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DOES DISCLOSURE OF INTELLECTUAL CAPITAL INCREASE THE PROFITABILITY OF STATE-OWNED ENTERPRISES IN INDONESIA?

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ABSTRACT:
This study aims to prove that disclosure of intellectual capital can affect the performance of State-Owned Enterprises. Organizational performance is measured by profitability in Indonesian State-Owned Enterprises. The Indonesian government hopes that the profitability of State-Owned Enterprises will support the economy. However, currently the performance of State-Owned Enterprises is quite apprehensive. One of the factors that can affect profitability is the extent to which state-owned enterprises are able to manage intangible assets. The results of the study found no evidence that disclosure of intellectual capital could not increase the profitability of State-Owned Enterprises at the time of observation, namely 2019. The SEM-PLS model was used to see profitability.

INTRODUCTION

The covid-19 pandemic that has hit the world has proven that the environment brings uncertainty to the wheels of the economy, including in Indonesia. Prediction of economic growth before the Covid-19 Pandemic is 5% but in March 2020 the start of the spread of the Covid-19 virus the Indonesian Minister of Finance revised the growth to 1%. Meanwhile, after entering the end of 2020, conditions worsened with a projected growth of minus 2.2% (Fauzia, 2020).

The Government of Indonesia responded to the condition by creating a national economic recovery program, namely by involving State-Owned Enterprises (SOEs). To date, State-Owned Enterprises have proven their strategic role through 12 sectors with 98 number of companies (www.bumn.go.id). During 2019, State-Owned Enterprises have contributed to Indonesia's development through state budget contributions of Rp 470 trillion, tax deposits and others. However, in 2020 it will tell another story. As stated by Minister of State-Owned Enterprises Erick Tohir, dividend deposits to the government will drop dramatically from the original Rp40 Trillion in 2020 can only be 25% of it, this is due to a 90% decrease in the business of State-Owned Enterprises (Wareza, 2020).

State-Owned Enterprises were established by the government to play a role in economic development. The establishment of a State-Owned Enterprise is governed by law with capital from state wealth. This State-Owned Enterprise can be said to be economic actors in the Indonesian economic system. All activities of State-Owned Enterprises are controlled and considered by the government. The performance of this organization will be monitored and also published to the public. In the condition of the Covid-19 Pandemic, State-Owned Enterprises are expected to improve the performance of the average profitability of State-Owned Enterprises which is still low at below 5%, return on assets is also still low, so that in the future State-Owned Enterprises should be concerned on increasing profits and productive asset mobilization (Putra, 2020).

The appointment of a person to lead in State-Owned Enterprises becomes important by flattering professionalism because with intellectual capital the company will be able to create value (Singh & Williams, 2008) some State-Owned Enterprises that have achieved success thanks to the role of leaders of State-Owned Enterprises. As conveyed by Piter Abdullah, Economic Observer / Lecturer Perbanas Institute, the appointment of officials of State-Owned Enterprises must be by the character of the company and business needs in the future, because the characteristics of State-Owned Enterprises and private enterprises are very different, can be successful in private but in state-owned enterprises full of challenges (Putra, 2020). Companies can change strategies through labour-based business to knowledge-based business so that the main characteristics of the company become a science-based company.

The concept of intellectual capital offers intangible assets capable of improving organizational performance (Asadi, 2013). Based on the above thoughts of this research is to know the extent to which the concept of intellectual capital can remind the performance of the organization in this case profitability (ROA).

THEORETICAL FRAMEWORK

The main objective of the organization is to get maximum profit in order to be able to give advantages to investors (Prihadi, 2019). Organizational performance becomes a measure of the success of an organization itself

(Suryani & John, 2018). Performance is an out resulting from the actions of members of Gibson's organization), organizational performance demonstrates the achievements achieved and proves the success of the manager. According to Brigman, the organizational performance assessment can be seen from the company's financial ratio and profitability is a measure of the success of the company's operations.

Organizational performance can be assessed based on financial measures (Performance Measurement Techniques, n.d.). Profitability is a measure of the company's economically assessed goal, one of the measuring instruments of profitability is a return on assets. Profitability demonstrates the ability to get a return from its use (Tulsian, 2014). ROA is widely used by analysts to predict bankruptcy in addition to other analytical tools (Jewell & Mankin, 2011). ROA is used by analysts to measure the effectiveness of the company in generating a profit by using its assets (Atidhira & Yustina, 2019), (Hasmirati & Akuba, 2020).

ROA measures the ability to generate profit from the total assets used, the higher the ROA the better the company's condition in managing assets (Alma & Putu, 2020). The calculation to determine the ROA value of some literature has a different term of use of asset and profit accounts, in this study the assets to be used are average assets and net income, with the formula of net income / average assets.

Information created by companies that describe performance information is realized in the form of financial statements that are useful for users in economic decision making (Ferry & Wahyu, 2018). Intangible assets that can be measured economically will be reported in financial reporting posts such as patents, trademarks and so on. But many intangible assets cannot be measured economically so they are reported through disclosures in notes on financial statements or other records. According to Belkoui, this intangible asset is a potential strategic asset in realizing increased profits (Santosa, 2012).

Intellectual capital

intellectual capital in financial statements led some researchers to research several ways, one of which was by grouping. (Petty et al., 2009), (Bontis, 1998) grouped into human capital; structural capital; customer capital. Elements of intellectual capital include knowledge, information. Intellectual property, experience used to create a corporate property (Bontis, 1998). (Ulum, 2014) measured Intellectual Capital Performance (ICP) based on Value Added Intellectual Coefficient further grouping research subjects (banking) into the best, good, ordinary and bad performance categories. Intellectual capital is defined as all assets that are differentiated into (1) human resource relationships with stakeholders and (2) physical infrastructure and virtual infrastructure relationships, which can contribute to the increasing value of the company (Marr, Schiuma, & Neely, 2004). Investors will give more value to companies that own and disclose their resources compared to

companies that do not disclose those resources (Chen, Cheng, & Hwang, 2005).

Some books equate the term intellectual model with the intangible asset, intangible, intellectual asset, intellectual property and others (Petty, Cuganesan, Finch, & Ford, 2009). The difficulty in measuring the value of intellectual capital in financial statements led some researchers to research several ways, one of which was by grouping. (Petty et al., 2009), (Bontis, 1998) grouped into human capital; structural capital; customer capital. Elements of intellectual capital include knowledge, information. Intellectual property, experience used to create a corporate property (Bontis, 1998). (Ulum, 2014) measured Intellectual Capital Performance (ICP) based on Value Added Intellectual Coefficient further grouping research subjects (banking) into the best, good, ordinary and bad performance categories. Intellectual capital is defined as all assets that are differentiated into (1) human resource relationships with stakeholders and (2) physical infrastructure and virtual infrastructure relationships, which can contribute to the increasing value of the company (Marr, Schiuma, & Neely, 2004). Investors will give more value to companies that own and disclose their resources compared to companies that do not disclose those resources (Chen, Cheng, & Hwang, 2005).

Disclosure of intellectual capital is proxy by the intellectual capital disclosure index. The disclosure index used in this study is the intellectual capital disclosure index used (Singh & Williams, 2008). Disclosure of intellectual capital is necessary to minimize asymmetric information and this is very important for investors (Singh & Williams, 2008). Research (Nuryaman, Kartadjumena, & Arnan, 2019) measured IC using human capital, structural capital, and capital employed efficiencies. (Rachmawati, Kurniawan, & Chandra, 2020) measuring intellectual capital with internal capital, external capital and human capital.

Furthermore, IC assessment and measurement methods according to (Ulum, 2014) include Balanced Scorecard, calculated intangible value, citation-weighted patent, holistic value approach, intellectual capital audit, intellectual capital-index, inclusive value methodology, intangible asset monitor, intangible scoreboard, intellectual capital benchmarking systems, intellectual capital dynamic value, intellectual capital statement, iValuating factor, Market to book ratio, Skandia navigator, Sullivan's work, value-added intellectual coefficient, value chain scoreboard/ value chain blueprint, extended VAIC, iB-VAIC.

(Bontis, 1998) the results of his research using PLS analysis showed a causal and valid relationship between the dimensions of intellectual capital and business performance. (Firer & Williams, 2003) found empirical that physical capital as the most influential source in improving the performance of 75 public companies in South Africa. (Ulum, 2014) measurement of intellectual capital performance in the form of Value Added Intellectual Coefficient

model. (Widarjo, 2011) the results of the research prove by the disclosure of intellectual capital of the company will reduce asymmetric information to help investors to assess the company's performance and decide to invest. (Chen et al., 2005) states that investors will give higher value to companies that have higher intellectual resources compared to companies that have low intellectual resources. Empirically influential intellectual capital to improve the economic performance of the company (Firer & Williams, 2003), (Firer & Williams, 2003). The results showed that the intellectual capital has significant effect to firm performance when firm performance is proxied by the ROA, not by ROE (Amyulianthy & Murni, 2015).

Hypothesis Formulation
Hypothesis 1: there is an internal capital influence on ROA
Hypothesis 2: there is an external influence of capital on ROA
Hypothesis 3: there is an influence of human capital on ROA

RESEARCH METHODS

This research uses the simplest form of content analysis techniques to measure the disclosure of intellectual capital carried out by companies. Scoring for disclosure items is done using an unweighted dichotomous scale, where if the item of each category of intellectual capital disclosure is disclosed in the prospectus it will be rated one (1) and zero (0) if the item is not disclosed. Furthermore, the score of each item is summed to obtain the total disclosure score.
Determination of the minimum sample size using statistical power 80%, at a significance of 5% the largest number of directions on the construction 7 and to produce R^2 at least 0.5 then the minimum sample size required in this study is 51 samples (Hair, Hult, Ringle, & Sarstedt, 2014). The analysis unit of State-Owned Enterprises as many as 98 companies from 12 sectors using the rule of thumb sample taken as many as 51 companies.

Exogen variables consist of internal capital, external capital and human capital. Internal capital consists of Intellectual Property, Management Philosophy, Corporate Culture, Management Process, Information/networking system, Financial Relations. External capital consists of brands, customers, customer satisfaction, company names, distribution channels, business collaborations, licensing agreements. Human capital consists of the employee, education, training, work-related knowledge, and entrepreneurial spirit.

Structural equation modelling with alternative methods partial least square is used to test the influence of intellectual capital on profitability. This method was chosen because intellectual capital consists of three aspects (internal capital, external capital, and human capital). Then each aspect also consists of several measurement indicators, so it is not possible to be processed using linear regression analysis or path analysis). This model uses two models, namely the measurement model and structural model.

Evaluation of models in structural equation modelling is done through factor loading value and convergent validity. According to (Hair et al., 2014) indicators with a loading factor of less than 0.4 should be excluded from the measurement model. Then the evaluation using convergent validity is seen based on the average variance extracted (AVE) where AVE value is expected to be greater than 0.5 (Hair et al., 2014). Furthermore, the evaluation of the measurement model can also be seen from the composite reliability (CR) value where the recommended composite reliability value is greater than 0.70.

Latent variables consist of internal capital, external capital and human capital. Manifest variables are variables that make up latent variables. If the loading value factor is less than 0.4 will be excluded from the capital. The final result of the elimination of loading such factors in the form of images:

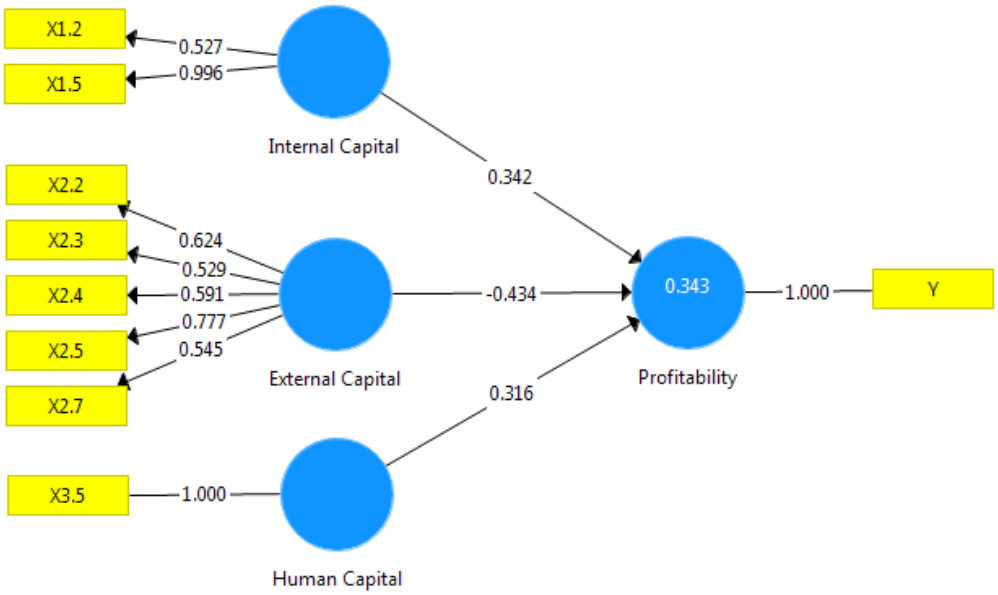

Figure 1. Koefisiansi Model SEM – PLS

Based on the results of processing using Smart PLS 3.8 indicators remaining obtained internal capital latent variables with 2 manifest variables namely management philosophy and information/networking system. Between the two manifest variables, information/networking system indicators become stronger indicators in reflecting internal capital compared to management philosophy. While the external latent variable capital, distribution channels indicator (X_{25}) is strongest in reflecting external capital and company names indicator becomes the weakest indicator. Meanwhile, human capital according to this research is reflected by Entrepreneurial Spirit ($X_{3.5}$).

Furthermore, a degree of conformity will be measured to measure whether the indicators used have measured latent variables. Calculation of Composite Reliability (CR) and Average Variance Extracted (AVE) to answer the question above. The result of the CR and AVE attached is discussed in Table 1.

Table 1. Composite Reliability (CR) and Average Variance Extracted (AVE)

Latent Variable	CR	AVE
Internal Capital (IC)	0,760	0,634
External Capital (EC)	0,753	0,384
Human Capital (HC)	1,000	1,000
Profitability (ROA)	1,000	1,000

According to (Hair et al., 2014), composite reliability value between 0.70 to 0.90 is considered satisfactory. In latent internal capital variables, the average variance extracted value of 0.634 indicates that on average 63.4% of the information contained in each indicator can be represented through the internal capital latent variable. Then the composite reliability value of the internal capital latent variable (0.760) is still greater than the recommended 0.70. Furthermore, in the latent external capital variable, the average variance extracted value of 0.384 indicates that on average 38.4% of the information contained in each indicator can be represented through the external capital latent variable. Then the composite reliability value of a latent external capital variable (0.753) is still greater than the recommended 0.70.

Table 2. Cross-Loading Between Constructs

Indicator	IC	EC	HC	ROA
$X_{1.2}$	0,527	0,205	0,043	0,037
$X_{1.5}$	0,996	0,005	-0,020	0,336
$X_{2.2}$	0,064	0,624	0,175	-0,270
$X_{2.3}$	-0,077	0,529	0,213	-0,158
$X_{2.4}$	0,091	0,591	-0,086	-0,193
$X_{2.5}$	-0,067	0,777	0,107	-0,310
$X_{2.7}$	0,158	0,545	0,193	-0,126
$X_{3.5}$	-0,014	0,180	1,000	0,233
Y	0,323	-0,366	0,233	1,000

In Table 2, it can be seen that the loading value of each construct factor (latent variable) with the indicator is higher than other construction indicators. This data shows that indicators have a stronger relationship with the construction itself compared to other constructs.

Table 3. Fornell-Larcker Criterion

Latent Variable	IC	EC	HC	ROA
IC	0,797			
EC	0,033	0,619		
HC	-0,014	0,180	1,000	
ROA	0,323	-0,366	0,233	1,000

In Table 3 can be seen the square root of the average variance extracted each latent variable is still greater than the correlation value with other latent

variables. This data shows that the indicators used to measure each of their latent variables have a strong differentiating validity.

Structural Model Evaluation Results (Inner Model)
Structural models are models that connect exogenous latent variables with endogenous latent variables or endogenous variable relationships with other endogenous variables. Here's a summary of the testing values of structural models.

Table 4. Summary of Structural Model Testing Results

Path	Coefficient	$t_{statistic}$	*p-value*	R-Square
IC ➔ ROA	0,342	1,511	0,137	0,343
EC ➔ ROA	-0,434	2,163	0,035	
HC ➔ ROA	0,316	2,853	0,006	

R-square value of 0.343 (34.3%) interpreted that profitability (ROA) is built by three variable manifest internal capital, external capital and human capital of 34.3%.

DISCUSSION

Based on Table 4, the value of the internal capital coefficient against ROA has a value greater than the significance value (0.05) so the hypothesis answered in this study (insignificant) there is no internal capital influence on ROA.

Furthermore, for external capital with negative coefficient value less than the value of significance it can be concluded that external capital affects profitability (ROA) but in a negative influence means when the company discloses external capital there is a decrease in profitability. The results of this study do not support the theory that disclosure of information can trigger a positive assessment of the public to the company in the hope of an increase in sales and profits.

Finally, human capital with a significance above 0.05 accepts the hypothesis, profitability is marked positive with a probability value (p-value) less than 0.05. Thus it can be concluded that human capital has a positive and significant effect on profitability.

The results of this study have answered the hypothesis that no evidence of intellectual capital disclosure can increase the profitability of State-Owned Enterprises. Data from the Ministry of Finance show that the ROA of State-Owned Enterprises decreased from 3.4% (in 2014) to 1.8% (in 2018). This is because most State-Owned Enterprises at that time allocated funds for the long term and generally State-Owned Enterprises have inefficiencies (Wildan, 2019).

The lack of evidence of intellectual capital disclosure that affects profitability in State-Owned Enterprises is also explained by the Observer of State-Owned Enterprises that the decrease in ROA in 2019 is due to the utilization of assets

that are not maximal, with total assets of Rp 8,200 trillion generating only 2%. The cause is the unproductive invention of assets, incorrect technology choices, incorrect asset purchases.

CONCLUSION

The results concluded that the lack of evidence of intellectual capital disclosure can increase the profitability of State-Owned Enterprises. The concept of intellectual capital disclosure manifested by internal capital, external capital and human capital is considered to have a moderate influence, meaning there are other factors outside the three manifests as the shaper of the intellectual capital council. The results of this study can prove that the concept of intellectual capital disclosure is not able to increase the profitability of State-Owned Enterprises, because the decrease in profitability in State-Owned Enterprises currently occurs because of the in the efficiency of managing fixed assets, not intangible assets as conceptualized in intellectual capital. The results of this study imply that State-Owned Enterprises can improve the performance of intangible assets.

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