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Do Intellectual Capital and Corporate Reputation Matter to Firm Value Enhancement: The Mediating Role of Financial Performance

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Abstract: This study examines the effect of intellectual capital and corporate reputation on firm value by mediating financial performance. Non-physical capital of the firm, such as intellectual capital and corporate reputation, that is considered good, becomes a positive signal for stakeholders so that it can affect the firm's high value through good financial performance. The research was conducted using a quantitative approach. The research analysis unit comprises food and beverage sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. The research sample of 23 companies was selected using the purposive sampling method, so the total research observations were 92 observations for four years. Data collection was carried out using documentation techniques, including data analysis using panel data regression analysis. The Sobel test was conducted to determine whether mediation occurred or not. The analytical tool used is Eviews 12 Enterprise software. The study's results provide evidence that intellectual capital and corporate reputation can indirectly affect firm value through the mediation of financial performance. The form of mediation that arises is full mediation.

Keyword: Intellectual Capital, Corporate Reputation, Financial Performance, Firm Value

INTRODUCTION

Firm value is the leading indicator in evaluating firm performance because this element is considered the most significant for companies and investors. Firm value is influenced not only by financial factors or tangible assets but also by intangible assets owned by the firm (Ni et al., 2021), such as intellectual capital and corporate reputation. Intellectual capital is vital in creating a sustainable competitive advantage for companies (Puspita & Wahyudi, 2021) because it can create added value in today's knowledge-based business era (Susanti et al., 2020). Increasing the firm's added value will impact the firm's profitability and wealth (Salvi et al., 2020). Intellectual capital is recognized as a strategic resource to improve organizational performance and processes (Alvino et al., 2021) because the knowledge and skills possessed by employees can create innovations that can improve performance and competitive advantage and increase stakeholder confidence in the firm so that in the end it can increase firm value (Anik et al., 2021). Intellectual capital disclosure can affect firm value in two ways. Namely, first, intellectual capital disclosure can increase the firm's cash flow because, through this disclosure, investors can know the firm's future performance; second, intellectual capital disclosure can reduce information asymmetry between management and owners so that the cost of equity capital decreases and firm value can increase (Salvi et al., 2020).

Reputation is a collective observation of a firm based on an assessment of the impact of the firm's establishment on financial, social, and environmental matters over time (Afifah et al., 2021). It can represent past performance and is a picture of the firm's future competitive advantages compared to its competitors (Oktavianus et al., 2022). Corporate reputation is a unique strategic resource that cannot be duplicated and is able to provide a competitive advantage that will indirectly affect the firm's financial performance. A good reputation is an essential intangible resource for companies because it can reduce stakeholder uncertainty regarding the firm's future performance, strengthen the firm's competitive advantage, and contribute to consumer confidence to maximize profits and create high value for the firm (Aminatuzzuhro et al., 2024). Profits can be maximized for companies with a good reputation because they can provide premium prices for their products because customers already believe that the price will match the quality of the product received. Besides that, with a good reputation, it will be easy for companies to get competent employees, customers, and investors to increase profitability and firm value (Oktavianus et al., 2022). Companies that have employees with abundant knowledge of innovation and creativity and are supported by a good corporate reputation will encourage investors to invest in the firm so that the firm's value can increase.

The results of Ni et al. (2021) prove that firm value is positively influenced by the intellectual capital owned by the firm. Companies with highly knowledgeable employees will find it easier to innovate following the development of knowledge and technology, thus encouraging higher public consumption and investment; ultimately, this will positively impact the firm's value. Disclosure related to intellectual capital can affect the firm's market value because, through these disclosures, stakeholders can know the firm's actual value (Ousama et al., 2020). Salvi et al. (2020) also found evidence that the three components of intellectual capital, namely human capital, structural capital, and capital employed, can affect firm value. Belo et al. (2021) conducted a study to estimate the contribution of each variable studied in explaining the firm's market value and obtained the results that labor and intangible capital inputs, such as intellectual capital, are important for companies to increase firm value. However, some studies state the opposite result. Anik et al. (2021), Putri et al. (2022), Fadillah and Noormansyah, (2023) stated that intellectual capital does not affect firm value.

Regarding company reputation, Midiantari and Agustia (2020) state that firm reputation has a positive effect on firm value because a good reputation will provide a positive signal for investors. A good reputation can maintain firm value even when the firm is under pressure or in trouble. Companies and stakeholders can reduce the risk of financial difficulties by strengthening the firm's reputation (Aminatuzzuhro et al., 2024). Afifah et al. (2021) research also provides evidence that corporate reputation has a positive effect on firm value; a good reputation makes it easier for companies to get resources and full support from stakeholders and increase customer loyalty so that in the end, the value and survival of the firm can be guaranteed. However, this research aligns differently from the research of Amalia & Dalljono (2021) and Permatasari, (2023), which state that corporate reputation does not affect firm value.

The gap that occurs in the results of previous studies and the statement of Belo et al. (2022) is the basis for this research. Belo et al. (2021) stated that non-physical capital inputs such as knowledge capital and brand capital are very important for the firm's value, as seen from the percentage contribution of each input in explaining the firm's market value. Therefore, this study aims to examine the effect of intellectual capital and corporate reputation on firm value with financial performance mediation. High intellectual capital and good corporate reputation become positive information and signals for investors when assessing a firm, while financial performance can mediate both relationships. Employees with high competence, motivation, and commitment are supported by an infrastructure that provides opportunities for employees to use their expertise and knowledge to improve the firm's financial performance due to the creation of the firm's competitive advantage from its intellectual capital (Ali et al., 2022). Likewise, the firm's reputation and good reputation will increase public and investor confidence so that the value of demand and supply for products increases, which has an impact on increasing productivity so that financial performance also increases (Oktavianus et al., 2022). Increased financial performance will increase the value of the firm due to the positive response given by investors. The adequate profit generated by the firm is a positive signal for investors and other stakeholders because high financial performance illustrates that the firm has good management to maximize profits, which will have an impact on increasing firm value (Ermawati et al., 2023).

Signaling Theory

Stakeholders need complete, relevant, and accurate firm information to make investment decisions in the capital market. However, the existence of information asymmetry makes it difficult for stakeholders to assess the firm's quality for decision-making objectively. Therefore, stakeholders need information or signals from the firm (Jao et al., 2020). Signaling Theory states that companies convey information to stakeholders as a signal to inform the firm's current condition (Endiana and Suryandari, 2021). High-quality companies will provide positive signals that prove their superiority to the market. The firm's reputation and well-managed intellectual capital can also be a positive signal to stakeholders. These positive signals make investors and stakeholders increase the value of the firm through an increase in stock prices.

Resource-Based Theory

Resource-Based Theory states that companies must manage their internal resources effectively to achieve competitive advantage in the business world (Salvi et al., 2020). Companies that utilize internal resources will be better than companies that only rely on external resources. Intellectual capital and corporate reputation are internal resources that must be managed effectively as value-added assets to make the firm superior to its competitors (Lestari & Satyawan, 2018). Resource-based Theory explains that the firm's competitive advantage will increase its attractiveness, so more investors will invest. This will encourage increased stock prices and firm value on the stock exchange (Permatasari, 2023).

Stakeholder Theory

Stakeholder Theory emphasizes that the primary purpose of the firm is not only to serve its interests but also to benefit stakeholders. Managers must manage the firm environment effectively to get stakeholder support to create a going concern in the long term (Wulandari and Purbawati, 2022). Stakeholders have the right to access all information in the firm to make the right decisions. The information needed includes the firm's environmental, social, and intellectual performance. In the context of intellectual capital, stakeholders have an interest in influencing firm management to utilize the firm's potential, including employees, physical assets, and structural capital. Effective management and an excellent corporate reputation will create added value in the firm, encourage financial performance, and ultimately increase firm value (Kumala et al., 2023)

Intellectual Capital and Financial Performance

Intellectual capital can affect the firm's financial performance. Companies that have resources with high ability, competence, motivation, and commitment tend to be able to create competitive advantages that can compete in the market, mainly if supported by an infrastructure that provides opportunities for employees to use their expertise and knowledge so that firm productivity can increase and this will affect the increase in firm financial performance (Natsir and Bangun, 2021; Ali et al., 2022). Pratama and Innayah (2021) added that efficient and effective intellectual capital management will result in higher financial performance. Previous research has proven that intellectual capital has a positive effect on financial performance, such as research by Nuryaman (2015), Soewarno and Tjahjadi (2020), Susanti et al. (2020), Xu and Li (2022), Anik et al. (2021), Pratama and Innayah (2021), Ali et al. (2022), Foster et al. (2022). Based on the explanation above, the hypothesis that can be formulated is as follows: H1: Intellectual capital has a positive effect on financial performance.

Corporate Reputation and Financial Performance

Corporate reputation is a valuable asset of the firm in the eyes of stakeholders. A good reputation will positively impact the firm (Tischer and Hildebrandt, 2014). A good corporate reputation provides many strategic benefits for the firm, namely increasing shareholders' investment and profitability and increasing the number of stakeholders interested in the firm (Jao et al., 2020). Firm management will maintain an excellent corporate reputation by increasing productivity and stakeholder trust. Increased productivity and trust gained from stakeholders influence future financial performance projections. This is supported by Oktavianus et al. (2022), showing that corporate reputation has a positive and significant effect on financial performance. A good reputation indicates that stakeholders have confidence in the firm to manage all of its assets and encourage the creation of good financial performance in the future. Based on the explanation above, the hypothesis that can be formulated is as follows: H2: Corporate reputation has a positive effect on financial performance.

Financial Performance and Firm Value

Financial performance as a firm achievement can be reflected in the firm's financial condition in managing business assets to generate profits. Financial performance is one of the supporting factors for investors in making investment decisions (Putra and Marlina, 2021). High financial performance illustrates that the firm has good management to maximize profits from the resources and sources of funds owned by the firm (Ermawati et al., 2023). This is a positive signal for investors to invest their share capital in the firm. This increase in positive investor response will impact the increase in firm value. This statement is supported by the results of Agustin et al. (2022), which state that one of the investor strategies when investing in a firm is to assess the condition of the firm through its financial performance. Good firm financial performance will have an impact on good firm value as well. Likewise, the results of research by Natsir and Bangun, (2021), Susanti et al. (2020), Anik et al. (2021), Ermawati et al. (2023), Suzan and Ramadhani, (2023), Suyanto and Bilang (2023), which state that financial performance has a positive effect on firm value. Based on the explanation above, the hypothesis that can be formulated is as follows: H3: Financial performance has a positive effect on firm value.

Intellectual Capital and Firm Value

As an internal resource of the firm, intellectual capital can affect its market valuation. The firm's competitive advantage can be realized with good intellectual capital management to produce economic benefits that are useful for the firm's future continuity. Well-managed intellectual capital will improve the firm's performance, which will be a positive signal for stakeholders, allowing more investors to invest and the firm's value to increase (Lestari and Satyawan, 2018). This is supported by research conducted by Berzkalne and Zelgalve (2014), Nuryaman (2015), Midiantari and Agustia (2020), Ni et al. (2021), Ousama et al. (2020), Salvi et al. (2020), which state that intellectual capital using the VAIC^{TM} method affects firm value. Lestari and Satyawan (2018) state that companies that can manage intellectual capital well can compete so that the firm's survival is guaranteed and investors feel safe to invest in the firm, thus affecting the increase in firm value. Based on the explanation above, the hypothesis that can be formulated is as follows: H4: Intellectual capital has a positive effect on firm value.

Corporate Reputation and Firm Value

Corporate reputation is an assessment given by stakeholders to the firm. This value comes from stakeholders' perceptions and interpretations of the firm's success rate and firm image from time to time (Wicaksono, 2020). A good assessment will positively impact the firm's good reputation and vice versa. A good reputation can reduce stakeholder uncertainty about the firm's future performance, strengthen the firm's competitive advantage, and contribute to consumer confidence to maximize profits and create high value for the firm (Aminatuzzuhro et al., 2024). This is also supported by Midiantari and Agustia (2020), which states that corporate reputation positively affects firm value because a good reputation will provide positive signals to investors; even when the firm is under pressure or in trouble, a good reputation can maintain firm value. Research by Afifah et al. (2021) also provides evidence that corporate reputation has a positive effect on firm value; a good reputation makes it easier for companies to get resources and full support from stakeholders, increase customer loyalty so that in the end, the value and survival of the firm can be guaranteed. Based on the explanation above, the hypothesis that can be formulated is as follows: H5: Corporate reputation has a positive effect on firm value.

Intellectual Capital, Financial Performance, and Firm Value

Financial performance is able to mediate the effect of intellectual capital on firm value. Companies with resources and high intellectual capital tend to create competitive advantages that can help them compete in the market, thereby increasing their productivity and affecting the firm's financial performance (Ali et al., 2022). The increase in financial performance reflects the effectiveness and efficiency of the firm in managing its resources to achieve firm goals, namely increasing profits (Wulandari and Purbawati, 2020). Information about increasing profits in the firm is a positive signal for investors to want to invest in the firm so that the firm's value can increase. Optimizing all existing firm resources and supporting them with high-profit targets will provide a positive signal to investors to invest in shares in the firm. The increasing demand for a firm's shares will increase the firm's value (Natsir and Bangun, 2021). Based on the explanation above, the hypothesis that can be formulated is as follows: H6: Financial performance is able to mediate the effect of intellectual capital on firm value.

Corporate Reputation, Financial Performance, and Firm Value

Financial performance can mediate the effect of corporate reputation on firm value. A good reputation will increase stakeholder confidence so that the value of supply and demand for products increases, which affects the increase in productivity so that financial performance also increases (Oktavianus et al., 2022). Increased financial performance will increase the value of the firm due to the positive response given by investors (Ermawati et al., 2023). The adequate profit generated by the firm is a positive signal for investors and other stakeholders because high financial performance illustrates that the firm has good management to maximize profits, which will have an impact on increasing firm value. Based on the explanation above, the hypothesis that can be formulated is as follows: H7: Financial performance is able to mediate the effect of corporate reputation on firm value.

METHOD

The research analysis unit is a food and beverage sector company listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. The research sample of 23 companies was selected using the purposive sampling method, so the total research observations were 92 observations for four years. The purposive sampling method is used in sample selection to ensure that the selected sample represents the entire population with the criteria set by the researcher, namely food and beverage sector companies that publish complete financial reports during the four-year observation period and have the data needed in the observation and do not experience losses during the observation period. Food and beverage sector companies were chosen as research samples because this industry is closely related to knowledge and technology, where companies must continually develop and innovate their products to have a competitive advantage when compared to their competitors and can be accepted by the wider community. Data was collected using documentation techniques based on the company's annual report sourced from the IDX and official websites. The research uses a quantitative approach with data analysis using panel data regression analysis to measure the direct effect of intellectual capital and corporate reputation on firm value, and the indirect effect is mediated by financial performance. The Sobel test is conducted to determine whether mediation occurs or not. The analytical tool used is Eviews 12 Enterprise software.

Intellectual capital is calculated by finding the added value of the intellectual coefficient or commonly expressed by the VAIC (Value Added Intellectual Coefficient) formula obtained by adding the value of Capital Employed, Human Capital, and Structural Capital (Pulic, 2008). Corporate reputation is measured using the Corporate Image Award (CIA) value (Permatasari, 2023). CIA is an award for the company's image, held by Frontier Group since 2000. It assesses the company's image through the community's perspective by interviewing respondents from various circles. The company's financial performance is proxied by ROA (Return on Asset) (Suzan & Ramadhani, 2023) and the company's value is proxied by the Price to Book Value (PBV) ratio (Permatasari, 2023). The research model is as follows:

Substructural I

$$FP = \alpha + \beta_1 IC + \beta_2 CR + e$$

Substructural II

$$FV = \alpha + \beta_1 IC + \beta_2 CR + \beta_3 FP + e$$

Description:

α = Constant
β = Regression coefficient
FV = Firm Value
FP = Financial Performance
IC = Intellectual capital
CR = Corporate Reputation
e = Prediction error (error)

Sobel test is conducted to determine the mediating effect of financial performance on the relationship between intellectual capital and corporate reputation on firm value, with the testing formula:

$$Z = \frac{ab}{\sqrt{(b^2SEa^2) + (a^2SEb^2) + SEa^2\,SEb^2}}$$

Description:

a = Regression coefficient of the independent variable on the intervening variable
b = Regression coefficient of the intervening variable on the dependent variable

SEa = Standard error of the independent variable on the intervening variable
SEb = Standard error of the intervening variable on the dependent variable
If Z count > Z table, namely Z count > 1.96 and a confidence level of 95%, it can be concluded that there is a mediating influence in the relationship between the independent and dependent variables.

RESULTS AND DISCUSSION

Panel data regression analysis requires selecting the best model first before hypothesis testing. There are three possible regression models, namely the Common Effect Model, Fixed Effect Model, or Random Effect Model. The model selection can be done through the Chow, Hausman, and Langrage-Multiplier Test. The following are the results of the tests that have been carried out on substructural I:

Table 1. Substructural I

Test of type	P-Value	The Right Model
Chow-test	0.000	Fixed Effect Model
Hausman-test	0.646	Random Effect Model
Langrage-Multiplier-test	0.000	Random Effect Model

Source: Processed data (2024)

The Chow test was conducted to determine which model occurred, Common Effect or Fixed Effect. The p-value in the Chow test shows less than 0.05, so in the Chow test, the best model selection falls on the fixed effect model. After that, it was continued with the Hausman test to determine the model that occurs, fixed effect or random effect. The p-value in the Hausman test was more than 0.05, so in the Hausman test, the best model selection was for the random effect model. Since both tests produce different models, it is necessary to conduct a Langrage-multiplier test to determine the model that occurs, Common Effect or Random Effect. The p-value in the Langrage-multiplier test shows less than 0.05, so in the Langrage-multiplier test, the best model falls on the random effect model. In conclusion, the Random Effect is the best testing model in substructural I.

The same test was also carried out on substructural II with the following test results:

Table 2. Substructural II

Test of type	P-Value	The Right Model
Chow-test	0.000	Fixed Effect Model
Hausman-test	0.352	Random Effect Model
Langrage-Multiplier-test	0.000	Random Effect Model

Source: Processed data (2024)

The p-value in the Chow test shows less than 0.05, so in the Chow test, the best model selection falls on the fixed effect model. After that, it was continued with the Hausman test, the p-value in the Hausman test showed more than 0.05, so in the Hausman test, the best model, the selection falls on the random effect model. Because both tests produce different models, it is necessary to conduct a Langrage-multiplier test. The p-value in the Langrage-multiplier test shows less than 0.05, so in the Langrage-multiplier test, the best model falls on the random effect model. In conclusion, the Random Effect is the best testing model in substructural II.

The Random Effect Model is the best model, and it is used during hypothesis testing. Testing on substructural I produce the following data:

Table 3. Hypothesis Testing Results Substructural I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.324	1.985	0.163	0.871
IC	2.638	0.696	3.792	0.000

CR	5.807	2.239	2.594	0.011

Dependent Variable: FP

Source: Processed data (2024)

The test results show that hypothesis 1 of the study is supported because the probability value obtained from the test of the influence of intellectual capital on financial performance is less than the actual level of the study, which is 0.000<0.05. Likewise, hypothesis 2 research is also supported because the probability value obtained from the test of the influence of company reputation on financial performance is less than the actual level of the study, which is 0.011< 0.05.

After substructural I testing, then testing substructural II was carried out. The test produced the following data:

Table 4. Hypothesis Testing Results Subtructural II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.578	0.600	2.627	0.010
FP	0.086	0.035	2.438	0.017
IC	0.196	0.256	0.764	0.447
CR	1.004	0.680	1.476	0.144

Dependent Variable: FV

Source: Processed data (2024)

The test results show that hypothesis 3 is supported because the probability value obtained from the test of the effect of financial performance on firm value is less than the actual level of research, namely 0.017<0.05. However, hypotheses 4 and 5 of the research are not supported because the probability value obtained from the test of the influence of intellectual capital and corporate reputation on firm value is more than the actual level of research, namely 0.447 and 0.144 > 0.05.

The next test conducted is the Sobel test to determine whether financial performance variables mediate the relationship between intellectual capital and corporate reputation on firm value. The Sobel test results to test hypothesis 6 obtained a Z value 2.348. The Z value is greater than the Z table value with an actual level of 5%, namely 2.348 > 1.96, which means that financial performance can mediate the effect of intellectual capital on firm value. In addition, the results of Sobel's testing to test hypothesis 7 obtained a Z value 2.247. The calculated Z value is greater than the Z table value with an actual level of 5%, namely 2.247 > 1.96, which means that financial performance can mediate the effect of a corporate reputation on firm value. If it is concluded that the test results for each research hypothesis are as follows:

Table 5. Summary of Hypothesis Testing Results

hypotesis	t-statistic	significance	decision
H1 : IC → FP	3.792	0.000	Supported
H2 : CR → FP	2.594	0.011	Supported
H3 : FP → FV	2.438	0.017	Supported
H4 : IC → FV	0.764	0.447	Rejected
H5 : CR → FV	1.476	0.144	Rejected
H6 : IC → FP → FV	2.348	0.009	Supported
H7 : CR → FP → FV	2.247	0.012	Supported

Source: Processed data (2024)

Based on the test results, evidence can be obtained that intellectual capital and corporate reputation significantly increase the firm value if mediated with financial performance. The results of this research support the signal theory, which states that information related to the description of the company's condition can be a signal for the user of the information (Endiana and Suryandari, 2021). Intellectual capital positively affects financial performance, meaning that the more intellectual capital a company has, the better the resulting financial performance. The amount of intellectual capital owned by the company allows the company to continue to innovate and find its competitive advantage when compared to other companies so that the continuity of the company can be guaranteed. The innovation and competitive advantage owned by the company is a positive signal for the community, creditors, and even investors. The public is increasingly interested in and buys many of the company's products, while creditors and investors are increasingly confident in the company's survival, which can affect the improvement of the company's financial performance. The results of this study are supported by previous studies, namely the research of Xu and Li (2022), Susanti et al. (2020), Soewarno and Tjahjadi (2020), Anik et al. (2021), Ali et al. (2022).

The results prove that corporate reputation positively affects financial performance, meaning that the better the company's reputation, the better the resulting financial performance. A good company reputation is a positive signal for information users. A good reputation can increase public trust in the company so that the value of demand and supply for products can increase, allowing companies to quickly obtain competent human resources, making it easier for companies to get new sources of funding from external parties such as creditors, and internal, namely investors. All these positive things can help the company improve its financial performance. The results of this study are supported by previous studies, namely the research of Hall Jr. and Lee (2014) and Oktavianus et al. (2022).

Furthermore, good financial performance will positively influence the company's value because an increase in financial performance is a positive signal for investors who see the company's management's ability to obtain and manage its net profit. The better the company's financial performance shows, the more influential the company's management is in managing its assets to generate net income, and this is seen as positive for investors, so it will affect the high valuation of the company's share price. The results of this study are supported by previous studies, namely the research of Susanti et al. (2020), Anik et al. (2021), Suzan and Ramadhani (2023), Ermawati et al. (2023). Based on the study's results, it is evident that financial performance can strongly mediate the effect of intellectual capital and corporate reputation on firm value. Although intellectual capital and corporate reputation do not directly affect the firm value, as is the case in the research of Suidah and Purbowati,(2019), Putri et al. (2022), Permatasari (2023), Ermawati et al. (2023), Fadillah and Noormansyah (2023), but when this influence is mediated by financial performance, it turns out that intellectual capital and corporate reputation can affect the firm value. This is because the high innovation and competitive advantage of the company and the excellent reputation of the company make the demand, supply, and marketing of the company's products increase so that the company's profitability value rises, the company's ability to generate net income through the management of its asset is considered adequate which symbolizes the more substantial financial performance of the company, financial solid performance can increase the value of the company's shares in the market because Investors respond positively to the information obtained. The results of this study are supported by the research of Susanti et al. (2020) and Anik et al. (2021)

CONCLUSION

Based on the testing and data analysis results, there is evidence that intellectual capital and corporate reputation can indirectly affect a company's value by mediating financial performance. The form of mediation that arises is full mediation. This research provides evidence that to increase the company's value, not only is physical capital considered, but the companies must also strengthen their non-physical capital inputs, such as intellectual capital and the company's reputation. Future research can measure the importance of non-physical capital inputs to increase firm value in other company sectors so that research generalizations can be realized, as well as add other independent variables that are thought to be able to affect firm value to increase the coefficient of determination.

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