

Intellectual Capital, Literacy Sharia Banking and Banking Sharia Service Usage : A Multilevel Effect

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Abstract: *This study aims to determine the effect of intellectual capital and literacy sharia banking to banking shariah service usage. This research uses quantitative methods and descriptive analysis of primary and secondary data using questionnaires, documentation, library studies and direct observation, the number of samples is 98 people through incidental sampling techniques using multiple linear regression as an analytical tool. Finding this research are intellectual capital has no influence on the use of sharia banking services while sharia banking literacy has an influence on the use of sharia banking services.*

The study involved 98 respondents banking shariah customer were selected at random. Instruments used for capital intellectual and shariah banking literacy developed by researchers from some of the instruments that have been used in some study previous. Instruments validated by a post hoc analysis of factors involving 98 respondents.

Keywords: *Banking Shariah Literacy, Intellectual Capital, Shariah Banking.*

I. INTRODUCTION

The presence of Islamic banks in the midst of conventional banking is to offer an alternative banking system for Muslims who need or want to obtain banking services without having to violate the prohibition of usury (Antonio, 2011). Indonesia is a country with the largest Muslim population in the world. The majority of the population who are Muslim makes Indonesia a potential market in the development of Islamic finance. The development of the Islamic economy at this time in Indonesia experienced significant growth. Indonesia is a country with a majority Muslim population. According to data from the Badan Pusat Statistik (2010) the number of Muslims in Indonesia reached 207,176,162 inhabitants.

With a percentage of 87.18%. with such large growth, Indonesia has the potential to develop the Islamic banking system more quickly, in the assessment of the Global Islamic Financial Report (GIFR) (2011,) Indonesia ranks fourth in a country that has potential and is conducive to the development of the Islamic financial industry after Iran, Malaysia, and Saudi Arabi. Islamic banking is a banking system that runs its operations based on sharia principles (Kasmir, 2005).

With the main principle of partnership and togetherness in the sharia system, both the bank and the customers get the benefit, because the activities carried out do not use the interest system but with the profit-sharing system. Islamic banks are financial institutions like conventional banks but use the principles of sharia, namely justice, balance, and benefit. The main objective of Islamic banks is as an effort of Muslims to underlie all aspects of economic life based on the Al-Quran and As-Sunnah (Muhammad, 2005). The establishment of the Islamic Development Bank (IDB) has motivated many Islamic countries to establish Islamic financial institutions (Adiwarman, 2009)

Unfortunately, even though Indonesia is a very broad market share for Islamic banking, the contribution of the Islamic banking system to the national banking system is still small (total assets around 0.26% of total national banking assets) (Bank Indonesia, 2015). that although the sharia banking market segment is quite broad in view of a large number of Indonesian Muslims, the growth of sharia banking is still not optimal. The development of sharia banking, when compared with Malaysia, is very far away. At present, the sharia banking industry in Malaysia has grown rapidly, where the total assets owned by this day is the US \$ 423.2 million while in Indonesia the total assets of Islamic banking are the US \$ 35.62 million.

Sharia banking industry players have tried to develop sharia banking by making breakthroughs to meet customer needs and market demands, such as maximizing the potential knowledge of their resources, conducting socialization and education on an understanding of sharia banking as well as completing network and service facilities and providing facilities- convenience for the parties to be able to assist in various activities. The public is still unable to provide a good perception of Islamic Banks, due to the lack of public knowledge of Islamic Banks. While the perception or view of the public who will become customers is very important in the banking world. Understanding and socialization of Islamic banking products and systems are still very limited and this is what can influence prospective customers in choosing their products.

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According to Tafsir *et al.*, (2018) for a company to continue to survive, companies must quickly change their strategy from a business that is based on labor-based business (business based on labor) to knowledge business (business based on knowledge), so that the main characteristics of the company become a science-based company. The use of science and technology will be able to obtain how to use other resources efficiently and economically which will later provide a competitive advantage (Sawarjuwono, 2003).

Intellectual capital is the knowledge that provides information about the intangible value of a company that can affect the company's endurance and competitive advantage to achieve value-added to financial performance. According to The Society Of Management Accountants Of Canada (SMAC) (Sawarjuwono, 2003) defines intellectual capital as a knowledge-based asset owned by the company and used to generate profits that continue to flow in the future for the company. operation and Development (OECD) (Purnomosidhi, 2006) defines intellectual capital as the economic value of the two categories of corporate asset intangibles, namely organizational (structural) capital, which includes proprietary software systems, distribution networks, and supply chains. Second, human capital, including human resources both within the company and outside the company, such as customers and suppliers. Meanwhile, Choo and Bontis (2002), explained that intellectual capital represents the knowledge that exists in an organization at a particular time. The Company's intellectual capital consists of human resources, structure, organizational routines, intellectual property, and the relationship between the company and its customers, suppliers, distributors and corporate partners.

Financial literacy including Islamic finance is an important issue in the world. That is why high financial literacy is very useful, including for investors in investing in or buying company shares (Kishan & Alfian, 2018). Some countries in the world are even very focused on financial literacy so that they include it in their strategic programs such as United States, United Kingdom, Australia, Canada, Japan, Singapore, and Malaysia. Sharia financial literacy is defined as a combination of financial knowledge, vigilance, abilities, attitudes, and behaviors that are needed so that they can decide on finance to improve financial health based on sharia principles (Murugiah, 2016).

Although Indonesia is a country with the largest Muslim population in the world, Indonesia has a low level of financial literacy. OJK through the results of the 2016 national literacy

and financial inclusion survey stated that sharia financial literacy is still low at 11.6%. Indonesia is even left behind from Malaysia, a fellow country in Southeast Asia whose population is also a Muslim majority. The still low level of sharia financial literacy in Indonesia is the reason why this research needs to be done. The higher the sharia financial literacy of a country's people, the better the community in managing its finances (Kishan & Alfian, 2018)

The sharia service model does not make sharia banking a specialization in Muslim societies, seen from the fact that not several non-Muslim communities are sharia bank customers (Antonio, 2011). The National Financial Literacy Survey conducted by the Financial Services Authority (Financial Services Authority, 2017) found a close relationship between financial literacy and one's ability to utilize financial services products and services. The survey shows that the higher a person's financial literacy, the greater the level of utilization of financial products and services. So that financial literacy activities need to be done first before someone uses financial products and services so that someone who buys or utilizes financial services products and services understands the product according to

what is needed (Financial Services Authority, 2017)? The low level of financial literacy of the people of Indonesia indicates the need for financial education for the public, especially students.

Countries such as the United States, Canada, Japan, and Australia are trying to increase public financial literacy by providing financial education. But this is still a big challenge in Indonesia. Financial education is a process that encourages people to have a long-term financial plan to achieve prosperity following the lifestyle they live (Kewal, 2013).

II. METHODE

This study investigates the impact of intellectual capital and financial literacy on 150 uses of Islamic banking services. Data was collected through a questionnaire from the community in the city of Makassar, Indonesia. PLS Structural Equation Modeling (SEM) analysis is applied to build a causal relationship between the proposed model constructs. The results of this study indicate that intellectual capital and financial literacy play an important role in the use of Islamic banking services.

III. RESULT

Table 1. Data analisys Result

	Original Sample	Composite	R Square	Cronbachs Alpha	T Statistics
Intellectual Capital		0.806	0.66	0.767	
Literacy Shariah		0.777	0	0.576	
Investment Decision		0.786	0.374	0.678	
Intelctual capital-investment decision	0.034				0.213
Literacy Shariah-investment decision	0.615				9.705

not only in the diagram but in the tabulated output everything is displayed.

Testing starts with testing the external model and then testing the internal model. The instructions used are only valid directives. The second instruction manual for X | and Y is disabled which means that instructions are taken into account



The hypothesis to be tested is the hypothesis that there is a strong and positive relationship between intellectual capital and the use of Islamic banking services. The formulation of this hypothesis in the equation is as explained below.

Ho = there is no strong and positive relationship between intellectual capital or literacy of Islamic banking and the use of Islamic banking services.

HI = there is a strong and positive relationship between intellectual capital or literacy of Islamic banking and the use of Islamic banking services

If $T_{arithmetic} > T_{table}$ then Ho is rejected and HI is accepted and vice versa. The reliability level used in this test was 95% with a significance level of $\alpha = 0.05$.

This hypothesis test is carried out as follows:

Assessment of External Model Measurement

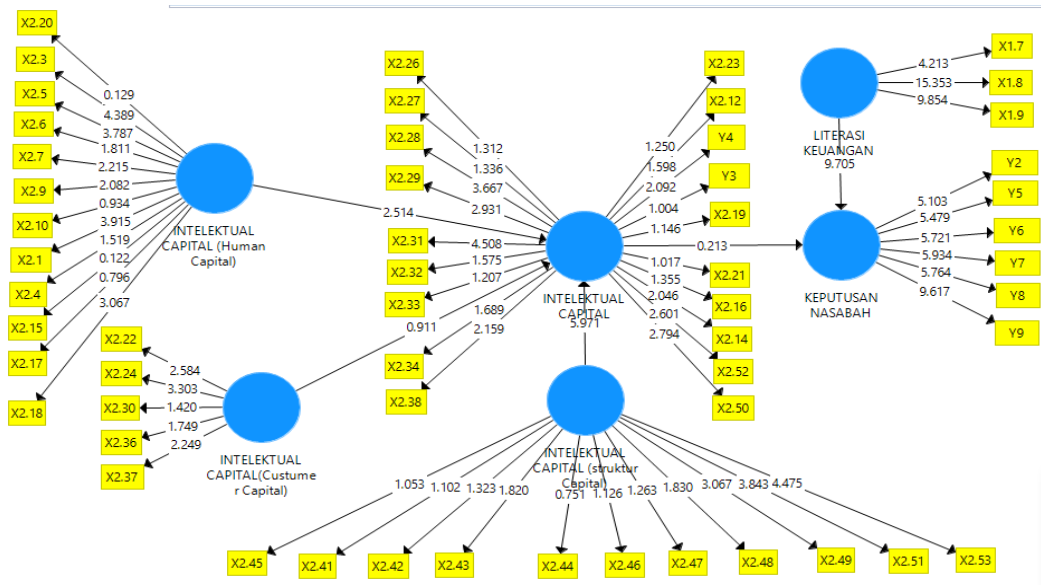
Evaluation of the measurement of the external model is to see whether the indicators used in this study are valid and reliable.

Validation Test

Validation tests are carried out to ensure that each indication can form the targeted construction correctly. The output of the validity test is carried out as shown in the figure below.

The external load output for hypothesis 1 is shown in the Appendix. The display shows that there is no load factor below 0.5. The display shows that each indication has the highest load factor for the construct in question. This shows that the dimension to measure the relationship between intellectual capital development and the dimensions of the use of Islamic banking services is legal.

Following are the estimates of the T value based on the output with SmartPLS



The numbers shown in the figure above show the calculated T value. Therefore, this diagram can also be used as a validity test with each indicator having an Estimated value above 1.96 in designing the intended construct.

Hypothesis testing :

- I. There is a significant and positive relationship between intellectual capital and the usage of sharia banking services as shown by $r = 0.314$ and the relationship between Islamic bank literacy and Usage sharia banking service at 0.660
- II. Intellectual capital (Xi) can explain 31.4% of Usage sharia banking service (Y). While sharia bank literacy can explain 66%.
- III. There is no significant effect between intellectual capital (Xi) and Usage of sharia banking service (Y). This is indicated by the T-value of $X_i = 0.213$; smaller than the expected value, 1.96; the level of significance is 0.05. Sharia bank literacy has an influence on Usage sharia banking service with a T value of $X_2 = 9,705$; greater than the expected value of 1.96 with a significant level of 0.05.
- IV. The regression equation between intellectual capital and Usage sharia banking service is $Y = 0.034X$, which means that every level of intellectual capital changes that

occur in the field will result in = 0.034 changes in Usage sharia banking service. Whereas the sharia bank literacy equation and Usage sharia banking service are $Y = 0.615$ which means that each level of change in sharia bank literacy will result in = 0.615 changes in the Usage sharia banking service

IV. DISCUSSION

From the hypothesis testing using partial least square (PLS) bootstrapping method using Smart PLS 3.0 software, it is known that there is a significant effect of sharia banking literacy on the usage of sharia banking services. These results also confirm previous research conducted by Dahmen & Rodríguez, (2014) (Fatoki & Oni, 2014), and (Adomako *et al.*, 2016).

In general, this research states that if the community has adequate sharia banking literacy capabilities, the decision to use the services of sharia banks will increase. A good understanding will change the public's view of sharia banking which has so far understood sharia banking.

Literacy on the system and good management of Islamic banking will make people understand and understand more various matters related to Islamic banks. A good understanding will create a rational attitude towards the community, which in turn will encourage people to be interested in using Islamic banking services. Rational attitude is the attitude of thinking someone based on the reason that can be proven with existing data and facts. An investor who has a rational attitude, one of which, can be reflected in investment decision making based on financial literacy. This means that the investment literacy level influences the investment decision making made by the investor (Hassan Al-Tamimi & Anood Bin Kalli, 2009). The higher the level of education, which is a reflection of financial literacy, the more likely investors are to place their funds in capital market instruments that are riskier than in relatively safe banking instruments (Antonio, 2011).

Misunderstanding of sharia banking and other sharia financial institutions shows the uneven dissemination of information on sharia banking and other sharia financial institutions. Many people do not understand correctly what is Islamic financial institutions, the systems used, the types of products, and what are the advantages of Islamic financial institutions compared with conventional financial institutions (Antonio, 2001). The process of socialization to the community becomes an important thing carried out by Islamic banking to increase public knowledge of Islamic banking (Tafsir *et al.*, 2016).

However, literacy in Islamic banking does not affect people's decision to use Islamic banking services. Other factors cause the results of research by Eresia-Eke & Raath, (2013) and (Ariani *et al.*, 2016) which are contradictory where the researchers found evidence that financial literacy has no effect on investment decisions in banking.

A positive relationship between intellectual capital and community decisions using Islamic banking services

In this study, the results of the study obtained are not in line with the hypothesis that shows that intellectual capital does not influence the community's decision to use Islamic banking services. The public views sharia banking only in terms of the banking operational management system, still very few decide to use sharia banking services by considering elements of intellectual capital such as organizational conditions, banking relationships with customers, corporate value, and several other elements. Though the elements of intellectual capital are important things that need to be considered by the community before investing. The results of this study are the same as the results of research conducted by Razafindrabinina & Santoso, (2013) which states that intellectual capital has no significant relationship with investment recommendations.

Many research results say that intellectual capital influences investment decisions, such as the results of research from Jafaridehkordi & Rahim, (2014) which examined the positive relationship between intellectual capital and investment decisions is also supported by research on 188 companies listed on the Malaysian Stock Exchange for six years and in automotive companies on the Tehran Stock Exchange (Torabi & Irantazh, 2014), as well as research results from Ozkan *et al.* (2017) which says there is a relationship between intellectual capital and firm value.

V. CONCLUSION

Islamic banking literacy is an important factor that influences people in deciding to use Islamic banking services. Better public literacy will further increase public understanding and awareness of Islamic banking. One of the problems that often arise in the development of Islamic banking in Indonesia is the low understanding and knowledge of the public regarding Islamic banking. The low literacy of Islamic banking causes the perception that appears in the community towards Islamic banking is incorrect. This condition causes the low interest of the community to use Islamic banking services. Improving public literacy in Islamic banking is the right step to increase public participation in using Islamic banking services in Indonesia. This is consistent with the results obtained in this study where sharia banking literacy affects the use of sharia banking services in Indonesia.

However, intellectual capital does not affect the use of Islamic banking services in Indonesia. This is because the public still does not see the importance of intellectual capital as a material consideration in investing in the Islamic banking industry.

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