Chapter 10
Ownership Structure and Intellectual Capital Performance:
Evidence From Indonesian Banking Companies

Siti Rochmah Ika
https://orcid.org/0000-0002-0493-2695
Janabadra University, Indonesia

Ari Kuncara Widagdo
https://orcid.org/0000-0001-6316-3913
Sebelas Maret University, Indonesia

ABSTRACT

The objective of this study is to examine the impact of ownership structure on intellectual capital performance. Ownership structure used in this study consists of family control, government ownership, and foreign ownership. Family control was measured by two proxies, namely the number of shares owned by a family and the presence of family on the boards. Meanwhile, this study uses the Value-Added Intellectual Coefficient to measure intellectual capital performance. Ninety-two bank observations listed on the Indonesia Stock Exchange in the period 2013-2016 are used as a sample. Results of panel data regression indicate that the number of shares owned by the family positively associated with VAIC, on the other hand, the presence of families on the boards has no association with IC performance. The result indicates that a high degree of family ownership is likely to encourage managerial incentives to improve value creation activities. Government ownership and foreign ownership are also found to have a positive association with IC performance

DOI: 10.4018/978-1-5225-8266-3.ch010

Copyright © 2021, IGI Global. Copying or distributing in print or electronic forms without written permission of IGI Global is prohibited.

indicating that state-owned banks and foreign-owned banks in Indonesia tend to focus their attention more towards activities that can increase value creation than privately owned and domestic owned banks. This research provides insight into the role of the business owner to the capital market regulator in scrutinizing the efficiency of value creation activities.

INTRODUCTION

Nowadays, business communities argue that knowledge assets are more important than physical assets to create long term competitive advantage (Leon, 2016; Al-Sartawi, 2018). This indicates that there has been a shift in industrial patterns from productivity-based industries to knowledge-based industries. The term "knowledge-based industries" usually refers to those industries which are relatively intensive in using technology and/or human capital as the inputs (OECD, 1996). During the transition to knowledge-based industries, the basis of the company's growth gradually changes from tangible assets to intangible assets (Guthrie, 2001). The use of a group of intangible assets is the main issue of the concept of intellectual capital (IC) (Stewart, 1997).

IC has emerged as a pivotal resource for corporate success in recent decades (Saleh et al., 2009). According to The Indonesian Statement of Financial Accounting Standards (PSAK) revision (2007) Number 19, intangible assets are non-monetary assets that can be identified and intangible physical and owned for use in generating or deliver goods or services, leased, or for administrative purposes. It also refers to skills, knowledge experience, as well as organizational systems and procedures (Inn et al., 2015). Unlike financial and physical assets, intangible assets are difficult to imitate by competitors and make them as a prominent source of competitive advantage. Therefore, accounting scholars have emphasized the need for measuring, envisaging, and reporting IC to enhance management control and strategic practices (Guthrie & Dumay, 2015).

Saleh et al. (2009) state that there is a gap between a company's book value and market value. The gap exists as a hidden value in the annual report which failed to be reported under the traditional accounting system. The difference between market value and book value, in the long run, may be explained by the change in the sources of value creation since business communities have shifted from tangible assets to IC. Hence, it is important to assess the performance of the IC to measure the efficiency of value creation activities (Saleh et al., 2009).

According to agency theory, the separation of ownership and control leads to agency problems because the agent (management) acts at their best interest at the expense of the principal (shareholders) (Jensen & Meckling, 1976). Corporate

24 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/chapter/ownership-structure-and-intellectual--capital-performance/260845

Related Content

Primary Grades Teachers' Fidelity of Teaching Practices during Mathematics Professional Development

Christie Martin, Drew Polly, Chuang Wang, Richard G. Lambertand David Pugalee (2016). *Leadership and Personnel Management: Concepts, Methodologies, Tools, and Applications (pp. 1299-1316).*

www.irma-international.org/chapter/primary-grades-teachers-fidelity-of-teaching-practices-during-mathematics-professional-development/146442

Higher Education Approach to Quality Management

Dileep Baburao Baragde (2020). *Quality Management Principles and Policies in Higher Education (pp. 23-37).*

www.irma-international.org/chapter/higher-education-approach-to-quality-management/237614

Leading Beyond the Classroom: Three Cases of Teacher Advocacy

Kate M. Raymond, Elizabeth A. Ethridgeand Kathryn Fields (2023). *Cases on Servant Leadership and Equity (pp. 29-51).*

www.irma-international.org/chapter/leading-beyond-the-classroom/315171

A Paradigm Shift in Human Resource Policies: Adaptation of the Neuro Style of Leadership

Varun Nayyar, Shefali Salujaand Georgios L. Vousinas (2024). *Neuroleadership Development and Effective Communication in Modern Business (pp. 228-240).*

www.irma-international.org/chapter/a-paradigm-shift-in-human-resource-policies/345199

A Dynamic Capability to Determine Business Performance in the Post-COVID-19 Era: Organizational Agility

Ibrahim Yikilmaz (2023). *Change Management During Unprecedented Times (pp. 206-227).*

www.irma-international.org/chapter/a-dynamic-capability-to-determine-business-performance-in-the-post-covid-19-era/322663