

## Analysis on The Effect of Intellectual Capital on Growth and Financial Performance of Islamic Banking

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### Abstract

This research aims to analyze the influence of Intellectual Capital and Financial Performance using Partial Least Square Approach. The sample of this research is 19 Islamic Banks in Indonesia, Malaysia and GCC countries. Partial Least Square analysis model was employed to test the hypotheses. The result of this study shows that intellectual capital disclosure affects the Islamic banks' financial performance in Indonesia and GCC countries but not those in Malaysia. As for the company's growth, the disclosure of intellectual capital does not have effect on the company's growth. The influence of the disclosure of intellectual capital on financial performance could mean that the company should give more attention to the quality of intellectual capital.

Keywords: Intellectual Capital, Financial Performance, Company's Growth

JEL Classification: B26, B27, F65

### INTRODUCTION

Nowadays businesses develop more rapidly with the switch of business developing system from labor-based business to knowledge-based business. This is due to the intense competition between companies that require them to perform other moves so that the company can continue to grow and not being left behind by new businesses. The development of the new economy was driven by reform and knowledge. This increases attention to the intellectual capital as a means of determining the company's value (Steward, 1997 in Kuryanto).

Business developed using knowledge based emphasizes on the balanced use of the asset. This

makes the intangible assets became one focus of concern. However, unfortunately, at the first development of the knowledge based system, the assessment of intangible assets is a difficult thing.

Over the years, intellectual capital (IC) analysis can be used to assess a company as stated on the revised PSAK No. 19 year 2000 on the intangible assets. Ulum (2008) argued that although the standard is not stated explicitly as an IC, it is sufficient to prove that IC has received attention in the accounting in Indonesia. Lumbantobing (2009) stated that in the last few years, there have been several reports of companies that enhance its performance with IC report for their

impulse awareness in which traditional financial report has lost its relevance. He added that the company began to realize that IC is a platform for companies to excel and grow.

Williams (2001) defined Intellectual Capital as the process of value creation through knowledge and information applied on the job. According to Brooking (1996) intellectual capital is the link made or given to unite the intangible assets from the market, intellectual property, human-centered, and infrastructures that allow companies to operate or function. While Sveiby (1998) stated that intellectual capital is part of the intangible assets balance that can be classified into three parts, namely the individual competence, internal structure and external structure. It is concluded that intellectual capital is the representative of the company development assessment in term of its intangible assets.

Pulic (1998) developed a research model for assessing the intellectual capital of a company. The developed model is called as Value Added Intellectual Coefficient (VAIC) which calculates IC to measure the value added as a result of the Companies IC performance. VAIC model consists of variables such as capital employment, human capital and structural capital which will be compared with the total value added of a company. The comparison will result VACA (Value Added Capital Employed), VAHU (Value Added Human Capital) and STVA (Structural Capital Value

Added). Then the sum of the three will show VAIC.

The easy calculation of intellectual capital using VAIC made this model become one of the popular models used in a wide range of research on IC. The present study examined the effect of IC on the condition of financial performance and growth of a company. Financial performance and the company's growth became one of the topics that needed to be considered because both of these factors have an important position in assessing the development of the company from time to time.

The financial performance of a company reflects the condition of the company to manage existing assets and how it is favorable for investment. A healthy and attractive for investors is the company that has the financial performance in both categories. Conventionally, financial performance became one of the tangible asset valuation. Suardana (2007) said that the bank's good performance will certainly give investors the confidence to be able to obtain adequate stock returns. Kamath (2007) revealed that the growing knowledge-based economy makes the role of the traditional accounting and performance measurement systems that exist today are becoming less meaningful, and emerging the needs of new perspective to measure the performance of companies that use traditional intellectual capital as primary resources to grow.

Research on the effect of IC on the financial performance has been conducted by researchers.

Ulum (2008) studied the effect of IC on financial performance by using partial least square. The research resulted that there is a positive influence on the financial performance of the IC. The results of this study are also consistent with the other one conducted by Asih (2012) which examined the effect of IC on the financial performance in the research represented by ROA.

Researches conducted on the IC complement each other. The Enriched and developed research variables can also be the key. Examining the growth of the company is an interesting thing to study because the company which has been assessed and moved using knowledge based logic will also be more developed. The increasing IC will show positive progress also on the growth of the company. Solikhah (2010) indicates that the IC has a positive influence on the financial performance and the company's growth, but did not affect the market value of the company, as well as the performance of different ICs in the areas of industry.

In this study, Islamic banks in Indonesia, Malaysia and GCC Countries have been chosen as the objects of the research. The banking sector was chosen because according Firer and William (2003) the banking industry is one of the sectors that have most intensive IC. Moreover, from an intellectual aspect, overall employees in the banking sector is more homogeneous compared to the other economic sectors (Kubo and Saka, 2002 in Ulum 2008). Furthermore, Islamic banks are chosen because they are

currently experiencing significant growth.

Object retrieval of Islamic banking in the Indonesia, Malaysia and GCC countries aims to investigate the difference of IC and financial performance of those countries. It is because they have some differences in terms of the laws in each country that affect the implementation and the financial performance of Islamic banking in each country. GCC Countries implement Islamic law and mixtures. While in Indonesia and Malaysia, the government introduced a system of law known as mixed law or mixed legal jurisdiction (Hassan, 2010 in Utami, 2015).

Beside differences in the applied law, the quality of human resources in each country is different. IC is a research oriented to the quality of human resource development. In the development of Islamic banks, issues regarding human resources are emerging. This is because sharia banking system is still new, especially in developing countries like Indonesia. Quality and quantity of human resources required in the field of sharia still needs a lot of attention. Unlike Indonesia, Malaysia and GCC countries have education and training system that have been there to fulfill such requirements.

According to the latest data in Indonesia, about 30% of the total human resources working in sharia institution has a deep understanding of Islamic financial topics. In fact, in Indonesia, the growth of asset reached more than 65% in the last five years (Bank Indonesia, 2014),

while on the institutional side, the number of sharia based banks in Indonesia increased. Until June 2014, there were 11 Islamic Commercial Banks (BUS) and 23 Islamic Business Units (UUS) with 557 branch offices. The imbalance condition of human resource development and the development of the company will be a risk in the future where the communities doubt the credibility of the Islamic banks in managing their finances.

## LITERATURE REVIEW

### Stakeholder Theory

Stakeholders are all parties, internal and external, which may affect or be affected by the company either directly or indirectly. The development of this theory is based on the new demands in the business world, where all activities undertaken need to consider all individuals and aspects that affect or be affected, so it is not only the shareholders that are affected. (Hadi, 2011)

### Intellectual Capital

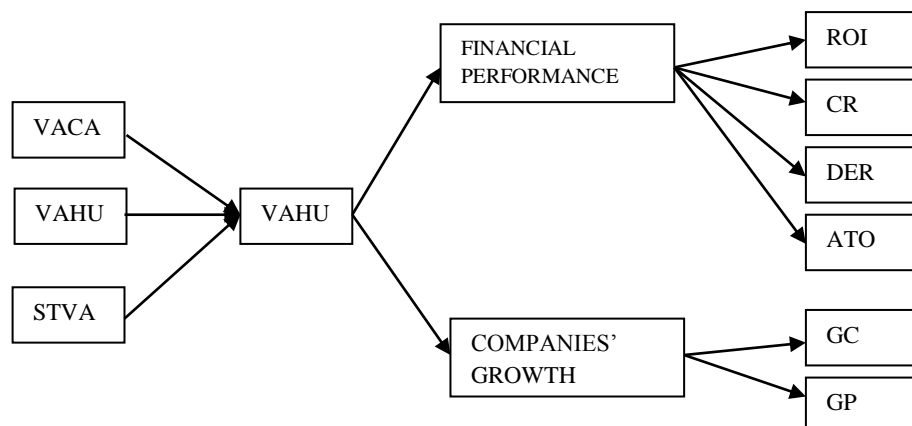
Intellectual capital (IC) is a section that shows the intangible assets of a

company. Asset which is invisible and can not be measured like tangible assets. Nowadays, IC become very important in developing a company because in the end, the company is no longer carrying out its activities based on existing resources only. Lonnqvist and Mettanen (2005) stated that the IC has potential to promote the organization and community.

### Financial Performance

The company's performance is a formal business conducted by the company to evaluate the effectiveness and the efficiency of the company's activities that have been run in a specific time period. According to Sucipto (2003), financial performance is the determination of certain measurements that can measure the success of an organization or company in generating profits. Meanwhile, according to IAI (2007) financial performance is the company's ability to manage and control its resources.

Figure 1. Research Model



## Hypothesis

### 1. The effect of intellectual capital calculated by VAIC on financial performance

Stakeholder theory assumes that a company can not be separated from their social environment. Adam in Hadi (2011) revealed that the company needs to maintain the legitimacy of the stakeholders and place them in the framework of the policy and decision-making to support the achievement of corporate objectives, namely business stability and going concern assurance. This reports any activity that affect the company.

A consensus in the context of stakeholder theory is that the accounting profit is simply a measure of return for shareholders, while the value added is a more accurate measure created by the stakeholders and distributed to the same stakeholders (Meek and Gray, 1988 in Ulum 2008). Value added is considered to have a higher accuracy associated with return which is considered as a measure for the shareholder. Thus, both (value added and return) can explain the strength of stakeholder theory in relation to the measurement of company's performance.

In line with the previous explanation where IC is value added of a company that enhance the company value. It gives a new obligation for companies to report it as well. This new activity will indirectly impact the company's

performance reporting, and one of the important points is financial performance.

The financial performance is a benchmark for investors to see wether the condition of the company is profitable or not. Good performance will make investors entrust their funds. IC will develop company's condition better and definitely will affect all financial performance reports.

Many researches on the effect of IC on the company's financial performance have been done, although not all results are the same. A research conducted by Flavio (2006) concluded that the association remained positive on intellectual capital (IC) against the dependent variable ROE, ROA and ROS. In his research, Flavio (2006) found that the IC, which at that time was measured using the CIV and ICE, in general has an influence in creating value capacity of a company. Ulum (2008) also found that IC has influented the company's financial performance.

Ulum (2008) showed that simultaneously, IC measured by VAIC has a positive influence on the financial performance represented by ROA, ATO, and GR. However, partially VACA significantly affects the company's financial performance. while STVA only has a relationship with the ROA, and VAHU with ATO. Ulum (2008) mentioned the results obtained are caused by the company was doing efficiency to the human capital during the

research period, so it enhanced the company's value added which indicated that the intellectual capital to human resources are compliant.

IC influence on financial performance also strengthened by research conducted by Astuti (2000) in Kuryanto et. al (2008) which states that the customer capital and structural capital can serve as an intervening variable relationship of human capital and business performance, while structural capital can be used to mediate the relationship of customer capital and business performance. This indicates that there is a relationship between the components of intellectual capital (IC), in this case the customer capital and structural capital, on the financial performance of a company. From the above explanation, the first hypothesis in this study was formulated as follow:

**Ha1: Intellectual capital has a positive impact on financial performance**

## 2. The effect of intellectual capital calculated by VAIC on company's growth

To develop a better company, value added is needed so that, all processes carried out by the company can bring more profit to be evaluated positively by the investors. That is why the company's growth is the key factor to attract investors.

The growth of the company shows the company's ability to manage its resources to obtain

value added which is one of the factors that determine the survival of a company. Intellectual capital illustrates that a company runs with not only human and natural resources, but also intellectual resources to make them continue to grow and achieve further. This is because the intellectual resources will create innovative and creative environment in order to develop the company.

Research on IC's influence on the company's growth has been done by Diez et.al (2010). They examine the effect of IC represented by human capital and capital structure towards the creation of a company's business value. As the result, human capital and capital structure have a positive impact on sales growth proxy, which is one of the indicators of the company's growth.

Ulum (2008) also tested the effect of IC on the financial performance of the company. The study which was conducted by partial found that the IC has a positive influence on the growth of return that could be a factor representing the company's growth. From these explanations, the second hypothesis in this study was formulated as follows:

**Ha2: Intellectual capital has a positive influence on the company's growth**

## METHOD

The method used in this research is explanatory research (explanatory research) This method

aims to analyze the relationship between one variable with another variable or how a variable affects other variables (Umar, 1999).

The analysis used in this study is a quantitative analysis, which is based on the analysis of test results through an analytical tool. In this study, smartPLS 3.0 is used as analytical tool. Some tests include the tests using outer model outer, inner model, and hypothesis testing.

The outer model tests are done in two models namely formative and reflective. There are certain latent variables that can only be tested using one of the models whether it is formative or reflective. Several tests are used for reflective are convergent validity, composite reliability, and discriminant validity. As formative evaluation is done based on its substantive content by comparing the magnitude of the relative weight and the significance of the weight.

Testing inner model or structural model is done in order to figure out the relationship between constructs, the significant value and R-square of the model. Structural model is evaluated by using R-square for dependent constructs, the t-test and the significance of the structural path of parameters coefficients (Ghozali, 2006).

#### Operational Definition and Variable Measurement Scale

This study uses multiple scales of measurement on the variables used.

##### 1. VAIC as Independent Variable (X)

- a. The initial stage is to determine value added (VA) which can be calculated by finding the difference between output and input.

$$VA = OUT - IN$$

Where:

OUT : The total revenue of the company.

IN : The total expenses on its business except employee expenses.

- b. The second stage is determining the value added capital employed (VACA) which is an indicator for VA created by certain unit of physical capital. This ratio shows the contribution made by each unit of CE to the organization's value added.

$$VACA = VA / CE$$

Where:

CE : Capital Employed which is the total amount of equity held by the company

- c. The third stage is to calculate Value Added Human Capital (VAHU) which is an indicator of VA generated by human capital. VAHU shows how much VA can be generated with the funds spent on labor. This ratio shows the contribution made by each rupiah invested in HC to the organization's value added.

$$VAHU = VA / HC$$

Where:

HC : Human Capital which is the salaries of employees

- d. The next calculation is Structural Capital Value

Added (STVA) which is an indicator of VA generated by structural capital. This ratio measures the number of SC required to produce 1 rupiah of VA and is an indication of how the success of the SC in creating the value.

$$STVA = SC / VA$$

Where:

SC : Structural Capital which can be calculated by VA-HC

- e. The last stage is to calculate the Value Added Intellectual Coefficient (VAIC) which is an indicator of VA generated by managing the company's IC.

$$VAIC = VACA + VAHU + STVA$$

## 2. Financial Performance as Dependent Variable (Y1)

Measuring the financial performance as Ang (1997) stated that some financial ratios used in conducting fundamental analysis is the Return On Investment (ROI), the Current Ratio (CR), Debt to Equity Ratio (DER), and Asset Turnover (ATO).

- a. Return On Investment (ROI)

ROI (Return On Investment) is a form of the profitability ratio intended to measure the overall ability of the company with funds invested in assets that were used for the operations of companies to generate profits. Can be computed using the formula:

$$ROI = (EAT / Total Assets) \times 100$$

- b. Current Ratio (CR)

Current ratio is ratio to measure a company's ability to pay short-term obligations or debt immediately at the due date. This ratio can be measured by using the formula:

$$CR = \text{Current Assets} / \text{Current Debt}$$

- c. Debt to Equity Ratio (DER)

Debt to equity ratio is a ratio that indicates to which extent is the company financed by debt. This ratio can be calculated by using the formula:

$$DER = \text{Total Debt} / \text{Net Worth}$$

Where :

Net Worth : Shareholders' equity (Total Assets - Total Debt)

- d. Assets Turnover (ATO)

Total assets turnover is a ratio that illustrates the asset turnover measured by the volume of sales. This ratio can be calculated by using the formula:

$$ATO = \text{Sales} / \text{Total Assets}$$

## 3. Company's Growth as Dependent Variable (Y2)

In this study, the company's growth will be measured using the measurement of the capital and income growth annually.

The use of capital calculation is because the Islamic banks as the research objects would be more appropriately measured through the development of its



capital. The formula to measure growth is as follows:

$$CG = \frac{TC_t - TC_{t-1}}{TC_{t-1}} \times 100\%$$

Where :

CG: Capital Growth

TC: Total capital

t : Year t

According to Winwin (2008), profit represents the difference between revenues and expenses. Profit will be gained when there is increase in the value of net assets as a result of transactions. Calculating the profit growth can be used as a benchmark for corporate growth. Profit growth is calculated by subtracting the current period's profit with previous period's profit then divided by profit in the previous period (Warsidi and Agus Pramuka, 2000).

$$EG = \frac{TE_t - TE_{t-1}}{TE_{t-1}} \times 100\%$$

Where :

EG: Earning Growth (profit growth)

TE: Total earnings (profit)

t : Year t

### Data Analysis Technique

Data analysis technique used in this research is Partial Least Square. There are more than two variables used in this research, so simple regression can not be used. Partial Least Square (PLS) is part of Structural Equation Modeling (SEM). PLS is more appropriately used in this study considering it is not requiring the data with a normal distribution. This is because, the

data used in the study has a lot of variety and outliers in the regression model. In addition, PLS is also more appropriate to use considering it is a model that is widely used to underlie a study that does not have the basic theory or it has weak basic theory.

In PLS there is Structural Analysis Model which has three stages of testing, they are testing the outer model, inner model, and hypotheses. Outer analysis is done to ensure that the model uses appropriate measurement (valid and reliable). While inner model/ structural analysis of model is used to ensure that the structural model is robust and accurate.

### Hypothesis testing

hypothesis formulation

H<sub>01</sub>: VAIC does not have positive impact on the financial performance

H<sub>a1</sub>: VAIC has positive impact on the financial performance

H<sub>02</sub>: VAIC does not have positive impact on the growth of the company

H<sub>a2</sub>: VAIC has positive impact on the growth of the company

## RESULTS AND DISCUSSION

### Analysis of Structural Model

In a study based on partial least square, the model needs to be evaluated by using outer analysis and structural models or inner analysis. Two basic evaluations become the starting point before testing the hypothesis.

### Analysis of Outer Model

Outer analysis of model is the analysis of the relationship between latent variable with its constituent

indicators. In this study, the latent variable financial performance and company's growth uses reflective model where the loss of one indicator does not change the value of the latent variable.

VAIC was calculated using formative model. Outer weight is used to find out the condition of the data and model's construct.

**Table 1. Outer Weight**

	Original Sampl..	Sample Mean (..	Standard Deva..	T Statistic	P Values
X_1 -> vaic	1.003	0.987	0.035	28.342	0.000
X_2 -> vaic	-0.014	-0.016	0.137	0.105	0.916
X_3 -> vaic	-0.012	0.012	0.131	0.093	0.926
Y1_2 -> finan...	0.482	0.489	0.060	7.986	0.000
Y1_4 -> finan...	0.733	0.714	0.075	9.778	0.000
Y2_1 -> growt...	0.841	0.697	0.360	2.336	0.020
Y2_2-> growt...	0.419	0.440	0.330	1.270	0.205

In this test, the indicator value of VAIC should meet the statistical value, which is alpha 5% and the t-statistic used is 1.96. So that the criteria for acceptance / rejection of the hypothesis is  $H_a$  is accepted and  $H_o$  is rejected when the  $t\text{-statistic} > 1.96$ . The  $H_a$  is accepted if the value of  $p$  is less than 0.05.

From the results, VACA value is 28.342 which is greater than 1.96. As for VAHU, the value indicated by the value of t-statistic is less than 1.96, that is 0.105. The STVA value is 0.093. However, in contrast with the reflective model, in the formative model indicator, there is no need to remove low values or those which do not belong to the criteria because it

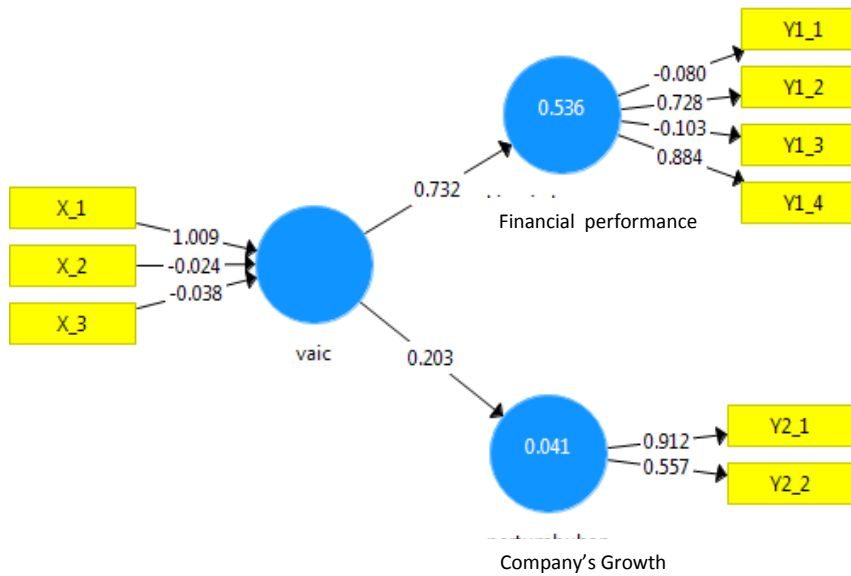
can affect the uniqueness of the model.

For reflective model, the validity and reliability analysis can be seen from some of the test results, namely the convergent validity and discriminant validity.

#### 1. Convergent Validity

Convergent validity value will measure the validity indicator as a measure of latent variable that can be seen from outer loading on the model. Through the outer loading value, indicators can be said to have a good reliability if the value is above 0.7 and can be tolerated up to 0.5. So in this study, the criteria is set to have all values greater than 0.5.

Figure 2. Outer Testing Model



Ket :  
 X<sub>1</sub> = VACA  
 X<sub>2</sub> = VAHU  
 X<sub>3</sub> = STVA  
 Y1<sub>1</sub> = ROI  
 Y1<sub>2</sub> = CR  
 Y1<sub>3</sub> = DER  
 Y1<sub>4</sub> = ATO  
 Y2<sub>1</sub> = GC  
 Y2<sub>2</sub> = GP

From outer model test, it can be seen that ROI indicator and DER for financial performance variable did not meet the criteria of validity. The same thing goes to the GP indicator which is the variable of company's growth. Thus, the

variables that are not considered valid can be removed.

After removing the indicator variable that is considered unreliable and re-testing it, it can be seen that the remaining variables have value that meets the criteria of the model.

**Table 2. Outer Loading**

	finance performan...	growth compan...	Vaic
X_1			1.000
X_2			0.011
X_3			0.230
Y1_2	0.722		
Y1_4	0.890		
Y2_1		0.911	
Y2_2		0.559	

## 2. Discriminant Validity

The next step is to find out the value of cross loading to determine whether the construct has sufficient discriminant or not. It is done by comparing the loading value. Loading value of the intended constructs has to be greater than the loading value of other constructs. There are several tests to determine this value, which are seen from the results of the composite reliability and average variance extracted (AVE).

**Table 3. Composite Reliability**

	Cronb ach's Al...	rho _A	Comp osite Rel...	Aver age Vari an...
finance perfor man...	0.493	0.5 48	0.791	0.65 7
Grwoth compa n...	0.286	0.3 69	0.716	0.57 1
Vaic		1.0 00		

Data that is said to be reliable is those which value higher than 0.7. The results show that each variable have higher value than 0.7, so the data is reliable.

**Table 4. Average Variance Extracted (AVE)**

	Cronb ach's Al...	rho _A	Comp osite Rel...	Aver age Vari an...
finance perfor man...	0.493	0.5 48	0.791	0.65 7
Grwoth compa n...	0.286	0.3 69	0.716	0.57 1
Vaic		1.0 00		

AVE value can also be used as an indicator to see whether the existing data are reliable or not. The required value to be said reliable is above 0.5. The result shows that each variable has a value above 0.5. So, the data on the model is reliable.

## Analysis of Inner Model

Analysis of Inner Model can be done by calculating the value of goodness of fit. GoF value can be obtained by rooting the average of AVE multiplied by  $R^2$ .

Table 5. AVE

	Cronbach's Alpha	rho_A	Composite Rel...	Average Variance
finance performan...	0.493	0.548	0.791	0.657
Grwoth compan...	0.286	0.369	0.716	0.571
vaic		1.000		

From the results of AVE, it is known that average value is 0.614. As for the average R<sup>2</sup> is 0.288. So according to the formula of Temenhaus, GoF index value is equal to 0.421.

Table 6. Rsquare

	R Square	R Square Adjust
Financial Performance	0.533	0.527
Company's growth	0.043	0.031

Temenhaus (2004) classified the values into categories: small GoF = 0.1, medium GoF = 0.25 and big GoF = 0.38. Generally, the value of GoF is to measure the accuracy of the sample data analysis which is used to assess the data and the real situation. Higher value of GoF indicates that the sample depicted in each indicator variable can explain well each latent variable in the study. This makes the results of research is better for each variable is represented by the right value. By the eligibility of inner model, the existing model can continue to the

next stage which is hypothesis testing

**Hypothesis testing**

Generally, explanatory research is an approach that uses partial least square method. The method is used to test the hypothesis. To test the hypothesis, the alpha used is 5% with t-statistic 1.96. The criteria for acceptance / rejection of the hypothesis is Ha is accepted and Ho is rejected when the t-statistic > 1.96. To reject / accept the hypothesis using the probability, Ha will be accepted if the value of p < 0.05.

Table 7. Path Coefficient

	Original Sample Mean (..)	Standard Deviation	T Statistic	P Value	
vaic > finan...	0.730	0.747	0.052	14.044	0.000
vaic > growth...	0.208	0.270	0.144	1.445	0.149

From the test results, the disclosure of intellectual capital only impacts company's financial performance, as for the company's growth, IC disclosure has neither positive nor negative effect. This is indicated by the t-count value which is less than the t-table, (1.445) and p-value 0.149 which is higher than 0.05. It is proving the first hypothesis which means H<sub>a1</sub> is accepted, that is the disclosure of IC has positive impact on financial performance. As for the second hypothesis, H<sub>a2</sub> is rejected

which means the disclosure of IC has no effect on the company's growth.

While according to country, the results are different in Indonesia, IC disclosure has an impact only on financial performance where the p-value is less than the value of alpha.

Table 8. Path Coefficient Indonesia

	Original Sample Mean (..)	Sample Mean (..)	Standard Deviation (..)	T-Statistic	P-Value
vaic -> finan	0.779	0.796	0.189	4.130	0.000
...					
vaic -> growth	0.346	0.190	0.523	0.662	0.508
th...					

For existing Islamic banks in Malaysia, the IC disclosure has impact on neither the financial performance nor the company's growth. Both p-value and t-test do not meet the existing criteria.

Table 9. Path Coefficient Malaysia

	Original Sample Mean (..)	Sample Mean (..)	Standard Deviation (..)	T-Statistic	P-Value
vaic -> finan	0.682	0.278	0.660	1.033	0.302
...					
vaic -> growth	0.253	0.410	0.277	0.913	0.362
th...					

The result on the GCC Countries is the same as Indonesia, the IC disclosure only has impact on the company's financial performance without an effect on the company's growth, although acceptance of the hypothesis is at 10% or P values less than 0.1.

Table 10. Path Coefficient GCC

	Original Sample Mean (..)	Sample Mean (..)	Standard Deviation (..)	T-Statistic	P-Value
vaic -> finan	0.650	0.559	0.390	1.664	0.097
...					
vaic -> growth	0.121	0.065	0.260	0.465	0.642
th...					

## DISCUSSION

### a. Effect of IC Disclosure on Financial Performance

From the results of hypothesis testing, the overall disclosure of IC represented by VAIC proven to have positive impact on financial performance. The results of this study are consistent with research done by Ulum (2008) which also examined the effect of IC disclosure on the financial performance measured by ROA and ATO. Claudiu (2011) who conducted the research with the object on Islamic banking in Malaysia also found similar results. The influence of IC disclosure on the company's financial performance could be

caused by many things, one of them which is relevant to the research is the bank has sought an increase in intellectual capital. So the company's value added also increases.

However, it is not in accordance with the result of the simultaneous influence on the Malaysian Islamic banks where the intellectual capital has no influence on the financial performance of banks being studied. These contrasting results between Indonesia and the GCC countries with Malaysia banks are possible because Islamic banks in Malaysia have done this before 2008. Therefore existing values tend to stay.

In Indonesia, the influence of intellectual capital to the financial performance is caused by the operation system of the Islamic financial institutions starts to improve which result in the improved performance of Islamic banking in general. In addition, the demands of customer trust can be the background for why this may happen.

For GCC countries, the increase in investment conditions can be the reason why intellectual capital has influence on the financial performance. The increasing of public trust is a proof that the condition of the banking system has improved, included in human capital.

#### **b. IC disclosure influence on the growth of the company**

Not so many research on the influence of IC disclosure on the

company's growth has been done. However, the results of studies showed that there is no influence of IC disclosure to the company's growth which is in contrary to the results of Diez et. al (2010).

Diez et. al (2010) found positive result of the influence of human capital and capital structure on the sales growth. Differences in the results obtained can be caused by the different data used and company sectors. In his research Diez et. al (2010) used manufacturing companies as the research object. While this study used the banking sector which has quite different characteristics from manufacturing company.

Ulum (2008) who studied the effect of IC disclosure to the company's performance, sales growth indicator (GR) was abolished because it has low weight so it did not have the conclusions. However, Ulum (2008) found that simultaneously the IC disclosure has influence on the company's, especially the company's financial performance.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusion**

Research on the effect of intellectual capital disclosures on financial performance and growth of these companies provide some of the conclusions, those are:

1. There is an effect of the disclosure of intellectual capital on the financial performance of Islamic Banks in Indonesia

2. There is no effect of the disclosure of intellectual capital on the financial performance of Islamic banks in Malaysia
3. There is an effect of the disclosure of intellectual capital on the financial performance of Islamic banks in GCC countries
4. There is no effect of the disclosure of intellectual capital on the growth of Islamic banks in Indonesia
5. There is no effect of the disclosure of intellectual capital on the growth of Islamic banks in Malaysia
6. There is no effect of the disclosure of intellectual capital on the growth of Islamic banks in GCC
7. Intellectual Capital has positive impact on Financial performance of Islamic Banks in Indonesia, Malaysia and GCC but not on their company's growth.

#### **Implication**

This current research provides several implications, they are:

1. For companies, the influence of the disclosure of intellectual capital on financial performance could mean that the management's focus is necessarily shifted. Competition among banks and the states also encourages companies, banks in particular to give more attention to the quality of the intellectual capital that they own.
2. For the researchers, the additional results of the research on the disclosure of intellectual capital on a few aspects of the company shows that the topic of

intellectual companies need to be explored and investigated more deeply. This is because the company's focus on the practical work will start to lead there and research need to support it.

3. For academics, the development of the research topic of intellectual capital disclosures will provide new understanding of the development of company's management systems nowadays. So, the focus of learning is no longer the same as a few years ago.

#### **Recommendation**

There are suggestions in reference to the research on the impact of the intellectual capital disclosure, they are:

1. Intellectual capital disclosure basically affects a lot of things in a company. However, unfortunately it is still a lot that has not been examined. For academics, it would be better if they pay attention to the new variables of a company. So that, it will further enrich literacy related to the effect of intellectual capital disclosure of a company.
2. For companies, they are expected to provide more complete report on the financial statements or annual reports as an additional source of information about intellectual capital research. So, later, it is expected that there are more variables related to the company as the variable analyzed.



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