

Influence of Intangible Assets as an Unexplained Value on Financial Performance and Corporate Market Value

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This study aims to determine the effect of intangible assets as unexplained value on the financial performance of manufacturing companies. This type of research is quantitative research with an explanatory approach. The research sample consisted of 61 manufacturing companies that were listed on the Indonesia Stock Exchange (IDX) in 2010-2014 and had fulfilled the specified criteria. The analysis technique used is panel data regression using static Eviews software. The results show that intangible assets as unexplained value have a significant and positive effect on the financial performance of manufacturing companies.

Key words: *Corporate Market Value, Financial Performance, Intangible Assets, Unexplained Value.*

Introduction

Based on the Statement of Financial Accounting Standards (PSAK) no. 19, intangible assets are defined as non-monetary assets that can be identified without physical form and to recognise an item as an entity's intangible assets, one needs to ensure that the item meets the definition and meets the recognition criteria. Intangible assets can be obtained from direct purchases of other entities, acquisitions as part of a business combination, acquisition with government grants, exchange of assets, and intangible assets produced internally. Examples of intangible assets are patents, copyrights, customer lists, licenses, franchises, goodwill and much more. Sullivan Jr, P. H., & Sullivan Sr (2000a) divides intangible assets into two groups, namely groups of intangible assets that are indeed reported as assets in financial statements (eg patents, copyrights, and trademarks) and groups of intangible assets in the form of expertise that are difficult to report in finance reports (example: employee expertise,

employee knowledge, and organisational culture). Intangible assets in the form of expertise that are difficult to report in financial statements are actually a source of company competence.

Sullivan Jr, P. H., & Sullivan Sr (2000b) describe several components of future value including intangible assets such as customer loyalty, organisational culture, employee expertise, employee experience, and so on. Investors assume that if a company manager can manage the company's growth potential well in the future, the company's performance and existence can be maintained well and this can secure the position of investors in the future and can increase the rate of return on the investment invested (Lev, B., & Daum 2004).

In 1978 almost 80% of the company's value was dominated by tangible assets and the remaining 20% was dominated by intangible assets, but since 1998 this proportion has reversed, the value of intangible assets dominates 80% of the company's market value in the American capital market and the remaining 20% is dominated by tangible assets (Sullivan Jr, P. H., & Sullivan Sr 2000b). Asset disposal strategy is often coupled with share repurchase programs, by international hotel companies on financial performance, earnings stability and share values (Bourke, J.G., Izadi, J., Olya n.d.) Intangible assets that have met the definition and criteria of recognition according to accounting standards, have been reported in the financial statements, but there are still other intangible assets that cannot be reported in financial statements and are the result of the creation of company's internal activities or former researchers referred to as unexplained value (Chen et al. 2014).

The difficulty of presenting unexplained value in financial statements is caused by the complexity of accounting standard rules regarding the recognition and measurement of intangible assets (Lev, B., & Daum 2004). PSAK No. 19 (revised 2000), which describes intangible assets has the scope of reporting intangible assets which are also very limited and do not discuss intangible assets as unexplained value or hidden reserve (Soraya and Syafruddin 2013). This is in order to better control the risk of the financial market, considering the volatility of deviation degree in the negative absolute deviation risk control index (Zhang 2020).

Hypothesis development The Effect of Intangible Assets as an Unexplained Value on Financial Performance of Manufacturing Companies.

There are several factors that can support the achievement of good financial performance, one of which is the creation and management of intangible assets. According to Hall (1992), intangible assets have a high contribution to competitive advantage and maximisation of company performance. Hall's (1992) statement is in accordance with Resource-Based Theory which explains that resources that meet the criteria as valuable resources can support the

achievement of competitive advantage and maximum performance, both financial performance and non-financial performance.

Based on previous reviews, research highlighting the unexplained value of the contribution of intangible assets to the financial performance and market value of the company is very important. Information obtained from research can be taken into consideration for stakeholders, especially managers, regarding investment decisions on company assets and for investors related to the selection of investment decisions that can provide a higher rate of return, by analysing the performance and market value of the company in relation to the management of intangible assets.

Literature Review

Resource – Based Theory

According to Khotimah (2017) competitive advantage can be achieved if the company owns or controls resources that directly or indirectly are able to support the company in achieving excellence, so that it is difficult to be pursued by its competitors. To achieve a competitive advantage, companies must have resources that are not owned by competitors, so companies that have resources like this will be one of those who have managed to create valuable resources in achieving competitive advantage. In addition, companies must also be able to combine several valuable resources they have in facing competition with few competitors (Khotimah 2017).

Wernerfelt's (1984) statement is reinforced by Barney (1991) which explains more specifically what are the criteria of valuable resources that can support the sustainability of the company's competitive advantage, namely : Valuable Resources, Rare Resources, Imperfectly Imitable Resources, and Substitutability. Based on these criteria, intangible assets as unexplained value meet the criteria as valuable, rare, difficult to replicate, and difficult to replace with other assets.

Signaling Theory

Signaling theory is developed on the basis of asymmetrical information concepts that occur between the management of the company and the external parties of the company in this case, investors. The information submitted by the company in the form of financial statements will show the difference between a high-quality company and a low-quality company. Furthermore, investors who already know the difference between the two companies will react as reflected in changes in the price and volume of stock trading transactions as a signal

whether the company experiences certain events that have an impact on company value (Budialim 2013).

Positive signals received by investors will influence the investment decisions taken and will have a positive impact on the sustainability of the company. If the Investor gets a signal that the company has owned and managed intangible assets properly, it will regard this signal as a positive signal in giving an assessment of the company and will have an impact on increasing the company's stock price (Cardoza, Basara, Cooper, & Conroy, 2006).

Method

The population used in this study is a manufacturing company listed on the Stock Exchange in 2010-2014. The sampling method used was purposive sampling with the aim of obtaining a representative sample according to the specified criteria. The total sample obtained amounted to 61 company sample data. The analysis technique used is panel data regression using Eviews statistic software. The dependent variable identified in this study is the company's financial performance (y1) and the company's market value (y2). The independent variables identified in this study are intangible assets as unexplained value (x1). The control variables used in this study are firm size and sales growth.

Company Financial Performance. The company's financial performance shows the company's ability to generate profits from the management of all assets owned in the operational activities carried out. One of the most suitable financial ratios for measuring a company's financial performance is ROA. ROA shows the company's ability to create economic added value from the management of assets under control (Brahim, H. B., & Arab 2011).

$$ROA = \frac{OI}{BVTA} \dots \dots \dots (3.1)$$

Explanation:

ROA = *Return on Assets*

OI = operating income

BVTA = Book Value of Total Assets

The company's market value is the price per share of the company that occurs from the process of trading on the stock exchange (Soraya and Syafruddin 2013). The market value of a company is measured by multiplying the number of shares circulating at the end of the year with the closing price of shares at the end of the year, which can be indicated by the following formula (Salamudin, N., Bakar, R., Kamil Ibrahim, M., & Haji Hassan 2010):

$$CMV = \ln(CP \times NOSH) \dots\dots\dots(3.2)$$

Explanation:

- CMV = Current Market Value
- CP = Closing Price
- NOSH = Number Of Shares Outstanding

Intangible Assets that cannot be reported on Financial statements (Unexplained Value)

The indicator used to measure unexplained value is Tobin's Q and is the most appropriate indicator to represent intangible resources that cannot be reported in financial statements (Brahim, H. B., & Arab 2011)

$$Q = \frac{CMV+BVPREF+BVSTD+BVLTD}{BVTA} \dots\dots\dots(3.3)$$

Explanation:

- CMV = Current Market Value
- BVPREF = Book Value of Equity Per Share
- BVSTD = Book Value of Short-Term Debt
- BVLTD = Book Value of Long Term Debt
- BVTA = Book Value of Total Assets

Firm Size

Firm size is the large size used by the total amount, number of sales, average sales level and total average (Triyono and Arifati 2015). The size of the company can issue the following formula (Naiker, Vic, Farshidnvissi 2008).

$$FSt = \ln(Tat) \dots\dots\dots(3.4)$$

Sales' growth is used to measure a company's ability to maintain it's position amid the economy as a whole and in it's industrial sector (Weston and Copeland 1996). Sales' growth can be indicated by the following formulas (Pantow, Murni, and Trang 2015) :

$$SGt = \frac{NS1 - NSt-1}{NSt-1} \times 100\% \dots\dots\dots(3.5)$$

Explanation:

SGt = Sales Growth in the period t

NS1 = Net sales on period t

NS_{t-1} = net sales on the previous period

Discussion

Descriptive Statistics

	ROA	CMV	IA	FS	SG
Mean	1424.105	27.97705	18810.85	28.28525	1453.118
Median	1105.000	28.00000	10791.00	28.00000	1254.000
Maximum	8557.000	33.00000	146332.0	33.00000	12731.00
Minimum	11.00000	23.00000	4094.000	25.00000	-3988.000
Std. Dev.	1198.163	2.293325	20390.97	1.703502	1927.509
Observations	305	305	305	305	305

Source: Result of Eviews, 2016

Based on the table above, the variable corporate financial performance (ROA) has the lowest value of 0.0011 and the highest of 0.8557. The lowest value of the company's financial performance is owned by PT. Multistrada Arah Sarana Tbk (MASA) and the largest value of the company's financial performance is owned by PT. Multi Bintang Indonesia Tbk (MLBI). The lowest and largest value of the company's financial performance occurred in 2013. The average financial performance of the entire company population is 0.142410 with a standard deviation of 0.1198163.

The company's market value variable (CMV) has the lowest value of 23 and the highest value of 33. The lowest value of the market value of the company is owned by PT Nusantara Inti Corpora Tbk (UNIT) in 2010 and the largest market value of the company is owned by PT Astra International Tbk (ASII) in 2012. The average market value of the company owned by the entire company population was 27.98 with a standard deviation of 2.293.

Variable intangible assets that cannot be reported in the financial statements (unexplained value) (IA) have the lowest value of 0.4094 and the highest value of 14.6332. The lowest value is owned by PT Taisho Pharmaceutical Indonesia Tbk (SQBB) and the highest value is owned by PT Multi Bintang Indonesia Tbk (MLBI). The lowest and largest value of intangible assets as an unexplained value occurred in 2013. The average value of intangible assets as unexplained value owned by the entire population of the company is 1.881085 with a standard deviation of 2.0390970.

The firm size variable (FS) has the lowest value of 25 and the highest value is 33. The lowest value is owned by PT Beton Jaya Manunggal Tbk (BTON) in 2010-2011, PT Kedaung Indag Can Tbk (KICI) in 2010-2014, PT Lionmesh Prima Tbk (LMSH) in 2010-2011, and PT Pyridam Farma Tbk (PYFA) in 2010-2011. The highest value is owned by PT Astra International Tbk (ASII) in 2011-2014. The average value of company size that is owned by the entire study population is 28.29 with a standard deviation of 1.704.

The sales growth variable (SG) has the lowest value of -0.3988 for the highest value of 1.2731. The lowest value is owned by PT Cahaya Kalbar Tbk (CEKA) in 2010 and the highest value is owned by PT Multi Bintang Indonesia Tbk (MLBI) in 2013. The average value of company size owned by the entire study population is 0.1453 with a standard deviation of 0.19275.

Data Panel Regression Results using FEM Model

Research Model I (variable x1, x2, x3 on y1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IA	0.020076	0.003321	6.044683	0.0000
FS	-166.3560	63.32996	-2.626814	0.0092
SG	0.059404	0.013430	4.423101	0.0000
C	5665.554	1787.567	3.169422	0.0017
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared			0.912040	
Adjusted R-squared			0.889046	
F-statistic			39.66463	
Prob(F-statistic)			0.000000	
Durbin-Watson stat			2.108035	

Source: Result of Eviews, 2016

Data Panel Regression Results using FEM Model

Research Model II (variable x1, x2, x3 on y2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IA	2.77E-05	3.87E-06	7.144990	0.0000
FS	0.340550	0.073853	4.611216	0.0000
SG	-1.25E-05	1.57E-05	-0.801037	0.4239
C	17.84218	2.084580	8.559124	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared			0.967349	
Adjusted R-squared			0.958813	
F-statistic			113.3339	
Prob(F-statistic)			0.000000	
Durbin-Watson stat			2.034239	

Source: Result of Eviews, 2016

The Effect Of Intangible Assets As Unexplained Value On The Financial Performance Of Manufacturing Companies

The results of the study show that the variable intangible assets that cannot be reported in the financial statements (unexplained value) affect the company's financial performance at a significance level of 1%, then the first hypothesis is proven. Furthermore, results obtained show positive coefficients. This shows that the higher the creation and management of intangible assets, the better the company's financial performance. Furthermore, the results of the coefficient of determination (adjusted R²) of 0.889046 indicate that the contribution of unexplained value is very large to the company's financial performance, which is almost 89%.

The results of this study are in accordance with Resourced-Based Theory which explains that company resources that meet criteria as valuable resources have the potential to support maximum performance achievement, both financial performance and non-financial performance. One way to achieve net profit is, as expected, by management, namely through cost efficiency, especially costs related to Cost of Goods Sold (COGS) and operational costs. Ejara et al. (2018) further explained that the manufacturing sector is very closely related to the use of innovation and technology in producing consumer goods.

The results of this study support the study by (Brahim, H. B., & Arab 2011) who succeeded in finding a positive relationship between intangible resources and increasing financial performance of companies in America. The results of this study prove that manufacturing

companies in Indonesia have managed intangible assets that meet the criteria as valuable resources, thus contributing greatly to improving financial performance in terms of profitability.

The Effect Of Intangible Assets As Unexplained Value On The Market Value Of Manufacturing Companies

The results of the study show that the variable intangible assets that cannot be reported in the financial statements (unexplained value) affect the company's market value at a significance level of 1%; then the second hypothesis is proven. Furthermore, results obtained show positive coefficients. This shows that the higher the creation and management of intangible assets, the higher the market value of the company. As well as the results of the coefficient of determination (adjusted R²) of 0.958813 shows that the contribution of intangible assets that cannot be reported in the financial statements (unexplained value) is very large on the market value of the company, which is almost 96%.

The results of this study are in accordance with the Signaling Theory which explains if the management of the company conveys all information relating to the company, including the creation and management of intangible assets as a component of future value that can maximise the company's prospects in the future, investors will regard this information as a positive signal, so that as a result investors will give a high assessment of the company's stock price. Sullivan Jr, P. H., & Sullivan Sr (2000b) explain the trend of valuation of companies based on creation, as well as management and ownership of intangible assets from the company's investors.

The problem that becomes the main consideration of investors when giving an assessment of a company is the company's ability to maintain its existence in the future (going concern). The next assessment is to analyse whether the company has supporting factors that can maintain its existence as expected. So, it is important for management to consider the components that can maintain the existence of the company in the future, which in turn can trigger an increase in the company's market value (Ballou, J., Burgman R. dan Molnar 2004).

The results of this study support the study by Salamudin et al. (2010) who succeeded in proving a significant and positive relationship between intangible assets to the market value of companies in Malaysia in 2004-2006. The results of this study prove that manufacturing companies in Indonesia have created and managed intangible assets well so investors consider this information as a positive signal and have an impact on increasing the market value of the company.



Conclusion

Intangible assets that cannot be reported in financial statements (unexplained value) affect the company's financial performance. Furthermore, it proved significant and had a positive influence. The results of this study are consistent with previous studies in the United States by (Brahim, H. B., & Arab 2011). The contribution of intangible assets to the increase in financial performance is very large at 89% so that, the creation, development, and management of intangible assets is very important to note for the managers and other stakeholders to achieve better financial performance (profitability). The developed accuracy equipped with a θ -shift algorithm for smoothing the discontinuous initial conditions are illustrated with a series of financial tests (Yang, Y., Soleymani, F., Barfeie, M., Tohidi 2020).

Intangible assets that cannot be reported in financial statements (unexplained value) also affect the company's market value. Furthermore, it proved significant and had a positive influence. The results of this study are consistent with previous studies in Malaysia by (Salamudin, N., Bakar, R., Kamil Ibrahim, M., & Haji Hassan 2010). The contribution of intangible assets to an increase in the market value of the company is very large, reaching 96% so that companies that have and are able to develop and manage intangible assets properly then convey this information to investors, they will regard this information as a positive signal so investors will buy shares in companies with higher prices and this will increase the market value of the company.

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