The Seybold REPORT

ISSN 1533-9211

DOI 10.5281/zenodo.6938193

THE ROLE OF ISLAMIC INTELLECTUAL CAPITAL AND FINANCIAL PERFORMANCE ON SUSTAINABILITY BUSINESS ISLAMIC BANKS IN INDONESIA

INDRA SISWANTI[1*], ERNA SOFRIANA IMANINGSIH[2], YUSLIZA MOHD YUSOFF[3] and EMBUN PROWANTA[4]

[1*]Faculty of Economics and Business, Universitas Mercu Buana, Jakarta, Indonesia.
Email: indra.siswanti@mercubuana.ac.id

[2]Faculty of Economics and Business, Universitas Mercu Buana, Jakarta, Indonesia.

[3]Faculty of Economics and Business, Universiti Malaysia Terengganu.

[4]Faculty of Economics and Business, Perbanas Institute, Indonesia.

Abstract

This study aims to develop a model of Islamic intellectual capital and financial performance on the business sustainability of Islamic banks in Indonesia. The model will incorporate Islamic Intellectual Capital (IC), which consists of Human Capital (HC), Structural Capital (SC), and Capital Employed (CE), and Financial Performance. The total population used in this study is 14 (fourteen) Islamic Banks in Indonesia. Furthermore, the criteria for selecting the sample are: Islamic banks that issue financial reports continuously during the 2015-2020 period; Islamic banks that publish annual reports continuously during the 2015-2020 period and Islamic banks that were established before 2015. Based on these criteria, 9 (nine) Islamic banks were selected as research samples. The data used in the form of secondary data obtained from each Islamic bank website that became the sample of the study. Furthermore, the data is processed using Eviews 10. The results of this study state that: human capital (HC) has a significant positive effect on financial performance, structural capital (SC) has a significant positive effect on financial performance, capital employed (CE) has no effect on financial performance, and financial performance has a significant positive effect on sustainable business.

Keywords: Human Capital, Structural Capital, Capital Employed, Financial Performance, Sustainability Business.

1. INTRODUCTION

On September 2021, market share in Islamic banks Indonesia had reached 6.5%. The result depicted the overall market share of Islamic banks Business Unit in Indonesian, such as public banks (14 units), Unit Usaha Syariah (20 units), and Islamic Rural Banks (163 units). Compared to the fiscal year of 2020 where market share reached 6%, it is apparent that the market share experienced slow growth, despite the positive trend. Such figure is comparably low against the Malaysian counterpart that reached market share growth of around 25-30% within the same period. Moreover, the market share figure is substantially lower when compared with the Middle-Eastern region performance, which managed to reach above 60%.

Since Indonesia is a Muslim-majority country, it further highlights such slow market share growth, for which foreign Islamic banks might see such conditions as a lucrative opportunity. There are several factors that may lead to the slow market share growth, such as minimum socialization effort, lack of product innovation and technology development, and also human

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

resource quantity and quality. Additionally, the business sustainability assessment of Islamic banks Indonesia is mostly focused on financial factors due to its relative simplicity to perform. Therefore, the model developed in this study would assess the non-financial aspects that might contribute to the business sustainability, emphasizing the level of adherence to the syariah principles.

Globalization requires companies to pursue innovation measures that could be achieved by thinking globally and acting locally, and technology development on a continuous basis to strengthen a company's competitive advantage. The latter further underlines the importance of Intellectual Capital (IC) that contains three main components: Human Capital (HC), Structural Capital (SC), and Capital Employed (CE).

Siswanti et al. (2017) suggest that intellectual capital is viewed as an integral part of a company to establish value creation and to maintain competitive advantage. Due to its crucial role, Islamic banks have adopted the IC concept into their strategy formulation. Intellectual capital refers to intangible assets that include technology, customer information, brand name, reputation, and corporate culture. Accordingly, in today's business environment, intellectual capital is related to the technological advancement of a company. As such, there is a call to clarify the intellectual capital concept and its respective managerial implications on the banking sector (Rezaei, 2014).

Past studies responded to the call by conducting studies of intellectual capital in the context of banking. For example, De Matos (2020) postulated that the main goal in a knowledge-based economy is to create added value. In doing so, the proper measure of physical capital (i.e., financial funds) and intellectual potential (i.e., represented by employees with all their inherent potential and abilities) are required. In accordance with this, Ulum (2013) conducted a study to develop a measurement of intellectual capital in the context of Islamic banks, which is coined as Islamic intellectual capital. Research on intellectual capital was initially conducted by Ibrahimy& Raman (2019), who examined the effect of intellectual capital on the performance of service industry companies and non-service industries in Malaysia. The study showed that there is a significant effect of structural capital (SC) on business performance. In this regard, intellectual capital is also considered as knowledge and information that are required to create efficient added value in generating a company's wealth (Siswanti et al., 2017). Meanwhile, Dzemyda & Jurgelevicius (2014) revealed the importance off company's intangible assets, where they conceptualized intellectual capital, human capital, and social capital as the dimensions of intangible assets. Subsequently, the study found that social capital is able to change the economic structure of a country and affect the sustainable development of a country. Likewise, Akhtar et al. (2015) also suggest that knowledge and innovation from the IC dimensions have a significant influence in creating sustainable SMEs. Thus, it can be concluded that if human capital is not optimized, it would lead to failure which in the end will disrupt the sustainability of the SME. Similarly, Siswanti, et.al (2017), revealed that IC has a significant effect on sustainable growth (sustainability growth rate). Lastly, the study of Siswanti & Cahaya (2019) is in accordance with previous studies, which stated that IC had an effect on the sustainable business of Islamic banks in Indonesia. However, Hamdan (2016)

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

reported a different result, where capital employed had no effect on the company's sustainable business. Drawing from the discussion, there is a research gap that this study aims to address.

With rapid growth, companies including banking must also be supported by good performance, both in terms of financial and non-financial aspects. Banking performance in general is a description of the achievements achieved by banks in their operations. Through performance, it can be seen how the description of the bank's financial condition in a certain period includes aspects of raising funds and distributing funds. The financial performance of a bank can be accessed from several indicators, the basis of which is the financial report of the bank concerned. One of the indicators is return on assets (ROA). This is used to measure the extent to which the company's ability to generate profits is derived from assets whose funds mostly come from public funds.

Several research results related to the effect of financial performance on sustainable business as the results of the research by Siswanti & Cahaya (2020) stated that financial performance had a significant positive effect on the sustainable business of Islamic banks in Indonesia. Likewise, the results of the research by Siswanti, et.al (2017) state that financial performance has a significant effect on the sustainable business of Islamic banks in Indonesia.

This research needs to be done, considering that there are still very few researchers who research Islamic intellectual capital. Most researchers research on intellectual capital conventionally. There is a research gap from the results of previous studies regarding the influence of intellectual capital on financial performance. The results of the research by Siswanti & Sukoharsono (2019), stated that intellectual capital had a significant positive effect on financial performance, however Ousama, & Fatima (2015), stated different results where intellectual capital had no effect on financial performance.

The purpose of this research is: To examine and analyze the effect of human capital, structural capital, capital employed on the financial performance of Islamic banks, and to examine and analyze the effect of financial performance on sustainability business

2. LITERATURE REVIEW

2.1. Sustainability Business

Companies are expected to maintain their business operations in an indefinite period of time. Sustainable business can be defined as a company's ability to achieve business goals and increase long-term value for shareholders by integrating economic, social, and environmental aspects into its business strategy. Legitimacy theory focuses on the interaction between companies and society. This theory states that the organization is part of the community so that it must pay attention to the social norms of the community and conformity with social norms should increase an organization’s legitimacy (Degaan, et al. 2002).

Elkington (1997) through his book "Cannibal with Forks, the Triple Bottom Line of Twentieth Century Business" developed the Triple Bottom Line (TBL) concept known as the "3P" namely Profit, People and Planet. Elkington provided the view that sustainable companies must pay

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

attention to the "3P" in addition to pursuing profit and the 3P concept is considered the main pillar in building a sustainable business. One of the implementations in the "3P" concept is often realized as Corporate Social Responsibility (CSR). The concept of CSR in Islam is also related to the concept of business ethics in Islam, which entails the concept of human relations with God, humans with other humans, and humans with their environment (Rashidah, et.al. 2016).

People are required to adhere to God's law when running their businesses. Thus, apart from seeking profit as one of the main objectives a company should strive to develop the economic resources of the community which include: good environmental practices, employee safety, charitable contributions, and providing social benefits. This is also in line with the view of the Triple Bottom Line (TBL) concept which states that companies are not only looking for "Profit" in running their business but also must pay attention to the welfare of employees (People). While the Taqwa paradigm guides the role of humans in managing and developing the world in accordance with Islamic law. Thus, harmonization and prosperity that includes moral-spiritual valueswill determine their fate in the world and in the hereafter, and this is done only to seek the pleasure of Allah SWT. This is also in line with the view of the Triple Bottom Line (TBL) concept which states that companies must always maintain the balance of the environment (Planet). In activities in the business world, Islam requires doing justice which is directed to the rights of others, the rights of the social environment, the rights of the universe. Therefore, the balance of nature and social balance must be maintained along with business operations (Pham, 2021).

A business can not only have an influence on its owners, staff, and customers, but also on other aspects such as the environment and society as a whole. Therefore, the business being run is expected to contribute through the implementation of sustainable business. In the business world, sustainable business is a business that has a positive impact, both on the community, the environment, and society as a whole. Meanwhile, sustainable business can be categorized into two, namely the influence of business on the environment and the influence of business on society. Through the implementation of sustainable business in the company's strategy, the company is expected to be able to contribute. So, when a company can carry out its responsibilities well, it means that the business has provided benefits to the community and the environment. A sustainable business will consider economic, social and environmental factors when making decisions. Then, these business people will monitor the impact of their decisions so that they can ensure that the decisions they make are the right ones.

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

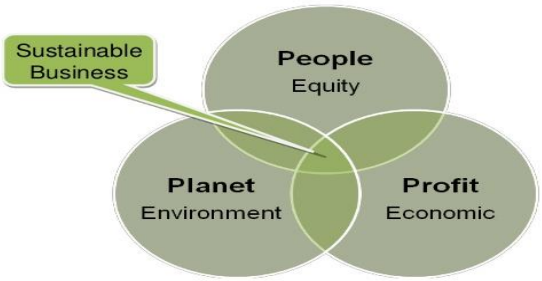

Figure 1: Triple Bottom Line Concept

Companies need to implement sustainability, this is because apart from contributing to the challenges of today, implementing a sustainable business will also affect the company's business success. This is because when the company focuses on sustainable business, indirectly the company has shown a professional attitude and concern for all parties. In addition, the principle of sustainability will also motivate the company to align the company's goals, mission, and values so that all company stakeholders can not only contribute to building, maintaining, and improving business reputation, but also meeting customer needs while finding new opportunities for business. business development. So, the principle of sustainable business is not only carried out for the benefit of one party, but the interests of all parties so that all of us can improve the quality of our lives.

As for the concept Triple Bottom Line is described as follows:

a. Profit (economic performance)

Both small- and large-scale businesses have the similar goal for seeking profit. A sustainable business should generate profits continuously. In doing so, appropriate business strategies in terms of technology, production, marketing and other aspects should be formulated. Profit in Islam pays attention to business through moral aspects to achieve maximum gain. This shows that Islam is related to the economy and morality, both of which cannot be separated (Arisandy, 2015).

b. People (social performance)

People are very important stakeholders for the company, since community support is the necessity for the existence, survival, and development of the company. Accordingly, a company needs to be committed to provide the maximum benefit to the community. Notably, a company's operations would have a potential impact towards the community. Therefore, companies need to carry out various activities that may serve the needs of the community (Aggarwal, 2013).

c. Planets (environmental performance)

Companies are allowed to take advantage of environment resources available on this planet to support its operational activities, such as the use of water, electricity, fuel, paper, and others. In this regard, companies should pay attention to the environment and maintaining its

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

sustainability, or at least to reduce the negative impacts resulting from company operations. Planet or environment is the central element that relates to all aspects of human life. For example, the water they drink, the air they breathe and all the equipment they use, all of them came from the environment. However, most people haven't considered the importance of environmental issues, since there are no direct advantages could be obtained. Furthermore, as profit is considered as the sole business objective, people as industry players are less concerned to make any efforts related with the environment preservation. In fact, by preserving the environment, people will actually obtain more benefits, especially in terms of health, comfort, in addition to the resource's availability for long-term usage (Aggarwal, 2013).

2.2. Islamic Intellectual Capital

According to Ulum (2013), value added (VA) in terms of Islamic intellectual capital (IIC) is the value constructed from sharia-based income accounts, which comprised of net income from sharia activities and sharia non-operational income. The intellectual capital performance appraisal model for Islamic banking (which will be referred as iB-VAIC afterwards) is important to be formed as a modification of the existing model, namely the Value-Added Intellectual Coefficient (VAIC). VAIC is designed to measure the intellectual capital performance of companies with common types of transactions. Meanwhile, Islamic banking has its own types of transactions which are relatively different from general/conventional banking.

Tntellectual capital has a crucial and strategic role in measuring human resources in a company. Intellectual capital captured knowledge that can provide benefits to the company activities, which implemented into donation or contribute to value added activities which result in uniqueness for the company. Intellectual capital is a term that has various definitions in different economic theories.

Intellectual capital is valuable asset, although the recognition of these assets is not contained in the financial statements because it is difficult to measure. Accordingly, an indirect measurement is established to measure the efficiency of added value to the companies' intellectual capital which is known as the Value Added Intellectual Coefficient (VAIC) method developed by Pulic (2000). VAIC provides information about the value creation efficiency of the company's both tangible assets and intangible assets and serves as a tool to measure the performance of a company's intellectual capital. This model is relatively simple in its operation since it is constructed from the financial statement accounts (balance sheet and income statement). Meanwhile, Ibrahimy & Raman (2019) stated that in general the researchers identified three main constructs, namely: Human Capital (HC), Structural Capital (SC) and Capital Employed (CE).

2.2.1. Human Capital (HC)

Human capital (HC) is the expertise and competence possessed by employees in producing goods and services as well as their ability to relate with customers. Human capital will increase if the company is able to utilize the knowledge possessed by its human resources properly. Human capital has a crucial role, since the process of creating customer capital is at the source

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

of human capital that interacts with customers, while organizational capital serves to provide stored knowledge to support value creation for consumers. Human capital is the most important capital in intellectual capital, for Human capital is the core of intellectual capital. Human resources play an important role in the company because they are the subject of the cause of the company's sustainability and have a role in decision making. Companies that manage human capital adequately would increase an effective and efficient work to create a competitive advantage and encourage improvements in the company's financial performance to form a sustainable business.

Human capital is the lifeblood of intellectual capital. This is the source of innovation and improvement, but it is a component that is difficult to measure. Human capital is also a very useful source of knowledge, skills and compensation in an organization or company. Human capital reflects the company's collective ability to produce the best solutions based on the knowledge possessed by the people in the company. Human Capital will increase if the company is able to use the knowledge possessed by its employees. Provide some basic characteristics that can be measured in this capital, namely training programs, credentials, experience, competence, recruitment, mentoring, learning programs, individual potential and personality.Human capital has an important role in supporting the operational activities of a company or organization. However, there are still many companies that do not fully understand this. There are still many companies that routinely change employees in almost all of their divisions.Because human capital is an asset that is quite important in supporting the continuity and development of the company, this is where the role of human capital appears. However, there are still many companies that do not know the importance of human capital management.

Measurement of Value Added Human Capital (VAHU). This ratio shows the relationship between value added (VA) andhuman capital(HC). Value Added Human Capital (VAHU) shows how much value added can be generated with funds spent on labor. The relationship between value added and human capital indicates the ability of human capital to create value within the company. Consistent with the views of other IC authors. Total salary and wages cost is an indicator of company human capital.

The results from previous studies (Siswanti & Cahaya, 2019; Siswanti & Sukoharsono, 2019), Hidayah, et.al (2020) showed that intellectual capital has a significant and positive effect on the performance of Indonesian Islamic banks. Likewise, the results of Yusliza et.al. (2020) state that intellectual capitalhas a significant effect on Malaysian manufacturing companies.Based on the description above, the following hypothesis can be proposed:

H1: Human capital (HC) has positive significant effectson financial performance Islamic banks in Indonesia

2.2.2. Structural Capital (SC)

Structural Capital (SC) is the infrastructure to support human capital to meet the market needs, such as: technology systems, company operational systems, patents, trademarks, organizational culture, management philosophy, courses training and intellectual property. If the human resources in a company have high intellectual level, but are not supported by good

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

organizational systems and procedures, a company's performance will not be achieved. Bontis, et.al., defines structural capital as covering all non-human knowledge storage in the organization. In this case, structural capital includes databases, organizational charts, process manuals, strategies, routines, and anything that makes the value of the company greater than its material value. Companies that manage structural capital properly and correctly will encourage an effective and efficient work, create a competitive advantage, and improve financial performance to form a sustainable business.

Structural capital is the ability of an organization or company to fulfill the company's routine processes and structures that support employees' efforts to produce optimal intellectual performance and overall business performance, for example: the company's operational system, manufacturing processes, organizational culture, management philosophy and all forms of intellectual property. owned by the company. An individual can have a high intellectual level, but if the organization has poor systems and procedures, intellectual capital cannot achieve optimal performance and the potential is not utilized optimally.

Measurement of Structural Capital Added Value (STVA). The structural capital coefficient (STVA) indicates the structural capital (SC) that contributes to value creation. STVA measures the amount of structural capital needed to generate 1 rupiah of value added and is an indication of the success of structural capital in creating value. structural capital independent measure as is human capital. That is, the greater the contribution of human capital in value creation, the smaller the contribution of structural capital in this regard.

The results of research by Yusoff, et.al (2019), state that intellectusl capital is able to encourage sustainable development of SMEs enterprises in Malaysia. Likewise, Cavicchi& Vagnoni (2017) also states that intellectual capital has a significant effect on sustainable business. Based on the description above, the following hypothesis can be proposed:

H2: Structural capital (SC) has positive significant effects on financial performance Islamic banks in Indonesia.

2.2.3. Capital Employed (CE)

Capital Employed (CE) is the capital utilized to fund company business operations. Any businesses need to use a certain amount of funds, resources or capital to run the business with the intention of making a profit. This induced an idea on the utilized capital which estimated in various ways in different contexts, depending on the definition of capital. Companies that manage capital employed properly and correctly will encourage companies to work more effectively and efficiently so as to create a competitive advantage, and encourage improvements on financial performance to form a sustainable business.

Measurement of Value Added Capital Employed (VACA). Employeed value added capital is an indicator for the value added created by one unit of physical capital. This ratio shows the contribution made by each unit of capital employed to the value added of the organization. VACA or value added describes how much added value is generated from the company's capital used.

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

Massaro et. al (2018), states that intellectual capital has a significant effect on sustainable business. Similarly, Matos et.al (2018) and Yong, et.al (2018) also suggest that intellectual capital has a significant effect on the company's sustainable business. Based on the description above, the following hypothesis can be proposed:

H3: Capital Employed (CE) has positive significant effects on financial performance Islamic banks in Indonesia

2.3. Financial Performance

Companies that have a high level of profitability tend to increase investment by opening many business lines and branches. Thus, if a company has a high profitability value, the company will be sustainable, compared to companies that have a low profitability value. Thus it can be said that the high level of profitability of a company will be able to increase the company's ability to increase the level of social responsibility which in turn will be able to improve the welfare of the community (Nugroho,et.al, 2019).

The benefits of financial performance for a company, here are some of the benefits:

1). to find out the extent to which the company's development has been achieved in each certain period. 2). Used as a basis for planning for the company in the future. 3). Can be used to assess the contribution of a part in achieving company goals as a whole. 4). Can see the company's overall performance. 5). as a determination of investment in order to increase the production power of a company. 6). Provide direction in making decisions and activities of the company in general and the division of the company in particular.

The objectives of financial performance according to Munawir (2012) are as follows: 1). Knowing the Liquidity Level. 2). Liquidity shows the company's ability to meet financial obligations that must be repaid immediately when billed.3). Knowing the Solvency Level. 4). Solvency shows the company's ability to meet financial obligations both in the long and short term. 5). Knowing the Profitability Level. 6). Profitability shows the company's ability to earn a profit during a certain period. 7). Knowing Stability Level. Stability shows the company's ability to run its business in a stable manner as measured by considering the company's ability to pay or pay off any debt and interest expenses on time.

Assessment of financial performance is one way to fulfil obligations to investors in achieving the goals and desires that have been set by the company. With the increasing progress and high business value, investors look to the company to invest their capital so that there will be an increase in stock prices, or it can be said that stock prices are a function of company value. To assess the company's financial performance, you can use the ratio or index as your benchmark to assess and connect the two financial data in the company's financial statements.

As the results of previous researchers, Nawaiseh (2015) stated that the company's performance as reflected by ROA showed a significant positive effect on sustainable business. Maskun (2013) states that profitability has a significant positive effect on sustainable business. Sari & Marsono (2013) state that profitability (ROA) has a significant positive effect on sustainable business disclosure.

ISSN 1533-9211

DOI 10.5281/zenodo.6938193

Based on the description above, the following hypothesis can be proposed:

H4:Financial performance has positive significant effectson sustainability business

From the development of the hypothesis above, the conceptual framework of the research can be made as follows:

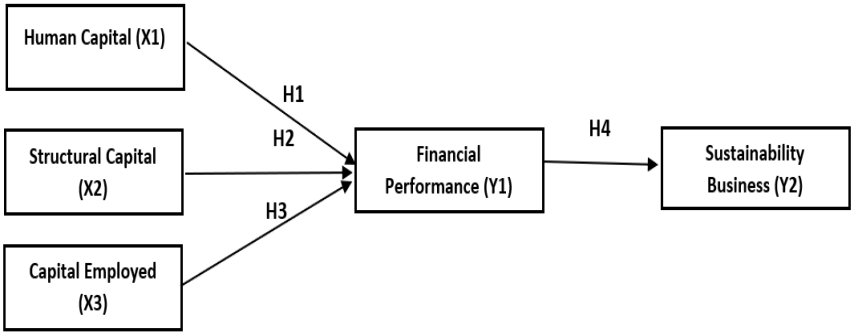

Figure 2: Conceptual Framework

3. METHODOLOGY

This study uses secondary data in the form of financial statements and annual reports of Islamic banks for the 2015-2020 periods. The population used in this study were all 14 (fourteen) Islamic banks in Indonesia. Sample selection was based on purposive sampling. The sample criteria in this study are:

1. Islamic Banks that publish financial reports for the period 2015-2020
2. Islamic Banks that publish annual reports for the period 2015-2020.
3. Islamic Banks established before 2014

Based on the above criteria, the number of samples used in this study were 9 (nine) Islamic banks, namely: Muamalat bank, sharia independent bank, Mega sharia bank, BRI sharia bank, BNI sharia bank, Bukopin sharia bank, sharia BCA bank, Panin bank sharia and Victorian sharia banks.

The data used in this study is the secondary data, where the data was obtained directly from the web site of the Islamic banks and considered as the samples of this research. The research variables include the independent variables which are consisted of: human capital, structural capital, capital employed, financial performance and the dependent variable in this study is sustainability business. The following is the operational definition and measurement of each research variable.

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

Table 1: Operational definition and Measurement

Variable	Operational Definition	Measurement
Human Capital	All knowledge, expertise, skills, and creativity embodied in work abilities that can be used to produce professional services and economic value.	iB-VAHU = VA/HC
Structural Capital	A tool, process or information that helps the company to maintain the knowledge it has or use that knowledge to achieve company goals	iB-STVA = SC/VA
Capital Employed	Capital used by the company to fund operations.	iB-VACA = VA/CE
Financial Performance	Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues	ROA=Net Profit/Total Assets
Sustainability Business	Business ventures that have minimal negative impact on the environment, society, both the global economy and local communities	SB = ∑discosure score : ∑ maximum score

Data processing and analysis would be performed using Eviews version 10 for the significance of multiple linear regression analysis of panel data

4. DATA ANALYSIS

In this study, data processing was carried out using Eviews 10.0. This study uses panel data with as many as 9 (nine) Islamic Commercial Banks for the period 2015 – 2020. The method used in this study is the panel data regression method.

4.1. Panel Data Regression Model

4.1.1. Chow test

The Chow Test is used to select the model used whether it is better to use the common effect or the fixed effect method. This test is carried out using the F or chi-square statistical test with the following conditions:

1. If the F-test and chi-square test are greater than = 0.05 (5%), then the correct model is the common effect or OLS.
2. If the F-test and chi-square test are less than = 0.05 (5%), the correct model is the fix effect.

The following are the results obtained from the Chow Test conducted using the Eviews 10.0 software:

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

Table 2: Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	17.679030	(8,42)	0.0000
Cross-section Chi-square	79.605490	8	0.0000

(Data processed 2022)

Based on the Chow Test in Table 2, the results of the Cross-section F probability value are 0.000 and the Chi-square Cross-section probability value is 0.000 <0.05, then the fixed effect model is more feasible to use than the commond effect model.

4.1.2. Hausman Test

The Hausman Test was conducted to select a better model, whether the fixed effects model or the random effects model, with the following conditions:

1. If the probability value of Chi-Square Hausman test > 0.05 (5%) the right model is Random Effect.
2. If the probability value of Chi-Square Hausman test < 0.05 (5%), then the correct model is Fix Effect. Here are the results obtained from Hausman-test

Table 3: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	20.026989	3	0.0002

(Data processed 2022)

Based on table 3, Hausman-test shows a Chi-Square probability value of 0.0002 <0.05. Thus, it can be concluded that the correct model estimation is the fixed effect in estimating the panel data regression. So it can be concluded that the estimation of the fixed effect model is better than the estimate of the random effect model.

Table 4: Panel Data Regression Model Selection

Metode	Pengujian	Hasil
Uji Chow	OLS>< fixed effect	Metode fixed effect
Uji Hausman	fixed effect ><random effect	Metode fixed effect

(Data processed 2022)

From the three regression model test results, two tests showed a more precise fixed effect method, so it can be concluded that the fixed effect method is the best panel data regression

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

estimation method in this study. The results of the fixed effect model panel data regression can be seen in table 6.4 below**:**

Table 5: Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.925135	0.285909	6.733380	0.0000
X1	0.545313	0.123148	4.428122	0.0001
X2	0.184845	0.069194	2.671390	0.0107
X3	0.093061	0.137374	0.677429	0.5018
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.876580	Mean dependent var		3.333333
Adjusted R-squared	0.844255	S.D. dependent var		1.554057
S.E. of regression	0.613301	Akaike info criterion		2.053207
Sum squared resid	15.79779	Schwarz criterion		2.495204
Log likelihood	-43.43660	Hannan-Quinn criter.		2.223668
F-statistic	27.11826	Durbin-Watson stat		1.436692
Prob(F-statistic)	0.000000			

(Data processed 2022)

5. DISCUSSION AND RECOMMENDATIONS

With data processing techniques using Eviews 10, and after the Chow test and Hausman test, and from the three regression model test results, two tests showed a more precise fixed effect method, so it can be concluded that the fixed effect method is the best panel data regression estimation method in this study.

5.1. Hypothesis test (Model 1)

Coefficient of Determination (R2)

The coefficient of determination R2 measures how far the model's ability to explain variations in the dependent variable is. The value of the coefficient of determination is between 0 -1. The small value of adjusted R2 means that the ability of the independent variable in explaining the variation of the dependent variable is very limited. If the adjusted R2 value is closer to one, the greater the variation in the independent variable explains the variation in the dependent variable. (Ghozali, 2013). Here are the results of data processing using Eviews 10.0:

Table 6: Coefficient of Determination Test

R-squared	0.876580	Mean dependent var	3.333333
Adusted R-suared	0.844255	S.D. dependent var	1.554057
S.E. of regression	0.613301	Akaike info criterion	2.053207
Sum squard resid	15.79779	Schwarz criterion	2.495204
Log likelihood	-43.43660	Hannan-Quinn criter	2.223668
F-statistic	27.11826	Durbin-Watson stat	1.436692
Prob (F-statistic)	0.000000		

(Data processed 2022)

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

In table 6, it can be seen that the Adjusted R-squared value is 0.876580. This shows that the value of the independent variables, namely human capital, structural capital and capital employed can explain the financial performance variable by 87, 65 %, while the remaining 12, 35 % is explained by other variables outside the study.

F-Statistic test

The F test was conducted to determine the effect of the independent variable simultaneously on the dependent variable. With the level of confidence for hypothesis testing is 95% or α = 0.05 (5%).

Table7: F-Statistic Test

R-squared	0.876580	Mean dependent var	3.333333
Adusted R-suared	0.844255	S.D. dependent var	1.554057
S.E. of regression	0.613301	Akaike info criterion	2.053207
Sum squard resid	15.79779	Schwarz criterion	2.495204
Log likelihood	-43.43660	Hannan-Quinn criter	2.223668
F-statistic	27.11826	Durbin-Watson stat	1.436692
Prob(F-statistic)	0.000000		

(Data processed 2022)

Based on table 7 the results for the prob (F-statistics) are 0.00000. So it can be concluded that the prob value (F-statistics) < α 5%.

Partial test (t-test)

The t-test was used to partially test the hypothesis in order to show the effect of each independent variable individually on the dependent variable. Testing using a significance level of α = 5%. The significance level of 0.05 is a standard measure that is often used in research (Ghozali, 2013).

Table 8: t-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.925135	0.285909	6.733380	0.0000
X1	0.545313	0.123148	4.428122	0.0001
X2	0.184845	0.069194	2.671390	0.0107
X3	0.093061	0.137374	0.677429	0.5018

(Data processed 2022)

Effect Human Capital on Financial Performance

Based on the table 8 it can be explained that the effect of human capital on financial performance as reflected by return on assets (ROA), obtained a t-statistic value of 4.428122

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

and a probability value of 0.0001 <0.05. Thus it can be stated that human capital has a significant positive effect on financial performance.

The results of the study state that human capital has a significant positive effect on financial performance; this is because human capital efficiency (HCE) is an important element in creating added value from intellectual capital in a company. In contrast to structural capital, this human capital is owned by each individual element owned by the company at least being able to maximize the procedures and structures within the organization to support activities (Mavridis, 2004). According to Bontis et al., (2000) knowledge is a strong element in creating competitive advantage, especially in the era of globalization, where the financial performance of manufacturing companies listed on the BEI in 2015-2017 in this study proves the significant influence of the HCE variable in This sub-sector is dominantly owned products regarding services or intangible goods which are of course generated from human capital which is calculated from HCE. This is in accordance with the Resource based view (RBV) theory stated by Prasetyanto & Chariri (2013), that if a company can hold, control and use strategic assets and capital, it can increase competition, especially in the same industry, where human capital is in the sub-sector. This is included in strategic capital. These results are in line with research conducted by Taleb& Khatib (2016), Alnachef et.al. (2017) and Chowdhury (2018), states that human capital has a significant positive effect on financial performance.

Effect Structural Capital on Financial Performance

Based on the table 8 it can be explained that the effect of structural capital on financial performance as reflected by return on assets (ROA), obtained a t-statistic value of 2.671390 and a probability value of 0.0107 <0.05. Thus, it can be stated that structural capital has a significant positive effect on financial performance.

The results of this study state that Structural Capital Efficiency (SCE) has a significant positive effect on financial performance. This is because Structural Capital Efficiency (SCE) shows knowledge that will remain in non-human companies, such as: company routines, procedures, systems, culture, and databases. Structural capital arises from organizational processes and values that reflect the company's internal and external focus along with developing and renewing values for the future. In this study, Structural Capital Efficiency (SCE) has a significant effect; this is because the manufacturing company has been able to use one of its resources, namely Structural Capital Efficiency (SCE). Companies that use Structural Capital Efficiency (SCE) such as databases, procedures and good system management can facilitate employee productivity in creating value added. However, lately the company has not seen and understood the importance of Structural Capital Efficiency so that the performance carried out to create high profitability is not optimal. These results are in line with research conducted by Lanka & Lecturer (2013) and Popoola (2019), that Structural Capital Efficiency (SCE) has an effect on financial performance.

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

Effect Capital Employed on Financial Performance

Based on the table 8 it can be explained that the effect of capital employed on financial performance as reflected by return on assets (ROA), obtained a t-statistic value of 0.677429 and a probability value of 0.5018> 0.05. Thus it can be stated that capital employed has no effect on financial performance

This study shows that capital employed has no effect on financial performance, this is because the company that is the focus of research has not been able to use its resources properly, namely funds in the form of equity and net income to improve financial performance. The company considers that the quality of customer service is the main thing so that it overrides its workforce resources so that this will make employee performance less than optimal where this will also decrease their financial performance. The results of this study are in line with research conducted by Andirana (2017) that Capital Employed Efficiency (CEE) has no effect on financial performance.

5.2. Hypothesis test (Model 2)

The statistical test results for model 2 are shown in table 9 below:

Table 9: t-test

R-squared	0.606751	Mean dependent var	1.688333
Adusted R-suared	0.585405	S.D. dependent var	0.841292
S.E. of regression	0.711176	Akaike info criterion	2.321782
Sum squard resid	22.25393	Schwarz criterion	2.690112
Log likelihood	-52.68811	Hannan-Quinn criter	2.463833
F-statistic	3.351982	Durbin-Watson stat	2.843189
Prob(F-statistic)	0.003337		

(Data processed 2022)

In table 9, it can be seen that the Adjusted R-squared value is 0.585405. This shows that the value of the independent variables, financial performance can explain the sustainability business variable by 58, 54 %, while the remaining 41, 46 % is explained by other variables outside the study.

From the results of the t test in table 6.8. It can be concluded that the results of the effect financial performance on sustainability business obtained a t-statistic value of 0.623598 and a probability value of 0.0000 <0.05. Thus it can be stated that financial performance has a significant positive effect on sustainability business.

Effect Financial Performance on Sustainability Business

Based on the table 9 it can be explained that sustainability reports have three dimensions of performance, namely economic, social, and environmental performance which together are often referred to as sustainability reports. These three aspects describe the form of corporate

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

responsibility to stakeholders on economic, social and environmental performance when the company carries out its operational activities. (Ammer & Othman, 2011) which states that the disclosure of sustainability reports provides a significant increase in sales growth, return on assets, and company cash flows. The information disclosed in the sustainability report which includes these three dimensions turns out to have a positive impact on the company which provides clear evidence that the company is not only profit-oriented but also environmental and social. When the company can maintain and even improve its positive image, the company will gain legitimacy from the community. This legitimacy from the community is very important for the sustainability of the company and can be used by investors to invest not only from the annual report but also from the sustainability report which is still voluntary.

Weber et al., (2008) which states that there is a positive correlation between financial performance and sustainable development. Sustainability Reports in the environmental, social and economic fields resulted in good performance in terms of sustainability impacts in these three areas.

5.3. Recommendations

Islamic banks are expected to continue to increase intellectual capital consisting of human capital, structural capital and capital employed, this is because intellectual capital is an intangible asset that is very important for improving the financial performance of Islamic banks, which in the end will be able to improve the bank's sustainable business Islamic banks. Suggestions for future researchers to be able to further develop research models using different objects and variables from this research

6. CONCLUSIONS

From the description above, it can be concluded as follows: Human capital has a significant positive effect on financial performance, Structural capital has a significant positive effect on financial performance, Capital employed has no effect on financial performance, and financial performance has a significant effect on sustainable business.

Islamic banks are expected to continue to increase intellectual capital consisting of human capital, structural capital and capital employed, this is because intellectual capital is an intangible asset that is very important for improving the financial performance of Islamic banks, which in the end will be able to improve the bank's sustainable business Islamic banks. Suggestions for future researchers to be able to further develop research models using different objects and variables from this research

REFERENCES

Aggarwal, P. (2013). Impact of Sustainability Performance of Company on its Financial Performance: A Study of Listed Indian Companies. Global Journal of Management and Business Research Finance, 13(11); 61-70

Akhtar, C. S., Ismail, K., Ndaliman, M. A., Hussain, J., & Haider, M. (2015). Can Intellectual Capital of SMEs Help in Their Sustainability Efforts? Journal of Management Research, 7(2); 82-97. https://doi.org/10.5296/jmr.v7i2.6930

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

Alnachef, T., Alhajjar, A., Hasan Alnachef, T., & Ahsan Alhajjar, A. (2017). Effect of Human Capital on Organizational Performance: A Literature Review. Article in International Journal of Science and Research, 6(8); 1154-1158. https://doi.org/10.21275/ART20176151

Ameer, R., & Othman, R. (2012). Sustainability Practices and Corporate Financial Performance: A Study Based on the Top Global Corporations. Source: Journal of Business Ethics, 108(1); 61–79. https://doi.org/10.1007/s

Andriana, D. (2014). The Influence of Intellectual Capital on Financial Performance .Journal of Accounting and Financial Research, 2(1); 251-260.

Arisandy, Y. (2015). Earnings Management in Islamic Perspective, MIZANI, 25(2); 125-143

Bontis, N., William Chua Chong, K., & Richardson, S. (2000). Intellectual Capital and Business Performance in Malaysian Industries. Journal of Intellectual Capital, 1(1); 85–100. https://doi.org/10.1108/14691930010324188

Cavicchi, C., &Vagnoni, E. (2017). Does intellectual capital promote the shift of healthcare organizations towards sustainable development? Evidence from Italy. Journal of Cleaner Production, 153; 275-286

Chowdhury,L.A.M., Rana, T., Akter, M., & Hoque, M., (2018). Impact of Intellectual Capital on Financial Performance: Evidence from the Bangladeshi Textile Sector. Journal of Accounting & Organizational Change, 14(4); 429-454. Doi: 10.1108/JAOC-11-2017-0109

Deegan, C., Rankin, M. & Tobin, J. 2002. An examination of the corporate social and environmental disclosures of BHP from 1983-1997: A test of legitimacy theory. Accounting, Auditing & Accountability Journal, 15(3); 312 – 343

De Matos Pedro, E., Leitão, J., & Alves, H. (2020). Bridging intellectual capital, sustainable development and quality of life in higher education institutions. Sustainability (Switzerland), 12(2); 1-27 https://doi.org/10.3390/su12020479

Dzemyda & Jurgelevicius (2014). The Impact of Intangible Capital Countries' Sustainability during TheEconomical Recession. 8th International Scientific Conference "Business and Management 2014"; 814-822, Vilnius, Lithuania.

Elkington, J. (1998). Cannibals with Forks: The Triple Bottom Line of 21st Century Business, Gabriola Island, New Society Publishers

Ghozali, Imam (2014). Structural Equation Modelling, Metode Alternatifdengan Partial Least Square. Badan Penerbit Universitas Diponegoro, Semarang.

Hamdan Zyadat, A. A. (2016). The Impact of Sustainability on the Financial Performance of Jordanian Islamic Banks. International Journal of Economics and Finance, 9(1); 55-63. https://doi.org/10.5539/ijef.v9n1p55

Hidayah, N., Badawi, A., Nugroho, L., &Moetopo. (2020). Human Capital And The Use Of Information Technology To Enhance Sustainable Competitive Advantages. Archives of Business Research, 8(6), 239–249. https://doi.org/10.14738/abr.86.8536

Ibrahimy, A. I., & Raman, K. (2019). The Impact of Intellectual Capital on Firm Performance in Malaysia. UNIMAS Review of Accounting and Finance, 2(1); 9–18. https://doi.org/10.33736/uraf.1996.2019

Lanka, S., & Lecturer, A. (2013). Impact of Capital Structure on Financial Performance of the Listed Trading Companies in Sri Lanka. International Journal of Scientific and Research Publications, 3(5); 1-9. www.ijsrp.org

Maskun, A. (2013). Leverage level, company size, profitability toward the disclosure of Corporate Social Responsibility (CSR) of LQ-45 companies in Indonesia stock xchange. International Journal of Academic Research. 5(2); 140-144

The Seybold REPORT
ISSN 1533-9211
DOI 10.5281/zenodo.6938193

Massaro, M., Dumay, J., Garlatti, A., & Dal Mas, F. (2018). Practitioners' vws on intellectual capital and sustainability: From a performance-based to a worth-based perspective. Journal of Intellectual Capital, 19(2); 367-386

Matos, F., Vairinhos, V., Selig, P. M., &Edvinsson, L. (2018). Intellectual capital management as a driver of sustainability: Perspectives for organizations and society. Intellectual Capital Management as a Driver of Sustainability: Perspectives for Organizations and Society, January, 1–242. https://doi.org/10.1007/978-3-319-79051-0

Mavridis, Dimitrios G. (2004). The intellectual capital performance of the Japanese banking sector. Journal of Intellectual Capital, 5(1); 92–115.

Munawir. S. (2012).AnalisaLaporanKeuangan. Yogyakarta: Liberty.

Nawaiseh, M. (2015). D**o Firm Size and Financial Performance Affect Corporate Social Responsibility Disclosure: Employees' and Environmental Dimensions?** American Journal of Applied Sciences 12(12); 967-981.

Nugroho, L., Badawi, A., &Hidayah, N., (2019). Indonesia Islamic Bank Proftability 2010-2017. Shirkah Journal of Economics and Business, 4(1); 75-98

Ousama, A. A., & Fatima, A. H. (2015). Intellectual capital and financial performance of Islamic banks. International Journal of Learning and Intellectual Capital, 12(1); 1–15. https://doi.org/10.1504/IJLIC.2015.067822

Pham, D. C., Do, T. N. A., Doan, T. N., Nguyen, T. X. H., & Pham, T. K. Y. (2021). The Impact of Sustainability Practices on Financial Performance: Empirical Evidence from Sweden. Cogent Business and Management, 8(1); 1-19. https://doi.org/10.1080/23311975.2021.1912526

Popoola, A., Aje Patrick Edem, D., &EniolaAgbi, S. (2019). Structural Capital Efficiency and Financial Performance of Listed Oil and Gas Firms in Nigeria. In AJMR 16 Amity Journal of Management Research ADMAA Amity Journal of Management Research. 4(2); 17-28

Prasetyanto, P. &Chariri, A. (2013). The Influence of Ownership Structure and Intellectual Capital Performance on Firm Value (Empirical Study on Financial Companies on the IDX for the Period of 2009 – 2011), Diponegoro Journal of Accounting, 2(2); 10-19

Pulic, A. (2000). VAIC-An Accounting Tool for IC Management, International Journal of Technology Management, 20 (5). https://doi.org/10.1504/IJTM:2000.002891.

Rashidah, F. N., Sofian, M., & Muhamad, R. (2016). Corporate Social Responsibility (CSR) and Islamic Banks: A Synthesis of Literature Review. www.icas.my, Proceedings of the International Conference on Accounting Studies (ICAS), 15-18 August; 143-149. Langkawi, Kedah, Malaysia

Rezaei, E. (20140. Statistical Analysis of The Impact of Intellectual Capital elements on Future Performance: A Case Study of Tehran Stock Exchange. Research Journal of Recent Sciences, 3(12); 131-137.

Sari, M.P., &Marsono. 2013. The Effect of Financial Performance, Company Size and Corporate Governance on the Disclosure of Sustainability Reports. Diponegoro Journal of Accounting, 2(3); 1-10

Sari, P.M., Herawati, N.H., &Wahyuni,M.A. (2017). The Influence of Human Capital, Structural Capital, Customer Capital, and Good Corporate Governance on Company Profitability. Journal S1 Ak Universitas Pendidikan Ganesha, 7(1); 1-10.

Siswanti, I., &Sukoharsono, E. G. (2019). Intellectual Capital and Financial Performance of Islamic Banks in Indonesia.Institutions and Economies, 11(4); 31–49.

Siswanti, I &Cahaya, Y.F. (2019). Determination of Sustainable Business Factors of Islamic Banks in Indonesia. The International Journal of Accounting and Business Society. 2(2); 137-158

ISSN 1533-9211

DOI 10.5281/zenodo.6938193

Siswanti, I., &Cahaya, Y. F. (2020). Sustainable business Islamic banks in Indonesia. Accounting, 7(2); 299–310. https://doi.org/10.5267/j.ac.2020.11.023

Siswanti, I., Salim, U., Sukoharsono, E. G., &Aisjah, S. (2017). The Impact of Islamic Corporate governance, Islamic Intellectual Capital and Islamic Financial Performance on Sustainable Business Islamic Banks. Journal of Finance and Banking Review, 7(4); 316–323.

Taleb, G.S. & Khatib, Y. (2016). Human Capital and its Impact on Banking Financial Performance. In Research Journal of Finance and Accounting www.iiste.org ISSN, 7(9); 101-109. Online. www.iiste.org

Ulum, I (2013). IB-VAIC: Model Pengukuran Kinerja Intellectual Capital Perbankan Syariah di Indonesia. JurnalInferensi (terakreditasi), 7(1); 183-204

Weber, O., Koellner, T., Steffensen, H., Habegger, D., &Ohnemus, P. (2008). OPER As View project MedWater View project the relation between the GRI indicators and the financial performance of firms. In Progress in Industrial Ecology-An International Journal. 5(3). https://www.researchgate.net/publication/259908990

Yong, J. Y., Yusliza, M. Y., Ramayah, T., & Fawehinmi, O. (2019). Nexus between Green Intellectual Capital and Green Human Resource Management. Journal of Cleaner Production, 215; 364-374.

Yusliza, M. Y., Yong, J. Y., Tanveer, M. I., Ramayah, T., Noor Faezah, J., & Muhammad, Z. (2020). A Structural Model of the Impact of Green Intellectual Capital on Sustainable Performance.Journal of Cleaner Production, 249, 119334. https://doi.org/10.1016/j.jclepro.2019.119334

Yusoff, Y. M., Omar, M. K., Zaman, M. D. K., & Samad, S. (2019). Do All Elements Of Green Intellectual Capital Contribute Toward Business Sustainability? Evidence From TheMalaysian Context Using The Partial Least Squares Method.Journal of Cleaner Production, 234; 626- 637.