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A Conceptual Paper of Risk Industry Moderation: Sustainable Growth, Intellectual Capital, and Firm Value Dynamics

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Abstract

This research investigates the impact of industry risk barriers on the relationship between intellectual capital and sustainable growth rate on firm value. The focus of this study is on companies listed in the LQ45 Index on the Indonesia Stock Exchange during the 2020-2022 period. The research uses quantitative methods with an explanatory research design. Data was taken using a purposive sampling technique, and data analysis was carried out using Moderated Regression Analysis (MRA). It is hoped that the findings of this research will contribute to the understanding of the role of industry risk barriers as a moderating variable in influencing the relationship between intellectual capital, sustainable growth rates, and firm value. The results of the analysis are expected to provide insight for stakeholders, especially company policymakers, to identify factors that can influence firm value more effectively. It is hoped that the conclusions of this research can be the basis for developing better risk management strategies in optimizing firm value amidst ever-changing market dynamics.

Keywords: *Risk Industry; Firm Value*

Introduction

In the era of globalization, the business world and companies are experiencing rapid development with the main goal of sustainable growth. Many companies face intense competition, some survive, and some go bankrupt. Therefore, corporate planning is the key to sustainability and growth. (Nurvita & Dayanti, 2021).

Company managers aim to maximize firm value, which is often linked to market performance and stock prices. Increasing firm value is important for the interests of shareholders and stakeholders. Factors such as sustainable growth rates and intellectual capital play a role in influencing firm value. Understanding a company's risks is also important in maintaining value (Dewi & Dewi, 2020; Ariesa & Hulu, 2023; Syahputra, 2020).

The goal of a company is to maximize shareholder wealth, and firm value reflects investors' perceptions of the company's success. Companies listed on the LQ45 index are recognized as having good levels of liquidity and market capitalization and are trusted by investors (Listiani & Suparmono, 2020).

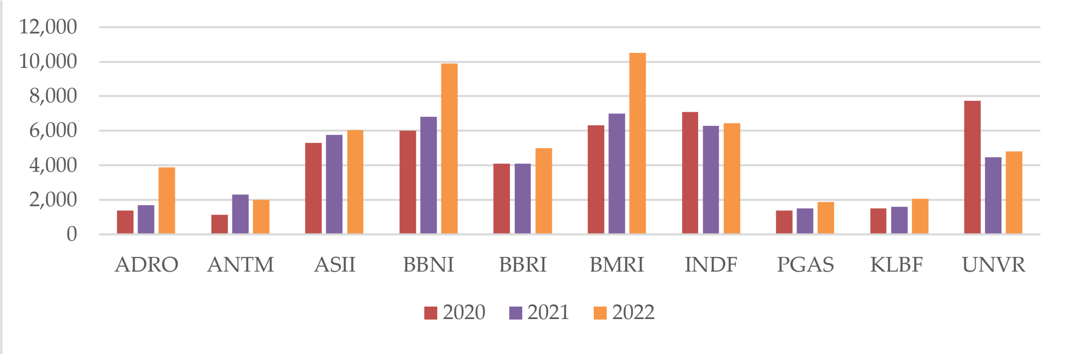

Figure 1. Share Prices of LQ45 Index Companies

Figure 1. shows LQ45 share price fluctuations from 2020-2022 with increases reflecting management success and increasing investor confidence. Firm value is an assessment of management performance, influences investor perceptions, and becomes the basis for management decisions to maximize shareholder value (Hirdinis, 2019). In assessing company performance, short and long-term analysis needs to be carried out, including considering the sustainable growth rate (SGR). SGR reflects a company's ability to grow without relying on debt, providing a view of long-term performance in addition to evaluating short-term performance based on revenue (Sutjiati, 2017; Dino, 2016).

Creating firm value is done through managing Intellectual Capital (IC) (Puspita & Wahyudi, 2021), which has an important role in increasing the value of the company (Nasution & Ovarni, 2021). Companies capable of competing globally and optimizing value attract investors with increased profits (Awaliyah & Safriliana, 2016). In facing global competition and technological innovation, companies need to change their strategies to become knowledge-based businesses to win business competition (Rinaldo et al., 2022).

In general, every investor makes in-depth considerations regarding the relationship between a company's performance and risk before deciding to invest in the future. Therefore, a high level of industrial risk can significantly influence investors' decisions in planning their investments. The moderating variable in this context is "industrial environmental risk" or "industrial environmental risk". As a moderating variable, industrial environmental risk plays an important role in mediating or strengthening the relationship between the sustainable growth rate, intellectual capital, and firm value.

First, the environmental risk industry shows the extent to which environmental risk in the industry influences the relationship between SGR and firm value. Do environmental risks weaken or strengthen the impact of sustainable growth and intellectual capital on firm value.

Second, this moderating variable considers the level of impact of environmental risk on the relationship between intellectual capital and firm value. How environmental risk can moderate the contribution of intellectual capital to firm value assessment.

The main objective of this research is to specifically explore the role of environmental Risk Industry as a moderating variable. By analyzing this variable, the research aims to provide a deeper understanding of the complexity of the factors that influence firm value amid industrial environmental risks. Thus, this moderating variable will help identify whether and how environmental risks can dampen or strengthen the relationship between SGR, intellectual capital, and firm value.

Literature Review

According to Ratnasari et al (2017), Signaling Theory explains how companies provide signals to users of financial reports to convey relevant information regarding management's efforts to meet owner expectations (Maheran et al., 2021). These signals can be in the form of promotions or other information that shows the company's superiority compared to competitors (Ratnasari et al., 2017). Signal theory implies that companies use signals, such as information about SGR and IC, to provide shareholders and investors with indications regarding the company's prospects and financial health. By understanding and interpreting these signals, shareholders can form perceptions of the company's value, influence investment decisions, and ultimately, impact the assessment of the company's value.

Resource-based theory, introduced by Penrose in 1959, highlights that a firm's resources are heterogeneous and productive services provide unique characteristics. Lukman (2020) explains Resource Based Theory (RBT) as a concept that states that every organization can manage its resources to create a competitive advantage. RBT emphasizes creating attributes that are difficult to imitate, strengthening a company's competitive advantage.

Firm Value

Firm value is investors' perception of the success of a company and is reflected in its share price (Listiani & Suparmono, 2020). Maximizing shareholder value is very important for business because it increases shareholder wealth (Hirdinis, 2019). Rising share prices increase firm value and ultimately shareholder wealth (Sudiyatno et al., 2012).

Sustainable Growth Rate

Higgins (1977) proposed the concept of SGR as the maximum sales growth rate that a company can achieve by maintaining certain financial policies. This reflects the company's ability to increase revenue without increasing its capital, but by using loans or funds from investors (Dino, 2016). Sustainable growth rate helps managers determine sales growth levels that are in line with the company's sustainable growth and the financial policies implemented.

Intellectual Capital

Intellectual Capital is the knowledge that provides information about a company's intangible assets that can influence its resilience and competitive advantage (Puspita & Wahyudi, 2021). According to Setiawan & Prawira (2018), intellectual capital is a company's intangible assets, which can be knowledge, information, experience of human resources, and company organization.

Risk industry

Risk industry is a condition that has an impact on the environment, referring to risks arising from industrial activities that can have a negative impact on the ecosystem and the surrounding natural environment (Alsaadi, 2022). In this context, companies or industries are identified as industrial risks when their operations can cause harm to environmental sustainability, including air, water, and land pollution, as well as potential degradation of natural resources.

Hypothesis Development

Sustainable Growth Rate with Firm Value

Sustainable Growth Rate (SGR) is a concept based on signal theory that reflects a company's investment ability that benefits the owner or depositor of funds. SGR is used as a tool to measure perceptions of company conditions, provide signals for investors, and strengthen profitable interactions. Investors tend to choose shares in companies with high SGR because it indicates adequate internal funding sources and bright prospects, which has an impact on increasing Firm value. Several studies show that the Sustainable Growth Rate has a positive effect on Firm value Ocak & Findik, (2019); Listiani & Suparmono (2020) Ionita & Dinu (2021). However, research by Ariesa & Hulu (2023) shows that the Sustainable Growth Rate hurts Firm value.

H1: Sustainable growth rate has a significant positive effect on firm value.

Intellectual capital with firm value

Creating value can be done by managing knowledge that is important for the company, which is called intellectual capital. By leveraging intellectual capital, a company can be better than its competitors, attract investors, and increase Firm value. The better the company's performance, the higher the firm value. Firms with good knowledge attract investors to provide more capital. research by Jennifer & Jayanagara, (2021); Halim, (2021); Anggraini et al., (2020); Rivandi, (2018) shows that intellectual capital has a positive effect on Firm value. However, research by Puspita & Wahyudi, (2021); Zahid, (2021) stated that intellectual capital does not affect Firm value.

H2: Intellectual capital has a significant positive effect on firm value.

Sustainable growth rate on firm value with risk industry as moderating variable

The risk industry functions as a moderation that can moderate or change the relationship between sgr and firm value. This concept takes into account that the impact of sustainable growth may be more or less significant depending on the level of risk inherent in a particular industry (Alsaadi, 2022). This conceptual analysis aims to illustrate how the industrial context can modify the relationship between SGR and firm value holistically.

H3: Risk industry weakens the positive relationship between sustainable growth rate and firm value.

Intellectual capital on firm value with risk industry as moderating variable

The relationship between intellectual capital and firm value, and industry risk acts as a moderating variable that modifies or influences this relationship. In other words, the assumption is that the impact of intellectual capital on firm value can change depending on how high the risk is moderated by the characteristics of the industry in which the firm operates.

H4: Industrial Risk weakens the positive relationship between Intellectual Capital and Firm Value.

Research Method

The method used is explanatory research with a quantitative approach using a purposive sampling technique. The sample used in this research is companies included in the LQ45 Index of the Indonesian Stock Exchange for 2020-2022. Data sources were obtained through the entity's website and the BEI website (www.idx.co.id). The data analysis used in this research is descriptive statistical analysis, classical assumption test, and Moderated Regression Analysis (MRA) test. Firm valueis measured by Tobin's Q, and SGR is measured by the formula:

$$SGR= \frac{RR\ (NPM)(1+DER)}{(TATO)-RR(NPM)(1+DER)}$$

Intellectual Capital is measured by the formula VAIC™ = VACA + VAHU + STVA. The Industry Risk variable is a dummy with one for high-risk industries, and zero for low-risk industries.

Result and Discussion

The hypothesized variable relationship is that when observing the effect of intellectual capital and sustainable growth rate on firm value, the industry risk variable provides an additional dimension that moderates this relationship. Under conditions of high industry risk, this moderating role implies that the positive impact of IC and SGR on firm value may be reduced or even change direction.

High industry risk factors seem to reduce the effectiveness of IC and SGR in making a consistent positive contribution to firm value. This illustrates that firms in certain industry sectors may face additional challenges or limitations in optimizing firm value, depending on the level of industry risk in which they operate.

The conclusion in this study is how the concepts of IC, SGR, and firm value are interrelated. IC and SGR variables independently impact firm value, indicating that these factors remain relevant and valuable, even when considering industry risk.

Conclusion

This research produces findings that enrich our understanding of the role of the risk industry variable as a moderator of the relationship between IC and SGR and firm value. This theoretical conclusion illustrates the complexity of the interactions between these variables, contributes to the theoretical literature on the moderating influence of Industry Risk, and enriches the conceptual framework in understanding the deeper linkages between IC, SGR, and firm value. Further discussion could expand understanding of the strategic implications of industry risk moderation, potential corporate policies in managing industry risk, and the adoption of more adaptive strategies to maximize corporate value in environments that may have high industry risk

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