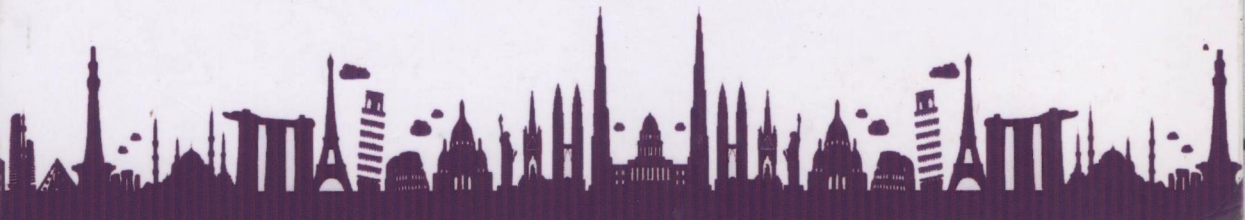




## BOOK OF PROCEEDINGS

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**24-25 JANUARY 2015 SINGAPORE**



## Conference Proceedings, IRC- 2015



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We would like to thank everyone who helped us to organize IRC-2015. A very special thanks to our honorable scientific and review committee for spending much of their time in reviewing the papers of this event and helping the participants in publishing their research in affiliated journals. Also special thanks to all the session chairs from industry, academia and policy institutions who volunteered their time and support to make this event a success. A very special thanks to the great scholars for being here with us as key note speakers, their valuable thoughts will surely open the horizon of new research and practice for the conference participants throughout the world.

Wish you a very successful conference and a pleasant stay in Singapore.

Dr. Farooq Anwar bajwa  
Conference Convener.

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# Investigating The Relationship of HRM, Intellectual Capital, and Performance of Islamic Rural Banks in Indonesia

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## *Abstract*

Opportunities in the Islamic banking industry and the limited competence of human resources in Indonesia encourage companies to develop HRM practices that effectively increase knowledge and skills. Yet, to realize the learning at organizational level, it is not just enough to have individual competence. There must be individual exchange and share knowledge, skills, and experience. Here, the role of social networks and patterns of interaction that occur in the work process and the existence of a system to codify knowledge is obviously needed. Therefore, this study aims to explore the policies in the practice of HRM, human capital, social capital, and organizational capital; and analyze its correlation with organizational performance at the Islamic Rural Banks (BPRS) in Indonesia. The variables in this study are selection, training, compensation, performance appraisal, intellectual capital and organizational performance. The data is collected by using a survey questionnaire distributed to employees at 10 BPRS in Central Java, Indonesia, and in-depth interviews with management. Analysis of the data is by using descriptive methods. The finding shows that social capital on BPRS is more optimal than human and organizational capital. Then, the external social capital to build interaction and collaboration with stakeholders is more beneficial than the internal ones. This limitation should be supported by HR management base efforts. Unfortunately, the HRM practices are less oriented to relational skills of employees.

**Keywords** : Human Resource Management, Intellectual Capital, Organizational Performance.

## **INTRODUCTION**

The increasing number and assets of Islamic banking in Indonesia shows its ability to compete with conventional banks. Unfortunately, these developments have not been supported by the readiness of adequate human resources. Even the Directorate Director of Islamic Banking of Bank Indonesia recognizes that, in general, Islamic banking is facing problems with human resources. As Islamic banks are facing the reputational risk, the attention to human resource development in planned and sustainable activities should be improved. Yet, the problem arises, until today; some studies conducted are only focused on product development and marketing, legalization and regulatory framework in the implementation of Islamic principles. While, all these aspects put employees as executor, which in turn, determines organizational performance.

As recognized by a number of Islamic banks, the number of workers who understand the Islamic banking is still very limited. Moreover, the competency possessed is not in accordance with the requirements, so the impact is on the quality of work and efficiency of operation of the bank concerned (Wikaningrum, 2011). Preliminary survey to Asbisindo branch in Central Java also defines so. It has been so common when many Islamic banks put employees from conventional ones without having a better understanding of the principles of operation of Islamic banking adequately.

The lack of HR competencies is indeed departed from supply conditions in the job vacancy market which are still limited. So when HR joins the company, some of them are less competent and it becomes the responsibility of the company concerned to develop management practices that effectively can improve employees' knowledge and skills. Yet, this human capital is at the level of the individual, and less adequate for organizational learning. To realize learning at an organizational level, the individual must exchange and share knowledge, skills, and experience with other members of the organization. Here, the role of social networks and patterns of interaction will occur in the work process among colleagues, employees and managers (internal social capital), and among employees especially the leadership and the stakeholders (external social capital), which in turn, served to

increase organizational performance. In setting BPRS (Bank Pembiayaan Rakyat Syariah/Sharia Islamic Bank of Social Financing), relational work systems that affect performance outcomes through its positive influence of social capital are important to be applied in accordance with BPRS characteristics. As the study that has been done before, in carrying out marketing activities, many BPRS merely rely on employees (including directors) who have a connection with the external community. Therefore, it is important for the BPRS to design and implement human resource management practices that can support and facilitate the formation of internal and external social capital.

Internally, besides innate competencies and limitations of diverse employee training opportunities, it is also found the existence of a potential employee intention to move to Islamic banks. This is in line with the statement of Bank Indonesia Deputy Governor Halim Alamsyah on national consensus Association of Indonesian Islamic banks, that the limitations of qualified human resources lead to employee turnover to be expertise in the field of Islamic financial. That is why, it is important to have codification of knowledge and experience of individuals stored in the system, database, and manual of companies. As a result, the company can still maintain its knowledge if the potential employee leaves the company. In the banking industry, organizational capital can be an important asset to be enhanced for the characteristics of banking services which are highly standardized and repetitive.

## **LITERATURE REVIEW**

### **Human Resources Management (HRM) Practices and Performance**

To analyze the correlation of HR practices and performance, this study uses the configurational approach with the assumptions that the synergistic effect will result in maximum performance. As Razouk (2011) statement, that a combination of human resource management practices has a greater impact on productivity than a bunch of effects of some individual practices.

A number of HRM experts believe that the high-performance work system is a key factor for the better performance of the company (Becker & Huselid, 2006; Macky & Boxall, 2007; Gardner & Wright, 2009). Associated with high-performance work systems, Osterman (2006) asserts that it is a set of HRM practices which are structured to increase the involvement, commitment and competence of employees in achieving corporate goals. Although some studies have quite clearly supported the positive correlation of high-performance work systems and the performance, it is still rare that examines the small and medium-scale of enterprise setting.

### **Intellectual Capital**

Intellectual capital of an organization is not only limited to individual knowledge, but also includes the knowledge stored or documented in the organization database, business processes, systems, and relationships. Therefore, all researchers in the field of HRM agree that intellectual capital is a dimensional construct. To be able to really understand how this intellectual capital develop and encourage the performance of the organization, it is necessary to study it in the aggregate, and not to each dimension in independent manners. Youndt, Subramaniam, and Snell (2004) conceptualize that intellectual capital includes human, social, and organizational capital.

Human capital is the knowledge, skills, and abilities of the individual in an organization. While organizational capital represents the knowledge and experience which are institutionalized, stored and codified in the form of database, manuals, structures, systems and so on. Therefore, all knowledge, skills and information will still be available if the potential employees leave the organization. In contrast to both, social capital is a form of intellectual capital involving knowledge and networks in groups owned by the employees. So, the knowledge resources are derived from the network of relationships, which is not only limited to internal knowledge exchange among employees, but also a network of external relationships with customers, partners, government, and so on.

### **HR practices, Intellectual Capital and Organizational Performance**

Numerous studies show how organizations influence the formation of social capital among its employees. One of them is a study by Leana and Pil (2006) which find a stable correlation of employment and norms of reciprocity which are able facilitate the formation of social capital among

employees. Then, Gittel (2000) argues that human resource practices can be redesigned to form relational coordination among employees involved in the work process. When it runs consistently on a variety employment practices, redesigning will produce high-performance work systems. Gittel demonstrates that the redesigned work practices, including selection, conflict resolution, performance appraisal, job design, and supervision are predicted to be able to increase relational coordination among employees. The work practices that make up social capital among employees including selection, training, performance appraisal, and compensation based on contribution to the achievement of goals, conflict resolution, as well as coordinating mechanisms and information to form a relationship are called relational work practices that are quite different from practices in general which are more focused on the skills and commitment of employees than among employees. Moreover, Gant, Ichniowski and Shaw (2002) argue that human resource practices influence performance outcomes because these practices affect employee social networks and patterns of interaction in carrying out the work. These findings suggest that social capital may mediate the correlation of high-performance work practices and outcomes.

Social networks of top management become a source of competitive advantage to able to increase the company's information processing capability, and human resources practices that include mentoring, incentives, and performance assessment designed to encourage the development of social networks. All of them show that the impact of these high-performance practices for the company's performance is mediated by the strength of social networks of top management. Although this form of social capital which has been empirically tested is varied, such as rational coordination (Gittel, 2000), communication networks (Collins & Clark, 2003), and collective learning (Lopez et al, 2005), it indicates that the alternative model of high-performance work systems affects the organizational outcomes through social capital formed among employees.

Human resource management practices lead to improve company performance through the impact on the capabilities of the company's resources including human resources. The practice of HRM is able to build a specific network that can be used to manage and improve the capabilities that exist in the company, which in turn, can have an impact on organizational performance. These capabilities are not merely available at the individual level, but also at the network and organizational level. In conclusion, Intellectual capabilities include human capital at individual level, social capital at networks level, and organizational capital at organization level.

## **RESEARCH METHOD**

### **Population and Sample**

The population of this study is all BPRS in Central Java consisting of 19 banks until the beginning of 2013. By considering the length of operations and BPRS willingness to participate in this study, the total sample of this study is 10 BPRS involving 1 BPRS in Banyumas, 1 in Purbalingga, 2 in Cilacap, 2 in Semarang, 2 in Surakarta, 1 in Klaten and 1 in Sragen. Respondent consists of 41 employees and 10 informants of BPRS Directors.

### **Research Variables**

#### **1. HRM Practices**

HRM practices identified in this study include selection, training, compensation, and performance appraisal. These four practices are allegedly to have the greatest role in supporting the growth of intellectual capital in the organization.

#### **2. Intellectual Capital**

Intellectual capital is all the knowledge and capabilities that can be used to enhance the company's competitive advantage. It includes human, social, and organizational capital. Human capital is all knowledge, skills and capabilities of employees to provide economic value to the company. Social capital is the capability of employees to create, transfer, and increase knowledge of the interaction between members of the organization internally as well as with external stakeholders. Organizational capital is the knowledge and experience of employees who have been codified and stored in corporate databases, such as manuals, databases, systems, and culture.

#### **3. Organizational Performance**

There is no explicit way of measuring the performance of companies when investigating the practices of HRM. Moreover, the practice of human resource management is a long and

continuous process interlocking on one practice to others. So, the effective or ineffective practice run cannot have direct causal correlation with ROI. Therefore, the performance of the company measured in this study includes the employee's performance and market share growth, competitiveness, quality of service, product development capability, employee and customer satisfaction.

### Types and Sources of Data

Primary data are obtained directly from the respondent of employees and management. Respondents of employees provide feedback on the variable data in the form of human resource management practices and intellectual capital. Meanwhile, the directors give data on intellectual capital owned by each bank and organizational performance. In addition, Secondary data are obtained from the Human Resources Department/General Division, company profiles, organizational structure, number of employees and employment status.

## FINDINGS AND DISCUSSION

### 1. HRM Practices

**Table 1. Statistic Description of HRM Practices Variables**

| Variables             | % |      |       |       |       | Min  | Max | Mean |
|-----------------------|---|------|-------|-------|-------|------|-----|------|
|                       | 1 | 2    | 3     | 4     | 5     |      |     |      |
| Selection             | 0 | 0.4  | 8.5   | 64.7  | 26.4  | 2.8  | 5   | 4.17 |
| Training              | 0 | 0    | 15.85 | 63.74 | 20.4  | 3    | 5   | 4.05 |
| Compensation          | 0 | 0.48 | 11.7  | 68.78 | 19.04 | 2.8  | 5   | 4.06 |
| Performance Appraisal | 0 | 2.07 | 13.60 | 61.33 | 22.99 | 2.29 | 5   | 4.05 |

Selection is measured by using 6 item questions. Items regarding clear definition of the selection of the current work, the ability to build relationships both internally and externally as the selection criteria, the priority of internal recruitment, accurate and fair selection process, and the presence of test knowledge of the principles of operation of Islamic banking and products, are responded positively by most respondents. This is supported by the magnitude of the mean value of more than 4. Yet, among other items, the ability to develop relationships with external stakeholders as one of criteria for employee's selection has the lowest response of other items. The selection process has not been fully assessed accurately and fairly by all respondents of employees. This is indicated by disapproval responses of majority of respondents to the question items.

Training is measured by using 8 items question. Items related to training evaluation, training needs analysis, the fit between the material, trainees, and the demands of work, training to build teamwork, and develop relationships with external stakeholders gets a positive response by the majority of respondents. However, the material training needs to be improvised; training programs is also less-scheduled and disseminated to employees. Time allocation of training and frequency of execution is also considered not fully meet the needs of employees. It appears from 20% of respondents' answer that tend to disagree with the practice.

Compensation is measured by using 5 items. Most respondents acknowledged that the increase in salary based on the achievement of specified performance with a fair amount of is fairly applied. But the other 3 items are still considered less by some respondents, as indicated by the average value of less than 4. Three items proposed are related to the type and amount of compensation that are less competitive than similar jobs in other Islamic banks, compensation packages tend to be less attractive to potential employees to join and stay in the company. Even, related to financial support to develop personal relationships with external stakeholders, more than 20% of respondents express their disapproval. This shows that the compensation practices in the internal of BPRS have met internal justice, but not external one for its employees. Then, the management support for employees to increase social capital in conjunction with external parties is also not supported policies on compensation.

Performance appraisal is measured by using 7 items question. Most respondents agree that feedback must be regular, constructive and done periodically, not just for the sake of administrative

fulfillment, and incorporate the ability to build international relationships as one of the indicators of performance appraisal. This is indicated by the average value of responses of 4 at minimum. Yet, the accuracy and fairness assessment has not been fully supported by all respondents as more than 20% of respondents rate the size of the assessment is less clear and reliable. If the ability to develop internal relationships is one indicator of assessment, it is not so with the ability to develop relationships with external stakeholders. This is because the role of establishing external relationships is effectively run by the leader. As a result, the performance appraisal of the employees in general does not take into account to those capabilities.

## 2. Intellectual Capital

**Table 2. Statistic Description of Intellectual Capital Variable**

| Items   | % |   |      |      |      | Min | Max | Mean |
|---|---|---|------|------|------|-----|-----|------|
|   | 1 | 2 | 3    | 4    | 5    |     |     |      |
| Employees have knowledge and skills needed by Islamic bank  | 0 | 0 | 4.9  | 53.7 | 41.5 | 3   | 5   | 4.37 |
| Employees have the best rate in the Islamic banking industry in particular BPRS   | 0 | 0 | 39   | 51.2 | 9.8  | 3   | 5   | 3.71 |
| Creative and intelligent employees  | 0 | 0 | 9.8  | 63.4 | 26.8 | 3   | 5   | 4.17 |
| Employee master their task/job  | 0 | 0 | 4.9  | 65.9 | 29.3 | 3   | 5   | 4.24 |
| Employees are able to develop new ideas and knowledge   | 0 | 0 | 12.2 | 63.4 | 24.4 | 3   | 5   | 4.12 |
| Skilled employees cooperate with each other to identify and solve problems  | 0 | 0 | 0    | 68.3 | 31.7 | 4   | 5   | 4.32 |
| Employees share information and learn from others   | 0 | 0 | 7.3  | 48.8 | 43.9 | 3   | 5   | 4.37 |
| Employees interact and exchange ideas with employees working in different units   | 0 | 0 | 4.9  | 61   | 34.1 | 3   | 5   | 4.29 |
| Employees partner with customers and or the parties that support the business operations of BPRS                          | 0 | 0 | 0    | 61   | 39   | 4   | 5   | 4.39 |
| Employees receive additional knowledge and expertise as a result of interaction with customers / partners                 | 0 | 0 | 0    | 65.9 | 34.1 | 4   | 5   | 4.34 |
| Employees receive additional knowledge and expertise as a result of interaction with superiors and fellow employees       | 0 | 0 | 4.9  | 56.1 | 39   | 3   | 5   | 4.34 |
| Employees understand the vision and mission of BPRS and have commitment to achieve it                                     | 0 | 0 | 7.3  | 61   | 31.7 | 3   | 5   | 4.24 |
| Employees have a spirit of teamwork and trust each other  | 0 | 0 | 4.9  | 53.7 | 41.5 | 3   | 5   | 4.37 |
| Employees Utilize technology to store knowledge and information sharing among other employees (e.g, email, intranet)      | 0 | 0 | 7.3  | 48.8 | 43.9 | 3   | 5   | 4.37 |
| The knowledge and expertise of human resources are stored in databases, <i>manual books</i> , and other written documents | 0 | 0 | 14.6 | 56.1 | 29.3 | 3   | 5   | 4.15 |
| Culture in bank contains the values of good work  | 0 | 0 | 0    | 48.8 | 51.2 | 4   | 5   | 4.51 |
| Bank store knowledge and information in the structure, systems, and processes of work                                     | 0 | 0 | 12.2 | 65.9 | 22   | 3   | 5   | 4.10 |

Intellectual Capital variable is measured by using 17 item questionnaire to determine the response of the respondents regarding the ownership of human, social, and organizational capital on

BPRs in Central Java. Overall, the intellectual capital owned by BPRS has been assessed. This is shown by the average value of more than 4.

Human capital is measured by using 5 items question. Most of the respondents rate the BPRS employees to have knowledge and skill needed by Islamic banks, creative, job control, and are able to develop new ideas and knowledge. Internally, although considered to have adequate company needs, the Islamic banking industry is still considered not to have the best competence. It is said so because more than 30% of respondents provide such response.

Social Capital is measured by using 8 items question. Most respondents assert that the employees understand the vision and mission of the BPRS and are committed to achieve it by sharing information, interacting, learning, exchanging ideas and trusting each other. As a result of interaction with the supervisor and fellow employees, they recognize that they get additional knowledge and skills. The interesting finding here is that all respondents consider customers as partners, as well as other external parties that support the company's business operations. Knowledge and skills as a result of interaction with the external stakeholders are recognized by employees to be greater than the result of internal interactions with fellow employees. Therefore, it can be concluded that the external Social Capital on employee of BPRS is relatively better than the internal ones.

Organizational Capital is measured by using four item questions. Although all four items get a positive assessment of the respondent which is indicated by the average rating of more than 4, more than 10% of respondents express disapproval. They tend to less agree that there is a database or other written documents that store the knowledge and expertise of its people, nor the structure, systems and work processes that contain organizational knowledge and information. As usual the company in the banking industry has standardized formal and written rules, policies, guidelines and procedures. The socialization is conducted in a sustainable manner by utilizing morning briefing forums or daily or weekly meeting routine. Yet, a small proportion of respondents less or even disagree with the third item of the statement because they never get guide book since they started working to related company. To find out more details or when there are problems related to the operation of a policy or procedure, the employee must first borrow in the General Section. The results of interviews with leaders of BPRS support these findings. As a company with a lot of regulation and standardization of operational regular and job formalization, banks definitely need written rules. Moreover, the use of technology that supports the storage of knowledge and information sharing among employees both internal and with external parties cannot be ignored as well. It's just that due to limitations of technology owned by BPRS, the management and *sharing* of knowledge is limited to the use of e-mail, standard operating procedures, regular meeting forums, and in-house training.

### 3. Organizational Performance

**Table 3. Statistic Description of Organizational Performance Variable**

| Indicators                         | Min | Max | Mean |
|------------------------------------|-----|-----|------|
| Employee's performance             | 3   | 5   | 4.19 |
| Market share growth                | 3   | 5   | 3.88 |
| Competitiveness                    | 4   | 5   | 4.12 |
| Quality of products/services       | 3   | 5   | 3.88 |
| Product development capability     | 3   | 5   | 3.88 |
| Employee and customer satisfaction | 3   | 5   | 4    |

Performance variable is measured by using 18 items of questionnaire to be answered by the managers of BPRS as informants in this study. Most of them assess positively the performance of its human resources in terms of mastering the job, serving the needs of customers, and being committed and sincere, being able to interact and collaborate among fellow employees, being able to explain Islamic products, supporting the company's work culture, honest and trustworthy. It appears from the mean values that are equal to or greater than 4, and the distribution value is concentrated on the answer score of 4 (agree) and 5 (strongly agree). This can be easily understood by viewing the findings of human resource management practices on the BPRS as described previously (see Table 1),

especially in the practice of selection of candidates in which all the items are measured and considered to be good. With a good selection process, potentially, they will get input of HR with a good human capital. However, management recognizes that growth in market share, product quality and service, and product development is still low, if associated with a number of human resource management practices that run the company. Therefore, such performance can be tolerated. Although the practice of employee selection has been executed and well-recognized, the quality of human resources acquired is also influenced by the availability of human resources in the field market with adequate quantity and quality. Related to quality, the quality of human resources that understand the principles of Islamic banking operation still becomes obstacle in the Islamic banking industry. Here, the role of strategic training practices in addressing these gaps is urgently required. Yet, the real field condition shows that the respondents' level of agreement on employee training time and allocations have not met the needs of employees either independent training organized by internal of organization or external parties. Training follow up evaluations are not performed optimally. If any, it still has not performed well.

## **DISCUSSION**

All banks as respondents conduct open recruitment process. Each bank has its own considerations related to the use of media recruitment. In general, BPRS do recruitment in collaboration with local educational institutions either through a job posting on campus bulletin boards or educational institutions, or offering vocational school graduates who ever interned at related bank. Some BPRS also publish job vacancy in newspapers, announcement at the post office, and employee recommendations (referrals). It is driven by the limitations of the human resource input that controls the operation of the knowledge of sharia and Islamic banking principles.

In general, the selection method used in BPRS is the same. It covers administrative selection in form of written, psychological, and interviews test with elimination system. The difference is at the number of stages and the material being tested. Generally, the interview method is conducted in only one stage, then, the written test material only test knowledge of economics in general. A number of BPRS managers state that:

"To get qualified applicants is difficult, especially if sharia knowledge is also tested. Usually they lack an understanding of it; as a result, we eventually even face difficulties in determining eligible applicants to be received".

When such thing becomes a limit, at least the management has tried to dig up personal values during interview section. Briefly, it is personal work value that supports the application of Islamic culture in accordance with the company's values. This is what distinguishes the practice of selection between Islamic banks and conventional ones. Although the main consideration to accept the applicants is not always from the Islamic side competence of the applicant and rather on the mastery of technical competence in the field of work that will be undertaken, at least, the BPRS have performed selection based on Islamic principles.

The practice of selection of candidates on the BPRS is constrained by less availability of human resource inputs having adequate knowledge about Islamic banking. The difficulty in recruiting candidates in accordance with the needs of the company is stated by some managers of BPRS as follow:

"... Often do not match / not qualified, while the compensation has not been able to pursue conventional bank. The new employees often just make this bank as 'stepping stones'".

"In terms of human resources, unlike the big banks which no longer see who serve (especially savings). So, the ability of the employee to penetrate the market is important. Employees must have a network. The key is in recruitment and selection, to ascertain whether the prospective employee has the potential and ability to build a network of high social or not".

However, these deficiencies assessed by the management can still be overcome by making use of formal and informal means of communication that are routinely held. For example, the regular morning briefing with employees and managers as media socialization of policies, rules, and new work procedures. So that the information needed to support the effectiveness of the work can continue and be updated immediately.

In general, bank of respondents state that they had budgeted employee training costs by 5% from the prior year employee cost, as the provisions of Bank Indonesia. All BPRS leaders assert the importance of training activities for employees in Islamic banks despite this training time, frequency, and what training needs to be held for 1 year ahead have not been analyzed and planned at the beginning of the fiscal year. BPRS generally do not hold their own training, but rather to engage employees in training held externally, such as the Association of Indonesian Islamic Bank, banking educational institutions, or local college. To improve specific skills and knowledge, it is carried out in the form of on the job training by managers. The dependence on the external parties causes execution frequency, employee training needs and training opportunities become limited. Some banks identify training needs of individual employees, which is sometimes listed on the results sheet assessment of their performance. But whether it does or not still depends on the presence of training offers by external or internal training held by managers. Here's a statement from one of the managers:

"Factors driving training can essentially either from top or bottom. It is just driven by management. At the end of the PA (performance assessment) form, there is recommendation regarding future training needs. For example, an AO Lending which will be promoted as a cash office coordinator, it requires training team building. So, if opportunities are opened, the concerned prioritized will be delegated".

Related to the evaluation of training, each SRB interpret it differently. From the system side, there are no rules or standard procedures on the matter. So the process that occurs in each bank is greatly influenced by the initiative and commitment of the leadership on the complexity and continuity practice run. Even, some of respondents clearly state that there is no training evaluation both the evaluation of the trainees and implementation. Here are some statements of informants who claimed to perform evaluation:

"Evaluation of training is available but not yet well-patterned. Employees who receive training, we ask to collect the modules in order to be read by the others".

"After training, there is external *review* about training in front of colleagues. The managers will observe the performance later. Suppose the material on financing, there is a summary of quantitative and qualitative analysis, we can see how far he (employee) is able to reveal/keen to see the customer's business".

In general, the compensation component of the respondent bank includes basic salary, allowances, meal and transport allowance, and an annual bonus. The determination of the amount of their base salaries takes into account on internal and external equity. Internally, the amount based on years of service, job descriptions, and job performance of employees as the result of PA (formal performance appraisal). Externally, banks also pay attention to the competitiveness of the compensation taking into account on the salary scale applicable in other banks, both conventional and sharia. While BPRS, all external benchmarking is fellow BPRS whose information can be obtained from Asbisindo forum. Several informants acknowledged that there are still difficulties for them to follow the compensation standards for commercial banks. While the commercial banks are also competitor for the BPRS to attract and retain qualified human resources input. When the promotion opportunities are limited, limitations in offering alternative competitive compensation become a serious attention for Islamic banks. As the statements of some leaders of the bank, as follows:

"Obstacles encountered during this, in the need and desire for a qualified, it is constrained by larger banks. In the middle of the process ..... apparently move to the bigger banks or in a state of having many options. The high salary demands also push the company to the limits of the ability of the company".



All Islamic banks in this study state to have run regular formal performance appraisal of each period. Some of them run it in every 3 months, and some others do it every 6 months. The evaluated performance standards are drawn up by the management and disseminated to all employees, as a reference and motivation for employees to achieve a high performance.

Assessment indicators among banks are varied, but basically can be grouped into work ability indicator (according to the job description), work attitudes, behavior, and personality. Assessment results are more oriented to administrative purposes, for example, as the basis for determining or adjusting salaries, annual bonuses and division which refers to the annual PA (performance appraisal). The rest, the results of individual employee performance appraisal is concerned to those who are less supportive of the development goals. For example, there is no relation to PA employees with the opportunity of formal training or promotional opportunities.

Generally, those who provide assessment are managers. On the one hand, the interaction of a high enough intensity increases close relationship between managers and employees in Islamic banks. But, on the other hand, it can lead to inflation because of the reluctance of assessment in conflict with employees. This leads to the practice of performance appraisal which tends to fulfill formality and less implicated in the development of employees. The unavailability of data is also a limitation for the managers in conducting the evaluation performances of the employees. Moreover, the performance assessment of objective and subjective manners also takes lots of time for managers to finish it. The inaccurate results of PA cannot be a fair reference promotion for employees. That is why the majority of respondents perceive that it is simply to fulfill administrative requirements, and not to the employee development. Some managers of BPRS have statement as follow:

"In identifying the shortcomings of the performance of employees, sometimes induced reactions tend to be negative. So that, employees assessed cannot accept suggestions for dealing with problems in the future. Other elements are the non-appraisers. To review an employee's performance, ideally, appraisal/supervisor should have enough time for reviewing and evaluating performance over a period of time required and, at least, had a periodic record of the employee's performance on a weekly/monthly ".

Findings indicate that the BPRS have not fully got employees with the desired criteria. Their knowledge and understanding of the principles of sharia is not perfect/still varied, so that the values are in accordance with the principles of Sharia. Human capital in the bank is relatively lower than the social capital because they are not always able to implement policies and programs of the Islamic bank well.

The higher of social capital than human and organizational capital in the BPRS is caused by a number of factors. First, the number of BPRS employees which is still little makes it easier to coordinate. Its location is close because its business operation is local. Second, the span of control is also short/narrow, making it easier for them to have communication and collaboration between managers and employees or among colleagues. Third, rare friction in the work, even, if the conflict exist, it is relatively more easily controlled and resolved through a personal approach of managers. Fourth, BPRS realize that they are community-based businesses, it is only with a social approach to society (including silaturahmi intensively to strengthen community), BPRS can exist and thrive. Fifth, BPRS is more oriented to the market rather than the product, so that the employee must mutually support one another to achieve the mission and objectives of Islamic banks. BPRS employees consider stakeholders as important elements, so that the efforts to maintain a relationship with the customer must be intensive. Moreover, BPRS realize that they face a lack of capital, infrastructure and promotion costs, while on the other hand, the competition in the banking industry are very tight. Thus, they should have "extra effort" in a relationship with stakeholders. For BPRS, stakeholders are power to develop Islamic banking. The employees should have a better understanding on the characteristics of the public so as to rise believe of stakeholder toward BPRS, particularly in terms of the distribution of Islamic bank financing.

## **CONCLUSION**

Proximity to public/customer becomes a strategic asset for the development of BPRS in the future. Therefore, social capital is proven to be the most effective capital of other components of

intellectual capital such as human and organizational capital. The limited input quality of human resources while the implementation of human resource management practices on the BPRS has not been optimal is well recognized by the actors in this field of industry. Therefore, during this, approach/personal interaction between managers and employees, an understanding and commitment to the vision and mission of management in running the company can turn into a weapon to build powerful social capital both internally and externally. The findings of this study indicate that the employees and management of BPRS believe that the external social capital to build interaction and collaboration with stakeholders externally can generate more valuable knowledge and information for the company, if compared to the internal social capital. It has something to do with the limits of human capital of BPRS, so that knowledge, ideas, and information are more effectively gained by the company from the experience of direct interaction with the public. Furthermore, the mechanism of actions of the BPRS is also not well-structured, ranging from planning, organizing, implementation and evaluation. Technology infrastructure owned by the BPRS is still inadequate to support the internal information systems and services to customers. Limitations of organizational capital must be supported by efforts that effectively increase the organizational social capital. One of them is by based human resource management practice which is started from the practice of selection of candidates which includes the ability to interact and have a network (must be one of the selection criteria). Likewise, the practice of training, not only equip knowledge to strengthen technical skills, but also relational skills. Likewise, on compensation practices and performance appraisal, acquisition and implementation of personal expertise, it must be one of the indicators of performance assessment, which then lead to the compensation and decision-making for the employees concerned.

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