CHAPTER II
LITERATURE REVIEW

A. Theoretical Framework

1. Stakeholder Theory

Stakeholder is an individual, a group of human, community entirely or partially who has affiliation and interest on a company. Individual, group and community can be called stakeholder only if they have the characteristics such as power, justification, and interest on the company. Continuity of a company relies on the stakeholder's support. This makes company's activity as a source of support. Company's effort in adapting is linear with stakeholder's power. Different treatment from a stakeholder with the other stakeholder is based on the company's activities (Ghazali and Chariri, 2007).

In stakeholder theory, management is appealed to undertake activities that are important in stakeholder's point of view. Then, management will enunciate the activity to the stakeholder. Obviously, stakeholder has their own objective in order to help company's manager in increasing company's firm value from the undertaken activities and minimize the loss.

When manager operates the company well, it means that the company is optimal in utilizing all resource and potential such as human capital, customer capital, and structural capital. If manager is able to use those potentials, company will created value added and increase the financial performance for the stakeholder.

2. Resources Based Theory (RBT)

Resource Based Theory is an idea related to company's resources so that company has advantage in this business competition and help them to focus on companies to have financial performance efficiently.

Hariandja (2002) stated that company's resource is one of the most important factors other than capital which make the resource should be managed properly in order to boost the company's effectiveness and efficiency. Mathis and Jackson (2006) also explained the similar answer, company's resource is a formally planned system to insure the exertion of human ability to achieve company's goal.

Barney (1991) as quoted in Khasanah (2016) exclaimed that for understanding resource from sustained competitive advantages, theoretical model should be developed. It starts with an assumption that company's resource is heterogenic and cannot be transferred without cost. To be a potential resource in sustained competitive advantage, a resource should have four attributes; (a) Valuable, (b) Rareness, (c) Inimitability, and (d) Non-substitutability.

There are three kinds of resources owned by the company, tangible resource, intangible resource, and human resource. Tangible resource is company's physical assets. This research can be categorized as fixed assets and current assets. The examples of this resource are machine, building, land, and inventory. Intangible resource is the contrary of tangible resource. This resource does not have physical appearance nor can be touched. The examples of intangible resource are goodwill, patent, copy rights, and company's brand (Kieso, 2015). Different from the other resources, human resource is human who possess knowledge, skill, and motivation in themselves. Human resource quality is better along with the age and experience, that is impossible to happen in other resources. Human is the most productive resource who gives advantages to the company. This resource is very important for the company's continuity.

3. **Intellectual Capital**

Based on Stewart (1997) as quoted on Sangkala (2006), intellectual capital is an intellectual material in a form of information, knowledge, innovation, and experience that can be used in producing assets with value added and competitive advantages. Another statement by Bontis (2000) as quoted in Khasanah (2016), intellectual capital consists of all process and assets that is not disclosed on the balance sheet and all intangible assets (trademarks, patent, brands, and customer's loyalty) that is started to be considered in modern accounting.

Zurnali (2010) stated that intellectual capital is used for all assets and non-tangible resource from an organization. It encompasses process, innovation capacity, patterns, and the unseen knowledge from the employees, and also collaboration network for making a competitive value added.

4. Intellectual Capital Components

In general, based on Steward (1998), Sveiby (1997) Saint-Onge (1996) and Bontis (2000) as quoted in Sawarjuwono and Kadir (2003), intellectual capital components are:

a. Human Capital (HC)

Human Capital covers knowledge, skill, and experience that are produced through competence, attitude, and intellectual intelligence which are used for performing beneficial activities. It will produce economic value for the company. HC can be used by the employee to acquire skills, creativity, and innovation through attending classes from a scholarship or training. Employee with qualification and skills will support company development because of the increased of employee's productivity.

b. Structural Capital (SC)

Structural Capital is an organization's ability in fulfilling the routine process and company's structure that supports the employee to produce optimal intellectual performance and business performance wholly (Sawarjuwono and Kadir, 2003). SC is a supporting infrastructure, process, and organization's database which enables human capital in

performing its function well. SC comprises building, hardware, software, process, patent, copy rights, organization image, information system, and database proprietary.

c.   Customer Capital (CC)

Customer Capital is a relation that is large economically and politically which is developed by an institution. CC consists of copy rights, permissions, and franchise. It also covers something that is unseen such as the interaction with customers and human relationship.

Customer Capital arises from the process of learning, knowing, and believing the relation between company and its customer. Moreover, the process leads to better relation between the companies and even better for the relation of customers with company's products.

5. Value Added Intellectual Coefficient (VAIC)

Value Added Intellectual Coefficient (VAIC) Model provides information about value creation efficiency of company's tangible assets and intangible assets. Value Added is an exact indicator for measuring triumph in business and it denotes company's ability in creating firm value (Ulum, 2009).

VAIC model is an analytical procedure designed to enable management, shareholder, and stakeholder that are related for effectively monitoring and evaluating the value added efficiently with the total of company's resource and its components. Value Added is computed as the difference between output and input. Output represents revenue which

covers all products and services on sale in the market. While input consists of all expenses used in order to obtain the revenue. Most important thing in VAIC model is that labor expenses are not included in input. The phenomenon is caused by the active role of the labor in creating value. Key aspect in Pulic model is treating the employee as value creating factor (Ulum, 2009).

Value Added (VA) is influenced by the efficiency of three input types owned by company:

a.   Value Added Human Capital (VAHU)

VAHU is a ratio of VA towards the human capital. The relation between VA and human capital identifies human capital's ability about creating value for the company. Human capital increases if company is able to optimize employee's knowledge.

b.   Value Added Capital Employed (VACA)

VACA is an indicator shows that value added created by the physical capital unit. Pulic (1999) as quoted in Ulum (2009), assumed that a unit from physical capital generates higher return in a company than the others. Because of that, the company is better in managing its physical capital. Thus, with using VACA as indicator, company's ability in utilizing its physical capital can be seen.

c.   Structural Capital Value Added (STVA)

STVA is an indicator to measure Structural Capital (SC) in creating value that is needed to bear one rupiah from value added. SC is not

independent measurement like human capital but dependent towards value creation (Pulic, 1999). It means that the bigger human capital's contribution in value creation is smaller the structural capital's contribution towards value creation.

6. **Return on Assets (ROA)**

According to Kasmir (2012), ROA is a ratio that shows the return of the used asset in a company. ROA gives better picture about company's profitability because there is an effective management displayed in achieving revenue.

Harahap (2009) explained that ROA is a form of profitability ratio which is used to measure ability of the company in producing profit with the existed total assets. ROA can be calculated by comparing the net profit with total assets owned by the company. Positive ROA shows that the total asset used is able to bear profit for the company. Conversely, negative ROA indicates that the total assets used undergo loss.

7. **Market to Book Value (M/B)**

M/B is a comparison between market value and book value of a company. M/B is an indicator used to assess stock price in market. High M/B means the stock value is also high. Market value is a value of the company's total shares. Market value can be used to appraise a company in investor's point of view. The decrease of market value can be seen from the level of profit, book value, speculation, and confidence level of the investor towards the company. Book value is a value of company's net

affluence between the total assets and total liabilities of a company. The objective of M/B is assessing the difference between market and book value of a company.

8. Indonesian Banking Industry

Indonesian banking sector has enjoyed the steady growth. Approximately 20% of the loan growth has contributed to the growth of bank's total assets. Also, Indonesian banking companies possessed the highest average net interest margin globally (Rimbo et al, 2015). Not only that, the banking penetration (loan-to-GDP ratio) rate has been increasing. But, Indonesia still has relatively low rate than the other countries in Asia Pacific. This is caused by Indonesia's geographical position which affects the access to reach financial service providers. In this condition, FinTech is introduced. FinTech is expected to help banking sector to overcome the topography limitation in reaching out the remote areas in Indonesia. However, FinTech's impact cannot be seen just yet. Then again, compared to Southeast Asia banking industry, Indonesia has smaller loan, third party funds, and assets. The net performing loan in Indonesian banks is one of the lowest.

Out of those problems, the bankers feel that the condition is improving. Wake et al (2017) states that the growth opportunity comes from the arising of syariah banking, the prioritizing bank's infrastructure and M&A (merger, share acquisition, and capital market transaction) which they viewed as expanding channels to customer. Thus, from the new

priority and the new strategy, Indonesian banking industry may be better off in the future.

9. Malaysian Banking Industry

Based on Malaysian Banking Report 2016, the financing activity in Malaysia supports the economy during the year. The growth is caused by financing small and medium enterprises (SMEs). Malaysian banking industry is still optimist in lending to SMEs, despite the continued uncertainty in the global economy.

The use of technology to deliver financial services creates a significant take-up. The emergence of FinTech has different effect in Malaysian banking industry. The banking companies are collaborating with the FinTech companies to increase the innovation. These include the creation of accelerator programs. Banking companies use accelerator program to improve access to financial products and better support customer relationships. In this case, they use that for the payments space, contactless payments, enabled by near field communication technology, continued to gain traction. These developments continue to lend support to efficiency gains and lower compliance risks for banking institutions under operating conditions that remain challenging. Malaysian banking companies think that accessibility to financial services by un-served and underserved communities remains a key priority to develop the banking industry.

B. Developing Hypotheses

1. Relation between Intellectual Capital with Financial Performance

Based on Chen et al (2005), investor is attracted with a company which has high intellectual value than the low intellectual one. High intellectual value means that the company will have high financial performance. The statement is in tune with intellectual capital theory in which intellectual capital will offer a robust contribution towards the stakeholder theory which emphasizes accounting profit.

Soetedjo and Safrina (2014) also exclaimed that intellectual capital positively affected the financial performance of a company. It is stated that human capital, structural capital, and customer capital as a part of intellectual capital utilization that can influence company's profit and later will increase the financial performance.

The radix of intellectual capital is the ability and innovation possessed by the employee, organization structure, and performance undertaken by the banking company through expense efficiency to increase company's financial performance. Intellectual value is utilized by the company to increase ROA of the company. Then, a company with higher intellectual capital tends to have higher financial performance as well. Sunarsih and Mendra (2012) and Nikmah and Irsyahma (2016) stated

that intellectual capital positively influenced the financial performance. From the description above, the hypotheses are:

H$_{1a}$: **Intellectual Capital positively influenced Financial Performance in Indonesia.**

H$_{1b}$: **Intellectual Capital positively influenced Financial Performance in Malaysia.**

2. Relation between Intellectual Capital with Firm Value

Effective and efficient use of resource, influence the increase of intellectual capital value. Moreover, the management and the development of good resources also increase company's growth and market value. With those advantages, company can increase its market value that is marked by the advanced company's share price.

Sawarjuwono and Kadir (2003) and Nikmah and Irsyahma (2016) explained that market value can be obtained by great utilization of intellectual, the increase of firm value and company's ability to give motivation towards its employee leads to the increase of productivity. This research is fit to Resources Based Theory stating that company which has advantage with implement the strategy in order to create value added for company maintain its productivity.

Chen et al (2005) inferred that intellectual capital positively influenced company's future market value and performance. To be more superior in business competition, company needs intellectual capital as an

important basis for the company. The higher intellectual capital is, the higher market value the company has.

In short, company's capability in utilizing resources (intellectual resource) may create value added. The action will boost the intellectual capital and it instantly increasing the company's market value. From the description above, the hypotheses are:

H_{2a}: **Intellectual Capital positively influenced Firm Value in Indonesia.**

H_{2b}: **Intellectual Capital positively influenced Firm Value in Malaysia.**

3. Difference between Indonesia and Malaysia

Indonesia and Malaysia are countries joined in Association of South East Asia Nation (ASEAN) which have so lots of similarity; the people and the language. But, they also have differences. From the HDI point of view, Malaysia is classified to high human development country. On the other hand, Indonesia is classified as medium human development country. Malaysia reached 0.779 HDI value in 2014 and it increased in 2015 becoming 0.789 which was not far from the very high human development cutoffs point. Malaysia ranked 62nd and then in 2015 the rank was on 59th. Different with Malaysia, Indonesia had 0.684 HDI value in 2014 and it increased to 0.689. Its rank degraded from 110th to 113th in

2015. Indeed, they have different achievement in its people's life expectancy, education and income.

Another difference between Indonesia and Malaysia in economy is presented in Table 2.1 below:

Table 2.1
Summary of Economy in 2013

	Indonesia	Malaysia
Real GDP growth rate (%)	5.8	4.7
Nominal GDP per person (USD)	3,475	10,538
Unemployment rate (%)	6.3	3.1
Current account (USD)	29.129 billion	39.907 billion

Source: The World Bank

Indonesia's real GDP growth rate on 2013 was 5.8%. It was higher than Malaysia's 4.7%. For the nominal GDP per person in 2013, Indonesia got USD 4,475 while Malaysia was higher with USD 10,538. Unemployment rate in 2013, Indonesia had 6.3%, Malaysia got 3.1% which is the lower. The Indonesian current account in 2013 was 29.129 billion. Malaysia got 39.907 billion at that time.

In brief, Indonesia and Malaysia are different. They differ in any aspects even in the human development index and also the economic growth. Then, there must be difference in the financial performance and firm value between Indonesian companies and Malaysian companies. From the description above, the hypotheses are:

H₃: **There is a difference of banking companies' Financial Performance Indonesia and Malaysia**

H₄: **There is a difference of banking companies' Firm Value in Indonesia and Malaysia**
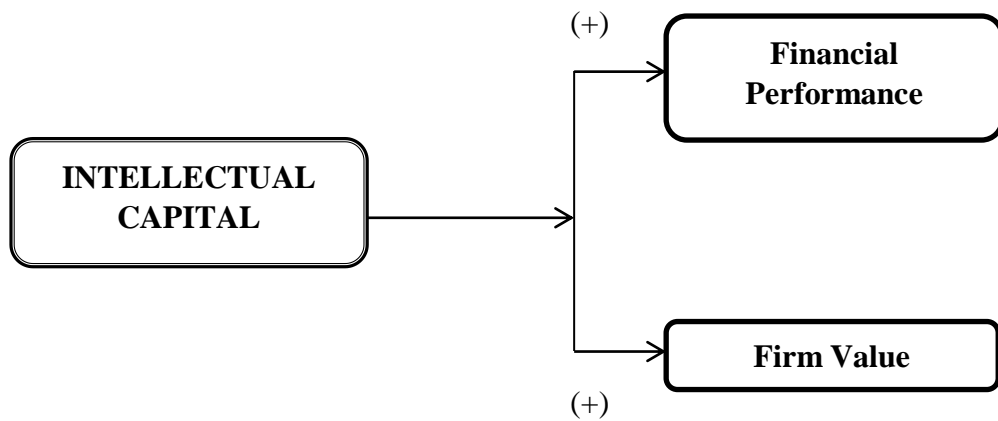
C. Research Model

1. Model Indonesia and Malaysia

Figure 2.1 Model Indonesia and Malaysia