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The effect of growth, intellectual capital, financial performance on firm value

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ABSTRACT

Modern companies increasingly recognize the importance of non-financial factors in influencing company performance and value. One important non-financial factor is intellectual capital, which includes human resources, customer relationships, and innovation capabilities. Company growth is a crucial component in establishing a company's value. Very few studies have looked at the relationship between growth, intellectual capital, and financial performance and business value at the same time. This study investigates how business value in the banking sector is impacted by growth, intellectual capital, and financial performance. This study takes a quantitative approach, gathering secondary data from the financial and annual reports of companies in the banking industry listed on the IDX between 2018 and 2022. Purposive sampling was employed to pick the 63 companies that comprise the research sample. The Partial Least Square (PLS) method was used to evaluate the data. The findings demonstrated that corporate growth, intellectual capital, and financial performance positively and significantly impacted firm value. To increase company value, businesses should consider non-financial elements like corporate development, intellectual capital, and financial success.

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Introduction

Modern companies have experienced a shift in how they assess their performance and how they create value for stakeholders. Previously, companies focused on financial performance as a measure of success, such as profit and revenue growth (Rhamadhani, 2016). However, now companies realize that non-financial factors such as intellectual capital and innovation are also important in creating value for the company and affecting future financial performance. Thus, modern companies consider these non-financial factors in their business strategies (Alfa et al., 2017; Pulic, 1998). Companies try to measure and manage these non-financial factors in the same way as measuring and managing financial performance. This can be done by developing new and innovative performance measurement and management systems and using advanced technology and information systems (Primawanti & Ali, 2022).

Modern companies increasingly realize that non-financial factors significantly influence company performance and value (Nursela et al., 2021). Non-financial factors such as intellectual capital which includes human resources, customer relationships, and innovation capabilities. Organization development is likewise a significant consider deciding organization esteem.

Previous research also conducted by (M. Sari & Asmendri, 2020; P. I. P. Sari & Abundanti, 2014) showed that organization development significantly affects firm worth. In addition, research conducted by (Randa & Solon, 2012) shows that intellectual capital affects firm worth. In contrast, a study of the relationship between financial performance and business value by Tjahjono & Eko, (2013) discovered that financial performance affects firm value. Because no studies look at growth, intellectual capital, and financial success all at once and how they affect business worth. According to this statement, researchers are drawn to carrying out study with the title "The Effect of Growth, Intellectual Capital, Financial Performance on Firm Value".

Company Growth

Business growth is a sign of a company's financial stability in the face of industrial and economic expansion (Suwardika & Mustanda, 2017). According to Kusumajaya, (2011), growth can also refer to an increase or reduction in the company's overall assets. These resources are used for the business' operational activities and are expected to improve the company's operational outcomes and reputation with outside parties. Company growth is a positive sign for parties inside and outside the company (Syardiana et al., 2015) argue that company growth can increase the rate of return on investment because it has favorable aspects for investors.

Intellectual Capital

Williams, (2001) defined intellectual capital as understanding and data used to create value in one's work. While (Chen & Chen, 2011) argue that investors tend to value businesses with more intellectual capital than businesses with fewer intellectual capital. Investors' estimates of the company's stock price reflect this.One of the industries that uses intellectual capital a lot is the banking services industry. When it comes to supporting a nation's economic expansion, the banking sector plays a crucial role(El Ayyubi et al., 2017). Therefore, competition in the banking industry is fierce in providing leading-edge services for consumers. This can trigger the movement of intellectual labor from one company to another to maintain a competitive advantage over other similar companies (Putra, 2012).

Financial Performance

The company's financial performance is a good indicator of its potential for growth and development. To anticipate the output of the currently available resources and assess probable future changes in economically controllable resources, knowledge of the company's financial performance is required (Barlian, 2003). Financial standards and regulations, such as preparing financial statements in accordance with SAK (Financial Accounting Standards) or GAAP (General Accepted Accounting Principles), are used to evaluate a company's financial performance (Fahmi, 2012). According to (Syahrizal, 2023) so that financial performance can be interpreted as an evaluation made of the performance of a company or organization in financial terms using certain metrics. These metrics can be financial ratios or other financial indicators used to measure the company's ability to generate profits, manage assets and liabilities, and measure the company's level of sustainability in the long term. Financial performance evaluation is carried out to assess the company's success in achieving financial goals and take corrective action if there is a mismatch between actual performance and predetermined targets.

Company Value

Nurainun and Sinta argued, as cited by Sitio, (2021), that a company's value can be evaluated by the price-to-book value ratio, which reflects the price that investors are willing to pay to acquire the company. The market price of a stock also provides an insight into the amount of money that investors are willing to invest in a company. The sum of a company's market debt and share market values can be used to determine the enterprise value. In the event that the securities exchange value expands, the firm's worth will likewise increase. Nonetheless, in the event that there is an adjustment to the capital structure, for example, an adjustment of obligations, it will influence the worth of the organization. Shareholders will benefit from changes to the capital structure if they can boost the company's value (Kusumajaya, 2011). The approach to evaluate a company's worth through the price-to-book value calculation is a common practice. This method involves comparing the stock price and the book value per share to arrive at the company's value. A high price-to-book value signifies the company's focus on shareholder welfare and its primary objective (P. I. P. Sari & Abundanti, 2014).

Method

Type of Research

This research uses quantitative methods with data from financial reports and annual reports of mining sector companies listed on the IDX in the 2018-2022 period. According (Sugiyono, 2019)asserts that research employing quantitative methods is grounded in the positivist philosophy. This approach involves the utilisation of quantitative methods in studies that focus on a specific population or sample. Data collection is

conducted through the use of research instruments, and subsequent analysis involves quantitative or statistical techniques. The primary objective of this research approach is to test predetermined hypotheses.According to (Sujarweni, 2014) says that quantitative research is a form of study that yields conclusions based on the use of statistical tools or other measurement methods.

Data Collection Technique

Techniques for data collection are gathered through a literature review of secondary data. Literature study is a process of reading references or literature is a method of collecting data and information in research that involves reading books, articles, journals, reports, papers, and magazines that are relevant to the research topic being conducted (M. Sari & Asmendri, 2020). Secondary data is gathered from the financial and annual reports of businesses that were listed on the IDX between 2016 and 2019. The data collected includes company growth, intellectual capital, financial performance, and firm value.

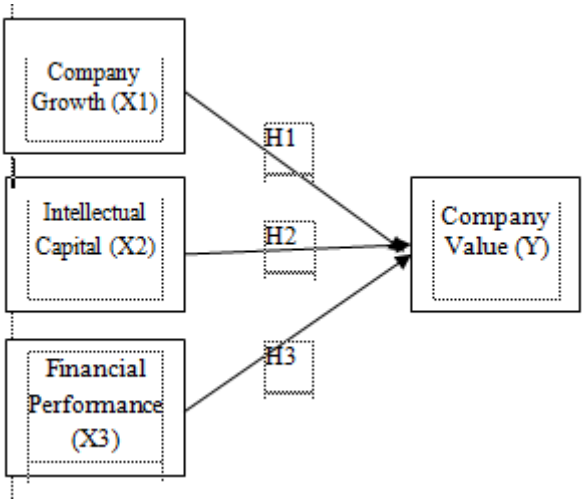
Population and Sample

This research's participants are banks that will be listed on the IDX between 2018 and 2022. We used purposive sampling methods to select the 63 businesses that made up the research sample.Sampling is the act of extracting a limited quantity from an object or substance in order to conduct subsequent testing, analysis, or evaluation. The purpose of this process is to acquire inclusive data that accurately represents the entirety of the object or population from which the sample is derived. The concept of "informed consent" sampling refers to the systematic technique in which an individual provides knowledgeable, voluntary, and comprehensive consent for the sampling process, including an understanding of the associated risks and the intended goal of the sampling. Ethical and legal considerations play a crucial role in research, medical testing, and sampling within the realm of health and science.

Data Analysis

The Partial Least Square (PLS) method was used to analyze the data. Principal component regression employs principal components as independent variables in regression, whereas PLS is an iterative forecasting process that involves the variant structure of independent and independent variables (Nurhasanah et al., 2012).

Research Framework



Research Hypothesis

H1: Company growth has a positive and significant effect on firm value
H2: Intellectual capital has a positive and significant effect on firm value
H3: Financial performance has a positive and significant effect on firm value

Variable Operational Definition

The analysis technique used is path analysis, with the following mathematical model:

Model 1 KK = b 1 PP + b 2 IC + e
Model 2 NP = b 3 PP + b 4 IC + b 5 KK + e

Example:

Table 1. Variable Operational Definitions

Variable	Operational Definition	Indicator	Scale
Company Growth	Change (decrease or increase) in the company's total assets.	Asset Growth = $\frac{TotalAssetn-Totalasset\ (1-1)}{TotalAsset\ (n-1)}$ Sales = $\frac{Total\ Sales-Total\ Sales(n-1)}{Total\ Sales(n-1)}$ (Batchimeg, 2017)	Ratio
Intellectual Capital	A valuable resource for competitive advantage, which contributes to the company's financial performance	Capital Employed Efficiency= $\frac{VA}{CE}$ Human Capital Efficiency = $\frac{VA}{HC}$ Relational Capital Efficiency = $\frac{RC}{VA}$ Structural Capital Efficiency = $\frac{VA-HC}{VA}$ (Pulic, 2008)	Ratio
Financial Performance	Description of the company's financials in a given period	ROA = $\frac{NetProfitAfterTax}{Totalasset}$ ROE = $\frac{NetProfitAfterTax}{equity}$ (Ibhagui, 2018)	Ratio
Company Value	The price that potential investors are willing to pay if the company is sold.	EPS = $\frac{NetProfitAfterTax}{Numberofsharesoutstanding}$ PBV = $\frac{MarketPriceperShare}{BookValueperShare}$ PER= $\frac{MarketPriceperShare}{earningspershare}$ Tobin's Q = $\frac{(EMV+D)}{(EBV+D)}$ (Kusna, 2018)	Ratio
Intellectual Capital	A valuable resource for competitive advantage, which contributes to the company's financial performance	Capital Employed Efficiency= $\frac{VA}{CE}$ Human Capital Efficiency = $\frac{VA}{HC}$ Relational Capital Efficiency = $\frac{RC}{VA}$ Structural Capital Efficiency = $\frac{VA-HC}{VA}$ (Pulic, 2008)	Ratio

Source: Processed Data (2023)

Results and Discussions

Results

Outer Model Test

The measurement paradigm known as the "Outer Model" relates the indicator to the next variable. The purpose of the external model is to evaluate the dependability and validity of the model. Based on the operational definitions of the variables, this measurement model (Outer Model) selects the characteristics of each indicator used in the latent variables, both reflexive and formative. To obtain the characteristics of the measurement model such as convergent validity, discriminant validity, composite reliability, Cronbach's Alpha, and R2 as parameters of prediction accuracy, an iterative algorithm process was used. To evaluate the reliability of the instruments used and the validity of the variables, external model design is very important in the analysis of partial least squares (Alfa et al., 2017; Fahmi, 2012).

Table 2. Outer Model Test

	Original Sample	Sample Average	Standard Deviation	T Statistics	P Values
Asset -> Company's Growth	0.453	0.514	0.564	1.153	0.045
Sales -> Company's Growth	0.413	0.412	0.642	4.562	0.003
CEE -> Capital Intellectual	0.451	0.563	0.613	5.163	0.012
HCE -> Capital Intellectual	0.765	0.764	0.450	4.461	0.007
RCE -> Capital Intellectual	0.462	0.861	0.611	3.154	0.013
SCE -> Capital Intellectual	0.562	0.685	0.462	1.462	0.026
ROA -> Financial Performance	1.046	0.943	0.553	1.654	0.000
ROE -> Financial Performance	0.267	0.651	0.534	2.136	0.021
EPS -> Firm Value	0.431	0.543	0.613	4.646	0.002
PBV -> Firm Value	0.843	0.642	0.442	4.613	0.016
PER -> Firm Value	0.364	0.842	0.483	3.263	0.006
Tobins' O -> Firm Value	0.463	0.423	0.568	2.543	0.000

It can be stated that all items are valid and reliable for use in research because the outer model test in table 2 yielded a P value <0.05.

Hypothesis

(Sugiyono, 2019) explains that the t test is used as an initial answer to the problem formulation, which asks about the relationship between two or more variables. The hypothesis testing design is used to assess the correlation between the two variables being studied.

Table 3. Hypothesis Testing

	Original Sample	Sample Average	Standard Deviation	T Statistics (STDEV)	P Values
Company's Growth > Firm Value	0.756	0.565	0.134	4.562	0.000
Capital Intellectual > Firm Value	0.438	0.376	0.101	3.376	0.003
Financial Performance > Firm Value	0.654	0.412	0.143	5.641	0.000

Company Growth Has a Positive and Significant Effect on Firm Value

The association between business growth and financial company value results in a path coefficient of 0.756 with a ρ value = 0.000. The path coefficient has a ρ value > the level of significance (alpha = 5%), according to the test results. This shows that business development has little bearing on earnings, productivity, and cash flow. As a result, the hypothesis (H1) that company expansion affects firm value is accepted.So the results of this study are in line with research conducted by (Suastini et al., 2016), which states that company growth has a significant positive effect on firm value.

Intellectual Capital Has a Positive and Significant Effect on Firm Value

A path coefficient of 0.00 with a ρ value = 0,003 results from the impact of intellectual capital on business value. According to the test results, the path coefficient has a ρ value ≤ significant (alpha = 5%). This proves that intellectual capital has an impact on corporate value. As a result, H2—the premise that intellectual capital affects business value—is accepted.That way, the results of this study are in line with research conducted by (Aulia et al., 2020) which states that Intellectual Capital affects firm value in a positive direction.

Financial Performance Has a Positive and Significant Effect On Firm Value

A path coefficient of 0.654 with a ρ value = 0.000 is produced by the relationship between financial performance and firm value. The test results demonstrate that the path coefficient has a significant level with a value of 5% (alpha). This suggests that a company's financial performance has an impact on its value. So, the hypothesis (H3) that financial performance has an impact on business value is accepted.So that the results of this study are in line with research conducted by (Suranto & Walandouw, 2017) which states that financial performance simultaneously has a significant effect on firm value.So that for further researchers it is advisable to increase the time period used, besides that it is necessary to add other variables that affect Firm Value such as changes in sales growth, equity growth and other financial factors.

Conclusions

According to the research, non-financial elements including growth, intellectual capital, and financial success have a positive and significant impact on corporate value. This shows that companies do not only need to focus on financial performance alone but also must consider non-financial factors to increase company value. In an increasingly competitive and changing business environment, companies must be able to adapt quickly and develop their intellectual capital to enhance their competitiveness. Understanding and developing intellectual capital can also enhance a company's ability to innovate and find new business opportunities. Therefore, paying attention to non-financial factors in the company is important.

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