

CHAPTER 1

INTRODUCTION

1.1. Background

In this competitive era, many companies are trying to be the best in the race. The efforts that they do to be the best are from increasing the sales, expanding the company, developing the technology, developing the human resources, investing the capital and others. Some companies may not know how far or how good their efforts to bring forward the company, whether the business is good enough or not for the shareholders. They also use inappropriate tools to measure the company's performance and what the managers should immediately correct. A variety of information is needed by managers and shareholders to take corrective actions and subsequent decision by the company's goal of advancing towards a better condition.

The financial report is a source of information that managers needed to make a decision. A wide variety of conventional methods and calculations can be used in processing the financial statements in order to produce a required information about the company's performance. Examples of such methods are the calculation of ratios such as Net Profit Margin (NPM), Net Interest Margin (NIM), Return on Assets (ROA), Return on Equity (ROE), Earning Per Share (EPS), and others. Nevertheless, many experts believe that the conventional methods are not good enough to answer how good the company's performance because it has many flaws. Those conventional methods ignore few important

components which also have impact in determining the company's performance. Conventional methods often forget to take into account the component which is related with company's intellectual capital, whereas the enterprise's development is also supported by an adequate quality of this intangible resource.

Jafari (2013) argued that traditional economy uses tangible asset as a tool to measure company performance and the intangible asset is pretty much neglected. In many circumstances, company's market value is bigger than its book value due to its intangible assets. Traditional financial accounting also failed to record a number of fundamental intangible assets. These assets are human resources, structure and the communication environment. In this sense, financial statement failed to provide an accurate and informative financial statement for performance measurement. Therefore, many experts developed some concepts and new methods for measuring the company's performance more accurately, including Value Added Intellectual Coefficient (VAIC) and Market Value Added (MVA) which are used in this research.

Nowadays, the leading organization's market value is much higher than their book value, this difference is interpreted as the intangible assets, including the Intellectual Capital (IC). Such value is not seen in the traditional balance sheet. Implementation of intellectual capital valuation has been conducted in many countries. It also has been proven in some companies and have positive impacts on their growth as the successful organizations are those who leverage the knowledge and skills of their employees as the engine of the development to achieve its competitive advantage (Stanfield, 2005; Fathi, 2013). However, the

implementation of this method is still scarce in Indonesian companies. This may be due to the lack of awareness of the importance of intangible assets such as intellectual capital or the lack of company's ability to calculate intellectual capital precisely and accurately. Therefore, this study also wants to use intellectual capital as the independent variable. Intellectual capital will be measured by Value Added Intellectual Coefficient (VAIC) which was introduced by Pulic for the first time in 1999.

This research used Real Estate and Property companies as the research object due to its uniqueness regarding its market value. This kind of business has high risk, but high return as well. Many factors can affect their market value, such as its financial performance, interest rate, sales procedure, the exchange rate, and others. This company, unlike other industrial companies which used machines and other fixed assets in its operation, it needs a lot of human resources who capable in marketing, innovating, and creating the other company's competitive advantage. Therefore, this study also use Intellectual Capital to find whether it has been managed well enough and whether its changes has influenced the changes in MVA or not.

In a study conducted by Shiri et al (2012), there's a significant relationship of VAIC and its components with MVA. It showed that VAIC is treated as an effective criterion for describing MVA and it could be used as a tool to measure firm's performance in Tehran Stock Exchange. Shiri's study is also strengthened by the study of Fathi (2013) in which it tried to investigate the relationship between intellectual capital and financial performance of companies listed Tehran

stock exchange. The results of the study support the fact that intellectual capital is an important strategic asset for sustainable competitive advantage. Veltri and Silvestri (2011), Jafari (2013), and Motjahedi and Jafari (2013) also revealed that there's a positive relationship between Intellectual Capital as measured by VAIC and Market Value Added.

This study try to verify the findings of previous studies. As mentioned earlier, it is important to once more investigate the effect of Intellectual Capital toward Market Value Added. This study focus on Real Estate and Property Companies due to its special attributes in its industry and uses Firm Size (FS) as the control variables.

1.2. Problem Formulation

Based on the above explanations, the discussed problem is:

Is the Market Value Added (MVA) of Real Estate and Property company in Indonesia Stock Exchange period 2011-2013 influenced by company's Intellectual Capital (IC)?

1.3. Research Objectives

Based on the problems statement defined above, the purpose of this research is:

To analyze the effect of Intellectual Capital (IC) of Real Estate and Property company in Indonesia Stock Exchange period 2011-2013 toward its Market Value Added (MVA).

1.4. Research Contributions

Some contributions that can be attained from this research are:

1. Theory contribution

This research shows that there is an effect of Intellectual Capital toward Market Value Added in real estate and property companies, and it has theory contribution about IC and MVA as performance measurement tools.

2. Empirical contribution

The results of this research will give a big contribution in using IC and MVA as new methods of measuring intangible assets, and it will help companies to measure its created value for its shareholders and take corrective actions as needed.

1.5. Research Systematic

CHAPTER 1 : INTRODUCTION

This chapter contains of background about the problem faced, followed by the purposes and motivations of the research, why the author chose IC and MVA as variables and real estate and property company as the research object. Then it also concluded the problem formulation, research objectives, contributions research both theory and empirical contribution, and the systematic of undergraduate thesis.

CHAPTER 2 : THEORETICAL REVIEW

This chapter explains about theories which are relevant to the measurement of performance in creating values for company's shareholders. IC and MVA are used as the guidance to solve the problems. Theories are got from books, journals, and internet. From these theories, researcher can get some hypotheses.

CHAPTER 3 : RESEARCH METHODS

This chapter briefly explains about research approach applied, variable identification, population and samples of research, the types of data used, technique of data collection and analysis, panel data regression used, several testing regarding the use of panel data regression, and the hypothesis testing.

CHAPTER 4 : RESULTS AND DISCUSSION

This chapter presents and discusses the research result about the connection between IC and MVA using panel data regression and the analysis of the result gathered based on the relevant literature. Besides, it also explains the limitation of this research.

CHAPTER 5 : CONCLUSION AND SUGGESTION

This chapter is closing section, which provides conclusion based on the problems discussed, whether IC has any effects on MVA or not, proposes suggestions regarding the research result especially for the related parties, and suggestions for the next research.