The Influence of Intellectual Capital on Financial Performance with Earnings Management as A Mediating Variable in Financial Companies Listed on The IDX in 2020-2022

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Abstract

Financial performance is a form of evaluation and analysis of the financial performance of an entity in achieving its objectives. To achieve good financial performance, of course, quality resources are needed. Intellectual capital can be the main reason for achieving good financial performance in an entity because it has competitive advantages such as knowledge, skills, experience, and adequate information, which is in line with the resource-based view theory. However, to achieve good financial performance in the eyes of the public, earnings management practices are often carried out in each entity to cover up failures or fulfill the wishes of stakeholders. Earnings management practices are acts of manipulation of an entity's financial data to make it look good in the eyes of the public and do not describe actual financial performance. This research was conducted on insurance sub-sector financial companies listed on the IDX in 2020–2022. The method of determining the sample used was purposive sampling with the criteria that the insurance sub-sector financial companies published their annual reports consecutively from 2020–2022, so that 11 insurance sub-sector financial companies were obtained. The data analysis techniques used are SEM-PLS and path analysis using the SmartPLS application. Based on the research results, it is known that intellectual capital proxied using VAIC has a positive effect on financial performance proxied by ROA. Intellectual capital proxied by VAIC has no effect on earnings management proxied by DAC. Earnings management, proxied by DAC, has no effect on financial performance, proxied by ROA. Intellectual capital has no effect on financial performance after being mediated by earnings management; therefore, earnings management is called full mediation.

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INTRODUCTION

At present, the world is entering a new era known as Industry 4.0 or artificial intelligence. However, with the continuous advancement of technology, the concept of Industry 4.0 is being further enhanced into Industry 5.0, which involves the integration of digital technology with the physical world and humans. Industry 5.0 represents a further evolution of the Industry 4.0 concept and aims to create smarter, connected, and human-oriented production systems. This is achieved through the use of technologies such as artificial intelligence, big data, and other technologies to combine human capabilities with machine intelligence in industries and financial sectors (Tangkas Nugroho et al., 2023).

Companies are entities that consistently and continuously carry out various activities with the aim of obtaining profit or income. This goal arises because companies fundamentally prioritize obtaining significant profits by minimizing expenses; therefore, every company will always evaluate their financial performance to determine whether their company meets good financial criteria. Financial performance measurement is used by companies as an indicator to assess the achievement of these goals. Therefore, it is important to measure financial performance to evaluate to what extent a company can achieve predetermined profits (Tricahya, 2022).
In evaluating a company's financial performance, information about profits is of primary concern because it can attract investors' attention to determine whether they will continue to invest in the company or seek alternatives. Healthy financial performance indicates that the entity has the ability to generate consistent profits, manage cash flow well, have strong financial health, and achieve their financial goals. Financial performance analysis helps shareholders, management, and lenders make the right decisions for the company's sustainability. Financial performance is measured using Return on Assets (ROA), which is used to describe the effectiveness of an entity in utilizing its assets and capital to generate profits. This information is used as a basis for determining an entity's future strategy and evaluating the overall financial performance of the company (Lubis & Ovami, 2020).

Financial performance has become a very important issue in the corporate entity environment in Indonesia, especially after various cases of fraud involving large companies in Indonesia, especially insurance companies. One example is the case of PT Asuransi Jiwasraya, which was uncovered in 2019. Specifically, in December 2019, the financial industry in Indonesia was shocked by the announcement made by the President Director of PT Asuransi Jiwasraya, stating that the company could not meet its obligations to customers in the amount of Rp 12.4 trillion. In January 2020, Bapepam-LK stated that the losses suffered by PT Asuransi Jiwasraya amounted to Rp 6.4 trillion from stock trading activities. This caused Jiwasraya to fail to meet its obligations to customers, and eventually, the company was officially declared bankrupt by the Commercial Court in June 2020. One of the factors that caused Jiwasraya to fail to meet its obligations was the proposed Jiwasraya flagship system known as the JS Saving Plan. This system was introduced in 2015 and offered a significant investment return rate, surpassing the prevailing deposit interest rates at the time. However, the accumulated results from this system were invested in unhealthy or low-quality stock instruments (Nurtiti, 2020). From the above case, it is evident that PT Asuransi Jiwasraya failed to utilize its resources to the fullest, thus causing various problems. The problems that occurred are related to suboptimal financial performance and a lack of caution in selecting stock instruments by PT Asuransi Jiwasraya, leading to fraud (Haryanti, 2023).

From the case involving PT Asuransi Jiwasraya, it is clear that there is a lack of knowledge about good financial performance, as evidenced by investing in unhealthy stock instruments, resulting in fraud. The case of Jiwasraya refers to the lack of oversight and knowledge of financial performance, referring to a theory called the Resource-Based View Theory, which contains an understanding of the importance of a company's competitive advantage based on its resources and capabilities. This theory emerged because in the Jiwasraya case, the deviation that occurred was caused by the company's inability to maximize its wealth. The stakeholder theory can also be a primary basis for explaining the relationship between a company's performance and IC. In this theory, a company is considered to have to fulfill the desires of stakeholders to achieve profits (Lestari et al., 2018). To achieve this, a company needs to effectively manage all its assets, including its intellectual wealth, through effective and optimal management. Related to financial performance, the agency theory is a theory closely related to financial performance because it explains the relationship between owners and management in an entity. The agency theory also assumes that principals and agents focus on their own interests, which can cause conflicts of interest within the company. In this case, the principal will always demand that the agent can generate significant profits, while the agent will try to display the best performance of an entity in managing its assets to achieve the desired profits by the principal, which will trigger acts of profit manipulation or what is called earnings management to satisfy the principal's desire for significant profits. Profit manipulation can make profit information unreliable and inaccurate, thus negatively impacting an entity's performance.

The problems at PT Asuransi Jiwasraya involve the company's inability to effectively manage its assets, thus leading to the emergence of intellectual capital, which refers to the value contained in the skills, expertise, experience, and information possessed by individuals, groups, or organizations. Therefore, intellectual capital can be an answer to the problems faced by PT Asuransi Jiwasraya because the presence of intellectual capital will enable the company to provide added value with a competitive advantage and then create a positive influence on the overall financial performance of a company. Intellectual capital can be grouped into 3 components, consisting of employed capital, human capital, and structural capital. To measure IC, the Value Added Intellectual Coefficient (VAIC) ratio can be used. The VAIC components consist of VACA, VAHU, and STVA (Lubis & Ovami, 2020).

In realizing quality financial performance, an entity must have adequate knowledge to create significant profits through its capital. If a company does not achieve the expected profit, there will be conflicts of interest
involving principals and agents within it. Therefore, profit management will emerge, which is an action or practice used to manipulate financial statements using unreasonable methods, such as showing better performance than actual or covering up financial problems that may exist by maximizing, minimizing, or smoothing profits. Profit management can also be done through various methods, such as delaying revenue recognition or recognizing expenses higher than actual. Thus, the end result achieved does not reflect what actually happened in the company’s financial performance. Profit management is often used in companies to fulfill the desires of shareholders or financial analysts (lidya, 2019).

Through effective and optimal management of intellectual capital, companies are expected to create added value that will boost the financial performance of an entity towards a better direction or in line with the original goals of the company. The direction of a company's financial performance will be seen from how the entity manages its capital optimally or otherwise; therefore, quality human resources can create an advantage for an entity in utilizing all its assets to improve competitive advantages. Thus, it can be concluded that IC plays an important role in the financial performance of an entity. (Akmala, 2019) reveals that IC has a negative impact on financial performance, while research by (Kurniawati, 2021) reveals that IC has a positive impact on financial performance, research by (Amalia, 2020) reveals that IC has a positive impact on financial performance, research by (Abdelmohsen, 2020) reveals that IC has a significant impact on financial performance, and research by (Xu Jian, 2018) reveals that IC has a significant impact on financial performance.

The level of IC applied comprehensively in an entity tends to contribute to more transparent business practices and high integrity. Companies with knowledge, expertise, and strong management systems tend to focus more on creating long-term value rather than engaging in short-term unethical earnings management. This can minimize manipulative and unethical earnings management actions. If a company has already implemented the basic principles of intellectual capital to the fullest, it can be further seen that IC provides a negative impact on profit management, research by (Andriani, 2022) reveals that intellectual capital has a negative impact on earnings management, while according to (Wato, 2019) reveals that IC indicates a positive impact on earnings management.

LITERATURE REVIEW

Resource Based View Theory

According to Barney et al (2001), the perspective of the theory (RBV), internal resources possessed by an entity are seen as the primary determinants of its performance level. These resources include tangible assets such as technology, infrastructure, and finances, as well as intangible assets such as knowledge, skills, and brand. The main concept of RBV is that an entity that has the ability to manage and maximize these resources selectively and effectively will be able to create sustainable competitive advantages and achieve long-term success. Or it can be said, the ability to allocate, integrate, and optimize internal resources will be the key to achieving a strong position in the market and maintaining it from competition.

Agency Theory

According to Jensen & Meckling (1976), agency theory refers to a comprehensive conceptual framework concerning the dynamics of the working relationship between two main entities, namely the agent and the principal. The concept of agency relationship describes a situation in which one party, commonly referred to as the principal, delegates certain tasks to another individual known as the agent, to be carried out on behalf of the principal. In this context, the principal grants authority to the agent to act and make specific decisions related to the goals set by the principal.

Stakeholder Theory

According to Freeman (2001), the concept of stakeholders is defined as individuals or groups who are not only influenced by, but also have the ability to influence the processes and decisions made by a company in its journey to achieve its goals. In this view, stakeholders are seen as parties with relevant and significant interests in the activities and outcomes of the company. According to Donaldson & Preston (1995), the understanding of stakeholders in the context of companies has evolved far beyond just encompassing shareholders. They assert that company stakeholders also involve various other groups that play significant roles in the organizational
ecosystem, including but not limited to customers, suppliers, employees, creditors, politicians, regulators, and the general public. Thus, the stakeholder concept broadly acknowledges the diverse interests that must be considered by companies in strategic and operational decision-making.

Financial Performance

According to Brigham and Houston in the book “Fundamentals of Financial Management,” financial performance refers to how well an entity performs in generating consistent profits, enhancing the company's value, managing financial risks, and meeting existing financial obligations. Financial performance is measured through return on assets (ROA). Evaluating financial performance provides an overview of the company's financial health and enables stakeholders such as owners, creditors, and investors to make informed decisions (Brigham & Houston, 2019).

Intellectual Capital

IC is a resource or component owned by an entity in the form of intangible assets that can be utilized to generate competitive advantages for the entity itself. The proper implementation of IC can create added value for an entity. In knowledge-based economic theory, the main goal is to create added value or value-added. High-quality resources produce advantages for a business entity, which in turn will help the company to sustain itself for a long period, making it difficult to imitate, transfer, or replace. (February, 2020).

Earnings Management

According to Healy & Wahlen (1999) in their journal, earnings management is the manipulation of financial statements by the management of an entity to exert a negative influence on financial reports in a manner that does not reflect the true condition of the company. The objectives of earnings management can vary, such as meeting predetermined profit targets, enhancing the company's market value, or avoiding loss reporting.

Framework of Thinking

![Figure 1. Framework of thinking](image)

Financial performance is a form of evaluation and analysis of the financial performance of an entity in achieving its objectives. To achieve good financial performance, of course, quality resources are needed. Intellectual capital can be the main reason for achieving good financial performance in an entity because it has competitive advantages such as knowledge, skills, experience, and adequate information, which is in line with the resource-based view theory. However, to achieve good financial performance in the eyes of the public, earnings management practices are often carried out in each entity to cover up failures or fulfill the wishes of stakeholders. Earnings management practices are acts of manipulation of an entity's financial data to make it look good in the eyes of the public and do not describe actual financial performance. As a result, the authors want to test the following four hypotheses:

H1: Intellectual capital has a positive effect on financial performance
H2: Intellectual capital has a negative effect on earnings management
H3: Earning management has a negative effect on financial performance
H4: Intellectual capital has a positive effect on financial performance with earnings management as a mediating variable.

RESEARCH METHODS

The method chosen in this study is a quantitative approach, utilizing previously available data or secondary data. This research aims to describe the influence of IC on financial performance mediated by earnings
management. The research is conducted on a financial entity in the insurance subsector that has been listed on the IDX during the period 2020-2022. The approach used in determining the sample in this research is purposive sampling, which follows the following criteria: 1. All financial entities in the insurance subsector that have been listed on the IDX during the period 2020-2022; 2. All financial entities in the insurance subsector that consecutively reported their financial statements during the period 2020-2022. The data analysis technique using Structural Equation Modeling - Partial Least Squares (SEM-PLS) using the smartPLS version 3 application.

RESULTS AND DISCUSSION

Descriptive Statistics Analysis

The results of this research show that the financial performance variable has a minimum value of -0.08933, a maximum value of 0.06304, a mean value of 0.0175770, and a standard deviation of 0.03143411. Intellectual capital has a minimum value of -3.66215, a maximum value of 6.25382, a mean value of 1.4104091, and a standard deviation of 1.99051071. Earnings management, on the other hand, has a minimum value of -0.26392, a maximum value of 0.34267, a mean value of 0.0127815, and a standard deviation of 0.13358623.

Table 1. Descriptive statistics analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAIC</td>
<td>-3.66215</td>
<td>6.25382</td>
<td>1.4104091</td>
<td>1.99051071</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.08933</td>
<td>0.06304</td>
<td>0.0175770</td>
<td>0.03143411</td>
</tr>
<tr>
<td>DAC</td>
<td>-0.26392</td>
<td>0.34267</td>
<td>0.0127815</td>
<td>0.13358623</td>
</tr>
</tbody>
</table>

R Square Analysis

This analysis is conducted to illustrate the extent to which the percentage of the endogenous variable is explained by the exogenous variable. If the R Square value is high, it assumes that the exogenous variable can explain the endogenous variable, indicating a good structural equation. According to (Hair et al., 2020), if the R Square value reaches 0.67, it can be interpreted as having a large effect; then, if it is 0.33, it can be interpreted as having a moderate effect, and if it is 0.19, it can be interpreted as having a small effect. The value of the financial performance variable is 0.259, meaning that the variability of the intellectual capital and earnings management constructs is 25.9%, so it can be concluded that the variability is moderate. The earnings management variable value is 0.038, indicating that the variability of the intellectual capital construct is 3.8%, so it can be concluded that the variability is weak.

Table 2. R square analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>R Square</th>
<th>R Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>0.259</td>
<td>0.210</td>
</tr>
<tr>
<td>Earnings Management</td>
<td>0.038</td>
<td>0.007</td>
</tr>
</tbody>
</table>

F Square Analysis

If the value of F Square is 0.02, it can be interpreted as having a small impact. Then, if the value of F Square is 0.15, it can be interpreted as having a moderate impact, and if the value of F Square is 0.35, it can be interpreted as having a large impact (Hair et al., 2020). Intellectual capital on financial performance has an F Square value of 0.287, indicating a large impact. The intellectual capital variable on earnings management has an F Square value of 0.040, indicating a small impact, and the earnings management variable on financial performance has an F Square value of 0.019, indicating a small impact.

Table 3. F square analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Intellectual Capital</th>
<th>Financial Performance</th>
<th>Earnings Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellectual Capital</td>
<td>0.287</td>
<td></td>
<td>0.040</td>
</tr>
<tr>
<td>Financial Performance</td>
<td></td>
<td>0.019</td>
<td></td>
</tr>
<tr>
<td>Earnings Management</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Q Square Analysis

Q Square is a measure of predictive relevance aimed at providing an overview of the predictive capability of the model if a value greater than zero is obtained (Hair et al., 2020). The Q Square value for financial performance is 0.093. Therefore, Q Square = 0.093 > 0, thus it can be concluded that intellectual capital and earnings management have predictive relevance for financial performance. Furthermore, the Q Square value for earnings management is 0.026. Therefore, Q Square = 0.026 > 0, meaning that intellectual capital has predictive relevance for earnings management.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Q² (Q Square)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>0.093</td>
</tr>
<tr>
<td>Earnings Management</td>
<td>0.026</td>
</tr>
</tbody>
</table>

Indirect Effect

IC has a positive impact on the financial performance of an entity. This is because the calculated t-value exceeds the tabulated t-value (3.423 > 1.961) and the P-value is less than 0.05 (0.000 < 0.05), thus rejecting the null hypothesis (Ho) and accepting the alternative hypothesis (Ha). Therefore, it can be interpreted that IC has a positive influence on the financial performance of financial entities in the insurance sub-sector registered on the IDX for the period 2020-2022.

IC does not have an influence on earnings management of an entity. This is because the calculated t-value is lower than the tabulated t-value (1.549 < 1.961) and the P-value is greater than 0.05 (0.061 > 0.05), thus accepting the null hypothesis (Ho) and rejecting the alternative hypothesis (Ha). Therefore, it can be interpreted that IC does not have an influence on earnings management of financial entities in the insurance sub-sector registered on the IDX for the period 2020-2022.

Earnings management does not have an influence on the financial performance of an entity. This is because the calculated t-value is lower than the tabulated t-value (0.559 < 1.961) and the P-value is greater than 0.05 (0.288 < 0.05), thus accepting the null hypothesis (Ho) and rejecting the alternative hypothesis (Ha). Therefore, it can be interpreted that earnings management does not have an influence on the financial performance of financial entities in the insurance sub-sector registered on the IDX for the period 2020-2022.

<table>
<thead>
<tr>
<th>Indirect Effect</th>
<th>Original Sample</th>
<th>Sample Mean</th>
<th>Standard Deviation</th>
<th>T Statistics</th>
<th>P Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellectual Capital (X) → Financial Performance (Y)</td>
<td>0.471</td>
<td>0.471</td>
<td>0.137</td>
<td>3.423</td>
<td>0.000</td>
</tr>
<tr>
<td>Intellectual Capital (X) → Earnings Management (Z)</td>
<td>-0.196</td>
<td>-0.186</td>
<td>0.126</td>
<td>1.549</td>
<td>0.061</td>
</tr>
<tr>
<td>Earnings Management (Z) → Financial Performance (Y)</td>
<td>-0.123</td>
<td>-0.053</td>
<td>0.219</td>
<td>0.559</td>
<td>0.288</td>
</tr>
</tbody>
</table>

Specific Indirect Effect

<table>
<thead>
<tr>
<th>Specific Indirect Effect</th>
<th>Original Sample</th>
<th>Sample Mean</th>
<th>Standard Deviation</th>
<th>T Statistics</th>
<th>P Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellectual Capital (X) → Financial Performance (Y)</td>
<td>0.024</td>
<td>0.026</td>
<td>0.050</td>
<td>0.483</td>
<td>0.315</td>
</tr>
</tbody>
</table>
IC does not affect financial performance mediated by earnings management. This is based on the results of the Specific Indirect Effect test, which shows that the calculated t-value is lower than the tabulated t-value (0.483 < 1.961) and the P-value is greater than 0.05 (0.315 > 0.05). Therefore, the earnings management variable is unable to mediate the relationship between IC and financial performance. According to Hair et al. (2020), earnings management as a mediating variable is referred to as full mediation.

The Effect of Intellectual Capital on Financial Performance

This research presents findings indicating that Intellectual Capital (IC) has a positive impact on financial performance, with a calculated t-value exceeding the critical t-value (3.423 > 1.961), and a P-value of 0.000 < 0.05. Therefore, the null hypothesis (Ho) is rejected, and the alternative hypothesis (Ha) is accepted, suggesting that IC has a significant and positive effect on financial performance. This implies that higher levels of IC implementation within an entity are associated with increased financial performance.

This finding is consistent with the Resource-Based View (RBV) theory, which emphasizes the importance of effectively managing internal resources to achieve competitive advantage. IC, which encompasses various aspects such as employee knowledge, skills, management systems, innovation, and customer relationships, plays a vital role in shaping a company's financial performance. Success in managing IC effectively directly reflects increased employee productivity, whereby the knowledge and skills possessed by staff can optimize operational processes and contribute positively to overall company efficiency.

This study aligns with the findings of research conducted by Tricahya (2022), which also concluded that IC has a positive impact on financial performance. Similarly, studies by Kurniawati et al. (2020), Novita (2020), Amalia (2020), and research by Xu Jian (2018) all indicate that IC has a positive influence on financial performance.

Discussion section is perhaps the most important section of a scientific article. It elaborates the significance of the results for both the current and prior relevant research. State the summary of findings (often linked with theoretical contributions) that is resulted and the managerial implications of the findings.

The Effect of Intellectual Capital on Earnings Management

This study indicates that Intellectual Capital (IC) does not have an influence on earnings management, with a calculated t-value lower than the critical t-value (1.549 < 1.961) and a P-value of 0.061 > 0.05. Therefore, the null hypothesis (Ho) is accepted, and the alternative hypothesis (Ha) is rejected, concluding that IC does not affect earnings management. In this context, although IC is considered a source of value addition capable of providing a competitive advantage, companies do not utilize IC for earnings management.

Based on the Resource-Based View (RBV) theory, which highlights the importance of internal resource wealth, including intellectual capital, as a key element in creating competitive advantage, research findings suggest that IC does not always have a significant impact on earnings management actions within an entity. This finding may reflect the focus of RBV theory, which tends to be directed towards leveraging internal resources to achieve long-term competitive advantage, while earnings management tends to be more of an external tactic to manage stakeholder perceptions and expectations. Thus, it can be assumed that, in some cases, IC directly cannot influence an entity's inclination to use earnings management as a tool to achieve specific goals. This study aligns with research conducted by Dinata (2022), which showed that IC does not impact earnings management.

The Effect of Earnings Management on Financial Performance

The study reveals that earnings management does not have an impact on financial performance, as the calculated t-value is lower than the critical t-value (0.559 < 1.961) with a P-value of 0.288 > 0.05. Therefore, the null hypothesis (Ho) is accepted, and the alternative hypothesis (Ha) is rejected, leading to the conclusion that earnings management does not affect financial performance.

This finding contradicts the Resource-Based View (RBV) theory, which emphasizes the importance of utilizing internal resources as the main foundation for achieving competitive advantage. Earnings management
practices do not always create a significant impact on the financial performance of an entity. The Resource-Based View Theory emphasizes the company's focus on optimizing internal resources, such as expertise, innovation, and knowledge, to create long-term competitive advantage. However, based on the observed cases, earnings management practices do not have a substantial and full contribution to achieving the expected financial results. This can be interpreted that, from the perspective of the Resource-Based View Theory, companies may lean more towards managing and optimizing their internal resources more intrinsically, rather than relying on earnings management tactics as a source of competitive advantage. Additionally, Stakeholder Theory also acts as a link between earnings management and financial performance, where this theory asserts that companies are considered entities with obligations not only to shareholders but also to all parties contributing to and having an interest in the activities of an entity. This study aligns with research conducted by Epi (2017), which revealed that earnings management does not have an impact on financial performance.

The Effect of Intellectual Capital on Financial Performance with Earnings Management as A Mediating Variable

IC does not have an influence on financial performance mediated by earnings management, as the calculated t-value is lower than the critical t-value (0.483 < 1.961) with a P-value of 0.315 > 0.05. Therefore, the null hypothesis (Ho) is accepted, and the alternative hypothesis (Ha) is rejected. Thus, it can be concluded that IC does not have an influence on financial performance mediated by earnings management because IC generates a positive and significant impact on financial performance with a coefficient of 0.471. However, after being mediated by earnings management, the relationship between IC and financial performance decreases and becomes insignificant because the coefficient becomes 0.024. According to Hair et al. (2020), this is referred to as full mediation.

The Resource-Based View (RBV) theory emphasizes the importance of utilizing IC as a unique resource capable of creating long-term advantages or added value for an entity. However, the research findings indicate that IC does not have a direct influence on the financial performance of an entity when mediated by earnings management. From the perspective of RBV theory, the primary focus of an entity on managing internal resources, such as knowledge, innovation, and expertise, should create competitive advantages. This finding indicates that the effect of IC on financial performance may be more complex and mediated by earnings management practices. Intellectual capital may add value to the financial performance of an entity, but when mediated by earnings management, it can alter perceptions and understandings of the true impact of IC on the financial performance of an entity. Earnings management can be interpreted as an external tactic that may be less directly related to optimizing internal resources. Therefore, IC and financial performance do not have a relationship after being mediated by earnings management, indicating that there is a more complex dynamic in how an entity can apply and optimize its intellectual resources. This study aligns with research conducted by Kautsar (2023), which found that IC does not have an influence on financial performance.

CONCLUSIONS

The conclusions drawn from this study include: 1) Intellectual capital has a positive impact on the financial performance of insurance sector entities listed on the IDX during the period 2020-2022; 2) Intellectual capital does not have an impact on earnings management of insurance sector entities listed on the IDX during the period 2020-2022; 3) Earnings management does not influence the financial performance of insurance sector entities listed on the IDX during the period 2020-2022; and 4) Intellectual capital does not have an impact on financial performance mediated by earnings management.

Suggestions obtained include: 1) Suggestions for the Indonesia Stock Exchange (IDX), it is recommended to promote the integrity and transparency of the capital market by encouraging listed companies to adopt best practices in managing intellectual capital and reporting financial performance, as well as implementing prevention strategies against financial statement manipulation or known as earnings management which certainly would undermine investor confidence; 2) Suggestions for financial entities listed on the IDX, it is recommended to delve deeper into how IC generates positive impacts on the financial performance of an entity, considering earnings management; and 3) Suggestions for further research, it is hoped that there will be in-depth exploration regarding the influence of IC on financial performance mediated by earnings management and considering more specific industry characteristics.
REFERENCES


