

CHAPTER I

INTRODUCTION

A. Background

In this globalization era, there has been a rapid economic development. This situation began since the existence of immense developments of innovation, technology, and competitive business aspects. In regard with this economic activity, companies should be able to adapt with the condition. Many companies have changed their business methods, for example from labor base business becomes knowledge base business (Suwarjono & Kadir, 2003). Because of the condition above, companies give big attention to intangible assets, such as knowledge or the ability to increase the corporate value.

The publishing of The ASEAN Economic Community (AEC) in 2015 made companies do many ways to survive in the business competitive. This can give motivation for businesses people to think and conduct or create new idea. This is conducted to increase corporate value, because as known companies that does not have value, they will be a loser in the business. Increasing corporate value can be started by giving attention to consider and increase the intangible assets owned by companies. If companies just rely on tangible asset, it is not strong enough for competing in the business. Therefore, businesses people must give consideration about intangible assets of companies.

According to PSAK No.19 explains about the definition of intangible assets, which was non-monetary asset that does not have a physical form and was owned

to generate income, can be leased to another parties, or used as administrative purposes. Intellectual capital is one of examples from intangible assets, because the characteristic of intellectual capital that does not have a physical form but can give value added for the company. According to Pulic (1998) stated that intellectual capital is value added (value added intellectual coefficient (VAIC), that has three main components such as physical capital value added, human capital value added, and structural capital value added. The ability of company for managing intellectual capital will give value added for that company, because it will be beneficial and give benefits for company to survive in the business competition.

The intellectual capital owned by company should be disclosed in the annual report to give value added for company. According to Sirojudin, Gatot Ahmad; Nazaruddin (2014), intellectual capital disclosure will be given more value for company than company that does not perform intellectual capital disclosure. It happens because investors will be interested with company that provide information about intellectual capital and they think about company that has succeeded in providing information to the investor. Therefore, the value of company will be increase in the business environment.

Talking about disclosure for public company, Indonesia has regulation No.31/POJK.04/2015. This regulation becomes the principle for implementing disclosure of information or materials facts which must be conducted issuers or public company. There are two kinds of disclosure, namely: Mandatory disclosure and voluntary disclosure. Mandatory disclosure is the kind of disclosing regulated by Otoritas Jasa Keuangan (OJK) and must be conducted by company. But for

voluntary disclosure is the disclosure not regulated by Otoritas Jasa Keuangan (OJK). Therefore, the company does not have to conduct voluntary disclosure, but if company conducts this disclosure, the company will be more valuable.

Intellectual capital disclosure is one of the examples of voluntary disclosure. It provided the valued added of company that has impact to increase the attraction of interest from investors. It will be happened because the investors will measure assess the companies especially their management well, because accountability has been implemented accountability when they conducted business. Investors will also feel that they more protected with detail information provided.

According to Q.S An-Nahl verse 90:

* إِنَّ اللَّهَ يَأْمُرُ بِالْعَدْلِ وَالْإِحْسَانِ وَإِيتَاءِ ذِي الْقُرْبَىٰ وَيَنْهَىٰ عَنِ
الْفَحْشَاءِ وَالْمُنْكَرِ وَالْبَغْيِ يَعِظُكُمْ لَعَلَّكُمْ تَذَكَّرُونَ

“Verily Allah commands (you) to act justly and do good, give to relatives, and Allah forbids cruel, evil and hostility. He teaches you so you can take lessons”

From this verse, Allah gives us the command for doing justice and doing kindness and prohibit cruelties. In the context of company managements, justice can be implemented by carrying out their duties which is providing the information in the annual report of company completely and in detail. It becomes necessary because to reach the function of annual report from the companies which is providing information related to the company, the users can be helped for making decision. Intellectual capital disclosure is one of duties from the management to conduct it. Besides being able to help users of financial statements, intellectual

capital disclosure is also a form of accountability and can provide added value to the company and reduce asymmetry information.

The phenomenon of intellectual capital disclosure was started in Indonesia after Statement of Financial Accounting Standards (PSAK) No.19 that concern about intangible assets that were implemented. One of the objectives of PSAK No. 19 is to determine accounting for intangible assets that are not regulated for other standards. Intellectual capital disclosure has also been conducted in Malaysia. According to Jutati et al., (2013), Malaysia has promoted the theme of building 'knowledge based economy' through human capital development toward Third Outline Perspective Plan (OPP3) and Ninth Malaysia Plan (9MP).

The consequences from this transformation would increase the interest of Intellectual capital from Stakeholders group. Nevertheless, the development and the awareness of IC was still new, where currently in Malaysia the intellectual capital disclosure in Malaysia was conducted by voluntary disclosure. MFRS 138 about intangible assets is standard issued by Malaysia Accounting Standard Board (MASB) regulated accounting treatment for intangible assets. So, intellectual capital is regulated in general or implicitly toward MFRS 138.

This study is conducted to know the influence of Intellectual capital to corporate value toward company performance. Sunarsih & Mendra (2012) stated that the greater of intellectual capital, the greater the company capital utilization. It will be useful to increase value added of company. As stated above, physical capital is including part of intellectual capital which is one of the determinants of company performance. Then, according to Abdolmohammadi (2005), if intellectual capital is

measurable resource to increase competitive advantaged, intellectual capital will give contribution to company performance.

Company that can utilize their intellectual capital efficiently, will increase their market value (Sunarsih & Mendra, 2012). However, practicing intellectual capital disclosure both Indonesia and Malaysia are still lacking. It will make disadvantages for the company which is actually have high intellectual capital. As solution for this problem Wallman (1995) in Aida & Rahmawati (2015) advised to reporting intellectual capital voluntary into financial reporting. This action will be useful for the stakeholder to get information about company completely.

The research about intellectual capital has been conducted in many countries. Firer & Mitchell Williams (2003) conducted research to know the relationship between efficiency values added from many company resources to company performance of public company in South Africa. This research conducted using company from banking, electronic and information technologies and services as a sample. This research showed that physical capital is still a dominant important which influences company performance in South Africa. Then Chen et al.,(2005) conducted investigation to know relationship between efficiency in creating value added companies with financial performance and market value in companies that listed the capital market in Taiwan. Chen uses the efficiency coefficient from Pulic (1998) to measure the efficiency of capital use and builds a regression model to examine the relationship between the variables. The result from this research is capital efficiency has positively significant to company performance and market value of company.

The other countries such as Malaysia, study about intellectual capital has been conducted. According Ibrahimy & Raman (2019) research is about the relationship between intellectual capital and company performance. This research uses 35 companies that listed in Bursa Malaysia as a sample. The variable using all of component from intellectual capital such as Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), Capital Employed Efficiency (CEE) and also Return on Assets (ROA) as representative from company performance the result from this study found that SCE, CEE has positive relationship to influence company performance, but for HCE showed negatively relationship with firm performance (Ibrahimy & Raman, 2019).

In Indonesia, research about intellectual capital has been conducted, for example Sunarsih & Mendra (2012) that found intellectual capital positively significant influence to company performance. However, the research conducted by Santoso (2012) found that intellectual capital does not influence company performance. Other research such as Kuryanto & Muchamad (2008) does not successfully prove that intellectual capital influence positively to corporate value. The research results inconsistency above are caused by the fact that there is other variable that is mediating the relationship between intellectual capital and corporate value, it is company performance. A company that is able manage its intellectual resources well, it will make increasing its company performance. When the company performance is increasing, it will make increasing in corporate value will increasing because there are trustworthiness from the stakeholder and society.

This research is replication from Aida & Rahmawati (2015) by changing Earning Per Share (EPS) becoming Price to book value (PBV) as the dependent variable. Then, the author also changed company performance that was measured by ROE variable becomes ROA as intervening variable is mediating between variable independent and variable dependent. In addition, this research was conducted by comparing two countries to know the differences. The countries that have been chosen are Indonesia and Malaysia.

Sampling is derived from the financial statement of shariah companies listed in Indonesia Stock Exchange and Bursa Malaysia. The reason for choosing shariah companies, is because there is a trend with the development of shariah industries especially in capital market. The reason for choosing Malaysia as a comparison is because both Indonesia and Malaysia are member of ASEAN. Then, Malaysia also has list of shariah companies, moreover the location of Malaysia is close to Indonesia. Thus, the author concluded that Malaysia is comparable with Indonesia.

Based on the background above, the author is interested to conduct the research with a study entitled **“The Influence of Intellectual Capital to Corporate Value toward Company Performance as Intervening Variable”** (Empirical Study on Shariah Company listed in Indonesia Stock Exchange and Bursa Malaysia 2018).

B. Research Scope

The scope of this research is concerned to know about the influence intellectual capital to corporate value toward company performance as intervening variable. Variable independent of this research is intellectual capital including Value Added of Capital Employed (VACA), Structural Capital Value Added (STVA), Value

added on Human Capital (VAHU) and Value Added Intellectual Coefficient (VAIC). The dependent which is tested empirically is corporate value and also author adds intervening variable which is company performance that mediates between independent variable and dependent variable. The sample of this research is shariah companies listed in Indonesian Stock Exchange and Bursa Malaysia.

C. Research Questions

1. Does intellectual capital have a positive effect on the company performance of shariah companies in Indonesia and Malaysia?
2. Does Intellectual capital have a direct positive effect on corporate value of sharia companies in Indonesia and Malaysia?
3. Does company performance have a positive effect on corporate value of shariah companies in Indonesia and Malaysia?
4. Does Intellectual capital have an indirect positive effect on corporate value of shariah companies in Indonesia and Malaysia through company performance as an intervening variable?
5. What is the difference between the level of intellectual capital in Indonesia and Malaysia?

D. Research Questions

The objectives from this study are as follows:

1. To examine the positive effect of intellectual capital on the company performance of shariah companies in Indonesia and Malaysia.

2. To examine the direct positive effect of Intellectual capital on corporate value of sharia companies in Indonesia and Malaysia.
3. To examine the positive effect of company performance on corporate value of shariah companies in Indonesia and Malaysia.
4. To examine the indirect positive effect of Intellectual capital on corporate value of shariah companies in Indonesia and Malaysia through company performance as an intervening variable.
5. To examine and compare the difference between the level of intellectual capital in Indonesia and Malaysia.

E. Significance of the Study

1. Theoretically
 - a. This study is expected to provide empirical study of the factors that influence corporate value.
 - b. This study is expected to provide the effect of intellectual capital of companies.
 - c. This study is expected to become a reference for future research about intellectual capital
2. Practically
 - a. This study is expected to provide the importance things of intellectual capital in companies.
 - b. This study is expected to encourage the management to maximize the capital that owned by company including intellectual capital

3. Decision Making

- a. This study is expected to help manager of director of companies or entities when making decision about intellectual capital
- b. This study is expected to help manager of director of companies or entities when making decision about how to improve the corporate value through intellectual capital.