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INTELLECTUAL CAPITAL AND AGENCY CONFLICT

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INTELLECTUAL CAPITAL AND AGENCY CONFLICT

ABSTRACT

The purpose of this research is discusses about the effect of intellectual capital on agency conflict through investment decision, financing decision, and dividend policy. This research uses panel data with sample of 90 manufacturing firms listed in Indonesia Stock Exchange (IDX) between 2004-2013. The firm has complete financial report and data to support this research, and not suspend or delisting. This research uses three stages least squares estimation technique to test simultaneous model and z-clogg to compare coefficient between two models. Simultaneous model also show that negative effect of investment decision, financing decision, and dividend policy on value of the firm reduce with the existence of higher intellectual capital. Based on the analysis, it can be concluded that investment decision, financing decision, and dividend policy show agency conflict. Higher intellectual capital on the firm help to reduce agency conflict in the firm, so that it can be concluded that intellectual capital can direct the management behavior leading to decisions that increase the value of the firm.

Keywords: intellectual capital, investment decision, financing decision, dividend policy, agency conflict

JEL Classifications : G3, G30, G32

INTRODUCTION

The firm growth that increasingly large and complex certainly requires a complex management too. At first, the management of the firm does not require a separation between ownership and control but at the later stage it grows to be separated between ownership and

control. This is due to the shareholders of the firm need others to manage the firm. Jensen & Meckling (1976) stated that the separation between ownership and control induced an agency relationship between the shareholders (principals) of the firm with the manager (agent).

This agency relationship also means that the principals delegate some authority to the manager to make corporate decision and policy on behalf of the firm's principals. Manager in their decision making for the principals could heed his/her own interest or does not have goal congruence with the principals hence it creates an agency conflict. The agency conflict that occurs to the firm can cause loss to the wealth of shareholders (Jensen & Meckling, 1976).

The financial function in companies run by the top-level management that is the finance director or chief financial officer (CFO). The duty of financial managers are make three primary finance decision which are the appropriate investment decision, financing decision, and dividend policy to maximize the shareholders value (Brigham & Houston, 2004). The shareholders value is reflected from the price per share of the firm. The investment decision is a process to identify investment opportunities that add value and make a decision to execute these opportunities. The financing decision is a firm decision to decide the optimal capital structure for the operational of the firm. The optimal capital structure is the combination between debt and equity for the firm's operation. Dividend policy is a policy that is taken to determine the portion of net income distributed to the shareholders in the forms of dividend by considering the need of internal fund to face the profitable projects.

Empirical evidences those support the investment decision to the firm's value. The investment decision affect positively to the firm's value when the investment of the firm has not reach the optimal level or there are investment opportunities with a certain quality and affect negatively to the firm's value when the investment has passed the optimal level (Del Brio et al., 2003; Fen Hsiao et al., 2011; Morgado & Pindado, 2003). Other evidences obtain

through research conducted by Chen et al. (2006) found out that the investment decision took negative effect to the firm's value and Kim et al. (2005) found that investment decision of the firm that affiliated with chaebol (big group) in Korea did not increase the firm's value because the investment encounter overinvestment.

Empirical evidences those support the effect of financing decision to the firm's value. Debt had a positive effect to the firm's value (Afzal & Rohman, 2012; Antwi et al., 2012; Chowdury & Chowdury, 2010; Ogbulu & Emeni, 2012). The opposites argued that debt did not affect to the firm's value (Fenandar & Raharja, 2012; Naceur & Goaid, 2002; Negi et al., 2012; Rakhimsyah & Gunawan, 2011). Alonso et al. (2005), Itturiaga & Crisotomo (2010) stated that debt affect negatively to firm's value when the firm has high growth opportunities and debt affect positively to the firm's value when the opportunities growth of the firm are low.

Empirical evidences those support the effect of dividend policy to the firm's value. The dividend policy had a positive effect to the firm's value (Baker et al., 2002; Fenandar & Raharja, 2012; Gregoriou, 2012). Dividend had a positive effect to the firm's value when the firm has no growth opportunitites and did not affect when it has growth opportunities (Alonso et al., 2005; Itturiaga & Crisotomo, 2010; La Porta et al., 2000). The opposites argued by Modigliani & Miller (1961) that dividend did not affect the share value and it supported by the research of Afzal & Rohman (2012), Naceur & Goaid (2002), Rakhimsyah & Gunawan (2011) whose found that dividend did not has effect to the firm's value.

Tseng & Goo (2005) suggested a theoretical framework of the research is based on resources based theory on the micro perspective, the intellectual capital is firm's assets in driving firm value through the process of value creation. Intellectual capital is important assets which has a dominant role rather than the firm's physical asset with the shift of the

economy from industrial based economics to a knowledge based economics to achieve the competitive advantage and create firm value (Sudarsanam et al., 2005).

Pulic (2000) developed a firm's intellectual capital measurement that is value added intellectual coefficient (VAIC™) and divide the intellectual capital into two those are human capital and structural capital, furthermore he enclose the capital employed which describes the firm input in a form of financial asset and fixed asset. Pulic (2000) also stated that the higher the value of VAIC™, it means the better management in utilize or manage the firm's potential. Pulic (2004) stated that the value of VAIC™ shows intellectual ability. VAIC™ is used by several researchers such as Chen et al. (2005), Maditinos et al. (2011), Tan et al. (2007), and Zeghal & Maaloul (2010).

Management that consists of several managers is agents in the agency theory and shareholders as principal. Management that supported by structural capital of the firm constitute the firm intellectual capital in micro perspective. The role of the management is to optimize firm value as the wealth of the shareholder through the investment decision, financing decision, and dividend policy. Past research found that intellectual capital had a positive effect to the firm's value (Appuhami, 2007; Chen et al.,2005; Shiu, 2006; Tan et al., 2007; Zeghal & Maaloul, 2010), which showed that the higher the intellectual capital could increase the firm's value. Based on the agency relationship perspective shows that there is goal congruence between the management and the shareholders.

The relationship between intellectual capital and financial decision explained by Sudarsanam et al. (2005) and Tayles et al. (2006) whose stated that intellectual capital has contributed to the competitive advantage and value creation through the identification of investment opportunities. Furthermore, Hackbart (2008) stated that manager who has orientation toward value creation could take financing decision with considering to tax savings, default risk, and taking into account the firm's operation efficiency.

The previous empirical evidences those explain about the effect of investment decision, financing decision, and the dividend policy against the difference in firm's value. The previous empirical evidences explain about the effect of positive intellectual capital against the value of the firm. Furthermore, a research has been conducted and it's really interesting to search deeply about the role of intellectual capital on the agency conflict in taking the investment decision, financing decision, and dividend policy in a manufacturing firm that go public in Indonesia. Hence, the purposes of this research are: (1) to examine the intellectual capital against the agency conflict with look at the effect of investment decision on the value of the firm. (2); to examine the intellectual capital against the agency conflict with look at the effect of financing decision on the value of the firm; (3) to examine intellectual capital against the agency conflict with look at the effect of dividend policy on value of the firm.

This research contributes to the literature of financial research by providing empirical evidence about the effect of the intellectual capital in agency conflict that occurs in three major financial decisions are investment decision, financing decision and dividend policy. This methodology used in this research is also different from the previous research, this research examines the role of intellectual capital on agency conflict by comparing the effect of investment decision, financing decision and dividend policy on value of the firm before and after the effect of intellectual capital with z-clogg which proposed by Clogg et al. (1995) and Paternoster et al. (1998).

LITERATURE REVIEW

Theoretical Background

The separation between the ownership and control causes delegation of authorities from the shareholders to the manager to take decision and policy on behalf of the shareholders. This

delegation of some authority shew an agency relationship (Jensen & Meckling, 1976). The role of manager is to maximize the wealth of the shareholders through the price per share. This agency relationship also create asymmetry of information between the shareholders and manager because the manager has more information about the internal condition of the firm. Jensen & Meckling (1976) also stated that decision and policy that taken by manager did not always maximize the shareholders value or does not align with the shareholder's interest, those it create an agency conflict that could make a loss in wealth for the shareholders.

Jensen & Meckling (1976) stated that the agency conflict that occurs between the shareholders and the manager could be minimize with the used of debts, this is because debt used for the purpose of credits hence there will be a control over the manager activity in taking decision and policy for the firm. Supported by study of Lee & Lee (2014) which found that higher level of leverage can reduce agency conflict. Jensen (1986) stated that agency conflict arose to the internal fund of the firm that is used for financing the investment. This agency conflict arose when the manager could use the fund for investment without precaution and led to overinvestment. This agency conflict could be overcome by distribute the profit in the form of dividend to the shareholders. The financing of the investment could used the fund in the form of debt. Debt could make the manage more carefully in taking decision rather than using the firm's internal fund. This is because the manager had a responsibility to returns the principal and interest of the debt to the creditors. Supported by the study of Khan et al. (2012) found that leverage can reduce the agency cost of free cash flow.

Modigliani & Miller (1963) regarded the benefits of the debt as tax savings (tax shield trade off) which concluded that the use of debt could be a positive influence on the value of the firm because of the interest arising from the debt resulted in tax savings, so the higher debt might increase the firm's value due to the increase in earnings. The use of debt by the firm also led to companies run the risk of bankruptcy. Trade-offs between tax savings and

bankruptcy costs led to the optimal capital structure. Risky debt could negatively affect the value of the firm. Myers (1977) stated that the issuance of risky debt could negatively affect the value of the firm, it is because using risky debt could cause the firm skip the investment opportunities with positive net present value which could contribute positively to the firm's value. Myers also stated that investment decisions reflected the going concern of the firm and the firm's ability to generate future cash flows.

Modigliani & Miller (1961) suggested that the dividend did not affect the stock price, since the firm's shareholders could benefit through dividends or share price increase and, if need cash then shareholders may sold some shares increased due to investment decisions. Rozeff (1982) stated that the firm set a lower dividend payment when the firm has a high growth opportunities that could lead to higher investment spending. This was due to the high cost of external financing. Rozeff (1982) also stated that the firm establishes a lower dividend payment when facing a higher beta coefficient that described that companies faced higher operating and financial leverage. This is because the firm already had a high level of fixed costs and to avoid the costs of external financing so that the firm paying the dividends is lower. Rozeff (1982) suggested that the payment of dividends the firm could reduce agency costs, but on the contrary that the payment of dividends also increased the transaction costs of external fund. The optimum level of dividend payment is the payment of dividend that can minimize the sum of these costs. Rozeff (1982) through the research found that the growth of the firm and beta negatively affect the firm's dividend payments.

Intellectual Capital

Intellectual capital is an important asset that had more role rather than a firm physical asset in the knowledge based economic era to enhance competitive advantage and create firm's value (Pulic, 2004). Karchegani et al. (2013) stated that intellectual capital is a vital assets that can

help organization to create value. Tseng & Goo (2005) stated that intellectual capital is an intangible firm asset which has role in the process of value creation. Brennan & Connel (2000) and Chen et al. (2005) stated that the difference between market value and firm book value which did not be able to be identified in the financial statement could be explain by the firm intellectual capital that acts as a source of economic value creation and firm competitive advantage that more dominant. This was supported by Appuhami (2007), Chen et al. (2005), Shiu (2006), Tan et al. (2007) and Zeghal & Maaloul (2010) that the intellectual capital had a positive effect to the firm's value in agency relationship perspective describe that there is a goal congruence between the shareholders and manager. Alipour (2012) found that better intellectual capital of the firm can generate better financial performance.

Intellectual capital consists of human capital and structural capital and the higher the intellectual capital shew the better management (Pulic, 2000). Marr et al. (2004) defined human capital as expertise, competency, commitment, motivation, loyalty, and skills to solve problems, creativity, education, and attitude. Bontis (1998) defined human capital as combination of genetic inheristance, education, experience and attitude. Bontis (1998) defined structural capital as a structure and mechanism of organization to support the employee to reach an optimum intellectual performance and the whole business performance and also stated that individual could have a high intellectual but when the organization had a bad system and procedure then the intellectual capital could not reach it maximum potential. Pablos (2004) stated that structural capital is knowledge in a certain level of the organisation and it would stay to the organisation when the employe left the employment. Massaro et al. (2012) stated that control system management is a part of structural capital.

Business Phenomenon in Indonesia

Business phenomenon in Indonesia about the effect of investment decision on the firm's value showed that there is an agency conflict in the firms in Indonesia. This shown by Setiani (2013) that conducted a research in a automotive firm at year 2004-2007 showed that the investment decision did not affect the firm's value. Cahyaningdyah & Ressany (2012) that conducted a research to a BUMN firm in the year 2008-2010 showed that the investment decision had a negative effect to the firm's value. Wahyudi & Pawestri (2006) that conducted a research to a firm which listed to Indonesia Stock Exchange showed that the investment decision did not affect the firm's value.

The relationship between the financing decision and dividend policy to a firm's value in indonesia also show occurrence of agency conflict. This was shown by Prasetyorini (2013) that did a research to a basic industry firm and chemical in the year of 2008-2011 showed that in the used of debt did not affect the firm's value. Mahendra et al. (2012) that did a research to the manufacturing companies in the year of 2006-2009 showed that the financing decision and dividend policy had no effect on the firm's value. Yuliani et al. (2013) that conducted a research to all companies which listed to Indonesia Stock Exchange beside bank and financial institution showed that the investment decision and dividend policy had no effect to the firm's value.

Hypothesis Development

Based on the theoretical background, intellectual capital, and business phenomenon in Indonesia concluded that a better Intellectual capital could identify more optimal investment opportunities and takes investment decision that has added value so it will increase the firm's value. Sudarsaman et al. (2005) support by stated that intellectual capital has role in identifying the investment opportunities. Tayles et al. (2006) stated that a firm which has a

better intellectual capital had advantages in identifying investment opportunities in the future. A better intellectual capital also increases the firm's value by decreasing the investment when the firm is in overinvestment condition.

H₁ : Intellectual capital reduce the agency conflict in the investment Decision

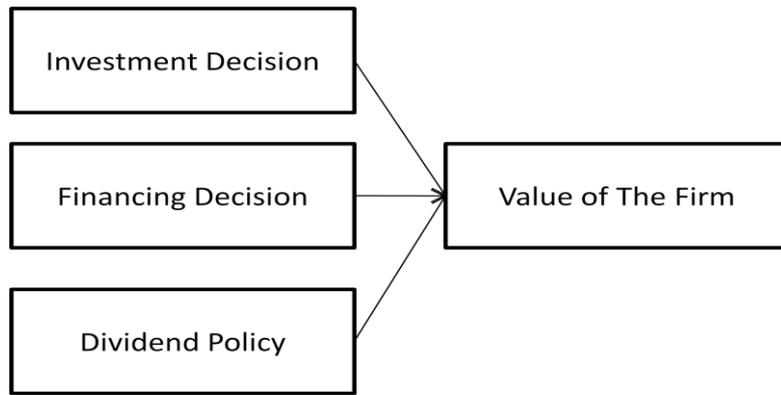
A better Intellectual capital could take financing decision optimally. Intellectual capital could increase the use of debt when the firm still get the benefits of the use of debt as control mechanism and tax savings and also able to manage the risk of firm bankruptcy. A better Intellectual capital able to increase the firm's value by decreasing debt when the firm faces a high bankruptcy risk. Hackbart (2008) support by stated that manager who has orientation to the firm value take financing decision with considering to tax savings, default risk and taking into account the firm's operating efficiency.

H₂ : Intellectual capital reduce the agency conflict in the financing decision

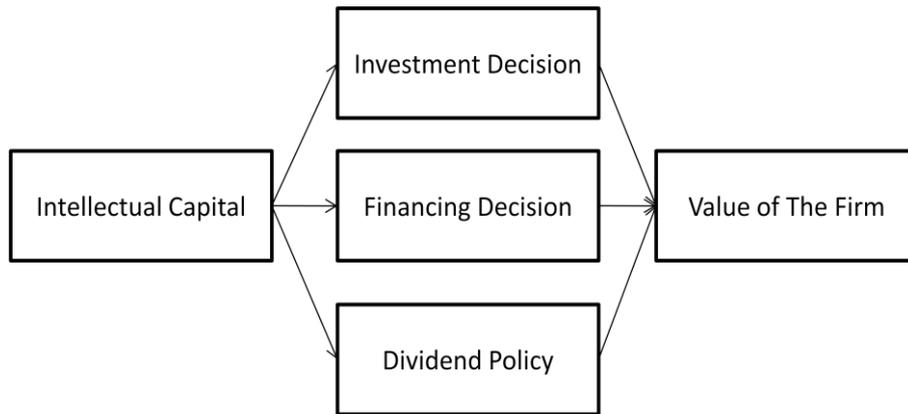
A better intellectual capital could take a dividend policy more optimally. Intellectual capital could distribute profit in the form of dividend when the firm is in the mature condition characterized by the lack of investment opportunities. Profit distribution in the form of dividend used as control mechanism for agency conflict to free cash flow of firm (Jensen, 1986). Intellectual capital could reduce dividend, when firm need internal fund to finance its investment opportunities, so it does not skip investment opportunities that has the added value due to the high cost of external funding.

H₃ : Intellectual capital reduce the agency conflict in the Dividend Policy

Based on literature review and research hypothesis, the conceptual structure research as follows :



Before the Effect of Intellectual Capital
(Suspected Agency Conflict)



After the Effect of Intellectual Capital
(Suspected Reduce Agency Conflicts)

Figure 1. Conceptual Structure

Figure 1 describes the effect of investment decision, financing decision, dividend policy to the firm's value before the effect of intellectual capital and after the effect of intellectual capital. The research looked at differences in agency conflicts by looking the effect of investment decisions, financing decisions and dividend policy on the value of the firm before affected by intellectual capital and after affected by intellectual capital.

RESEARCH METHOD

Data that used in this research is a secondary data in the form of panel data. Data that being collected is financial data in the form financial ratio on manufacturing firm which registered in Indonesia Stock Exchange in the year of 2004-2013. The data are obtained from Indonesia Stock Exchange (IDX) in the form of yearly financial report from the year 2004 until 2013 that can be found from www.idx.co.id and *Penelitian dan Pelatihan Ekonomika dan Bisnis (P2EB) Fakultas Bisnis dan Ekonomika Universitas Gadjah Mada (UGM)*. Samples of 90 companies are obtained by purposive sampling technique with three criteria (1) manufacturing firm listed in Indonesia Stock Exchange between 2004-2013; (2) manufacturing firm exposed yearly financial report that are completed in the observation period and providing complete information for the purposes of this research; (3) The firm did not suspend or delisting. The following list of companies by industry group show on Table 1 as follows :

Table 1. *Samples by Industry Group*

No	Industry Group	Qty
1	Footwear	1
2	Pharmacy	8
3	Cables	6
4	Wood and Processing	2
5	Ceramic, Porcelain, Glass	4
6	Chemical	7
7	Cosmetics and Household Goods	3
8	Metal	11
9	Food and Beverages	10

No	Industry Group	Qty
10	Automotive and Component	11
11	Animal Feed	2
12	Household Appliances	3
13	Plastics and Packaging	5
14	Pulp and Paper	2
15	Cigarette	3
16	Cement	3
17	Textiles and Garments	9
Total		90

Source : data processed

This research uses three stages least squares (3SLS) and difference coefficient test in the two equations in hypothesis testing. Difference coefficient test in the two equations follow the methods proposed by Clogg et al. (1995) and Paternoster et al. (1998). The following two simultaneous equations, each of which consists of four equations that were developed and tested in this study are as follows :

First Simultaneous Equation

$$GCI_t = \alpha + \beta_{11}SZE_t + \beta_{12}BEP_t + \beta_{13}SLS_t + \varepsilon_i + \varepsilon_t + \varepsilon_{it}$$

$$IBD_t = \alpha + \beta_{21}BEP_t + \beta_{22}SZE_t + \beta_{23}RBS_t + \beta_{24}CVA_t + \varepsilon_i + \varepsilon_t + \varepsilon_{it}$$

$$DYR_t = \alpha + \beta_{31}RBS_t + \beta_{32}BEP_t + \beta_{33}SZE_t + \varepsilon_i + \varepsilon_t + \varepsilon_{it}$$

$$LSP_t = \alpha + \beta_{41}GCI_t + \beta_{42}IBD_t + \beta_{43}DYR_t + \beta_{44}BEP_t + \varepsilon_i + \varepsilon_t + \varepsilon_{it}$$

Second Simultaneous Equation

$$GCI_t = \alpha + \beta_{51}VAIC_t + \beta_{52}SZE_t + \beta_{53}BEP_t + \beta_{54}SLS_t + \varepsilon_i + \varepsilon_t + \varepsilon_{it}$$

$$IBD_t = \alpha + \beta_{61}VAIC_t + \beta_{62}BEP_t + \beta_{63}SZE_t + \beta_{64}RBS_t + \beta_{65}CVA_t + \varepsilon_i + \varepsilon_t + \varepsilon_{it}$$

$$DYR_t = \alpha + \beta_{71}VAIC_t + \beta_{72}RBS_t + \beta_{73}BEP_t + \beta_{74}SZE_t + \varepsilon_i + \varepsilon_t + \varepsilon_{it}$$

$$LSP_t = \alpha + \beta_{81}GCI_t + \beta_{82}IBD_t + \beta_{83}DYR_t + \beta_{84}BEP_t + \varepsilon_i + \varepsilon_t + \varepsilon_{it}$$

This research has variable called intellectual Capital (VAIC™) that is value added of intellectual capital (Chen et al., 2005); investment decision (GCI) is ratio working capital added gross fixed assets to total assets (Brigham & Houston, 2004); Financing decision (IBD) is the ratio of interest bearing debt to total asset (Hermeindito, 2002); dividend policy (DYR) is ratio dividend per shares to price per shares (Naceur et al., 2006); firm value (LSP) is natural logarithm from market capitalization (Anam et al., 2011); sales (SLS) is the ratio of sales to total assets (Vogt, 1994); business risk (RBS) is standard deviation from ratio of net income to total assets (Herdinata et al., 2013); firm size (SZE) is logarithm from total assets (Jensen et al., 1992); profitability (BEP) is the ratio of operational profit to total assets (Jensen et al., 1992).

The first stage in the preparation of simultaneous equations is to have order and rank. Simultaneous testing must meet over identified requirement ($K-k > m-1$) or exact identified ($K-k = m-1$) (Gujarati, 2004:753). K is exogenous variables of simultaneous equation; k is exogenous variables of specific equations; m is an endogenous variable in a certain equation. The second stage is to perform hausmann specification test by making reduced form equation by inserting the entire exogenous variable to the endogenous variable. Third stage is to find residual value and added the residual value to the research equation, and subsequently regressed using ordinary least squares (OLS), if residual coefficient significantly found then it meet the requirement simultaneous test. Fourth stage is to get residual coefficient from 4

equations in the research and do pearson correlation test, if significant correlation found then the analysis technique used is three stage least squares (3SLS). Once 3SLS test has been obtained, then further testing of difference coefficient from two equations with method found at Clogg et al. (1995) and Paternoster et al. (1998).

RESULTS

Table 2 shows the descriptive statistic from research variable of 90 companies as samples in this research. The average value from this investment decision variable (GCI) is 0.0962, this shows that generally 9.62% of the firm total assets are the result of new investment in the form of working capital and fixed assets. The average value from the financing decision variable (IBD) is 31.02%, this shows that 31.02% of firm assets generally funded by the interest bearing debt. The average value from dividend policy variable (DYR) is 1.64% and this shows that generally the firm distribute dividend per shares is 1.64% from the shares price.

The average value from firm value (LSP) is 7,384.32M, this shows that generally firm's market capitalization reached 7,384.32M. The average value of intellectual capital (VAICTM) is 3.1730, which means generally is added value for the shareholder in the form of net profit, for government in the form of tax, for creditors as interest, and for employees as salary that are 3 times from assets that being invested both in form salary or fixed asset.

Table 2. *Descriptive Statistic of Research Variable*

Variabel	Unit	N	Mean	Std. Dev.	Max	Min
GCI	Times	900	0,0962	0,1286	0,8104	-0,5165
IBD	Times	900	0,3102	0,3791	3,1116	0,0000
DYR	Times	900	0,0164	0,0247	0,1554	0,0000

Variabel	Unit	N	Mean	Std. Dev.	Max	Min
LSP	Billion	900	7,3843	28,8599	307,6750	0,0098
VAIC™	Times	900	3,1730	2,6317	25,8408	-15,8750
SZE	Billion	900	4,2142	13,9773	213,9940	0,0277
BEP	Times	900	0,0751	0,1445	0,9733	-0,8502
SLS	Times	900	1,2171	0,6650	5,6591	0,0199
CVA	Times	900	0,3559	0,2023	0,9979	0,0052
RBS	Times	900	0,0543	0,0443	0,2915	0,0045

Notes :

GCI = investment decision

IBD = financing decision

DYR = dividend policy

LSP = firm value

VAIC™ = intellectual capital

SZE = firm size

BEP = profitability

SLS = sales

CVA = asset structure

RBS = business risk

Test result of simultaneous equation in this research with using three stage least square (3SLS) shown :

Table 3. Simultaneous Equation Test Result

Variables	BEFORE AFFECTED BY INTELLECTUAL CAPITAL				AFTER AFFECTED BY INTELLECTUAL CAPITAL			
	GCI	IBD	DYR	LSP	GCI	IBD	DYR	LSP
INTERCEPT	-1,3707 (-3,78)***	2,0407 (3,39)***	-0,0295 (0,57)	53,6130 (4,18)***	-1,7334 (-4,91)***	2,5443 (4,50)***	0,0568 (1,29)	28,8704 (29,41)***
GCI				-35,5254 (-1,73)*				4,3496 (1,90)*
IBD				-37,3335				-4,5295

	BEFORE AFFECTED BY INTELLECTUAL CAPITAL				AFTER AFFECTED BY INTELLECTUAL CAPITAL			
					(-2,05)**			
DYR				-660,8335 (-1,91)*				-86,1781 (-1,65)*
VAIC					0,0075 (3,49)***	0,0158 (4,38)***	-0,0008 (-2,52)**	
SZE	0,1378 (4,47)***	-0,1375 (-2,68)***	0,0030 (0,68)		0,1644 (5,48)***	-0,1877 (-3,89)***	-0,0039 (-1,04)	
BEP	0,2939 (6,35)***	-0,5237 (-6,84)***	0,0019 (0,29)	-9,6418 (-1,44)	0,1973 (3,66)***	-0,6800 (-7,90)***	0,0113 (1,53)	-1,8797 (-2,16)**
SLS	0,0141 (1,23)				0,0205 (1,81)*			
CVA		-0,0574 (-0,78)				-0,0482 (-0,65)		
RBS		0,4160 (1,97)**	-0,0278 (-1,52)			0,2610 (1,19)	-0,0331 (-1,79)*	

Notes : *** = 1% significant level; ** = 5% Significant level 5%; * = 10% Significant level

10%

Table 4. Test Result of Difference Coefficient Test in Two Equation with Clogg Method

Variable	GCI	Variable	IBD	Variable	DYR
β_{41}	-35,5254	β_{42}	-37,3335	β_{43}	-660,8335
β_{81}	4,3496	β_{82}	-4,5295	β_{83}	-86,1781
$\beta_{81}-\beta_{41}$	39,8750	$\beta_{82}-\beta_{42}$	-32,8040	$\beta_{83}-\beta_{43}$	-574,6554
SE_{41}	20,4948	SE_{42}	18,2332	SE_{43}	345,7373
SE_{81}	2,2835	SE_{82}	1,2115	SE_{83}	52,1922
$\sqrt{(SE_{81}^2 + SE_{41}^2)}$	20,6216	$\sqrt{(SE_{82}^2 + SE_{42}^2)}$	18,2734	$\sqrt{(SE_{83}^2 + SE_{43}^2)}$	349,6546

Z-Clogg	1,93**	Z-Clogg	1,80**	Z-Clogg	1,64*
Z-table (5%)	1,65	Z-table (5%)	1,65	Z-table (10%)	1,34

Notes : ** = 5% Significant level 5%;* = 10% Significant level 10%

ANALYSIS AND DISCUSSION

The empirical test result in Table 3 found that the investment decision in the manufacturing companies in indonesia before affected by intellectual capital has a negative effect ($\beta_{41} = -35,5254$) to the firm's value. Investment decision lowered the firm's value, based on the agency theory perspective shown that investment decision which taken by the manager in the firm who received delegation from the shareholders did not maximize the shareholder value or agency conflict arose. This can be explained that the investment decision which taken by the manager reached overinvestment so it has a negative effect to the shareholder value. This research supported by the research that conducted by Cahyaningdyah & Ressany (2012), Chen (2006), Morgado & Pindado (2003) and Setiani. (2013).

The test result in Table 3 showed that the coefficient of investment decision before affected by intellectual capital ($\beta_{41} = -35,5254$) has a negative effect to the firm's value and significantly with significant level at 10%. The test result showed that the coefficient of investment decision after the influence of intellectual capital ($\beta_{81} = 4,3496$) has a positive effect and significantly with significant level of 10% to firm's value. The test result on Table 4 showed that value of z-Clogg (1.93) > z-table (1.65) means that first hypothesis (H_1) of this research could not be rejected that is intellectual capital reduces agency conflict in investment decision and it means that the better intellectual capital consist of human capital and structural capital can generate better investment decisions that enhance firm's value and it's also means that agency conflict of the firm reduced.

The explanation of the result is firm in their investment decision faced in the process of investment opportunities identification. Investment opportunities identification process need an accuracy in estimating the rate of return of investment and net present value (NPV) of investment. The accuracy level of rate of return return of investment and NPV depends on the accuracy in estimating the revenue that could be earned by the firm over the next few years, and expenses that spent by the firm. The accuracy in estimating revenue requires analysis of competition intensity. This research found that better intellectual capital in a manufacturing firm that registered in Indonesia Stock Exchange could reduce the agency conflict in investment decision. This explains that intellectual capital in Indonesia could identify optimally investment opportunities and taking investment decision that could increase the firm value.

The empirical test result in Table 3 found that financing decision in manufacturing companies in Indonesia before affected by intellectual capital has a negative effect ($\beta_{42} = -37,3335$) to the firm's value. Debt financing could decrease the firm's value, this was cause by the higher use of debt make a higher bankruptcy risk to be borne by the shareholders of the firm. Hermeindito (2002) found that debt has no linear relationship to the firm's value and found that debt until optimal level has a positive relationship with firm's value and vice versa when has passed it optimal level. Bankruptcy risk that borne by the firm lead manager to skip several profitable projects, this was supported by Alonso et al. (2005), Itturiaga & Crisotomo (2010), Myers (1977), and Stulz (1990).

The test result in Table 3 showed that the coefficient of financing decision before affected by intellectual capital ($\beta_{42} = -37,3335$) has a negative effect to the firm's value and significantly with significant level at 5%. The test result showed that the coefficient of financing decision after affected by intellectual capital ($\beta_{82} = -4,5295$) has a negative effect and significantly to the significant level at 5% to the firm's value. The test result on Table 4

showed that value of z-Clogg (1.80) > z-table (1.65) means that second hypothesis (H₂) of this research could not be rejected that is intellectual capital reduce the agency conflict in financing decision and it means that the better intellectual capital consist of human capital and structural capital can generate better financing decisions that enhance firm's value and it's also means that agency conflict of the firm reduced.

The explanation about the finding in this research is the use of debt have several benefits that are agency conflict mechanism and tax savings. Other than benefits, debt also contains bankruptcy risk which means the higher the debt, then the higher bankruptcy risk that borne by the firm. The findings about this research shows that the higher intellectual capital in manufacturing firm that registered in Indonesia Stock Exchange could not remove agency conflict, but could reduce the agency conflict in the financing decision. This shows that intellectual capital in Indonesia could take financing decision optimally and manage the bankruptcy risk so it increases the firm value.

The empirical test result in Table 3 found that dividend policy in manufacturing companies in Indonesia before affected by intellectual capital has a negative effect ($\beta_{43} = -660,8335$) to the firm's value. Dividend policy is a policy to distribute profit to the shareholders. La Porta et al. (2000) found that mature firm made more dividend payment more than growth condition firm. Firm which has higher growth opportunities, need financing in doing its investment. The negative effect to the firm's value showed that the firm need internal fund to fund its investment and avoid the external fund. Companies avoided external fund because external fund are expensive (Easterbrook, 1994) and when firm use debt then firm will borne fixed fee in the form of interest. Rozeff (1992) stated that dividend payment lower when the firm face high growth opportunities and firm that has borne debt with interest will pay dividend lower to avoid the external fund.

The test result in Table 3 showed that the coefficient of dividend policy before affected by intellectual capital ($\beta_{43} = -660,8335$) has a negative effect to the firm's value and significantly with significant level at 10%. The test result showed that the coefficient of dividend policy after affected by intellectual capital ($\beta_{83} = -86,1781$) has a negative effect and significantly with significant level at 10% to the firm's value. The test result in Table 4 showed that $z\text{-Clogg} (1.64) > z\text{-table} (1.34)$ means that third hypothesis (H_3) of this research could not be rejected that is intellectual capital reduce the agency conflict in dividend policy and it means that the better intellectual capital consist of human capital and structural capital can generate better dividend policy that enhance firm's value and it's also means that agency conflict of the firm reduced.

The explanation about this research is firm confronted into 2 important decision when it made a profit in its operation that are decision to reinvest the profit and decision to distribute the profit in the form of dividend. Indonesia as a growing country make the profit distribution in term of dividend also need to consider many factor so that the dividend distribution do not lead to skip profitable projects, dividend cuts in the future, or sell new equity. The result shows that higher intellectual capital in the manufacturing firm that listed in Indonesia Stock Exchange could not remove agency conflict, but could reduce agency conflict in dividend policy. This shows that better intellectual capital could manage a better firm internal funds and take dividend policy more optimal so it increase the firm value.

Finding of this research in Table 4 shows that higher intellectual capital could reduce agency conflict through investment decision, financing decision and dividend Policy. A better intellectual capital could direct the management behavior which will decrease the agency conflict so it could increase the firm value through investment decision, financing decision, and dividend policy that are taken. The research supported by Tseng & Goo (2005) stated that intellectual capital affected the process of firm value creation. This also supported by the

research conducted by Appuhami (2007), Chen et al. (2005), Shiu (2006), Tan et al. (2007), and Zeghal & Maaloul (2010) found that intellectual capital had a positive effect to the firm value.

Research about the effect of intellectual capital to the firm's value has different result as Maditinos et al. (2011) found that intellectual capital did not affect the firm's value creation in Greece, this is due to the relatively small companies and the lack of application of modern management. Kamath (2008) who conduct research in a pharmacy firm in India and Firer and Williams (2003) who conduct their research in South Africa supports Maditinos et al. (2011) and found that intellectual capital had not effect on firm's value creation, due to fixed assets is the main assets that give more firm's performance. Gan & Saleh (2008) that did a research in Malaysia also supported Firer & Williams (2003).

RESEARCH IMPLICATIONS

The results of this study have implications on the development of agency theory. The research looked at the role of intellectual capital which is an agent in the agency relationship in reducing the agency conflict in the key financial decisions which are investment decisions, financing decisions and dividend policy.

The results of this study have implications on the company's policy which is the importance for companies to develop intellectual capital in dealing increasingly intense competition and create value for the company, it is because the company has the intellectual capital that is better able to make an investment decision, financing decision and dividend policy which increases the value of the company.

The results of this study have implications on the investor be important to look at the factors of intellectual capital in investing or lending company. This is because the intellectual capital is very important asset for the company that create value in the financial decision

which are investment decision, financing decision and dividend policy. The intellectual capital also reduce the agency conflict in investment decision, financing decision, and dividend policy.

The results of this study have implications on the form of government regulations need to be assessed on the companies listed on the Indonesian Stock Exchange to report the performance of intellectual capital in the Indonesian capital market directory (ICMD) and the company's annual report. The results of this study have implications on the government in the form of the importance of intellectual capital development in Indonesia, it is because the intellectual capital can take decisions and policies that may enhance shareholder value.

CONCLUSION

The conclusion that can be taken to answer the research problem is (1) the negative effect of investment decision experience reduction after the influence of intellectual capital. This shows that the intellectual capital reduce the agency conflict that occurs on the investment decision; (2) the negative effect of financing experience reduction after the influence of intellectual capital. This show that intellectual capital reduces the agency conflict that occurs on the financing decision; (3) the negative effect dividend policy experience reduction after the influence of intellectual capital. This shows that the intellectual capital reduce the agency conflict that occurs to the dividend policy.

LIMITATIONS OF THE STUDY

Limitations of this study are as follows :

1. This study uses only one proxy for each variables that VAIC™ for intellectual capital, gross capital investment for investment decisions, interest bearing debt for financing decisions, dividend yield for dividend policy, and market capitalization for the firm's

value. Further studies using other proxies in the measurement is needed to further explain the effect of intellectual capital on agency conflicts and to avoid measurement error.

2. This study is limited to manufacturing companies listed in Indonesia Stock Exchange. Each industry has different characteristics, so that different results can occur in other types of industries.

SCOPE FOR FURTHER RESEARCH

Scope for further research are as follows :

1. The study is in measuring intellectual capital using VAIC TM. The further research is suggested to use another proxy in measuring intellectual capital.
2. Further research can use the sample in addition to manufacturing companies to look at the role of intellectual capital in the field of business.
3. Further research can add corporate governance and risk management to see the effect of intellectual capital on the process of value creation in another perspective of financial management.
4. Further research can take a look at the interaction from investment decision, financing decision, and dividend policy to know the influence of intellectual capital to the firm's value through the interaction of these three decisions

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