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CONTENT

IMPROVED THE PERFORMANCE OF ISLAMIC BANKING WITH DEVELOPING INTELLECTUAL CAPITAL INNOVATION CONCEPTS

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ABSTRACT

The long-term goal of this research is to build new models of theoretical approaches to resolve the conceptual controversy regarding the relationship of human capital, structural capital, customer capital and partner capital to innovation comprehensively. In contrast to previous studies that generally tested the causality between tangible assets, innovation and organizational performance. This research starts from factors that can influence innovation, so that can be obtained clarity about how to improve innovation in an organization.

The research basically is modelling approach, by using library and literature method. Besides that the study employs the teoritical study to strengthen the relation among the founded concepts.

The results of this study are propositions formulated in the form of basic theoretical models and developed in the form of hypotheses and empirical models of research that can be tested for further research.

The future research is needed to examided the proposed model by using direct observation and interview. Structural Equation Modeling (SEM) technique with AMOS program version 20 is the most appriate tools to analysed the data collected. Besided that, the research should involve the islamic banking in Indonesia.

Keywords: intellectual capital, innovation, islamic banking

1. Background

To face the Asian Economic Community (MEA) required creativity and innovation of each product produced so as to have competitive advantage. In the last twenty-five years there has been a fundamental corporate revolution. Industries that previously rely on tangible physical assets are transitioning to a new economy, ie production of goods and services and value creation becomes dependent on intellectual capital (Daum, 2003). It is increasingly recognized that intellectual capital and its effective management are a source of sustainable competitive advantage (Tanaszi and Duffi, 2000). The more important role and contribution of intellectual capital can be seen in the comparison between book value and market value in knowledge based companies.

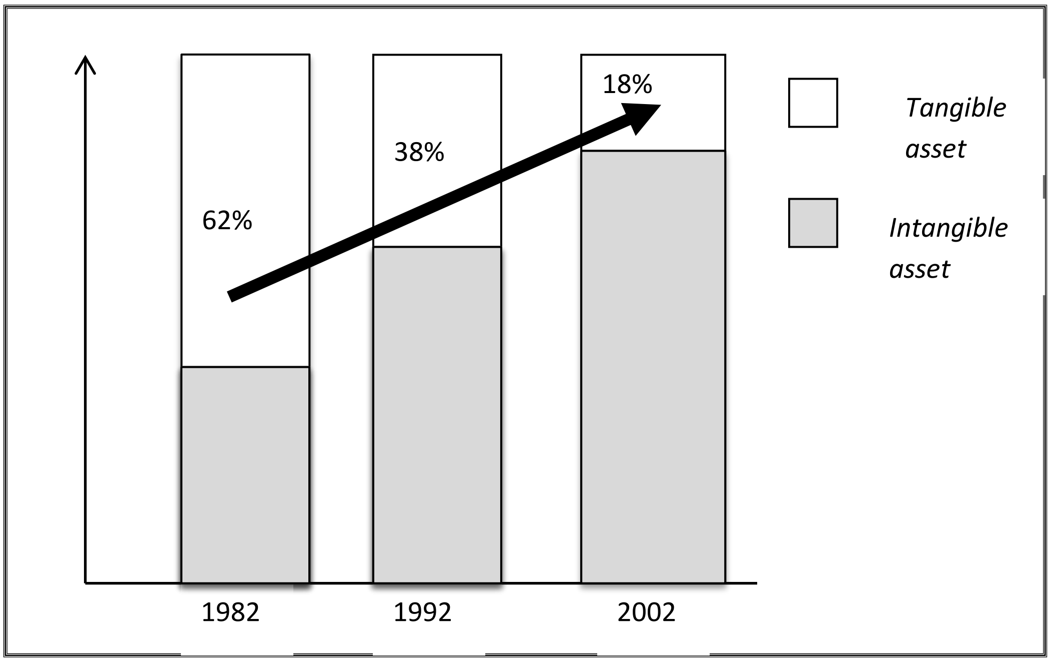
In this knowledge-based management system, conventional capital such as natural resources, financial resources and other physical assets become less important than capital based on knowledge and technology. By using science and technology it can be obtained how to use other resources efficiently and economically, which will provide competitive advantage (Rupert 1998).

Currently the implementation of intellectual capital is something new, not only in Indonesia but also in the global business environment, only some developed countries have started to apply this concept, for example Australia, America and Scandinavian countries. In general, business people still have not found the right answer about the value of what is owned by the company.

This research is also based on the research gap in previous research, namely:

1. Reduced or even loss of fixed assets in the company's balance sheet does not cause a loss of market reward against them. (Rupert, 1998) reveals that this is reflected in the number of companies that have significant non-tangible assets in the financial statements but the market rewards of these companies are very high (Roos et.al., 1997) as in Figure 1.1 also reveals that " the market value of these companies are many times their net asset value, that is the value of their physical. The difference between the two values is the company's "hidden value", which can be expressed as a percentage of the market value ".
2. According to Robert F. Hurley and Thomas M. Hult (1998), research on innovation in developing countries is still relatively small, most research on innovation is done in developed countries. It is therefore necessary to research innovations in developing countries such as Indonesia where the interest of innovation is strongly conditioned by national / regional context that is different from the proposition of innovation interest in developed countries that do not depend much on national or regional context. This distinction is an interesting basis for conducting replication research in developing countries.
3. According to Mc. Elroy (2002), innovation is a social process, not an administrative process that gives managers the meaning of flow management and the quality of knowledge and its use. The view that innovation as a social process helps us understand that in the real world, innovation is an unmanaged process.

Figure 1.1. Intangible Asset Development.



4. The results of research conducted by Marques, Simon and Caranana (2006) in 222 Spanish biotech and telecommunication companies show that innovations consisting of Schumpeterian competence and continuous improvement are positively related to human capital, structural capital and relational capital. While the results of research conducted by Subramaniam and Youndt (2005) on 208 vice presidents/marketing and R & D directors in the US show that incremental innovation is positively related to human capital, organizational capital and social capital and radical innovation is positively associated with organizational capital and social capital and negatively related to human capital.

1.1. **Problems**

From the background described above, the subject of this research is how to develop new theoretical approaches to know the influence of human capital, structural capital, customer capital and partner capital to the capability of innovation and also innovation capability has a positive and significant effect on islamic banking performance?

1.2. Special Purpose

The purpose of this research is to build proposition and model in relationship with Intellectual Capital Innovation Concepts.

1.3. Urgency Research

From the background and problems above, Urgency of this research is described as follows :

1. The occurrence of a fundamental corporate revolution in which an industry previously based on tangible physical assets undergoes a transition to a new economy, ie the production of goods and services and value creation becomes dependent on intellectual capital (Daum, 2003).
2. Intellectual capital is still difficult to codify (Kogut and Zander, 1992; Conner and Prahalad, 1996) and difficult to trade (Barney, 1986).
3. Research on innovation in developing countries is still relatively small, most research on innovation is done in developed countries.
4. The contradiction between research results of the relationship between intellectual capital and innovation.

2. Research Methods

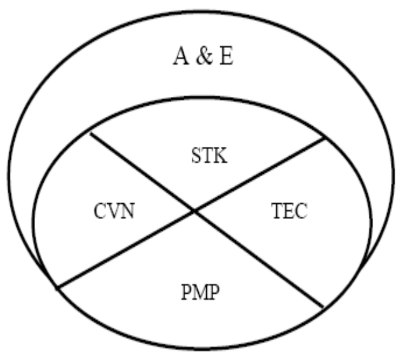
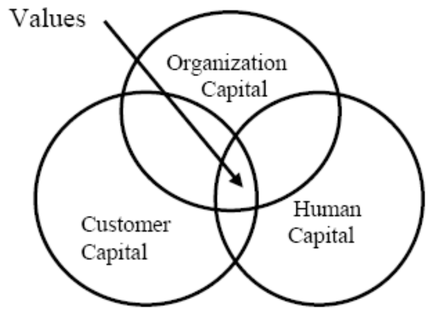
This study employs a modelling method based on the concept arise. Library and literature method were used in the study to propose a model Intellectual Capital Innovation Concept. Besides that, the study used the theoretical approach to strengthen the relation among the founded concept.

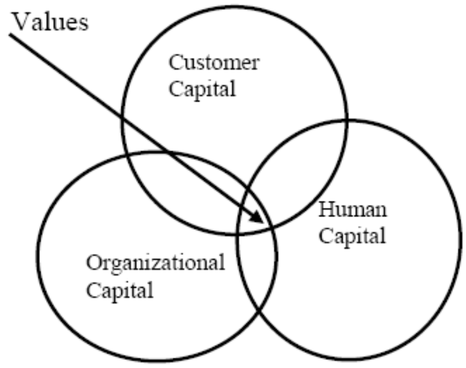
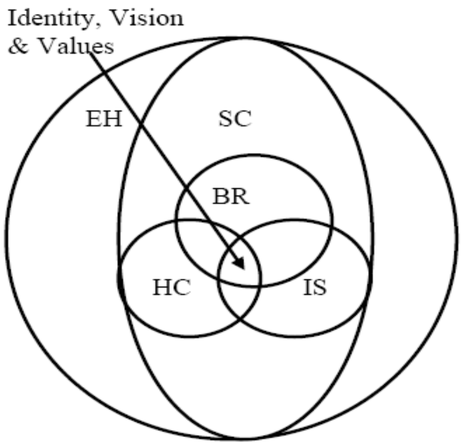
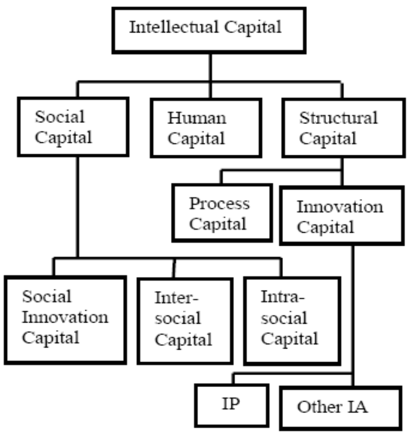
3. Model Process Development

3.1. State of The Art

The development of the definition of the concept of intellectual capital from 2000 to 2005 can be seen in table 2.1 below:

Table 2.1. Development of Intellectual Capital Concept 2000 – 2005

Andriessen & Tissen (2000)	
Five categories of intangible assets: (i) Skill and tacit knowledge (ii) collective norms and values (iii) Explicit technology and knowledge (iv) Primary management process (v) Assets & Endowments	
Guthrie & Petty (2000)	
Intellectual capital consists of: (i) internal: organization (structural) capital. (ii) external: customer (relational) capital (iii) employee competence: human cap	

Mayo (2000)	
The general form of intellectual capital: (i) Customer (external) capital: customer relationship, loyalty, satisfaction & image. (ii) Organizational (internal structure) capital: system, patents, know-how, database, knowledge, culture. human capital: individual competence and experience, judgment, leadership and motivation	
Allee (2000)	
Expanded view of IC: *(i) Business relationship –alliances & business relationship with customers, partners, suppliers, investors and government (BR)* *(ii) Internal structures – systems, work processes that leverage competitiveness including IT, communication & technologies (IS)* *(iii) Human competence(HC)* *(iv) Social citizenship (SC)* *(v) Environmental health (EH)* *(vi) Corporate identity (CI*	
Mc Elroy (2002)	
Modified Edvinson's intellectual capital model: (i) human capital (ii) structural capital (iii) social innovation capital	

OECD (1992; dalam Johanson (2000), p.58)
Intellectual capital includes all long-term expenditures by companies directed at improving future goals other than the purchase of fixed assets.
Lev (2001)
Intellectual capital is a claim to future benefits that have no physical or financial form (stock or bond).
Upton (2001)
Index scores, ratios, calculations, and other information not present in the financial statements. assets excluding tangible or financial instruments; items that are not defined as assets, but are an essential element of business success, called non-financial information
Blair/Wallman (2001)
Non-physical factors used in the production of goods or the provision of services, or which are expected to generate productive returns for individuals or companies that control the use of these factors.
Meritum (2003)
Non-monetary resources of economic benefits, excluding physical substances, are controlled or influenced by the enterprise as a result of previous events and transactions (own production, purchases or other types of acquisitions) and may or may not be sold separately from other corporate assets. Intellectual capital includes a variety of immeasurable, used or owned, or informally spread; not only the sum of human, structural and relational resources concerning the company, but also how to employ it to create value (connectivity capital). Represents an immeasurable unit or elements of intellectual capital, which may be recognized as an asset according to the current accounting model
IAS 38 (Epstein / Mirza (2005))
Nonfinancial assets with no physical elements held for use in the production or supply of services or goods or for leases, or for administrative purposes, which can be identified and controlled by the enterprise as a result of past events, and from future economic benefits expected to flow
Intangibles Research Center, New York University
Broad definition: intangibles are non-physical sources of future economic benefits on a unity or alternatively all elements of an existing business enterprise in addition to monetary and tangible assets. Narrow definitions: intangibles are non-physical sources of future economic benefits to an entity that has been acquired in an exchange or developed internally from identifiable costs, has a limited life, has a market value regardless of unity, and possesses or controlled by unity.

Source: Processed from various sources.

3.2. Development of Empirical Research Models and Hypotheses

Human Capital Relationship with Innovation Capability.

In the new organization, the nature of work has changed and high-level skilled workers are indispensable. Consequently low skill personnel should be trained or recruited new skilled workers. Rajan and Zingales (1995) argue that Human Capital is the key to competitiveness in the new economy and the key to innovation (Zambon, 2003).

Structural Capital Relationship with Innovation Capability

Structural capital is an asset of knowledge residing within the organization that is generated through institutionalization of knowledge both individually and in groups during the learning process within the enterprise (Pablos, 2004). Structural capital is also a tacit organizational routines that relate to the informal aspects of organizational life known as organizational culture dimensions (Swart, 2005). Structural capital creates conditions to accelerate sharing of knowledge and collective growth, as well as organizational capabilities for learning, innovation and rapid adaptation to technological and market changes (Daum, 2003).

The other structural capital perspective focuses on the formal and explicit aspects called the backbone of the organization (Burr and Girrardi, 2002) which not only as intellectual property but also as an infrastructure consisting of organizational strategy, processes and policies (Dzinkowski, 2000). Subramaniam Youndt (2005) also argues that structural capital has an effect on both radical and incremental innovation capabilities.

Customer Capital Relationship with Innovation Capability.

According to Daum (2003) the company will be able to fully dominate the supply channel to the customer and obtain the value generated on the supply channel. In addition to the customer capital that is bound as an existing customer customer, there are two other forms: brand capital and public reputation capital. The brand provides information about the source or maker of the product. Therefore, the brand can help consumers to make simplification of product selection decisions. (Keller, 2003).

To strengthen the marketing can be done through branding (Blackett and Robins, 2001). Strong brands (powerful brand) according to Blackett and Robins (2001) have a potential advantage. In the meantime customer capital in the form of corporate reputation has an important role in creating sustainable competitive advantage (Carmeli and Cohen, 2001).

Partner Capital Relationship with Innovation Capability.

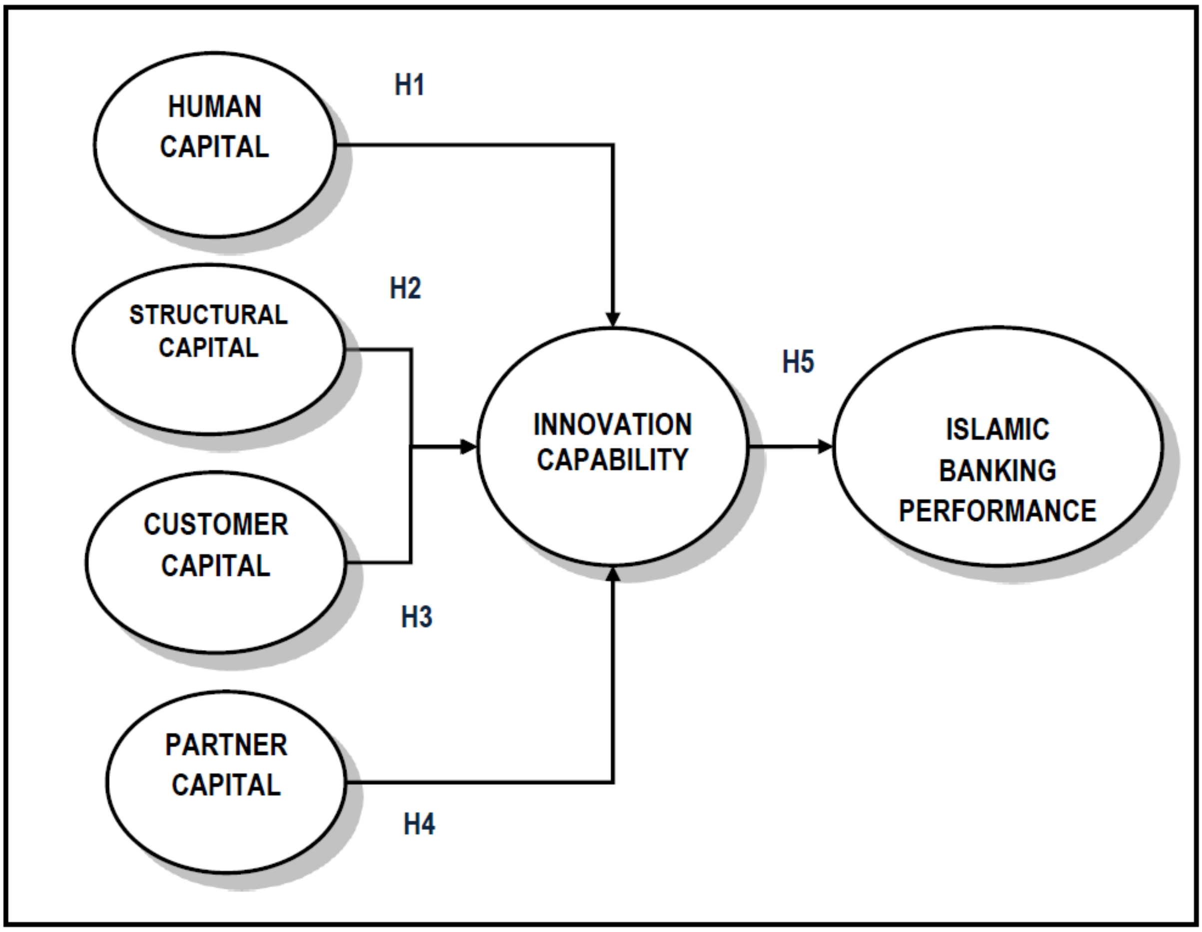
In the international business literature we have seen a number of positive outcomes from strategic alliances including high return on equity, better ROI and higher successes than integration through mergers and acquisitions (Todeva and Knoke, 2005). According to Todeva and Knoke (2005) issues on trust, partner selection, knowledge transfer through cooperative venture business, complementarity and synergy among partners, have become discourse scientific.

Choosing partners with complementary skills and technological considerations is crucial, on the one hand that partners will not be new competitors and on the other hand the partners bring something new as originally planned (Lei, et.al., 1997). It is also important for the company about similarities regarding perceived performance and partnership (Wipple and Frankle, 2000). Combination effects enable partners to gain advantage of the opportunities generated and strengthen strategic positions in a rapidly globalized market (Sarkar, et.al., 2001).

4. Result of Empirical Research Model and Hypothesis Developments

Based on the study of the above literature, then developed an empirical research model of Intellectual Capital Innovation Concept as shown in Figure 2.1 below:

Figure 2.1.
Empirical Research Model Intellectual Capital Innovation Concept



Sources: Developed for this Research

Based on empirical research model above, hence formulated hypothesis as follows :
H1: Human capital has a positive and significant effect on innovation capability.
H2: Structural capital has a positive and significant effect on innovation capability.
H3: Customer capital has a positive and significant effect on innovation capability.
H4: Partner capital has a positive and significant effect on innovation capability.
H5: innovation capabilities have a positive and significant effect on Islamic banking performance.

5. Conclusion and Recommendation

Conclusion

By using library and literature method and employs the teoritical study of the founded concepts, this research resulted five hypothesis : human capital, structural capital, customer capital and partner capital have a positive and significant influence on innovation capability and also innovation capability has a positive and significant effect on islamic banking performance.

Recommendation the Further Research

The proposed model should be followed by next study by quantitative and qualitative research involving 150 islamic banking in Indonesia. The relations variable founded will be examined by AMOS with *Structural Equation Modeling* (SEM) analysis because research model that developed involving some dependent and independent variables.

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