

## Company Value is Influenced by Intellectual Capital, Funding Decisions, and Investment Decisions: Telecommunications Sub Sector Companies on the Indonesia Stock Exchange for The 2014-2021 Period



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**ABSTRACT:** This study aims to determine the effect of Intellectual Capital, Funding Decisions, and Investment Decisions on Firm Value. The dependent variable in this study is Firm Value proxied by Tobin's Q model. The independent variables in this study are Intellectual Capital proxied by VAIC (Value Added Intellectual Capital), Funding Decisions proxied by DER (Debt to Equity Ratio), and Investment Decisions proxied by TAG (Total Asset Growth). The sample in this study are companies in the Telecommunications Sub-Sector for the 2014-2021 period. The sampling technique used purposive sampling, 4 companies were selected as research samples, from a total population of 10 companies. The results of the analysis show that Intellectual Capital (VAIC) has a positive and significant effect on firm value (Tobin's Q). This result illustrates that improving the quality of human resources in a company is very important and plays a role in efforts to increase firm value. Funding Decision (DER) has a negative and significant effect on firm value (Tobin's Q) this illustrates that investors are very sensitive to increased debt which can lead to debt default and increased bankruptcy risk. Investment decision (TAG) does not affect firm value (Tobin's Q). This situation illustrates that investment decisions as illustrated by asset growth are not a driving force for increasing firm value. This can be caused because if the asset is not productive, in the long term the accumulated value will be lower.

**KEYWORDS:** Intellectual Capital, Funding Decisions, Investment Decisions, Firm Value

### INTRODUCTION

Technological developments in the era of the industrial revolution 4.0 focused on information and communication technology. Media communication is very instrumental in changing the level of public knowledge. The advantage of the Internet communication network is to make it easier and faster to get information (Cangara, 2016). Revolution 4.0, is the threshold of a modern revolution that will holistically change the work system of business, economy, and social issues at the national to international levels. This phenomenon can have a good impact if companies can adapt to technological developments, and vice versa if companies are unable to adapt to the existence of the 4.0 revolution, including telecommunications companies which are currently directly related to the 4.0 revolution.

In 2019 data on the number of telecommunication subscribers in Indonesia was recorded at 143 million people out of Indonesia's population of 262 million people (Kominfo, 2019). There are 365.88 million cellular telephone subscribers in 2021. This number has increased by 2.89% compared to the previous year of 355.62 million subscribers (Widi, 2021). The Central Bureau of Statistics records that the percentage of mobile phone users in Indonesia will reach 65.87% in 2021. This figure has increased compared to 2020 which was 62.84% (Sadya, 2022)

The increase in the number of subscribers gives telecommunication companies listed on the Indonesia Stock Exchange a great opportunity to grow, especially the increase in the value of their shares. The number of telecommunication companies listed on the Indonesia Stock Exchange (IDX) until 2021 in 10 companies with listings on the stock exchange in different years. The description of the movement of the stock prices of five telecommunications companies on the IDX in the last eight years (2014-2021) is illustrated according to the graph below :

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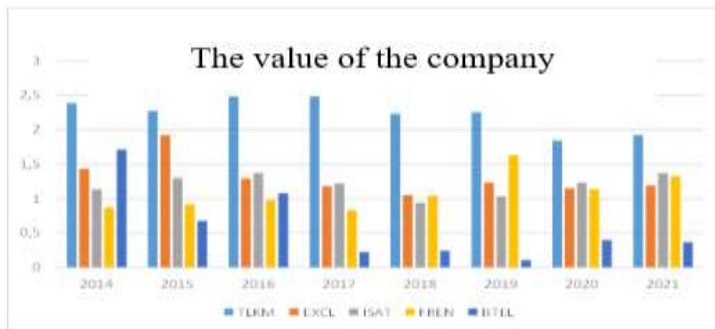
**Figure 1.** Graph of stock price movements

Source: Processed in 2022

The main focus of the company is oriented toward maximizing profits and company value. Increasing company value is the hope of every company owner because the high Firm Value shows that the company can provide prosperity for investors (Sintyana & Artini, 2019).

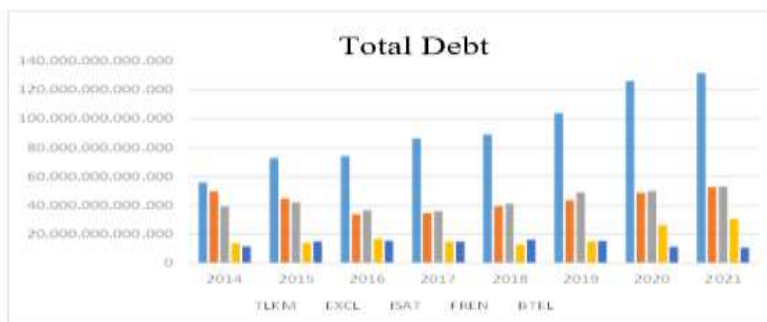
Knowledge-based resources are one of the strategies that are considered to have the main influence and competitive advantage. The fact states that business success is supported by knowledge-based technology (Sayyidah, 2017). Some factors affect a company's financial performance outside of the assets and physical capital within the company, which should be part of measuring the company's financial performance and value. In financial accounting practice investment spending on physical assets is classified as company resources in the company's balance sheet, while changes in knowledge-based or intellectual capital have not received attention and are still limited to accounting management. Expenditures on knowledge-based business activities (non-physical investment expenditures) are still recorded as expenses, not reported as company assets or resources which will later bring future economic benefits (Sumarau, 2019).

Company value is a description of the state of a company, where there is a specific assessment from potential investors of the merits of the company's financial performance which will affect the Firm's Value (Anggraini et al, 2018). The better the company's financial performance, the better the market will assess the company. An overview of company value, Total Liabilities, and Total Assets of telecommunications sub-sector companies from year to year during 2014-2021 graphically can be described as follows:



**Figure 2.** Graph of the movement of the Company's Value

Source: Processed in 2022



**Figure 3.** Graph of Debt Movement

Source: Processed in 2022

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Figure 4. Graph of the Movement of Total Assets

Source: Processed in 2022

The results of previous studies such as those conducted by Santiani (2018); Kristina and Wiratmaja (2018); Anggraini et al (2020) found a significant effect of Intellectual Capital on Firm Value. Likewise, Pambudi and Andayani (2017) show that intellectual capital using Value Added Intellectual Capital (VAIC) affects company value. The results of the research are different from the results of previous studies which show that Intellectual Capital does not affect Firm Value, as revealed by Ekaputra et al (2020); Rahayu and Ramadhanti (2019); Utami (2020).

Research on the effect of funding decisions on firm value was conducted by Komala et al (2020), Sari & Subardjo (2017), and Bahrin et al (2020), suggesting that funding decisions have a significant positive effect on firm value. which emphasizes that more funding through equity than the use of debt can reduce company risk. This is contrary to what was stated by Kurniawan and Mawardi (2017) that Funding Decisions do not have a significant effect on company value.

Research on the effect of investment decisions on firm value conducted by Sari and Subardjo (2017), Kurniawan and Mawardi (2017); Nisa (2017) states that investment decisions have a positive and significant effect on firm value. The results of the research above are different from the results of research by Komala, et.al (2020) that investment decisions have no significant effect on firm value, as well as Bahrin, et.al (2020) that investment decisions have no effect on firm value. further research aimed at confirming theories related to a causal or causal relationship between Intellectual Capital, Funding Decisions, and Investment Decisions on Firm Value.

### LITERATURE REVIEW

#### *Intellectual Capital*

Knowledge-based resources are one of the strategies that are considered to have a major influence on competitive advantage. The fact states that business success is supported by knowledge-based technology (Sayyidah, 2017). Apart from being based on operational performance and financial performance itself, there is another important element that influences various aspects of company performance, namely Intellectual Capital. Intangible assets are also known as intellectual assets, intellectual capital, intellectual property, or knowledge capital. Intellectual Capital aims to see how the company's human resources and branding have an impact on the company's financial performance, and how intangible assets contribute to the high and low levels of company profits. When Intellectual Capital is properly utilized and developed by the company, the Company Value will also increase (Widiatmoko, 2013).

According to the Organization for Economics Cooperation and Development (OECD), Intellectual Capital includes two things that are included in Intangible Assets, namely Organizational or Structural Capital and Human Capital. Meanwhile, based on the VAICTM measurement instrument developed by Stewart (1997), Intellectual Capital is measured by the ratio of Human Capital, Structural Capital, and Employed Capital. Structural Capital includes software property, distribution network, supply chain, and other infrastructure that supports the work of employees and company operations. Meanwhile, Human Capital includes the company's internal human resources in the form of staff or employees, training, certification, and other intangible assets related to Human Resources. Employed Capital is intangible capital related to external companies, such as consumers, suppliers, business partners, reputation, and so on.

Intellectual Capital (IC) is an intangible asset that is difficult to trace and disclose explicitly. The term IC emphasizes the combination of intellect and capital to show the importance of knowledge (Serenko and Bontis in Ulum, 2017). Stewart (1997) in Anggraini et al, (2020) defines Intellectual Capital as a useful knowledge package that is a resource in the form of knowledge available to companies that produce high-value assets and provide economic benefits for companies in the future.

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Disclosure of good Intellectual Capital will mean that the company has a competitive advantage compared to other companies, so that investors are more interested in companies that disclose Intellectual Capital, the more investors are interested, the higher the stock price and the higher the Firm Value. IC performance is measured based on value-added which is formed by physical capital (VACA), human capital (VAHU), and structural capital (STVA). The combination of the three added values is symbolized by VAIC (Serenko dan Bontis in Ulum, 2017).

### ***Funding Decision***

A funding decision is a decision about the form and composition of funding that will be used by the company. There are two funding sources that companies can use, namely internal funding sources in the form of retained earnings and external funding sources in the form of debt and capital. The problem in funding decisions is how much debt and equity to use, and what type of debt and capital to use. These funding issues must be considered considering that the financing structure will determine the cost of capital which will be the basis for determining the desired required return (Sari and Subardjo, 2020). Funding decisions determine the capital structure, as a balance between long-term debt and own capital, so funding decisions are often referred to as capital structure decisions. This funding is expected to provide added value to the company because the better the management of funds in the company, the more investors will trust the company which in turn can increase the value of a company (Moeljadi in Natalia, 2016).

Theories related to capital structure include (1) Modigliani and Miller's theory or MM theory which states that capital structure decisions are irrelevant, meaning that capital structure decisions do not affect firm value. The Firm Value will not increase or decrease with different sources of funds to obtain these assets; (2) The trade-off theory is the balance between risk and return due to the use of debt. High risk due to financial burdens that must be borne by the company can reduce the share price, but an increase in the rate of return will increase the company's share price; (3) Pecking order theory is a theory that only explains the order of funding. Following this theory, the investment will be financed with internal funds first (retained earnings), then followed by the issuance of new debt, and finally by issuing new equity (Sari & Subardjo, 2020).

### ***Investment Decision***

According to Moeljadi in Natalia (2016), Investment decisions are decisions that involve allocating sources of funds to the total assets owned by the company, both real assets and financial assets. Investment decisions mean giving answers to what line of business to enter because the large number of investments made means that the owner's wealth can increase.

The purpose of investment decisions made by the company is to obtain a high level of profit with a certain level of risk. High profits with manageable risks are expected to increase the Firm's Value. This means that when investing, the company can generate profits by using the company's resources efficiently. Then the company will gain the trust of potential investors to buy shares in the company. The investment decisions made by the company are expected to provide a positive signal about the company's growth in the future (Moeljadi in Natalia, 2016). Investment decisions are decisions that must be made by financial managers to allocate company funds to various assets that can generate profits in the future (Fajaria in Fara & Fidiana, 2020).

### ***The Firm value***

Firm value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through an activation process for several years, namely since the company was founded until now (Irham, 2018). Firm value is the price set by market activity which is highly dependent on company performance. Firm value is the value or price of a share, that is, how people provide added value to the company and are willing to pay or invest in a company at a certain price by beliefs about the company's future performance prospects.

According to Irham (2018), some of the most important goals are to maximize high company value, high company value will attract investors to invest their funds in the company. The Firm Value describes how well or how badly the management manages its wealth, this can be seen from the measurement of its financial performance. The market price of the company's shares that is formed between the buyer and the seller when a transaction occurs is called the company's market value because the market price of the shares is considered a reflection of the actual Firm Value's assets.

Firm value can be measured using Tobin's Q method developed by James Tobin. Tobin's Q. The Tobin's Q model is an indicator for measuring company performance, especially regarding company value, which shows proforma management in managing company assets. Classic q-theory of investment predicts that Tobin's Q, the ratio of capital's market value to its replacement cost, perfectly summarizes a firm's investment opportunities. (Peters and Taylor in Dzahabiyya et al, 2020).

According to Naqsyabandi in Dzahabiyya, et, al (2020) says that "Tobin's Q is the ratio of the company's value to the value of its assets. If the numbers obtained are greater than before, it is likely that the company will manage its assets better and can increase the company's profits.

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## Hypothesis Design

### 1. The Effect of Intellectual Capital on Firm Value

In Utami's research (2020), Rahayu and Ramadhanti (2019) stated that Intellectual Capital did not affect Firm Value, however, research by Maryanto (2017), Anggraini (2020), Chandra and Djajadikerta (2017) showed different results, namely that Intellectual Capital had a significant effect on significant to Company Value. Furthermore, the hypothesis can be made:

**H1: Intellectual Capital influences Firm Value.**

### 2. The Effect of Funding Decisions on Firm Value

Previous research conducted by Komala, et al (2020), Bahrin et.al (2020), and Windia & Subardjo (2017) showed the results of same research that Funding Decisions have a Positive effect on the Firm Value. Meanwhile, according to Kurniawan and Mawardi (2017), different research results show that funding decisions do not affect firm value. So based on the results of existing research, the 2nd hypothesis set is:

**H2: Funding Decisions Influence Firm Value.**

### 3. The Effect of Investment Decisions on Firm Value

Based on previous research according to Gustian (2020) on the results of his research, namely investment decisions do not affect firm value, this is also reinforced by the research results of Bahrin, et al (2020) that Investment Decisions do not affect Firm Value. The results of this study are in contrast to the results of research conducted by Windia & Subardjo (2017), and Kurniawan and Mawardi (2017) which show results that investment decisions have a positive effect on corporate value. Thus the 3rd hypothesis that can be determined is:

**H3: Investment Decisions influence Firm Value.**

## RESEARCH METHODS

This study uses a quantitative method with an associative approach in the form of a causal relationship. Data testing was carried out using the classical assumption test, namely the normality test, this multicollinearity, heteroscedasticity, autocorrelation, data analysis using multiple linear regression, and hypothesis testing to determine the significance of the effect of the independent variables on the dependent variable.

### *Intellectual Capital*

Measurement of the value of intellectual capital is done by calculating the steps:

- a.  $VA$  (Value Added) =  $OUT - IN$
- b.  $VAHU$  (Value Added Human Capital) =  $VA / HC$
- c.  $VACA$  (Value Added Employed Capital) =  $VA / CE$
- d.  $STVA$  (Value Added Structural Capital) =  $(VA - HC) / VA$
- e.  $VAICTM$  (Value Added Intellectual Coefficient) =  $VAHU + STVA + VACA$

Note:

$OUT$  = total sales and other income.

$IN$  = selling expenses and other costs (other than employee expenses).

$CE$  = capital employed = available funds (equity, net profit).

$HC$  = human capital = employee expenses.

$VAICTM$  = Value Added Intellectual Coefficient

Source: Pulic in Afandi and Raharjo (2017)

### *Funding Decision*

Funding decisions proxied by the Debt to Equity Ratio (DER) are as follows:

$DER = (Total\ Debt) / (Total\ Equity)$

### *Investation decision*

Proportioned investment decisions with the company's Total Assets Growth (TAG).

from year to year as measured by:

$TAG = (TAt - TAt-1) / (TAt-1)$

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*Information:*

*TAt = Current year*

*TAt-1 = Previous Year*

*TAG = Total Asset Growth*

*TA = Total Assets*

## **The Firm Value**

The Firm Value will be measured using Tobin's Q method developed by James Tobin. Tobin's Q is calculated by comparing the ratio of the market Firm Value's stock to the book Firm Value's equity (Weston and Copeland, 2001) and can be formulated as used by Rahayu (2019). With the calculation formula:

$$\text{Tobin's Q} = (MVS+D)/TA!$$

*Information:*

*MVS = Market Value of all outstanding shares (Market capitalization)*

*D = Total Debt Book Value*

*TA = Total Asset Book Value*

## **Population and Sample**

The population in this study are telecommunications companies listed on the Indonesian stock exchange as many as 10 companies. By using purposive sampling criteria, 4 companies could be sampled, namely Telekomunikasi Indonesia Tbk (TLKM), XL Axiata Tbk (EXCL), Indosat Tbk (ISAT), Smartfren Telecom Tbk (FREN). Companies that are not included in the criteria are companies that are not active on the stock exchange, companies that have just been listed in 2021 and 2022, namely Jasnita Telekomindo Tbk (JAST) MNC Vision Networks Tbk (IPTV) Ketrosden Triasmitra Tbk (KETR) Mora Telematika Indonesia Tbk (MORA) Dayamitra Telekomunikasi Tbk (MTEL) so it cannot be used as a sample.

## **RESEARCH RESULTS AND DISCUSSION**

### **Descriptive variables**

Descriptive statistics are carried out to find out how far the distribution of data for each variable shows the maximum, minimum, and average values as well as the standard deviation where all data has a standard deviation value that is smaller than the average value so that descriptively it can be accepted

### **Classic assumption test**

The first classic assumption test is a normality test to find out whether the data is normally distributed. Testing using the one-sample Kolmogrov-Smirnov Test obtained the Asymp value. Sig. (2-tailed) 0.114 is greater than 0.05 ( $0.114 > 0.05$ ) so it can be concluded that the data is normally distributed. The next test is the Multicollinearity Test conducted to test whether the regression model found a correlation between the independent variables (Ghozali, 2018). Whether there is multicollinearity can be seen from the value of the variance inflation factor (VIF) and the tolerance value. the VIF value  $< 10$  and the tolerance value must be  $> 0.10$  meaning that multicollinearity does not occur. The test results show that all variables have a VIF value of  $< 10$  and a tolerance value of  $> 0.10$  so there are no symptoms of multicollinearity. Using the Darwin Watson model to determine whether there is autocorrelation, the DW value of 1.222 is greater than minus -2 and less than 2. So it can be concluded that autocorrelation does not occur. The Glejser test results obtained significant values for all independent variables IC = 0.941 DER = 0.237 and TAG = 0.781. So that the three variables have significance  $> 0.05$ . Thus the observation data does not occur heteroscedasticity.

### **Multiple Linear Regression Results**

The multiple linear regression analysis models is used to explain the direction of the relationship and how much influence the independent variables have on the dependent variable (Ghozali, 2018). The regression equation formed by Tobins Q =  $1.655 + 0.172 \text{ IC} - 0.247 \text{ DER} + 0.467 \text{ TAG}$

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**Table 1: Multiple Linear Regression Test**  
Coefficients

Unstandardized Coefficients			Standardized Coefficients	
Model	B	Std. Error	Beta	
1	(Constant)	1,655	,169	
	IC	,172	,040	,505
	DER	-,247	,056	-,518
	TAG	,467	,487	,111

a. Dependent Variable: Tobin's Q

Source: SPSS Outputs

The constant value of 1.655 means that if Intellectual Capital (IC), Debt to Equity Ratio (DER), and Total Asset Growth (TAG) are zero, then the company value as measured by Tobin's Q is constant at 1.655. The coefficient value of Intellectual Capital (IC) is positive with a coefficient of 0.172. shows the direction of the relationship between Intellectual Capital and firm value (Tobin's Q) is positive, which means if IC increases by one unit while the DER and TAG variables are zero, the effect of IC on firm value increases by 0.172. The Debt to Equity Ratio (DER) coefficient value is -0.247, which is negative, indicating that the direction of the Debt to Equity Ratio relationship with Tobin's Q is negative. This means that if the external funding policy increases, it will have an impact on decreasing company value with a coefficient of -0.247. The coefficient value of Total Asset Growth (TAG) is 0.467. This shows that the direction of the relationship between Total Asset Growth and Tobin's Q is positive so that if there is an increase in one unit of assets, it will encourage an increase in firm value with a coefficient value of 0.467.

**Hypothesis Testing**

**1. Statistical test t**

The basis for the decision that underlies the influence of the independent variable on the dependent variable is to use a significance level of  $\alpha = 0.05$  and  $t\text{-count} > t\text{-table}$ .

**Table 2. Test Results t**

Coefficients

Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model	Beta			
1	(Constant)		9,792	,000
	IC	,505	4,274	,000
	DER	-,518	-4,385	,000
	TAG	,111	,959	,346

a. Dependent Variable: Tobin's Q

Source: SPSS Outputs

Based on Table 2 by looking at the t-count value and its significance value it can be explained as follows:

The Intellectual capital (IC) variable has a  $t\text{-count} = 4.274 > t\text{-table} = 2.0484$ , which means that Intellectual Capital affects Firm Value, and a significance value of  $0.000 < 0.05$  means that Intellectual Capital is significant to Company Value. So hypothesis one (H1) is accepted. The higher the Intellectual Capital in the company, the higher the Company Value.

These results illustrate that Intellectual Capital is a factor that needs to be considered in a company, for example through human resource development programs, increasing welfare so that companies have a competitive advantage which in turn drives up the Firm Value. Companies that have good intellectual capital tend to be able to utilize their economic resources to maximize the welfare of shareholders so that investors view the company as valuable or have a high value. The results of this study are in line with the results of previous research conducted by Santiani (2018); Pambudi and Andayani (2017). However, this is not in line

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with the results of research conducted by Ekaputra et al (2020); Rahayu and Ramadhanti (2019).

The Debt to equity ratio (DER) variable has a t-count = -4.385 > t-table = 2.0484, with a significance value of 0.000 < 0.05, which means that funding decisions that are proportionate to the Debt to Equity Ratio (DER) have a significant negative effect to the Company Value of telecommunications sub-sector companies listed on the Indonesia Stock Exchange for the 2014-2021 period so that H2 is accepted.

The results of this study illustrate that if the funding decision made by a company uses more external funding through debt than funding through equity, it will have a negative impact because too high debt will have an impact on a lack of public trust in the company so that it can reduce the Firm Value through a decrease in its share price on the market. This also illustrates that if the company generates profits, the main priority is paying interest and debt rather than paying dividends for the prosperity of shareholders. This situation can have an impact on a lack of trust in the company so that the Firm's Value will decrease. The use of more debt than equity in funding sources will have a negative effect on company value (Gustian 2017). In addition, the higher the debt, the debt interest will increase higher than the tax savings so debt policy needs to be a serious concern for companies. The results of this finding are in line with the results of research conducted by Mawardi (2017) this difference is thought to be due to differences in the research object.

The total asset growth (TAG) variable has a t-count = 0.959 < t-table = 2.0484 with a significance value of 0.346 > 0.05 meaning that Total Asset Growth (TAG) has no significant effect on the company value of listed telecommunications sub-sector companies on the Indonesia Stock Exchange for the 2014-2021 period. So the H3 hypothesis is rejected.

This illustrates that asset growth is not a consideration for the company's valuation by investors, especially if it does not have an impact on the company's profitability performance so that it becomes a burden on the company, especially if the asset growth that occurs comes from external financing. The size of the assets can cause a high level of investment risk in the future which in turn can affect investor confidence to invest a certain amount of funds in the company. The results of this study are in line with the results of previous research conducted by Komala, et al (2020), and Bahrun, et.al (2020). However, it is different from the results of research conducted by Kurniawan and Mawardi (2017).

### 2. Adjusted R2

To see how much the ability of the three independent variables jointly affects the dependent, the adjusted R2 test is used:

**Table 3: Results of Adjusted R2**

Summary model b

Model	R	R Square	Adjusted R Square
1	,789 <sup>a</sup>	,623	,583

a. Predictors: (Constant), TAG, DER, IC

b. Dependent Variable: Tobin's Q

Source: SPSS Outputs

An adjusted R2 value of 0.583 (58.3%) means that the three independent variables Intellectual Capital, Debt to Equity Ratio, and Total Asset Growth (IC, DER, and TAG) can explain changes in the firm value variable (Tobins Q) of 58.3% while the remaining 41.7% is explained by other variables

### CONCLUSION

Based on the results of the tests carried out, it can be concluded:

1. The Intellectual Capital variable has a positive and significant effect on firm value (Tobin's Q). This research indicates that market appreciation in a company is not only based on physical resources owned, but intellectual capital becomes very important which can encourage high trust in the company which ultimately increases the Firm Value through an increase in its share price.
2. The funding decision variable proxied by the Debt to Equity Ratio has a negative and significant effect on firm value (Tobin's Q). An increase in debt will cause the company to experience debt default and increase the risk of bankruptcy. So that if the debt in the company is getting higher, the tendency is a decrease in trust in the company, which is represented by a decrease in stock prices.



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3. The investment Decision Variable proxied by Total Asset Growth does not affect Firm Value and is not significant. The results of this study indicate that no matter how big the investment that will be borne in the future by the company will not affect the Firm's Value. This is due to the high level of investment risk in the future which can affect investor confidence to invest some funds in the company.

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