



Intellectual capital disclosure and profitability on Company value in Banking

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ABSTRACT

Company Value consider by investors to make investment decisions. Companies that have high company value will affect investor confidence to invest in a company. Based on the phenomenon and agency theory, company value is influenced by Intellectual Capital Disclosure and Profitability. *Intellectual capital* is an *intangible asset* owned by a company that can have added value to company value. This study aims to examine the effect of *Intellectual Capital* Disclosure on Company value. The sample used in this study is the banking *annual report* listed on the IDX for 2017-2021. *Multiple Regression* is used as an analytical tool in this study. The results of the study show that intellectual capital disclosure has a significant negative effect on company value. Meanwhile, Profitability has a significant positive effect on company value. Profitability is a one mind factor that is considered by investors when making an investment.

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INTRODUCTION

Company value is an assessment given by investors for the success of the company and the company's performance which is reflected through the stock price in the market. The value of the company which is formed through indicators of stock prices in the market will show good investment opportunities. The existence of these investment opportunities can give a positive signal to investors about the prosperity that investors will get and the future prospects of the company so that this can increase company value.

Investors in conducting a company value analysis try to project the company's statement in the company's business plan. The purpose of the company value analysis is to understand and calculate the real value of the company and business plan to describe the investment value of investors (Caselli & Negri, 2018). The value of a company can be reflected in the size of the stock price (Fama, 1978) and (Ross, 2013). The price of shares traded on the Indonesia Stock Exchange (IDX) reflects the high *firm value* because it has a positive impact on *stakeholder trust and satisfaction*. The higher the stock price can increase stakeholder expectations on stock returns that stakeholders receive.

Phenomena related to *firm value* that occur in banking shares include the phenomenon of the ups and downs of banking company stock prices. This shows that there is instability in investor confidence. On the other hand, investors' confidence to invest in a stock will be formed by an assessment of both micro and macro economic conditions. In conditions of economic growth, the confidence of investors to invest becomes higher and vice versa (Jogiyanto, 2013). Likewise with the micro conditions in each company which is a consideration in investing. Investors will tend to choose companies that have good performance. This research focuses on micro aspects. Therefore, this study assumes that investor uncertainty reflects the instability of banking conditions.

Factors that can affect the increase in company value include intellectual capital. In the current era, where the business world continues to move through knowledge based which has become the key resources of the world economy and the one critical factor of production (Pulic & Bornemann, 1997) and then implemented through the innovations achieved, so that impact on increasing competitiveness (Uzliawati, 2015) and (Dharmendra et al., 2022).

Companies are currently being demanded to provide comprehensive non-financial information about their company's activities (Anderson & Epstein, 1996). Disclosure of information stated in mandatory disclosures in financial reports is not sufficient to describe the condition of the company as a whole to create value. Thus, companies need to make voluntary disclosures to influence the market.

(Chung et al., 2017) states that banking companies depend on physical capital to operate, but the quality of services and products they provide to customers depend on intellectual capital. The phenomenon regarding intellectual capital in Indonesia itself began to develop with the existence of PSAK No. 19 regarding intangible assets. Even though intellectual capital disclosure has begun to develop in Indonesia, it turns out that the development is still small. Besides that, there is no standard governing intellectual capital disclosure in PSAK (Septiani, G.R dan Yuyetta, 2013). Even though intellectual capital disclosure is still voluntary, this disclosure is necessary in order to reduce the occurrence of information asymmetry between shareholders and other stakeholders and managers as company managers. .

Companies are also believed to be able to increase *company value* by exercising intellectual capital disclosure in the annual report . Intellectual Capital Disclosure is the disclosure of information about everything that is known by all parties in the company that can increase the company's competitiveness (Nurhayati & Uzliawati, 2017). Intellectual capital disclosure is used as a form of company transparency to gain the trust of external parties, and achieve competitive advantage which has an impact on the company's *going concern* . In an effort to face the ASEAN Economic Community (AEC), the Financial Services Authority (OJK) is actively encouraging Indonesian banks to be able to overcome challenges so that they are able to compete with banks in other countries in the Southeast Asian region. One of the steps taken by Indonesian banks is to create an innovation in banking digitization as a form of corporate *intellectual capital* . Previous research conducted by (Widarjo & Bandi, 2018) and (Rivandi & Septiano, 2021) found that intellectual capital disclosure has a positive effect on company value .

Besides intellectual capital disclosure, another factor that can affect company value is profitability. The value of profitability that continues to increase is recorded in the financial statements, indicating that the company's ability is getting better. This illustrates the increasing wealth of investors and promises for the future. High company profitability does not necessarily indicate high profitability, but high profitability ensures that high profit returns. Companies that are able to generate high profits show that management is getting better at generating profits from the resources owned by the company. This condition makes investors' perceptions of the company also good (Indy & Uzliawati, 2023). The results of research conducted by Pratama and (Pratama & Wiksuana, 2016), (Hendraliany, 2019), (Indy & Uzliawati, 2023) stated that Profitability partially had a significant positive effect on *firm value* , while the results of (Widarjo & Bandi, 2018) research stated that Profitability had no significant effect on *firm values*. The results of this study are inversely

proportional to the research of (Utami & Welas, 2019) and (Apriliyanti et al., 2019) which state that profitability has no effect on *firm value*.

The urgency of this research is focused on the progress of economic growth in the perspective of modern economics related to the knowledge-based economy. The implementation of knowledge- and technology-based capital within the company will accelerate the efficiency and effectiveness of the implementation of other resources so that as a whole it can affect the company's competitive advantage. Especially in banking as an intensive IC sector. Therefore, with this research it is hoped that banks can continue to increase *intellectual capital disclosure* so as to increase company profitability which has an impact on investor interest in investing in these companies.

The inconsistency of the results of previous research is a *gap* in this research, so based on the description above, the authors are interested in conducting research on intellectual capital disclosure and profitability of company value in banking companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The Intellectual Capital Disclosure used in this study refers to the Intellectual Capital Disclosure index developed by (Li et al., 2008). Profitability in this study is measured by Return on Assets (ROA), and Company Value is measured by using Price to Book Value (PBV).

RESEARCH METHOD

The object of this research is conventional banking (Commercial Banks) listed on the Indonesia Stock Exchange in the period 2017 to 2021. The reason for this research is conventional banks as a research sample because the level of customer trust in Indonesia is higher compared to non-conventional banks, so that most people in Indonesia still prefer conventional banks as a place to invest. The object of this research observation is *the annual report* issued by banks listed on the Indonesia Stock Exchange in the period 2019 to 2021.

The data used in this study is secondary data in the form of banking *annual reports* listed on the Indonesia Stock Exchange for the period 2017 to 2021 which have been published on the official website, namely www.idx.co.id. Data is processed using SPSS version 26. Data analysis uses Multiple Regression. The equation of this research is:

$$PBV = \beta_0 + \beta_1 ICD + \beta_2 ROA + e \quad (1)$$

Information:

PBV = Price to Book Value

ICD = Intellectual Capital Disclosure

ROA = Return On Assets

β_0 = Constant

$\beta_{1,2}$ = Regression coefficient

e = errors

The operational variables of this study include:

Company Values

The dependent variable in this study is company value *e*. Company value is the ratio between the stock price and the book value of the company. The company's book value (*book value share*) is the ratio between the company's total share equity and the number of outstanding shares (Jogiyanto, 2013).

In this variable, the mechanism used for *company value* is *price to book value* (PBV), shown by the comparison between the share price and the book value, which is calculated as the result of shareholder equity and the number of outstanding shares (Dewi & Novitasari, 2021). Therefore and the formula for calculating *company value* in this study are as follows:

$$PBV = \frac{\text{Harga pasar per lembar saham}}{\text{Nilai buku perlembar saham}} \quad (2)$$

Intellectual Capital Disclosure

Intellectual Capital Disclosure is a form of disclosure made by companies voluntarily. Companies that have good performance will tend to try to convey information related to their performance to the public. It is intended that investors and other stakeholders reassess the company value. The Intellectual Capital Disclosure Index used in this study refers to research by Li et al (2008) which consists of 22 items of Human Capital, 18 items of Structure Capital and 21 items of Relational Capital. The formulation of disclosure of intellectual capital is as follows:

$$ICDi = \frac{\Sigma \text{Skor pengungkapan IC yang diungkapkan dalam annual report}}{\Sigma \text{Skor pengungkapan IC secara keseluruhan}} \times 100\% \quad (3)$$

Profitability

Profitability in this study is measured using *Return On Assets* (ROA), as follows:

$$\text{Return on Assets} = \frac{\text{Laba Bersih}}{\text{Total Aset}} \quad (4)$$

RESULTS AND DISCUSSIONS

Descriptive statistical analysis based on each of the research variables is presented in the following table:

Table 1. Descriptive statistics

	N	Min	Max	Means	Std.Dev
ICD	164	49.00	92.00	74,793	8,921
ROA	164	-11.00	3.00	.274	2082
PBV	164	-17.00	6.27	.409	2,749
Valid N (listwise)	164				

Source: Data processed

Based on table 1 above, it shows that the total observation data processed in this study was 164. The data is observational data spread over five years of research. The average company value shows a value of 40.9 with a standard deviation of 2.75.

Table 1 shows the average value of *Intellectual Capital* Disclosure of 74.793 with a standard deviation of 8.9. The standard deviation value is smaller than the average value indicating that there is a small variation between *Intellectual Capital* and the average value. Thus the *Intellectual Capital* variable identifies good results, because the standard deviation that reflects the deviation from the variable data is low. Based on the average value, it can be seen that *Intellectual Capital* Disclosure identifies that intellectual capital disclosure in all Indonesian banks is getting better.

The average Profitability proxied by Return On Assets (ROA) in Table 1 shows a value of 0.409 with a standard deviation of 2.749. The standard deviation value is greater than the average value indicating that there is a considerable variation between ROA and the average value. ROA shows the ability of bank management to efficiently use total assets for company operations. The higher the ROA of a bank, the higher the profit the bank will get and the better the company's position in terms of the use of its assets.

Multiple Regression

The results of the multiple regression test are shown in table 2 below:

The regression model equation used in this study is:

$$DER = \beta + \beta_1 ICD + \beta_2 ROA + e \quad (5)$$

The results of hypothesis testing are shown in Table 1. The following:

Table 2. Multiple regression results

$$DER = \beta + \beta_1 ICD + \beta_2 ROA + e$$

Variables	Coeff.	t-Stat	Sig.
Constant	-3,510	-1,587	.115
Intellectual Capital Disclosure (ICD)	-2,742	-1,759	.081 *)
Profitability (ROA)	.266	9,274	.000 ***)
Adjusted R-square	0.392		
F-statistics	12,711	0.000***)	

***, **, * denotes a significance coefficient at 0.01; 0.05; and 0.1

Adjusted R square value for this research equation model is 39.2%. Based on the adjusted R square value, it means that 39.2% PBV can be explained by variations in the independent variables consisting of Intellectual Capital Disclosure and Profitability.

Table 1 shows the F statistic value of 12,711 with a significance probability of 0.000 (<0.05). This shows that this regression model can be used to estimate PBV, so that Intellectual Capital Disclosure and Profitability affect PBV in banking, in Indonesia

Discussion

The test results in Table 2 above show that Intellectual Capital Disclosure has a significant negative effect on Company Value, with a coefficient value of -2.742 in a negative direction. This means that the greater the ICD in the company's annual report, the more it will increase the Company Value.

This means that the wider the ICD does not affect the company value. This shows that investors still view physical assets for investing so that disclosure of intangible assets has not been able to increase investor interest. This is because the company's operational activities in Indonesia are still dominated by physical and financial assets to increase company value. Therefore intellectual capital disclosure does not get too much attention from investors.

Based on the results of testing the hypothesis it was found that profitability is measured by return on assets and has a positive and significant effect on the value of manufacturing companies on the IDX. The results of the study indicate that the value of profitability in a company can increase company value. The results of this study are in line with the theory explained by Rivandi (2018) which reveals that the higher the profitability measured by Return On Assets the higher it also increases company value. High banking profitability on the IDX provides an increase in company value. The company is successful in managing and generating an increase in company profits, an increase in company profits indicates that the company has good company performance. Increased company profits provide a signal to investors in making investments. The high profit of the company provides a high opportunity for the company to pay dividends to shareholders (stakeholders) which is also high, so it can automatically increase the value of the company.

The results of this study are consistent with the research of (Indy et al., 2023), (Dhani & Utama, 2017), and (Chasanah & Sucipto, 2019) which found that profitability has a positive effect on firm value. Basically profitability shows the company earns profit. The higher the level of profitability owned by the company can reflect that the company's financial performance is in good condition, so that it can attract investors.

The higher the profitability obtained, the company's value will increase and provide a positive direction for the company. Profitability is considered important for a company because profitability indicates how the company's performance during the year period, besides that with high profitability will be able to attract investors to invest in the company. company for the welfare of employees and provide an image for the company.

CONCLUSION

Based on the analysis and discussion of the results of the hypothesis testing described, several important conclusions can be put forward which are answers to the problems discussed in this study, namely: 1) Intellectual Capital Disclosure as measured by total ICD items has a negative and significant effect on bank company value in Indonesia. 2) Profitability is measured by the total percentage of total profitability which has a positive and significant effect on the company value of banking in Indonesia. The findings obtained indicate that the higher the profitability will further encourage an increase in banking company value. The implication of the results of this study is that the total assets owned by the company can increase the value of the company so that investors are interested in investing. Thus the contribution of this study explains that the role of profitability in the company is one of the determining factors in increasing firm value. Suggestion for future researchers is that future research can use other proxies of profitability such as ROE and ROI. In addition, future research can also expand research objects such as non-financial companies, so that the results obtained can be more diverse.

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