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THE INFLUENCE OF INTELLECTUAL CAPITAL ON FINANCIAL PERFORMANCE AND COMPANY VALUE IN INDONESIA

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Abstract

Human resources is a crucial asset in a company's operations. Intellectual capital refers to the intangible assets that exert control over a company's other resources. The caliber of a company's intellectual capital can impact its performance, which can be assessed by analyzing its financial performance and overall value. In light of the significant impact of intellectual capital on financial performance and company valuation in Indonesia, there is a pressing need for more focused and specific studies on this subject. Hence, the objective of this study is to elucidate the impact of intellectual capital on the financial performance and company value in Indonesia through the utilization of the literature review methodology. The employed approach entails a systematic literature review comprising four distinct stages: identification, screening, feasibility assessment, and inclusion. Between 2017 and 2023, a total of 99 literary works were identified that discuss topics with citations dating back to 1926. The sectors examined encompass the chemical industry, food and beverage, manufacturing, banking subsector, advertising, printing, and media, mining, automotive, as well as property and real estate. The presence of intellectual capital exerts a significant impact on the majority of these sectors. This impact is further reinforced by various other factors, including effective corporate governance, profitability, and company leverage.

Keywords: ***Company Value, Intellectual Capital, Financial Performance, Indonesia.***

INTRODUCTION

The efficient functioning of a company hinges on the presence of resources and the strategic management thereof. Resources are company assets that possess significant economic value and can provide the company with a competitive advantage (Toyib, 2017). Based on its purpose, company resources can be categorized into operational and non-operational assets. Operational assets contribute to the company's ability to generate sustainable profits, while non-operational assets are associated with the company's future funding prospects. The interrelation between these two aspects stems from the presence of operational assets, such as trademarks, copyrights, and intellectual capital. These assets serve as indicators for investors to assess the suitability of a company for share investment. The research conducted by Setyawati & Irwanto (2020) demonstrates that intellectual capital, represented by capital employed efficiency and human capital efficiency, has a favorable impact on the profitability of shares in manufacturing companies listed on the Indonesia Stock Exchange. Intellectual capital plays a crucial role in the functioning of a company. This is due to the fact that intellectual capital serves as the fundamental force that propels the other assets possessed by the company. If a company possesses high-quality intellectual capital, it will result in optimal asset management for the company.

Intellectual capital refers to intangible assets owned by a company, including its workforce, company reputation, and technological systems. The concept of intellectual capital encompasses three distinct dimensions: human asset capital, organizational structure capital, and relational capital (Obeidat et al., 2021). Human resources (HR) are crucial for the accumulation of intellectual capital, as the competence, capacity, and capability of these resources directly impact a company's potential for growth. The contribution of HR to company development is manifested through the creation of new inventions and innovations. The company is dedicated to achieving this objective by engaging in self-development activities and providing HR training to enhance innovation and workforce capabilities. Preferably, it is founded on the AMO (Ability, Motivation, Opportunity) approach (Ong, J, O & Mahazan, 2020). The capital dimension of organizational structure is demonstrated through a system of allocating human resources according to their capacity to enhance the utilization of these resources. Implementing a well-organized and systematic structure will enhance the effectiveness of the company's HR department. The relationship dimension pertains to the company's interactions with external stakeholders, including consumers, suppliers of raw materials, government entities, and investors. An amicable relationship established among the company, consumers, and suppliers yields advantageous outcomes for the company.

These benefits manifest in the form of valuable feedback pertaining to product knowledge, quality, services, processes, cost reductions, and enhanced quality of raw materials, all of which are advantageous for the company (Ryu, 2021). Optimizing intellectual capital can lead to maximum benefits for companies, which in turn can result in improved company performance. This rise was characterized by enhanced financial performance and increased company value. Company financial performance refers to the depiction of the company's financial state. The solvency ratio, which measures a company's ability to pay debts, is generally determined by the ratio of debit to total liabilities and the debt equity ratio. The liquidity ratio, on the other hand, assesses a company's ability to meet its financial obligations and is indicated by the current ratio and acid test ratio. Lastly, the profitability ratio evaluates a company's performance by comparing sales levels, company resources, share capital, and metrics such as Return on Equity (ROE), Net Profit Margin (NPM), Gross Profit Margin (GPM), and Return on Assets (ROA) (Faisal et al., 2017). Optimal financial performance of a company directly correlates with a high valuation of the company. Investors will assess the company's valuation by considering its capacity to generate profits and meet its financial obligations. The company's value in the eyes of investors and the stock market increases in proportion to its higher profits and greater ability to pay debts. Pasaribu et al. (2019) state that company value is influenced not only by internal factors but also by external factors, such as inflation in a country. The five types of company value are nominal, market, intrinsic, book, and liquidity values, as mentioned by Rohim (2021), Usman and Mustafa (2019), Yuliah (2019), and Wibawa and Rahardjo (2022).

The financial performance and company value of a company are influenced by internal factors, specifically the quantity and quality of intellectual capital that the company possesses. Given the significance of intellectual capital, it is imperative to examine its role across different sectors within a company. This is done to ensure that the study results obtained do not lead to misunderstandings in different companies. Hence, the objective of this study is to elucidate the impact of intellectual capital on the financial performance and company value in Indonesia, employing the methodology of literature review. The findings of this study can be utilized to further investigate the impact of intellectual capital across different industry sectors, thereby offering insights into the significance of intellectual capital within each sector.

METHOD

This research method relies on a systematic literature review due to its methodical and organized approach to gathering information. The necessary data is obtained from scientific literature, journals, proceedings, and theses or dissertations. The literature to be considered for this research should meet the following criteria: it should have been published between 2017 and 2023 to ensure its relevance to the current conditions of the digital economy era, the study should have been conducted in Indonesia, and the article should focus on the impact of intellectual capital on financial performance and company value. The data was acquired from the Google scientific literature search engine. Table 1 lists additional software that aids in the collection, preparation, and analysis of data for this research.

Table 1. Research software

No	Tool	Utility
1	Publish or Perish and google scholar	Scientific literature search
2	Ms. Excel	Data selection based on predetermined conditions
3	Ms. Word	Data analysis and presentation in the form of scientific articles

There are four main procedures used in this research process, which include identification, screening, eligibility, and inclusion which are based on the PRISMA approach (Sima, 2020). Details of these activities are presented in several points below.

1. Identification. At this stage, the author identifies articles by exploring literature that is relevant to the provisions. There are several keywords used in the exploration process, which include "influence of intellectual capital", "financial performance", and "firm value". The literature used must be in the period 2017 to 2023. Exploration was carried out on the publish or perish tool with the help of the literature search engine "google scholar".

2. Screening is carried out by assessing the suitability of scientific literature for use by reviewing the title, abstract, content and standard criteria (Ali et al., 2021). Title review is carried out as an initial screening to see the appropriateness of the literature topic, the abstract is used forpursingliterature selection and content to review the study topic in more depth.
3. Eligibility. Literature that passes the title and abstract selection is followed by checking the suitability of the literature by reading the full text of the literature. This aims to minimize misconceptions and make it easier for writers to explain the topic more appropriately.
4. Included. After the data is collected and selected, it continues with data tabulation accompanied by analysis and explanation of the data using qualitative descriptive methods.

The procedures applied in this research are visualized in Figure 1.

Figure 1. Research procedures

RESULTS AND DISCUSSION

Contents Results and Discussion

Exploration in the publish or perish domain yielded a total of 200 articles that encompassed research keywords such as "intellectual capital", "financial performance", and "company value". Subsequently, the authors' selection process resulted in a reduction of the aforementioned number. Specifically, only 99 pieces of literature were found to address the impact of intellectual capital on financial performance and company value. This genre of literature is primarily characterized by scientific articles, with some being the culmination of research presented in the form of theses. This literature spans from 2017 to 2023 in terms of publication years. Out of the 99 articles, there were a total of 1926 citations, which is a substantial number considering the publication period of 6 years. The abundance of citations indicates that the study topic significantly influences the domain of financial science and the performance of companies. Moreover, upon examining the concentration of the sectors under investigation, it becomes apparent that they are relatively evenly distributed. The distribution is depicted by the chosen sectors, encompassing service companies, chemical industry, food and beverage, manufacturing, general banking, sharia banking, advertising, printing and media, mining, automotive, and property and real estate subsectors. Additionally, various articles demonstrate that in addition to intellectual capital, there exist multiple other factors that enhance the impact of intellectual capital on financial performance and company value. This information provides a comprehensive description of how intellectual capital affects financial performance and company value through regression analysis. It allows for the measurement of the significance of this influence. The specifics regarding the quantity of literature, as well as the areas of study and the factors that support them, can be found in Table 2.

Table 2. Literature along with study sectors and supporting determinants

Number of Papers	Number of Citations	Range of years	Findings	
			Study sector	Supporting determinants
99	1926	2017 – 2023	(a) Chemical industry companies (b) Food and beverage companies	(a) Profitability (b) Good Corporate Governance (GCG)
			(c) Manufacturing companies (d) General banking companies	(c) Leverage
			(e) Sharia banking companies (f) Advertising sub-sector companies (g) Printing and media companies	
			(h) Mining companies	
			(i) Automotive companies (j) Property and real estate companies	

Source: Authors' data processing (2023)

Contents of Discussion Results

The literature selection results encompass study topics across diverse sectors of companies. These industries typically operate in the sectors of manufacturing, food and beverage, finance, and housing. The explanation provided below includes specific information regarding the impact study in each sector.

1. In this study, the intellectual capital variable in the chemical industry subsector is represented by three indicators: Value Added Capital Employed (VACA), which measures the ability of capital employed to generate returns; Value Added Human Capital (VAHU), which represents the added value resulting from costs incurred for intellectual capital; and Structural Capital Value Added (STVA), which measures the ability of structural capital to produce added value. The positive impact of these three variables on financial performance in the chemical industry sector has been empirically demonstrated (Achriaty & Putri, 2023).
2. Within the food and beverage sector, the impact of intellectual capital is demonstrated through the sub-variables VACA and STVA, which have an effect on the financial performance of companies in this sector. The VACA subvariable has a significance result of 0.000, which is identical to the significance level of the STVA subvariable. Both subvariables fall under the significant category for financial performance (Putri et al., 2023).
3. According to a study conducted by Alimy & Herawaty (2020), the manufacturing sector demonstrates that intellectual capital is determined by human capital, value reflection (which represents the company's relationship with external parties), and structural capital. These factors have a positive influence on the company's financial performance. Enhancing the caliber of human resources will lead to a boost in the company's financial outcomes. Implementing a maximum capital structure would enhance the optimization of this approach.
4. The general banking subsector was examined in a study conducted by Jayanti & Binastuti (2017). The research found a positive correlation between the VAHU variable and the Tobin's Q value, which is a measure of company value. This influence aligns with the theory that effective management of human resources within a company will enhance the company's value by creating a competitive advantage.
5. The intellectual capital variable is also significant in determining the value of Islamic banking companies, similar to general banking. The variable of intellectual capital also has a positive impact on the financial performance of the company (Za'iimah, 2021).

6. Subsectors encompassing advertising, printing, and media. The study measures intellectual capital using indicators such as VAHU, VACE, VASC, capital structure, and VAIC - Value Intellectual Capital Coefficients. Among the four variables, only VAHU and VAIC exhibit a statistically significant positive impact on the financial performance variable within this subsector. The VAHU variable can serve as a foundation for managing a company's intangible assets, particularly in relation to the intellectual aspects of human resources (L. Amalia & Rokhyadi, 2020).
7. The mining sector, unlike other sectors, has a significant impact.The impact of intellectual capital on the financial performance of companies in this sector is negligible. The lack of optimal utilization of intellectual capital in mining sector companies can lead to a negligible impact, which is often overlooked (Hidayat & Dana, 2019).
8. In the field of automotive industry, the research conducted by Prince and Riduwan in 2018 demonstrates the presence of intellectual capital through the variables of VACA, VAHU, and STVA. However, out of these three variables, only VACA has a positive influence on the financial performance of the company. Essentially, this suggests that in order to maximize company value, companies in this specific industry should make optimal use of VACA elements. The lack of influence from VAHU and STVA necessitates companies to optimize the expertise and skills of their human resources (Prince & Riduwan, 2018).
9. The property and real estate industry. Within this industry, it has been demonstrated that intellectual capital can significantly influence the value of a company. This is due to the fact that intellectual capital possesses knowledge that can enhance the efficacy and efficiency of strategies. In addition, the enhancement of a company's financial performance resulting from intellectual capital also leads to a favorable reputation for the company, subsequently resulting in an augmentation of the company's value (Saputra et al., 2018).

Multiple studies have confirmed that intellectual capital has a significant impact on the financial performance and corporate value of nearly all sectors in the business world. Additionally, literature studies have identified other factors that contribute to enhancing the role of intellectual capital in improving financial performance and corporate value. The primary determinant is Good Corporate Governance, which holds substantial importance with a coefficient of 0.023 (Amalia & Wahidahwati, 2021). The presence of GCG (Good Corporate Governance) has the capacity to mitigate the occurrence of risks, thereby ensuring a harmonious alignment of interests among both internal and external stakeholders of the company. Enhancing this equilibrium has the potential to augment the overall worth of the company. Profitability is a significant factor that influences the value of a company. When a corporation achieves higher profits, both the company and its investors can expect greater returns. Therefore, profitability directly affects the overall value of the company (Halim, 2021). Leverage, as the third factor, exerts a favorable impact on the value of a company (Putri & Miftah, 2021). The level of debt or leverage of a company significantly influences investors' perceptions of a corporation. Investors tend to hold more favorable opinions of corporations as the leverage value increases. This is attributed to the assumption that the company's debt is substantial, which in turn indicates a high potential for growth. Consequently, the likelihood of investor returns is also high.

CLOSING

Conclusion

The research findings indicate that between 2017 and 2023, a total of 99 literature pieces have been identified that examine the relationship between intellectual capital, financial performance, and corporate value. The 99 pieces of literature yielded a total of 1926 citations across various sectors, including the chemical industry, food and beverage, manufacturing, banking, advertising, printing and media, mining, automotive, as well as property and real estate. The presence of intellectual capital exerts a significant impact on the majority of these sectors. This influence is further reinforced by various other factors, including effective corporate governance, profitability, and company leverage.

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