF, CAR and Intellectual Capital in VACA were able to influence the Performance of Islamic Banking while GCG, Intellectual Capital in VAHU and STVA were not strong enough to influence the performance of Islamic banking. the relationship between independent variables and the dependent variable is quite high and the contribution of independent variables in explaining the dependent variable is also quite high.

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