

## **THE EFFECT OF INTELLECTUAL CAPITAL ON NON PERFORMING FINANCING AND IT'S IMPLICATION TOWARD FINANCIAL PERFORMANCE OF SHARIA COMMON BANKS**

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### **ABSTRACT**

This research is meant to find out the influence element Intellectual Capital through Non Performing Financing (NPF) as the intervening variable to the Financial Performance (ROA) of Islamic banks registered in the financial services authority. The research population is all Syariah commercial banking companies in 2011-2017 periods. The statistic method has been done by using descriptive statistic and path analysis. The result of the research on Intellectual Capital element consisting of VACA (Value Added Capital Employed), VAHU (Value Added Human Capital) dan STVA (Structural Capital Value Added) shows that VAHU has insignificant and negative influence to Non Performing Financing (NPF) and significant and positive influence to the Financial Performance (ROA). STVA has insignificant and negative influence to Non Performing Financing (NPF) and insignificant and positive influence to the Financial Performance (ROA). VACA has significant and negative influence to Non Performing Financing (NPF) and significant and positive influence to the Financial Performance (ROA). The result of the research shows the magnitude of the indirect influence of Intellectual Capital through Non Performing Financing (NPF) to the Financial Performance (ROA) is smaller than the magnitude of direct influence Intellectual Capital to the Financial Performance (ROA).

**Keywords:** Syariah Commercial banks, Non Performing Financing (NPF), Financial Performance (ROA)

### **PROEM**

Syariah banking is a banking system with the aim of applying the principles of sharia in its management. Sharia Banking Growth As we know, until the end of 2016 the growth reached 19.67 percent. While the market share of sharia banking reached 5.12 percent, the highest along the existence of Islamic banking in Indonesia (Republika, 2017). The growth rate of sharia banks is still overshadowed by the average non-performing financing (NPF) of sharia banking in 2017, which is higher than the conventional Non Performing Loans (NPLs) of banks. OJK noted that NPF "gross" of sharia banks per October 2017 reached 4.12 percent while conventional banking 2.96 percent in the same period. Since quarter IV-2016 to October 2017, the

NPF "gross" of sharia banking tends to improve, but it is still above the conventional banking ratio (Balance, 2017). The high NPF or problematic financing will greatly burden the company's financial performance.

The company's financial performance can be measured by the profitability ratio of return on asset (ROA) because ROA shows better performance measurement. Dendawijaya (2001) in Indrayani et al. (2016: 3). Bank Indonesia prioritizes the value of profitability as measured by ROA compared to ROE because its fund assets are mostly derived from public savings so that ROA is more representative in measuring bank profitability level.

This study measures the intellectual capital performance of Syariah Banking sector in the category of Sharia Commercial Bank in Indonesia (in this case proxied by VAIC-Value Added Intellectual Coefficient on Human Capital, Structural Capital, and Relational Capital) to financial performance of banking sector in Indonesia by using Return on Asset (ROA) with non-Performing Financing (NPF) mediated. There are currently 12 Sharia Commercial Banks operating in Indonesia.

## **THEORETIC**

According to (Stewart 1998; Sveiby 1997; Saint-Onge 1996; Bontis 2000 quoted Sawarjuwono, 2003) Human Capital is a source of knowledge, application of organizational skills, and competence in an organization or company. According to Dendawijaya (2009) non-performing financing is non-performing financing / financing problem is the ratio between financing problem with total financing channeled by sharia bank. The results of Aprilina (2013) showed that Human Capital / VAHU (Value Added Human Capital) had a significant negative effect on NPL (Non-Performing Loan).

According to (Stewart 1998; Sveiby 1997; Saint-Onge 1996; Bontis 2000 quoted Sawarjuwono, 2003) Structural Capital (Capital Structure or Organization) is the ability to process company routines and structures to produce optimal intellectual performance. The results of Aprilina's (2013) study showed that Structural Capital / STVA (Structural Capital Value Added) had a significant positive effect on NPL (Non-Performing Loan).

According to (Stewart 1998; Sveiby 1997; Saint-Onge 1996; Bontis 2000 quoted Sawarjuwono, 2003) Relational Capital is an association network owned by the company with its partners, both from reliable and qualified suppliers, coming from loyal customers and satisfied with the service of the company concerned or coming from the company's relationship with the government and with the surrounding community. The result of Aprilina's research (2013) shows that Relational Capital / VACA (Value Added Capital Coefficient) has a significant positive effect on NPL (NonPerforming Loan)

Employee knowledge is seen as a company asset that is able to create competitive advantage which improves company performance. The way companies manage human capital is to provide training programs, salaries, and benefits on the other hand the creativity and experience that has been owned can create a competitive advantage. The better the company manages its resources the better the asset productivity in generating net profit. The results of Bontis (2000) and Arifah and Medyawati (2012) studies show that human capital efficiency (HCE) has a positive effect on return on assets (ROA). The results of research by Arifah and Medyawati (2012) suggests Structural Capital (STVA) has an effect on ROA.

The increase in sales is due to the harmonious relationship / association network owned by the company with its partners, whether coming from reliable and qualified suppliers, coming from loyal customers and satisfied with the services of the company concerned, comes from the company's relationship with government and with the surrounding community (Sawarjuwono, 2003). Thus, well-managed internal and external corporate social relations will impact on efficient production processes and reduce unutilized production costs, the return on assets will increase. Research conducted by Chen et.al (2005) shows Capital employed efficiency (CEE) has a positive effect on return on assets (ROA).

Non performing financing (NPF) or in a conventional bank called Non-performing Loan (NPL) is a non-performing financing risk with total financing. The higher the NPF ratio can mean that the quality of bank financing is getting worse and the unfair NPL ratio leads to a loss of income opportunity from the financing provided and the bank should bear the losses from its operational activities. Research

Suyitno (2017) suggests non-performing loan (NPL) has a negative and significant impact on profitability.

The result of Aprilina's research (2013) shows that the result of Intellectual Capital with VACA (Value Added Capital Coefficient) and STVA (Structural Capital Value Added) have a significant positive effect on NPL (Non Performing Loan). This shows that the increase of capital employed and structural capital will increase the level of banking NPL. Good bank performance is the low NPL. A good corporate performance will increase company profits or improve financial performance

Companies can manage and develop Structural Capital as a well-owned intellectual capital element, so the company efficiently manage the company's assets so that the company's net profit will increase and generate competitive advantage for the company. Research conducted by Chen et.al (2005) shows that intellectual capital has a positive effect on ROA.

Ulum (2008) examines Intellectual Capital's relationship with firm performance using 150 firms listed on the Singapore Stock Exchange as a sample. The results explain that Intellectual Capital and prove the average growth of Intellectual Capital positively influence with company performance in the future. This study also indicates that Intellectual Capital's contribution to company performance is different based on the type of industry.

The results of Aprilina's (2013) study showed that the Intellectual element had a significant positive effect on the NPL. Furthermore, the result of research of arifah and medyawati (2012) which gives the result of Intellectual Capital element (VAHU, STVA, VACA) simultaneously have an effect on to ROA and Suyitno Research (2017) which gives result of non performing loan (NPL) variable has negative and significant effect to profitability (ROA).

## **METHOD**

The research method used is quantitative. while the analytical method used is path analysis. The population in this study is a sharia commercial bank consisting of 12 banks, but who meet the criteria only 7 sharia banks. The sample technique used is purposive sampling with criteria; (1) There is a complete annual report up to 2017, and (2) Have complete data related to the variables used in the research.

Furthermore, the systematic analysis performed consists of descriptive analysis, classical assumption test, partial test, and simultaneous test.

## RESULT

### 1. Goodness Of Fit (F Test)

The model feasibility test results on structures 1 and 2 can be seen in the table below.

Table 1. Goodness Of Fit (F Test)

ANOVA <sup>a</sup>				
Regresi	F	Sig.	Sig. *Kritis	Putusan
Model I	10,228	0,000 <sup>b</sup>	0,05	Model Layak
Model II	383,449	0,000 <sup>b</sup>	0,05	Model Layak

Source: Research data, 2018

The table above shows that regression models 1 and 2 can be said to be worthy of research, since model 1 has a significance value of 0,000 and model 2 has a significance value of 0,000 which means both models (model 1 and model 2) significance  $\leq 0.05$ .

### 2. Path Analysis

$$\text{Model 1: NPF} = -0,113\text{VAHU} + (-0,019\text{STVA}) + (-0,548\text{VACA}) + 0,771e1$$

$$\text{Model 2: ROA} = 0,676\text{VAHU} + 0,034\text{STVA} + 0,363\text{VACA} + (-0,022\text{NPF}) + 0,167e2$$

Based on equation of model 1 and model 2 above, standardized coefficient analysis for each model can be explained as follows:

#### a. Model 1

The value of standardized coefficient for the negative Value added Human Capital (VAHU) variable is -0.113, the amount of standardized coefficient for the negative Human Capital Value Added (STVA) variable is -0.019 and the amount of standardized coefficient for the variable of Value Added Capital Employee (VACA ) negative that is equal to -0.548 which means from the three variables show the opposite relationship, if VAHU, STVA and VACA increase then Non Performing Financing (NPF) will decrease with assumption other variable constant.

b. Model 2

The standardized coefficient value for the positive Value added Human Capital (VAHU) variable is 0.676, the standardized coefficient for the positive Human Capital Value Added (STVA) is 0,034 and the standardized coefficient for the positive Value Added Capital Employee (VACA) variable is 0.363 which means that the three variables indicate a unidirectional relationship, if VAHU, STVA and VACA increases then the Return on Asset (ROA) will increase with the assumption that other variables are constant. While the amount of standardized coefficient for Non Performing Financing (NPF) negative that is equal to -0.022 shows the opposite relationship, meaning that NPF increases then Return on Asset (ROA) will decrease with assumption other variable constant.

**3. Hypothesis Testing Research**

To test the research hypothesis, then tested the significance value (sig value) of the coefficient of the path (standardized coefficient) for each variable relationship. If the value of significance (sig value) produced is smaller than alpha ( $\alpha$ ) = 0.05, then the relationship between variables is significant or independent variables affect the dependent variable. The result of testing of path coefficient (standardized coefficient) through testing to significance value can be presented in Table 6 as follows:

Table 2. Path Analysis

<b>Hubungan Variabel</b>	<b>Standardized Coefficient</b>	<b>sig. value</b>	<b>*sig. tolerance</b>	<b>Putusan</b>
VAHU → NPF	-,113	,538	0,05	Tidak Signifikan
STVA → NPF	-,019	,877	0,05	Tidak Signifikan
VACA → NPF	-,548	,004	0,05	Signifikan
VAHU → ROA	,676	,000	0,05	Signifikan
STVA → ROA	,034	,201	0,05	Tidak Signifikan
VACA → ROA	,353	,000	0,05	Signifikan
NPF → ROA	-,022	,498	0,05	Tidak Signifikan

Source: Research data, 2018

a. Hypothesis 1

The result of the path coefficient test shows that Human Capital (VAHU) has a coefficient value (standardized coefficient) of -0.113 and a

singularity value of 0.538 is greater than 0.05. This shows that the Human Capital (VAHU) variable has no significant effect on Non Performing Financing (NPF) thus the first hypothesis (H1) is rejected.

b. Hypothesis 2

The result of the path coefficient test shows that Structural Capital (STVA) has a coefficient value (-0.019) and a significance value of 0.877 is greater than 0.05. This shows that Structural Capital variable has no significant effect on Non Performing Financing (NPF) thus the first hypothesis (H2) is rejected

c. Hypothesis 3

The results of the above path coefficient test show that Relational Capital (VACA) has a coefficient value (standardized coefficient) of -0.548 and a singularity value of 0.004 is smaller than 0.05. This shows that the variable Relational Capital (VACA) has a significant negative effect on Non Performing Financing (NPF) thus the first hypothesis (H3) is accepted.

d. Hypothesis 4

The result of the path coefficient test shows that Human Capital (VAHU) has a coefficient value (standardized coefficient) of 0.676 and a singularity value of 0.000 is smaller than 0.05. This shows that the variable Human Capital (VAHU) has a significant positive effect on Financial Performance (ROA) thus the first hypothesis (H4) is accepted.

e. Hypothesis 5

The result of the path coefficient test shows that Structural Capital (STVA) has a coefficient value (standardized coefficient) of 0.034 and a singularity value of 0.201 is greater than 0.05. This shows that Structural Capital variable has no significant effect on Financial Performance (ROA) thus the first hypothesis (H5) is rejected

f. Hypothesis 6

The result of the path coefficient test shows that Relational Capital (VACA) has a coefficient value (standardized coefficient) of 0.353 and a singularity value of 0.000 is smaller than 0.05. This shows that the variable

Relational Capital (VACA) has a significant positive effect on Financial Performance (ROA) thus the first hypothesis (H6) is accepted.

g. Hypothesis 7

The result of the path coefficient test shows that Non Performing Financing (NPF) has a coefficient value (standardized coefficient) of -0.022 and a significance value of 0.498 is greater than 0.05. This shows that the variable Non Performing Financing (NPF) has no effect on Financial Performance (ROA) thus hypothesis 7 (H7) is rejected

h. Hypothesis 8

Human Capital Variable (VAHU) has no effect on Non Performing Financing (NPF) and NPF has no effect on Return on Asset (ROA) or all links between VAHU, NPF and ROA are not significant. Thus, Non Performing Financing does not successfully mediate the influence of Human Capital (VAHU) on Financial Performance (ROA), hence hypothesis 8 (H8) is rejected

i. Hypothesis 9

Structural Capital (STVA) variable has no effect on Non Performing Financing (NPF) and NPF has no effect on Return on Asset (ROA) or all the connecting path between STVA, NPF and ROA is not significant. Thus, Non Performing Financing (NPF) does not successfully mediate the influence of Structural Capital (STVA) on Financial Performance (ROA), thus hypothesis 9 (H9) is rejected.

j. Hypothesis 10

Variable Relational Capital (VACA) has an effect on Non Performing Financing (NPF) and NPF has no effect on Financial Performance (ROA) or not all the connecting link between VACA, NPF and ROA is significant. Thus, Non Performing Financing does not successfully mediate the influence of Relational Capital (VACA) on Financial Performance (ROA), hence hypothesis 10 (H10) is rejected.

k. Hypothesis 11

Based on table 2. above with  $f_{\text{arithmetic}} = 10,228 \geq f_{\text{table}} = 2.81$ , sig 0.000 probability level smaller than significant  $\alpha = 0.05$ . The ease of



independent variable Human Capital (VAHU), Structural Capital (STVA) and Relational Capital (VACA) (simultaneously) influence the dependent variable Non Performing Financing (NPF), hence hypothesis 11 accepted.

1. Hypothesis 12

Based on table 2. above with  $f$  arithmetic = 383,449  $\geq$   $f$  table = 2.81, sig 0.000 probability level smaller than significant  $\alpha = 0.05$ . The independent variables of Human Capital (VAHU), Structural Capital (STVA), Relational Capital (VACA) and Non Performing Financing (NPF) simultaneously affect the dependent variable of Financial Performance (ROA), thus hypothesis 12 is accepted.

## CONCLUSION

1. Based on the test results, Human Capital (VAHU) has no effect on Non Performance Financing (NPF) in banking industry in Indonesia.
2. Based on the test results, Structural Capital (STVA) has no effect on Non Performance Financing (NPF) in the banking industry in Indonesia.
3. Based on the test results, Relational Capital (VACA) has an effect on Non Performance Financing (NPF) in banking industry in Indonesia.
4. Based on the test results, Human Capital affects the financial performance (ROA) in the banking industry in Indonesia.
5. Based on the test results, Structural Capital (STVA) has no effect on financial performance (ROA) in the banking industry in Indonesia
6. Based on the test results, Relational Capital (VACA) affects the financial performance (ROA) in the banking industry in Indonesia.
7. Based on the test results, Non Performance Financing (NPF) has no effect on financial performance (ROA) in the banking industry in Indonesia.
8. Based on the results of Non Performing Financing (NPF) testing did not successfully mediate the influence of Human Capital (VAHU) on Financial Performance (ROA)
9. Based on the results of testing Non Performing Financing (NPF) did not successfully mediate the influence of Structural Capital (STVA) to Financial Performance (ROA).

10. Based on the results of testing Non Performing Financing (NPF) did not successfully mediate the influence of Relational Capital (VACA) on Financial Performance (ROA)
11. Based on the test results, Intellectual Capital element together influential with Non Performance Financing (NPF) in banking industry in Indonesia.
12. Based on the test results, Intellectual Capital element together influential with Financial Performance (ROA) in banking industry in Indonesia

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