THE INFLUENCE OF INTELLECTUAL CAPITAL AND INSTITUTIONAL OWNERSHIP ON FINANCIAL PERFORMANCE WITH CORPORATE SOCIAL RESPONSIBILITY AS A MODERATION VARIABLE

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Abstract: This study investigates the impact of intellectual capital and institutional ownership on financial performance, with social responsibility serving as a moderating factor. The population for this research comprises companies in the bank subsector listed on the Indonesia Stock Exchange from 2019 to 2021. The study employs purposive sampling as the sampling method. Financial information sourced from the www.idx.co.id website is utilized as the primary data for analysis. Through this research, we aim to provide valuable insights into the relationships between intellectual capital, institutional ownership, financial performance, and social responsibility in the banking industry.

Keyword: Intellectual Capital; Institutional Ownership; Financial Performance; Corporate Social Responsibility

INTRODUCTION

The development of science and technology is growing rapidly as a sign of the emergence of the era of globalization. One of the main impacts of existing transformation is the increasing value of intangible assets (Osinski et al., 2017). Along with existing developments, the company not only increases the physical capital owned but also intangible wealth that can provide value and excellence to the company. So it is important for companies to pay attention to other things besides the physical capital they have in order to compete at this time (Kweh et al., 2019). One of the company's competitive advantages is its intellectual capital (Nuryaman, 2015). Intellectual capital is part of the company's wealth that can be used to develop the company in the future and is one of the crucial aspects in forming competitive advantage. Intellectual capital is useful for companies to increase company value and distinguish company identification from other companies (Solikhah & Subowo, 2016). This can be an attraction for companies so that companies can have more competitive power. Intellectual capital needs to be managed properly by the company in order to provide a competitive advantage so that company
goals can be achieved. If managed properly, it can provide new business innovation and sustainability for the company (Harirangga & Panggabean, 2019).

*Intellectual capital* is also quite influential for a country, where to build a country's economy not only relies on technological strength but also must pay attention to intellectual capital. Low *intellectual capital* in a country can be a weakness for that country. This is because dependence on technology will erode things related to the purpose of human life in the state (Drahos, 2017). Technology has an important role, but the ability and expertise of resources have a more important role in order to be able to develop and control the technology. Technological developments are increasing in this era of globalization, therefore human expertise and abilities also need to be improved in order to have a balance. Therefore, intellectual capital must still be considered, should not be ignored or even abandoned.

Phenomena related to *intellectual capital* began to develop after the existence of PSAK No.19 of 2000 concerning intangible assets. In PSAK No. 19, it is explained that intangible assets are non-monetary assets that can be identified without physical form. With this, companies begin to pay attention to the intangible assets they have in order to achieve competitive advantage (Faradina & Gayatri, 2016). Every company must have advantages and differentiators with other companies in order to create attractiveness. Business actors need to increase the development of intangible capital or intellectual capital which is a supporting factor in winning the competition.

The sensitivity to develop and pay attention to *intellectual capital* in Indonesia is still quite low. Many companies in Indonesia still use conventional concepts where there is still a lack of technology in running their business. There are still many companies that pay more attention to tangible assets and less concerned with the existence of *intellectual capital*. Even though this has become an inseparable part in encouraging and creating a competitive advantage. *Intellectual capital* in the company can also be an identity for the company so that it can be a differentiator from other companies. This differentiator is important enough that it is easier to identify.

*Intellectual capital* is something interesting to learn because in fact in Indonesia there are no standard guidelines related to measuring and reporting intellectual capital in a company. Another thing is that there is no standard that defines what is included in intangible assets that can be measured, managed, and reported in disclosures (Solikhah & Subowo, 2016). The existence of this is one of the author's motivations to conduct research on intellectual capital.

There are several studies that have been conducted on *intellectual capital*. Based on research from Erliana Banjarnahor (2019) in the journal "*Analysis of Value Added Intellectual Capital to The Financial Performance of Listed Banking Companies in Indonesia,*" it is found that *intellectual capital* has a significant positive influence on company
Performance reflects the company's ability to manage and allocate its resources, so performance is an important thing that every company must achieve. This is in line with research conducted by Gianluca Ginesti, Adele Caldarelli, and Annamaria Zampella (2018) in the journal "Exploring the impact of intellectual capital on company reputation and performance." The results of this study prove that intellectual capital has an important role in a company.

Another factor that affects financial performance is Ownership Structure. "The ownership structure is the proportion of shareholders in the company calculated by the number of shares owned by the owner divided by all shares of the company. This proportion in ownership will determine the number of minority and majority shareholdings in the company.

Decision making or policies contained in the company have an influence on the intellectual capital contained in the company. The ownership structure in the company is one of the factors that can influence in making a policy and in making a decision.

Company management that has good values will provide actual information and clear facts. One way is by paying attention to and revealing the company's intellectual capital (Fifi & Hatane, 2017). The existence of an ownership structure in the company can influence the actions taken by management in the company. The ownership structure in the company can be one aspect that determines the performance of the company's intellectual capital and drives the company's performance. This is because it can reduce conflicts of interest that exist between managers and company owners. Seeing this, the author wants to know the influence of intellectual capital and ownership contained in the company on the company's financial performance. The ownership that will be discussed by the author in this study is institutional ownership.

The difference in research results on each independent variable that exists, makes the author want to re-research the influence of each independent variable, namely intellectual capital and institutional ownership on financial performance. In addition, there is a Corporate Social Responsibility research variable as a moderation variable to add to research conducted with previous studies. The addition of moderation variables in this study is expected to clarify the relationship between existing independent variables on Financial Performance. This research is expected to provide benefits for various parties both for the community, organizations or companies.

**Agency Theory**

According to Jensen and Meckling (1976), the management of ownership structures can be used as an alternative to minimize the occurrence of agency conflicts. This ownership structure can explain the authority possessed by the parties to determine policies in running a company. One of the authorities it has is to be able to determine policies regarding the management of intellectual capital contained in the company. Institutional ownership can have the authority to supervise management which can have an
impact on optimizing the performance of a company. The higher the number of shares owned by the institution, the greater the authority it has to supervise the management of the company. The shareholders of this institution can be said to be supervisors from external parties of the company so as to encourage more effective supervision (Bathala et al., 1994).

**Signal Theory**

Signal theory explains how a company conveys a sign or signal to interested parties. Financial statements can be used by various existing parties, both company management and external parties of the company. This report covers relevant information and discloses information that is considered important both by insiders and from outside the company. One of the information is intellectual capital, where this information is a voluntary disclosure from a company. However, if the company discloses this, the company will get a good assessment from investors and stakeholders, and can reduce the risks that might occur (Banjarnahor, 2019).

The existing information asymmetry can be reduced by the way in which firms can signal or signal to stakeholders about certain characteristics that are sources of competitive advantage in the market. Companies can disclose information, one of which is by disclosing intellectual capital. This can mitigate information asymmetry and can have a good effect on the company, where the company will gain a good reputation and trust from the public (Vergauwen et al., 2007).

**Stakeholder Theory**

Based on stakeholder theory, company management is expected to take important actions for stakeholders and report the results of these actions to stakeholders. All stakeholders in the company have the right to obtain information about how the company's actions affect them (Solikhah & Subowo, 2016).

Stakeholder theory explains the importance of implementing Corporate Social Responsibility as a form of accountability to stakeholders, which is expected to improve the company's financial performance. This theory suggests that companies have social and environmental responsibilities. The company not only has the responsibility to improve the company's financial performance but has responsibilities to all parties, such as shareholders, institutions, and governments as parties who will be affected by the company's strategic actions and policies. Successful companies in their companies are able to balance all the interests of stakeholders, so that the company will get consistent support and enjoy growth in market share, sales, and profits. This theory assumes that society and the environment are the company's core stakeholders that must be considered. (Tahar & Rahmawati, 2020)

**Institutional Ownership**

Institutional ownership is the proportion of ownership of the number of shares of a company by a financial institution to exercise an authority as a fund manager on behalf of another party. Shares owned by institutions such as insurance companies, investment companies, banks, and other institutional holdings. The existence of this ownership can increase
more optimal supervision within the company. The higher the level of institutional ownership in a company, the greater the supervision of managers that can deter opportunistic behavior. The greater the voice, the greater the institution’s encouragement to supervise the company (Leksono & Vhalery, 2018). Institutional ownership can also lower agency costs because the presence of institutional parties makes supervision more effective so that managers will be more careful in making decisions. Institutional investors are considered more professional in exercising control over their investment portfolios.

**Corporate Social Responsibility**

One strategy in improving company performance is to carry out activities that provide benefits or positive impacts not only for the company, but also the community as part of stakeholders. These activities are social responsibility or Corporate Social Responsibility (CSR).

Based on ISO 26000 (2010), the term corporate social responsibility (CSR) came into use around the 1970s although some aspects of social responsibility existed until the end of the 19th century and even in earlier periods. Corporate social responsibility (CSR) began to develop in Indonesia since the issuance of Law No.40 of 2007 concerning Limited Liability Companies, which requires companies whose business fields are in the field of natural resources to carry out social and environmental responsibility.

Corporate Social Responsibility (CSR) can generate more value for the company related to its relationship with stakeholders. The purpose of conducting Corporate Social Responsibility (CSR) is twofold, namely internal stakeholders (stakeholders) and external stakeholders. Corporate Social Responsibility (CSR) basically departs from the philosophy of how to manage a company, both partially and as a whole, has a positive impact on itself and the environment. For this reason, the company must be able to manage its operating business by producing products that are positively oriented towards society and the environment. Corporate Social Responsibility (CSR) is a form of sustainability reporting that provides information about various aspects of the company ranging from social, environmental and financial aspects as well as those that cannot be explained implicitly by a company’s financial statements alone. Furthermore, in the Corporate Social Responsibility (CSR) disclosed, the company in explaining the aspects of Economy, Environment, Labor, Human Rights, Social, and Product Responsibility.

Corporate Social Responsibility (CSR) is a form of corporate responsibility both inward directed to shareholders and employees in the form of profitability and progress of the company, as well as outward responsibility associated as taxpayers and employment providers, improving the welfare and competence of the community, and maintaining the environment for future generations. Corporate Social Responsibility (CSR) is closely related to stakeholders, namely all parties, both internal and external, who have relationships both influencing and being
influenced, directly or indirectly by the company.

**Financial Performance**

Performance is the result of work achieved from an organization's efforts in a certain period by referring to established standards. To find out whether a company has carried out its operational activities in accordance with a predetermined plan, and in accordance with its objectives is to know the financial performance of a company. Financial performance is one of the measuring tools used to measure a company's quality. The company's financial performance can be seen and measured by analyzing a company's financial statements.

Financial performance is a picture of the achievement of the company's success can be interpreted as the results that have been achieved for various activities that have been carried out. Understanding the financial performance of a company shows a fairly close relationship with the assessment of the health or unhealth of a company. So if the performance is good, then the health level of the company is good.

The financial performance used in this study is part of the profitability ratio, namely Return on Assets (ROA). Return on Asset (ROA) is an indicator of the ability of a business unit to obtain a return on a number of assets owned by the business unit. ROA reflects the profitability of the business and the efficiency of the company in the utilization of total assets. The higher the ROA value, the more efficient the company is in using its assets, both physical assets, and non-physical assets (intellectual capital) will generate profits for the company. The usefulness of Return on Asset (ROA) analysis is as one of its principal uses is its comprehensive nature. If the company has carried out good accounting practices, management using Return on Asset (ROA) analysis techniques can measure the efficiency of using working capital, production efficiency and sales efficiency.

**Intellectual Capital**

Today, organizations or firms compete on the basis of intellectual assets, in the knowledge economy the function that requires more skills is the knowledge worker and the organization that improves from past experience is the learning organization. The constant need of the company for better products and services, the increase in the company's intellectual capital determines the company's competitive position (Osinski et al., 2017). Intellectual capital has been widely accepted as an important asset for the survival of an organization or company in this competitive environment (Isa & Ismail, 2015).

Intellectual capital is identified as something intangible that is able to drive organizational performance and create value. There are companies that invest in employee training, development, and research. Currently, intellectual capital can be used to observe the hidden value of a company (Shahveisi et al., 2017). Intellectual capital is a part of knowledge that is useful for a company's assessment of the health or unsoundness of a company. So if the performance is good, then the health level of the company is good.

There are different understandings of intellectual capital, but from these
In this study, intellectual capital is measured using value added formed from physical capital, human capital, and structural capital. The union of the three values is symbolized by the name VAIC™.

VAIC™ = VACA + VAHU + STVA

Institutional Ownership

The measurement of this variable uses the number of percentages of institutional share ownership in the company. This measurement is also found in research conducted by Shahveisi et al., (2017).

KI = \( \frac{\text{Number of shares by institution} \times 100}{\text{Number of outstanding shares}} \)

Financial Performance

Profitability measurement is proxied with ROA. The higher the ROA owned by the company, it will show better asset productivity in obtaining net profits. ROA is measured by the percentage of net profit divided by total assets.

ROA = \( \frac{\text{Net Income}: \text{Total Assets}}{\times 100} \)

Corporate Social Responsibility

CSR measurement uses indicators in the Global Reporting Initiative G.4 (GRI G.4) which uses the checklist method. There are 91 indicators, namely 9 economic indicators, 34 environmental indicators, 16 indicators of labor practices and work comfort, 12 human rights indicators, 11 community indicators, and 9 indicators of product responsibility. In addition, CSR measurements that reveal each CSR indicator are given a value of 1 and those that do not reveal CSR indicators are given a value of 0, so the CSR disclosure formula is:
The Influence of Intellectual Capital and Institutional Ownership on Financial Performance with Corporate Social Responsibility as a Moderation Variable

\[ CSRDI = \frac{\sum x_{ij}}{N_j} \]

CSR1j: broad index of corporate social and environmental responsibility disclosure j.

\[ \sum x_{ij} \]: value 1 if item i is disclosed; Value 0 if item i is not disclosed.

NJ: Number of Company Items J, NJ ≤ 91

RESULTS AND DISCUSSION

RESULT

Linear Regression Test

Linear Regression Test is a statistical method used to study the relationship between one or more independent variables with one dependent variable (Yan & Su, 2003).

Table 1. Regression Test X1

<table>
<thead>
<tr>
<th>Model</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.630</td>
<td>.534</td>
</tr>
<tr>
<td>X1</td>
<td>3.359</td>
<td>.002</td>
</tr>
</tbody>
</table>

Based on table 1, the regression test results obtained a significance value of 0.002 <0.05, which means that intellectual capital affects financial performance.

Table 2. X2 Regression Test

<table>
<thead>
<tr>
<th>Model</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.637</td>
<td>.594</td>
</tr>
<tr>
<td>X2</td>
<td>4.685</td>
<td>.000</td>
</tr>
</tbody>
</table>

Based on table 2, the regression test results obtained a significance value of 0.000 <0.05, which means that institutional ownership affects financial performance.

Table 3. Moderation Regression Test

<table>
<thead>
<tr>
<th>Model</th>
<th>t</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
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<td>.637</td>
<td>.594</td>
</tr>
<tr>
<td>X1</td>
<td>3.359</td>
<td>.002</td>
</tr>
</tbody>
</table>

Based on table 3, the moderation test results obtained using regression analysis with a significance value of 0.000 <0.05, which means that CSR moderates the effect of intellectual capital and institutional ownership on financial performance.

Determination Coefficient Test

The coefficient of determination test is a statistical method used to measure the extent to which variation in the dependent variable can be explained by the independent variables in a linear regression model (Huang & Chen, 2008).

Table 4. R² Test X1

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.674</td>
<td>.352</td>
</tr>
</tbody>
</table>

Table 4 shows that the coefficient of determination in R² is 0.352 or equivalent to 35.2%. This means that the effect of intellectual capital on financial performance is 35.2%, while the remaining 64.8% is influenced by external factors not discussed in this study.

Table 5. R² Test X2

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.536</td>
<td>.287</td>
</tr>
</tbody>
</table>

Table 5 shows that the coefficient of determination in R² is 0.287 or equivalent to 28.7%. This means that the effect of institutional ownership on financial performance is 28.7%, while the remaining 71.3% is influenced by external
factors not discussed in this study.

**DISCUSSION**

**Effect of Intellectual Capital on Financial Performance**

The results of this study indicate that intellectual capital has a positive and significant effect on financial performance. The results of this study are supported by previous research (Lubis & Ovami, 2020) which shows that intellectual capital has a significant and positive effect on the financial performance of basic and chemical industry companies. Other research conducted by (Salim & Karyawati, 2013; Puspitosari, 2016) also shows consistent results that intellectual capital affects financial performance.

Intellectual capital refers to the value and intellectual property owned by a company, including knowledge, skills, experience, and relationships owned by employees. Research has shown that intellectual capital has a positive and significant influence on the company’s financial performance. This can happen because strong intellectual capital allows companies to develop and implement innovative strategies, improve operational efficiency, improve the quality of products and services, and optimize the use of available resources. By having strong intellectual capital, companies can create competitive advantages that have a direct impact on improving financial performance, including revenue growth, profitability, and higher corporate value.

**The Effect of Institutional Ownership on Financial Performance**

The results of this study indicate that institutional ownership affects financial performance. The results of this study support the results of previous research conducted by (Petta & Tarigan, 2017; Dewi et al, 2019; Hermiyetti & Katlanis, 2017) which also prove that institutional ownership has an influence on financial performance.

High institutional ownership tends to be associated with improved financial performance, such as higher revenue growth, profitability, and firm value. There are several reasons why institutional ownership can affect financial performance. First, large financial institutions have access to greater resources, including capital and managerial expertise, which can be used to help firms achieve their financial goals. Second, institutional ownership can provide stability and confidence to other investors, which can increase the liquidity of the company’s shares and lower the cost of capital. Third, large financial institutions often have access to better information and research, which can help them make better investment decisions.

**Corporate Social Responsibility Moderates the Effect of Intellectual Capital and Institutional Ownership on Financial Performance**

The results of this study indicate that corporate social responsibility moderates the effect of intellectual capital and institutional ownership on financial performance. Corporate social responsibility (CSR) can act as a moderating variable in the relationship between intellectual capital, institutional ownership, and corporate financial performance. When CSR is well implemented, that is, through the company’s efforts to fulfill social, environmental, and community
responsibilities, it can strengthen the influence of intellectual capital and institutional ownership on financial performance.

Effective intellectual capital management and strong institutional ownership can provide a solid foundation for companies to implement CSR programs that have a positive social and environmental impact. By implementing CSR, companies can build better relationships with stakeholders such as consumers, employees, suppliers, and local communities. This can enhance the company's reputation, expand the customer base, and reduce social or environmental risks that may affect financial performance.

CONCLUSION

This study concludes that intellectual capital and institutional ownership have a positive and significant influence on corporate financial performance. The findings also show that corporate social responsibility acts as a moderating variable that strengthens the relationship between intellectual capital, institutional ownership, and financial performance. Companies that implement good social responsibility practices can gain additional benefits in terms of reputation, relationships with stakeholders, and attractiveness to institutional financial institutions.

REFERENCES


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