

## **Effect of Human Resource on Financial Performance of Islamic Bank in Indonesia**

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**Abstrak:** *The research aim to determinan indikator human resource of this indikator financial performance of Islamic Bank in Indonesia. For this goal all of the accepted of Islamic Bank in Indonesia. Stock exchange in 3 years period from 2012-2014 investigated.*

**This studi answer to :** *whetter indikator human resource has significant effect on indikator financial performance of Islamic Bank in Indonesia or not? with one hypothesis, two indikator human resource investigated and hypotesis tested. hypotesis tested and data analysing done based on linear regression by spss v.19. Result confirmed effective rule of human resource indikator on financial performance value mean fundamental hypothesis of reseach confirmed.*

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### **I. Background**

Islamic Banking industry in Indonesia grew fantastic and potentially large serving all segments of society, so it can be an alternative in supporting the national economic development. Islamic banking contribution to the national banking industry continues to increase, to 4.8 percent in 2012. In the next two decades, the contribution of Islamic banking is estimated at 15-20 percent. Significant growth also occurred in other Islamic financial institutions.

The development of Islamic Microfinance Institutions (LKMS) or better known as the Baitul Maal Wa Tanwil no less rapid. In 2014, there were approximately 3500 BMT has been operating in Indonesia. Some of them have more than one service station. When coupled with high mobility factor calculation of the BMT managers to "pick up the ball", providing services outside the office, the socialization of BMT has to be massive. Operational area was already includes rural areas and urban areas, on the island of Java and outside Java.

Business purposes, according to Islam is actually a wish to enlarge, extend and expand the activities of law or purpose of worship and be rewarded. This is what distinguishes it from other business. Thus the profitability and long-term business continuity including enlarging and expanding the scale of business in the Islamic business must not violate the essence of its founding. In relation to the nature of the business establishment of Islam including Islamic banking in efforts to achieve the objective of financial returns (let's call it the financial performance) requires qualified human resources is not only Islamic character but also the personal aspect of managerial competence Islamic business.

Finding individuals 'akhlakul karimah' competitiveness in an era of tight bussines and dealing with the conventional banking industry is not easy. So, we need a reliable investment management in the allocation of financial and human resources. Human resource investment can take the form of human capital, fringe benefits, and working conditions conducive to the activity of the workers; including work in accordance with the capacity, rights promotion, leave entitlements and leisure time. On human capital investment, could be spending on education and training; including benefits / health insurance obtained by the workers. While the remuneration can be a reward on labor productivity of every worker. On the other hand, workers are also entitled to a decent job and does not exceed its capacity (nonovercapacity).

In the end, human resource investment is expected to encourage Islamic banking financial performance in order to continue to grow so that people can move the economy based on Islamic principles to which it aspires. For that to know how to influence human resource investments, the financial performance of Islamic banking in Indonesia.

The literature suggests a relationship between the human resource and the Financial performance. Mavridis (2004), found that the Japanese banks that have better performance are those which have made the utmost use of their intellectual capital. Elahi and Shahaei (2010) investigated the effect of intellectual capital on the performance of the branches of Sepah Bank in Tehran. The results showed that the intellectual capital component have a positive effect on the performance of the bank, and the highest effect goes to the client capital, then stand structural and human Capital. Not all the investigations support the positive significant relationship between intellectual capital and company's performance as Firer and Williams (2003), Shiv (2006), and Chan (2009) all found that human capital has a negative effect on the ratio between the assets flow and value.

## **II. Literature Review**

The theory of human capital is rooted from the field of macroeconomic development theory (Schultz, 1993). According Schultz (1993), the term “human capital” has been defined as a key element in improving a firm assets and employees in order to increase productive as well as sustain competitive advantage. Becker's (1993) classic book, *Human Capital: A Theoretical and Empirical Analysis* with special reference to education, illustrates this domain. Meanwhile definition of human capital Organization for Economic Co-Operation and Development or OECD (2001: 18) is referred to as “the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being”

Human capital a significant role in enhancing firms' competitiveness and performance (financial and non financial). Selvarajan et al., 2007; and Hsu et al., 2007 used return on Asset (ROA) to Measures financial performance. Grossman, 2000 used return on investment (ROI), earnings per share (EPS) and net income after tax (NIAT) as measures of financial performance. But in bank cases, financial performance measures such as Capital adequaty ratio (CAR), return on Asset (ROA), return on equity (ROE), Non Performing Financing (NPF), The ratio of Operational Expenses to Operational Revenue (BOPO) and Financing to Deposit Ratio (FDR).

A greater human capital stock is associated with greater productivity and higher salaries (Mincer, 1997). Snell et al., (1999) it stated that a firm's human capital has two dimensions which are value and uniqueness. Firm indicates that resources are valuable when they allow improving effectiveness, capitalizing on opportunities and neutralizing threats. In the context of effective management, value focuses on increasing profits in comparison with the associated costs.

Dooley (2000) who found a significant positive correlation between the quality of developers and volume of market shares. A study of 25 firms in the financial services companies by Bontis and Fitzenz (2002) measured human capital effectiveness with four metrics; revenue factor, expense factor, income factor and ROI found that the consequences of human capital Management and they established the relationship between human capital management and economic and Business outcomes. Selvarajan et al. (2007) with a causal model using a set of cross-sectional data developed indicates that human capital enhancement paves a way for greater innovativeness and this in turn offers positive implications on firm performance.

Elahi and Shahaei (2010) investigated the effect of intellectual capital on the performance of the branches of Sepah Bank in Tehran. The results showed that the intellectual capital component have a positive effect on the performance of the bank, and the highest effect goes to the client capital, then stand structural and human capitals. Meanwhile, Abbasi and Sadeghi (2010) considered the effect of intellectual capital indices including the efficacy of human, physical, and structural capitals on the financial performance of companies (dividened, the yield rate of owner's equity and the annual yield rate) for 99 companies from 2000-2003. The results showed that companies with higher intellectual capital enjoy better financial performance.

## **III. Research Methods**

This study uses secondary data, characterized by time series period January 2012 to September 2014. The data is the result of the publication of Islamic Banking Statistics issued by Bank Indonesia. Islamic banking is estimated: Islamic Commercial Bank and Islamic Business Unit of a Conventional Bank. Financial performance measured by Return on Assets (ROA) in monthly. The cost of education and training is measured by the number of education and training expenses in monthly. Estimation using multiple linear regression model with the equation:

$$K = \beta_0 + \beta_1TK + \beta_2P + e \dots\dots\dots(1)$$

Keterangan:

- K = Financial performance
- TK = Employees
- P = Education and Training Expenses
- e = *Error term*
- $\beta_0$  = Constant
- $\beta_1, \beta_2$  = Coefficient of estimation

#### IV. Results And Discussion

##### A. Results

The results of the effect of human resource estimate on the financial performance of Islamic banking in Indonesia is presented as Table 1. Table 1 shows that the human resource investment as measured by the variable amount of manpower and expenditure for education/ training of employees affect the financial performance of Islamic banking in Indonesia, which is indicated by the significance F value of 0.0000 which is smaller than  $\alpha = 0.05$ . Table 1 also shows that the magnitude of the constants of Islamic banking model of the human resources of 3,031. It is interpreted that if there is no intervention in the form investment of human resources, the Indonesian Islamic Banking will have a rate of return on assets (ROA) of 3,031 percent.

**Table 1** Result of Estimation

Variable	Coefficient	SE	t	Sig
Constant	3,031	0,444	6,830	0,000
Employees	-0,000057	0,000	-4,621	0,000
Edu/Training Exp	0,000054	0,021	2,553	0,016
F = 12,303 Sig F = 0,000				
R = 0,67				
R <sup>2</sup> = 0,45				

Sumber: Results of Research, 2015

On the other hand, the labor coefficient indicates a coefficient of -0.000057 and significant. While education and training expenditure variable indicates the estimated coefficient of 0.000054 and also significant on the alpha of 0.05. This suggests that each increase of 1 employees in Islamic banking, it will decrease the rate of return on assets of 0.000057 percent. These findings indicate that the quality of human resources of Islamic banking is still low in managing the business. But different things indicated by the variable expenditures on education and training with the estimated value of positive, that an increase of 1 billion in spending on education and training of employees will improve financial performance as measured by return on assets of 0.000054 percent. Meanwhile R Square value of 0.45 which models show that the variation of the financial performance of Islamic banking in Indonesia can be explained by the variable costs of education and training; and the number of workers by 45 percent.

##### B. Discussion

The results showed that the labor variable indicates the estimated negative value on the financial performance of Islamic banking in Indonesia. This is in line with the results of Farer and Williams (2003), Shiu (2006), and Chan (2009). Increasing the number of employees who are not optimal actually reduce economy results directly. This is due to increased spending on new workers, either in the form of the cost of recruitment, salary / benefits / wages, as well as placement fee. Increased costs will reduce the profitability of the company since the increase in labor costs are much higher than the income received.

Increasing the number of employees who actually showed a decline in financial performance also indicates the low competence of employees received by the Islamic banking in Indonesia. As a solution needed education and training efforts, as shown by the estimated value of a positive effect of education and training variables on the financial performance of Islamic banking.

Increased education and training of employees will improve financial performance as measured by return on assets. This is in line with the results Moridis (2004), found that the Japanese banks that have better performance Reviews those are the which have made the outmost intellectual Reviews their use of capital. Elahi and Shahaee (2010) investigated the effect of the intellectual capital on the performance of the branches of Bank Sepah in Tehran. The results Showed that the intellectual capital components have a positive effect on the performance of the bank. This is in line with the view of human capital theorists Schultz (1993), who believes that human capita has been defined as a key element in improving a firm's assets and employees in order to

increase of productive as well as sustain competitive advantage. So is the case with a view Becker's (1993) who considers that the investment of human resources is a crucial factor in increasing the productivity of labor.

## V. Conclusion

Competency of human resources in managing the Islamic banking Islamic business in Indonesia is still low. Increasing the number of employees to lower the bank's financial performance. This means that the recruitment of employees add cost companies compared the results obtained. But different things indicated by the variable expenditures on education and training with the estimated value of positive, that the increase in spending on education and training of employees will improve the financial performance of Islamic Banking. Thus in an effort to increase the scale of Islamic banking business in Indonesia, the recruitment of new employees should be accompanied by an increase in the cost of training and education per worker, if not the Islamic banking needs to do the same work with a variety of educational institutions in producing a ready workforce, thereby reducing the cost of recruitment and training new workers. Beside that, several limitations of this study is held in that this model is a linear model and does not consider the lag period. Because it is possible that the recruitment of workers and education expenditure / training will impact on the future / next period.

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