

The Influence of Intellectual Capital and Income Diversification on Competitive Advantage and Its Implications for the Financial Performance of the Banking Industry

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Abstract

The purpose of this study was to determine the effect of Intellectual Capital and Income Diversification on Competitive Advantage and its implications for the Financial Performance of the Industry. The research used is descriptive quantitative. Data obtained from the annual reports of banking subsector financial sector companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021 using purposive sampling data collection techniques. The data analysis used uses the SPSS Version 26 for windows application. The results of this study indicate that the intellectual capital variable affects competitive advantage while income diversification has no effect on competitive advantage, and the competitive advantage variable affects financial performance.

Keywords: Intellectual Capital, Income diversification, Competitive Advantage and Financial Performance.

INTRODUCTION

The research gap in this research is that there are inconsistencies in the results of research findings with similar research as well as different contributions for each industry which are interesting to study again and encourage researchers to carry out follow-up research from previous research. This research is a modification of Andiani & Prasetyo (2020) intellectual capital and bank performance: the moderating role of income diversification" research on the banking industry listed on the east african stock exchange for the 2010-2018 research period.

The urgency of this research. In Indonesia, reporting on intellectual capital has not yet become an obligation and there is no standardization, so it is difficult to quantify intellectual capital, so investors still do not use intellectual capital as a consideration in assessing the development of a company, instead relying more on reporting on physical assets. This indicates that investors still do not place intellectual capital as a consideration in investment decisions, because investors trust information from tangible assets more.

The difference between this research and previous research is that this research uses income diversification as an independent variable, previously as a moderating variable, the last 5 years of research, namely 2017-2021, previously 2010-2018, the research area in Indonesia, previously in Kenya, and also adding one Another variable, namely competitive advantage, is the dependent variable based on phenomena in the field regarding increasingly tight banking competition, which not only competes with fellow banks but with technology

companies, market places and to see to what extent the banking industry can compete at this time.

METHOD

This type of research is descriptive quantitative research. Study Descriptive quantitative is research where the data source is obtained or in the form of numbers calculated statistically with the aim of obtaining a specific description of the data (Putri et al., 2021). According to the level of interpretation, this research is classified as causal associative research, because it is research whose aim is to determine the correlation of two or more variables. The location of the research is the Indonesian Stock Exchange (BEI) by accessing the official portal of the Indonesian Stock Exchange, namely www.idx.com and the official website of each bank.

The population in this study is the financial sector, banking sub-sector listed on the Indonesia Stock Exchange for the 2017-2021 period. This research period of 5 years was chosen considering that the data used was still current and relevant to the current situation. The sampling technique was carried out using purposive sampling, namely a sample selection technique using certain criteria or considerations.

Data are findings or something obtained from research results or something in the form of information to support the research process and results. The type of data consists of secondary data. Secondary data is the second data source in the form of previous research journals, books, and specifically the secondary data source in this research is the audited financial reports of Indonesian commercial banks listed on the Indonesia Stock Exchange from 2017-2021.

The data collection technique uses documentation and literature study techniques. The documentation study technique is a data collection technique by documenting the required data in accordance with Ahmad (2010) is research objectives and problems. Meanwhile, literature study techniques are data collection techniques through books, journals, theses and other similar things.

RESULTS AND DISCUSSION

The population in this research is the financial sector, banking sub-sector listed on the Indonesia Stock Exchange in the period 2017 to 2021. This five year research period was chosen considering that the data used is still current and relevant to the current situation. The final sample in this research is the entire population of 38 banks, with a total of 190 data observations. This research data comes from banking annual reports registered on the official IDX website (www.web.idx.com) and related banking company websites.

The intellectual capital variable influences competitive advantage, thus the first hypothesis in this research is accepted. That the more efficiently banks manage intellectual capital, which includes knowledge, technology and quality human resources, the more banks will be able to compete with other competitors. A high VAIC value will influence the utilization of proxy assets for competitive advantage, where the more efficiently a company will use its asset ownership to obtain positive profit values. And if used optimally, it allows banks to implement strategies effectively and efficiently so that they can be used as added value for banks in the form of competitive advantage. And able to compete not only with fellow banks but with other companies that provide similar facilities.

The income diversification variable has no effect on competitive advantage, thus the second hypothesis in this research is rejected. With income diversification, banking revenues are increasing and stable, which means that increasing income will guide banks to continue to innovate by creating new products to increase their competitiveness, so that companies will be superior in competing and achieve better performance. However, it turns out from the results of this research that income diversification has not been able to increase revenue, in fact it makes companies not focus on their main business segments so that their performance decreases compared to companies that do not carry out income diversification. Decreased performance will have an impact on reducing the bank's ability to use its asset holdings to generate income which will also have an impact on reducing the value of profits.

Income diversification in this research has not been able to lead banks to utilize assets which are a proxy for competitive advantage. Even though the benefits of income diversification have a large impact, such as reducing bank risk and increasing profitability, its relatively small value is not yet able to support banks in maximizing asset utilization to achieve competitive advantage (Porter, 2008).

The competitive advantage variable influences financial performance, thus the third hypothesis in this research is accepted. Having a competitive advantage is proven to help companies improve financial performance, especially company profits. Companies with a high level of asset utilization tend to experience an increase with increasing banking activity, which will increase the value of profits. In this way, banking will continue to be sustainable and guide people to use banking as a medium for their financial transactions and activities, which will result in increased profitability and market dominance in the current era where banking competitors are not only from fellow banks, but from large companies such as fintech and marketplaces.

Competitive advantage influences financial performance (Nguyen et al., 2021). A company that shows a business entity will have a competitive advantage if it can achieve greater economic value than its competitors, resulting in an increase in customers or an increase in the number of products used which in turn will increase profits which will result in good financial reporting conditions.

CONCLUSION

Based on research results, we can conclude that intellectual capital variable affects competitive advantage while income diversification has no effect on competitive advantage, and the competitive advantage variable affects financial performance.

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