

# Intellectual Capital and Financial Performance in the Indonesian Stock Exchange

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This study examines the relationship between intellectual capital, employee stock options and financial performance. The research sample consists of 135 companies listed on the Indonesian Stock Exchange between 2015 and 2018. The determination of the sample is completed purposively with the provisions of companies that apply the ESOP. Hypothesis testing results show that there is a significant relationship between intellectual capital and financial performance, as measured by Return On Equity, as well as the relationship between ESOP and financial performance, at a significance of 10%. This study shows that there is a causal relationship between Intellectual Capital and Financial Performance but not between ESOP and financial performance. This results prove that intellectual capital can improve corporate financial performance, but ESOP does not improve financial performance.

**Keywords:** *Intellectual Capital, ESOP and Financial Performance.*

## Introduction

The industrial revolution 4.0 has experienced extraordinary global changes, especially in the fields of technology. This forces companies to have a competitive strategy, one of which is determined by human resources. Human-based business strategies are based on knowledge (Obeidat et. al., 2017). The consequences of changing times create economic changes that have characteristics based on knowledge with the application of knowledge management, so company sustainability will depend on the creation of transformation and the capitalisation of knowledge itself (Kadir & Arifin, 2019). Knowledge-based management has changed from

the importance of conventional capital which means that financial resources and other physical assets are not a top priority as capital is now based more on knowledge and technology. Companies that apply the appropriate science and technology will be able to use resources efficiently and economically, which in turn can provide a competitive advantage (Wijaya, 2012).

Each company manager is required to be accountable to stakeholders, especially investors for the funds entrusted to the company. Therefore, companies must create financial reports as a form of accountability. Even Limited Liability Company Law No. 4 of 2007 concerning Corporate Social Responsibility (CSR) (Yuniawaty, 2009) states that each company must make a report on social responsibility. This obliges companies to create social and environmental responsibility reports, so that each company is required to make financial reports (as mandatory) and social responsibility reports (as voluntary). The company's financial statements which are prepared annually show its performance in financial terms. The results of company operations are presented in the form of financial numbers and interpretations of financial statements. The results of the current period activities must be compared with the previous period's financial performance, balance sheet and profit and loss statement, , and the average performance of similar companies. In addition, this company also frequently agrees with company values.

The implementation of financial statement accountability covers both financial and non-financial corporate activities, including allocating both tangible and intangible assets such as intellectual assets. This study aims to examine the effect of the implementation of Intellectual Assets and Employee Stock Options on financial performance.

Today's economic development must always be adaptive to the advancement of science and technology which cannot be separated from human resources. Global business competition requires companies to be able to use human resources effectively and efficiently. Companies are also forced to change business strategy, from a business based on labour to one that is based on knowledge, so that the company's prosperity will be created from changes in knowledge itself (Oliveras et. al., 2008). To get around business competition, companies cannot just hang tangible assets. They must also be able to take advantage of intangible assets, one of which is intellectual capital, which is a part of intangible assets in the form of intelligence, skills and abilities of human resources. The method has the advantage that the required (Pulic, 1998) data can be obtained easily. The required data to assess the ratio is in the company's financial statements.

(Wijaya, 2012) proves that Intellectual Capital influences Return on Equity. Research by (Rahardja, 2015) states that Intellectual Capital has a significant effect on Return On Assets and Return On Equity, but does not have a significant effect on the MBR (Market To Book

Ratio) consistent with research by Wijayani (2017). Intellectual Capital has a significant influence on ROA, ROE and Earning Per Share of the company.

In addition, the company must also ensure that employees can provide the best performance for the company, one of which is to provide motivation in the form of employees sharing an ownership program, which is for employees working in a company (Sunarsih & Dewi, 2018). Employee Stock Option Program (ESOP) is compensation in the form of shares allocated by employees by buying at a lower price than the stock market price. Stock options granted to employees can foster enthusiasm for employees to work better so as to improve company performance that has been tested by (Trisna & Astika, 2018) with the ESOP results having a positive effect on stock returns and company performance. Kameswari & Astika, (2014) tested the ESOP as having a negative effect on company performance while Kartikasari, (2014) retested it with consistent results showing that stock options granted to employees had no effect on company performance.

Some of these studies show that there are still inconsistent research results according to which intellectual assets affect company performance while ESOP does not always affect company performance. This research is important because Intellectual Assets are an important determinant of company development, besides ESOP as a motivation for employees to improve company performance. This study asserts that Intellectual Assets affect financial performance while ESOP does not always affect company performance.

## **Theoretical foundations and Hypothesis Formulation**

### ***Financial Statements and Intellectual Capital***

Company managers are required to prepare financial statements each year because financial statements reflect annual financial performance, that is the results of the company's operating activities which are presented in the form of financial figures. Financial numbers that are embodied in financial statements must also be interpreted appropriately, so that the figures listed can describe the company's financial position. The financial statements presented in the annual financial statements can also show the non-financial performance of the company, if it displays other information such the number of editorial boards, the existence of an audit committee as well as social and environmental information (Govindasamy & Lan, 2011). A company's provision of complete financial and non-financial information contained in the annual financial statements results in a social responsibility report.

Financial statements will be meaningful, if they can have useful information included in the allocation of intangible assets including Intellectual Capital. As mentioned earlier, companies need to pay attention to both financial and non-financial statements, as well as

intangible assets which are not visible but nevertheless contribute to the company, including intellectual capital. Siboni, (2017) tested Intellectual Capital, which was realised in CSR (Corporate Social Responsibility) (Razafindrambinina & Kariodimedjo, 2011).

Intellectual capital plays a key role in all aspects of administration to make management more effective. It is built on the basis of valuable human knowledge, expertise and skills (Tastan & Davoudi, 2015). Carayannis et. al., (2006); (Andriessen, 2006) provide a comprehensive resolution for intellectual capital as a combination of knowledge, information, intellectual assets, and experience possessed by each individual in an organisation that can be used to create wealth and competitive advantage. Abualoush et. al., (2018) recommend CSR using a management process that focuses on three main elements of intellectual capital, including human, structural and relational capital. Human Resources are considered to be the most important component of intellectual capital because the whole organisation depends on the above 3 forms of capital, Obeidat et. al. (2017) state that Human Resources are vital for organisations because of the ability of employees to support company performance.

Intellectual Capital can be realised through staff competencies, knowledge, experience, experiments, attitudes, commitments and policies that represent the organisation's individual knowledge base to achieve certain goals (Ulum et. al., 2014). (Osinski et. al., 2017) suggest that Intellectual Capital is divided into human, structural and relational capital. Bratianu, (2018) outlines Intellectual Capital by revealing the main obstacles in understanding its complexity and nature. Intellectual property as an asset becomes intellectual capital by basing it on structures and assets which are interpreted as knowledge. Intellectual Capital is determined from the process of understanding value by generating profit for the organisation, if intangible assets come from intellectual capital (Oliveira et. al., 2010). Describing methods of evaluating intangible and intellectual assets related to the an organisation's knowledge brings benefits for the organisation as well as receiving facilities from the organisation's management.

Intellectual Capital reflects the value of resources and their to work based on knowledge. The ratio used to assess a company's capability is the return on equity (ROE). ROE shows the company's ability to obtain profits based on the equity generated by the company and assesses the effectiveness and efficiency of the profits obtained by the company from each shareholder's equity (Wijayani, 2017). Capital is performance measured based on value added created by physical (VACA), human (VAHU) and structural capital (STVA). The combination of the three value added is symbolised by the name VAIC™ developed by Pulic, (1998). Intellectual Capital (hereinafter abbreviated as IC) becomes the focus of attention in which it is divided into 3 categories: VAIC™ (VAHU, VACA, and STVA).

Intellectual Capital relates to Structural Capital (SC) as the value of strategic assets of organisational capacity, routine business, patents, trademarks, intellectual property rights, databases, hardware and software, information systems, organisational culture, organisational image and procedures (Bontis et. al., 2007). Structural capital measurement is a collection of organisational knowledge including organisational competitive intelligence, routines, formulas, policies, procedures and databases (Sivalogathan & Wu, 2015). Intellectual Capital measurement entitled the VAIC™ method, developed by Pulic, (1998) is designed to present information about the value creation efficiency of tangible and intangible assets owned by companies. This model starts with the company's ability to create value added (VA). VA is the most objective indicator to assess business success and shows the ability of companies in value creation. VA is calculated as the difference between output and input (Pulic, 1998). Whereas Relational Capital refers to strategic alliances with internal and external stakeholders (suppliers, customers, employees) or relational capital formed by knowledge embedded in relations with the external environment (Pirozzi & Ferulano, 2016; Ul Rehman, et. al., 2015).

### ***Intellectual Capital and Corporate Financial Performance***

Financial performance provides a picture of a company's achievement. It can be obtained from information contained in financial statements. According to Sunarsih & Dewi, (2018), financial performance is based on an analysis carried out to see the extent to which a company has utilised the rules of financial implementation accurately, as in creating a financial report that has met the standards or provisions in SAK (Financial Accounting Standards), GAAP (Generally Accepted Accounting Principal) and others.

Faza & Hidayah (2014) test the financial performance of companies that are valued by the equity return ratio (ROE). ROE shows the level of success of a company in obtaining benefits derived from shares. Hamidah et. al., 2014; Rodríguez-Ruiz & Fernández-Menéndez (2009) examine financial performance with a variety of measures, one of which is ROA, which means Return on Assets, referring to business profits and company efficiency in the utilisation of total assets. ROA is the ratio between net income compared to overall assets to generate profit. This ratio shows the company's ability to generate future profits. ROA is operating profit before depreciation which equals total assets. Alternatively it can also be measured by ROE (Return On Equity) by operating profit before depreciation equalling the number of shareholders.

According to Razafindrambinina & Kariodimedjo (2011), intellectual assets have an increasingly important role related to corporate financial performance, including relating to market evaluation, furthermore there is a relationship between intellectual assets and financial performance. Rahardja, (2015) and Wijayani, (2017)'s research results show that Intellectual

Capital has a positive influence on return on equity (ROE), therefore the higher the Intellectual Capital, the higher the ROE. Based on the above explanation, the following hypothesis is stated:

**H1:** Intellectual Capital has a positive effect on a company's financial performance.

### ***Employee Stock Option Program (ESOP)***

Stock options consist of the right to buy company shares at a certain price. Workers are given the opportunity to become owners by buying company shares. Employee stock option program (ESOP) is an offer program for employees to own shares or options that contain the right to acquire shares, both directly and indirectly. Under a stock option program, a company gives an individual employee a contractual right, or option, to buy a certain amount of company shares over a certain period of time, paying the fixed price on the date of award. The specified period of time is usually between 5 (five) to 10 (ten) years, starting on the date of grant and the price is usually the same as the fair market price of shares at the time of the grant (Sunarsih & Dewi, 2018).

The result of Ayu et. al. (2014) proves that the increasing proportion of share options will also remind share returns that can be enjoyed by shareholders. ESOP is the provision of compensation allocated to employees. In the stock options program, the company gives an option to employees individually, to be able to buy company shares and pay at a fixed price (Sunarsih & Dewi, 2018). To increase the level of ownership of stock options, employees must work optimally and increase their abilities, knowledge and skills (Kartikasari, 2014).

Hutnaleontina & Suputra (2016); Trisna & Astika (2018)'s research results show that the number of employee stock options has a positive influence on company performance which means that the number of employees who have company shares can influence employee morale to improve performance. Based on the results of previous studies, hypothesis (H2) is proposed as follows:

**H2: The** Number of Employee Stock Options Have a Positive Impact on Company Performance.

### ***Research Methods***

This research was conducted on companies listed on the Indonesian Stock Exchange and the data used are secondary obtained from the company's financial statements through the website <https://www.idx.co.id>. The company was observed between 2015 and 2018. The research sample was chosen based on purposive sampling, including companies that

published a complete and consistent annual report for the 2015-2018 period, and companies that implemented the ESOP and included it in the financial statements.

This study has two variables: free and bound. Vebas is Intellectual Capital and ESOP, and the dependent variable is financial performance. Each variable is as follows:

### ***Intellectual Capital (X1)***

The VAIC™ model according to Pulic (1998) in (Ulum, Ghozali, and Purwanto 2014) is designed to convey an explanation of the value efficiency of intangible assets owned by companies. Pulic (1998)'s model begins with a company's ability to produce value added (VA). Following are some of the stages of calculating Intellectual Capital (Pulic 1998):

- 1)  $VA = OUT - IN$
- 2)  $VACA = VA / CE$
- 3)  $VAHU = VA / HC$
- 4)  $STVA = SC / VA$
- 5)  $VAIC^{TM} = b + c + d$

Information:

- 1) Out = output: total income and other income
- 2) In = input: total expense (other than employee expense)
- 3) VA: Value Added
- 4) CE: Capital Employed; available funds (equity, net income)
- 5) HC: Human Capital (employee expense)
- 6) SC: Structural capital (VA-HC)
- 7) VACA: Value Added Capital Employed
- 8) VAHU: Value Added Human Capital
- 9) VA STVA: Structural Capital Value Added
- 10) VAIC™: Value Added Intellectual Capital Coefficient

### ***Number of employee stock options (X2)***

ESOP is a compensation program provided to employees at a fixed price. It is calculated through the number of shares granted divided by the total shares owned by the company (Kameswari & Astika 2014). The proportion of stock options in the study can be measured by the following formula:

$$ESOP = \frac{\text{Number Of Stock Options}}{\text{Number of Shares Owned By The Company}}$$

### ***Company financial performance (Y)***

The company's financial performance is valued by the equity return ratio (ROE). ROE shows the level of company expertise in getting the profits obtained by shareholders (Faza & Hidayah, 2014).

$$\text{ROE} = \frac{\text{Net Profit After Interest And Taxes}}{\text{Total Equity}} \times 100\%$$

## **Research Results and Discussion**

### ***Research sample***

This study uses 135 companies listed on the Indonesian Stock Exchange, while the sample selection procedures are as follows:

**Table 1:** Sample Selection Procedure

<b>Criteria</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
The number of companies <i>going public</i> are listed on the Stock Exchange during 2015-2018	526	544	561	617
Companies <i>going public</i> are not doing ESOP during 2015-2018	(503)	(512)	(518)	(580)
Companies <i>going public</i> that implement ESOP during 2015-2018	23	32	43	37
The number of companies <i>going public</i> that implement ESOP from between 2015-2018	135 Companies			
<b>Total research sample</b>	<b>135 Companies</b>			

**Source:** [www.idx.co.id](http://www.idx.co.id)

Based on the sample selection using the purposive sampling method, the number of companies sampled was 135 companies during the 4 years of collection. In 2015 there were 23 companies implementing ESOP, in 2016 there were 32 companies, in 2017 there were 43 companies and in 2018 there were 37 companies.

### **Company Data**

#### ***Financial Performance: ROE (Y)***

Below are the financial research data including ROE and data related to ESOP shown in Table 2:

**Table 2:** ROE and ESOP

ROE	Number of Stock Options	Outstanding Shares	ESOP
7.20	121,795,973.69	9,237,109,651.76	0.01

Table 2 shows the average ROE of sample companies listed on the Indonesian Stock Exchange during 2015-2018, equalling 7.20%, which means an increase in corporate finance with an equity acquisition ratio (ROE of 7.20. ROE shows the level of expertise of the company in generating profits obtained by shareholders (Faza & Hidayah, 2014) of 7.20%.

### *Number of Employee Stock Options (X1)*

ESOP is a compensation program given to employees at a fixed price. ESOP sample of the company calculated through the number of shares granted is 121,795,973, 69 shares, while the total number of shares owned by the company (Kameswari & Astika 2014) amounts to 9,237,107,651, 76 shares, selective stock analysis for research that produces a number of stock options: the number of shares issued equals 0.01 (Kameswari & Astika 2014).

### *Intellectual Capital (X2)*

Intellectual Capital is calculated using the Pulic, (1998) model, which is VAIC™. This model is designed to provide an explanation of the value efficiency of intangible assets required by companies (Ulum et. al., 2014). It begins with a company's ability to generate added value (value added - VA). The calculations are as follows:

**Table 3:** Value Added Calculations

Output	Input	VA
1,685,485,746,114.72	1,426,102,672,595.22	259,383,073,519.50

Average output or total income from the sample company shows Rp. 1,685,485,746,114.72 while the input or total expense other than employee expense is 1,426,102,672,595.22 so that the Value Added is the output-input of Rp. 259,383,073,519.50. These results indicate that the sample company has more value in the company assets, the results of the costs incurred (input) has an effort (output) that is greater than the input.

$$1) \text{ VACA} = \text{VA} / \text{CE}$$

Before calculating Intellectual Assets, companies must calculate the added value obtained from owned equity. VACA is calculated from value added divided by equity. The VACA calculation results are as follows:

**Table 4: VACA**

Value Added	Equity / CE	VACA
259,383,073,519.50	1,182,850,041,719.87	0.20

Table 4 above shows the VACA (Value Added Capital Employed) of 0.20 which means that the added value of employees from the average sample company has an added value of 0.2

2) VAHU

In addition to calculating VACA, in determining Intellectual Assets, companies must also test VAHU which is calculated from the value added divided by employee expenses and salaries, first the added value obtained from the equity owned must be calculated. The results of VAHU calculation are as follows:

**Table 5: VAHU**

Value Added	HC Employee Expense ( Salary + Benefits )	VAHU
259,383,073,519.50	121,588,225,048.42	2.15

VAHU is Value Added Human Capital, which means added value from human capital. From the results of the analysis of the data shows the value of average VAHU sample of companies amounting to 2.15.

3) STVA

STVA is Structural Capital Value Added calculated from structural capital (VA-HC) divided by VA. The calculation results are as follows:

**Table 6: STVA**

Value Added	HC employee expense ( salary + benefits )	SC = compress profit	VA	STVA
259,383,073,519.50	121,588,225,048.42	137,794,848,471.08	259,383,073,519.50	0.51

The results of the calculation of STVA indicate that SC is structural capital calculated from the difference between Value Added and Human Capital (VA-HC) of Rp. 137,794,848,471.08, while the VA value of Rp. 259,383,073,519.50 therefore the STVA of 0.51.

4) VAIC™: Value Added Intellectual Capital Coefficient

Intellectual assets called Value Added Intellectual Capital Coefficient obtained from the addition of VAHU and STVA values show the following results:

**Table 7:** VAIC <sup>TM</sup>

VAHU	STVA	VAIC
2.15	0.51	2.86

From the calculation of Table 7, the results show that VAIC is VAHU of 2.15 and STVA of 0.51 so that the value of VAIC is 2.86.

### *Descriptive Statistics*

The dependent variable of this study is financial performance and the independent variable consists of intellectual capital and the number of employee stock options (ESOP). Descriptive statistics can be seen as follows:

**Table 8:** Descriptive statistics

	N	Min	Max	The Mean	Std. Deviation
Financial Performance (Y)	135	-48.91	39.31	6.8734	11,91954
<i>Intellectual Capital</i> (X1)	135	-3.91	22.19	2.8520	2.81708
Number of Employee Stock Options (ESOP) (X2)	135	0.00001	0.19400	0.01474	0.03264
Valid N (listwise)	135				

**Source:** Secondary data processed, 2019

Table 8 shows the maximum (minimum) value of ROE, Intellectual Capital, and ESOP respectively 39.31 (-48.91); 22.19 (-3.91); and 0.19 (0.00). The average value (standard deviation) of each variable is: 6.87 (11.92); 2.85 (2.82) and 0.015 (0.03).

Financial performance variables are proxied by the value of Return on Equity (ROE). Based on the calculation results of descriptive statistical analysis, ROE has a minimum value of -48.91 and a maximum of 39.10. This shows that the ROE samples taken ranged from -48.91 to 39.31 and had an average of 6.8734. The standard deviation of ROE is 11.91954. From these calculations it can be seen that PT MNC Bank which had a minimum ROE value in 2017 due to recording a deficit balance which increased by 876.94 billion compared to 2016 which amounted to 191.4 billion. Waskita Karya (Persero) Tbk in 2015, the increase in equity was caused by additional paid-up capital which rose by 567.76% from the addition of state capital accompanying funds through a mechanism of limited public offering and retained earnings.

Table 8 shows that intellectual capital has the smallest data consisting of -3.91 and the largest data which is 22.19. Based on calculations it is known that the average intellectual capital owned by the company is 2.8520 with a standard deviation of 2.81708.

The number of employee stock options (ESOP) is indicated by a comparison between the numbers of stock options with the total number of shares owned by the company. The value of the smallest employee stock options is 0.00001 and the largest value is 0.19400. The average number of employee stock options is 0.01474 and has a standard deviation of 0.03264.

### Correlation

Table 9 presents the correlation test between variables which shows the relationship between independent and dependent variables, or between independent variables. The correlation test results are as follows:

**Table 9:** Correlation Test

		Financial Performance (Y)	<i>Intellectual Capital</i> (X1)	ESOP (X2)
Pearson Correlation	Financial Performance (Y)	1,000	.348	-0,043
	<i>Intellectual Capital</i> (X1)	.348	1,000	-0,123
	ESOP (X2)	-0,043	-0,123	1,000
Sig. (1-tailed)	Financial Performance (Y)	.	0,000	0.312
	<i>Intellectual Capital</i> (X1)	0,000	.	0.078
	ESOP (X2)	0.312	0.078	.

**Sum:** Secondary data processed, 2019

Table 9 shows the correlation between Financial Performance and Intellectual Capital resulting in a value of 0.348 which means that both variables have a weak correlation because it is below 0.5. The financial performance variable with the number of employee stock options (ESOP) produces a value of -0.043 which means that both variables have a weak correlation because below 0.5 and the negative sign (-) shows the opposite relationship. The variable intellectual capital with the number of employee stock options (ESOP) produces a value of -0.123, which means that the two independent variables have a weak correlation and have a negative sign.

Based on the probability value: if probability > 0.05 then there is no correlation, and vice versa if probability < 0.05, then there is a correlation. Probability value of financial performance with intellectual capital = 0,000 < 0.05, then there is a significant correlation, while the probability value of financial performance with the number of employee stock

options (ESOP) = 0.312 > 0.05, then there is no significant correlation, and the probability value intellectual capital with the number of employee stock options (ESOP) = 0.078 > 0.05, there is no significant correlation.

### ***Hypothesis Testing***

Before testing the hypotheses, classical assumptions are tested which include: data normality test, heteroskedasticity testing, as well as autocorrelation and multicollinearity tests. The normality test results indicate that the points of the regression line follow and approach the diagonal lines, so that the normality test is fulfilled. Heteroskedasticity test results indicate that the points do not form certain patterns, and spread so that it can be concluded that the model is free from heteroscedasticity problems.

The results of autocorrelation testing show that Durbin-Watson has a value greater than  $dU$  and less than  $(4-dU)$  can be concluded free from autocorrelation by showing a value.  $dU < DW < 4-dU$  that is  $1,749 < 1,941 < 2,251$  so that the data does not include autocorrelation. Likewise, the multicollinearity test shows that the VIF value is not more than 10, and the tolerance value is less than 1.00 so it can be concluded that the regression model is free from multicollinearity problems.

The research hypothesis was carried out by regression testing and looking at the value of  $t$  on the variable Intellectual assets and ESOP. Based on table 3, the intellectual  $t$  value is 4.233 and the significance is 0.000. This means that intellectual assets have a significant effect on 5% which proves that hypothesis 1 is supported. Mean intellectual capital affects company's financial performance. Based on the  $t$  test on the ESOP variable ( $X_2$ ) shows a  $t$  value of 0.003 and a significance value of sig.  $0.997 > 0.05$ . This means that hypothesis 2 is not supported and the number of ESOPs does not affect ROE.

The calculated  $F$  result is 9,094 and a significance of 0,000, therefore the Intellectual Capital variable and the number of employee stock options simultaneously influence the company's financial performance variable. The results of the Adjusted  $R^2$  coefficient value of 0.108 mean that Intellectual Capital and the number of employee stock options can affect a company's financial performance (ROE) of 10.8% and the rest ( $100\% - 10.8\% = 89.2\%$ ) explained other variables outside the equation model. The below table shows the testing of the following hypotheses:

**Table 10:** Hypothesis testing

Variable	Regression Coefficient	t	Sig
(Constant)	2,846	1,840	0.068
<i>Intellectual Capital</i>	1,526	4,233	0,000

Number of employee stock options (ESOP)	.108	0.003	.997
Dependent variable : ROE			
Adjust R Square: 0.108			
F count : 9,094    Sig. F : 0,000			

**Source:** Secondary Data Processed, 2019

Based on the results of hypothesis testing, the regression model can be arranged with the following regression equation:

$$Y = 2,846 + 1,526 X1 + 0,108 X2 + e$$

A constant value of 2.846 means that if the Intellectual Capital variable and the number of employee stock options (ESOP) are considered constant (value 0), then the ROE will be 2.846. Intellectual Capital coefficient of 1.526 means that if each increase in Intellectual Capital by 1% then the financial performance will increase by 15.26%. The ESOP variable coefficient is 0.108, meaning that each 1% increase in the number of stock options will result in the company's financial performance (ROE) increasing by 10.8%.

## Discussion

The results of hypothesis testing (H1) show that X1, Intellectual Capital, has a positive and significant influence on the company's financial performance, with the acquisition of a significance value of 0,000 < 0.05. If the company can use Intellectual Capital, it can manage human resources well, and improve company performance or return on equity (ROE). The achievement value of t intellectual assets shows 4,233 with a significance of 0.00 meaning that the average sample company research shows that if intellectual assets increase, the company's financial performance also increases. The significance of intellectual assets is 0.00.

The results of this study are consistent with the study of Rahardja (2015); Wijayani, (2017); Kameswari & Astika, (2014) which prove that there is a significant positive effect on Intellectual Capital on Company ROE that uses intellectual property more efficiently, which can affect the level of company capability. This study confirms that intellectual assets can contribute to the company's financial performance. Today's progress required high levels of competitiveness that requires advances in Science and Technology so that dependence of high human resources, the same result with this study that intellectual assets have an influence on company performance.

This study failed to prove that ESOP can improve company performance. The ESOP program was found to be less successful in influencing company finances. Moreover, the results of

studies show a negative direction on ESOP, meaning that the ESOP program is not effective in encouraging human resources to improve company performance. Companies must pay more attention to programs in motivating employees who are likely to be more likely to improve company performance.

## **Conclusion**

Based on the results of the data analysis, intellectual assets are able to influence a company's financial performance. Companies can optimise intellectual assets in improving the company, as evidenced by testing hypothesis 1 which is supported. By applying knowledge and technological advancements in the company the progress improvement program can encourage improvement in company performance. The higher the intellectual capital in the company, the higher the financial performance of the company, so that a company must be adaptive to the advancement of knowledge and technology.

Unfortunately, employees are not interested in the ESOP program. This also proves that the level of human resources is also likely to affect company performance. ESOPs that are less interesting might need to be reviewed by dividing compensation programs to employees, because the testing of hypothesis 2 shows unsupported results, which means that the company's higher provision of ESOP will not affect the company's financial performance.

Future studies should re-examine the type of compensation motivation for employees, which can be measured by dividing company profits for employees or bonuses, or it may be tested by distinguishing the types of variations in company stock options, so that more optimal results will be obtained.

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