



Competitive Advantage and Intellectual Capital as Mediators of the Influence of Corporate Governance on Firm Value

Gede Putu Agus Jana Susila*, I. B. Anom Purbawangsa, Henny Rahyuda, Luh Gede Sri Artini

Universitas Udayana, Jalan P.B. Sudirman, Denpasar, Bali, Indonesia

*janos.agoes@gmail.com

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Abstract

This study aims to test and explain the relationships between corporate governance, firm values, competitive advantage, and intellectual capital. This research is explanatory research using quantitative research designs conducted on companies participating in the Asean Corporate Governance Scorecard assessment from six countries, namely Indonesia, Malaysia, Thailand, Singapore, the Philippines and Vietnam during 2019 to 2021. The total population in this study was 135 companies based on ASEAN asset classes per Country, 2019, namely: 10 companies for Indonesia, 37 companies for Malaysia, 19 companies for the Philippines, 26 companies for Singapore, 42 companies for Thailand, 1 company for Vietnam. ASEAN asset class award recipients consist of diverse companies from the financial, industrial, goods and services, consumer, property, energy, telecommunications and media sectors. The results show that (1) corporate governance have a negative effect on the company's firm value, (2) corporate governance have a positive effect on competitive advantage, (3) corporate governance have a positive influence on intellectual capital, (4) intellectual capital have a positive effect on firm value, (5) intellectual capital has a positive influence on competitive advantage, and (6) competitive advantage has a positive effect on firm value.

Keywords: corporate governance, intellectual capital, competitive advantage, firm value

INTRODUCTION

Firm value describes the perception of the market (investors) towards the success of a company in achieving its best performance (Keown, 2004). In addition, firm value

not only shows performance, but also reflects the company's future growth prospects (Sudarsanam et al., 2006). Companies need to mobilize their resources to obtain high firm value. The literature states that firm value

can be influenced by various determinants. Some of the crucial factors that are projected to affect firm value include: corporate governance; intellectual capital; and competitive advantage (Hatane et al., 2017; Wijayanto et al., 2019).

The process of achieving optimum firm value is a form of collective activity that involves all members of the organization. In this context, the leadership of the organization which includes the board of directors and commissioners is considered to have a dominant role in determining the direction of company policy. Corporate governance can be defined as a system or mechanism that regulates the rights, processes, controls, relationships between management and shareholders, as well as protecting the interests of parties involved with the implementation of the company's business (Centre for European Policy Studies, 1995).

Corporate governance describes all forms of influence that can determine the effectiveness and efficiency of the implementation of a company's economic activity (OECD, 2004; Turnbull, 1997). The need for the implementation of corporate governance principles is increasingly urgent in the midst of increasingly fierce competition (OECD, 2010), and

corporate governance is predicted to transform into a competitive necessity in the future (Agrawal and Fuloria, 2004).

Based on the perspective of managerial rents theory, corporate governance is a managerial resource, as well as the basis of competitive advantage (Dwivedi & Jain, 2005). The theory, which is a development of a resource-based view, states that companies that have personnel with superior skills will be able to produce excellence and value for the company (Castanias & Helfat, 2001). Nginyo et al. (2018), as well as Isada & Isada (2019) in their research have proven a strong influence between corporate governance and competitive advantage. Corporate governance can be considered as the foundation of all operational activities of the company. Man & Wong (2013) said that for organizations, corporate governance is a system that includes policies, processes, rules, supervision and control over all business activities objectively, including the management of superior resources.

Upper Echelon Theory advises companies to consider the diversity of educational backgrounds, experiences, ethnicities, nationalities, genders, skills, and expertise of individuals involved in corporate governance practices in order to

optimally develop intellectual capital (Certo et al., 2006; Auh & Menguc, 2005; Carter et al., 2003). Appuhami & Bhuyan (2015) and Hatane et al. (2017) have proven that corporate governance has a high significance in influencing the development of intangible resources, namely intellectual capital. Given the importance of the position of intangible resources in a company, this study also outlines the contribution of intellectual capital to the achievement of the company's strategic goals, such as competitive advantage and firm value. The management of intellectual capital is hinted at as one of the main agendas of executives in companies (Martinde-Castro et al., 2006). In addition, intangible assets including intellectual capital are very important for capital market players, management and boards, as well as other stakeholders (Cassel et al., 2000).

Market Orientation Theory states that companies can increase the acquisition of firm value through the development of intellectual capital (McNaughton and Osborne, 2000). Intellectual capital is part of market-based assets that are composed of the knowledge and skills needed to increase the company's value acquisition (Barney, 1991; Hunt & Morgan, 1995; McNaughton &

Osborne, 2000). In addition, intellectual capital not only provides benefits in increasing firm value, but also plays a role in creating competitive advantage. Intellectual capital is believed to be able to strengthen the company's position in the competition and become the essence of competitive advantage (Chahal & Bakshi, 2015; Wang & Chang, 2005). However, management needs to realize that competitive advantage can only be obtained if intangible assets are managed effectively and efficiently (Marr et al., 2004).

Market-oriented companies will gain superior value and superior performance (Kohli & Jaworski, 1990; Narver and Slater 1990). Market orientation is very relevant to be applied in an effort to achieve the best performance, in this case firm value (Kohli & Jaworski, 1990). Based on the description that has been described, both theoretically and empirically, there is a strong relationship between corporate governance, intellectual capital, competitive advantage and firm value.

However, a number of studies still show contradictory results. Some researchers find that corporate governance has a great influence on firm value (Hatane et al., 2017; Lozano et al., 2016; Pucheta-Martinez

et al., 2018; Nguyen & Faff, 2006; Noronha et al., 2018; Rashid & Islam, 2013; Taufik et al., 2018). Meanwhile, a number of other researchers actually came to different conclusions. Isidro & Sobral (2015), as well as Navissi & Naiker (2006) stated that corporate governance does not play a significant role in increasing firm value. With regard to intellectual capital, Appuhami & Bhuyan (2015) and Hatane et al. (2017) confirm that corporate governance has a significant effect on intellectual capital, although Ho & Williams (2003) produce the opposite findings.

On the other hand, Chahal & Bhaksi (2015), Jain et al. (2017), Kamukama (2013), Tripathy et al. (2017) and Yaseen et al. (2016) prove that intellectual capital has a major impact on competitive advantage. On the contrary, Sadalia et al. (2018) stated that human capital does not have a dominant influence on the achievement of competitive advantage. In the aspect of firm value, Hatane et al. (2017) through their comparative study show that the benefits produced by intellectual capital in each country are different. Intellectual capital owned by Indonesian companies has proven not to have a significant impact on firm value, on the contrary, Malaysian company intellectual

capital has a significant effect on firm value.

Based on the description that has been submitted, it is clearly illustrated how the influence that arises between corporate governance, intellectual capital, competitive advantage, and firm value. Although there are still contradictions among researchers about the significance of influence among these variables, corporate governance, intellectual capital, competitive advantage, and firm value are still believed to be important instruments in achieving the company's strategic goals. Therefore, empirical testing and comprehensive exposure need to be carried out in order to understand how these variables are able to play an active role in driving the growth of company value.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The Effect of Corporate Governance on Firm Value

The implementation of corporate governance is predicted to have a substantial impact, both for the company and shareholders. Corporate governance is likened to a series of mechanisms that provide assurance to shareholders that they will obtain a fair share of investment returns (Baker & Anderson, 2010).

Corporate governance is also believed to increase investor confidence, so they are encouraged to invest (Garay & Gonzalez, 2008). When viewed from a market-based perspective, corporate governance has a significant influence on firm value. Taufik et al. (2008) stated that investors gave a positive response to the implementation of the principles of corporate governance.

Companies that implement good corporate governance will have greater access to the capital market (Al-Maskati et al., 2015). This open access will certainly have a positive impact on the company's performance. Based on the growing literature, there are several corporate governance mechanisms, including: board size; board independence; Board diversity and managerial ownership are believed to be determinants that have a significant effect on firm value. Most of the literature associates corporate governance and firm values based on the basic assumptions of agency theory.

H₁: Corporate governance affects firm value.

The Effect of Corporate Governance on Competitive Advantage

Competitive advantage describes superior resources that can be harnessed to generate value for the

company (Day & Wensley, 1988; Ma, 1999; Sigalas & Economou, 2013). Competitive advantage can be developed through the management of valuable assets, such as unique resources, knowledge and various other valuable assets (Barney, 1991; Ma, 2004; Nonaka, 1991). Furthermore, these valuable assets can be used to develop the company's potential in the future.

The Organization for Economic Cooperation and Development (2010) states that corporate governance is needed in conditions of intense competition. Due to competitive pressures in the global market, companies tend to direct their governance systems to be able to achieve long-term competitive advantages (Salvioni et al., 2016). As Nginyo et al. (2018) say, corporate governance will encourage the achievement of long-term competitive advantage. According to Ma (2004), corporate governance is known to be one of the determining factors for competitive advantage. Agrawal and Fuloria (2004) said that companies will have a better competitive advantage than their competitors by practicing optimal corporate governance mechanisms. Based on resource-based theory, corporate governance plays a role in developing superior resources that later become

the basis of competitive advantage (James and Josephn, 2015). Garay and Gonzalez (2008) stated that good corporate governance practices and policies can be a differentiating aspect between one company and another. Thus, corporate governance is able to spur the achievement of the company's competitive advantage. The results of the research of Isada and Isada (2019), Mulyono et al. (2020), and Nginyo et al. (2018) prove a significant influence between corporate governance and competitive advantage.

H₂: Corporate governance affects competitive advantage.

The Influence of Corporate Governance on Intellectual Capital

In addition to being related to firm values, there is also a close relationship between corporate governance and intellectual capital. The implementation of corporate governance is useful for responding to change, globalization, competition, and improving the company's ability to achieve sustainable business growth (Zamel & Qatawneh, 2015). Salvioni et al. (2016) said that good corporate governance will bring companies to succeed in competition in the global market through various means. In addition, Keenan & Aggestam (2001) stated that corporate

governance has a function to mobilize intangible assets that lead to the achievement of company goals. Keenan and Aggestam (2001) stated that corporate governance is part of intellectual capital systems because there is a mobilization of individuals, cultures, and innovations used to carry out the vision, mission, and increase company value.

The development of intellectual capital requires individuals involved in corporate governance practices who have concerns about the use of intangible assets in an effort to achieve corporate goals (Keenan & Aggestam, 2001). The mobilization of these resources is believed to encourage the strengthening of the company's intellectual capital base. The practice of corporate governance is part of the process of forming and developing intellectual capital (Keenan & Aggestam, 2001). Strictly speaking, Al-Sartawi (2017) said that the use of intellectual capital depends on corporate governance practices. Therefore, optimizing corporate governance practices is very crucial because weak implementation will not provide positive benefits for the company. As said by Alizadeh et al. (2014) and Arifin (2017) that the weak implementation of corporate governance will not have a meaningful impact on the

development of the quality of intellectual capital. Upper echelon theory explains that diversity in terms of educational background, experience, ethnicity, nationality, gender, skills, and expertise possessed by the board can benefit companies in developing targeted decisions and strategies, while encouraging companies to be more innovative (Certo et al., 2006; Auh & Manguc, 2005; Carter et al., 2003).

Appuhami and Bhuyan (2015) and Hatane et al. (2017) found that corporate governance has a significant impact on intellectual capital efficiency. As Keenan & Aggestam (2001) say, corporate governance plays a role in the development of intellectual capital. Upper echelon theory also reveals that diverse board members will be able to actively contribute to developing the management of intellectual capital (Hambrick & Manson, 1984).

H₃: Corporate governance affects intellectual capital.

The Effect of Intellectual Capital on Firm Value

Intellectual capital has developed into an important resource for companies (Harrison & Sullivan, 2000). Knowledge-based assets are slowly shifting the physical assets that were originally considered the

most crucial, such as land, material capital and other physical assets (Chen et al., 2004). In addition, intellectual capital is predicted to be a driver of optimal firm value, as assumed by market orientation theory. According to market orientation theory, companies can increase the acquisition of firm value through the development of market-based assets that include intellectual capital (Barney, 1991; Hunt & Morgan, 1995; McNaughton & Osborne, 2000). If you look at the strategic point of view, intellectual capital is used to create and increase company value (Chen et al., 2004). Nuryaman (2015) stated that investors will give high appreciation to companies that pay attention to the management of their intellectual capital.

Keenan & Aggestam (2001) say that investors' perception and assessment of a company's assets is strongly influenced by the quality of intellectual capital. In the end, investors' reaction to the management of intellectual capital will have an impact on increasing firm value. If the company is able to manage intellectual capital optimally, then intellectual capital can increase the value of the company, just as investors value companies that have

productive intellectual capital (Riahi-Belkaoui, 2003).

In today's business development, investors' attention is not focused on one aspect alone. Appuhami and Bhuyan (2015) say that nowadays, investors pay more attention to the funds invested by companies to develop intellectual capital. Thus, the assumption about the influence between intellectual capital and firm value becomes stronger. Chen et al. (2005) proved that intellectual capital has a positive effect on firm value. In their research, it is explained that investors give higher valuations to companies that have good intellectual capital. The company is predicted to generate profitability and prospective revenue growth, both in the present and in the future. In line with Chen et al. (2005), the research of Bambang et al. (2015), Chang & Hsieh (2011), Hatane et al. (2017), and Mehralian et al. (2012) also produced the fact that there is a significant influence between intellectual capital and firm value.

H₄: Intellectual capital is committed to firm value.

The Effect of Intellectual Capital on Competitive Advantage

Intellectual capital is a reliable resource for companies to obtain competitive advantage (Chahal &

Bakshi, 2015). Intellectual capital can determine a company's competitiveness at present and in the future (Chahal & Bakshi, 2015). Wang & Chang (2005) state that a strong position in competition is generated by optimal management of intellectual capital. Intellectual capital and competitive advantage are believed to be closely related. The quality of intellectual capital will have an impact on the competitive advantage of manufacturing companies, as revealed by the Ministry of Industry (2019) that the weak superiority of manufacturing companies in Indonesia is caused by the low quality of human resources in the sector. This phenomenon also strengthens the assumption about the strong influence shown by intellectual capital on competitive advantage.

Chahal & Bakshi (2015) and Jain et al. (2017) prove that intellectual capital has a significant influence on competitive advantage. Intellectual capital is considered as a determinant of the competitive performance of an organization. Chahal & Bakshi (2015) explained that creativity, training, education, and experience are components of human capital that have a significant impact on achieving competitive advantage. The relationship with customers, systems, structures,

information technology, capabilities, culture, empowerment, and service quality is a component of relational capital and structural capital that also contributes to competitive advantage. Meanwhile, Jain et al. (2017) stated that human capital that prioritizes innovation, creativity and high motivation will strengthen the company's competitive position.

The influence of intellectual capital on competitive advantage can be explained based on dynamic capabilities theory. Dynamic capabilities theory doesn't just talk about resource utilization. Dynamic capabilities theory carries out efforts to reconfigure and integrate resources periodically in order to achieve competitive advantage in the midst of rapid changes in the business environment (Kamukama, 2013; Teece et al., 1997; Zaidi & Othman, 2012). This theory assumes that intellectual assets that are managed effectively and efficiently will be able to encourage the strengthening of competitive advantage. The results of the research of Tripathy et al. (2017) and Jain et al. (2017) show that intellectual capital has a positive and significant effect on competitive advantage. Similarly, Chahal and Bakshi (2015), Kamukama (2013) and Yaseen et al. (2016) concluded that there is a significant influence

between intellectual capital and competitive advantage.

H₅: Intellectual capital affects competitive advantage.

Effect of Competitive Advantage on Firm Value

Competitive advantage has been widely studied in various studies, but not many researchers have tried to explain the influence that arises between competitive advantage and firm value. Boasson et al. (2005) examined the effect of competitive advantage on firm value based on geographic resources, while Ana et al. (2021) and Wijayanto et al. (2019) examined the effect of competitive advantage on firm value from a resource-based and non-resource-based concept point of view. Wijayanto et al. (2019) stated that competitive advantage has a strong influence on firm value. The results of his research corroborate the assumption that investors prioritize the company's competitive efforts. This statement is evidenced by the high responsiveness of investors to the competitiveness of the company.

When viewed from the point of view of market orientation theory, the company's orientation to the market will lead the company to obtain superior value and superior performance (Kohli & Jaworski, 1990;

Narver & Slater, 1990). This theory explains market-oriented strategies as the basis of a company's competitive advantage in achieving optimal financial performance (McNaughton & Osborne, 2000). Market orientation theory suggests that companies combine market-oriented resources and strategies and make them the basis of competitive advantage in order to achieve optimum firm value (Kohli & Jaworski, 1990; McNaughton & Osborne, 2000).

H₆: Competitive advantage affects firm value.

Competitive Advantage Mediation on the influence of Corporate Governance on Firm Value.

Strengthening competitive advantage is very relevant if done by increasing the effectiveness and efficiency of corporate governance mechanisms. Based on the perspective of managerial rents theory, corporate governance is a managerial resource, as well as the basis of competitive advantage. The theory, which is a development of a resource-based view, states that companies that have personnel with superior skills will be able to produce excellence and value for the company. James & Joseph (2015) say that the role of the board in the corporate governance mechanism is essential to

building competitive advantage. Competitive advantage is based on unique and scarce resources, and is strongly influenced by corporate governance (Agrawal and Fuloria, 2004; Ma, 2004; Salvioni et al., 2016).

H₇: Competitive Advantage plays a role in mediating the influence of Corporate Governance on Firm Value.

Intellectual Capital Mediation on the influence of Corporate Governance on Firm Value.

Referring to the point of view of market orientation theory, competitive advantage is not only obtained by relying on resources, but also organizational processes, including market orientation. This market orientation strategy can be the basis of competitive advantage which is then used to increase firm value. Appuhami & Bhuyan (2015) and Hatane et al. (2017) have proven that corporate governance has a high significance in influencing the development of intangible resources, namely intellectual capital, the statement also outlines the contribution of intellectual capital to the achievement of the company's strategic objectives, such as competitive advantage and firm value.

Chen et al. (2005) have verified that intellectual capital is able to

increase profitability, revenue growth and firm value. Investors will give a higher valuation to companies that have good intellectual capital efficiency. In addition, intellectual capital not only provides benefits in increasing firm value, but also plays a role in creating competitive advantage. Intellectual capital is believed to be able to strengthen the company's position in the competition and become the essence of competitive advantage (Chahal and Bakshi, 2015; Wang and Chang, 2005). However, management needs to realize that competitive advantage can only be obtained if intangible assets are managed effectively and efficiently (Marr et al., 2004).

H₈: Intellectual Capital plays a role in mediating the influence of Corporate Governance on Firm Value

METHOD

Research Design

This study uses secondary data; therefore, the research procedure begins with collecting secondary data. This study used panel data, namely the combination of cross-sectional data and time series data. Thus, this research was conducted on companies participating in the Asean Corporate Governance Scorecard assessment from six

countries, namely Indonesia, Malaysia, Thailand, Singapore, the Philippines and Vietnam during 2019 to 2021. Data analysis methods are used to answer questions on the formulation of research problems. The data analysis model used is Panel Data Regression analysis. In performing regression, researchers used the STATA 15 application.

Population and Sample

The population of this study is companies that participated in the Asean Corporate Governance Scorecard assessment from six countries, namely Indonesia, Singapore, Malaysia, Thailand, the Philippines and Vietnam during 2019 to 2021. The total population in this study was 135 companies based on ASEAN asset classes per Country, 2019, namely: 10 companies for Indonesia, 37 companies for Malaysia, 19 companies for the Philippines, 26 companies for Singapore, 42 companies for Thailand, one company for Vietnam. ASEAN asset class award recipients consist of diverse companies from the financial, industrial, goods and services, consumer, property, energy, telecommunications and media sectors.

RESULTS AND DISCUSSION

The results of data analysis show that corporate governance variables have a negative and significant effect on the company's firm value. The description illustrates that an increase in the value of corporate governance will tend to cause a decrease in firm value. The results of this study are in line with agency theory which assumes that oversight and control by the board is necessary to ensure that managers work effectively and efficiently to obtain optimal firm value. However, the number or composition of board members must still be adjusted to the conditions of the company. Companies need to consider cost efficiency in determining the number of board members because cost inefficiencies are suspected to be the cause of the decline in firm value.

Corporate governance variables have a positive and significant effect on competitive advantage. The results of the analysis show that the increase in the value of corporate governance will tend to strengthen competitive advantage. The results of this study are in line with managerial rents theory which assumes that the strength of competitive advantage is determined by managerial resources which include superior human

resources, in this case board members.

Corporate governance variables have a positive and significant influence on intellectual capital. The results of the study illustrate that changes and developments that occur in the corporate governance system greatly affect the performance of intellectual capital. These results are not in line with the assumptions of upper echelon theory which states that the diversity of board members' backgrounds demonstrated by board size, board independence, board diversity, and managerial ownership is an important determinant in the management of intellectual capital.

Intellectual capital variables have a positive and significant effect on firm value. The statement illustrates that the developments that occur in intellectual capital will affect the condition of firm value. This result is in accordance with the assumption of market orientation theory which states that market-based assets in the form of intellectual capital will encourage the acquisition of high firm value if managed effectively and efficiently.

The variable intellectual capital has a positive and significant influence on competitive advantage. The results of this study show that the development of the quality of

intellectual capital performance will affect the performance of competitive advantage. This result is in line with dynamic capabilities theory which assumes that configured and integrated resource management, in this case intellectual capital, contributes to building the company's competitive advantage if managed effectively and efficiently.

The competitive advantage variable has a positive and significant effect on firm value. The description illustrates that competitive advantage affects firm value. This result is in accordance with the assumption of market orientation theory which states that competitive effort, management, and utilization of resources as well as market-oriented strategies will contribute to the acquisition of optimal firm value.

CONCLUSION, IMPLICATION AND LIMITATION

The theoretical implications of this study reinforce the stewardship theory that the implementation of good governance encourages stewards to provide services to shareholders and stakeholders, as well as company management to act on behalf of shareholders and make decisions that maximize the company's performance. While some of the findings are inconsistent with stewardship theory

in the relationship between disclosure and transparency, and board responsibility show results that cannot increase the value of the company. The theoretical implications of this research generally strengthen agency theory and stakeholder theory that the existence of stakeholders for a company is inseparable from business ethics. Based on OECD principles, corporate governance is closely related to the role of stakeholders to encourage active cooperation between companies and stakeholders in improving corporate sustainability.

The practical implications of this research are expected to provide consideration for companies in order to improve corporate governance, so that corporate competitiveness, especially in Asean, can compete globally. Especially for related agencies, in this case capital market regulators (BAPEPAM, OJK and IICD), the results of this study can be considered in formulating regulations related to improving corporate governance to increase corporate competitiveness and investor confidence in the capital market as well as investor protection. The results of this study are also expected to be considered in making regulations regarding social responsibility disclosure, so that

companies can clearly know what must be disclosed in the annual report or sustainability report.

Further research can examine more deeply the relationship formed between competitive advantage and firm value, as the number of studies discussing these two aspects is still small. b. Further research can carry a qualitative approach to complement and develop the results of existing explanatory studies, as well as produce a more in-depth analysis of a problem or phenomenon. For example, the quality of the implementation of corporate governance principles and the contributions they produce can be known in more detail and comprehensively through research with interview methods or direct observation.

The rationality built by researchers to explain conditions that may cause negative influences or insignificance of intervariable influences can be the next consideration for researchers in observing the causality of a certain factor with other factors. For example, the implementation of suboptimal corporate governance is not expected to contribute to the development of intellectual capital. Researchers are then expected to investigate the rationality in more depth to ascertain

the real conditions behind the phenomenon. In this context, in addition to quantitative approaches, qualitative and mixed method approaches can also be applied.

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