Journal of Philosophy, Culture and Religion
ISSN 2422-8443 An International Peer-reviewed Journal
Vol.37, 2018 www.iiste.org

IB-Governance Framework Model™ Based on Intellectual Capital of Sharia Banking

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Abstract
Sharia Commercial Banks (SCB) in Indonesia have not had a comprehensive sharia governance framework standard yet. The purpose of this study is to present a new perspective of sharia corporate governance model based on the intellectual capital. The data used are primary data obtained from questionnaires and in-depth interviews. Secondary data is obtained from SCB's annual report. The model is built using Soft System Methodology (SSM) approach. This study shows that the intellectual capital condition contributes positively to the performance of SCB, while the implementation of corporate governance does not contribute significantly. However, simultaneously corporate governance and intellectual capital contributed positively to the performance of SCB. This study builds a corporate governance model based on intellectual capital using the SSM approach, called iB-Governance Framework (iB-GF™). This model is a new approach, since corporations generally prefer to use corporate governance models with regulatory driven approaches rarely use ethical driven approaches. iB-GF™ be able encourage the better of sharia bank governance.
Keywords: iB-Governance Framework; intellectual capital; sharia commercial banks; sharia corporate governance; soft system methodology

1. Introduction

The Islamic finance industry comprises five main sectors, namely Islamic banking, sharia bonds (Sukuk), Islamic funds, Sharia insurance (Takaful) and Islamic microfinance. Mughal (2017) reported that the total portfolio of the world's Islamic financial industry was $ 2.3 trillion in 2016. Islamic banking contributed 80% and Sukuk became the second largest contributor by 14% followed by Islamic fund 3%, Takaful 2% and Islamic microfinance 1%.

The position of Indonesia's sharia economy is still lagging behind in the global Sharia market. According to Thomas Reuters (2017) Indonesia's shariah economic position is ranked tenth in the Top 15 Countries Global Islamic Economic Report of 2016 with a score of 36. Countries ranked first up to fifth in sequence are Malaysia with a score of 121, Bahrain with a score of 86, Saudi Arabia with a score of 63, and Oman with a score of 48 (Thomas Reuters, 2017). The ranking was calculated according to four criteria: (a) Financial size; (b) Governance; (c) Awareness, and (d) Social aspects

Indonesia is a country with the largest number of Islamic financial institution in the world. Indonesia is also the largest Islamic retail customers in the world with a total more than 25 million in term of numbers of accounts. Referring to Financial Service Authority (OJK) report (2018), Indonesia has more than 5.000 institutions consisting of 34 Islamic Banks (13 banks are Shariah Commercial Bank and 21 banks are Sharia Business Unit), 58 Takaful Operators, 7 Islamic Venture Capital Companies 167 Islamic Rural Banks, and 5000-5500 Sharia Cooperatives or Baitul Mal wat Tamwil (BMT).

Sharia banking in Indonesia had made a rapid growth before coming to its stagnant in 2014. The stagnation in Islamic banking growth cause the decline of Islamic banks assets compared to conventional banks in 2015. The role of sharia banking is not significant because until 2016 only had in total assets of Rp366 trillion or with a market share of only 5.12% and only increased to 5,78% in 2017 (OJK, 2018). The achievement is far below from other countries such as Malaysia and Bahrain which have reached the market share of around 25-30%.

According to Financial Service Authority report (2018), the sharia banks in Indonesia still faces the problem of high non-performing financing (NPF), poor supervision and risk management system. The NPF ratio of sharia banks reached 4,16% in 2016. This condition shows that the implementation of corporate governance in Islamic banks is still weak. As a trust institution, sharia banks should be able to ensure the company's operations run in accordance with good corporate governance principles and in line with prevailing rules and regulations.

The corporate governance (CG) issues for sharia banks are relatively new. Dusuki (2006) states that as an organization governed by Islamic sharia principles, Islamic financial institutions must strictly observe and fulfill their obligations as determined by Islamic sharia law. According to Ibrahim et al. (2006), in the Islamic worldview has shown that for a Muslim there is no separation between daily activities and religious activities. All human activity must be based and in line with Allah's command. While Levy (2012) states that Islam as a way of life is described in several verses of the Qur'an that convey about good ethics, strong morals, unswerving integrity and honesty as the highest value and high ethical behavior that must be integrated and inherent in every

Muslim (Levy, 2012).

Research on Intellectual Capital (IC) gained considerable attention from experts in various disciplines along with the growth of knowledge-based economy (Stahle and Bounfour, 2008). In line with the rapidly changing world economy and shifting from industrial economy to knowledge-driven economy, economic conditions have become more influenced by the ability of firms to develop and maintain competitive advantage based on intangible elements (Meritum, 2002). Entering the 21st century, the development of intellectual capital and sound business practices through good corporate governance practices will enhance the competitiveness of the Sharia banking industry, including anticipating the presence of a financial technology business model.

Research on corporate governance model that related to the implementation of IC is rare (Keenan and Aggestam, 2001). Although according to Holland (2003), preliminary studies have shown that IC affects corporate governance. Several studies have shown the implementation of the linkage between governance and IC impacts the company's performance (Arifin, 2016; Earnest and Sofian 2013; Hidalgo et al. 2011; Saffiedine et al. 2009; Li et al 2008). Many literature states that CG has influenced the disclosure of intellectual capital information (Li et al 2008; Hidalgo et al., 2011; Arifin, 2016).

In line with the rapid progress of the financial sector in emerging markets, the risks faced the financial industry and banking are also increasing. According to Gup (2007) globalization and increasing demand for corporate governance improvement are two major trends affecting the financial industry, particularly the banking industry. Furthermore, Bouheni et al. (2016) stated that the international scandal, and lately the occurrence of financial and economic crisis, especially the debt crisis of European countries has a close relationship with corporate governance, performance and risk taken by banks.

Sharia banking governance models in Indonesia should be reviewed to improve the performance and reduce the risks faced by sharia banks. Therefore, this study develops a new model of strengthening corporate governance system using the approach of intellectual capital. The method used in this study is different from previous research which always use secondary data. This study uses both primary data and secondary data deepened by data analysis based on in-depth interview with sharia banking practitioners. The model was built using soft system methodology approach. A corporate governance model with an intellectual capital approach is a new approach that can encourage better sharia banking governance practices.

The corporate governance model based on intellectual capital approach can be an input for the regulator (central bank and financial service authority) as the owner of authority to create and develop a new sharia governance framework in accordance with the uniqueness condition of sharia banking in Indonesia. The results of this study also can be used by the sharia bank industries, to improve the implementation of a better sharia banking governance.

2. Literature Study

2.1. Implementation of corporate governance in sharia banking

Over the past decade, periodically there has always been an introduction, or revision of corporate governance rules in a number of countries. According to Mallin (2013), the development of rules related to the re-arrangement of systems and governance models is the result of reaction as well as anticipation of corporate governance issues in corporation or any state. The re-arrangement of system and governance model are driven by the company's financial scandal, the collapse of the company, or the financial crisis of the country.

The basic principles and application of corporate governance may vary between countries or companies. This principle is known as the “no-one-size-fits-all” principle developed by the Organization for Economic Co-operation Development (OECD, 1999). Blair (1995) argues that differences in the environment and corporate systems from a corporate governance perspective will enrich the application of governance towards a better and more efficient corporate governance structure. According to Lukviarman (2016) the practice of corporate governance varies according to the country because of differences in legal and institutional arrangements, economic conditions, and cultural gaps.

Related to the condition of the implementation of corporate governance in Indonesia, Lukviarman (2016) asserted that CG reform in Indonesia should not only adopt of CG model, CG system and guided by best practice from other countries. This can lead to a conflict between the adoption of CG practices with a set of values that have long lived and developed in Indonesia due to cultural differences and environmental context between countries. Regardless of the governance system adopted by each country, Shaw (2003) argues that an understanding of governance systems and corporate governance models is crucial in operational governance concepts.

A review from a corporate governance point of view, sharia banking shows a number of interesting aspects because the arrangement of equity, risk, and profit and loss sharing participation is the basis for Islamic financing. Each transaction must be a real transaction and not a mere financial transaction, and all contracting parties shall equally assume the risk of the transaction using a share-sharing scheme. These different financial schemes show different levels of engagement with conventional models, as a result Islamic banks have different governance structures (Algaoud and Lewis, 2001).

The no-one-size-fits-all principle makes the Islamic financial governance system unique to the conventional financial governance system. According to Kasri (2009), there are five important aspects that distinguish the basic concepts of sharia banking governance and conventional banks: (1) Philosophical objective which includes objective of the company; (2) Types of contract involved; (3) Key players and their relationship (governance structure); (4) Governance mechanism, and (5) Monitoring tools.

According to Hidayat (2010), sharia banking has at least a difference in principle with conventional banks is viewed from the aspect of legal basis, system of operational supervision, financial report system and incentive principle for customers. Sharia banks in addition apply positive law and the legal basis based on the Quran and al-Hadith. In implementing corporate governance, Islamic banks have a supervisory institution called Sharia Supervisory Board (SSB) that is not owned by the conventional banking.

Concepts and measurement of intellectual capital

Understanding and the concept of IC is known at this time begins with the rise of understanding about the importance of knowledge in the company. The concept of knowledge industry was developed by Peter Drucker (1999) into a knowledge economy which later developed into the idea of knowledge worker (Drucker, 1999). Itami and Roehl (1987) introduced the concept of intangible assets as invisible assets. Furthermore, Hall (1992) states that the invisible assets include information-base resources, such as knowledge of technology, customer knowledge and market knowledge.

Stewart (1997) shows simply that the total market value of an enterprise is made up of the sum of tangible assets and intangible assets. The concept makes the investor's perspective on the value of a company to change. Investors begin to consider the value of intangible assets to calculate a firm's value (firm valuation). Bontis and Fitz-enz (2002) tried to compare the concept of IC based on the views of some IC experts as shown in Table 1

Table 1. Comparison of Some IC Concepts

Brooking (UK)	Roos (UK)	Stewart (USA)	Bontis (Canada)
Human-centered	Human capital	Human capital	Human capital
Infrastructure asset	Organizational capital	Structural capital	Structural capital
Intellectual property	Renewal and development capital Relational capital	Structural capital	Intellectual property
Market assets		Customer capital	Relational capital

(Sources: Bontis and Fitz-enz, 2002)

According to Meritum (2002) IC structured by three main elements: Human Capital (HC), Structure Capital (SC) and Relational Capital (RC). HC describes the knowledge possessed by a company's human resources, including skills, knowledge, and abilities. The competency will be lost when the human resources are out of the company. SC is defined as the knowledge that will remain in the company, even though the HR is out of the company. Examples are system operating procedure (SOP), culture, data base, knowledge center, intellectual property right, brand and others. RC describes resources related to the company's relationships with external parties and all stakeholders (investors, creditors, customers, suppliers and etc.).

Research on IC measurement in the banking industry uses many methodologies. Andriessen (2004) suggests that there are many methods for measuring the value of intangible resources. At least 25 methods can be found in many literatures, these methods can be used to answer various variations of the problem. The most well-known method of calculation is the Value Added Intellectual Coefficient (VAIC ™) method developed by Pulic (1998) from 1997 to 2000. Stewart (1977) used the mark-to-book value approach while developing IC calculations using the Economic Value Added (EVA™) and Calculated Intangible Value. According to Santoso (2011) models that are widely applied in addition to VAIC™ are Skandia Navigator, Intangible Assets Monitor, and Value Explorer.

Comprehension and method of calculation and reporting of IC continues to grow. After the year 2000's, IC has grown from the beginning only used in the scope of the company began to grow in the country. The calculation of IC for a country scope was introduced by Bontis (2004) known as the National Intellectual Capital Index (NICI)

2.2. IC dynamic concept

IC research until 2006 still used static approach. In 2007 began to be known dynamic approach to see the effect of IC on the performance of the company. The dynamic IC approach was initiated by Meritum in 2001 and developed by Bratianu in 2007. According to Bratianu (2007) the IC approach is dynamically more acceptable in practice, because the IC approach does not statically include time variables and therefore no change or transformation. So that static IC is only considered as potential elements of human capital, structural capital and customer or relational capital (Bratianu, 2011).

Based on the idea that IC management is complex and dynamic, Bratianu (2007) introduced the theory of integrators. An integrator is a force capable of combining two or more physical and virtual elements into a new entity. In the dynamic theory of intellectual capital, integrators can bring the energy and the effects of individual motivation into the organization. Complex combinations will synergize to create new values in the organization or company. The dynamic model system is one of the best scientific methods for complex modeling, nonlinear, economic and dynamic technical systems (Beran, 2015).

Bratianu (2007) states that the integrator theory derives from strategic management thinking and business applications. The integrator elements consist of leadership, technology, vison and mission, and organizational culture. It is the integrator elements that will convert the static IC into a dynamic IC. Bratianu and Orzea (2014) adds a spiritual intellectual in the integrator element. According to Meritum (2002), dynamic ideas will become intangible activities that can generate new intangible resources or improve existing values.

2.3. The CG based on IC

Research on corporate governance model that relates corporate governance relationship with IC implementation is not much. Although according to Holland (2003), preliminary studies have shown that ICs affect corporate governance. Good corporate governance will affect how managers manage the company, so the existence of good corporate governance will work effectively if the company has a high IC. Earnest and Sofian (2013) also demonstrates that in many IC literatures it acts as a free variable that strongly affects firm performance. Simultaneously, previous research also proved that IC and CG do have a linkage (Saffiedine et al., 2009)

3. Research Methodology

3.1. Data

This study uses both primary and secondary data. Primary data were obtained from questionnaires and in-depth interviews, while secondary data were obtained from BUS financial statements. The number of respondents collected was 117 respondents. All respondents are sharia banking practitioners who are at the lowest level are manager level, and they have experience working in Sharia Commercial Bank (SCB) and Sharia Business Unit (SBU) for more than five years.

The position of respondents in sharia banks are dominated by respondents with senior management positions: Head Division/Group Head/GM/Head of UUS (29.6%), Head of Department (17.6%), and the rest of the respondents spread evenly from Branch Managers, Regional Managers, Directors, Commissioners and Sharia Supervisory Board (SSB). Based on these data, respondents are policy holders and have strategic activities in sharia banking.

The shareholder of the company where the respondents work is quite varied. Based on the questionnaires, the majority share ownership of the company where the respondent works is owned by the States Owned Enterprises Bank (SOE) is 37.4%, the Private Owned Enterprises Bank (POE) is 23.4%, the Regional Development Bank (RDB) is 12.1% and the Joint Venture Enterprises (JVE) Bank is 11.2 %.

Furthermore, the secondary data used in this study is annual financial report data from 12 SCB, as shown in Table 2. The data obtained from the financial statements of each bank of year 2016-2017. In 2017, in terms of total assets, Bank Syariah Mandiri (BSM) remain the largest SCB in Indonesia with total assets of Rp87,9 trillion., followed by Bank Muamalat Indonesia, BNI Syariah dan BRI Syariah. Shareholder structure of sharia commercial banks (SCB) in Indonesia is divided into five categories: SCB whose shares are owned by state-owned enterprises, private, Regional Development Bank, foreign and foreign private (joint venture).

Table 2. List of Sharia Commercial Banks

Code	Sharia Commercial Banks	Shareholders	Asset (IDR Mio)	
			2016	2017
BSM	Bank Syariah Mandiri	SOE	78.832	87.940
BMI	Bank Muamalat Indonesia	JVE	55.786	61.786
BNIS	BNI Syariah	SOE	28.314	34.828
BRIS	BRI Syariah	SOE	27.687	31.543
PNBS	Bank Panin Syariah	JVE	8.758	8.629
BMS	Bank Mega Syariah	POE	6.135	7.013
BTPNS	BTPN Syariah	POE	7.323	9.157
BSB	Bank Syariah Bukopin	POE	7.020	7.257
BCAS	BCA Syariah	POE	4.996	5.961
BJBS	BJB Syariah	RDB	7.442	7.714
MBSI	Maybank Syariah Indonesia	FOE	1.370	1.414
BVIS	Bank Victoria Syariah	POE	1.621	2.005

SOE: States Owned Enterprises; POE: Private Owned Enterprises; FOE: Foreign Owned Enterprises
JVE: Joint Venture Enterprises; RDB: Regional Development Banks

Sources: Annual report of SCB, 2016-2017

3.2. Analysis Method

This study uses three stages of analysis, the first stage is to analyze the real conditions of implementation of corporate governance and intellectual capital condition of sharia commercial banks. The first phase analysis is using path analysis, IC calculation using VAIC model and ROA calculation to see BUS performance. The second stage is to conduct situational analysis, which aims to know the expectations of sharia banking practitioners on the implementation of Islamic banking governance. The second phase analysis is situational analysis by using descriptive data analysis from questionnaire and in-depth interview. The third stage is sharia banking governance modeling using a gap analysis between the expectations of sharia banking practitioners based on the current situation with the real conditions of corporate governance. Model is made by using soft system methodology approach.

The data on the implementation of corporate governance is obtained from the annual report of GCG self-assessment of each SCB. The Bank conducts self-assessment using predetermined working papers, then SCB may assign a composite rating pursuant to Central Bank. The IC of SCB condition is calculated by using the iB-VAIC ™ approach developed by Ulum (2013), which is the development of the Pulic model IC calculation is VAIC ™ (Pulic, 1998). Ulum's final formula (2013) in calculating iB-VAIC ™ is:

$$\boxed{\text{iB-VAIC™} = \text{iB-VACA} + \text{iB-VAHU} + \text{iB-STVA}}$$

Stages of IC calculation using iB-VAIC ™ approach (Ulum, 2013) as shown in Table 3.

Table 3. Stages of IC calculation

Steps	Variable	Formulation	Notes
1	iB-VA (iB *Value Added*)	OP + EC + D + A	OP: *operating profit*; EC: *employee cost*; D: *depreciation*; A: *Amortization*
2	iB-VACA (iB *Value Added Capital Employed*)	VA/CE	VA: iB *value added*; CE: *Capital employed* (= total of equity)
3	iB-VAHU (iB *Value Added Human Capital*)	VA/HC	VA: iB *value added*; HC: *human capital cost* (= CE)
4	iB-STVA (iB *Structural Capital Value Added*)	SC/VA	SC: *structural capital* (= iB-VA - HC); VA: *iB value added*
5	**iB-VAIC™**	**= iB-VACA + iB-VAHU + iB-STVA**	

Source: Ulum (2013)

In this study the performance of SCB is represented by ROA (Return on Asset), which reflects the business profit and the efficiency of the company in the utilization of total assets (Chen et al., 2014). ROA is calculated with the formula:

ROA= Net Profit : Total Assets

Path analysis is used to see the contribution of IC and CG to BUS performance. The data analyzed are Intellectual Capital (X1), Corporate Governance (X2) and Return on Assets (Y). The path analysis technique is used to test the contribution by path coefficient on each path diagram of the causal relationship between variables X1 and X2 to Y. Correlation and regression analysis is the basis of path coefficient calculation (Riduan and Kuncoro, 2008).

3.3. Soft System Methodology (SSM)

Soft System Methodology (SSM) was devised by Peter Checkland at Lancaster University in the UK. According to Checkland and John (2006) SSM provides a philosophy and a set of techniques for investigating an unstructured problem situation. SSM is an approach to the investigation of the problems that may or may not require computer-based system support as part of its solution. The conventional seven-stage model of SSM (Checkland, 1999) used in this study as shown in Figure 1.

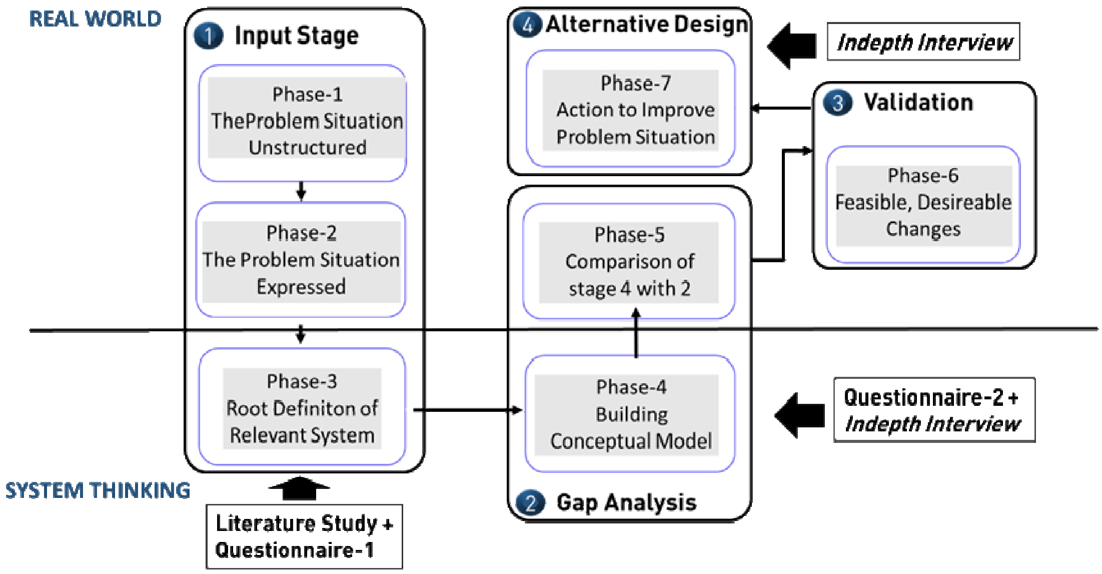

Figure 1. The Seven-Stages, Soft System Methodology Approach

4. Results and Discussion

4.1. Measurement of IC, CG and ROA of Sharia Commercial Banks

IC rating refers to the criteria submitted by Ulum (2013), CG and ROA rating is in accordance with Central Bank regulations. The results obtained from the assessment of CG, IC, and ROA of sharia commercial banks for the period of 2016 are then converted into respective rankings as shown in Table 4.

Table 4. IC, CG and ROA Ranking of Sharia Commercial Banks

SCB	GCG Rating	Category	The Value of IC	Category	ROA Ratio	Category
BSM	1	Outstanding	3,21	Top Performer	0,55%	Fair
BMI	2	Best	3,30	Top Performer	0,21%	Marginal
BNIS	2	Best	3,62	Top Performer	1,32%	Satisfactory
BRIS	2	Best	3,18	Top Performer	0,86%	Fair
PNBS	2	Best	1,75	Common Performer	0,32%	Marginal
BMS	2	Best	3,51	Top Performer	2,40%	Strong
BTPNS	2	Best	3,43	Top Performer	7,59%	Strong
BSB	2	Best	3,01	Top Performer	0,68%	Fair
BCAS	1	Outstanding	3,63	Top Performer	0,99%	Fair
BJBS	3	Good	-0,22	Bad Performer	-7,34%	Unsatisfactory
MBSI	3	Good	-0,76	Bad Performer	-10,75%	Unsatisfactory
BVIS	2	Best	-105,24	Bad Performer	-1,72%	Unsatisfactory

Source: Data is processed from SCB Annual Report 2016

The relationship and contribution of IC and CG to SCB performance were analyzed using path analysis. Based on the results of data processing in Table 4, using SPSS program obtained the empirical causal relation framework between X1 (IC) and X2 (CG) to Y (ROA) can be made through the following structural equations:

$$Y = \rho yx1\ X1 + \rho yx2\ X2 + \rho y\ \varepsilon$$
$$= 0.915\ X1 - 0.176\ X2 + 0.343\varepsilon$$

The result of calculation of structure path analysis gives information that:

1. Intellectual capital (X1) contributed directly and influenced the performance of Islamic banks (Y) is equal to $0.915^2 = 0.837$ or 83.7%.
2. Corporate governance (X2) did not contribute directly and did not affect the performance of Syariah Bank with contribution $-0.176^2 = 0{,}031$ or only 3.1% with negative direction.
3. The amount of contribution of intellectual capital (X1) and governance (X2) simultaneously contribute direct affect to the performance of Syariah Bank (Y) is 0.657 = 65.7%. The rest of 34.3% is influenced by other factors that can't be explained in the study

The results of this study indicate that intellectual capital contributes 83.7% directly to BUS performance, while corporate governance does not contribute directly to the performance of BUS. However, CG and IC were able to give simultaneous direct contribution of 65.7% to BUS performance. These results are different from some existing studies that show a close relationship between CG and IC. The close relationship between CG and IC can be seen in some literature stating that CG has influenced the disclosure of capital information (Li et al. 2008; Hidalgo et al., 2011; Arifin, 2016). Santoso (2011), also shows that IC has a positive effect on banking performance in Indonesia.

4.2. Modeling of Sharia Bank Governance System with SSM

4.2.1. Understand the problem situation of Sharia Banking and draw a rich picture

The first step of SSM is to describe a problematic situation that is still unstructured based on reality conditions. Soft system analysis focuses on how the current system of purposeful human-activity needs to change and why (Checkland and Scholes, 1990). SSM provides a philosophy and a set of techniques for investigating a "real-world" problem situation. Soft systems are purposeful systems of human activity, that are organized to achieve some purpose among the groups of people acting in concert (Checkland, 2000).

The problematic situation regarding the implementation of the corporate governance of Sharia commercial banks can be expressed by researchers through rich pictures. According to Checkland and John (2006), the most critical part of this steps are (i) understanding the relationships, elements, and main activities involved in a problem situation, and (ii) deciding a boundary within which the situation can be improved. A Rich picture can be drawn, to help analysts and participants to piece the problem situation together. A rich picture of the researcher's expression on the problematic implementation of governance faced by Sharia banking practitioners, shown in Figure 2. The point of this diagram is to explore various aspects of the situation, without trying to structure or analyze it.

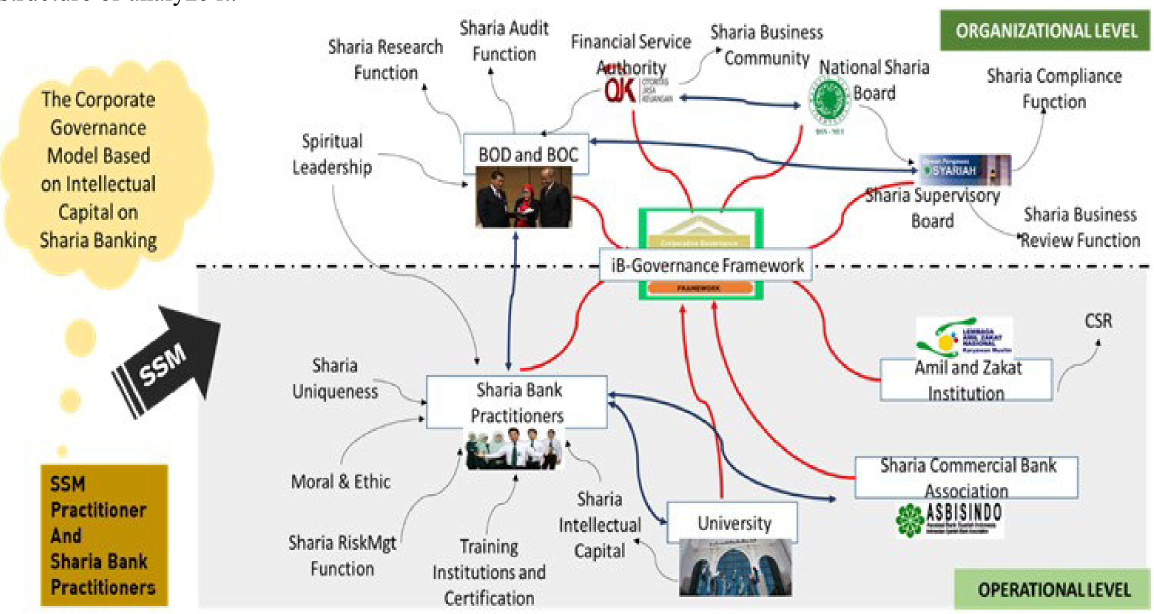

Figure 2. A Rich Picture, Showing the Complexity of Governance Implementation

The results of situational analysis based on questionnaires and in-depth interviews reveal three important issues related to the implementation of Sharia banking governance. The first important issue is the sharia governance framework model (SGF-Model). Which is necessary to be developed soon governance framework model in Indonesia because sharia bank industries do not have a comprehensive governance framework.

Although BI (Central Bank) and OJK (FSA) already have regulations governing the implementation of corporate governance, according to the respondents, the regulations is still inadequate and needs improvement. This is reflected from 43.6% of respondents stated that BI and OJK does not have adequate sharia governance framework model as a reference of the implementation of corporate governance. Even 93.2% of respondents expect regulators to set up a sharia governance framework model (SGF-Model). Respondents believe that SGF is very important and it differentiate Sharia banks from conventional banks. SGF-Model becomes a reference to the implementation of a comprehensive governance model for sharia banking.

The second issue, sharia banking must optimize the conditions of intellectual capital. Respondents' reactions show that 78.6% of respondents believe that in the development of the financial industry-based economic era, intellectual capital is more important than capital in the form of money or physical (financial & physical capital), only 5.2% of respondents disagree and 16,2% did not give an opinion.

Third, it is necessary to strengthen the main duties and functions of the Sharia Supervisory Board (SSB) so that it can perform a strategic role in the corporate governance system. The lack of role of SSB is reflected from 39.3% of respondents felt that the presence of SSB in the Islamic banking governance system has not protected the interests of stakeholders.

Root definition and conceptual model: The third and fourth stages of SSM

Based on the rich picture, the next step is to compile the root definition (RD). Preparation of RDs by Checkland and John (2006) may use the PQR formula. The PQR formula represents a thing by: doing P through or by Q, to reach R. The PQR formula will assist the researcher in answering the question of what, why and how in a research problem. In order that the draft of RD can be used as the basis for conceptual modeling, it needs to be tested and refined with the tools of CATWOE analysis (Hardjosoekarto, 2012).

Root definition in this study is a system owned by researchers and practitioners of Syariah banking in enriching the model of Islamic banking governance based on the uniqueness of sharia economic system (P) through the development of governance framework model based on intellectual capital and uniqueness of the sharia economy system typical of Indonesia (Q) to improve the performance and competitiveness of national sharia banking in global market competition (R).

The fourth phase of SSM is the conceptual model development through a purposive activity model to illustrate the process of accelerating the implementation of corporate governance based on intellectual capital. The initial process of model development begins with the preparation of corporate governance based on IC score board (CG-IC Score Board), then proceeds to compile the Sharia Governance Framework Model. Illustration Conceptual modeling of sharia governance framework model as activity in Purposeful Activity Model (PAM) can be seen in Figure 3.

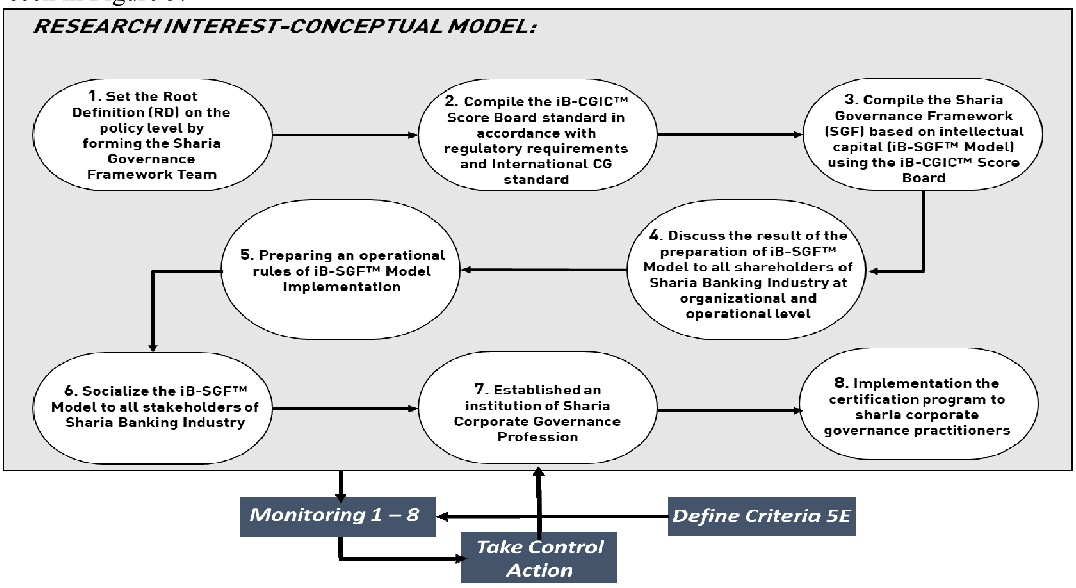

Figure 3. Porposeful Activity Model

4.3. Proposed iB-GF™ Model for Better Sharia Good Corporate Governance

Implementation of Islamic banking governance system in Indonesia does not have a solid foundation, although FSA (OJK) and Bank of Indonesia (BI) already have a set of rules on the governance of sharia banking. This is reflected in the fact that a large number of respondents (43.6%) stated that FSA does not have adequate sharia governance framework model, although 37.7% of respondents stated that the current FSA's governance rules are adequate. Based on the results of the questionnaire and CG implementation, there is a gap between the expectations of sharia banking practitioners and real conditions related to the implementation of SCB governance.

Sharia banking governance system in Indonesia lags behind compared to Malaysia. In terms of corporate governance, Indonesia should continue to work to improve the implementation of good corporate governance. According to a report by Thomas Reuters (2017) the score of Indonesia's sharia financial governance is 74, lower than Malaysia which scored 114. According to Omar et al. (2014), in 2010 BNM has introduced a new set of rules as the implementation of the sharia governance framework of 2010 (SGF2010). In just one year, the implementation of SGF 2010 has been effective in Syariah banking in Malaysia (Omar et al., 2014).

Related to the gap between the expectations of Sharia banking practitioners with the real situation of IC implementation and CG conditions, this study offers the enrichment and development of the concept of governance implementation for sharia banking, by incorporating the concept of corporate governance and intellectual capital Islamic governance.

The proposed corporate governance model based on intellectual capital for sharia banking assembled within the framework as shown in Figure 4. The model called iB-GF™ Model (Islamic Bank Governance Framework Model).

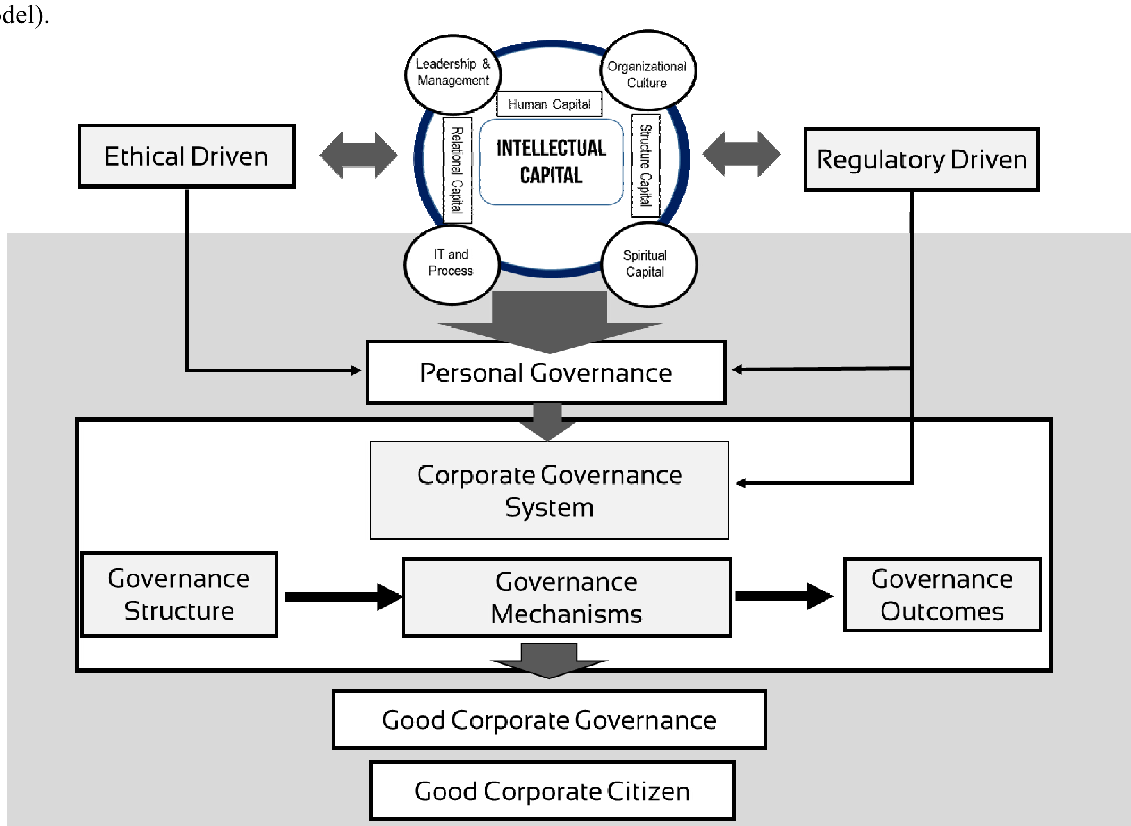

Figure 4. The iB-GF™ Model

The Proposed concept that will be developed refers to the basic principles of implementation of corporate governance: transparency, accountability, responsibility, independency, and fairness. A comprehensive iB-GF ™ model is built using four basic corporate governance concept approaches (i) Authentic governance model (Rampersad and Hussain, 2014); (ii) Dynamic intellectual capital (Meritum, 2002; Bratianu, 2008); (iii) Good corporate governance principles (Cadbury, 1992), and (iv) Good corporate citizenship (Waddoc, 2000). This study focuses on the development of governance personnel into Good Personal Governance (GPC) as the basis for the creation of Good Corporate Governance (GCG). The developed model is a derivative of Rampersad's thought known as the Authentic Governance Model (Rampersad and Hussain, 2014).

According to Rampersad and Hussain (2014) sustainable corporate governance begins with individual integrity. Authentic governance model consists of the four phases: (i) Authentic personal governance; (ii) Alignment with yourself; (iii) Authentic corporate governance; and (iv) Alignment with your organization. iB-GF ™ model promotes the personal integrity of employees and company management. Development of integrity is done by increasing the company's attention to the condition of intellectual capital. Ongoing corporate governance will be obtained when sharia banks can align their personal integrity with the integrity of the

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organization.

Good personal governance can be achieved through a personal governance approach (Rampersad, 2014) because it is driven by two things: ethical driven and regulatory driven. According to Daniri (2005), there are two approaches in driving the implementation of good corporate governance (GCG), ethics-based approach and regulatory-based approach. Ethics-based approach is predominantly driven by the consciousness of business practitioners in doing their business not for short-term profit orientation but more on a healthy relationship with their stakeholders. On the other hand, regulatory approach is driven by the initiative to enforce company to comply with certain designated regulations.

Ethical driven and regulatory driven play a very important role in changing one's behavior so that it becomes personal governance. Poor personal governance leads to poor corporate governance practices. Rampersad and Hussain (2014) said, unethical behavior of top executive, poor ethical leadership, lack of integrity, mismanagement, fraud, corruption and violating corporate governance codes are the main contributors to financial scandals around the world. This condition is in line with the thought of Anthony Giddens (in Priyono, 2016), concerning the existence of a duality relationship between agency and structure. Human behavior is strongly influenced by agency or structure conditions. The agency in this case is represented by ethical, and the structure is represented by regulatory.

The function of IC in iB-GF ™ Model concept is as binding and driving motor of governance implementation through IC component that is HC, SC and RC. According to Bratianu and Orzea (2013), the potential intellectual capital (HC, SC and RC) can be transformed into the operational through the work of integrators. The concept of integrators has been defined and developed by Bratianu (Bratianu, 2008). By definition an integrator is a powerful entity based on interdependence synergy (Bratianu and Orzea, 2013).

According to Bratianu (2007), in the dynamical theory of intellectual capital, integrators can bring the energy and the effects of individual motivation into the organization. The complex combination will synergize to create new values in the organization or company by transforming the basic principles of CG and IC to all personnel and employees. The main integrators are leadership and management, organizational culture, IT and process, and spiritual capital (Bratianu, 2008).

The iB-GF ™ Model uses integrator concepts to optimize CG and IC synergies. The harmony and synergy of the concept of IC and CG in corporations through the role of integrators will encourage the implementation of good corporate governance (GCG) through the development of good personal governance (GPG). This is in accordance with Rampersad (2014) thinking about the importance of personal governance development to achieve good corporate governance.

This iB-GF ™ Model is an integrated governance system that also strengthens the role of the agency through the strengthening of dynamic IC components, leadership and management and spiritual capital. While the strengthening of the structure runs through the IT system and the organizational culture strengthening. These two dynamic activities will continually improve ethical and regulatory driven that will result in good personal governance. This is in accordance with the opinion of Rampersad and Hussain (2014) that corporate governance should not only be based on formal regulations, procedures, and exhaustive guidelines. Sustainable corporate governance will be achieved only if the personal change inwardly and personal integrity has become a way of life.

The idea of developing a governance model based on intellectual capital (iB-GF™ Model) is in the context of ensuring effective implementation of corporate governance in sharia banking and to be increasing the professionalism of employees and corporate management, giving benefit to the environment and building sustainable competitive advantage.

5. Conclusions

The findings of this study indicate that the intellectual capital condition of Sharia Commercial Banks in Indonesia contributes significantly to company performance, but the implementation of corporate governance does not contribute significantly to the performance of SCB. However, CG and IC contribute simultaneously to the performance of SCB. These results indicate that the method of applying the governance of sharia banks is still an agency that emphasizes the importance of personal roles and demonstrates that the role of the governance system has not worked well. Other points also indicate that the self-assessment CG report is highly subjective and does not adequately describe the actual conditions.

The implementation of corporate governance model based on the expectations of sharia banking practitioners indicates that sharia banking needs enrichment of a comprehensive sharia governance framework as a reference for good corporate governance practices for sharia commercial banks. The Islamic Governance Framework Model (iB-GF ™) be able an alternative to be developed in sharia banking industry. This model uses dynamic intellectual approach to bind and synergize ethical driven and regulatory driven aspects of sharia commercial banks to gain good personal governance. The iB-GF ™ will enhance the accuracy of the assessment of the implementation of corporate governance and be able enhance the value and competitiveness of sharia commercial banks in the ASEAN and global markets.

This study can provide an input to Bank of Indonesia (Central Bank) and OJK (Financial Service Authority) as regulator to change corporate governance appraisal practices for SCB to be more comprehensive in line with the development and operational complexity of sharia banking industry. To obtain a more comprehensive governance model, further research can be undertaken using more precise methods and broader samples.

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