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INTELLECTUAL CAPITAL ON FINANCIAL PERFORMANCE AND FIRM VALUE OF BANK SECTOR COMPANIES LISTED AT INDONESIA STOCK EXCHANGE IN PERIOD OF 2008-2012

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ABSTRACT

This study is aimed to the influence of Intellectual Capital on Financial Performance and Firm Value of bank sector companies listed at Jakarta Indonesia Stock Exchange in period 2008-2012. This unit data is represented by the audited company's financial statements and historical data of stock prices in Indonesia Stock Exchange. Financial statement data and historical data of the company's stock price used are from the year of 2008 to 2012. Companies sampled in the study only companies which meet the sampling criteria as 130 companies. Data analysis used in this study is Generalized Structured Component Analysis. Results of research indicate that Intellectual Capital significantly influences Financial Performance, and Intellectual Capital significantly influences firm value.

KEY WORDS

Financial performance, firm value, Intellectual capital, Indonesia.

The era of global economy challenges companies to be more competitive to lead to knowledge-based resources as a major factor in maintaining a competitive advantage (Kiong and Lean,). With the advent of the knowledge-based economy, intellectual capital compared to physical and financial capital becomes a major factor in creating corporate value and maintain competitive advantage (Al-Musalli and Ku-Ismael, 2012). The emergence of "new economy" that is principally driven by developments in information technology and science has also sparked growing interest in the disclosure of intellectual capital (Petty and Guthrie 2000, Bontis 2001).

The entry of foreign companies into the Indonesian market demands domestic enterprises to further improve the value and performance to face increasing competition. In the improvement process, companies need relevant information on the measured elements not only tangible assets, but also intangible assets in order to disclose the value and performance. In addition to improving the disclosure of financial statements and the disclosure of intellectual capital, a company also needs to carry out the implementation and management of good corporate governance. The acknowledgement related to the influence of intellectual capital on the creation of value and competitive advantage of the company has increased, but an exact proportion for the intellectual capital has been still being developed. Pulic (2000) suggests an indirect measurement of the intellectual capital on the efficiency of the value added generated by the intellectual ability of the company (Value Added Intellectual Coefficient - VAIC).

In the developing countries, such as in Indonesia, the presence of banking industry becomes very important in the process of economic development. The focus of the selection sub-sector bank as the research object in this study was due to some reasons, namely (a) bank is a business sector that is "*intellectually intensive*" (Joshi et al, 2012); (b) bank also includes service sector, where customer service is very dependent on the intellect, mind, intelligence of the human capital; (c) bank is an institution that is known as risk-taking entity (van Oorschot, 2009); (d) bank in conducting its operational activities is more associated with risks as compared to manufacturing companies and other enterprises; and (e) banking is considered to have a high level of regulation as stipulated by the Regulations of Bank Indonesia.

Similarly, a study conducted by Chen et. al. (2005). By using the model of Pulic (VAIC) to test the relationship between Intellectual Capital on Financial Performance and Firm Value with a sample of companies that go public 4,254 at Taiwan Stock Exchange in 2002, The results showed that intellectual capital influence significant correlation with the financial performance and Firm value. Similarly, research conducted by Tan et.al (2007) using a sample of 150 companies on the stock exchange of Singapore, a result consistent with the research of Chen et.al. (2005) that Intellectual Capital is associated positively with Financial Performance

Accounting conservatism emphasized that the company's investment in intellectual capital are presented in the financial statements, resulting from the increase in the difference between the market value and book value. So, if for example the market efficiently, then investors will give a high value to the company that has the intellectual capital is greater (Riahi-Belkaoui; Firer and Williams, 2003). In addition to the intellectual capital is a scalable resource to increase competitive advantages, then the intellectual capital will contribute to the company's financial performance (Harrison and Sullivan, 2000; Chen et al. 2005). Further Phusavat K. et al. (2011), researching about the Interrelationships between intellectual capital and performance, concluded that intellectual capital is positive and significantly affect the performance of manufacturing companies in Thailand. The study calculates the performance of intellectual capital using the method of VAIC

Wang (2011), doing research on measuring intellectual capital an Its effect on financial performance in the Taiwan Stock Exchange, concludes that: VAIC has a positive relationship with the ROA and stock value. Maditinos M. et al. (2011), doing research on The impact of intellectual capital on firms market value and financial performance at the company are registered in (the Athens Stock Exchange (ASE), the result of research found that Intellectual capital (human capital efficiency) has a significant relationship with financial performance and firm value. However, Intellectual Capital is believed to be instrumental in the improvement of financial performance and firm value. Firer and Williams (2003), Chen et al. (2005) and Tan et al. (2007), Wang (2011) and Maditinos et al. (2011) have proved that intellectual capital (VAIC) have influence positive against financial performance manufacturing and firm value. Measuring the performance of Intellectual capital using the method of VAIC by Pulic, VAIC (1998) as a measure of the ability of the intellectual manufacturing (corporate intellectual ability), Intellectual Capital (VAIC) influential not only positively against performance manufacturing the current year, even Intellectual Capital (VAIC) can also predict future financial performance (Chen et al., 2005; Tan et al. 2007; Bontis 2002). Were, therefore, research on intellectual capital has been done by Mosavi, et al. (2012) on a company in Iran, the results show that there is a positive and significant relationship between Intellectual capital, financial performance and firm value.

METHODS OF RESEARCH

The unit of analysis is the companies in banking sector listed on the Indonesia Stock Exchange by retrieving data from ICMD, financial statements, and annual reports of the companies. The research location is companies in banking sector located operating in the territory of the Republic of Indonesia and listed on the Indonesia Stock Exchange in 2008-2012 periods. Sample was chosen through purposive sampling, under the following criteria:

- The company listed on the Indonesia Stock Exchange during 2008 to 2012
- The company whose shares are actively traded on the Indonesia Stock Exchange during the study period
- The company has information about publication of financial statements and annual reports on a regular basis during the period 2008-2012.
- The company must implement corporate governance, consists of a proportion of the Audit Committee, and the proportion of independent commissioner.
- Each annual report and financial statements must contain disclosure of intellectual capital.

Based on the above criteria, there were 26 companies meeting the criteria. As many as 9 companies have not been listed on the Jakarta Stock Exchange since 2008. The number of samples can be seen in Table 1. Samples were companies in banking sector listed on the Stock Exchange until 2007 and are still active in 2008 and 2012 with the complete continuous annual report, financial statements, and ICMD (Indonesia Capital Market Directory) from 2008 to 2012. The number of sample is as much as 26 for 5 years, equal to 130 samples.

The type of data is quantitative and secondary data. Data for this study were obtained from the financial statements and annual report downloaded from the site www.idx.co.id. The data used in the research is documentation, by collecting, recording, and calculating data related to the study.

Table 1 – Sample of Companies in Banking Sector

No	Code	Bank Companies
1	AGRO	Bank Rakyat Indonesia Agro Niaga Tbk.
2	BABP	Bank ICB Bumi Putera Tbk.
3	BACA	Bank Capital Indonesia Tbk.
4	BBKP	Bank Bukopin Tbk.
5	BBNI	Bank Negara Indonesia (Persero) Tbk.
6	BBNP	Bank Nusantara Parahyangan Tbk.
7	BBRI	Bank Rakyat Indonesia (Persero) Tbk.
8	BCIC	Bank Mutiara Tbk.
9	BDMN	Bank Danamon Indonesia Tbk.
10	BEKS	Bank Pundi Indonesia Tbk.
11	BKSW	Bank Kesawan Tbk.
12	BMRI	Bank Mandiri (Persero) Tbk.
13	BNBA	Bank Bumi Artha Tbk.
14	BNGA	Bank CIMB Niaga Tbk.
15	BNII	Bank Internasional Indonesia Tbk.
16	BNLI	Bank Permata Tbk.
17	BSWD	Bank Swadesi Tbk.
18	INPC	Bank Artha Graha International Tbk.
19	MCOR	Bank Windu Kentjana International Tbk.
20	NISP	Bank NISP OCBC Tbk.
21	SDRA	Bank Himpunan Saudara Tbk.
22	BVIC	Bank Victoria Internasional
23	MAYA	Bank Mayapada Internasional
24	MEGA	Bank Mega Tbk
25	PNBN	Bank Pan Indonesia Tbk
26	BBCA	Bank Central Asia Tbk

Source: Data Processed, 2014.

Intellectual Capital. Intellectual capital in this research is the intellectual capital performance as measured by value added created by the indicator of Value Added Capital Employed (VACA), Value Added Human Capital (VAHU), and Structural Capital Value Added (STVA). The combination of these three value added is symbolized by the name of VAIC Pulic Model (19) with three indicators:

Value Added Capital Employed (VACA)

VACA is a comparison between the value added (VA) with physical capital works (CA). This ratio is an indicator for the VA made by a unit of physical capital. (Pulic 1998), with the following formula:

$$VACA = \frac{VA}{CA}$$

Value Added Human Capital (VAHU). VAHU is how much VA formed by workers' expenses. The relationship between VA and HC indicates the ability of HC to make a value on a company. (Pulic 1998), with the following formula:

$$VAHU = \frac{VA}{HC}$$

Structural Capital Value Added (STVA). STVA shows the contribution of structural capital (SC) in the formation of values. SC is VA subtracted by HC. HC contributes to the formation of greater value contribution SC (Pulic, 1998) with the following formula:

$$STVA = \frac{SC}{VA}$$

Where:

- VA: total sales and other income minus the burden and costs (other than personnel expenses);
- CA: funds available (equity, net income);
- HC: personnel expenses;
- SC: value Added minus human capital (personnel ex-penses);
- Those ratios are calculation of intellectual ability of a company. This formulation is the number of coefficients previously mentioned. The result is a new and unique indicator, VAIC. VAIC indicates the ability of intellectual capital of organization that can also be considered as BPI (Business Performance Indicators).

Financial performance. Financial performance is a measure of the company achievements, in the form of financial statements of the companies in a given period, e.g. annual financial statement. In the study, financial performance was measured by indicators of ROA and ROE.

Return on Assets (ROA). It reflects the company's business benefits and efficiency in the utilization of total assets. ROA can be calculated by the following formula (Brigham and Houston, 2011):

$$ROE = \frac{\text{Net Income After Tax}}{\text{Total Asset}} \times 100\%$$

Return on Equity (ROE). It is a profitability ratio associated with investment gains. ROE measures how much income one company can produce every penny of the shareholders' capital. It indicates the strength of income from the book value of shareholders' investments and it is used when comparing two or more firms in an industry continual (Van Horne, 1989). Thus, the formula to find ROE according to Chen et al. (2005) is as follows:

$$ROE = \frac{\text{Net Income Before Tax}}{\text{Total Equity}} \times 100\%$$

Firm Value. Firm value is a specific condition that achieved by a company as a description of public confidence in the company after going through several years, i.e. since the company was founded until now. Firm value in this study was measured using the following indicators:

The ratio of the market price and the book value or the Market-to-book ratio (MBR). This ratio is a ratio that measures the value of the company given by the financial market to the management and organization of the company that continues to grow. Ratio also shows a comparison of the market price of equity to book value of equity. This measurement is formulated as follows:

$$\text{Market - to - book ratio (MBR)} = \frac{\text{market price of equity}}{\text{book value of equity}}$$

Tobin's Q. Tobin's Q is a more accurate measure on the effectiveness of management in utilizing resources in its economic power (Weston & Copeland, 1997). Tobin's Q in this study

is the market value of equity plus the book value of debt divided by the book value of equity plus the book value of the debt.

$$\text{Tobin's } Q = \frac{\text{Market Value Equity} + \text{BV of Debt}}{\text{Book Value Equity} + \text{BV of Debt}}$$

Closing Price. Closing Price is the final price of shares traded on a particular trading day (can be daily, weekly, monthly, and quarterly), which is included in each annual report (quarterly). The closing price is the the most up-to-date price information in assessing the stock until trading is open again on the next trading day (Investopedia, 2013). The price of a stock reflects all information known by the public about the expected future gains from the stock (Salvatore, 2005). Closing Price refers to the size of the formula (Patell, 1976):

$$\text{Closing Price} = \log_N CP$$

Inferential Statistical Analysis. Methods of data analysis used in this study, i.e. the descriptive and statistical analysis, i.e. Generalized Structured Component Analysis (GSCA). As for consideration using the program GSCA in this study because the type of the variables examined in addition to the reflective variable is also a formative variables with a small number of samples. While the GSCA is an analysis tool that can be used to analyze the various types of variables are variables that either reflective or formative variables.

RESULTS OF RESEARCH

Intellectual Capital Variable. Disclosure of Intellectual capital variable (X_2) has the following indicators: Value added Capital Employed (VACA) ($X_{2.1}$), Human Capital Coefficient (VAHU) ($X_{2.2}$), and Structural Capital Coefficient (STVA) ($X_{2.3}$). Descriptive analysis results on each indicator show that Value Added Capital Employed (VACA) had -0.37 minimum and 0.89 maximum value and an average of 0.21. This illustrates that the average banking sector companies listed on the Stock Exchange has been utilizing the capital employed, whose added value can be created by one unit of physical capital. If one unit of CE (Capital Employed) produces greater returns than other companies, it means the company better utilizes its CE (Pulic, 1998).

Based on the concept of Resources Theory (RBT), in order to compete with other companies, a company needs asset management capabilities in both physical assets and intellectual assets. VACA is a form of company's ability to manage its resources in the form of capital assets. With good management of capital assets, it is believed that the company can increase the market value and performance. Thus, the utilization of better intellectual capita disclosure is part of the intellectual capital disclosure of a company.

Human Capital Employed Coefficient (VAHU) has a minimum value of 0.02, a maximum value of 5.77, and an average of 1.22. Thus, the banking sector companies listed on the Stock Exchange in 2008-2012 had average of 1.22 funds expended for labor to create value added. The relationship between VA with Human Capital Employed indicates the ability to create value in the company.

Based on the concept of Resources Theory (RBT), in order for companies to compete, high quality human resources are needed. Additionally, companies must be able to manage the quality of resources to the maximum in order to create value added and competitive advantages that may ultimately improve the financial performance and corporate value.

Structural Capital Coefficient (STVA) has a minimum value of 7.80 and a maximum of -5.56, and an average of -0.25. This shows -0.25 contribution of structural capital (SC) in value creation. STVA measures SC needed to produce 1 rupiah of VA and is an indication of how the success of the SC in value creation. SC is not a measure independent as HC in the value creation process. That is, the greater the contribution of HC in value creation, the smaller the contribution of SC in this regard. Further, SC is VA subtracted by HC (Pulic, 1998).

Financial Performance Variable (Y1). Financial Performance Variable (Y1) is indicated by ROA (Y1.1) and ROE (Y1.2). ROA average of 1.20 showed the company's capability to conduct efficient use of total assets for the company's operations. This showed that the banking sector companies listed at the Indonesia Stock Exchange in 2008-2012 had averaged ROA of 1.20, giving an overview to the investors on how the companies converting the money that had been invested in net income. In short, ROA was an indicator of the profitability of the company in using its assets to generate a net income.

ROA is calculated by dividing the net income by the average total assets of the company. The higher the ROA, the company is more efficient in using their assets. This means that the company can make money (earnings) more even with little investment.

The average Return on Equity (Y2.2) of banking sector companies listed at the Indonesia Stock Exchange in 2008-2012 was 14.5; this means that on every rupiah in equities of banking sector companies listed at the Indonesia Stock Exchange will generate income of 14.5% per year. The greater ROE, it will be better for the company.

Firm Value Variable (Y2). Variable of Firm Value (Y₂) in this study was measured by three indicators, namely the Market-to-book ratio (MBR (Y_{2.1})), Tobin's Q (Y_{2.2}), and the Closing Price (Y_{2.3}). Market-to-book has a minimum value of -1.74, a maximum value of 8.55, and average of 1.81. This shows that the banking sector companies listed in the Stock Exchange in 2008 to 2012 have stock value 1.81 times greater than the book value of equity held by the company. This ratio measures the value of firm value given by financial market to the management and organization of the company that continues to grow (Weston & Copeland, 1997). This ratio also shows a comparison of the market price of equity to book value of equity.

Tobin's Q has a minimum value of 0.14, a maximum value of 1.70, and an average of 0.52. This indicates that the market value of the company's assets divided by the cost of replacement is 0.52. A company with a high Q ratio tends to have attractive investment opportunities or competitive advantages, which are significantly superior (or both) (Ross, et.al 2008). Tobin's Q average value of 0.52 indicates the feasibility to invest in banking sector companies listed in the Jakarta Stock Exchange.

Closing Price 5.1 has a minimum value of 1.69, a maximum value of 4.02, and an average value of 2.79. This shows that the banking sector companies listed on the Stock Exchange in 2008-2012, in average have good Closing Price and good prospects. Closing Price is the final price at which securities are traded on a given trading day (Investopedia, 2013). The Closing Price is the most up-to-date assessment of securities to trading resumed on the next trading day, the price of a stock reflects all known information about the expected profit in the future of the stock (Salvatore, 2005).

Confirmatory Factor Analysis. The Intellectual Capital VAHU (X1.2) had a value of loading/weight 0.461, VACA (X1.1) 0.419, STVA (X1.3) 0.368. This indicates that VAHU was a dominant indicator that explains the intellectual capital variable, followed by the VACA and STVA had the lowest contribution to the intellectual capital. The indicator of ROA (Y1.1) has a value of loading/weight of 0.537 and ROE (Y1.2) has a value of loading/weight of -0.537. This indicates that the ROA and ROE have the same dominant contribution to the financial performance even though they have the opposite direction (affecting positively or negatively).

Table 1 – Loading Factor Indicator of Intellectual Capital Variable

No.	Indicator	Loading/Weight
1.	X _{1.1}	0.419
2.	X _{1.2}	0.461
3.	X _{1.3}	0.368

Table 1 shows that indicator of Human Capital Coefficient (VAHU) (X_{2.2}) has a value of loading/weight of 0.461 and Value Added Capital Employed (VACA) (X_{2.1}) has a value of loading/weight of 0.419, and Structural Capital Value Added (X_{2.3}) has a value of loading/weight of 0.368. This indicates that the indicator of Value Added Human Capital (VAHU) (X_{2.2}) is a dominant indicator that explains the variable of intellectual capital, followed

by Value Added Capital Employed (VACA) ($X_{2.1}$) and Structural Capital Value Added ($X_{2.3}$) with lowest contribution to the Intellectual Capital.

Table 2 – Loading Factor Indicator of Variabel financial performance

No.	Indicator	Loading/Weight
1.	Y1.1	0.537
2.	Y1.2	-0,537

Table 2 shows that the indicator of ROA ($Y_{1.1}$) has a dominant loading/weight value of - 0.537, ROE ($Y_{1.2}$) has a loading / weight value of -0.537, is a dominant indicator and ROA ($Y_{1.1}$) and ROE ($Y_{1.2}$) have the same dominant contribution weighting toward financial performance. Although it has the opposite direction.

Table 3 – Loading Factor Indicator of Firm Value Variable

No.	Indicator	Loading/Weight
1.	Y2.1	0.450
2.	Y2.2	0,414
3	Y2.3	0,420

Table 3 shows that the indicator of MBR ($Y_{2.1}$) has a dominant loading/weight value of - 0.450, Closing Price ($Y_{2.3}$) has a loading / weight value of 0.420, and Tobin's Q ($Y_{2.2}$) has a loading/weight value of 0.414. This indicates that MBR ($Y_{2.1}$) is is a dominant indicator and Closing Price ($Y_{2.3}$) affects Firm value, followed by Tobin's Q ($Y_{2.2}$) having the lowest contribution to the Firm Value.

GSCA Analysis. The results of the analysis provide FIT value of 0.315 or variables included in the model are able to explain the diversity or the phenomena of 31.5%, the rest (68.5%) is explained by variables not included in the model (Table 4). Testing the hypothesis in this study is done by looking at the paths on the significant structural model. The pathways of significant relationships (influence) can be seen in the coefficient path using the t test (t-test). The results of research hypothesis testing are as follows (Fig. 1):

- Intellectual capital has significant effect on financial performance.
- Intellectual capital has significant effect on firm value.

Table 4 – Estimation and P value of each path coefficient

Path Coefficient					
n/n	Estimate	SE	CR	p	Note
X1->Y1	0.750	0.035	21.56	0.000	significant
X1->Y2	0.418	0.032	12,98	0.000	significant

Figure 1 – Path Diagram

DISCUSSION OF RESULTS

Effect of Intellectual Capital on the Financial Performance. The disclosure of intellectual capital has significant influence on the financial performance in the banking sector companies listed at the Indonesia Stock Exchange 2008-2012. Given the path coefficient was positive, it means that the disclosure of Intellectual capital will be able to improve the financial performance of the banking sector companies. The findings of this study were consistent with previous studies by Chen et al. (2005), Tayles et al. (2007), Cohen S and Kaimenakis N, (2007), Wang (2011), Maditinos et al. (2011), Karacan and Ergin (2011), Wu et al. (2012), which states Intellectual capital disclosure has positive and significant impact on the financial performance of the company. It can be said that any changes in the intellectual capital disclosure variable in the banking sector companies listed at the Indonesia Stock Exchange to 1, it will lead to changes in the financial performance variable of the banking sector companies amounted to 75.8%, and vice versa if there is a decrease.

Effect of Intellectual Capital Disclosure on Firm Value. Results of analysis generates path coefficient of 0.418 and P 0.00, so it can be said that the intellectual capital disclosure have significant effect on firm value in anking sector companies listed on the Jakarta Stock Exchange 2008-2012. The significant effecta and positive path coefficient means that the disclosure of intellectual capital will improve the financial performance of the banking sector companies listed on the Stock Exchange amounted to 41.8% and vice versa. The findings of this study are consistent with previous studies (Lie, et.al 2010, Chen, et.al 2005, Ulum 2009).

Disclosure of intellectual capital variable is able to significantly affect firm value. This may be because the market response to the implementation of intellectual capital disclosures can directly be felt. Influence of intellectual capital disclosures on firm value, even though new to the category of the company in general and corporate banking sector in particular, especially using the VAIC (Value Added Intellectual Coefficient), can be seen in the annual financial statements of the company making investors can directly understand the value added of the company itself. To increase firm value or the market value of a company, value added is needed and can be created by developing the company's disclosure of intellectual capital. Good intellectual capital disclosure gives positive signal on the management of a company, the investor will give a positive response, and with a positive response from investors, demand for shares can be expected. Investors will provide positive legitimacy for companies with high disclosure of intellectual capital; in other words, investors will judge that the company that owns and revealing intellectual capital as a whole as a company that has good adherence to regulations from both the government or from other parties (Ulum,2009).

RECOMMENDATIONS

Suggestions for management and practitioners are described as follows. Owners and management of companies are advised to carry out the banking sector business based Likewise, it is advisable to disclose intellectual capital with the approach of Value Added Intellectual Coefficient (VAIC) in accordance with Indonesian accounting standards or international accounting standards.

Practitioners who use the intellectual capital, such as managers, especially in knowledge-based companies, need to know the importance of intellectual capital and knowledge as an important factor affecting the ability of the company to compete in the global market.

Financial Services Authority and the Indonesian Institute of Accountants may set a basic standard and regulations in a particular approach to the disclosure of intellectual capital through Value Added Intellectual Coefficient (VAIC) approach.

CONCLUSION

Intellectual capital disclosure has significant influence on the financial performance of the banking sector companies listed at the Indonesia Stock Exchange in 2008-2012. It

means that the intellectual capital disclosure through Value Added Intellectual Coefficient (VAIC) may have significant influence to improve financial performance with the indicators ROA and ROE. Intellectual capital has significant effect on firm value in banking sector companies listed on the Stock Exchange in 2008-2012. Likewise, it is advisable to intellectual capital with the approach of Value Added Intellectual Coefficient (VAIC) in accordance with Indonesian accounting standards or international accounting standards.

Practitioners who use the intellectual capital, such as managers, especially in knowledge-based companies, need to know the importance of intellectual capital and knowledge as an important factor affecting the ability of the company to compete in the global market.

Financial Services Authority and the Indonesian Institute of Accountants may set a basic standard and regulations in a particular approach to the disclosure of intellectual capital through Value Added Intellectual Coefficient (VAIC) approach.

The advice given in this study based on the research findings and the limitations of the study in the next Researcher to suggest using other indicators to measure the company's financial Performance variables such as Return on Investment (ROI), growth in revenue (GR), debt to equity ratio and others.

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