

Effects of Intellectual Capital on Disclosure of Corporate Social Responsibility in Islamic Banks

Sitti Zakiah^a, Dedy Takdir^b, Samdin^c, Andi Basru Wawo^d

^aIslamic Financial Management, Faculty of Economics and Islamic Business, Muhammadiyah University of Kendari
Email: stzakiah132@gmail.com

^bDepartment of Management, Faculty of Economics and Business, Haluoleo University Kendari

^cDepartment of Management, Faculty of Economics and Business, Haluoleo University Kendari

^dAccounting Department, Faculty of Economics and Business, Haluoleo University Kendari

Abstract—CSR concept in Islam closely related to companies engaging their business based on syariah concept; it is expected that the companies can conduct their social responsibility in an Islamic manner. This research aims to determine effects of Intellectual Capital on disclosure of corporate social responsibility in islamic banking. The data is analyzed using partial last square method, there are 160 data obtained based on financial statement in annual reports of syariah commercial banks in the period of 2012-2016. Analysis results indicate that intellectual capital affects on company progress affecting on disclosure of corporate social responsibility, but partially human capital ability has no effects on disclosure of corporate social responsibility in sharia banking. Research contribution is to improve public trust at islamic bank so that it can improve its publication in its social activities; this is expected to affect on increased income and can encourage real sector in economic development.

Index Terms— Intellectual capital, corporate social responsibility, islamic bank

1 INTRODUCTION

Development of issue about CRS concept cannot only be found in conventional economic, but also in Islamic concept. CRS concept in Islam has close relation to companies engaging in business activities based on syariah concept; it is expected that the company can conduct their social responsibility in an Islamic manner. In Islamic point of view, social problems are expected to be the main factor in disclosure of company annual statements. As a consequence, each syariah business entity is expected to be more transparent in its disclosure practice mainly in the case of disclosure of zakat acquisition. Development of CRS in Islamic economy also contributes in improving public attention to syariah institutions. In general, financial literature and Islamic economy play a key role from stakeholder considering that islamic banks have the same role in social and economic life (Maali, 2006). Majority people say that Islamic banks and financial institutions in their industry development should obey syariah principles concerning social justice and can provide alternative of measurement towards conventional financial (Usmani ;1998, El Gamal ; 2006). Islamcis banks should disclose complete information to the Ummah (Moslem) on how their activities are implemented based on syariah objectives in improving public prosperity (Meutia ; 2017).

In Indonesia, principles of CRS implementation refer to Act Number 40 of the year 2007 concerning Limited Liability Company. Corporate Social Responsibility and Environment is company commitment to contribute in sustainable economic development in order to improve useful life and environment quality either for the company, local community and the community in general.

Most of literature about Islamic Banks confirm that basically, they conduct their CRS function in the equal manner as

conducted by conventional banks though they have different approach (Ahmad, 2000; Chapra, 2000; Warde, 2000; Henry and Wilson, 2004; Iqbal and Molyneux, 2005; Dusuki and Abdullah, 2007b; and Iqbal and Mirakhor, 2007). In the development, there are many academics and thinkers giving their critics in Islamic Banking mainly on public social and economic effects. Islamic financial principles forbid usury (interest rate), gharar (ambiguity), maisir (gambling) and some other products such as liquor and pork (Rosly, 2010). These rules distinguish Islamic banking practices with conventional banking practice. Jaufeerally (2011) added two obligations of Islamic banking namely, first, profit and loss share and second, financing that is supported by real assets. Also, Khan and Bhatti (2008) stated that the Islamic financial principles are based on participation in actual economy and social justice.

In this current modern economy, practitioners and academics have given significant attention on the role of knowledge and intangible assets (Andriessen, 2005; Bountis, 2000; Bukh, 2003) to maintain company from competition; company does not only give its focus on physical capital, but also on intellectual capital. They trust that knowledge or intellectual capital (IC) is the important component to maintain competitive excellences and company sustainability (Mondal dan Ghosh, 2012; Abdullah, 2007; Abeysekera, 2006; Abeysekera, Guthrie, 2005; Petty and Guthrie, 2000). Even, the research results also indicate the same thing related to existence of wealth in modern economy that does not depend on physical assets but it depends more on intangible assets (Ghos and Wu, 2007; Bontis et al, 2000; Mavridis, 2004; Chen et al, 2005).

Sustainability and reporting of corporate social responsibility are determinant to improve reporting of tangible assets. The company is forced to look for new approach that can be

used to design company global strategies among others are by considering intangible assets or intellectual capital (IC). Elvira, Asniati and Deni Yohana (2016) found out that Intellectual capital plays a role in disclosure of corporate social responsibility and can improve company value. This result is consistent to researches by Belkaoui (2003), Firrer and William (2003), Iswati and Muslich (2007), Ulum (2008) showing that intellectual capital has positive effects on company financial performance. This research is also consistent with a research conducted by Anwar and Wan(2014) showing that IC relates to disclosure of CSR in Islamic banking. This result is different to opinions by Guler, Asli and Ozlem (2011); Dominique and David (2011) stating that Intellectual capital has no relation with CSR, Babak, Mojtaba (2015). Therefore, this research wants to study again on relation between Intellectual capital and CSR in Islamic banking.

2 LITERATURE REVIEW

Jones (1980) expressed that idea of CSR for company has obligation to serve its constituent groups in the community not only the stakeholders and other external interests that are determined by legal or company contract. The obligation is a voluntary and broad one not only for shareholders but also other public groups, such as customers, employees, suppliers, and surrounding community. Dusuki and Abdullah (2007b) stated that CRS Islamic concept indeed can be found in-depth in Islamic rules. Therefore, each company such as Islamic banks declaring to obey Islamic principles in a natural manner must conduct the CRS, since it perpetuates the real spirit of Islam.

In Islam, CSR concept is consistent with Unity (Tauhid) concept. According to this concept, Allah is the Creator, Owner and Source of all objects and has trusted humans to use and manage all things wisely. As a reward for the physical natural universe use, humans agree to take the responsibility on how they use and manage the universe (Farook and Lanis, 2007). Thus, objective of humans is to run their by referring and obeying Allah (Graafland et al., 2006).

Based on this issue, in supporting the CSR implementation in Islamic financial institutions Farook (2007) proposed scope of CSR in the forms of obligation and voluntarily. The form of obligation refers to selection of investment, preventing forbidden income by syariah, responsible transactions, fair money treatment and equal treatment for employees and paying zakat, meanwhile the form of voluntarily refers to soft loans, attention to environmental issues, selecting quota clients, investment on environmental industry and social, excellence service on customers, social savings, employee welfare and other charity activities. Thus, profits are not seen as the main business support, Williams and Zinkin (2005).

Company that continuously implement the CSR will be positively responded by the market since it can create good image from the community. Skilled employees will also improve since the company conducts research on the employees (Elvira,2016). CSR activities can also improve product quality since company attention to customer needs. All of which are intangible assets called as Intellectual Capital (IC). IC is not

disclosed in financial statement. This is as a result of traditional accounting practice that does not disclose, identify and measure IC. Meanwhile, intangible assets including staff competence, customer relation, simulation model, computer and administration system yet obtain acknowledgment in traditional financial model and management reporting (Stewart, 1997 in Hong 2007).

2.1 Human Capital (HC)

Human capital is defined as knowledge, skill, and experience that employees take when leaving company (Starovic & Marr, 2004). Further, Starovic & Marr (2004), mentioned that for each individual, there are some unique knowledge and other are general. Human Capital includes individual knowledge from an organization that can be found on its employees (Bontis, Crossan & Hulland, 2001). Human beings can be considered as a valuable asset or liability for an organization (Khan, Farooq & Hussain, 2010). Human capital refers to employee expert or skill, knowledge, and experience shared with the organization to add value (Baron, 2011).

2.2 Structural Capital (SC)

Structural capital is defined as knowledge that will remain within the company (Starovic & Marr, 2004). Structural capital consists of concepts, models, patents, computers and systems created by employees, but owned by the organization (Akpınar & Akdemir, 1999). Or, it can also be obtained elsewhere. In other words, an organization consists of a combination of internal structure and people in the company. Once the organization improves its technology, develops processes and establishes other internal initiatives, there will be increased structural capital. Therefore, structural capital means organization ability to accommodate its customers' demands. Recent evidences suggest that a good organizational structure, along with skilled employees in providing efficient and quality services will lead to better performance of an institution (Amrizah & Nawal, 2013)

2.3 Capital Employee (CE)

Capital Employed(CE) can be defined as the amount of capital utilized in the form of fixed assets in the company. In term of funding, it is equivalent to shareholder funds or long-term capital liabilities plus or loan capital. However, when it is seen from the asset side, it is equal to fixed assets multiplied with working capital. This capital is usually financed by using two funding methods namely equity and net debt of shareholders. These are assets and usually include receivables, inventories and fixed assets (Nik Maheran, 2009).

2.4 CSR in Islam

There are many academics and thinkers giving some deep criticisms in Islamic banking practices (IB), especially social and economic effects on the society. Islamic finance principles prohibit usury (interest rates), gharar (ambiguity), maisir (gambling) and some other financial products such as liquor and pork (Rosly, 2010). These rules distinguish the practice of IB from conventional banking practices. Jaufeerally (2011) added two obligations to Islamic Bank (IB). The first is the

profit and loss sharing (PLS) rule and the second is real asset-based financing. In addition, Khan and Bhatti (2008) stated that Islamic finance principles are based on participation in the actual economy and social justice. IB values are not only reflected in their banking transactions but they can be seen through their effects on macroeconomic and economic (Dusuki, 2008c). Business processes in IBs can never be separated from ethical considerations of society (Usmani, 2002). This is related to the practice of IBs with social performance scope. IB considerations for communities can be measured through implementation of corporate social responsibility (CSR)

2.5 Resources Bases Theory/Resources Based Vies (RBV)

Resources Based Theory is pioneered by Penrose (1959) expressing that company resources are heterogeneous, not homogenous; they are productive services available for company resources giving unique characteristics for each company. These resources consist of tangible and intangible assets that are used effectively in implementation of company strategies so that the company will be competitive in competing with other companies (Belkouni, 2003; Hunter and William, 2003).

This theory states that measurement of traditional performance generally is conducted on the company financial statements that are not reflected company intangible recourses in a whole. This theory considers company as a set of resources and abilities (Penrose, 1959 ; Wernelfelt, 1984). Differences of company resources and competitor companies will create competitive excellence (Peteraf, 1993). The assumption is how a company can compete with other companies to obtain competitive excellence in managing their resources based on company abilities.

Grant (1991) stated that company abilities are the main sources to achieve good performance and quality of company ability implementation depends on available resources (Knight & Cavusgil, 2004) meaning that if there are less good company resources then the company will face difficulties in managing its resources and thus, there will be not maximum capabilities.

Based on the Resources-Based Theory (RBT), company depends on different resources and capabilities and there is no perfect company (Anwar Salem & sulaiman, 2014). These resources cover important physical assets including financial, property, factory, company equipment and raw materials as well as intangible assets including company reputation, work environment and human capital. However as valuable, rare, unique and unchangeable, they will create sustainable competitive excellence. Also, there are some research results expressing that company performance is a function of effective and efficient use of tangible and intangible assets owned by company.

2.6 Value Added Intellectual Coefficient (VAIC)

The value added intellectual coefficient (VAICTM) method was developed by Pulic in 1997 that was designed to present information on value creation efficiency from tangible asset and intangible assets owned by a company. VAIC is an instrument to measure the company intellectual capital performance. This method is started with company ability to create value added (VA). Value added is the most objective indicator to assess

business success and indicate company ability in value creation. VA is calculated as differences of output and input (Ulum, 2013).

Output (OUT) represents revenue and covers all products and services sold in market, meanwhile input (IN) covers all expenses used in obtaining revenue. The importance issue in this method is that labour expenses are excluded in IN. Because of its active role in value creation process, intellectual potential (represented in labour expenses) is not calculated as cost and excluded in IN components. VA is affected by efficiency of Human Capital (HC) and Structural Capital (SC). Another relation of VA is capital employed (CE), in which called as VACA. VACA is the VA indicator created by one unit of physical capital

The following relations are VA and HC. 'Value Added Human Capital' (VAHU) indicates the amount of VA that can be created by spent funds for labors. Relation of VA and HC indicates HC ability to create company values. Consistent with views from other IC authors, Pulic argued that total salary and wage costs are company HC indicators.

The third relation is "structural capital coefficient" (STVA), indicating contribution of structural capital (SC) in value creation. SC is not an independent measurement as HC; it is dependent on value creation (Pulic, 2000). Meaning, greater HC contribution in value creation will lead to smaller SC contribution.

The final ratio is calculating company intellectual ability by summing up calculated coefficients previously. Results of sum are formulated into unique new indicator, namely VAIC (Tan et al., 2007;83).

There are a number of researches in various countries using VAIC as IC proxy. Mavridis (2004) and Kamath (2007) for example, used VAIC to ran banking IC performance in Japan and India. Ulum (2009a) for context of registered banking in Indonesian Stock Exchange. Firer and Williams (2003) tested relations of VAIC with company performance in Southeast Africa, Chen et al. (2005) used VAIC to test relation of IC with market value and company financial performance by using public company samples in Taiwan.

3 METHODOLOGY

The population in this study are all Islamic Commercial Banks that are registered in Bank Indonesia, namely there are 12 Islamic Commercial Banks. The selection of Islamic Banking industry in Indonesia is by a reason to give different views compared with previous research. Sampling method used in this research is purposive sample method. According to Sugiono (2010) purposive sampling is a technique to determine research samples with some specific considerations; it aims to obtain more representative data.

Based on the specified criteria above, not all the population of Islamic bank (12 banks) can be used as the samples. There are only four sharia commercial banks that meet the classification or are representative to be used as the samples, namely Muamalat Bank, BNI Syariah, Mandiri Syariah and BRI syariah.

The type of data used in this study is quantitative data in

the form of numbers taken from annual report of Islamic banks in Indonesia in 2012 - 2016. The annual report is used as a source of value of all variables presented in this study, namely Intellectual Capital (IC) and Corporate Social Responsibility (CSR).

Data analysis method used in this research is structural model analysis with the assistance of smart PLS software. Analytical methods used include descriptive statistical analysis used to provide an overview of the relationship between latent variables and indicators. Hypothesis testing in this research will be analyzed by path analysis, by comparing t-table test result, R2 test, and significance test..

4 RESULT AND DISCUSSION

Based on the results of processing data, it can be seen that company's intellectual ability obtains mean of VIAC for Islamic Banking during the period 2012 - 2016 ranging from 1.989 or 198%. This shows that the intellectual performance of Islamic Banking as represented by employee ability and knowledge as HC value, company's capital ability as CE value and the ability to create value added structural or SC are able to provide company added value and can improve the efficiency of revenue on any incurred expenses.

BRI Syariah i Bank s the bank with the largest intellectual capital performance during the period of 2012 - 2016 with VIAC value by 2.090 or 209% compared with BNI Islamic Bank by 2.061 or 206.1%. From the data results, it also can be seen that Mandiri Islamic bank has the smallest intellectual performance by 1.770 compared with Muamalat Bank by 2.034. When it is seen from the total assets owned, BNI syariah is a bank with the highest added value compared with other Islamic banks, but the income is still lower than BRI Islamic Bank. Generally, based on the Intellectual performance (HC, SC and CE) BRI bank is able to create better added value especially in terms of HC and SC.

Table 1. Data of VIAC Mean in Islamic Commercial banks 2012 - 2016

Bank	HC (VA/HC)	SC (SC/VA)	CE (VA/CE)	VAIC (HC+SC+CE)
Muamalat	1,623	0,384	0,027	2,034
BNI Syariah	1,617	0,382	0,062	2,061
Mandiri Syariah	1,434	0,303	0,033	1,770
BRI Syariah	1,648	0,393	0,049	2,090
Jumlah	6,322	1,462	0,171	7,955
Rata - rata	1,581	0,366	0,043	1,989

Source : Processed Primary Data

Islam has a balance responsibility principle in all forms and scopes; between heart and body, between individual and family, between individual and social, between a community with other communities. Social responsibility refers to obligations by a company to protect and contribute to the company in which the company is located.

Hassan & Abdul Latiff (2009) stated that Corporate social responsibility (CSR) is one of the main indicators of Islamic banking transaction. Therefore, CRS is manifested in the Is-

lamic financial standard management to improve transparency and accountability in islamic banks .

In social and economical aspects, employers are obliged to contribute in managing economic units in the community related to economic development and public welfare. Humanity social means employer obligation to maintain and develop humanity values, such as moral, cooperation and motivation. In this research, it refers to five themes of disclosure namely Financing and Investment theme, Product and Service Theme, Employee Theme, Community (Social) theme, and Life Environmental Theme with 11 (eleven) disclosure themes (Hani-fah, 2002).

Tabel 2. Nilai CSR Bank Umum Syariah Periode 2012 - 2016

Bank	Tema Pengungkapan					Jumlah	Rata - rata
	Keuangan dan	Produk dan Jasa	Tenaga Kerja	Sosial	Lingkungan		
Muamalat	0,1818	0,1455	0,3273	0,1818	0,1818	1,0182	0,2036
BNI Syariah	0,1818	0,1455	0,2909	0,1818	0,1818	0,9818	0,1964
Mandiri Syariah	0,1818	0,1818	0,3636	0,1818	0,1818	1,0909	0,2182
BRI Syariah	0,1818	0,0727	0,1455	0,1818	0,1818	0,7636	0,1527
Jumlah	0,7273	0,5455	1,1273	0,7273	0,7273	3,8545	0,7709
Rata - rata	0,18182	0,13636	0,28182	0,18182	0,18182	0,96364	0,19273

Sumber : Data Primer Diolah

Hypothesis testing in this research uses Partial Least Square (PLS) method. PLS is an analysis alternative method with Structural Equation Modelling (SEM) based on variance. This method excellence is that it is not necessary for assumption and it can be estimated in relatively small number of samples. It is used assisted tools in the forms of Smart PLS version 2 program that is specially designed to estimate structural equation estimation based on variance.

Statistical testing results with PLS found out that human capital has no effects on disclosure of CRS in islamic banking. This indicates that skills and knowledge can improve Islamic banking performance but it fails in developing social relations with the environment and community. These results are supported by research conducted by Anwar and Wan (2014) stating that HCE has no relation with CSR. Malik, Malik and Mustafa (2014) concluded that one of the main problems in Islamic bank is lack of professional experts in the field of Islamic financial having knowledge on Islamic financial transactions. Skilled experts in Islamic financial is one of the main components of intellectual capital leading the bank operational so that it can reach the objective in serving the public by meeting its social tasks and responsibilities.

The analysis results also indicate that capital excellence (CE) owned by Islamic bank can affect on social activities. This indicates that efficiency in using physical assets can improve the company revenues as well as improve alms acquisition so that it can support on more disclosure of company social activities (Musibah, & Alfattani, 2013). Related to the efficiency of Structural Capital (SC), it also affects on CSR activities. This describes that structural capital efficiency is knowledge and values that are implemented daily consisting of organizational routine, procedures, systems, culture, data basis, and others; all of which can improve the service on customers mainly in giving the same opportunities in the company (Anwar and Wan,2014).

5 CONCLUSION AND RECOMMENDATIONS

Overall, these research results indicate that intangible asset capability can support the disclosure of corporate social responsibility (CSR) in Islamic banking. But, this relation is not supported by human capital ability in improving corporate social responsibility. The biggest support is given by capital efficiency and employee capability in understanding company value system as well as company operational activities. Therefore, this research recommends that it is necessary for more attention in improving employee ability and competence so that they can give real contribution for the disclosure of corporate social responsibility; this will improve public trust to Islamic banks. This research is limited only to intangible asset capability on CSR. For further researches, it is expected to find out other variables that can support the CSR performance in Islamic banking.

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