Proving That Intellectual Capital Gives Value Added to Company Performances

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Abstract. Intellectual capital owned by a company is considered to be able to provide added value thereby increasing the value and performance of the company. This statement is in accordance with resource based theory. Through intellectual capital, the company has a competitive advantage and can compete in a dynamic business environment, this condition can be ensured by increasing the value of the company. Apart from intellectual capital, this research also examines the influence of institutional ownership and financial position on company performance. Based on predetermined criteria, 86 companies were obtained as research samples. The data analysis technique used is multiple linear regression analysis. The research results show that the institutional ownership and financial position variables have an influence on company performance, while the intellectual capital variable has no influence on the performance of health and transportation companies on the Indonesia Stock Exchange (BEI) in 2020-2021.

Keywords: Intellectual Capital, Institutional Ownership, Financial Position, Company Performances, Resources Based Theory

1. Introduction

Businesses should adjust to the market's quick development. To meet its objectives, the corporation changed its approach to business management and strategy selection in order to deal with the competition. A successful business strategy can add value to the organization and can be seen in the stock price of the business [15]. The business is aware that commercial rivalry is influenced by innovation, organizational management, information systems, and resources in addition to the possession of physical assets. This justification serves as motivation for businesses to combine competition with sound human resource management. In order to give a means of managing knowledge as a tool to obtain additional value, the pattern of management, which was initially labor-based, started to be directed towards knowledge-based management.[11].

Businesses understand the value of intellectual capital as the cornerstone of their competitiveness. Knowledge, experience, expertise, the capacity to build positive relationships with stakeholders, and technology capabilities that can provide firms a competitive edge are all examples of intellectual capital. After the publication of PSAK No. 19 revision 2000 regulating intangible assets, the phenomenon of intellectual capital in Indonesia started to take shape. According to the standard, intangible assets are identifiable non-financial assets without a physical form that are retained for use in creating or providing goods or services, in exchange for rent from third parties, or for administrative needs. Though not explicitly stated, it may be inferred that intellectual capital has

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drawn more and more attention.

The worth of the company can be increased by intellectual capital. For businesses, intellectual capital is a key component in generating shareholder value[10]. Increasing the company's worth can guarantee this scenario. Through intellectual capital, a company has a competitive advantage and can compete in a dynamic commercial climate. An increase in the company's valuation will affect how much investors are paying attention. Stock prices will be impacted, leading to a rise, because investors have a greater interest in businesses that can deliver sustainable added value[7].

This study aims to support that hypothesis. In this study, the impact of intellectual capital on service industry companies' performance is investigated. One industry that has significant intellectual capital assets is the service sector. In addition to intellectual capital, this study also looks at institutional ownership and the financial health of the organization in relation to company performance.

Institutional ownership has a role as a supervisor of the company. Oversight by institutional ownership will increase the effectiveness of supervision, because institutional share ownership shows the power that can be used to take action on directors if the company's performance is poor[9]. When a firm performs well, it will have an effect on the company's image, which will subsequently draw investors' attention and raise demand for shares, which will have an effect on the stock price of the company[7].

The company's financial position is measured using the Return On Assets (ROA) ratio. ROA aims to assess a company's ability to make profits through investment activities[12]. Previous research said that ROA proves the company's capability to earn profits based on the total assets that the company uses for operational activities[16]. The high value of ROA shows that the company is able to earn profits and manages to control all costs so that it affects the increase in stock prices.

2. Literature Review And Hypothesis Development

2.1 The Effect of Intellectual Capital on Company Performances

Resource Based Theory is a theory developed to analyze the competitive advantage of a company that emphasizes knowledge superiority that relies on intangible assets[14]. The assumption of this theory is how companies get added value by managing their own resources according to the company's capabilities. According to this theory, businesses that are able to manage their human, physical, and structural capital together with their intellectual capital may produce value for the business as a whole [15], [2], [5]. Intellectual capital will assist the company in fulfilling the interests of its stakeholders. Companies with high corporate value are considered to have competitive advantages so they can survive and compete in the business world [6]. In order to make judgments that will have an effect on rising stock prices, this adds value for investors.

H_1: Intellectual capital affects company performances

2.2 The Effect of Institusional Ownership on Company Performances

The percentage of business entities and institutions that act as shareholders in a company is called institutional ownership. The existence of institutional ownership is seen as an effective monitoring mechanism for companies, related to decision making[4]. Institutional ownership can provide better control over company management in meeting the interests of stakeholders. Stakeholder theory states that companies are required to fulfill the interests of all stakeholders. The existence of institutional ownership is considered as one of the company's efforts to fulfill the interests of these stakeholders. Meeting the interests of stakeholders is expected to improve company performance. Previous studies have shown similar results[7], [4].

H_2: Institusional ownership affects company performances

2.3 The Effect of Financial Position on Company Performances

One of the financial ratios that is often used to evaluate a company's financial position is Return On Assets (ROA). ROA is a profitability ratio used to estimate a company's capability to earn profit from its asset investment activities. Based on signaling theory, a high ROA value is a good news signal for investors that the company and conditions are good. A high ROA value interprets that the company's financial performance is good and attracts investors to invest. Previous research shows that a high ROA signal from a company has an impact on increasing company performance [8], [18].

H3: Financial position affects company performances

3. Research Methods

As research samples, this study uses companies from the health and transportation sectors that were listed on the Indonesia Stock Exchange between 2020 and 2021. The closing stock price of each company at year-end is used to calculate company performance[13]. The Pulic approach or the Value Added Intellectual Efficiency approach (VAICTM) are both used to calculate intellectual capital. The ability of the business to produce Value Added (VA), or added value, is where Pulic starts. Human Capital (HC), Capital Employed (CE), and Structural Capital (SC) all contribute to Value Added (VA). The VAICTM has steps for measuring intellectual capital.[17]:

1) Value Added (VA)

$$\mathbf{VA = OUT - IN} \quad (1)$$

OUT : Output (sales and other income)

IN : Input (expenses and costs other than employee expenses)

2) Value Added Capital Employed (VACA)
VACA is the efficient use of tangible assets, namely physical and financial assets, which can be obtained through financial reporting information.

$$\textbf{VACA} = \frac{VA}{CE} \quad (2)$$

VACA : Value Added Capital Employed
VA : Value Added
CE : Capital Employed

3) Value Added Human Capital (VAHU)
VAHU is the efficiency of the use of labor and information can be obtained through financial report data.

$$\textbf{VAHU} = \frac{VA}{HC} \quad (3)$$

VAHU : Value Added Human Capital
VA : Value Added
HC : Human Capital Expenses

4) Structural Capital Value Added (STVA)
STVA reflects the role of structural capital to create value.

$$\textbf{STVA} = \frac{SC}{VA} \quad (4)$$

STVA : Structural Capital Value Added
SC : Structural Capital (Value Added (VA) – Human Capital (HC))
VA : Value Added

$$\textbf{VAIC}^{\textbf{TM}} = \textbf{VACA} + \textbf{VAHU} + \textbf{STVA} \quad (5)$$

Institutional ownership is measured using the total number of shares owned by the institution against the number of shares issued by the company.

$$\textbf{Institutional Ownership (IO)} = \frac{Number\ of\ institutional\ shares}{Number\ of\ outstanding\ shares} \quad (6)$$

Financial position is measured using the Return On Assets (ROA) ratio.

$$\textbf{ROA} = \frac{Net\ Income}{Total\ Asset} \quad (7)$$

Test the hypothesis in this study using multiple linear regression analysis.

$$P = \alpha + \beta_1 IC + \beta_2 IO + \beta_3 ROA + e \quad (8)$$

P : Stock Price
IC : Intellectual Capital
IO : Institutional Ownership
ROA : Financial Position proxied by ROA

4. Results And Discussion

Before being tested using multiple regression, the research data has gone through the classical assumption test. The results of the multiple linear regression test are in Table 1.

Tabel 1. Regression Test Result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	33,459	10,152		3,296	0,001
	IC	-1,141	3,017	-0,037	-0,378	0,706
	IO	0,945	0,317	0,275	2,982	0,004
	ROA	-20,184	4,462	-0,454	-4,524	0,000

a. Dependent Variable: Stock Price

Adjusted R^2 : 0,361

According to Table 1, the variable's sig value for intellectual capital is 0.706. These findings show that Intellectual Capital has no impact on business performance as measured by stock prices. The findings of this study do not support the resources-based theory's claim that intellectual capital adds value for businesses to perform at their highest level. The study's findings support earlier studies showing that intellectual capital has no bearing on stock prices [14]. There are signs that the utilization of material and financial assets continues to play a significant role in influencing firm performance, which ultimately raises stock returns and has an impact on investors' capital gains. According to pertinent studies, intellectual capital has negligible impact on stock prices [3]. The lack of influence is a result of the market's inability to accurately appraise a company's intellectual capital due to the lack of measurement criteria for intellectual capital. The study's findings are also consistent with past studies showing that intellectual capital has no bearing on stock prices and that while making investment decisions, investors should take ratios and other market-affecting factors into account. [1].

Table 1 also shows that the variable Institutional Ownership and Financial Position (ROA) has an effect on company performance with sig values of 0,004 and 0,000 respectively. This shows

that the second and third hypotheses are supported. The interesting result is, although the third hypothesis is supported, we can see that the beta value of the Financial Position (ROA) variable is -20,184. These negative and significant numbers indicate that the effect of Financial Position on Company Performance is inversely proportional. Therefore the results are not in accordance with the signaling theory which shows that a high ROA value gives a signal to investors that their financial position is good so that it attracts investors to invest.

5. Conclusion

This study gives results that intellectual capital does not affect company performance however institutional ownership and financial position affect company performance. This research cannot prove the resources-based theory about the effect of intellectual capital on company performance, but it can support stakeholder theory regarding the effect of institutional ownership and financial position on company performance. Future research can examine further the results of this study which indicate that there is a significant negative effect of financial position on company performance. In addition, further research can expand the object of research in other corporate sectors.

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