

Improving Competitiveness using Intellectual Capital

Furtasan Ali Yusuf

Bina Bangsa Higher School of Economic and Management
Serang-Jakarta St, Km.03 No. 1 B (Pakupatan), Serang – Indonesia

Abstract

Intellectual Capital provides more value for the institution thereby increasing competitiveness. This becomes an interesting topic to discuss and to research. Therefore, it should be realized by the managers or top management that the training programs to improve employee competency needs to be improved; whether by types, quantity or its quality; rather than just buying property for business expansion and new others tangible assets. Based on the research from experts proves that institution that have a more intellectual capital than its competitors the institution would have been much more profitable, as well as financial performance and firm value better. Viewed from the standpoint of accounting, disclosure of intellectual capital can be seen from the financial reporting of the institusi through good training programs and human resource spending can increase employee competency, so that the impact effect on increasing Free Cash Flow (FCF).

Keywords: intellectual capital, competitiveness, financial reporting, FCF

Introduction

At present, both the intellectual capital of knowledge, experience, personal skills, relationships, or technology, is widely becoming a key resource for competitive advantage and a key factor of the company's profitability. Intellectual capital is formed in the process of science and knowledge. This term is still in the stage of evolution, introduced for the first time when a large Swedish company, Scandia, began to implement a series of innovative scientific methods for more attention to intangible assets. Intellectual capital is one kind of capital that is known as an intangible asset of an organization and therefore claimed to be a valuable asset in the organization. In the last two decades, the common knowledge is based on the fact that there are only two factors, namely, labor and capital are involved in the production process; whereas at the moment in this day and age, knowledge and information is recognized as the creator of wealth and economic value of assets. It has known that two elements of intellectual capital as human capital and structural capital that can be simply defined as people who are in the organization and whatever the outcome settled remains in the organization after they leave the organization. In contrast to the structural capital, human capital can not be owned by the organization. Knowledge is the most important production machines and strong which allows us to conquer nature and force us to satisfy our desires. Of course, knowledge production is usually expensive; and this issue has been introduced in industrialized countries more than other countries (Bontis, 2004).

Intellectual capital is comparable with the knowledge and skills of social collectivism like a common intellectual organization or professional procedures in general. Bontis (2004) defines tangible assets as factors besides physical and financial assets that contribute to the processes that contribute value to the organization and is under control.

As a concept, intellectual capital refers to capital-capital non-physical or intangible (intangible assets) or invisible (invisible). Intellectual capital and knowledge related to human experience and the technology used. Intellectual capital has the potential to promote the organization and community. Intellectual discourse capital is an organizational capability to create, make transfers, and implement knowledge. It refers to them as knowledge and knowing capability possessed by a social collectivity. This definition used their proximity to the consideration of the concept of human capital, one of the elements of intellectual capital referred to as a catalyst that can activate intangibles, other inactive components. Explicitly, this definition does not seem adequate to explain empirically the extent of coverage meaning of intellectual capital, in these two components, knowledge and knowing capability. However, in his explanation, they distinguish between two types of knowledge, namely individual knowledge, both explicit (so-called conscious knowledge) or tacit (automatic knowledge), and social knowledge which also consists of an explicit (objectified knowledge) and tacit (collective knowledge).

The real form of intellectual capital is as a creative design and unique product that is not owned by a business competitor, more sophisticated technology, and so forth. Therefore, it is important to realize by top management and owners of the institution is an asset that is actually a human, not a physical asset that can be seen. Therefore, training programs to improve staff knowledge is indispensable in order to foster an asset that will improve the profitability of the institution. Intangible asset is in the category of goodwill. Intangible assets recognized if and only if: (1) allow the future economic benefits attributable to the assets (assets) that will flow to the institution, and (2) cost of the asset (assets) can be measured reliably. Intangible assets acquisition cost is the fair value at the acquisition date. Viewed from an accounting standpoint, the disclosure of intellectual capital can be seen in the financial statements of the institution of training programs and human resources expenditure

contained in the balance sheet, then to its impact in the future can be seen from Free Cash Flow (FCF).

In Intellectual Capital, Human Capital, humans have the knowledge, skill, religiosity, or a different personality. Although his salary, or (in the case of football) the acquisition value, say the same. Intrinsic things before, of course, will be very valuable and makes a human different from other human beings. In the case of humans working in the entity, it will create an entity has a different value to another entity. However, the intrinsic value of this cannot be quantified. Everything will be seen in the financial statements through, income, or expense (tax burden down for accountants tax has the knowledge and good networking), or Earning per Share (high, for accountant have knowledge and skills in financing), and other elements in the financial statements.

Based on the above discussion it can be seen that the intellectual capital has an important role for the institution, but there are still many institutions that do not realize how important this intellectual capital. Therefore, this paper seeks to explain the intellectual capital that will enhance the competitiveness of the institution.

Metode

This research using descriptive analysis techniques. Descriptive research is research conducted to determine the value of an independent variable, either one or more variables (independent) without making comparisons, or connect with other variables.

Discussion

Intellectual capital is a decisive instrument for value and performance of institutions that trigger the value of know-how (Petty and Guthrie, 2000). Bontis (2004) argue, intellectual capital is the ability of workers creates entire value addition. International Federation of Accountants (IFAC) defines intellectual capital as a synonym of intellectual property (intellectual property), intellectual assets (intellectual assets), and knowledge assets (knowledge assets), capital can be defined as the stock / equity-based knowledge institution. IFAC also estimates that the current value is determined on the institutions on the management of intellectual capital, no longer against fixed assets. Thus, in the category of Intellectual capital assets (assets) is not capital (equity) in the balance sheet.

Bontis (2004) argue that intellectual capital consists of three main components: First, Human Capital. Human capital as a very useful source of knowledge, skills and competencies within an organization or institution. Human capital reflects the collective ability of an institution to produce the best solution based on the knowledge possessed by the people in the institution. Human capital will be increased if the institution is able to use the knowledge of their employees.

Secondly, Structural Capital is the ability of an organization or institution in fulfilling process routines institutions and structures that support employee efforts to produce intellectual performance is optimal and overall business performance, for example: the operational system institutions, manufacturing processes, organizational culture, management philosophy and all forms of intellectual property owned institution. An individual can have a high intellectual level, but if the organization has systems and procedures that bad then the intellectual capital cannot achieve optimal performance and potential cannot be fully utilized.

Third, Relational Capital is a component of intellectual capital that provides real value. This element is a harmonious relationship with the institution that is owned by its partners, both derived from reliable suppliers and quality, comes from customers loyal and satisfied will care institution concerned, comes from the relationship with government institutions and surrounding communities. Relational capital can arise from various parts outside the institutional environment that can add value to the institution.

Resource-based theory of Resources Based Theory (RBT) is an advanced development of the theory of Ricardo's Economic Rent and structure-conduct-performance Porter (Barney and Clark 2007). This theory emerged because of their strategic questions about why an institution may outperform other institutions and have superior performance (sustainable superior performance). Institutions that build on its own resources and can control it will have the ability to maintain its superiority compared to if the institution to purchase or obtain resources from outside the organization. A unique set of resources that are owned and controlled institution to enable it to achieve and maintain a sustainable superior performance.

A unique resource that is meant in the RBT is a resource that has beneficial properties / worth (valuable), rare (rare), cannot be replicated (inimitable), and not replaced (non-substitutable). Worth it can be used for the activity of the institution, owned by the scarce means only a few institutions only. Cannot be replicated mean these resources are protected from possible imitated by competitors. Not replaceable means the only resource is owned by a company-specific and cannot be replaced with another product (Barney, et al., 2001). These types of resources can deliver an institution on achieving competitive advantage.

RBT fairly rapid development, especially in the proof of consistency by using empirical studies in various domains of science. The sphere was first developed it was of strategic management (Spanos and Lioukas 2001, Schroeder et al., 2002, Ray, et al., 2004), which later evolved in the realm of other disciplines, such as

human resource management, and Accounting (Henri, 2006, Toms 2010).

Belkaoui (2003) suggests potential strategies for improving the performance of the institution is to unify the tangible assets and intangible assets. Resource-based theory is an idea that developed in the theory of strategic management and competitive advantage institution believes that the institution will achieve excellence if they have superior resources (Solikhah, et al, 2010). Based on Resource-Based Theory approach can be concluded that the resources owned by the institution on the performance of institutions that will ultimately increase the value of the institution.

Stakeholder theory states that all stakeholders have the right to obtain information about the activity of institutions that affect them. stakeholder theory emphasizes the accountability of the organization far beyond simple financial or economic performance. stakeholder theory further consider the position of stakeholders are considered powerful. Stakeholder group that is the main consideration for the institution to disclose and / or not to disclose information in the financial statements (Ulum, et al, 2008). In this context, stakeholders have the authority to influence the management in the process of exploiting the full potential of the organization. because only with proper management and the maximum over the entire potential of this organization will be able to create value added to later encourage financial performance and the value of the institution which is the orientation of the stakeholders in the management intervened.

In the view of the theory of legitimacy, the organization on an ongoing basis to find ways to ensure the sustainability of their businesses are within the limits and norms in society. Organizations strive to ensure that the activities undertaken by the organization accepted by outsiders. This theory is based on the assertion that there is a social contract between the organization and the environment in which the organization runs its business. The social contract is a way to explain people's expectations about how the organization should carry out its operations. the social expectation is not fixed, but changes over time, then this will require institutions to respond to the environment in which they operate. The views legitimacy theory states that in carrying out its operations, the organization must be in line with the values of society. this can be achieved through disclosure in the financial statements.

Khelifi and Bouri (2010) mentions that the signaling theory proposed by Spence (1973) and Ross (1977) and later adopted by Leland and Pyle (1977) into the primary market. On the initial public offering there is asymmetry of information between the old owners to potential investors about the prospects for the institution in the future. Signaling theory indicates that the organization will attempt to show the signal in the form of positive information to potential investors through disclosure in the financial statements (Miller and Whiting, 2005). Leland and Pyle (1997) states that the signal is an act done by the previous owner in communicating the information in its possession to investors. The old owners have the motivation to disclose private information voluntarily because they hope the information can be interpreted as a positive signal about the performance of institutions and capable of reducing information asymmetry.

Currently an effort to provide an assessment of intellectual capital is important. Difficulties in the field of intellectual capital are a measurement problem. From models of measurement were developed, each has strengths and weaknesses so as to choose the most appropriate model to use an inappropriate action because the measurement is simply a tool that can be applied to the circumstances of an institution with certain specifications (Sawarjuwono and Kadir 2003).

Sawarjuwono and Kadir (2003) states that the method of measuring Intellectual Capital grouped into two groups: the measurement of non- monetary and monetary measurement. One method of measuring intellectual capital with non-monetary assessment that Balanced Scorecard by Kaplan and Norton, whereas the method of measuring intellectual capital with monetary valuation, one of which is a model Pulic known as VAICTM.

Pulic (1998) proposed a coefficient of Value Added Property / Value Added Intellectual Coefficient (VAICTM) to provide information about the efficiency of the value creation of tangible and intangible assets in the institution. VAICTM used because it is considered as a suitable indicator for measuring IC in empirical research. Some of the main reasons that support. Use of VAICTM among which the first one, VAICTM provides basic sizes are standardized and consistent, financial figures are standards that are commonly available from the financial statements of the institution (Pulic and Bornemann, 1999), thus enabling more effectively carry out a comparative analysis of the international use of a large sample size in various industrial sectors. Secondly, all the data used in the calculation of VAICTM based on information that has been audited, so that calculations can be considered objective and verifiable (Pulic, 1998, 2000). VAICTM is an analytical procedure that is designed to enable management, shareholders and other relevant stakeholders to effectively monitor and evaluate the efficiency of value-added or Value Added (VA) with the total resources of the institution and the individual components of the primary resource. Value added is the difference between income (OUT) and load (IN).

VAICTM method of measuring the efficiency of input three types of institutions, namely human capital, structural capital, as well as physical and financial capital consists of: First, Human Capital Efficiency (HCE) is an indicator of the efficiency of the added value of human capital. HCE is the ratio of the Value Added (VA) to

Human Capital (HC). This relationship indicates the ability of human capital makes the value in an institution. HCE can be interpreted also as an institution's ability to generate added value every rupiah spent on human capital. HCE shows how many Value Added (VA) can be produced with the funds spent on labor (Ulum, 2008).

Secondly, Structural Capital Efficiency (SCE) is an indicator of the efficiency of value-added structural capital. SCE is the ratio of the SC to the VA. This ratio measures the number of SC required to produce 1 rupiah of VA and is an indication of how the success of the SC in value creation (Tan et al., 2007). Third, Capital Employed Efficiency (CEE) is an indicator of the efficiency of value-added capital employed. CEE is the ratio of VA to CE. CEE describe how much of the added value resulting from the institution of capital employed. CEE ie calculation of the ability to manage institutional capital.

Increased understanding of the importance of intellectual capital disclosures on the performance of institutions is directly proportional to the research on pengukurannya. Banyak intellectual capital measurement methods have been developed, one of which is the method The Value Added Intellectual Coefficient (VAIC) developed by Pulic (1998). VAIC is a method used to measure the ability of an institution to create value by efficiently utilizing their capital (physical capital) and intellectual capital (intellectual capital) to provide added value (value added). Institutions that have high VAIC value indicates that the institution can combine the existence of available resources, ranging from monetary funds, human capital, structural capital up customer capital. And with good management, the institution's performance will surely increase as well.

An institution is said to have a competitive advantage if it can create economic value that is higher than any other institution in the industry. But more is said to be the most important thing is to maintain the continuity of excellence such kompe-titif or commonly referred to as a sustained competitive advantage (Barney and Clark 2007). RBT is a competitive advantage in the creation of abnormal profit (Peteraf 1993) or the level of return above average (above average returns) to take advantage of special features which are owned institutions (Lin and Huang 2011).

Pulic model (VAIC) can be used to examine the relationship between intellectual capital and the market value and the financial performance of the institution using a sample of public institutions in Taiwan. The financial performance used is market-to-book value ratios of equity, return on equity, return on assets, growth in revenue and employee productivity. The results showed that the positive effect of intellectual capital on the financial performance of the institution. In fact, this research can be used as indicators to predict the performance of financial institutions in the future.

Rahadian (2011) conducted a study which aims to provide empirical evidence about the effect of intellectual capital, which is identified using the concept of input-process-output of human capital, customer capital, innovation capital and process capital, to the performance of the institution. From the perspective of resource-based capital and intellectual, structural path models applied to financial data to analyze the relationship between the four components of intellectual capital, intellectual capital as well as the causal effect on the performance of the institution. The results of this study indicate that not all components of intellectual capital has a significant influence on the performance of institutions. Innovation capital has a positive and significant relationship with the customer capital, while the innovation capital is negatively and significantly associated with human capital. Process capital has a positive and significant relationship with the customer capital. Human capital has a positive and significant correlation to the performance of the institution, while human capital has no significant relationship with the customer capital. Customer capital does not have a significant correlation with the performance of institutions.

Taurisca (2013) based on the results of the t test statistics, for the first hypothesis can be concluded that the Value Added Intellectual Capital (VAIC) influence on Corporate Financial Performance provide by Return On Asset (ROA), for testing the second hypothesis can be concluded that the Intellectual Capital (VAIC) effect on Corporate Financial Performance provide by Net Profit Margin (NPM), testing the third hypothesis can be concluded that the Intellectual Capital (VAIC) has no effect on Corporate Financial Performance provide by Asset Turn Over (ATO) and testing the fourth hypothesis can be concluded that the Intellectual Capital (VAIC) has no effect on Corporate Financial Performance provide by Return on Equity (ROE). Based on test results coefficient of determination, for the first hypothesis can be inferred correlation between Intellectual Capital (VAIC) with Return On Asset (ROA) amounted to 0.511 and R-square value or coefficient of determination obtained amounted to 26.2%, that variable Intellectual Capital (VAIC) has the effect of a contribution of 26.2% of the variable Return on Asset (ROA) and 73.8% are influenced by other factors outside the ROA.

Results of testing the coefficient of determination for the second hypothesis can be inferred correlation between Intellectual Capital (VAIC) with Net Profit Margin (NPM) is at 0.543 and the value of R square or coefficient of determination obtained amounted to 29.5%, that variable Intellectual Capital (VAIC) has the influence of the contribution of 29.5% to variable Net Profit Margin (NPM) and 70.5% are influenced by other factors beyond the variables Net Profit Margin (NPM). For the third hypothesis testing the correlation between Intellectual Capital (VAIC) with Asset Turn Over (ATO) is equal to 0,046 and R-square value or coefficient of determination obtained is 0.2%, that variable Intellectual Capital (VAIC) have an influence contributed 0, 2%

on variable assets Turn Over (ATO), and 99.8% are influenced by other factors outside variables Assets Turn Over (ATO), and for the fourth hypothesis testing results correlation between Intellectual Capital (VAIC) and Return on Equity (ROE) amounted to 0.054 and R-square value or coefficient of determination obtained is 0.3%, that variable Intellectual Capital (VAIC) has the effect of a contribution of 0.3% of the variable Return on Equity (ROE) and other 99.7% influenced by other factors outside of the variable Return on Equity (ROE).

To have the strength as a value-added (value added), institutions must improve internal conditions institution itself. Many factors can make the institutions become stronger in the eyes of the market indicated not only of physical assets owned, although very important, but also demonstrated the intangible assets owned institution. intangible assets such as the number of stockholder equity is positive, the strength of the financial performance, intellectual abilities institution in cost efficiency was found to increase the performance of financial institutions and the strength of the competition, to the continuous innovation which in this case is called intellectual capital or capital intangible which can improve performance and competitive financial institutions (Nur, 2008).

Conclusion

Intellectual Capital can provide more value for institutions to raise the competitiveness. Many institutions still think that physical assets such as land, machinery, and labor to produce a profit for the institution, to the exclusion of non-physical (intellectual capital), such as, knowledge and competence of employees, customer relations, innovation, computer systems and administration, creativity in designing unique products and the ability to master the technology. Therefore, it needs to be realized by the owners and top management that training programs to improve employee competency needs to be improved rather than just buying land for business expansion and new machinery.

Based on the results of the experts proved that institutions which have the intellectual capital is much more profitable than its competitors institution, as well as the financial performance and the value of the institution better. Viewed from an accounting standpoint, intellectual capital disclosure can be seen from the financial statements of both institutions through training programs and human resource expenditure to improve the competence of employees, so the impact effect on Free Cash Flow (FCF) rose. Disclosure of accounting intellectual can be seen in the financial statements of the institution to further its impact can be seen in free cash flow (FCF). Disclosure considered by the agency theory as a mechanism that can reduce costs generated and conflicts and controls the performance of managers.

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