

Review of: "Does Intellectual Capital Efficiency Translate into Financial Performance for Islamic Banks in Indonesia? Evidence from the Pre-Pandemic Period"

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Overall, it has a little bit of inconsistency between the title and the content. No clear link between intellectual capital and human capital.

Some specific suggestions to better link intellectual capital and human capital in the context of improving financial performance for Islamic banks:

Training and Development Programs:

- **Enhanced Skills and Knowledge:** Implement comprehensive training programs to continuously enhance employees' skills and knowledge, particularly in Islamic finance principles and modern banking technologies.
- **Leadership Development:** Focus on leadership training to cultivate strategic thinking and effective decision-making capabilities among managers and potential leaders.

Knowledge Management Systems:

- **Centralized Knowledge Repositories:** Establish centralized systems for capturing, storing, and disseminating organizational knowledge, ensuring that critical information is accessible to all employees.
- **Collaborative Platforms:** Develop platforms for knowledge sharing and collaboration, such as internal forums, wikis, and social networks, to foster a culture of continuous learning and innovation.

Performance Measurement and Incentives:

- **Linking IC Metrics to HR Performance:** Integrate intellectual capital metrics (such as innovation contributions, knowledge sharing, and process improvements) into employee performance evaluations.
- **Incentivizing Knowledge Sharing:** Create incentive programs that reward employees for their contributions to the organization's intellectual capital, including innovations, mentoring, and collaborative projects.

Strategic HR Practices:

- **Talent Acquisition:** Focus on hiring individuals with strong intellectual capital potential, such as those with advanced degrees, certifications in Islamic finance, or experience in innovative banking practices.
- **Succession Planning:** Develop robust succession planning processes to ensure that intellectual capital is retained and transferred effectively within the organization.

Technology Integration:

- **Utilization of AI and Big Data:** Leverage AI and big data analytics to identify patterns and insights from employee performance data, customer interactions, and market trends, thus optimizing human capital deployment.
- **E-Learning Platforms:** Implement e-learning platforms that provide employees with access to a wide range of training resources and courses, enabling continuous skill enhancement.

Cultural Alignment:

- **Promoting a Learning Culture:** Foster a culture that values continuous learning, knowledge sharing, and intellectual growth, encouraging employees to contribute to and utilize the organization's intellectual capital.
- **Aligning Organizational Goals:** Ensure that the goals and values of the organization are aligned with the development and utilization of intellectual capital, reinforcing the importance of human capital in achieving strategic objectives.

By effectively linking intellectual capital and human capital, Islamic banks can enhance their operational efficiency, foster innovation, and ultimately improve their financial performance.

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Introduction

The study by Ibrahim and Rosniar (2024) investigates the impact of intellectual capital efficiency on the financial performance of Islamic banks in Indonesia during the pre-pandemic period. Utilizing data from Bank Syariah Indonesia (BSI) and Bank Muamalat Indonesia (BMI) from 2016 to 2020, the study employs Ordinary Least Squares (OLS) regression analysis to examine the influence of Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), and Capital Employed Efficiency (CEE) on two key financial indicators: the Financing to Deposit Ratio (FDR) and Capital Adequacy Ratio (CAR).

Literature Review

The conceptual framework is grounded in the resource-based view (RBV), which posits that unique resources and capabilities, such as intellectual capital, can create a sustainable competitive advantage and superior performance. Intellectual Capital (IC) comprises human capital, structural capital, and relational capital, each contributing to a firm's

overall efficiency and effectiveness. Prior research indicates a positive correlation between IC and financial performance, although the specific impact on Islamic banking remains underexplored.

Methodology

Data from BSI and BMI's annual reports were analyzed using OLS regression to determine the impact of HCE, SCE, and CEE on FDR and CAR. The study focuses on the pre-pandemic period due to the lack of sufficient post-pandemic data, using this period to provide relevant insights for the post-pandemic era. Descriptive statistics, classical assumption tests, and goodness-of-fit tests were conducted to validate the regression models.

Results

Descriptive Statistics

The descriptive statistics indicate minimal variability in the independent variables (HCE, SCE, and CEE) and the dependent variables (FDR and CAR) across both banks, suggesting a level of homogeneity in their intellectual capital efficiency and financial performance.

Regression Analysis

FDR Model:

- The regression model explains 48.99% of the variation in FDR.
- CEE has a statistically significant negative impact on FDR ($\beta = -5.307860$, $p = 0.0003$), indicating that higher capital efficiency leads to a lower FDR. This suggests conservative lending practices or selective financing activities among Islamic banks.
- HCE and SCE do not have statistically significant effects on FDR.

CAR Model:

- The model does not achieve statistical significance, indicating that HCE, SCE, and CEE collectively do not explain a significant portion of the variation in CAR.
- None of the independent variables (HCE, SCE, and CEE) show a significant impact on CAR, suggesting that other factors, such as regulatory requirements and risk management strategies, play a more crucial role.

Discussion

The significant negative impact of CEE on FDR suggests that efficient capital utilization by Islamic banks leads to a cautious approach in lending. This conservatism could be beneficial in maintaining liquidity and managing risk, especially in uncertain economic conditions. The lack of significant influence from HCE and SCE on both FDR and CAR indicates that, during the pre-pandemic period, these components of intellectual capital were not primary drivers of financial

performance for Indonesian Islamic banks.

Relevance to the Post-Pandemic Era

The findings from the pre-pandemic period offer valuable insights for the post-pandemic era, characterized by increased economic uncertainty and higher risks of loan defaults. In this context, the focus on capital efficiency (CEE) becomes even more critical. Islamic banks may need to enhance their capital buffers to mitigate potential losses and maintain financial stability. Additionally, the strategic investment in human and structural capital could be reconsidered to enhance overall performance and resilience in the face of future challenges.

Conclusion

This study provides a nuanced understanding of the role of intellectual capital in the financial performance of Indonesian Islamic banks. While capital employed efficiency (CEE) has a significant impact on the Financing to Deposit Ratio (FDR), human capital efficiency (HCE) and structural capital efficiency (SCE) do not significantly influence FDR or CAR. These insights are crucial for stakeholders in the Islamic banking sector, offering guidance on leveraging intellectual capital to navigate both pre- and post-pandemic economic landscapes. The findings underscore the importance of capital efficiency in maintaining liquidity and financial stability, particularly in times of economic uncertainty.