

INFLUENCE OF ISLAMIC CORPORATE GOVERNANCE AND INTELLECTUAL CAPITAL ON BUSINESS SUSTAINABILITY THROUGH FINANCIAL PERFORMANCE AS MEDIATION VARIABLES IN SHARIA BANKING FOR THE 2016 – 2020 PERIOD

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ABSTRACT

Islamic banking is an alternative banking service for Muslim customers who want to choose non-usury and minimal risk banking services. However, the comparison of market share, total core capital owned by Islamic banking with conventional banking is one of the challenges for Islamic banking to maintain its business continuity the period of 2016 – 2020. The design of this study uses a descriptive quantitative approach, supported by secondary data obtained from the Financial Services Authority and the company's official website. The object of research involves Islamic corporate Governance and intellectual capital, corporate financial performance and business sustainability. The population of this research is 14 Islamic commercial banks in Indonesia in 2016 – 2020, with purposive sampling technique, namely companies that publish annual reports including sustainability reports consecutively during the 2016 - 2020. The analytical technique used is Partial Least Square (PLS) with a level of confidence 1.96 which is stated significantly between variable relationships. The results of data processing are in the form of models, journals in reputable international journals, HKI and providing input for policy makers about Islamic banks, for the Islamic banks internal policy and all the investors in making investment decision.

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1. INTRODUCTION

Indonesia is a country with a majority Muslim population, so the Muslim community has an alternative choice to use Islamic banking or sharia principles. Banking with a conventional system is identical to the element of usury which is very contrary to Islamic or sharia principles. According to (Nadia et al., 2019) when an economic crisis occurs, Islamic banking is considered to be more able to maintain its business than conventional banking because the investment approach used is not much risky compared to conventional banking. The development of Islamic banking can be marked by the increasing number of Islamic commercial banks and sharia business units from year to year. Based on data from the Financial Services Authority (OJK), there were 14 banks classified as sharia commercial banks and 20 banks classified as sharia business units at the end of 2020.

According to data from the Financial Services Authority (OJK) there was an increase in the percentage of Islamic banking market share at the end of 2017 which was recorded at 5.78% while in the first quarter of 2021 it was recorded at 9.96%. The increase in users of sharia banking services is

Influence Of Islamic Corporate Governance And Intellectual Capital On Business Sustainability Through Financial Performance As Mediation Variables In Sharia Banking For The 2016 – 2020 Period - Cholis Hidayati, Gustaf Naufan Febrianto

not significant when compared to the population of Indonesia, which is predominantly Muslim. In other words, there are still many Indonesian citizens who are Muslim who use conventional banking services.

The increasing number of Islamic banking market shares poses several challenges from various economic, environmental, and social fields. According to (Nugraha Triyan Putra & Thamrin, 2021) in general, there are several factors that hinder the development of Islamic banking, including limited human resources. The value of the capital owned by banks and the structure of Islamic banking funding, the lack of socialization and education about Islamic banking, as well as Islamic banking services that are not yet optimal.

The increasing market share of Islamic banking is not in line with the availability of Human Resources which is the driving force for the development of Islamic banking. This is supported by the difference between meeting the needs of human resources who have sharia economic competence and sharia banking employees who do not have a sharia economic background. Conventional banking management that establishes sharia business units usually transfers conventional bank employees to sharia bank employees. This gap requires further socialization to the Islamic banking sector to provide increased Islamic banking literacy to banking employees, because according to the Deputy Director of Sharia Banking Development at OJK Farid Falatehan there are still many banking employees who lack understanding of Islamic finance (CNN, 2022).

Another challenge for Indonesian banks is the minimal capital from the Islamic banking sector, there are 6 Islamic banks that have a core capital of less than IDR 2 trillion out of a total of 14 Islamic banks as of December 2020. Models or strategies that support business sustainability are needed to answer this question. challenges in three areas, namely profit, planet and people (The “global risks report – 2019”). The United Nations UN publishes the “UN Sustainable Development Goals” (SDGs) program, which is formally known as “Transforming our world: the 2030 Agenda for Sustainable Development”. The development of Islamic banks in various countries aims to increase and participate in realizing the SDGs with financial support of more than 150 billion US dollars for the next 15 years.

This research is supported by several previous studies, including research (Nadia et al., 2019) which revealed the conclusion that the obstacles to the growth of Islamic banking in Aceh in particular, in the form of limited availability of Human Resources (HR), lack of socialization, lack of literacy received the public about Islamic banking, the lack of public interest and confidence in sharia and the delay in government support for Islamic banking, then research (Setiawan, 2017) which reveals that Islamic banking has succeeded in generating added value for the use of all costs that have been incurred on intellectual capital (physical assets), human capital and structural capital) so as to improve financial performance. Research (Nugraha Triyan Putra & Thamrin, 2021) on the problems and dynamics of Islamic banking in the era of globalization reveals that in order to maintain and develop Islamic banking in the era of globalization, one must be able to increase human resources for Islamic science graduates, be able to implement Islamic values as a whole, not only become a conventional bank that identified as a sharia bank, able to optimize public education about sharia banking. With the background of the phenomena described above, the researcher decided to formulate the research problem as follows:

H1 : Does Islamic Corporate Governance affect the Financial Performance of Islamic Banks in Indonesia in 2016-2020

H2 : Does Intellectual Capital affect Financial Performance in Islamic Banks in Indonesia in 2016-2020

H3 : Does Financial Performance affect Business Sustainability in Islamic Banks in Indonesia in 2016-2020

Influence Of Islamic Corporate Governance And Intellectual Capital On Business Sustainability Through Financial Performance As Mediation Variables In Sharia Banking For The 2016 – 2020 Period - Cholis Hidayati, Gustaf Naufan Febrianto

- H4 : Does Islamic Corporate Governance affect Business Sustainability in Islamic Banks in Indonesia in 2016-2020
- H5 : Does Intellectual Capital affect Business Sustainability in Islamic Banks in Indonesia in 2016-2020
- H6 : Does Islamic Corporate Governance affect Business Sustainability through Financial Performance as a mediating variable in Islamic banks in Indonesia in 2016-2020
- H7 : Does Intellectual Capital affect Business Sustainability through Financial Performance as a mediating variable in Islamic banks in Indonesia in 2016-2020

2. METHOD

This study uses quantitative research methods with descriptive studies. The population used in this study is Islamic Commercial Banks (BUS) in Indonesia for the period 2016 – 2020. Sampling was carried out using a purposive sampling technique, namely companies that publish annual reports including sustainability reports in a row during the period 2016 – 2020. Sources of data taken for this research comes from the Financial Services Authority (Sharia Banking) and the official website: Indonesian Sharia Commercial Banks which have been designated as samples, Bank Indonesia website www.bankindonesia.com, Financial Services Authority www.ojk.go.id which is the research sample in this study. the period from 2016 to 2020. The analytical technique used is Partial Least Square (PLS) with a confidence level of 1.96 which is stated significantly between variable relationships. PLS is used to explain whether there is a relationship between latent variables (prediction). PLS is a powerful analytical method because it does not assume current data with a certain scale measurement, the number of samples is small (Ghozali, 2011). This study has a complex model and a limited number of samples, so the data analysis uses SmartPLS software.

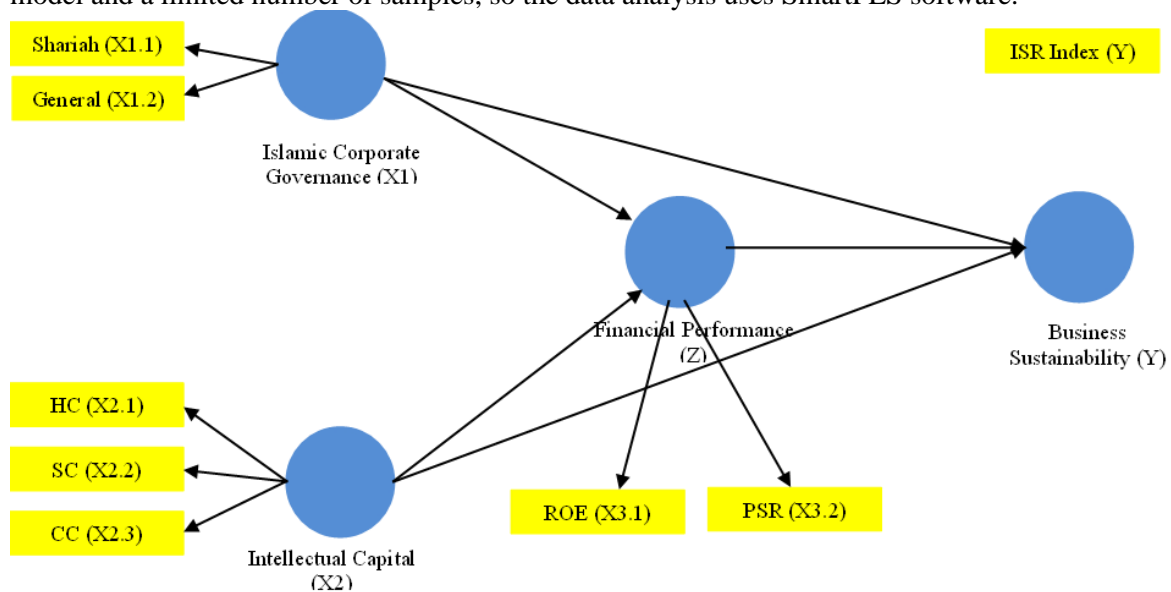


Figure 1. Concept Framework Drawing

3. RESULT AND DISCUSSION

Data processing using SmartPls Version 4.0 with the first step is to test the validity of the variables to be studied. The results of the validity and reliability tests will be presented with 3 types,

Influence Of Islamic Corporate Governance And Intellectual Capital On Business Sustainability Through Financial Performance As Mediation Variables In Sharia Banking For The 2016 – 2020 Period - Cholis Hidayati, Gustaf Naufan Febrianto

namely Cronbach's Alpha, rho_A, Composite Reliability and Average Variance Extrated. The data is presented in the following table:

Table 1. of Validity and Reliability Test Results

	Cronbach's Al...	rho_A	Reliabilitas Ko...	Rata-rata Varia...
BUSINESS SUSTAINABILITY (Y)	1.000	1.000	1.000	1.000
FINANCIAL PERFORMANCE (Z)	1.000	1.000	1.000	1.000
IC (X2)	1.000	1.000	1.000	1.000
ICG (X1)	1.000	1.000	1.000	1.000

Source: PLS processed data

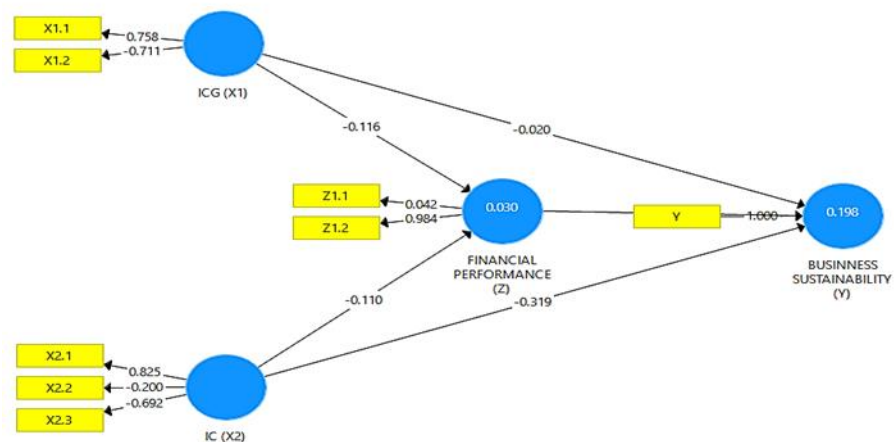


Figure 1. Outer Model Evaluation

Source: PLS processed data

In the outer model there are 4 kinds of test results, namely Convergent Validity, Discriminant Validity, Composite Reliability and Cronbach Alpha. The following is a description of each outer model test result:

1. Convergent Validity

An indicator is declared to meet convergent validity in a good category if the outer loading value is > 0.7 . the following is the value of the outer loading of each indicator on the research variable:

VARIABLE	INDICATOR	OUTER LOADING
Islamic Corporate Governance (X1)	X1.1	1,000
Intellectual Capital (X2)	X2.1	1,000
Financial Performance (Z)	Z1.2	1,000
Business Sustainability (Y)	Y	1,000

Source: PLS processed data

According to (Ghozali, 2010) the outer loading value between 0.5 - 0.6 is considered sufficient to meet the convergent validity requirements. Based on the data presented in the table above, it is known that each of the research variable indicators has a value of outer loading > 0.7 so that all indicators are declared feasible or valid to be used in this study.

2. Discriminant Validity

The discriminant validity test uses the cross loading value. An indicator is declared to meet discriminant validity if the value of the cross loading indicator on the variable is the largest compared to other variables. The following is the cross loading value of each indicator.

Table 2. Discriminant Validity

	Y	Z	X2	X1
Y	1,000			
Z	0,305	1,000		
X2	-0,278	-0,078	1,000	
X1	-0,052	-0,112	0,106	1,000

Source: PLS processed data

Based on the data presented in the table above, it can be seen that of the 7 hypotheses proposed in this study, 3 hypotheses were accepted because they had an effect that was shown to have P values < 0.05 . While the 4 hypotheses were rejected because they had an effect indicated by the P values > 0.05 .

So it can be stated that 3 hypotheses are accepted and 4 hypotheses are rejected.

a. The Influence of Islamic Corporate Governance on Financial Performance

From the table above, it can be seen that the original value of the SAMPLE (O) is -0.094 with a P-Values of 0.330 above 0.05 and significant as indicated by the t-statistic value of $0.974 < 1.962$ (smaller than 1.96). The value of P – Values indicates that Islamic Corporate Governance does not have a positive effect on Financial Performance. Based on the results of the regression, it can be concluded that the first hypothesis is rejected and not significant. This shows that the Islamic governance of the company does not affect the company's financial performance in increasing profitability, because the financial performance tested is the profitability ratio.

b. The Influence of Intellectual Capital on Financial Performance

From the table above, it can be seen that the original SAMPLE (O) value is -0.168 with a P-Values of 0.031 below 0.05 and significant as indicated by the t-statistic value of $2.157 > 1.962$ (greater than 1.96). The value of P – Values indicates that Intellectual Capital has a positive effect on Financial Performance. Based on the results of the regression, it can be concluded that the second hypothesis is accepted and significant.

This shows that companies that have good intellectual capital will affect the company's financial performance. Quality human resources can increase profitability.

c. The Effect of Financial Performance on Business Sustainability

From the table above, it can be seen that the original value of the SAMPLE (O) is 0.264 with P – Values of 0.007 below 0.05 and significant as indicated by the t-statistic value of $2.703 > 1.962$ (greater than 1.96). The value of P – Values indicates that Financial Performance has a positive effect on Business Sustainability. Based on the results of the regression, it can be concluded that the third hypothesis is accepted and significant. This shows that healthy financial performance affects the sustainability of a company's business. Companies that can maintain their level of profit are considered to be able to maintain their business continuity.

d. The Influence of Islamic Corporate Governance on Business Sustainability

From the table above, it can be seen that the original value of the SAMPLE (O) is -0.023 with P –

Values of 0.849 above 0.05 and Significantly indicated by the t-statistic value of $0.190 < 1.962$ (smaller than 1.96). The value of P – Values indicates that Islamic Corporate Governance has no positive effect on Business Sustainability. Based on the results of the regression, it can be concluded that the fourth hypothesis is rejected and not significant. This shows that good corporate governance does not affect the business continuity of a company. This is supported by many companies in the Islamic banking sector that have not complied with Islamic corporate governance standards so that Islamic banking is considered unable to maintain its business continuity through good corporate governance.

e. The Influence of Intellectual Capital on Business Sustainability

From the table above, it can be seen that the original value of the SAMPLE (O) is -0.023 with P – Values of 0.001 below 0.05 and significant as indicated by the t-statistic value of $3.301 > 1.962$ (greater than 1.96). The value of P – Values indicates that Islamic Corporate Governance has a positive effect on Business Sustainability. Based on the results of the regression, it can be concluded that the fifth hypothesis is accepted and significant. This shows that quality human resources can support the company to maintain its business continuity. A healthy company is a company that supports its human resources into quality human resources.

f. The Influence of Islamic Corporate Governance on Business Sustainability with Financial Performance as a mediating variable

From the slam above, it can be seen that the original SAMPLE (O) value is -0.025 with P – Values 0.391 above 0.05 and Significantly indicated by the t-statistic value of $0.858 < 1.962$ (smaller than 1.96). The value of P – Values indicates that Islamic Corporate Governance does not have a positive effect on Business Sustainability with Financial Performance. Based on the results of the regression, it can be concluded that the sixth hypothesis is rejected and is not significant. This shows that even though it has been mediated by good financial performance, sharia-based corporate governance does not affect the sustainability of the sharia banking business.

g. The influence of Intellectual capital on Business Sustainability with Financial Performance as a mediating variable

From the table above, it can be seen that the original value of the SAMPLE (O) is -0.044 with a P-Values of 0.095 above 0.05 and significant as indicated by the t-statistic value of $1.672 < 1.962$ (smaller than 1.96). The value of P – Values indicates that Intellectual Capital does not have a positive effect on Business Sustainability with Financial Performance. Based on the results of the regression, it can be concluded that the seventh hypothesis is rejected and is not significant. This shows that the capital wealth (intellectual capital) of a company does not affect the sustainability of the company's business even though it has been mediated by the profitability ratios in the financial performance of Islamic banking companies.

4. CONCLUSION

This study aims to examine the effect of Islamic corporate governance and intellectual capital on business sustainability with financial performance as a mediating variable with the following result All Islamic banking companies sampled in this study have maximized their intellectual capital with HR capital indicators, so that they can affect the level of profit in a company's financial performance. The company's ability to manage workforce can improve employee performance to generate profits for the company. Financial performance, especially the profitability ratio as measured by the profit sharing ratio by Islamic banking can affect the sustainability of a company's business. Companies that can maintain their level of profit are considered to be able to maintain their business continuity. Capital wealth on the ability of qualified human resources can support the company to maintain its

business continuity. A healthy company is a company that supports its human resources into quality human resources. Based on the results of the research on the influence of Islamic corporate governance and intellectual capital on business sustainability with financial performance as a mediating variable, several variables showed positive results and this has been explained in the research results. Researchers convey several suggestions that can be submitted based on the results of this study, as follows For Islamic Banking Management in Indonesia It is hoped that some banking companies that have not included CSR reports in the annual report to implement an annual report that contains complete information, making it easier for readers to receive company information. For some Islamic banks, they still have not fully complied with the established sharia standards, such as conventional banks that have established Islamic banks, which have not yet reported the duties and responsibilities of the sharia supervisory board. Regarding financial performance, other indicators can be added to determine financial performance through measuring which ratios can affect business sustainability Looking for independent variables, mediating variables or adding other variables that can produce the influence of Islamic corporate governance on business sustainability

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Influence Of Islamic Corporate Governance And Intellectual Capital On Business Sustainability Through Financial Performance As Mediation Variables In Sharia Banking For The 2016 – 2020 Period - Cholis Hidayati, Gustaf Naufan Febrianto

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