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The Influence Of Intellectual Capital On Profitability And Company Value In Banking Industries Registered In Indonesia Stock Exchange (IDX)

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ABSTRACT: *This study was to analyze (1) the influence of intellectual capital toward profitability (2) the influence of intellectual capital toward company's value (3) the influence of profitability toward company's value; and (4) the influence of intellectual capital toward company's value through profitability. The study was conducted on companies listed in the Indonesia Stock Exchange. was 40 companies. Data were analyzed by using SEM (Structural Equation Modeling) with program of Analysis Moment of Structure (AMOS) version 22. Results of the study showed that (1) intellectual capital had positive and significant effect toward profitability; (2) intellectual capital had positive and significant effect toward company's value; (3) profitability had positive and significant effect toward company's value; and (4) intellectual capital had positive and significant effect toward company's value through profitability.*

KEYWORDS:*Intellectual capital, profitability, company's value.*

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I. INTRODUCTION

The existence of economic changes characterized by a knowledge-based economy with the application of knowledge management, the progress of a company will depend on a creation of transformation and capitalization of knowledge itself.Intellectual capital is the source of the creation of intangible values related to employee capabilities, organizational resources, and operating systems and relationships with stakeholders that are important in creating a sustainable competitive advantage of the company (Chen, et al; 2005).

In Indonesia the intellectual capital phenomenon began to develop. In general, companies in Indonesia tend to use conventional based in building their business, so the products they produce are still poor in technology (Abidin, 2000: 46). In addition, these companies have not given more attention to Human Capital, structural capital, and customer capital. Though all of these are elements of the development of the company's intellectual capital (Sawarjuwono, 2003: 36).

So far, the distinction between intangible assets and intellectual capital has been disguised in the intangible sense, both of which are referred to as goodwill (APB, 1970: ASB, 1997: IASB, 2004). This can be traced back to the early 1980s when the general record and understanding of intangible values, usually given the name goodwill, began to appear in business practices and accounting (IFA, 1998). In tracing the intangible recording practices, Guthrie and Parker (1999) and IFA (1998) found that traditional accounting cannot provide information about the identification and measurement of intangibles in organizations, specifically knowledge-based organizations. New intangible types such as employee competency, customer relations, simulation models, administrative and computer systems are not recognized in traditional financial and management reporting models. Even in practice, some traditional intangibles, such as brand owners, patents and goodwill, are still rarely reported in financial statements (IFA, 1998: IASB, 2004). In fact, IAS 38 concerning asset intangibles prohibits the recognition of internally created brands, logos (mastheads), publication titles, and customer lists (IASB, 2004).

Furthermore, Abidin (2000: 46) states that companies in Indonesia will be able to compete if they use the competitive advantage gained through creative innovations produced by the company's intellectual capital. This will encourage the creation of products that are increasingly favorable in the eyes of consumers. Intellectual capital has become a very valuable asset in the world of modern business. This poses a challenge for accountants to identify, measure and develop it in financial statements. In addition, research on intellectual capital can help Bapepam and the Indonesian Institute of Accountants create better standards in disclosing intellectual capital. Traditional financial reports have failed to be able to present this important information. Companies whose assets are mostly in the form of intellectual capital such as the Public Accounting Firm, do not disclose this information in financial statements will be misleading because it can affect company policy. Likewise, there are no companies that have gone public or money that have not gone public that incorporate intellectual capital into the company's financial statements, this phenomenon that needs to be researched is the cause of the inclusion of capital intellectuals in the Bank's financial statements. Therefore, financial statements must be able to reflect the existence of intangible assets and amounts that can be recognized. The existence of large differences between market values and reported values will make financial statements useless for decision making.

In general, the company's goal is to maximize the company's profits on increasing stock market prices, the company always wants a profit growth for the company, on the other hand investors want adequate dividend payments, but both things are always in competition, companies are more interested in holding back profits obtained by the company rather than distributing in the form of dividends.

To obtain the growth rate of corporate earnings in the form of increasing profitability, while measuring and knowing the company's financial performance running its operations, this can be seen from Return on Assets (ROA), Return on Equity (ROE), and Nett Interest Margin (NIM), third this is an important measure for assessing whether or not a company can influence investors to make profits from their desire to invest in a company, the higher the profitability produced by a company means the higher the performance achieved by the company. If profitability is achieved by a high company, it means that the results of stock returns are getting better.

The company's financial performance is seen from the level of profitability achieved by the company as measured by Return On Asset which shows the measurement of how much net profit is obtained from the existing asset value in the company, Return On Equity shows the measurement of income achieved for the company owner, while Nett Interest Margin shows the measurement of how much the bank's ability to generate income from its operations.

The measure of profitability in the Banking Industry used, in general, is Return On Equity (ROE), Return On Assets (ROA) focuses on the company's ability to obtain earnings in its operations, while Return On Equity (ROE) only measures returns obtained from investment in company owners the business (Siamat 2002).

The purpose of the company to register shares in the capital market is to increase the value of the company as reflected in its stock price (Fama and French, 1998 in Abd.Rasyid (2015; 4) stock prices are used as proxy for company value, because stock prices are prices willing to be paid by prospective buyers if investors want to have proof of ownership of a company also reflected in Earning Per Share, Price Earning Ratio and Price to Book Value.The higher the value of the company describes the more prosperous the owner, optimization of company value which is the company's goals can be achieved through implementation financial management function, where one financial decision taken will influence other decisions and affect the value of the company.

Based on the description in the form of phenomena, the theories and studies of previous conflicting studies supported by data are the basis for researchers to conduct research on the intended phenomenon and research differences so that researchers chose the title of this Research: The Effect of Intellectual Capital on Profitability and Firm Value in the Banking Industry Registered in Indonesia stock exchange.

Problem Formulation

Based on this background, the formulation of the problems in this discussion are as follows:

1. Does intellectual capital affect the profitability of companies in banking industry companies listed on the Indonesian stock exchange?
2. Does Intellectual Capital affect the value of the company in the banking industry companies listed on the Indonesian stock exchange?
3. Does profitability affect the value of the company in the banking industry companies listed on the Indonesian stock exchange?
4. Does intellectual capital affect the value of the company through profitability in the banking industry companies listed on the Indonesian stock exchange?

Research Objectives

Based on the background and formulation of the problem, the purpose of this review is as follows:

1. To analyze the influence of intellectual capital on the profitability of companies in banking industry companies listed on the Indonesian stock exchange.
2. To analyze the influence of intellectual capital on firm value in banking industry companies listed on the Indonesian stock exchange.
3. To analyze the effect of profitability on firm value on banking industry companies listed on the Indonesian stock exchange.
4. To analyze the influence of intellectual capital on the value of the company through profitability in banking industry companies listed on the Indonesian stock exchange.

Benefits of Research

The benefits of this study are intended as follows:

1. Benefits for scientific development
   This research was conducted to be able to obtain or be able to know the benefits and contributions in the development of financial management studies, especially those concerning intellectual capital, profitability and corporate value in the banking industry.
2. Practical Benefits
   In general, the results of this study are expected to be used as input for the preparation of business plans or business planning for the banking industry in general and specifically for banks listed on the Indonesian stock exchange so that optimal bank performance will be achieved so that the level of bank performance will be maintained.

II. LITERATURE REVIEW

A. Agency Theory (Agency Theory)

The perspective of agency relations is the basis used to understand the creation of banking business health. According to Jensen and Meckling (1976) in Budiadriani (2014), Agency Theory discusses the relationship between members in the company, principals and agents as the main actors. The Principal is the party that gives the agent mandate to act on behalf of the principal, while the agent is the party given the mandate by the principal to run the company. Agents are obliged to account for what the principal has mandated. The existence of different positions and functions, interests and interests behind the principal and agent, but mutual need often creates conflict. Problems arise if there are differences in interests between the agent and the principal (Emirzon, 2007: 76). One of the causes of agency problems is information asimentation, which arises because of the unequal distribution of information between principals and agents. Principal often faces difficulties when exercising control over agent actions. Jensen and Meckling in Emirzon (2007) state that there are two conditions that can occur in a public company caused by information asiment:

1. Moral Hazard, which is a problem that arises if the agent does not implement the things agreed upon in the employment contract.
2. Adverse selection, which is a condition where the principal cannot know whether a decision taken by an agent is really based on information that has been obtained, or occurs as an omission.

B. Intellectual Capital

The term intellectual capital was first put forward by Galbraith in 1969, who wrote a letter to his friend, Michael Kalecki, Galbraith wrote, "I wonder if you realize how much of the word you have provided you have provided over the last decades "(Bontis, 2001). Then the idea or idea of intellectual capital began to be developed in the mid-1980s which was indicated by the emergence of a shift from production based to service to a knowledge-based economy.

Some authors provide different definitions of intellectual capital, Stewart (1997) defines intellectual capital as intellectual material, namely knowledge, information, intellectual property, experience used to create welfare, He argues that knowledge has become an important factor of production and therefore Intellectual assets must be managed by the company. Mouritsen (1998) defines intellectual capital as a technology management process that specializes in calculating future company prospects. Whereas according to Reilly (1992) the category of intangible assets is something related to technology, consumers, contracts, data processes, personal capital, marketing, location, and goodwill. This definition is still broad and covers almost all dimensions of intangible assets.

Intellectual capital consists of 2 (two) elements, namely Human Capital and structure capital as intangible assets, and added with tangible assets incorporated in the Capital Employed or company assets that are used for company operations.

Human capital, structural capital, and consumer capital are fundamental things that are produced through the ease of knowledge flow through the company and transforming knowledge into corporate values in the three dimensions of intellectual capital.

C. Profitability

Profitability is the end result of a number of company management policies and decisions (Brigham and Houston, 2009: 95), this means that company profitability is the company's ability to generate net income from activities carried out in the accounting period. Companies that have a high level of profitability every year have a tendency to use their own capital compared to using debt (Kusuma, 2011), another assumption states that high Return On Assets, which means that the company's net income is high. Therefore, if the company uses a large debt, it will not affect the capital structure, because the company's ability to pay interest also remains high.

Profitability ratio is a ratio to assess a company's ability to seek profits (Kasmir, 2012: 196), this ratio also provides a measure of the effectiveness of a company's management. This is intended by profits generated from sales and investment income, the point is that the use of this ratio shows the efficiency of the company. The use of profitability ratios can be done by using comparisons between the various components that exist in financial statements, especially the balance sheet financial statements and income statement. decrease or increase, while looking for the causes of these changes. Therefore this profitability ratio is often referred to as one measure of management performance. Based on the results of the research conducted by Shinta D. Manurung et al (2014) and Abd Rasyid (2015), it shows that profitability has a positive and significant influence on Company Value.

D. Company Value

The main objective of the company according to the theory of the firm is to maximize the value of the firm (Salvatore, 2005: 48, in Abdul Rasyid 2015: 25), maximizing the value of the company is very important for a company, because by maximizing the value the company also means maximizing shareholder prosperity which is the company's main goal. According to Husna (2008; 64) the value of the company is the price that the prospective buyer is willing to pay if the company is sold. Whereas according to Keown (2004; 103) company value is the market value of outstanding debt and equity securities of the company.

Company value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through an activity process for several years, that is, since the company was established until now. Increasing the value of the company is an achievement in accordance with the wishes of its owners, because with the increase in the value of the company, the welfare of the owners will also increase.

III. CONCEPTUAL AND HYPOTHESIS FRAMEWORK

The rationale for the need for a conceptual framework of this research begins to examine the various variables that cause changes in the value of banking service companies listed on the Indonesia Stock Exchange, this study includes the variable Intellectual Capital, profitability as a variable that is thought to affect the value of the company either directly or through intervening variables.

This study uses 3 (three) variables, namely 1 (one) independent variable, 1 (one) intermediate variable and 1 (one) dependent variable, Independent Variable namely intellectual capital, while the intermediate variable is profitability and the dependent variable is the value of the company.

The conceptual framework in this study is as follows:

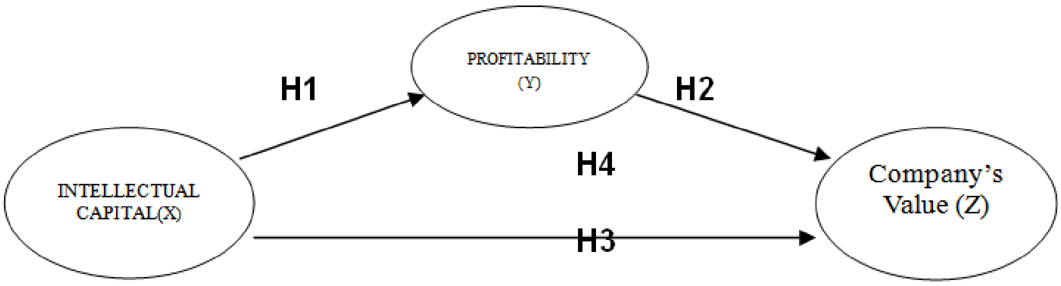

Figure 1 : Research Conceptual Framework.

Hypothesis

Based on the formulation of the problem, the purpose of the study, the literature review, and the conceptual framework of the study, the hypothesis proposed in this study are:
H1: Intellectual Capital has a positive and significant effect on company profitability.
H2: Intellectual Capital has a positive and significant effect on Firm Value
H3: Profitability has a positive and significant effect on firm value.
H4: Intellectual Capital has a positive and significant effect on company value through profitability.

IV. RESEARCH METHODS

This study uses two approaches, namely descriptive approach (descriptive research) and explanatory research. This research will be conducted at financial services companies listed on the IDX. The data used in this study are secondary data. The population and sample in this study are all industries. The analytical method used in an effort to explain the problem in this study is descriptive analysis techniques and inferential statistical analysis. The population in this study are all Banking industry companies listed on the IDX. The number of charge companies listed on the IDX is 40 companies.

The analytical method used is in an effort to explain the problem in this study are inferential analysis techniques and inferential statistical analysis. To analyze the data used The Structure Equation Modeling (SEM). Model structural equation SEM is a set of statistical techniques that allow a series of relations to be relatively "complicated" simultaneously (Ferdinand, 2014). To facilitate the analysis process, a statistical application program is used, AMOS which is a package in the SEM (Structural Equation Modeling) program. Based on the conceptual framework and research model, then to see the effect of independent variables on the dependent variable, the equation is as follows:

a) Measuring the structure of Intellectual Capital to Profitability, as for the equation;
   $Y = \alpha + \beta1.X1 + €$
b) Effect of Intellectual Capital on company value, the equation:
   $Z = \alpha + \beta1.X1 + \beta4.Y + €$

V. OPERATIONAL DEFINITION AND MEASUREMENT

1. Intellectual Capital (X), is intellectual capital whose components are Value Added created by Value Added Capital Employed (VACE), Value Added Human Capital (VAHC) and Value Added structural capital (VASC). The combination of the three Value Added is symbolized by the name VAIC developed by Pulic (1998,1999,2000), this concept has been tested and adopted by Firer and Williams (2003), Mavridis (2004), Chen, et, al (2005), Kamath (2007), Tan et al (2007), and Omid Amri and Mohamadreza Abdoli (2012). The indicators of intellectual capital are:
   a. Value Added Capital Employed (VACE), is to show the contribution made by each capital employed (CE) unit to the company's Value Added (VA), or the comparison between Value Added (VA) and Capital Employed (CE) with the formulation:
      VACE = VA / CE
   b. Value Added Human Capital (VAHC), is to show how much VA can be generated with funds spent on labor. This ratio shows the contribution made by each rupiah invested in Human Capital (HC) to the company's Value Added with formulations:
      VAHC = VA / HC.
   c. Value Added Structural Capital (VASC) is a ratio used to measure the amount of structural capital (SC) needed to produce 1 rupiah VA and is an indication of how successful SC is in value creation, with formulation:
      VASC = SC / VA.
2. Profitability (Y), intended is the level of the bank's ability to generate profits and the level of business efficiency in an effort to generate profits. Profitability variables are proxied by:
   a. Return On Assets (ROA), which is a ratio that shows how much net profit the company gets when measured from the value of assets, by formulation:
      ROA = 〖(Net profit) / Asset X 100%〗
   b. Return On Equity is the ratio of measurement to income achieved for the owner of the company for the capital invested in the company. ROE is measured by dividing net profit after tax with total own capital with the formulation;
      ROE = 〖(Net Profit)/(Total Equity) X 100%〗
   c. Nett Interest Margin is a ratio used to measure a bank's ability to generate net income from its principal operational activities:
      NIM = 〖(Net Income) / (Operating Income) X 100%〗
3. Company Value (Z) is a value that shows a reflection of the equity and book value of a company, both in the form of equity market value, book value of total debt and book value of total equity. The value of the company in this study is measured by the market to book ratio M / B ratio, calculated by dividing the market value of the company's shares with the book value of equity. Market value is the number of shares outstanding times the stock price at the end of the year. While the book value of equity is the book value of shareholders' equity. This variable is proxied by:
   a. Price to Book Value (PBV) is an indicator used to assess a company as a comparison of the market price of a stock with the value of its book, with permulation:
      PBV = Comparison between stock market prices and book value per share.
   b. Price Earning Ratio (PER) is a description of market appreciation for a company's ability to generate profits, with formulations:
      PER = (Stock Closing Price) / (Profit of Outstanding Shares)
   c. Earning Per Share or income per sheet is a form of giving profits given to shareholders of each share owned, with formulation;
      EPS = (After-Tax Profit) / (Number of Circular Shares).

VI. RESEARCH FINDINGS

Laoding Factors

The results of the calculation of laoding factors from the indicators of Intellectual capital variables, profitability and company value can be seen in Table 1 as follows:

Table 1: Loading Factor and Critical Ratio of Intellectual Capital Variable Indicators, Profitability and firm value.

Indikator Variabel	Loading Factor (λ)	Critical Ratio	Probability (p)	Information
Intellectual Capital				
VACE	1000	FIX	0,000	Significant
VAHC	0,941	7,830	0,000	Significant
VASC	0,118	7,705	0,000	Significant
Profitability				
ROA	0,895	21,440	0,000	Significant
ROE	0,995	Fix	0,000	Significant
NIM	0,127	2,161	0,033	Significant
Company Value				
PBV	0,067	2,222	0,028	Significant
PER	0,718	3,953	0,000	Significant
EPS	0,444	Fix	0,000	Significant

Source: processed data 2018

From the evaluation model shows that there are five criteria for goodness of fit indices that meet the temporary criteria of AGFI, which are close to critical values, so it can be concluded that the overall model can be said to be in accordance with the data and can be further analyzed.

Hypothesis Testing

Based on the empirical model proposed in this study, testing of the hypothesis proposed through testing path coefficients in structural equation models can be tested. Table 4 is testing the hypothesis by looking at the value of p value, if the value of p value is smaller than 0.05 then the relationship between the variables is significant. The test results are presented in the following table:

Table 4: Hypothesis Testing Results

HIP	Variable Independent	Variable Dependent	Direct Effect			
			Standardize	**CR**	***p-value***	**Information**
H1	Modal Intelektual	Profitabilitas	0,282	2,425	0,015	Significant
H2	Modal Intelektual	Nilai Perusahaan	0,293	3,566	0,000	Significant
H3	Profitabilitas	Nilai Perusahaan	0,342	3,409	0,000	Significant
Indirect Effect						
Variabel Independen		**Variabel Dependen**	**Variabel Intervening**	**Standardize**	**P-Value**	**information**
Modal Intelektual		Nilai Perusahaan	Profitabilitas	0,096	0,050	Significant

Information ; P-Value is obtained by the Sobel Test

Source: processed data 2018

a. Effect of Intellectual Capital on Profitability

Test the hypothesis (H1) which states: intellectual capital has a significant positive effect on profitability. Table 4 shows that intellectual capital has a significant effect on profitability with a path coefficient of 0.282 and (p-value) of 0.015 <0.05. This result is in accordance with the hypothesis (H1) that intellectual capital has a significant effect on profitability. This means that the better intellectual capital, the profitability will increase. Thus the hypothesis (H1) which states that intellectual capital has a significant effect on profitability can be accepted or supported by facts.

b. Effect of Intellectual Capital on Company Values

Test the hypothesis (H2) which states: intellectual capital has a significant positive effect on firm value. Table 4 shows that intellectual capital has a significant effect on firm value with a path coefficient of 0.293 and (p-value) of 0.000 <0.05. These results are in accordance with the hypothesis (H2) that intellectual capital has a significant positive effect on firm value. This means that the better the intellectual capital valued by the company will increase. Thus the hypothesis (H2) which states that intellectual capital has a significant effect on firm value can be accepted or supported by facts.

c. Effect of Profitability on Company Values.

Test the hypothesis (H3) which states: profitability has a significant effect on firm value. Table 4 shows that profitability has a significant effect on firm value with a path coefficient of 0.342 and (p-value) of 0.000 <0.05. This result corresponds to the hypothesis (H3) that profitability has a significant effect on firm value. This means that the greater the profitability, the better the value of the company. Thus the hypothesis (H3) which states profitability has a significant effect on the value of the company can be accepted or supported by facts.

d. Effect of Profitability on Company Values.

Test the hypothesis (H4) which states: intellectual capital has a significant positive effect on profitability. Table 4 shows that intellectual capital has a significant effect on profitability with a path coefficient of 0.096 and (p-value) of 0.050 <0.05. This result is in accordance with the hypothesis (H4) that intellectual capital has a significant effect on profitability. This means that the better intellectual capital, the profitability will increase. Thus the hypothesis (H4) which states that intellectual capital has a significant effect on profitability can be accepted or supported by facts.

Research

Based on the results of the tests stated earlier, the findings of this study are as follows:
Intellectual Capital: which consists of Value Added Capital Employed, Value Added Human Capital and Value Added Structural Capital has a positive and significant effect on profitability and has a positive and significant influence on corporate value, this means that the market response to a company, especially in companies the banking industry that is listed on the Indonesia Stock Exchange, is not only based on the physical appearance of the bank company, but in addition to this also the appreciation of human intellectual resources in the bank company. In general, it can be said that intellectual capital in the financial statements of companies listed on the Indonesia Stock Exchange has attracted the attention of investors to invest their capital in the banking business.

VII.CONCLUSION

Based on the results of the previous analysis and discussion, this research can be summarized as follows;

1. Intellectual capital consisting of value added capital employed, and value added human capital and value added structural capital have a positive and significant effect on the profitability of the banking industry companies listed on the Indonesia Stock Exchange.
2. Intellectual capital which consists of value added capital employed, value added human capital and value added structural capital has a positive and significant effect on firm value in banking industry companies listed on the Indonesia Stock Exchange.
3. Profitability consisting of return to assets, return to equity, net interest margin, has a positive and significant effect on the firm's value in the banking industry companies listed on the Indonesia Stock Exchange
4. Intellectual capital which consists of value added capital employed, value added human capital and value added structural capital has a positive and significant effect on firm value in banking industry companies listed on the Indonesia Stock Exchange.

SUGGESTION

Noting the conclusions stated earlier, it is suggested as follows;

1. Efficient Intellectual Capital has a positive impact and has a strong competitiveness to encourage companies to develop continuously, so that companies listed on the Indonesia Stock Exchange are very important to have efficient intellectual capital if they want to increase profitability and the value of their company.
2. The company companies listed on the Indonesia Stock Exchange should, as far as possible, continue to increase investor confidence in banking companies by presenting financial statements that continually pay attention to intangible values derived from intellectual capital.

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