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THE INFLUENCE OF INTELLECTUAL CAPITAL AND SHARIA COMPLIANCE ON ISLAMIC BANKS FINANCIAL PERFORMANCE IN SOUTHEAST ASIA

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Abstract

This study examines the effects of Intellectual Capital (IC) and its components (capital employee, human capital, and structural capital) and Sharia Compliance on Islamic banks' financial performance in Southeast Asia. The value-added intellectual coefficient (VAIC) approach developed by Pulic (1998) is used to determine the IC performance of 30 Islamic banks for the years 2018, 2019, and 2020.

The study reveals that human capital and structural capital significantly affect Islamic banks' financial performance. However, this study fails to demonstrate that VAIC, capital employed, and sharia compliance affect Islamic banks' financial performance. This study contributes to enriching the Islamic economy and finance literature because only a few studies test the factors affecting the Islamic banks' financial performance in Southeast Asia.

Keywords : Intellectual Capital, Capital Employed, Human Capital, Structural Capital, Sharia Compliance

I. INTRODUCTION

Banks are business entities that collect funds from the public in the form of deposits and distribute them to the public in the form of credit and/or other states to improve the people's standard of living (Law No. 10 of 1998). In the eighth century, as the international trade between Arab traders and European counterparts became more extensive, the need for Islamic banking arose (Chachi, 2008). However, Islamic banking practices dropped after the 11th century (Chachi, 2008) and rose again in the 1960s. Since then, the Islamic banking sector has grown rapidly and generated hundreds of billions of assets (Ousama & Fatima, 2015). One region with a remarkable growth of Islamic banking is the Southeast Asia region covering several countries such as Malaysia, Indonesia, Brunei Darussalam, and the Philippines. According to Fahlevi (2016), The Southeast Asia region is at the center of the development of the global Islamic banks and finance industry.

The significant development of Islamic banks is not only about competing for material benefits like other business entities. Islamic banks certainly have specific goals that are not the same as conventional banks. The purpose of Islamic banks is to bring the vision of Islamic values in the economic field into the banking and financial environment

to realize human welfare and justice in the community. However, Islamic banks should be financially competitive to survive globally. In the past, tangible assets and efficiency were the main aspects of measuring a company's financial performance (Ousama & Fatima, 2015). Presently, as the physical-based economy has shifted to the knowledge-based economy, intangible assets have gained a crucial role as the source of financial performance and competitive advantage (Soewarno & Tjahjadi, 2020).

Intangible assets, specifically Intellectual capital (IC), have become an important means of creating value and innovation, leading to the company's profit growth (Chowdhury et al., 2019). The most commonly used method to determine the efficiency of a company's IC is the Value Added Intellectual Coefficient proposed by Pulic (1998). Most scholars are in consensus when measuring the IC by involving these elements; human capital, structural capital, and capital employed efficiencies (Chowdhury et al., 2019; Ousama & Fatima, 2015; Pulic, 2004; Soewarno & Tjahjadi, 2020). Some studies have proven that well-managed intellectual capital improves a company's financial performance (Chowdhury et al., 2019; Inkinen, 2015; Khalique et al., 2018; Nadeem et al., 2018; Nimtrakoon, 2015).

Islamic banks should follow Islamic values and principles as a distinct financial institutions. The fulfilment of Sharia values and principles in the business activities, transactions, and daily operation of Islamic banks is called Sharia compliance (Djuwita et al., 2019). Some studies show a positive relationship between Sharia compliance and the Islamic banks' financial health and performance (Azzahra, 2020; Falikhatun & Assegaf, 2012; Najib & Rini, 2016). Accordingly, holding to the Sharia principle for Islamic banks is not only to obey Allah's order, but also benefits the banks' performance.

Having the intellectual capital and Sharia compliance factors together, it is expected that Islamic banks would be more competitive in the industry. Considering the importance of both elements in Islamic banking industry, this study aims to analyze the effect of intellectual capital and Sharia compliance on Islamic banks' financial performance. Islamic banks in the Southeast Asia region are chosen as the sample since there are still limited studies covering the region. Moreover, previous IC studies still show inconsistent results on how the IC affects financial performance. Therefore, this study attempt to answer the central question: how do intellectual capital and Sharia compliance affect financial performance in Islamic banks in Southeast Asia in 2018-2020.

The remaining parts of this paper are structured as follows. Part two discusses the literature on intellectual capital, Sharia compliance, and Islamic Banks' financial performance. The research methodology follows this in part three. Part four will discuss the study results and analysis of the results and is concluded in part five.

II. LITERATURE REVIEW

2.1 Intellectual Capital

James Kenneth Galbraith was the first economist who presented intellectual capital in 1969. There is no standard definition of intellectual capital. According to Sidharta & Affandi (2016), intellectual capital is knowledge, information, and intellectual property that enable the company to discover opportunities and mitigate risks. It is the result of human thinking which plays a role in strategy implementation to attain a competitive advantage and improve the company's performance (Soewarno & Tjahjadi, 2020).

Intellectual Capital is identic to knowledge. In Islamic worldview, the knowledgable individuals are highly honored and appreciated, they are placed in a higher and precious position as what Allah *Subhanahu Wata'ala* said in Qur'an Surah Az-Zumar verse 9. The ayah explains that people who are knowledgeable and obedient to Allah cannot be compared with people who don't know anything. A knowledgeable person can see the value and virtue of the knowledge; hence their knowledge can benefit others and does not violate Allah's order.

Intellectual capital consists of human capital, structural capital, and customer capital (Bontis, 1998). Meanwhile, IFAC (1998) classifies intellectual capital into three categories; human capital, organizational capital, and relational capital. Structural capital is also known as organizational capital, while customer capital is sometimes called relational capital.

Human capital consists of employees' skills and knowledge that can be improved through special training (Joshi et al., 2013). It is the core of intellectual capital, as human is the one who creates innovation and improvement to achieve the company's goals (Sidharta & Affandi, 2016). Andriana (2014) defined human capital as a skilled employee who can improve the company's performance and ensure its survival. Human capital can be seen from the individual level, such as creativity and technical skill, and organization levels, such as teamwork and conducive work environment (Joshi et al., 2013).

Structural capital or organizational capital represents the company's uniqueness in the form of corporate culture, procedures, management philosophy, business process, or specific operating system (Soewarno & Tjahjadi, 2020). It is created by the organizations and belongs to them (Joshi et al., 2013). According to Chowdhury et al., (2019), structural capital also provides the facility to support and improve employee performance.

Customer or relational capital reflects the company's ability to establish a relationship with external parties such as customers, suppliers, and other stakeholders (Joshi et al., 2013). Sidharta & Affandi (2016) stated that relational capital offers actual value by creating a good harmony with the company's partners. This capital will lead to customer loyalty, market image, goodwill, or strategic network that the company should adequately maintain (Joshi et al., 2013).

Some scholars have developed different methods of IC valuation, for example, Skandia IC Report Method (Edvinsson, 1997), Value Added Intellectual Coefficient (VAIC) model (Pulic, 1998), and Intangible Asset Monitor Approach Sveiby (1997). From these methods, VAIC model is the most widely used by researchers and academics since it offers a standardized and integrated measure for all industries (Nimtrakoon, 2015).

VAIC model by Pulic (1998) exercises values from income statements and statement of financial position to measure the value added that emerge from the firm's intellectual capital. In this model, Pulic (1998) combines indicators of intellectual capital in calculating the efficiency of the value generated by the company called Capital Employed Efficiency (CEE), Human Capital Efficiency (HCE), and Structural Capital Efficiency (SCE).

2.2. Sharia Compliance

One of the fundamental aspects that make the Islamic financial industry differ from its conventional counterpart is Sharia principle. According to AAOIFI (2005), Sharia compliance means following the guidance, direction, Islamic philosophy related to fatwas, and philosophical directives. Sharia compliance implies the principle of action to conduct all activities of Islamic financial institutions based on Islamic teachings through fatwas and Islamic philosophy. In practice, Sharia compliance is required to review Islamic banking activities to be disciplined and on track to minimize possible risks (Sukardi, 2012). Sharia compliance is one of the essential pillars in developing Islamic banks. According to Arifin (2009), the meaning of Sharia compliance in Islamic banks is applying Islamic principles.

The concept of Sharia compliance is narrated in the Holy Qur'an surah Al-Anfal verse 27. According to Tafseer Al Muyassar, this ayah describes that the person who believes in Allah and follows His Messenger will not ignore His commands and violate His prohibitions. The trusts that have been given are such as debts and others. Ignoring Allah *Subhanahu Wa Ta'ala's* rules is also a form of betrayal. Therefore, Islamic banks must conduct all of their activities following the Sharia principles.

Sharia compliance measurement can be quantified by using several indicators, they are Profit Sharing Ratio, Islamic Investment Ratio, and Islamic Income Ratio (Djuwita et al., 2019). This study will be using the Islamic Income Ratio (IsIR) to measure

sharia compliance. IsIR is the ratio of halal income to total income as a whole (halal and non-halal).

2.3 Islamic Banks' Financial Performance

Performance is the result of work that can be achieved by a person or a group of people in an organization, respective authorities, and responsibilities, to achieve the organization's goals concerned legally, not violating the law, and under morals and ethics (Prawirosentono, 1998 in Kusnowati, 2013). Performance is significant for the company because it reflects managing and allocating its resources. In addition, performance can also motivate employees to achieve organizational goals and standards of behavior that the previous company has set.

Financial performance is a description of a company's financial condition that is analyzed with the tools of economic analysis to know the dire state of a company's financial performance that reflects the performance within a certain period. Many ratios can measure financial performance, such as Return on Asset, Return on Equity, Asset Turnover, Growth Ratio, and many more.

This study uses Return on Asset (ROA) to measure the financial performance of Islamic banks. ROA reflects the business benefits and efficiency of the company in the utilization of total assets (M.-C. Chen et al., 2005). This ratio represents the profitability ratio, which measures the company's ability to generate profits utilizing the firm's total assets. The higher the value of ROA, the more efficient the company is in using its physical and non-physical assets (intellectual capital), to generate profits for the company.

2.4 Hypothesis Development

2.4.1 The Effect of Capital Employed Efficiency (CEE) on Islamic Banks' Financial Performance

Capital employed is a capital used to obtain fixed capital and current assets in the form of intangible capital such as cash, valuables, receivables, inventories, and others (Solechan A, 2017). Capital employed acts like an information or efficient use of physical and financial capital of the company also serve to create corporate value. Previous studies (Azzahra, 2020; Nimtrakoon, 2015; Nuraini et al., 2018; Ousama & Fatima, 2015; Sidharta & Affandi, 2016) proved that capital employed has an effect on profitability proxied by return on asset and return on equity. Hence, this study proposes the hypothesis as follows:

H1: Capital Employed Efficiency (CEE) positively affects Islamic banks' financial performance.

2.4.2 The Effect of Human Capital Efficiency (HCE) on Islamic Bank's Financial Performance

Human capital reflects the intellectual abilities possessed by each individual within the organization represented by its employee (Bontis et al., 2008). Azzahra (2020) found that human capital had a positive and significant effect on financial performance. Setianto & Sukmana (2016) study found that human capital efficiency tends to exhibit higher profitability levels. This implies that when a company has successfully utilized and maximized its employees' expertise, knowledge, network, and thinking of its employees, it would be easier for them to achieve the company's success. From the explanation above, the researcher proposes the following hypothesis:

H2: Human Capital Efficiency (HCE) positively affects Islamic banks' financial performance.

2.4.3 The Effect of Structural Capital Efficiency (SCE) on Islamic Banks' Financial Performance

Structural capital shows knowledge that will remain in companies' non-human nature, such as company routines, procedures, systems, culture, and databases (Salim &

Karyawati, 2013). Some studies (Azzahra, 2020; Nick Bontis et al., 2000; M. C. Chen et al., 2005; Nadeem et al., 2018) showed that structural capital relates to company profitability measured by return on assets. However, the other studies (Chowdhury et al., 2019; Nimtrakoon, 2015; Ousama & Fatima, 2015; Setianto & Sukmana, 2016) found that structural capital does not affect the return on assets. Accordingly, the hypothesis is proposed as follows:

H3: Structural Capital Efficiency (SCE) positively affects Islamic banks' financial performance.

2.4.4 The Effect of Value Added Intellectual Coefficient (VAIC) to Islamic Banks' Financial Performance

Intellectual capital contributes to improving a firm's value (Soewarno & Tjahjadi, 2020). The efficient use of capital implies that the company's resources are well managed and results in a higher profit. Previous studies (Azzahra, 2020; M. C. Chen et al., 2005; Nadeem et al., 2018; Nuraini et al., 2018; Ousama & Fatima, 2015) revealed that intellectual capital consisting of human capital, structural capital, and capital employed significantly influences the company's financial performance. The higher the educational value of a company, the better the financial performance. Referring to applied theory and previous studies, the hypothesis proposed is as follows:

H4: Value Added Intellectual Coefficient (VAIC) positively affects Islamic banks' financial performance.

2.4.5 The Effect of Sharia Compliance on Islamic Banks' Financial Performance

One important pillar in the development of Islamic banks is Sharia compliance. This pillar is the main element that differentiates Islamic banks from conventional banks. Research conducted by Biyantoro & Ghoniyah (2019) that discusses the relationship between sharia compliance and sharia commercial banks found that sharia compliance proxied by profit sharing ratio has a negative effect on fraud in Islamic banks. Moreover, Azzahra (2020); and Djuwita *et al.* (2019) found that Sharia compliance positively impacts financial performance. From the explanation above, the researcher proposes the following hypothesis:

H5: Sharia Compliance positively affects Islamic banks' financial performance.

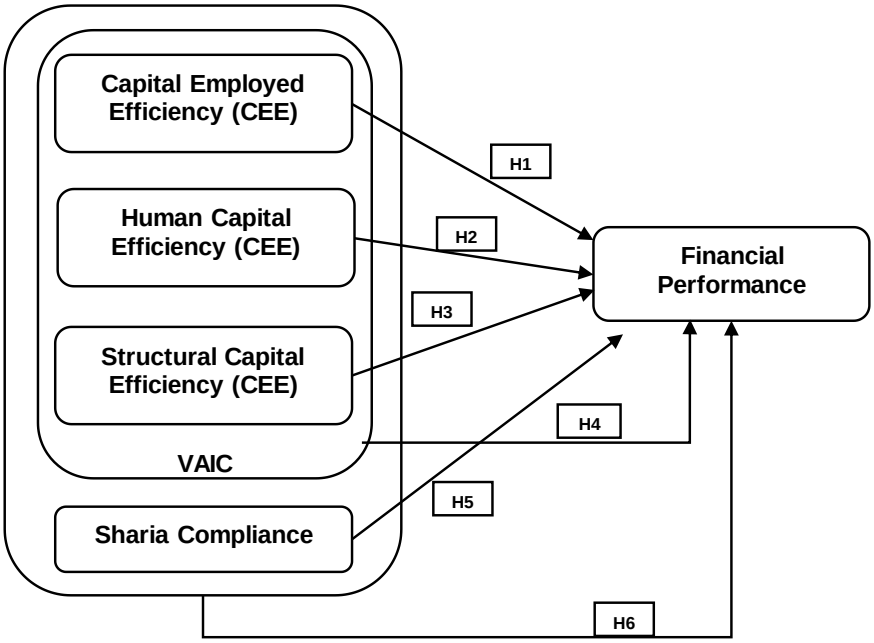
2.4.6 The Effect of Sharia Compliance and Value Added Intellectual Coefficient to Islamic Banks' Financial Performance

According to earlier explanation, previous studies have proved that Intellectual capital and Sharia compliance are two essential elements that affect Islamic banks' financial performance. By managing their intellectual capital adequately and following the Sharia principles consistently, Islamic banks would have a competitive advantage in the industry. Based on the research conducted by Azzahra (2020), sharia compliance and value-added intellectual coefficient have a positive effect and an influence on Islamic banks. This study supports the argument that intellectual capital (human capital, structural capital, and capital employed) and Sharia compliance affects financial performance (return on assets); therefore, the following hypothesis is formulated:

H6: Sharia Compliance and Value Added Intellectual Coefficient positively affect Islamic banks' financial performance.

2.5 Research Framework

According to the above hypothesis development explanation, the research framework is formulated as follow:



III. RESEARCH METHODOLOGY

3.1 Sample and Data Collection

This study employed a secondary data source in the form of annual reports of Islamic banks in the Southeast Asia region in the period 2018-2020. This study used the purposive sampling method as presented in Table 1.

Table 1 Sample Criteria

No	Sample Criteria	Total
1	Islamic banks in Southeast Asia	37
2	Islamic banks that publish complete annual reports from 2018-2020	36
3	Annual report published in English or Indonesian	35
4	Islamic banks that have complete variable data used in research during 2018-2020	30
The number of samples that meet the criteria		30
Research period		3
Total sample data for the period 2018-2020		**90**

Four countries in the Southeast Asia region passed the requirement from the above criteria, and the data is presented in Table 2.

Table 2 Islamic Banks' Sample List

Indonesia	**Malaysia**
1. Aceh Sharia Bank	1. Affin Islamic Bank Berhad
2. BCA Sharia Bank	2. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
3. BJB Sharia Bank	3. Alliance Islamic Bank
4. BNI Sharia Bank	4. AmBank Islamic Berhad
5. BRI Sharia Bank	5. Bank Islam Malaysia Berhad
6. Bukopin Sharia Bank	6. Bank Muamalat Malaysia Berhad
7. Mandiri Sharia Bank	7. CIMB Islamic Bank Berhad
8. Maybank Sharia Bank	8. HSBC Amanah Malaysia Berhad
9. Mega Sharia Bank	9. Hong Leong Islamic Bank Berhad
10. Muamalat Bank	10. Kuwait Finance House (Malaysia) Berhad
11. Victoria Sharia Bank	11. MBSB Bank Berhad
12. Panin Sharia Bank	12. OCBC Al-Amin Bank Berhad
13. BTPN Sharia Bank	13. Public Islamic Bank Berhad
	14. RHB Islamic Bank Berhad
	15. Standard Chartered Saadiq Bank Berhad
Filipina	**Brunei Darussalam**
1. Al-Amanah Islamic Bank of Phillippines	1. Brunei Darussalam Islamic Bank Berhad

3.3. Variable Operational

The dependent variable of this study is Islamic banks' financial performance, which was proxied by Return on Asset. The independent variables were the efficiency of the Intellectual capital component (human capital, structural capital, and capital employed), VAIC, and Sharia compliance. Table 3 presents the measurement of each variable.

Table 3 Variable Operational

No	Variable	Formula	Scale	Sources
1	Human Capital Efficiency (HCE)	$\text{HCE} = \frac{\text{VA}}{\text{HC}}$	Ratio	(Pulic, 2004)
2	Structural Capital Efficiency (SCE)	$\text{SCE} = \frac{\text{SC}}{\text{VA}}$	Ratio	(Pulic, 2004)
3	Capital Employed Efficiency (CEE)	$\text{CEE} = \frac{\text{VA}}{\text{CE}}$	Ratio	(Pulic, 2004)
4	Value Added Intellectual Coefficient (VAIC)	VAIC = HCE + CEE + SCE	Ratio	(Pulic, 2004)
5	Sharia Compliance	$\text{IsIR} = \frac{\text{IsIn}}{\text{IsIn} + \text{N IsIn}}$	Ratio	(Azzahra, 2020)
6	Return on Asset (ROA)	$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$	Ratio	(Azzahra, 2020)

Description:

VA	: Value Added (VA = Operational Profit + Employee Costs + Depreciation + Amortization)
HC	: Human Capital (HC = Salary Costs)
SC	: Structural Capital (SC = VA – HC)
CE	: Capital Employed (CE = Total Assets – Current Liabilities)
IsIR	: Islamic Income Ratio
IsIn	: Islamic Halal Income
N IsIn	: Islamic Non-Halal Income

3.4 Data Analysis Methods

The analytical technique used in this research is panel data regression. Panel data is a combined analysis of cross-sectional and time-series data to provide informative and efficient data. Panel data can provide informative data, reduce collinearity between variables, increase the degree of data freedom and be more efficient. Panel data regression model was conducted to determine the effect of two or more independent variables on the dependent variable. The panel data regression model has shown the following equation:

$$ROA_{it} = \alpha_{it} + \beta_1 CEE_{it} + \beta_2 HCE_{it} + \beta_3 SCE_{it} + \beta_4 VAIC_{it} + \beta_5 SC_{it} + e_{it}$$

Description:

ROA	: Return on Asset
CEE	: Capital Employed Efficiency
HCE	: Human Capital Efficiency
SCE	: Structural Capital Efficiency
VAIC	: Value Added Intellectual Coefficient
SC	: Sharia Compliance
α	:Constanta
β	: Coefficient of each independent variable
i	: Company
t	: Time
e	: Error

Before analysing the data, several tests are performed to fulfil the classical assumptions, such as multicollinearity, heteroscedasticity, and autocorrelation.

IV RESULTS AND DISCUSSION

4.1 Statistic Descriptive Result

Table 4 presents the results of the descriptive statistics regarding the variables of this study, namely VAIC, SCE, CEE, HCE, IsIR, and ROA. The results showed that The mean of VAIC is 1.78, and the standard deviation is 0.69. The lowest value of VAIC belonged to Alliance Islamic Bank in 2018 (1.01), while Maybank Sharia Bank achieved the highest in 2018 (5.83).

Table 4 Statistic Descriptive

Variable	N	Mean	Minimum	Maximum	Std. Deviation
VAIC	90	1.78	1.01	5.83	0.67
SCE	90	0.66	0.02	5.16	0.81
CEE	90	0.17	-0.16	0.61	0.13
HCE	90	1.98	-0.88	4.85	1.13
IsIR	90	0.97	0.90	1	0.025
ROA	90	1.62	-6.86	13.6	2.69

The mean of SCE is 0.66, and the standard deviation is 0.82. The lowest value of SCE was generated by Muamalat Indonesia Bank in 2019, which is 0.020 while Al Amanah Islamic Bank of Philippines achieved the highest value in 2020, which is 5.16. The CEE has a mean value of 0.17, and the standard deviation is 0.81. The minimum value is -0.16 from Al Amanah Islamic Bank of Philippines in 2019, and Muamalat Indonesia Bank achieves the maximum value in 2020, which is 0.61. The last variable of VAIC is HCE which has mean value of 1.98, and the standard deviation is 1.13. Maybank Sharia Bank achieved the lowest value in 2018 (-0.88), and the highest value is 4.84, performed by HSBC Amanah Malaysia Berhad in 2019.

The IsIR value has 0.97 for the mean, and the standard deviation is 0.02. The minimum value is 0.90 from CIMB Islamic Malaysia Berhad in 2019 and the maximum value is 1 from Victoria Sharia Bank in 2020, Maybank Sharia Bank in 2018, Islamic Bank of Malaysia in 2019 and 2020, and the last is from Hong Leong Islamic Bank Berhad on 2018.

4.2 Classical Assumption Test

Multicollinearity Test

Table 5 Multicollinearity

Variable	VIF	1/VIF
VAIC	1.62	0.615955
SCE	1.49	0.672088
HCE	1.41	0.710954
CEE	1.17	0.856677
IsIR	1.07	0.934846

Based on the result of the Multicollinearity Test Analysis, it can be seen that there is no VIF value of the independent variable. Each variable VAIC, SCE, HCE, CEE, and IsIR value are no more than 10, indicating that the data is free from multicollinearity between independent variables.

Autocorrelation Test

Table 6 Autocorrelation Test Results

Prob	0,1077

The result of the Autocorrelation Test shows that the probability is greater than the alpha (0,05). It means that the data of this study has no autocorrelation between variables.

Heteroscedasticity Test

Table 7 Heteroscedasticity Test Results

Chi2 (38)	1.95	**Prob. Chi-Square**	0.1615

In the table, the results of the Heteroscedasticity Test obtained a p-value of 0.16, which is greater than 0.05. It means that it fails to reject Ho, which means that there is no heteroscedasticity.

4.3 Model Selection Test

Chow Test

The results of the Chow Test aimed at determining the best model between the Common Effect and the Fixed Effect model are as follows:

Table 8 Chow Test Result

F (34, 35)	Prob > F
12.56	0.0000

From the table above, the results of Chow Test Analysis show that the p-value is 0.0000, which is under 0.05. This means rejecting Ho, which means that there are individual effects, so the Fixed Effect Model is better than the Common Effect Model.

Hausman Test

The results of the Hausman test aimed at determining the best model between the Fixed Effect Model and the Random Effect Model are as follows:

Table 9 Hausman Test Results

Chi2(5)	Prob > Chisquare
99.05	0.0000

Table 9 implies that the Ho is rejected because the p-value is 0.0000, which is under 0.05. This also means that the **Fixed Effect Model** is better than the Random Effect Model.

4.4 Hypothesis Discussion

Table 10 Statistical Test Results

Variable	Coef.	p-value
Independent Variable		
CEE	3.17949	0.258
HCE	1.986594	0.000
SCE	-2.923282	0.000
VAIC	0.1183315	0.728
IsIR	12.58411	0.145
Control Variable		
Const	-13.27972	0.123
N	90	
F-stat	0.0000	
R^2	0.5528	
Note : 5% *statistically significant*		

F Test and R Square

Based on the result shown in the table above, it can be seen that F-stat value is 0.000, which is lower than 0.05. This means that the Value Added Intellectual Capital and Sharia Compliance have a simultaneous significant effect on financial performance. The R square test shows that 55% of the independent variables can explain its impact on financial performance. The residual 44.8% is influenced by other variables not used in this research.

4.3 Discussion

The Effect of Capital Employed Efficiency on Financial Performance

The Capital Employed Efficiency (CEE) variable has a positive coefficient (3.17949) and an insignificant probability level (0.258). As a result, the CEE variable has no significant impact on the Islamic bank's financial performance. The result implies that Islamic banks' procedures and routine banking processes do not affect Islamic banks' ROA. Services provided by Islamic banks also have no impact on financial performance so that the additional employee welfare does not affect ROA.

This study's result is aligned with previous studies by Prima (2018) and Chowdhury et al.. However, it contradicts the research of Azzahra (2020), which concluded that there is a significant effect

The Effect of Human Capital Efficiency on Financial Performance

The Human Capital Efficiency (HCE) variable has a positive coefficient (0.258) and a significant probability level (0.000). Therefore, the HCE variable is said to have a

positive and significant effect on the Islamic bank's financial performance. The result suggests that intellectual capital is intellectual property centered on human resources or employees that function to improve the company's competitiveness. Human capital is expected to make an efficient business process and activities and an innovative product or service that would decrease operating costs, thus increasing the company's profit. The result of this study supported the previous research, such as Azzahra (2020); Soewarno & Tjahjadi,(2020); Chowdhury et al., (2019); Joshi et al., (2013); and Setianto & Sukmana, (2016).

The Effect of Structural Capital Efficiency on Financial Performance

The Structural Capital Efficiency (SCE) variable has a negative coefficient (-2.923282) and a significant probability level (0.000). This implies that SCE has a negative significant effect on Islamic banks' financial performance. Structural capital is the uniqueness of a company in the form of company's value, business process, management philosophy, or information system. This structural capital might not be beneficial for the company's profitability if they are outdated and are not internalized adequately in every elements of the company. The research conducted by Rahmah & Nanda (2019) also found that structural capital has a significant and negative effect on financial performance.

The Effect of Value Added Intellectual Coefficient on Financial Performance

Value Added Intellectual Coefficient (VAIC) has no significant effect on Islamic banks' financial performance. If there is an increase or decrease on VAIC, it does not affect the Islamic banks' financial performance. This means that some of the intellectual capital that the company owns has not directly affected the company's efforts to achieve the company's goal or get a better profit. This is in line with the research conducted by Prima (2018), which stated that VAIC does not affect financial performance. Study conducted by Andriana (2014) found that Intellectual Capital has a negative and insignificant effect on financial performance.

The Effect of Sharia Compliance on Financial Performance

The Sharia Compliance (IsIR) variable has a positive coefficient (12.58411) and an insignificant probability level (0.145). It suggests that Sharia compliance has no significant effect on Islamic banks' financial performance. The results of this study are consistent with the research conducted by Umiyati (2020) which stated that Sharia Compliance has no significant effect on financial performance. In practice, non-halal funds or non-halal income do not become a part of operating income but are channeled as benevolent funds. This research is inconsistent with the study conducted by Biyantoro & Ghoniyah (2019) that discusses the relationship between sharia compliance and sharia commercial banks found that sharia compliance proxied by profit sharing ratio has a negative effect on the banks financial performance.

The Effect of Value Added Intellectual Coefficient and Sharia Compliance on Financial Performance

Value Added Intellectual Coefficient (VAIC) and Sharia Compliance significantly affect Islamic banks' financial performance. This occurs because VAIC as the combination of several intellectual capitals is believed to play an essential role in increasing company value and financial performance (ROA). Sharia compliance is also one of the crucial pillars in developing Islamic banks. The result is the same as in the study conducted by Azzahra (2020), Sharia compliance and value-added intellectual coefficient have a positive effect and influence Islamic banks. It can be shown in Table 10 that the result is 0.000, which means H_6 is accepted.

V CLOSING

5.1 Summary

This study aims to know whether the variables HCE, SCE, CEE, VAIC, and IsIR affect the Islamic Banks' financial performance in Southeast Asia. The data is tested using the panel data regression method with Stata version 14 Software. Only HCE and SCE significantly affect Islamic banks' financial performance from five variables tested in this research. The other variables, namely CEE, VAIC, and Sharia Compliance, have no significant effect on Islamic banks' financial performance.On the other side, simultaneously, Value Added Intellectual Coefficient (VAIC) and Sharia Compliance have positive and significant results on Islamic banks' financial performance.

5.2 Limitations and Suggestions

This research still has limitations, so that there are some suggestions given to get more quality research results in the future, especially for further researchers, namely as follows:

1. The research sample is limited to Islamic Banks in Southeast Asia, which only exist in four countries: Indonesia, Malaysia, Brunei Darussalam, and the Philippines. The addition of Islamic banks worldwide will enhance this research in the future.
2. The research period is limited to 3 years. A more extended period may lead to more accurate and convincing results.
3. The study only relies on quantitative analysis (regression), which is insufficient to provide an overview of Islamic banks in Southeast Asia. Islamic banks are multiplying in some areas of the world. Therefore, a quantitative analysis (descriptive analysis or interviews) is needed to understand better the position of Intellectual Capital and Sharia Compliance in the Islamic finance industry.

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