

The Effect of Employee Stock Ownership Program and Intellectual Capital on Intrinsic Stock Value With Profitability as an Intervening Variables in Banking Companies in Indonesia

Yenni Dumora¹, Nazaruddin Matondang², Elisabeth Siahaan³

¹(Universitas Sumatera Utara, Indonesia)

²(Universitas Sumatera Utara, Indonesia)

³(Universitas Sumatera Utara, Indonesia)

Corresponding Author: Yenni Dumora

Abstract: The rapid investment in stocks requires stock investors to be able to do stock validation before investing. Intrinsic value of a company's shares is influenced by many things, both from within and from outside the company. The purpose of this study was to test the influence of employee stock ownership program and intellectual capital on the intrinsic value of stocks through profitability as the intervening variable. The population of this study was the banking companies registered at the Indonesia Stock Exchange in 2017 which are 43 companies. The data for this study were analyzed through path analysis. The result of the analysis showed that employee stock ownership program has a positive and insignificant influence on profitability, intellectual capital has a positive and significant influence on profitability; and the intellectual capital and the profitability had positive and insignificant influence on the intrinsic value of stocks; and employee stock ownership program had negative but insignificant influence on the intrinsic value of stocks; the profitability could mediate the correlation of employee stock ownership program and intellectual capital with intrinsic value of stocks at alpha 5%.

Keywords: Employee Stock Ownership Program, Intellectual Capital, Intrinsic Value of Stocks

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I. Introduction

Before evaluating shares in the banking sub-sector, the company must first understand that the banking sub-sector is unique in the implementation and recording of financial data. The uniqueness or difference in the method of recording or accounting methods in the company sub-sector will certainly make a difference in the interpretation of real financial conditions. This will make the appraisal of the company become neither real nor right.

In this study, the value of company shares is calculated using a method that prioritizes equity factors, namely the Dividend Discounted Models (DDM) method. The Dividend Discounted Models (DDM) method is seen as the right method because this method calculates the fair price of shares by calculating the equity value based on dividends provided by the company. Of course, besides the value of shares that are expected to increase, investors also expect the amount of dividends that the company will provide for its investment. Consideration of the size of the dividends given can also be used to calculate the fair value of the company's shares.

Before deciding to invest in shares, investors also often consider the company's financial performance. The financial performance of a company is able to influence the value of shares of a company, one of which is the performance of the company's profitability calculated by the method of Return On Equity (ROE). The assessment of the profitability of companies with Return on Equity (ROE) is very much in demand by investors and potential investors. The higher the ROE value then shows that the management of the company is more effective and efficient so that the company's performance is higher and in the end will make the company's profit higher.

In companies engaged in services, especially the banking subsector, the role of human capital holds a very important control in increasing the value of the company that will affect the value of its shares. According to Probank No. 116 (January-February 2015 Edition), to be able to compete in the 2020 Asean Economic Community (MEA) Banking, the quality and competence of Indonesian banking human resources must be improved. And indeed Human Capital is the biggest challenge for Indonesian banking at this time. This is evidenced by the results of a survey conducted by PricewaterhouseCoopers (PwC) Indonesia on the banking industry in Indonesia showing a high turnover rate in the banking sector, reaching 15%.

Various ways have been carried out by the banking company management to maintain superior Human Resources (HR) while still working in their company. One such practice is the introduction of an HR management program in the form of an employee ownership program in the company's shares (Employee Stock Ownership Program - ESOP).

The concept of the Employee Stock Ownership Program (ESOP) aims to encourage employee commitment to improving company performance and is compensation or remuneration, both cash and non-cash. Employee Stock Ownership Program (ESOP) is able to retain employees who have the ability to develop the company, increase cash flow, increasing employee motivation and performance, minimizing conflicts of interest between the owner (principal) and management (agent), anticipating the possibility of transfer of ownership, and also increasing the value of the company through stock returns (Anwar and Baridwan, 2006). In addition to increasing company value, ESOP also reduces labor turnover (Klein, 1987).

The rapid development of the business world requires investors to be more observant in seeing, considering and evaluating new factors that might play an important role in stock valuation. At present, the focus of the business world is no longer focusing solely on tangible assets but shifting to intangible assets. The International Federation of Accountants (IFAC) defines Intellectual Capital (IC) as a synonym of Intellectual Property (wealth intellectual), Intellectual Asset (intellectual assets), and knowledge assets (knowledge assets). Intellectual Capital can be interpreted as knowledge-based shares / capital owned by the company. Thus, Intellectual Capital (IC) is included in the category of equity assets in the balance sheet. As a concept, Intellectual Capital refers to intangible assets or invisible.

Data taken and processed, according to the variables in this study, to show the gaps that occur between the 2016 data with the results of research conducted by previous researchers in connection with these variables. From the above data it can be seen the relationship between the Employee Stock Ownership Program (ESOP) and the value of profitability which can be seen from the results of the calculation of Return on Equity (RoE). BBNI companies are companies with the lowest percentage of ESOP shares (0.58%) and also have the lowest ROE value (17.2).

Research on Employee Stock Ownership Program (ESOP) in its influence on stock intrinsic value was also carried out by Iqbal and Hamid (2000). The results of their study stated that the intrinsic value of shares increased due to the increased performance of companies using the Employee Stock Ownership Program (ESOP). The data on the relationship between the Employee Stock Ownership Program (ESOP) and the intrinsic value of the shares shown occur inconsistency in each company.

Dewi and Hatane (2015) states that there is a significant positive effect between Intellectual Capital on Return on Equity (RoE), meaning that the higher the Intellectual Capital value, the higher the ROE value and vice versa, but in the processed data a relationship-related phenomenon Intellectual Capital value and Return On Equity (ROE), including:

1. The two companies with the highest Intellectual Capital value, namely BMRI and BBNI companies, actually have the lowest Return on Equity (ROE) value of 18.33% and 17.20%.
2. Companies with the highest Return on Equity (RoE) value, BBRI, do not have the highest Intellectual Capital (directly / positively) or the lowest Intellectual Capital value (inversely / negative)
3. The pattern formed between Intellectual Capital and Return on Equity (RoE) is not consistent in the pattern of positive relationships and negative relationship patterns.

Research on the relationship of ROE to stock intrinsic value has been done suggests that the variables Return on Equity (ROE), Price Earning Ratio (PER), firm size and Debt to Equity Ratio (DER) have a significant positive effect Simultaneously the intrinsic value of shares and Return on Equity, partially, have a significant positive effect on the intrinsic value of shares. The results of this study also occur in the data in the data for BBNI and BBRI companies, but do not apply to BBKA and BMRI companies.

Based on the phenomenon that occurs between the processed data the results of previous studies, it becomes interesting to examine the effect of Employee Stock Ownership Program (ESOP), Intellectual Capital and company profitability variables as well as the causes of inconsistent patterns in the three other company data. Based on the phenomena that occur between the results of several studies conducted by previous researchers and this study seeks to assess the effect of Employee Stock Ownership Program (ESOP) and Intellectual Capital, as measured by VAIC™ (Value Added Intellectual Capital) on company profitability and value intrinsic shares are calculated using the dividend discounted model (DDM).

II. Theoretical Review

2.1 Agency Theory

The company has the main goal of increasing the value of the company in order to increase the prosperity of the owners or shareholders (Brigham, 1996). In corporate business practices, what often happens is a conflict of interest between agents / managers appointed by shareholders and principals / company owners.

Managers who are appointed to manage the company often have different objectives than the company's main goals, namely increasing value in order to increase the prosperity of shareholders (owners).

Principals or company owners are parties who give orders to agents to act on principals, while agents are parties that are given mandate by principals to run the company. Relationships between principals and agents in a business company are expressed in the relationship between company management and shareholders or company owners. In the course of this contractual relationship often creates problems (conflicts), because of the different interests of each of these elements.

2.2 Employee Stock Ownership Program

Besides being able to reduce conflicts between management / employees and company shareholders, the Employee Stock Ownership Program (ESOP) is also able to retain employees who have the ability to develop the company, increase cash flow, increase employee motivation and performance, minimize conflicts of interest between owners (principal) and management (agent), anticipating the possibility of transfer of ownership, and also increasing the value of the company through stock returns (Anwar and Baridwan, 2006).

The benefits received by the company by holding an ESOP program include:

1. Most companies that have implemented the ESOP program feel great benefits for the Improvement of Company Performance, Decreasing Employee Turn Over, Influence on Employee Welfare, and Alignment of Management and Shareholders' Interests.
2. Of all the benefits obtained by the company, there are 2 highest benefits received by the company, namely the Decreasing of Employee Turn Over Rate and Alignment of Management and Shareholders' Interests.
3. The pooling results of the benefits of the ESOP program for employees state that the ESOP program provides great benefits for them in encouraging Employee Performance Improvement, Employee Loyalty, and Improving Employee Welfare, while of the three benefits 2 of them have the greatest benefits for employees namely Employee Performance Improvement, Employee Loyalty.

2.3 Intellectual Capital

At present, the focus of the business world is no longer focused on tangible assets but has shifted to intangible assets. The International Federation of Accountants (IFAC) defines Intellectual Capital (IC) as a synonym of Intellectual Property (intellectual property), Intellectual Asset (intellectual assets), and knowledge assets (knowledge assets). Empowerment of intangible assets as one of the strengths that determine company performance, deserves attention (Corrado et al., 2012). The world began to realize, that investment in intangible assets, is a promising investment for the progress of their company.

2.4 Company profitability

The fundamental conditions and prospects of a company can be seen and projected from its financial statements. By conducting financial statement analysis, company financial ratios can be produced which can be an important indicator in assessing the company's past performance and future company forecasting.

According to Kasmir (2008), the objectives of profitability ratios for companies, as well as for parties outside the company, include:

1. Measuring or calculating profits earned by a company in a particular company.
2. Assess the position of company profits in the previous year with the current year.
3. Assess the development of profits over time.
4. Assess the amount of net income after tax with own capital.
5. Measuring the productivity of all company funds that are used both on loan capital and own capital.

2.5 Intrinsic Value of Shares

Investing in stocks is not an easy decision considering the form of stocks isible. Stock investment also has a high level of risk and is followed by high returns or returns, commonly referred to by investors as "high risk-high return".

Usually there are two main factors that concern investors in considering the returns or returns on their investments in shares, namely dividends and capital gains. That is why before determining investments in certain stocks, an investor must be able to calculate or estimate the intrinsic value of a company. The intrinsic value of a company is an assessment of the company's stock price.

2.6 Hypothesis

Hypotheses are propositions, expressions or statements, which are formulated with the intention to be empirically tested (Erlina, 2011). Based on the formulation of the problem and the conceptual framework described above, the hypothesis proposed is as follows:

1. H₁: Employee Stock Ownership Program has a positive and significant effect on company profitability.

2. H₂: Employee Stock Ownership Program has a positive and significant effect on the intrinsic value of shares.
3. H₃: Intellectual Capital has a positive and significant effect on company profitability.
4. H₄: Intellectual Capital has a positive and significant effect on the intrinsic value of shares.
5. H₅: Employee Stock Ownership Program has a positive and significant effect on the intrinsic value of shares by mediating the profitability of the company.
6. H₆: Intellectual Capital has a positive and significant effect on the intrinsic value of shares by mediating the profitability of the company.
7. H₇: Company profitability has a positive and significant effect on the intrinsic value of shares.

III. Materials and Method

3.1 Types and Nature of Research

This type of research is correlational conducted to prove the relationship between the application of Employee Stock Ownership Program (ESOP) and Intellectual Capital as measured by VAICTM on financial performance as measured by ROE, in influencing the intrinsic value of shares as measured by the Dividend Discounted Model (DDM) method. This research is testing the proposed hypothesis related to the influence of the independent variable (X) on the dependent variable (Y).

3.2 Population and Samples

Population is a generalization area consisting of: objects / subjects that have certain qualities and characteristics set by the researcher to be studied and then concluded (Sugiyono, 2007). This study uses a population of banking companies listed on the Indonesia Stock Exchange. The number of issuers in the Indonesia Stock Exchange (BEI) Financial Sector Index, the bank sub-sector with updated data as of 12 August 2016, are 43 issuers. Based on the six target population criteria in this study, of the 43 population there were 8 banking sub-sector companies which were the samples of this study.

3.3 Location and Time of Research

This research was conducted on banking sector companies in Indonesia which are listed on the Indonesia Stock Exchange which issued annual reports every year from 2012 to 2016. The calculation of the variables in this study is 2012-2016, only for calculation of growth in the calculation of intrinsic value of shares then the company that is being sampled is also required to share information regarding the distribution of dividends since 2010-2016.

3.4 Path Analysis

This study uses descriptive qualitative analysis method to determine the existence of relationships between dependent variables and independent using inductive statistics correlation with multiple regression analysis. The qualitative descriptive objective in this study is to provide a systematic, factual and accurate description of certain facts.

a. Descriptive Analysis

Sugiyono (2007) explains that qualitative research methods are research methods used to examine natural objects, where researchers are key instruments, while data collection techniques are conducted by interview methods, data analysis is inductive, and the results of qualitative research emphasize meaning rather than generalization.

b. Path Analysis

This analysis is conducted to see if there is a causal relationship between the two variables or examine how large one variable affects the other variables. Relationship between variables that describe the function, namely: $y = f(x)$. This function explains the relationship between the dependent variable (Y) and the free variable (X). Hypothesis testing using t test, F test, r squared test.

IV. Results and Discussion

4.1 Descriptive Analysis

Based on the data, it is known that the minimum value of Employee Stock Ownership Program (ESOP) is 0,000, meaning that there are companies that in certain years do not issue ESOP shares for their employees. This happened to the company PT Bank Danamon Indonesia Tbk. in 2012, 2013 and 2014 because the company began issuing ESOP since 2015. Meanwhile, the maximum value of the Employee Stock Ownership Program (ESOP) was 9.71% owned by the company PT Bank Woori Saudara Indonesia 1906 Tbk. The average Employee Stock Ownership Program (ESOP) value is 2.93%, with a standard deviation of 2.23%.

The minimum Intellectual Capital value is owned by PT Bank Bukopin Tbk. in 2014. Based on Kamath's version of Intellectual Capital, the value of PT Bank Bukopin's Tbk Intellectual Capital. in 2014 included the Bad Performance category, whereas in 2012, 2013, 2015 and 2016 the value of Intellectual Capital of the company was still in the category of common performance. This happened due to a drastic decline in the company's Value Added resulting from an increase in the allowance for losses on non-financial assets. So actually the decline in the value of BBKP Intellectual Capital in 2014 was due to the wisdom of company management, not because of a decrease in the company's financial performance.

When processed on an annual basis, the average ROE of this research sample company in 2012 was 23.65, in 2013 it was 21.37, in 2014 it was 17.6, in 2015 was 17.34 and in 2016 is 14.88. The average value of ROE in the study sample companies from year to year often decreases. Even so, from these data it can be seen that BBKA and BBRI companies are companies that consistently have ROE values above the average for 5 consecutive years. This shows the efficiency capabilities of BBKA and BBRI companies in generating profits compared to similar companies.

In this study, the minimum value of the intrinsic value of sample shares is Rp 223, the intrinsic value of BNBA shares in 2012, the maximum value of the intrinsic value of the company's sample shares is Rp 22,536.25, namely the intrinsic value of BBRI shares in 2016. The average of the intrinsic value of shares is Rp. 4,683.71, with a standard deviation of 5.78.16.

4.2 Results and Discussion

a. Employee Stock Ownership Program (ESOP) for Return On Equity (ROE)

Many studies have been conducted regarding the relationship between the implementation of the Employee Stock Ownership Program (ESOP) on Return on Equity (ROE). One reason for the many studies on the effect of Employee Stock Ownership Program (ESOP) on Return on Equity (ROE) is that the costs in implementing ESOP are not small. One study of the influence of ESOP and ROE has been carried out by Anwar and Baridwan (2006) and states that the implementation of ESOP actually decreases the ROE level of the company because even though profits increase but on the other hand there is also an increase in the company's burden on the implementation of the ESOP. Anwar and Baridwan (2006), Dewi and Hatane (2015) who conducted similar studies on financial sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2008-2013 stated that there was a positive and significant relationship between ESOP and ROE.

It should be noted that management's policy to adopt ESOP will not directly increase the value of the company's profitability but requires time to increase value through increasing human capital engagement and employee performance. In the long term, the existence of ESOP in banking companies will be able to make the company's performance increase because it is able to maintain superior human resources to compete with other banks. This is reflected in the results of this study which states that ESOP has a positive effect on increasing ROE even though it is not significant. The results of this study are also supported by several international studies, including research conducted by companies in France stating that ESOP has a positive but not significant effect in the short term, but in the long term it is stated that the implementation of ESOP has a positive and significant effect on increasing ROE.

b. Intellectual Capital (IC) to Return On Equity (ROE)

The competitiveness of a company lies not only in the ownership of its intangible assets but also depends on innovation, information systems, management of the organization and its resources. Therefore companies increasingly emphasize the importance of knowledge assets. One approach used in the assessment and measurement of knowledge assets is Intellectual Capital (IC) which has become the focus of attention in various fields, both management, information technology, sociology and accounting (Petty and Guthrie, 2000 in Ruhayat, 2014)

At present there has been a lot of research conducted to ascertain the relationship of Intellectual Capital (IC) to the profitability of the company. The research also seeks to find out the relationship between the IC and the profitability of the company that is proxied with Return On Equity (ROE) in banking companies listing in Indonesia. The results of this study state that IC has a positive and significant effect on company profitability which is proxied by ROE.

The results of this study state that if companies can take advantage of human capital, structural capital, and capital employed, which are part of the Intelual Capital (IC), effectively and efficiently it will produce added value maximized for the company. The more efficient management of expenses or costs accompanied by increased income, the more increasing the level of corporate profits. In addition to the form of advanced technology, employee competency, and efficient management of corporate expenses, the utilization of the three intellectual intellectual capital components will result in added value in the form of innovation and solutions. If the company has effective innovation, they can provide comfort and satisfaction for customers. If it's like this, innovation can bring the expected return of the company through the customer's perspective.

c. Employee Stock Ownership Program (ESOP) on Intrinsic Value of Shares

The second substructure model regression results show that the Employee Stock Ownership Program (ESOP) has a negative and not significant effect on the intrinsic value of shares. This is because based on Bapepam's regulation in Rule Number IX.A.7 dated 30 December 2011 stated that the number of shares held by employees is offered, which is a maximum of 10% of the total public offering. The proportion of shares offered to employees is considered relatively small to be influential. So that investors judge that the implementation of ESOP will not necessarily affect the increase in the intrinsic value of the company's shares or it will reduce the intrinsic value of shares because the burden / costs that must be borne by the company will reduce profits or dividends for investors. shares of a company directly but must be mediated by other factors.

d. Intellectual Capital (IC) against Intrinsic Value of Shares

Based on the regression results the second substructure model in this study shows that Intellectual Capital (IC) has a positive but not significant effect on the intrinsic value of shares. This inconsistency is also supported by research conducted by Ruhiyat (2014) on companies listed in the Jakarta Islamic Index (JII) indicating that IC does not have a significant effect on the intrinsic value of shares if directly, but will have a significant effect when mediated by financial performance proxied by Return on Equity (ROE). This is in line with the results of research conducted by Lestari and Sapitri (2016) which states that IC does not affect the value of the company's shares. This means that IC only plays a small role in influencing the intrinsic value of a company's stock. the assessment of the value of the company's shares is currently not sufficiently influenced by Intellectual Capital in a sizeable portion so that it requires other mediating variables to add value.

e. Return on Equity (ROE) on Intrinsic Value of Shares

Research conducted by Novianto (2016) on manufacturing companies listing on the Indonesia Stock Exchange (IDX) states that ROE has a positive effect on the intrinsic value of shares even though it is not significant. This is in accordance with the results of this study which states Languju et al (2016) conducted a study of the relationship of profitability and intrinsic value of shares in property and real estate companies listed on the Indonesia Stock Exchange during the 2011-2014 period. This study states that profitability that is predicted by Return on Equity (ROE), partially or simultaneously with other variables, has a positive and significant effect on the intrinsic value of shares. The results of this study are in line with the results in this study which stated that RoE had a positive effect even though it was not significant. This happens because in assessing the intrinsic value of a company's stock, RoE itself is a favorite indicator of investors in seeing the company's ability to use its resources to generate profits.

Basically, RoE shows the company's ability to generate profits from equity that the company has in this study, many companies have ROE that has decreased, but in reality investors still want to invest in the company. Information about profits is used by investors, but the usefulness of the information profit according to investors is very limited so investors also consider other information. The higher the disclosure of a company, the smaller the level of investor dependence on corporate earnings information. Investors can predict the company's performance through information disclosed, not only depending on the value of profit.

f. Intellectual Capital (IC) against Intrinsic Value of Shares Through Return On Equity (ROE)

The sixth hypothesis testing in this study is to test whether Return on Equity is able to mediate the influence of Intellectual Capital on the intrinsic value of shares. It is known that the direct effect of Intellectual Capital on the intrinsic value of shares is 0.088. While the indirect effect of Intellectual Capital through Return on Equity on the intrinsic value of shares is the multiplication of Intellectual Capital beta on Return on Equity with the beta value of Return on Equity on the intrinsic value of shares, namely: $0.464 \times 0.245 = 0.1135$, the total effect of Intellectual Capital on intrinsic value of shares is a direct effect coupled with an indirect effect of $0.088 + 0.1135 = 0.2017$

Based on the results of the above calculations it is known that the direct effect value is 0.088 and the indirect effect is 0.1135 which means that the value of indirect influence is greater than the value of direct influence, these results indicate that Intellectual Capital indirectly through Return on Equity has a significant effect on intrinsic value of shares

Companies that are able to utilize their Intellectual Capital efficiently, their company value will increase (Ruhiyat, 2014). The results of the study state that financial performance (ROE) as an intervening variable is able to mediate the relationship between Intellectual Capital and firm value. The market will provide a higher rating to companies that have increased financial performance (ROE), increased financial performance (ROE) will be responded positively by the market, thereby increasing the value of the company.

V. Conclusion and Suggestion

Conclusion

Based on the results of the discussion and research conclusions can be drawn as follows:

1. Employee Stock Ownership Program (ESOP) has a positive effect but not significant to company profitability (ROE).
2. Employee Stock Ownership Program (ESOP) has a negative but not significant effect on the intrinsic value of shares.
3. Intellectual Capital (IC) has a positive and significant effect on company profitability (ROE).
4. Intellectual Capital (IC) has a positive but not significant effect on the intrinsic value of shares.
5. Company profitability (ROE) has a positive but not significant effect on the intrinsic value of shares.
6. Employee Stock Ownership Program (ESOP) mediated by company profitability (ROE) has a positive and significant effect on the intrinsic value of shares.
7. Intellectual Capital (IC) mediated by company profitability (ROE) has a positive and significant effect on the intrinsic value of shares.

Suggestion

1. For Appraisers

Business valuation is a very challenging assessment because each company sector has its own uniqueness. Fundamental analysis (forecast analysis) is a way to determine the growth of a company that is more relevant, but the assessor must be able to understand in depth the conditions and characteristics of the company in particular, and macroeconomic conditions in general.

Appraisers are expected to be able to sharpen their ability to carry out forecast analysis by studying more in detail the characteristics of the company being assessed, paying more attention to global and domestic economic conditions and trying as much as possible to obtain supporting data and comparative data relating to the object being assessed so that the assessment more accurate.

2. For Investors

Investors in making investment decisions must not be rigid but must always be updated on market conditions and the development of science. This is related to the company's business / economic conditions that are very in line with the effects of the global economy.

Investors are expected to be able to be more observant in conducting investment analysis, especially for long-term investments. This is because changes in the determinants of business that were previously tangible assets have now turned into intangible assets. Especially when investing in the financial sector, the human resources factor is indeed an important role. For this reason, investors are also advised to pay attention to company policies, not just analysis of the company's financial statements.

3. For Researchers and Academics

The suggestions that can be shared with researchers and academics include:

1. The researcher can then add the hypothesis of the influence / relationship of the implementation of the Employee Stock Option Program to Intellectual Capital in his research.
2. Future research can try to add other company intangible assets variables, such as goodwill, trademark, company information systems, and others.
3. The next researcher can conduct research with these variables and how to calculate the intrinsic value of the same share (DDM Dividend Discounted) in other financial sector companies other than banking.
4. The next researcher can increase the time span of the study to examine the effect of policy implementation related to human resources taken by company management. It is expected that with a period of time that is farther away from the initial year of implementation of policy, it will be able to provide more accurate research results.

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