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Impact of Intellectual Capital, Profitability and Dividend on Market Capitalization

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ABSTRACT

The **aim** of the study was to find out how strong the impact of intellectual capital, profitability and dividends is on the market capitalization of companies listed on the Indonesia Stock Exchange (IDX) and included in the LQ45 index from 2014 to 2018. The authors employ the multiple linear regression **method**. They measure the value of intellectual capital by the value added intellectual coefficient (VAIC ™), and the profitability — by return on assets (ROA) and return on equity (ROE). To calculate a dividend per share (DPS), they divide the annual dividend by the number of outstanding shares. The **results** of this study show that intellectual capital and return on assets (ROA) do not significantly affect the company's market capitalization, while return on equity (ROE) and dividends do. The authors **conclude** that by the level of efficiency and effectiveness of the company in capital management, one may see whether investors receive higher profits. Therefore, investors are more interested in companies that have a high level of dividend distribution.

Keyword: intellectual capital; return on asset; return on equity; dividend; market capitalization

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INTRODUCTION

In addition to the trend of the movement of the composite stock price index, an investor usually makes investment decisions on the development of market capitalization. Therefore, the market capitalization is an indicator describing the development of the stock market. Market capitalization is a synonym of the market value [1]. Investors who invest in the Indonesia Stock Exchange (IDX), in addition to considering the fundamental conditions and business prospects of one issuer, also take into account the development of the capitalization value of the relevant shares. The capitalization value per individual share determines the market capitalization value of one share. Thus, the market capitalization is an illustration of the market value of one company while it also reflects the market value of one share [2].

"Intellectual capital (IC) is a group of knowledge assets owned or controlled by organization which significantly impact value creation mechanisms for the organization stakeholder" [3]. "Intellectual capital will include all the processes and assets which are not normally shown on the balance sheet, as well as the intangible assets which modern accounting methods consider (mainly trademarks, patent and brands)" [4]. Intellectual capital is defined as "knowledge, intellectual material, information, experience and intellectual property that can be put to use to create wealth" by developing competitive advantage in an organization. When intellectual material is formalized and utilized effectively, it can create wealth by producing a higher value asset, called intellectual capital.

Intellectual capital is measured using the VAIC™ method. VAIC™ is sum of all HCE, SCE, and CEE ratios in the form of percentage units. HCE is a human capital efficiency in the company. Then, HC is the total salaries and wages of the company. Value Added (VA) is the difference between the input and output. The input is the total cost incurred, and the output is the total income. Moreover, SCE is the structural capital efficiency of the company. Structural Capital (SC) is the difference between VA and HC. Next, CEE is the Capital Employed Efficiency of the company. Capital Employed (CE) is the net book value of a company from its net assets [4]. The equations are as follows:

$$HCE = \frac{VA}{HC} \ (1); \ SCE = \frac{SC}{VA} \ (2); \ CEE = \frac{VA}{CE} \ (3).$$

So, the VAIC™ value is

$$VAIC™ = HCE + SCE + CEE.$$

In paragraph 9, PSAK 19 Aset Tak Berwujud, 2015, it is stated that intangible assets are non-monetary assets that are identified without physical form and are owned to be used in producing or delivering goods or services, leased to other parties or for administrative purposes and have economic benefits in the future. Intellectual Capital is a source of competitive advantage that can add value to the output of knowledge-based companies. Strong Intellectual Capital performance can lead to maximization of stakeholder wealth. The success of a company in achieving company goals can be seen by measuring its performance. Performance measurement is needed as information for internal and external parties to make decisions [5].

Intellectual Capital affects the company's financial performance. Companies that have human capital with the ability, competence and high commitment will increase productivity and efficiency, which in general will increase company profits. The research by Puspita Sari & Srimindarti [6] shows factors that influence intellectual capital disclosure. Of the five factors examined — company size, company age, leverage, profitability and independent commissioners — it was found that company size and company profitability affected intellectual capital disclosure and intellectual capital disclosure affected market capitalization [7].

M. Almumani conducted a research to find out whether profitability affects market capitalization in commercial banks registered in Jordan [8]. The data used is data from the stock exchange in the period of 2010–2016. This study looks at the relationship of market capitalization with the variables ROE, ROA, EPS, PER, and DPR. The findings after the regression analysis show that ROE and DPR have the most significant relationship, while other variables such as ROA, EPS and PER do not have a significant relationship. Therefore, it is concluded that the return on equity and dividend payout ratios are the main determinants of market capitalization of the commercial banks registered in Jordan. M. Quraishi & M. Zahoor conducted a study to investigate the impact of profitability on the market capitalization of the Middle Eastern banks [9]. The result of the multiple regression has shown that no relationship was observed between market capitalization and the ROA, ROE in the Middle Eastern banks.

LITERATURE REVIEW

Stakeholder Theory

The stakeholder theory states that all stakeholders have the right to receive information about the

company activities that affect them (such as pollution, social movements and the company's efforts to work safety). These stakeholders may choose not to use the information and also they cannot directly play a role in building the company's business sustainability [10]. The stakeholder theory emphasizes organizational accountability far beyond simple financial or economic performance.

B. Kamath explains that the main objective of the stakeholder theory is to help the company's managers understand their environment and manage the relationships within their corporate environment more effectively [11]. However, the broader goal of the stakeholder theory is to help corporate managers increase the value of the impact of their activities and minimize stakeholders' losses. In fact, the whole point of the stakeholder theory is in what happens when corporations and stakeholders have their relationships. On a moral level, the stakeholder theory emphasizes that all stakeholders have the right to be treated fairly by the company and that the issue of the stakeholder power is not directly relevant [10].

This theory views the company not as a mechanism to increase the financial benefits of stakeholders or as a vehicle to coordinate the interests of stakeholders, but sees that management has a fiduciary relationship (pawn) not only with some stakeholders, but with all stakeholders. The normative approach to the stakeholder theory is that management must give balanced consideration to the interests of all stakeholders. If stakeholders have different perceptions, it creates a conflict of interest; managers must run the company properly to achieve the optimal balance between them.

PREVIOUS RESEARCH

Conducted in the period of 2008–2017 in Italian listed companies, the research by P. Pavone examines the effect of several independent variables, such as ROE and ROA, on market capitalization [12]. It reveals that market capitalization is negatively related to ROA, ROE and earnings yield.

The results of the research conducted by G. Virgiawan on the Indonesian stock Exchange (IDX) stated that partial intellectual capital has a positive effect on the market capitalization [13]. The research by A. Permatasari and A. Rohman conducted on the Indonesia Stock Exchange (IDX) using multiple regression analysis revealed that the disclosure of intellectual capital has a significant effect on market capitalization [14]. The research by A. Sudibyo and B. Basuki in the Indonesia Stock Exchange (IDX) proved that the company size, industry type and market capitalization are significantly related to Intellectual Capital Disclosure [15]. Furthermore, it was revealed that there was practically no significant difference in intellectual capital disclosure between companies with high profile and low profile.

The research by D. Prabowo and A. Purwanto in the Indonesia Stock Exchange (IDX) revealed that the company size and company profitability affected intellectual capital disclosure, and intellectual capital disclosure affected market capitalization [7]. The research by E. Rachmi and D. Ardiyanto conducted in the Indonesia Stock Exchange (IDX) shows that intellectual capital disclosure has a positive influence on market capitalization in manufacturing companies listed on the Indonesia Stock Exchange in the 2008 and 2012 periods [16].

The research by G. Gigante conducted in the selected European countries (Czech Republic, Denmark, Finland, Germany, Italy, Norway, Poland, Spain, Sweden) during the 2004–2007 proved that the VAIC method is a practical way to conduct research [17]. In the short term, a correlation between intellectual capital and market value was not found; however, a correlation was found between intellectual capital and the financial performance of some companies. Modern theory defines business activity as added value and wealth. Creating added value and wealth requires income and, as such, improving relationships with customers and the realization that the tangible form of value creation (income, added value) should also be associated with intangible forms of value creation in the long run (increasing time and communication efficiency, effective relationships, building and maintaining a good reputation). The key to a company's success is in creating a causal relationship between these two forms of value creation. It can be argued that one of the main challenges for managers is the creation of conditions that enable the successful generation of intangible values (knowledge, services, experience, benefits, speed, quality, and image) and the subsequent transformation into tangible value (income, profit, added value, shares and market value).

M. Mudliar's research conducted in the BSE-100 listed companies from Mumbai Stock Exchange in 2008–2010 revealed a significant correlation between intellectual capital disclosure and market capitalization value [18]. Analysis of the frequency of disclosure of intellectual capital components and their categories shows evidence of significant disclosure variations between companies within the sector and between sectors. O. Abraham and A. Ofusu examined the impact of intellectual capital on market capitali-

zation in the companies registered in Ghana [19]. In this study, all variables, except leverage, are positively correlated with MCAP. This finding also shows that after considering age, net income, and leverage, human capital, structural capital and relational capital are positively related to MCAP. Age and net income are positively related to MCAP, while leverage negatively affects MCAP. In combination with the three intellectual components (i.e. human, structural and relational), intellectual capital disclosure was also found to be significantly positively related to market capitalization.

The study by H. Prasad and K. Shrimal conducted in India, shows positive relationship between financial performance and market capitalization [20]. The company size is closely related to market capitalization. The impact of variables, such as advertising, research and development, dividends and intellectual capital, on market capitalization has been convincingly proven by many researchers. Customer equity-based strategies can reliably predict market capitalization.

HYPOTHESIS DEVELOPMENT

Impact of Intellectual Capital, Profitability and Dividend on Market Capitalization

IC has been recognized as a critical resource for business success in the modern economy. However, in the current accounting regime most business investments make ICs recorded as costs independent of future profit potential. Intellectual Capital is positively related to financial performance and is a key driver in the formation of market capitalization.

H1: Intellectual capital has a positive impact on capitalization

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Return on assets is displayed as a percentage. Some analytic studies have highlighted the close relationship between company performance and market capitalization.

H2: ROA has a positive impact on market capitalization

High ROE will produce high stock prices, and activities aimed at increasing ROE will increase market capitalization. It is also that attracts investors' attention to the company.

H3: ROE has a positive impact on market capitalization

Dividends and earnings are two important announcements in the financial information that investors use to make decisions regarding buying or selling company shares. Shareholder's earnings are the factors affecting dividend policy: the higher is the profit, the higher the dividend and the company's stock prices are.

H4: Dividends have a positive impact on market capitalization

RESEARCH METHOD

The data used is secondary data collected by data collection agencies and available to the public in the form of the annual report for 2014–2018 of the companies included in the LQ45 index of the Indonesia Stock Exchange (IDX).

This research employs multiple regression analysis to measure the power of two or more variables and to show the direction of the relationship between the dependent variable and the independent variable. The formula of multiple linear regression (multiple linear regressions) is as follows.

Equations:

$$MC = a + \beta SQRTIC + \beta SQRTROA + \\ + \beta SQRTROE + \beta SQRTDiv$$

MC: Market Capitalization
a : Variable Constants
β : Variable Coefficient
IC: Intellectual Capital
ROA: Return on Assets
ROE: Return on Equity
Div: Dividend.

RESULT AND DISCUSSION

One of the main indexes in the Indonesia Stock Exchange (IDX) is LQ45. LQ45 is an index that groups 45 companies that have high liquidity and the biggest capitalization followed by good corporate fundamentals.

Companies listed in the LQ45 index include companies engaged in various sectors. For example (*Table 1*).

The number of companies consistently indexed by LQ45 is 26. The sample was chosen based on purposive sampling with predetermined criteria. In the period of 2014–2018, the number of the research objects is 130 (firm x year) which is expected to represent the research population.

Descriptive statistics has to provide the description of the data under study. This study uses intellectual capital, return on assets, return on equity and dividends as independent variables and market capitalization as a dependent variable. The data are

Table 1

Company Name	Type of Company
PT. Indofood Sukses Makmur	Production of food and beverages
PT. Adaro Energy	Coal mining
PT. Bank Mandiri	Banking sector
PT. Unilever Indonesia	Cosmetics and household needs
PT. Lippo Karawaci	Property and housing sector
PT Waskita Karya	Construction

Source: compiled by the authors.

Table 2

Descriptive Statistics

	No.	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
IC	130	2.469	604.142	26.06818	81.321570
ROA	130	1.410	62.000	9.11631	8.725812
ROE	130	2.870	161.000	36.37031	185.663304
Dividend	130	.000	2600.00	242.6643	438.32186
MC	130	16124.00	447 551 984.00	102 294 852.5	119 504 654.2
Valid N (list wise)	130				

Source: compiled by the authors.

presented in the form of minimum value, maximum value and average value. The results of the descriptive statistics of the variables are as follows (*Table 2*).

The descriptive statistics shows that the value of intellectual capital in companies indexed in LQ45 in 2014–2018 for 130 observations ranged from 2.469 to 604.142, with the minimum value of 2.469 at PT Indofood Sukses Makmur Tbk in 2018 and the maximum value of 604.142 at PT Adaro Energy Tbk in 2017. The average intellectual capital value out of 130 observations was 26.068.

According to the descriptive statistics, the value of return on assets ranges from 1.41% to 62%, with the lowest value of ROA at Bank Mandiri in 2016 and the highest value at PT Unilever Indonesia Tbk in 2018. The average ROA of 130 observations is 9.116%. According to the descriptive statistics, ROE value ranges from 2.87% to 161%, with the lowest value of ROE at PT Lippo Karawaci Tbk in 2017 and the highest ROE value at PT Unilever Indonesia Tbk in 2018. The average value of ROE out of 130 observations is 36.370%.

The descriptive statistics shows that dividend values range from Rp 0 to Rp 2600, with the lowest value at PT Adaro Energy Tbk in 2016 and the highest value at PT Gudang Garam Tbk in 2015–2017. Based on the observation of 130 companies, it is known that the average value of institutional dividends is Rp

Table 3

Estimated Regression Equation

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2707.722	1281.909		2.112	.037
	SQRT_IC	–51.441	119.479	.034	–0.431	.668
	SQRT_ROA	–308.886	572.793	.067	–0.539	.591
	SQRT_ROE	1309.708	398.592	.411	3.286	.001
	SQRT_Dividend	118.241	45.686	.218	2.588	.011
a. Dependent Variable: SQRT_MC						

Source: compiled by the authors.

242.66. According to the descriptive statistics, market capitalization proxies by market capitalization ranges from Rp 16,124,000,000 to Rp 447,551,984,000,000. The minimum value belong to PT AKR Corporindo Tbk in 2014, and the maximum value — to PT Telekomunikasi Indonesia (Persero) Tbk in 2017. The descriptive statistics shows that the average MC value is Rp 102,294,852,000,000 (*Table 3*).

The table above allows us to conclude that IC, ROA, ROE and dividends affect market capitalization:

$$MC = 27 - 7.722 - 51.441\sqrt{IC} - 308.886\sqrt{ROA} + \\ +1309.708\sqrt{ROE} + 118.241\sqrt{Dividend}.$$

The equation shows that if all x variables are equal to 0, then MC value is 2707.722. IC variable regression coefficient is –51.441, meaning that if all the other variables are considered to be constant, then every 1% change from IC will make MC decrease by –51.4441. The regression coefficient of the ROA variable is 308.886, meaning that if all the other variables are considered to be constant, then every 1% change in ROA will make MC decrease by 308.886. The regression coefficient of the ROE variable is 1309.708, meaning that if all the other variables are considered to be constant, then every 1% change in ROE will make MC increase by 1309.708. Dividend variable regression coefficient is 118.241, meaning that if all the other variables are considered to be constant, then every 1% change from dividend will make MC increase by 118.241. T-test was conducted to test the regression coefficient separately from the independent variable. The results of the t-test are presented in *Table 4*.

Hypothesis 1: Intellectual capital has a positive impact on capitalization

According to the test results, the impact of intellectual capital on market capitalization shows the value of t equal to –0.431, which means t arithmetic < t table (–0.431 < 1.656) and has a significance level of 0.668, and shows a number greater than 0.05. This proves that H1 is rejected. Since the value of t arithmetic is smaller than that of t table, and the significance value is greater than 0.05, it can be said that intellectual capital has no significant effect on market capitalization.

Hypothesis 2: ROA has a positive impact on market capitalization

According to the test results, the ROA impact on market capitalization shows the value of t arithmetic equal to –0.539, which means t arithmetic < t table (–0.539 < 1.656) and has a significance level of 0.591, and shows a number greater than 0.05. This proves that H2 is rejected. Since the t value is smaller than t table and the significance value is greater than

Table 4

T- test

Coefficients a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2707.722	1281.909		2.112	.037
	SQRT_IC	–51.441	119.479	–.034	–.431	.668
	SQRT_ROA	–308.886	572.793	–.067	–.539	.591
	SQRT_ROE	1309.708	398.592	.411	3.286	.001
	SQRT_Dividen	118.241	45.686	.218	2.588	.011
a. Dependent Variable: SQRT_MC						

Source: compiled by the authors.

0.05, it can be concluded that ROA has no impact on market capitalization.

Hypothesis 3: ROE has a positive impact on market capitalization

According to the test results, the ROE impact on market capitalization shows the value of t arithmetic equal to 3.286, which means t arithmetic > t table (3.286 > 1.656) and has a significance level of 0.001, and shows a number smaller than 0.05. This proves that H3 is accepted. Since the t value is greater than t table and the significance value is less than 0.05, it can be concluded that ROE has a significant impact on market capitalization. This shows that ROE has a significant positive impact on market capitalization as measured by market capitalization.

Hypothesis 4: Dividends have a positive impact on market capitalization

According to the test results, the impact of dividends on market capitalization shows the value of t arithmetic equal to 2.588, which means t arithmetic > t table (2.588 < 1.656) and has a significance level of 0.011, and shows a number smaller than 0.05. This proves that H4 is accepted. Since the t value is greater than t table and the significance value is less than 0.05, it can be concluded that dividend has a significant impact on market capitalization. This shows that dividends have a positive impact on market capitalization as measured by MC.

CONCLUSION

Based on the research results and earlier discussions, it can be concluded that intellectual capital (IC) in Indonesia does not significantly affect market capitalization. Return On Asset (ROA) does not significantly affect Market Capitalization.

Return on equity (ROE) significantly affects market capitalization, and the impact is positive. Therefore, we can conclude that investors are especially interested in companies with a high return on equity. We can say that the level of efficiency and effectiveness of a company in capital management is gaining increasing value for investors. Dividends significantly affect market capitalization and their impact is positive. Based on these results, we can conclude that investors are especially interested in companies with a high level of dividend distribution.

For the next research, we may suggest replacing the company's value calculation. Further studies may use abnormal income or firm value. Future studies are expected to expand the object of research by changing purposive sampling or expanding the research population.

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Author's declared contribution:
Putri S.A. — Theoretical part, methodology, research data collection, analysis of data processing results.
Azwardi — Modeling in analysis and conclusion of the research.
Sa'adah — Discusing of the research results and general conclusions of the research results.

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