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**DOI:** [10.22219/jrak.v10i1.10628](https://doi.org/10.22219/jrak.v10i1.10628)

**Citation:**

Nurmawati, B.A., Rahman & Baridwan. (2020). The Moderating Role of Intellectual Capital On The Relationship Between Non Profit Sharing Financing, Profit Sharing Financing and Credit Risk to Financial Performance Of Islamic Bank. *Jurnal Reviu Akuntansi dan Keuangan*, 10(1), 38-52.

**Article Process**

**Submitted:**

December 16, 2019

**Reviewed:**

January 7, 2020

**Revised:**

March 25, 2020

**Accepted:**

April 6, 2020

**Published:**

April 13, 2020

**Office:**

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Indonesia

P-ISSN: 2615-2223

E-ISSN: 2088-0685

Article Type: Research Paper

## The Moderating Role of Intellectual Capital On The Relationship Between Non Profit Sharing Financing, Profit Sharing Financing and Credit Risk to Financial Performance Of Islamic Bank

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### ABSTRACT

The purpose of this study is to provide empirical evidence of the effect of non profit sharing finance, profit sharing finance and credit risk on financial performance with the integration of intellectual capital as a moderating variable. The population is all Islamic banking registered in OJK for the period 2015-2018 with a total of 192 observations. These are analyzed using hierarchical regression techniques, multiple linear regression tests and moderated regression analysis (MRA) tests, with e-views 9 software. The results show that non profit sharing financing, profit sharing financing and intellectual capital have a positive and significant effect to financial performance on Islamic banking. While credit risk has a significant negative effect to financial performance of Islamic banking. Furthermore showed that intellectual capital significantly moderates the relationship of non profit sharing finance and profit sharing finance to financial performance Islamic banks. However intellectual capital can't be moderates the relationship of credit risk and financial performance.

**KEYWORDS:** Financing; Credit Risk; Intellectual Capital.

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## INTRODUCTION

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Having a banking and financial system that is universal, truthful, fair, free of interest, free of fraud, ethical and appropriate for financial markets is very important especially for developing countries. This banking system corresponds to Islamic banking. Islamic banking and finance will have a bright future if the research and development are carried out continuously to fulfill the needs and prosperity of the community, because it has everything (Setyawati et al., 2015) . In Indonesia, Islamic-based banking began in 1992 with the establishment of Bank Muamalat Indonesia.

Measurement of financial performance has been widely used in various scientific studies, this shows a lot of thoughts about financial performance, where the financial performance indicates the company's condition. One of the methods that can be used in measuring financial performance is to use financial ratio analysis, this method can help business people, the government and other users of financial statements in assessing financial condition and banking performance (Hutagalung et al., 2013) . The improvement of financial performance of Islamic banking in Indonesia is affected by several factors including financing, credit risk and intellectual capital.

Islamic bank financing products are being the focus in several studies. Considering that the *core product* of Islamic banks is syirkah products (musyarakah and mudharabah), but in reality this type of product has a small portfolio. This is evident in some Islamic banks distribution of profit sharing contracts to reach a minimum value of zero percent of the total financing that is distributed. So it is very important to provide empirical evidence about how the impact of these two financing on Islamic financial performance. In addition, the discussion about credit risk (NPF) is considered very important to study. Greuning & Zamir (2009) which states that credit risk is the main cause of bank failure. If you look at the NPF level of Islamic banking, it was stated still high at the beginning of 2018 in January and in February reached 5.21%. In line with statistical data from the OJK cash media in early June also stated that the NPF value of Islamic banking is still higher if compared to conventional banking NPL.

This study uses the proxy of intellectual capital as a measure of intangible resources that owned by the company as a moderating variable. The intellectual capital in previous research has shown empirical evidence that is capable in affecting a company's financial performance. So for now the company realizes the importance of intangible assets that consist of innovation, information systems, organizational management and human resources. Mavridis (2004) states that human "genius" is a valuable ability and a powerful booster for transformation. So that makes the company be able to innovate and compete. But there is no research that uses intellectual capital as a moderating variable in the relationship between the effect of non profit sharing financing, profit sharing financing and credit risk. So it is considered important to conduct research considering the role of intellectual capital which is currently one of the factors that improving financial performance.

Agency theory is a theory that explains the relationship between principal and agent where the principal delegates authority to the agent in terms of business management as well as decision making in the company (Jensen & Meckling, 1976). In the conventional paradigm, mudharabah contracts are included in agency relationships. Agency relationship is the process of delegating authority by company owners to management to manage and take various company policies (Maharani, 2008). Various problems occur in these relationships,

among others, the costs incurred in the agency relationship and various important implications for the selection of accounting methods.

Based on the agency theory of Jensen and Mackling, the problem that occurs in a mudharabah agreement is when the interests of the mudharib (agent) conflict with shahib al-maal (principal). Mudharib ignores contractual relations and acts not in the interests of shahib al-maal. Shahib al-Maal was not permitted to interfere in managing the business, so mudharib had very large private information and opened a large gap for information asymmetry (Maharani, 2008).

The resource-based view of the company states that the company achieves sustainable comparative advantage and earns superior profits by owning or controlling tangible and intangible strategic assets. The stakeholder view recommends that a measure of financial performance that is better than accounting profit is the total wealth created or net added value (Riahi-Belkaoui, 2003). According to Barney, there are three types of company resources namely physical capital resources including technology used in the company, human resources including training, experience, judgment, intelligence, relationships, and insight into individual managers and workers in a company, and organizational capital resources one of them is the company's formal reporting.

According to resource theory that the company will obtain competitive advantage and superior performance through the acquisition, acquisition and use of strategic assets that are important for competitive advantage and superior financial performance (Wernerfelt, 1984). The main purpose of this theory is to assist management in understanding the company's resources in improving company performance through its advantages. Resources in this theory are assumed to be very heterogeneous (Barney, 1991).

By having intellectual capital, it means that specialized and valuable knowledge is owned by the company. Intellectual qualification as a strategic asset lies in the very potential relationship between intellectual capital and *firm performance* (Riahi-Belkaoui, 2003). Related to the relationship of intellectual capital with financial performance, *resource based theory* emphasizes the use of all company resources both tangible and intangible to create a company's competitive advantage by owning, controlling and utilizing important strategic assets.

The focus of this research is to improve banking performance, namely by maximizing financing that provided to customers, reducing problematic financing and maximizing the resources (intellectual capital) that owned by banks. First, the amount of financing that provided to customers is closely related to the risk of problem financing. This corresponds to the mechanism in an attempt to reduce *agency problems*. Particularly in profit sharing agreements, in mudharabah contracts where management is carried out by mudharib (*agent*) because the work is both the right and mudharib obligation to be able to realize profits. Thus, it is not permissible and illegitimate for shahibul mal to require that he has management rights because it is contrary to mudharib rights (Muhammad, 2008). Mudharabah contract is a contract between the owner of capital and management that is separated between the both sides. If related to Jensen's and Meckling's *positive agency* approach, there are similarities. The analysis that presented by Jensen and Meckling, states that agency problems will arise in companies that are separate from ownership and (Muhammad, 2008). According to *agency theory*, there is an assumption that *agents* do not always do what is best for the interests of the *principals*. The relationship between *agents* and *principals* is not always the same, so conflicts often occur between *agents* and *principals*. This is triggered by differences in interests and the differences

about information that held. The *agent* has more information about the business that is being carried out than the *principals* .

*Resource based theory* and *agency theory* on the other hand have close links to improve performance (Baihaqi, 2016) . The intellectual capital as a company resource can maximize the improvements of the performance. In this case intellectual capital consists of the ability, knowledge and experience of managers and employees in funding distribution, through a good *screening* mechanism that is expected to reduce *agency* problems in financing distribution and be able to reduce the level of problematic financing.

### Research Hypothesis

Non profit sharing financing is one of the ways that taken by banks in order to distribute funds to the public. Products from banks based on non profit sharing financing consist of murabahah, salam and istishna (Umam & Utomo, 2016) . Non profit sharing financing with the *mark* up system is considered to be more profitable when compared to the profit sharing system. This is because the benefits of the bank have been known at the beginning of the contract, so that the level of non profit sharing finance will improve the financial performance of Islamic banking. The impact of the level of non profit sharing financing on the financial performance of Islamic banking is proven by Rosly & Zaini's research (2008) which argues that the use of Murabahah financing in the context of Islamic bank investment generates positive profit margins.

Azhar & Nasim (2016), Pertiwi & Suryaningsih (2018), Afif & Mawardi (2014) provide empirical evidence that murabaha financing has a positive effect on profitability, this shows an increase in the amount of non profit sharing financing will affect the profitability proxied by Return on Assets. Based on the description above, the researcher's hypothesis is:

***H<sub>1</sub>***: *Non profit sharing financing has a positive effect on the financial performance of Islamic banks.*

The financing with profit sharing agreements in Islamic banking in Indonesia can be divided into two, mudharabah and musyarakah contract mechanisms. Antonio explained the benefits of the first mudharabah contract, banks will enjoy the increase in revenue sharing when customer profits increase. Second, banks are not obliged to pay profit sharing to funding customers on a regular basis but are adjusted to the income / results of operations of the bank so that the bank will never experience a *negative spread* . Basically, the financing provided by the bank to customers will affect the profitability of the bank. This is because the bank will receive a profit sharing *return* from the business managed by the customer. So that the relationship between mudharabah financing and bank performance is positive.

Research (Sodiq & Chalifah, 2015), (Pratama et al., 2017) provides empirical evidence that Mudharabah has a positive and significant effect on profitability. Based on the description, the researcher's hypothesis is:

***H<sub>2</sub>***: *Profit sharing financing has a positive effect on the financial performance of Islamic banks.*

The risk of financing in Islamic banking is reflected in the value of NPF (non-performing financing). The financing problem in Islamic banks is a loan that has difficulty to be paid off due to the gap or external factors beyond the ability of the debtor (Siamat, 2004) . The greater the value of the NPF, the worse the performance of the Islamic bank. The existence of problematic financing that is reflected in the NPF can result in lost opportunities from the financing provided so that it affects profitability. NPF reflects the

risk of financing, the higher this risk shows the quality of Islamic bank financing is getting worse (MA Harahap, 2016). Thus the relationship between NPF and the performance of Islamic banking is negative. This is proven by the Scouting research (2010) which states that the relationship between financing risk (NPF) to profitability (ROA) has a negative and significant effect. That is, an increase in financing risk (NPF) will cause a decrease in profitability (ROA) and also conversely a decrease in financing risk (NPF) will cause an increase in profitability (ROA). Based on the description above, the researcher's hypothesis is:

***H<sub>3</sub>: NPF has a negative effect on the financial performance of Islamic banks.***

Barney's resource theory (1991) states that companies will achieve sustainable comparative advantage and gain superior profits by owning and controlling strategic assets that consist of tangible assets and intangible assets. The utilization of all company assets, specifically the management of intellectual capital in banking companies, will maximize the performance of the company. This is supported by research by Firer & Mitchell Williams (2003) which places bank as one of the most intensive sectors of intellectual capital. Empirical evidence is also shown from the research of Poh et al. (2018) shows that banks need to focus on three components of intellectual capital in which all three have impact to improve financial performance in the Malaysian banking sector. MC Chen et al (2005) provides empirical evidence that a company's intellectual capital has a positive impact on market value and financial performance, and can be an indicator for future financial performance. Similarly, research conducted by T. Nawaz & Haniffa (2017) provides empirical evidence that there is a positive relationship between VAIC<sup>TM</sup> and accounting performance based on ROA in Islamic banking in 18 countries, thus the higher the value of intellectual capital (VAIC<sup>TM</sup>) the more good financial performance of banks. Based on the description above, the researcher's hypothesis is:

***H<sub>4</sub>: Intellectual capital has a positive effect on the financial performance of Islamic banks.***

Intellectual capital is generally considered as an important strategic asset. Having high intellectual capital means that specialized and valuable knowledge is owned by the company. Qualification of intellectual capital as a strategic asset lies in the very potential relationship between intellectual capital and *firm performance* (Riahi-Belkaoui, 2003). Introducing intellectual capital as a moderating variable is expected to be able to oversee the process of providing financing with the knowledge, skills and experience of employees, which is expected to minimize financing problems, so that the financing that provided to customers will also provide income for the bank. This increase in income will affect the level of financial performance of the Islamic banking. Based on the explanation on the sale and purchase financing system that is strengthened by the company's intellectual capital is expected to be able to improve the company's financial performance. Intellectual capital in this study acts as a moderating variable. So the researcher's hypothesis is as follows:

***H<sub>5</sub>: Intellectual capital strengthens the relationship of non profit sharing finance of the financial performance of Islamic banks.***

The financing with mudhrabah and musharakah contracts at Islamic Banks has a high risk because the rate of return or income to be received between the bank and the customer is uncertain. Islamic banks can only predict the revenue that will be received through collecting information when selecting prospective customers and businesses to be financed (Ardiansyah, 2014). In addition to uncertainty in future revenue revenues, there is also an agency problem with mudharabah when the principals and agents have different

interests. To overcome *adverse selection*, the bank needs to know the characteristics of mudhrib. Through an analysis of the documents submitted by mudhrib, Shahib al-maal was able to obtain some of the information needed to assess the characteristics of mudari. According to J. Chen & Zhu (2004) human resources are the basis of intellectual capital which performs the functions of intellectual capital. *This human capital* will conduct screening for prospective customers and the type of business of the customer to be financed, after the screening process is complete, employees will oversee this financing in the form of business assistance. From the explanation above, the profit sharing agreement which is moderated with intellectual capital, especially human capital, is expected to improve the financial performance of banks. The hypothesis proposed by the researcher is as follows:

*H<sub>6</sub>: Intellectual capital strengthens the profit sharing financing relationship on the financial performance of Islamic banks.*

Referring to resource-based theory, companies can achieve sustainable comparative advantage and gain superior profits by controlling strategic assets, both tangible assets and intangible assets. Based on this resource theory, banks can utilize intangible assets to reduce the level of problematic financing. This can be done by maximizing *human capital*, by providing training to employees, as well as using employee experience in the screening process of prospective customers and the types of businesses that will be financed, are expected to reduce the level of financing problems. This is confirmed by research from M. Nawaz et al. (2019), which examines the role of intellectual capital moderation between the relationship of internal factors in banks and credit risk of Islamic banks in Pakistan, provides empirical evidence that intellectual capital significantly moderates the relationship between bank internal variables and credit risk in Islamic banks in Pakistan. The results of the study explain that with the high value of credit risk in banks in Pakistan, it is suggested that banks must build efficient intellectual capital structures (human capital, structural capital, and capital used) to reduce credit risk so that in the long run it can improve banking performance. Based on the description above the following hypothesis of researchers:

*H<sub>7</sub>: Intellectual capital weakens the NPF relationship to bank financial performance.*

## METHOD

The data in this study are all Islamic banking registered with OJK for the period 2015-2018. The dependent variable in this study is ROA which is calculated by the formula:

$$ROA = \frac{\text{Profit before tax}}{\text{Total assets}}$$

ROA has been widely used in research to measure the level of performance and profitability of companies, such as Ulum (2007), Abusharbeh (2014), Ozkan et al. (2017).

The independent variable in this study is:

### Non Profit Sharing Financing

According to Abusharbeh (2014) the indicator of financing for sale and purchase is calculated using the formula:

$$10.1 \quad PJB = \frac{\text{Total non profit sharing financing (murabaha financing + istishna financing + greetings financing)}}{\text{Total Funding}}$$

**Profit Sharing Funding**

According to Abusharbeh (2014) profit sharing financing indicators are calculated using the formula:

$$PBH = \frac{\text{Total profit sharing financing (mudharabah financing + musyarakah financing)}}{\text{Total Funding}}$$

**Resiko Kredit (NPF)**

According to Circular Letter "Otoritas Jasa Keuangan" Number 34 /SEOJK.03/2015, the NPF ratio calculation is:

$$NPF = \frac{\text{Amount of Problem Funding}}{\text{Total Funding}} \times 100\%$$

**Moderating Variable**

Based on (Ulum, 2009) VAIC<sup>TM</sup> is calculated using the following formulation

$$VAIC^{TM} = HCE + SCE + CEE$$

VAIC<sup>TM</sup> = VA *intellectual coefficient*;

HCE = *human capital efficiency coefficient*;

SCE = *structural capital efficiency coefficient*;

CEE = *capital employed efficiency coefficient*.

$$VAIC^{TM} = HCE + SCE + CEE$$

VA = *value added*

Output = total sales and other revenue

Input = sales expenses and other costs, except employee cost.

$$HCE = VA / HC$$

HCE = Human capital,

HC = *Human Capital*, employee cost

$$SCE = SC / VA$$

SCE = structural capital

SC = VA – HC

$$CEE = VA / CE$$

CEE = physical capital

CE = *Capital Employed*, capital used (book value of assets), in other words the value of bank equity, net income.

**RESULTS AND DISCUSSION**

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The value of R<sup>2</sup> in the regression shows that the ability to explain the free variable of sale and purchase financing, profit sharing, non-performing finance and intellectual capital is 0.567282 or 56.73% of the dependent variable, financial performance (ROA). While the remaining 43.27% is explained by other variables outside the independent variable which are not included in the model.

R-squared	0,57	Mean dependent var	0,23
Adjusted R-squared	0,56	S.D. dependent var	2,69
S.E. of regression	1,79	Sum squared resid	598,40
F-statistic	61,29	Durbin-Watson stat	1,25
Prob(F-statistic)	0,00		

**Table 1.**  
Determinant  
Coefficient  
Test Results  
(R<sup>2</sup>)

Variable	Coefficient	t-Statistic	Prob.
C	-20.19047	-3.208026	0.0016
X1	0.178985	2.827943	0.0052
X2	0.139476	2.173786	0.0310
X3	-0.341702	-8.394972	0.0000
M	2.705775	7.962175	0.0000
X1M	0.200135	3.161475	0.0018
X2M	0.261525	3.355437	0.0010
X3M	-0.001288	-0.078440	0.9376

**Table 2.**  
Hypothesis  
Test

**The Effect of buying and selling financing on the financial performance of Islamic banks**

The test results state that H<sub>1</sub> is accepted, non profit sharing financing has a positive effect on the financial performance of Islamic banks. From these results it can be seen the level of direct impact of profit sharing financing on the financial performance of Islamic banks amounting to 0.18. The data shows that each increase in non profit sharing financing by 1 percent will increase financial performance by 0.18 percent.

The results of this study are consistent with the research (Afif & Mawardi, 2014), (Azhar & Nasim, 2016) who provides empirical evidence that the sale and purchase financing has a positive influence on profitability, this shows an increase in the amount of buying and selling financing will have an effect on increasing profitability proxied by Return on Assets. The higher or greater the financing of the sale and purchase channeled, the financial performance will increase.

Through a sale and purchase agreement, banks have more control over the financing channeled. This can be seen from the contract of sale and purchase system, in which the bank can ensure profits will be received at the beginning of the contract. The bank has determined the amount of profit to be received at the beginning of the contract and the customer knows this, the customer knows the purchase price of the goods and the profit received by the bank. In the sale and purchase agreement, the bank is also not involved in the customer's business activities, so that the financing payment system is independent of the customer's business activities.



### **The effect of profit sharing financing on the financial performance of Islamic banks**

The test results state that  $H_2$  is accepted, it is profit sharing financing has a positive effect on the financial performance of Islamic banks. From these results it can be seen the level of direct impact of profit sharing financing on the financial performance of Islamic banks amounting to 0.14. The data shows that each increase in profit sharing financing by 1 percent will increase financial performance by 0.14 percent.

The results of this study are consistent with the research of Sodiq & Chalifah (2015), Pratama et al. (2017) and Agza & Darwanto (2017) who provide empirical evidence that profit sharing financing has a significant positive effect on profitability. Research by Fatmawati et al. (2016) provides empirical evidence that mudharabah financing has a significant effect on Islamic bank earnings. High income will affect the increase in net profit of Islamic banks. The ease of profit sharing systems and the requirements for obtaining mudharabah financing will affect customers' interest in developing small and medium businesses in Islamic banks. The increase in small and medium enterprises in Islamic banks will bring huge profits to the banks and will increase net profit.

This research corresponds to the opinion of Antonio who explains the benefits of mudharabah contracts. One of them is that the bank will enjoy an increase in profit sharing when the customer's profit increases and the bank is not obliged to pay the profit sharing to the funding customer on a regular basis but is adjusted to the income / results of the bank's business, so the bank will never experience a negative spread. In mudharabah financing the bank will receive a profit sharing return from the business managed by the customer. This profit sharing return will be the bank's income so that it will improve the financial performance of Islamic banks which are proxied by ROA.

### **The impact of *non-performing finance* on the financial performance of Islamic banks**

The test results state that  $H_{23}$  is accepted, it is NPF has a negative effect on the financial performance of Islamic banks. From these results it can be seen the level of direct impact of profit sharing financing on the financial performance of Islamic banks amounting to -0.34. The data shows that each increase in NPF by 1 percent will reduce financial performance by -0.34 percent.

In line with Pramuka (2010) provides empirical evidence that an increase in financing risk (NPF) will cause a decrease in profitability (ROA) and also a decrease in financing risk (NPF) will cause an increase in profitability (ROA). Azizah et al. (2019) provides empirical evidence that the higher the value of *Non Performing Financing* (NPF) will have an impact on decreasing profitability, which means the high value of *Non Performing Financing* (NPF) can have an impact on bank health. The greater the *Non Performing Financing* (NPF), the higher the losses experienced by banks which will result in reduced banking profitability.

This study supports theory agency, Jensen & Meckling's that explains the relationship between principals and agents, where principals delegate authority to agents in terms of business management as well as decision making in the company. The agent who has more information about his business can make decisions in the business. Agency problems that arise from Islamic banking financing are adverse selection and moral hazard.

*Adverse selection and moral hazard are inherent in production sharing contracts as a form of problems with the imbalance of information (asymmetric information) in the relationship between capital owners (sahibul mal / principals) and business actors (mudharib / agents) (RM Harahap, 2016). Nasution & Wiliasih (2007) states that agency problems such*

as *moral hazard* and *adverse selection* result in high NPF (*non-performing financing*). The higher this ratio, shows that the quality of Islamic bank financing is getting worse due to agency problems.

### **The impact of intellectual capital on the financial performance of Islamic banks**

The test results state that  $H_4$  is accepted, it is intellectual capital has a positive effect on the financial performance of Islamic banks. From these results it can be seen the level of direct impact of profit sharing financing on the financial performance of Islamic banks amounting to 2.71. The data shows that each increase in intellectual capital by 1 percent will increase financial performance by 2.71 percent.

This research is in line with Thakur, (2017) who examined the effect of intellectual capital on the financial performance of Indian public and private sector banks, providing empirical evidence that with increasing intellectual capital, bank profitability will also increase. Similarly, research conducted by T. Nawaz & Haniffa (2017) provides empirical evidence that there is a positive relationship between VAIC<sup>TM</sup> and accounting performance based on ROA in Islamic banking in 18 countries, thus the higher the value of intellectual capital the better the performance of banking finance .

The results of this study support the theory of resources which states that the company will achieve sustainable comparative advantage and get maximum profits by owning and controlling strategic assets in the form of tangible assets and intangible assets.

### **Effect of Purchase Financing on Financial Performance of Islamic Banks with Intellectual Capital as a moderating variable.**

The test results stated that  $H_5$  is accepted, that the intellectual capital financing strengthen relationships non profit sharing financing to the financial performance of banks. From the results of these studies it can be seen the level of influence of intellectual capital as a moderating variable able to strengthen the relationship of non profit sharing finance of Islamic financial performance.

The results of this study support from resource theory which states that the company will achieve sustainable comparative advantage and get maximum profit by owning and controlling strategic assets in the form of tangible assets and intangible assets. From the results of this study indicate that the company's intellectual capital is able to provide more benefits to the company's performance. One component of this intellectual capital is human capital, which is the most important element in value creation (N. Bontis, 1998). Thus employee development affects greatly sustainability in achieving banking goals.

The superiority of human resources is reflected in the knowledge, skills, innovation and ability of banking employees to fulfill their duties. Relating to the sale and purchase financing, this is related to the process of providing financing, it is the process of customer screening and assistance after financing is given (return on financing). Adequate knowledge and experience will facilitate the screening stage, so that customers who get financing are customers with low risk of default.

### **The effect of profit sharing financing on the Financial Performance of Islamic Banks with intellectual capital as a moderating variable.**

The test results stated that  $H_6$  is accepted, that the intellectual capital financing strengthen relationships profit sharing financing to the financial performance of banks. From the results of these studies it can be seen the level of influence of intellectual capital as a

moderating variable able to strengthen the relationship of profit sharing finance of Islamic financial performance.

The results of this study support from resource theory which states that the company will achieve sustainable comparative advantage and get maximum profits by owning and controlling strategic assets in the form of tangible assets and intangible assets. With the maximum utilization of intellectual models, Islamic banking will get added value that can improve the financial performance of Islamic banking. One element of intellectual capital is the structural model. Structural capital is a resource that is owned by a company and is not related to humans, but rather the results it creates such as organizational structure, corporate strategy, database (Gondomono et al., 2015). According to Nick Bontis et al., (2000) structural capital can represent competing intelligence capabilities, information systems, policies that have been formed from company systems or company products from time to time. All results that have been created from structural capital have a value far greater than the material value. When viewed from its implementation in Islamic banking, structural capital is related to the company's strategy in attracting customers for the distribution of buying and selling financing and how the strategy is in assisting customers' businesses. This is because buying and selling financing has a high business risk.

#### **The Impact of Non-Performing Finance on the Financial Performance of Islamic Banks with Intellectual Capital as a moderating variable.**

The test results stated that  $H_7$  is rejected, intellectual capital cannot be a moderating variable in the NPF relationship to bank financial performance. From these results it can be seen that the intellectual model is not able to influence the NPF relationship to the financial performance of Islamic banks.

One of the risks in Islamic banking is the existence of financing that is likely to be non-billable. In general, credit is called "the potential loss of valuable assets caused by a possible decrease in the credit worthiness of the counterparty or its inability to fulfill contractual obligations" (M. Nawaz et al., 2019).

The inability of intellectual capital to moderate the NPF relationship to the financial performance of Islamic banking because in this study intellectual capital is calculated by adding up all components of intellectual capital, so it is unknown which elements are able to moderate or which elements are not able to moderate. Sultan (2008) argues that intellectual capital is considered the most important issue. He argues that the lack of skills, knowledge, and inability of the workforce will lead to higher operational and credit risks which hamper the growth potential of Islamic banks. That the lack of human inefficiency in credit assessment, analysis and screening can lead to a decrease in the quality of loans at Islamic banks which in turn leads to accumulation of NPLs that cause credit risk. This supports the collection of research data that shows the negative value of intellectual capital, namely in Maybank Syariah in the 2015, 2016 period successfully showing the value of negative intellectual capital with the highest value of -7.42, which indicates that some banks are still lacking in managing their intellectual capital. This is in line with research by Khairiyansyah & Vehtasvili, (2018), which states that STVA (structural capital) does not significantly affect productivity. Structural capital represents all matters relating to knowledge in the organization, including all that remains after the end of working hours, such as relationships with suppliers, clients, local commodities, government, and shareholders. Structural capital applied to banking companies is still low.

Likewise, the other forming elements of intellectual capital, human capital. In the Khairiyansyah & Vehtasvili study, (2018) VAHU did not have a significant t-statistic

value. This means that the utilization of human resources in banking companies is still lacking, resulting inefficiencies of managing the organization.

## CONCLUSION

This study aims to provide empirical evidence of the effect of buying and selling financing, profit sharing financing, financing risk on the financial performance of Islamic banking with intellectual capital as a moderating variable. The basic theory that used in the agency theory and resource theory. The research data uses all Islamic Commercial Banks registered in the OJK for the period 2015-2018. From the regression test provides empirical evidence that the higher the sale and purchase financing as well as profit sharing financing, the higher the level of Islamic banking financial performance, conversely the higher the value of *non performing finance* will affect on the lower level of financial performance of Islamic banking. By including intellectual capital as a moderating variable, it is able to strengthen the relationship between sale and purchase financing and profit sharing financing to the financial performance of Islamic banking. This supports the theory of resources which states that the company is able to achieve sustainable comparative advantage and get superior profits by owning or controlling strategic assets (tangible assets and intangible assets) that are owned. In addition, this study also provides empirical evidence that intellectual capital is not able to moderate the relationship of *non-performing finance* to Islamic financial performance. The results of this study can be beneficial for management in managing intellectual capital. By maximizing intellectual capital owned, will improve the relationship of financing to financial performance. So that increasing funding will improve financial performance.

For further researchers, in addition to using intellectual capital as a whole, it is also expected to examine the intellectual capital (*human capital, structural capital* and *employed capital*) components to determine the contribution of these components to financial performance and as a moderating variable. In addition, researchers can use other variables such as market risk, asset quality, *corporate governance*, and other factors that can affect financial performance, this is because the variables in this study are only able to explain the financial performance of Islamic banking by 57%, which means there are still many other factors. able to influence the financial performance of Islamic banking.

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