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This study provides empirical evidence of the influence of Islamic corporate governance, Islamic intellectual capital, and company size on the firm’s performance of Islamic banks. The quantitative cause-and-effect method is used as the research method. This study involved 12 Islamic commercial banks listed on the Indonesian Stock Exchange (IDX). The study sample consisted of 8 banks that met the requirements for conducting the study using the purposive sampling method. The results of the study show that Islamic corporate governance, Islamic intellectual capital, and company size have a positive and significant impact on the performance of Islamic commercial banks.

Keywords: Islamic Corporate Governance (ICG): Islamic intellectual capital; firm size; firm’s performance

Introduction

Banking is a financial institution that has an important role in economic life. In almost all types of economic activities, banks are used as financial institutions to conduct business
as banks play a role in collecting funds from the public and distributing them to the public in the form of credit and/or other forms in order to improve the standard of living.

Currently, the development of Islamic banking in Indonesia is progressing at a fairly rapid pace. This growth has implications for competition between companies in the service sector, both Islamic financial institutions and other service sector institutions. Companies need to maintain or improve their performance in order to remain competitive and survive in an increasing competitive environment.

As an institution operating on the basis of Sharia principles, Sharia banks certainly have characteristics that differ from other companies in their performance orientation. Sharia banking is required to operate in accordance with Shariah principles and business ethics, implementing transparent and accountable corporate governance.

The form of corporate governance in Islamic banks is Islamic corporate governance (ICG). The implementation of ICG in Islamic banks will give the public the impression that Islamic financial institutions are protected from fraudulent activities, although the fraud itself can occur anywhere.

Good corporate governance can help create an environment that is conducive to efficient and sustainable growth in all sectors of a company. The application of corporate governance in Islamic banks is very important because corporate governance not only promotes the existence of Islamic banks, but also maintains the image or goodness of the name of Islamic banks among the public as there is no guarantee that an institution with such a name will comply fully with Shariah principles. Therefore, Islamic banks need to ensure that they have good corporate governance structure and process in place (Siswanti et al., 2017).

Apart from the implementation of ICG, Islamic banking is also facing an increasingly developing business environment that requires Islamic banking to innovate in order to compete between Islamic banking and conventional banking, continue to survive and be able to compete. Islamic banking must change its business strategy, which was originally a labor-based business, to a knowledge-based business. When a company's focus shifts to the use of science and technology, other resources can be managed more carefully and purposefully to provide competitive advantage (Lestari et al., 2018). Thus, the application of knowledge-based business becomes expected to provide companies with the ability to manage Intellectual Capital (IC) more effectively.

Research related to the influence of Islamic corporate governance and Islamic intellectual capital has been conducted by several researchers. (Djuanda et al., 2020), a study with a sample of Islamic banks in Indonesia during 2017-2019. The results of the study showed that there is a positive influence between ICG and Islamic intellectual capital on the performance of Islamic banks.

The results of this study are supported by the results of the study (Siswanti et al., 2017) using the data studied of Islamic bank data for the period 2010 – 2015. In line with the results of two previous studies in 2020 (Siswanti & Cahaya, 2020) conducted a study on Islamic banks in 2010 – 2018.

However, it differs from three previous research studies (Kholilah & Wirman., 2021), which stated that ICG has no effect on the performance of firms, while Islamic intellectual capital still has a positive effect on the performance of firms. ICG has no influence which is in line with the results of this study (Wulandari & Purbawati, 2021).
DETERMINATION OF THE FIRM’S PERFORMANCE

Besides Islamic corporate governance and Islamic intellectual capital, firm size also determines the performance of Islamic commercial banks in Indonesia. The more assets are owned and the smoother the asset turnover rate, the greater the profit the company will receive. The size is considered to affect the value of a company. Because the larger the size or scale of a company, the easier it will be for the company to obtain internal and external sources of funding in (Siswanti & Cahaya, 2020).

A study related to the existence of a positive effect of firm size on the performance of Islamic banks was conducted by (Maqfirah & Fadhlia, 2019) using data from Shariah commercial banks for the period 2013–2017. The results of this study are supported by research (Iskandar & Zulhilmi, 2021) using data from Shariah commercial banks for the period 2013 – 2016. In contrast to these two studies (Fordebi, 2016) it is shown that firm size has no effect on the firm’s performance of Islamic banks.

Based on previous studies and the existence of research gaps, the authors are interested in a study related to the influence of Islamic corporate governance, Islamic intellectual capital and firm size on the performance of Islamic banking companies with Islamic banking data for 2018-2021 registered with the Financial Services Authority (OJK).

Literature review

Firm’s performance

According to Risman et al. (2020) that a firm’s performance is defined differently in different fields and perspectives, therefore, in general, a firm’s performance can be seen through financial and non-financial indicators that quantify the level of achievement of the company’s goals. The firm’s performance using financial indicators is based on the firm's financial statements. This approach is also commonly referred to as financial ratios, which uses the measures of the firm’s ability to generate profits or profitability.

Some sources suggest various parameters to measure profitability, including return on assets (ROA), return on equity (ROE), Tobin-Q, profit margin (PM), earning per share (EPS), price-to-earnings ratio(PE), and others. However, in this study, the profitability or performance of a firm will depend on the return on assets (ROA). The formulation of return on assets is as follows:

\[ \text{ROA} = \frac{\text{Net income}}{\text{Total Asset}} \]

Islamic Corporate Governance (ICG)

Islamic corporate governance attempts to develop methods to enable corporate governance, the legal system and economic agents can be properly directed by social values and moral values in accordance with applicable Shariah rules (Siswanti et al., 2017).

They believe that all corporate, economic and business activities must be based on a religious paradigm, with one of the goals being to promote individual and social welfare as a whole. In fact, the purpose of ICG is the same as conventional corporate governance, but it is more based on the Islamic religion, especially in terms of morals. The ICG model can be proposed by reconciling the objectives of Shariah provisions using a stakeholder model of corporate governance.

In this study, the dimension of Islamic corporate governance refers to study (Cahya & Kusumaningtias, 2020) which is measured using the composite self-assessment performance
ranking based on BI Circular Letter No.12/13/DPbs/2010 regarding the implementation of GCG for BUS and UUS. This data is obtained from the CG reports issued by each bank.

Table 1 - Composite rating corporate governance
(made by the authors)

<table>
<thead>
<tr>
<th>Composite Rating</th>
<th>Composite Predicate</th>
</tr>
</thead>
<tbody>
<tr>
<td>rank 1 (Self-assessment results &lt; 1.5)</td>
<td>Very good</td>
</tr>
<tr>
<td>2nd (1.5 Self-assessment results ≤ 2.5)</td>
<td>Good</td>
</tr>
<tr>
<td>Rank 3 (2.5 &lt; Result of self-assessment &lt; 3.5)</td>
<td>Pretty good</td>
</tr>
<tr>
<td>Rank 4 (3.5 Self-assessment results ≤ 4.5)</td>
<td>Bad</td>
</tr>
<tr>
<td>Rank 4 (4.5 Self-assessment results 5)</td>
<td>Very bad</td>
</tr>
</tbody>
</table>

Based on agency theory, it is explained that in order to avoid an asymmetrical relationship between the principal (owner) and the agent (management), the concept of good corporate governance is needed, the purpose of which is to make the company healthy.

Good ICG reflects that all elements of an Islamic bank operate in accordance with procedures and applicable laws and in accordance with Shariah principles. So that the company's business wheels work well and improve financial performance.

Therefore, the implementation of good corporate governance has a positive effect on the company’s performance. This is in line with the results of previous studies, including the study conducted by Hu et al. (2022), Siswanti & Cahaya, (2020), Pucheta-Martínez et al. (2020) and Hartono (2018).

Based on this explanation, the first hypothesis can be formulated:

H1: Islamic corporate governance has a positive influence on firm’s performance

Islamic Intellectual Capital

Intellectual capital is an intangible asset owned by a company as a competitive advantage possessed by a company that differentiates it from other companies or the company's resources and knowledge that can increase its market value (Nurhikmah & Prameswary, 2023). Based on this definition of intellectual capital, it can be defined that Islamic intellectual capital is the competitive advantage of a company based on Islamic principles, especially on the moral side.

The Islamic intellectual capital measurement variable in this study refers to research (Ulum, 2013) on the use of the VAIC™ model to measure the performance of Intellectual capital in Islamic banks. The VAIC™ model is constructed with

\[ \text{PuliciB-VAIC™} = \text{iB-VACA} + \text{IB-VAHU} + \text{iB-STVA} \]

With the following calculations:
- iB-Value Added Capital Employed (iB-VACA)
  iB-VACA explains the role of each part of Capital Employed (CE) for the company's added value. CE is measured using total equity.
  \[ \text{iB-VACA} = \frac{\text{iB-VA}}{\text{CE}} \]
  \[ \text{iB-VA} = \text{Output} - \text{Input} \]
- iB-Value Added Human Capital (iB-VAHU)
  iB-VAHU explains the role of each employee's expenditure on iB-VA's earning ability for the company. HC is measured by employee expenses.
  \[ \text{iB-VAHU} = \frac{\text{iB-VA}}{\text{HC}} \]
DETERMINATION OF THE FIRM’S PERFORMANCE

- Value Added Structural Capital (iB-STVA)
  iB-STVA illustrates how Structural Capital (SC) succeeded in creating added value for the company. SC is reduction of iB-VA with HC.
  \[iB-STVA = SC/iB-VA\]

  Based on the resource-based theory, it is said that a company's resources and capabilities are important to a company because they are the competitive ability and performance of the company.

  The better a company identifies certain components of intellectual capital, the better the impact on the company's assets will be. This is also in line with stakeholder theory where investors tend to appreciate companies that are able to manage intellectual capital well which will indirectly improve the welfare of shareholders or stakeholders (Wulandari & Purwawati, 2021).

  The study supports the positive influence of intellectual capital (IC) on the firm’s performance, including the findings of research conducted by Siswanti et al. (2017), Cahya & Kusumaningtias (2020), Wulandari (2021) and Sulistiowati & Wahidahwati (2022).

  Based on this explanation, the following hypothesis can be proposed:
  H2: Islamic intellectual capital has a positive influence on firm’s performance

**Firm Size**

  Firm size is a scale or value in which a company can be classified based on total assets, log size, share value, etc. Firm size can be expressed in total assets, sales, and market capitalization. The greater the total asset, sales, and market capitalization, the greater the size of the company. These three variables can be used to determine the size of the company because they can reflect the size of the company, for example: the bigger the assets, the more capital invested, the more sales, the more money turnover and the bigger the market capitalization, the more well known the company is in the society (Azzahra & Wibowo, 2019). Therefore, the size of the company in this study is measured by total assets.

  The size of a firm is an important factor in determining its performance. Large companies have several competitive advantages that can have an impact on increasing the profitability of these companies, including the company having market power where large companies can set high prices for their products. In addition, company size plays an important role in determining the types of relationships that a company maintains within and outside its operating environment.

  The bigger a company, the greater the influence it has on its stakeholders. Increasing the size of a company will increase the firm’s performance (Abiodun, 2013). Some of the research results that show the positive effect of company size on firm’s performance are Siswanti & Cahaya (2020), Maria et al. (2018) and Azzahra & Wibowo (2019).

  Based on these reasons, we propose a hypothesis as follows:
  H3: Firm size has a positive and significant effect on firm’s performance

**Research methodology**

**Research Design**

  The method in this study uses a quantitative approach, and based on its objectives, this type of research is causal, a study that explains the effect of an independent variable on the dependent variable. The independent variables in this study include Islamic corporate
governance, Islamic intellectual capital, and firm size and the dependent variable is firm’s performance.

![Conceptual model](image)

**Figure 1 – Conceptual model**

(made by the authors)

The analytical model with a multiple regression analysis was used because this study was designed to examine the effect of the independent variable on the dependent variable using the equation:

\[
Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e
\]

Y: Firm’s Performance (ROA)

a : Intercept

X_1: Islamic Corporate Governance (Composite rating CG)

X_2: Islamic Intellectual Capital (VAIC\textsuperscript{TM})

X_3: Firm Size (Total Asset)

b_1- b_3: The regression coefficient of the independent variables

e: Residual errors

**Population and Sample**

In this study, the population is Islamic banks listed on the Indonesia Stock Exchange for the 2018-2021 period, so the total population is 12. The sampling method uses a purposive sampling technique with the following criteria:

1. Islamic commercial Banks listed on the Indonesian Stock Exchange for four periods from 2018 to 2021.

2. Islamic commercial banks are listed on the Indonesian Stock, the financial statements of which are published as of December 31st.

3. Islamic commercial banks are listed on the Indonesian Stock Exchange, which publishes the GCG annual report.

4. Islamic commercial banks, which have data to calculate Islamic corporate governance, Islamic intellectual capital, firm’s size and financial performance, are listed on the Indonesian Stock Exchange.

There are only eight Islamic Commercial Banks that have the appropriate criteria.
**Result & discussion**

**Classic Assumption Test**

a. Normality test

To test whether the regression model, confounding variables, or residuals have a normal distribution. A good regression model is one that has a normal distribution or is close to normal.

<table>
<thead>
<tr>
<th>Table 2 - The result of normality test (made by the authors)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One-Sample Kolmogorov-Smirnov Test</strong></td>
</tr>
<tr>
<td><strong>Unstandardized Residual</strong></td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td>Normal Parameters&lt;sup&gt;ab&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Most Extreme Differences</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Test Statistic</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
</tr>
</tbody>
</table>

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Based on Tab. 2, it can be seen that the significance value obtained is 0.146 > 0.05, thus the assumption of normality is met and it can be concluded that the model is normal, so that multiple linear regression can be performed.

b. Multicollinearity test

To test the regression, a correlation was found between the independent variables (independent). A good regression model should have no correlation between the independent variables. The threshold value commonly used to indicate the presence of multicollinearity is a tolerance value ≤ 0.10 dan VIF ≥ 10. The results of the multicollinearity test are shown below:

Based on Tab. 3, the tolerance values > 0.1 and VIF < 10, we can conclude that there is no multicollinearity in this study.

c. Autocorrelation test

<table>
<thead>
<tr>
<th>Table 3 – The result of autocorrelation test (made by the authors)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model Summary&lt;sup&gt;b&lt;/sup&gt;</strong></td>
</tr>
<tr>
<td>Model</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), ICG, Islamic Intellectual Capital, Firm’s Size

b. Dependent Variable: Firm’s Performance

Based on Tab. 4, there is no autocorrelation if the Durbin-Watson value is between du – 4-du. Du : 1.6503 < Dw: 2.170 < 4 – du : 2.3497, so there is no autocorrelation.
d. Heteroscedasticity Test

Heteroscedasticity test is used to check whether there is an inequality of variance in the residuals of one observation relative to another observation in a regression. A good regression model is one if the variance of the residual from one observation to another observation remains homoscedastic and does not experience heteroscedasticity.

Below are the results of the heteroscedasticity test:

![Figure 2 – The Result of Heteroscedasticity Test](made by the authors)

Based on Fig. 2, the residual scatters presented in the diagram do not form a specific pattern. In conclusion, we note that the regression is free from heteroscedasticity. This means that all variables influencing the regression equation can be known with certainty.

**Goodness of Fit Model**

In this study, F-test is used in the goodness-of-fit model. This test is conducted to determine whether all independent variables can simultaneously influence the dependent variable.

![Table 4 –The Result of F-test](made by the authors)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regression</td>
<td>.000</td>
<td>3</td>
<td>.000</td>
<td>45.023</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>.000</td>
<td>24</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>.000</td>
<td>27</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on Tab. 4, it is shown that the value of significancy F < 5% (0.000<0.05). Thus, simultaneously the independent variables such as Islamic corporate governance, Islamic intellectual capital and firm’s size have a significant effect.
Hypothesis Test

In this study, testing the hypothesis using the t-test, basically it shows how strong the influence of the explanatory/independent variable individually is on the explanation of the dependent variable. The conclusion is made by comparing the t-count with t-table at the significant level of 5% or 0.05. If t-count is ≥ t-table, then the variable has a significant effect, on the other hand, if t-count is ≤ t-table, then the variable has no significant effect.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td>-0.013</td>
<td>0.002</td>
<td>-6.903</td>
<td>.000</td>
</tr>
<tr>
<td>ICG</td>
<td>0.002</td>
<td>0.001</td>
<td>3.228</td>
<td>.004</td>
</tr>
<tr>
<td>Islamic Intel. Capital</td>
<td>0.002</td>
<td>0.000</td>
<td>3.323</td>
<td>.003</td>
</tr>
<tr>
<td>Firm’s Size</td>
<td>2.679E-10</td>
<td>0.000</td>
<td>2.880</td>
<td>.008</td>
</tr>
</tbody>
</table>

**Note:** Dependent Variable: Firm’s Performance

Based on Tab. 5, the results of the test can be seen as:

a. The impact of Islamic corporate governance on firm’s performance

The results of these tests show that the significance is t < 5% (0.004 < 0.05), therefore Islamic corporate governance (ICG) has a significant positive effect on firm’s performance.

b. The impact of Islamic intellectual capital on firm’s performance

In the second variable, Islamic intellectual capital has a positive effect on firm’s performance. From these results, the significance is t < 5% (0.003 < 0.05), so Islamic intellectual capital has a positive impact on firm’s performance.

c. The impact of firm’s size on firm’s performance

The third variable in this study is the size of firm with a significance value t< 5% (0.008 < 0.05), so that firm’s size has a positive effect on firm’s performance.

**Multiple Regression Analysis**

Based on Tab. 5, the multiple linear equations are as follows:

\[ Y = a + B_1X_1 + B_2X_2 + B_3X_3 \]

\[ Y = -0.013 + 0.002X_1 + 0.002X_2 + 0.000000000267X_3 \]

- \( B_1X_1 = 0.002X_1 \)  

The regression coefficient of the ICG (X1) of 0.002 states that each addition (because the sign +) 1% ICG will increase the firm’s performance by 0.002. The positive coefficient means that there is a positive relationship between ICG with firm’s performance.

- \( B_2X_2 = 0.002X_2 \)

The regression coefficient Islamic intellectual capital (X2) of 0.002 states that every addition (because the sign +) 1% Islamic intellectual capital will increase 0.002 of firm’s performance.
The positive coefficient means that there is a positive relationship between Islamic intellectual capital with firm’s performance.

\[ B3X3 = 0.000000000267 \times X3 \]

The regression coefficient of firm’s size (X3) of 0.000000000267 states that each addition (because the sign +) 1% , the firm’s size will increase the firm’s performance by 0.000000000267.

The positive coefficient means that there is a positive relationship between Islamic intellectual capital with the firm’s performance.

**Conclusion**

The implementation of corporate governance in accordance with Islamic principles in Islamic banks will increase public confidence in Islamic banks and provide a better image of Islamic banks which will ultimately have an impact on improving the firm’s performance of Islamic banks.

At the same time, this finding also empirically proves the signaling theory and agency theory that good corporate governance, which is implemented properly, will give a positive signal and make the firm healthy.

Islamic intellectual capital is considered as an important strategic asset for the success of Islamic banks to create added value. The results of this study are also consistent with resource-based theory, which states that a firm that can manage its resources, including intellectual capital, will be able to provide added value to the firm.

The firms that have many assets usually describe the stability and sustainability of the firm.

The firms with large assets will easily expand their business and take advantage of various business opportunities, and will be able to operate on an economic scale. All this will improve the firm’s performance.

**References:**


DETERMINATION OF THE FIRM’S PERFORMANCE

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