

INTELLECTUAL CAPITAL AS A BASIS IN DETERMINING THE CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE (CASE STUDY OF SMALL HANDICRAFT INDUSTRIES IN GIANYAR-BALI REGENCY INDONESIA)

Ni Luh Putu Wiagustini 

Program Studi Manajemen, Fakultas Ekonomi dan Bisnis, Universitas Udayana, Indonesia
wiagustini@unud.ac.id

Luh Gede Sri Artini

Program Studi Manajemen, Fakultas Ekonomi dan Bisnis, Universitas Udayana, Indonesia

I Wayan Ramantha

Program Studi Akuntansi, Fakultas Ekonomi dan Bisnis, Universitas Udayana, Indonesia

Abstract

This study aims to analyze the influence of Intellectual capital including: Human Capital, Structural Capital and Relational Capital on Capital Structure and Financial performance; and the influence of Capital Structure on Financial performance. The research population is the Handicraft Industry in Gianyar which has been recorded as being active in transactions in the last five years and the products produced are at least 50% exported (total 464 units). The sample size is determined by the Slovin formula, obtained the minimum number of samples that must be taken as many as 82 business units. Sampling was done by stratified proportional random sampling based on the type of handicraft industry products. The analysis model used is Partial Least Square (PLS). This study found that Intellectual capital which includes Human Capital, Structural Capital, and Relational Capital has a positive effect on Capital Structure and Financial performance; and Capital Structure has a positive effect on financial performance.

Keywords: Intellectual capital, Capital Structure, Financial performance, Handicraft Industry, Partial Least Square

INTRODUCTION

Small Craft Industry is part of the Small and Medium Industry, has an important role in Bali in improving Bali's economy. This condition can be shown from the export contribution of Balinese handicraft products in the last five years (in 2012 to 2016) an average of 41% per year, and contributing to Bali's GDP at an average of 7% per year. On the other hand, the Small Handicraft Industry experienced problems in increasing its Financial Performance, which is one of the causes is limited capital (Disperindag Bali Province, 2012), this is also corroborated by opinions (Scarborough and Zimmerer (2008: 164)

Capital problems are related to funding decisions reflected in the company's Capital Structure, namely the proportion of the use of debt and the company's own capital. Research related to Capital Structure which is a decision of company funding on company performance has been carried out by several researchers found Capital Structure has a significant positive effect on the Company's financial performance in Ghana (Abor, 2005), the same results were also found Ahmad (2012) in Malaysia, Skopljak and Luo (2012), Nirajini and Priya (2013) in Sri Lanka, Chriti and Ali (2013) in India; Mahmudi and Mohammadi (2015) in Tehran; and Mujahid et al (2015) in Pakistan. On the other hand similar research was also conducted by Gatsi (2012) in Ghana, found different results, namely there was a significant negative effect between Funding Decisions and company performance, the same results were also found by Pang and Hoang (2013); and Quang and Xin in Vietman (2014); Zakaria et al in Malaysia (2014).

Based on the controversy of the findings of the influence of the Capital Structure research which is the company's funding decision on the company's financial performance, becoming a Research Gap is done by raising Intellectual Capital as a Variable Antecedent. Intellectual Capital is an intangible asset such as knowledge and skills that can encourage improving Financial performance, in accordance with the Resource Based View (RBV) Theory. The RBV theory reveals that the company's internal capability is an important factor in managing the unique resources of the company so that the company is able to achieve competitive advantage (Barney: 1991) (Schienstock: 2009). Management of Intellectual Capital by optimizing Human Capital, Structural Capital, and Relational Capital as a whole entity to create superior performance. Bontis et al. (2000), found that human capital, structural capital and relational capital have a positive and significant effect on business performance. Integration of human capital, structural capital and relational capital was found to have a positive and significant influence on business performance. Furthermore, Chen et al. (2005) found that Intellectual capital has a positive effect on financial performance. The same thing was also found by Ting and Lean (2009) and Clarke et al. (2011).

Intellectual capital is an intangible asset such as knowledge and skills that can encourage improving financial performance, in accordance with the Resource Based View (RBV) theory. The RBV theory reveals that the company's internal capability is an important factor in managing the company's unique resources so that the company can achieve competitive advantage (Barney: 1991) (Schienstock: 2009). Management of Intellectual Capital by optimizing the role of Human Capital, Structural Capital, and Capital Relations as a whole entity to create superior performance. Bontis et al. (2000), found that human capital, structural capital and relational capital have a positive and significant effect on business performance. Integration of human capital, structural capital and relational capital was found to have a positive and significant influence on business performance. Edvinson and Malone, (1997); Fitz-enz, (2000) revealed that the main components of intellectual capital are: human capital, structural capital and relational capital have a significant positive effect on business performance of the organization. Relational Capital has a significant positive effect on organizational business performance. Furthermore, Chen et al. (2005) found that Intellectual Capital had a positive effect on Financial performance. The same thing was also found by Ting and Lean (2009) and Clarke et al. (2011).

Intellectual capital enhancement which includes Human Capital, Structural Capital, Relational Capital shows an increase in knowledge and skills in managing a business, this condition certainly requires greater capital, especially from debt, so the Capital Structure of the company increases. This means that the increase in the Company's intellectual capital can increase the Company's Capital Structure and ultimately lead to the improvement of the company's financial performance, and vice versa, the intellectual capital owned by a low company has an impact on the Company's Capital Structure to decline and ultimately lead to a decrease in the company's financial performance.

Research on Intellectual capital which is a non-financial variable affects Capital Structure which is a company's funding decision and financial performance as a financial variable is still limited, so that this Research Gap is done, so that it can research more about the influence of non-financial variables on financial variables. Financial research has done a lot of influence between financial variables that use data ratios and conducted on publish companies. This research was conducted on the Handicraft Industry in Bali, which did not have audited financial statements, so that the measurement of the research variables was perception or using ordinal data.

Based on the Research Gap that has been described, this study aims to find out the influence of Intellectual capital including: Human Capital, Structural Capital and Relational Capital on Capital Structure and Financial performance of the Handicraft Industry in Gianyar

and the influence of Capital Structure on the Financial performance of the Handicraft Industry in Gianyar.

LITERATURE REVIEW

Financial Performance

Company performance is a general (factor) construct used to measure the influence of a company policy or decision. Policies or decisions are always directed to produce good performance, one of which is financial performance (Weaver and Weston, 2005: 194). A business organization can measure its performance using financial measures or called financial performance using profit and sales volume (Chong, 2008)

The procedure for measuring the performance of Industri Kecil dan Menengah (IKM) or as known as small-medium enterprises can be done by assessing the perceptions of respondents based on a Likert scale on several financial measures, such as the level of sales, sales growth, gross profit, the ratio of profits on sales, the rate of return on capital, and net operating income. Thus, measurement of business performance will depend on how valid these measures are in accordance with the performance achieved by IKM (Covin and Slevin, 1989)

The parties who have an interest in evaluating the performance of the company are the owners of the company (investors), managers, creditors, the government and the public. They will assess a company with a certain financial size according to its purpose. Managers are responsible for efficiency and other economic resources in managing the company. Investors have an interest in the company's profitability which is reflected in the company's profit and dividend growth which will further affect the company's value. Creditors have an interest in the company's performance in relation to payment of installments (loan principal and interest). The ability to fulfill this obligation will be indicated by the value of assets owned by the company as collateral for a number of debts (loans) as well as collateral against risks that will be received by creditors. Other parties such as the government and other groups in the public interest for tax calculation and the ability to pay salaries (Brigham and Houston, 2011: 199)

Capital Structure

Every business, both new and growing, will need funds to carry out its operational activities. This activity will not be successful if the company is underfunded. Funding needs are needed for routine business activities or business development, so that funds have an important role in the company's life cycle (Chechet and Olayiwola, 2014).

Based on the source, company funding can be divided into two, namely internal financing and external financing. Internal financing can be in the form of retained earnings or

capital deposits from the owner of the company. External financing is in the form of debt originating from creditors so that it creates an obligation for the company in the form of payment and interest payments and the obligation to pay it off. A large portion of debt will increase the risk of the company's income flow.

Capital structure is a balance of the amount of short-term debt that is permanent, long-term debt, preferred stock and ordinary shares (Brigham and Daves, 2010: 226). Capital Structure decisions are very important for the continuity of the company's operations. The amount of funds needed by the company in the composition of its Capital Structure depends on the size of the company's activities or operations. According to Brigham and Houston (2011: 202) funding in the company's Capital Structure consists of two parts, namely: (1) own capital (internal), which is capital that comes from within the company itself (retained earnings) or company owners (common stock and shares preference) for an undetermined period of time; (2) Foreign capital (external), namely capital originating from outside the company or from creditors (long-term liabilities) so that it is an obligation for the company to pay it off. Funding with debt will cause a fixed cost in the form of interest.

Intellectual Capital

Intellectual Capital from various literatures is often defined differently, but basically contains the same meaning. Stewart, (1997) explained that the notion of Intellectual Capital can be understood in three things. First, the whole of everything that is known in an organization that can provide excellence; second, intellectual material - knowledge, information (information), intellectual property, experience - used to create wealth; and third, a useful knowledge package. Bontis et al., 1999; Edvinson and Malone., 1997; Bontis and Fitz-enz, 2000; Roos and Roos, 1997, stated that the main components of intellectual capital are: human capital, structural capital and relational capital have a significant effect on the business performance of organizations. Bontis et al., (2000) defines intellectual capital as the integration of human capital, structural capital and relational capital, influencing the improvement of business performance, and human capital as a key component as well as life-blood intellectual capital (Bontis et al., 2001), reinforced by Nikolini in Bontis et al. (2000), that human capital is the most important component because it is a source of innovation and renewal of strategy. However, if without structural capital support, human capital will only remain human (human), and does not give any meaning to the organization. Prusak (2001), conceptualizing intellectual capital as an intellectual resource that has been formulated, was captured and leveraged to create high-value intellectual assets. Another conceptualization of intellectual capital is knowledge-based assets

that are available and become "core" competencies and influence the development of endurance and sustainable excellence of an organization.

Klein (1998) and Prusak (2001), define intellectual capital as material capital that is formulated, captured and leveraged to create high-value assets. The concept of intellectual capital as intangible assets such as knowledge and skills, contains complex components that can encourage financial performance in accordance with the Resource Based View (RBV) theory. The RBV theory reveals that the company's internal capability is an important factor in managing the company's unique resources so that the company can achieve competitive advantage (Barney: 1991) (Schienstock: 2009).

The importance of intellectual capital is reflected in the increasing importance of the service industry or professional services based on knowledge management and information technology. The implementation of knowledge in business organizations is actually neglected in management studies although Nonaka and Takeuchi., 1995 assure that this process is the most important international competitiveness for some time (Bontis and Richardson, 2000), recognizing that knowledge is not just another resource along factors traditional production of labor, capital and land, but is the only useful resource now, because knowledge is spread among members of the organization and is related to the experience and history of the organization (Bontis, 2000).

Relational capital includes all relationships that exist between organizations and other parties (consumers / customers / customers, intermediaries, employees / employees, suppliers, alliance partners, regulatory bodies, interest groups, community groups, creditors or investors). The relationship is categorized into two types of relationships, namely: formal relations, formed through contractual obligations such as: relationships with consumers in the form of large organizations, while relationships with partners, are informal relationships (without contractual obligations). Structural capital includes various types of vital factors for an organization where one of the most important factors is the main operating process in the organization, such as: organizational structure, policies, information flow, content of data based, management style, organizational culture, incentive schemes and capital other intellectuals are legally protected, and are classified into several, namely: practice and routine (operational processes), organizational culture and intellectual property. Bontis (1998), conceptualizing Intellectual Capital as an integration of human capital, structural capital and customer capital, as Figure 1.

Conceptualization of intellectual capital

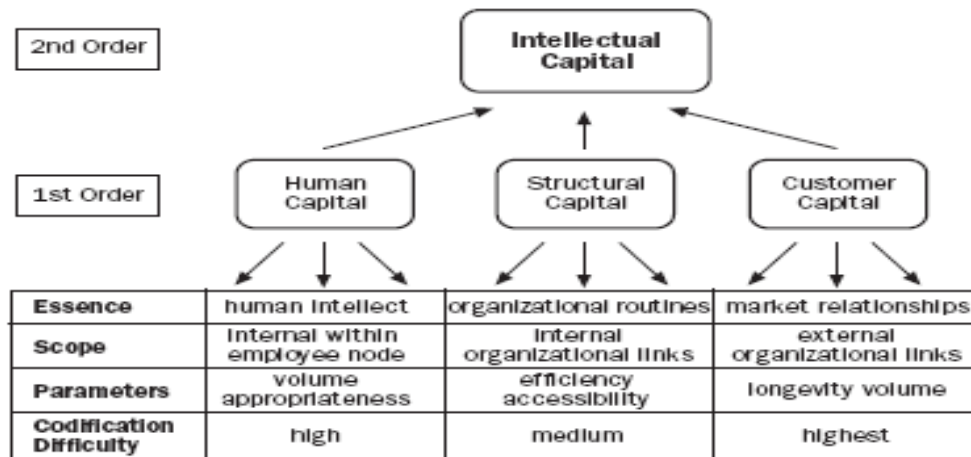


Figure 1 Intellectual Capital Concept

Source: Bontis (1998)

Figure 1 explains that the main component of Intellectual Capital consists of 3 (three) components, namely: 1) human capital, 2) structural capital and 3) customer capital with the essence, scope, parameters and difficulties of codification, each different but functioning as the main component of Intellectual Capital and correlate with one another. The conceptualization of the Intellectual Capital does not cover intellectual property in the form of patents and copyright. Intellectual property is a resource that is exclusively owned by the organization and can be used legally. While intellectual capital refers to resources or assets that are difficult to replicate, such as: the intellectual property of employees (intelligence and talent or talent) inherent in individual employees, which is owned by the organization and alignment that is uniquely carried out by the organization.

Human Capital, As an organizational asset, human capital empowerment must be optimized in such a way, because it can make employees aware of their potential both individually and in groups, so as to position themselves as strategic assets in achieving organizational goals. While as the manager of the overall assets of the organization / organization, human capital must be able to plan, manage and supervise all the resources within the organization, while ensuring that all other resources are functioned optimally. The uniqueness of human capital assets shows that management is different from other assets because human capital has a ratio (mind, mind), taste (feeling, desire, drive), and intention (skills, power, work) where the potential of these resources greatly influences the efforts of the organization / organization in achieving goals. But no matter how sophisticated technology is, as fast as any information develops, and how much capital is available and the material fit, without

the involvement of individual or group human capital, will not mean anything for the achievement of organizational goals.

Structural capital is the intellectual capital of an organization which is the ability of an organization (business and non-business) to fulfill the organizational routine process as well as its structure in supporting employee efforts to produce optimal intellectual performance and overall business performance. The organization also develops structural capital born from unseen knowledge structures (structural tacit knowledge) in the form of links between nodes. According to Bontis (2001), structural capital (Structural Capital / organization) is a mechanism and structure that is owned by an organization so that employees can optimally elaborate their individual human beings in order to achieve the best work performance of employees in seeking the best performance of the organization. Structural Capital Conceptualization allows intellectual capital to be measured and developed within an organization. Consequently, without structural capital, other intellectual capital human capital and relational capital will only become human. Therefore the relationship between nodes becomes critical in the implementation of intellectual capital. Structural capital can be distinguished from technology components and architectural competencies. Technology component is the organization's ability to complete work routines according to the level of human capital ability in building unique and efficient cooperation.

Relational capital is a consumer relationship that is seen by most researchers as the most important component of relational capital. The business environment now requires organizations to shift from being product centric to consumer centric, so there is no doubt that consumer contributions to organizational income in the present and in the future are vital for measuring the extent of an organization's success in changing its relationship with consumers become an advantage of sustainable competitiveness (Duffy., 2000). Relational capital emphasizes more on the market orientation function that grows through customers (customers) and is implemented through the availability of accurate data-based and continuously updated, thus facilitating the accessibility of the occurrence of organizational economic transactions. The essence of relational capital is organizational knowledge derived from knowledge outside the organization and inherent in its relationship with external organizations (customers, government, community and related industries), while its scope is outside the organization, especially customers.

The concept of Intellectual Capital is an important concept in the life and development of organizations and wider economic life. Intellectual capital is an intangible capital that is very important for their assets (Clarke et al., 2011). Intellectual capital is related to human knowledge and experience and the technology used. Intellectual Capital has the potential to advance organizations and society. Increased Relational Capital shows an increase in knowledge and

skills in managing business, this condition certainly requires greater capital that can be met from debt. The increase in the use of debt reflects the increasing Capital Structure of the company. This means that an increase in the Company's Intellectual Capital can increase the Company's Capital Structure and ultimately lead to the company's Financial Performance improvement. Based on the theory and phenomena of research, the following hypothesis can be formulated.

H1a: Human Capital has a positive effect on the Company's Capital Structure.

H1b: Structural Capital has a positive effect on the Capital Structure Perusahaan.

H1c: Relational Capital has a positive effect on the Capital Structure Perusahaan.

Moon and Kym, (2006), empirically examine intellectual capital, find the concept of intellectual capital theory as an integration of human capital, structural capital and relational capital affect the company's performance. Moon and Kym, (2006) empirically examined intellectual capital, and managed to find the concept of intellectual capital theory as the integration of human capital, structural capital and relational capital affect the company's performance. Moon and Kym's (2006) research on several service industries and non-service industries supports Bontis's research, (2000; 2001); Bontis and Fitz-enz (2002). His research findings show that there is consistency in the effect of integration between human capital, structural capital and relational capital as forming intellectual capital on business performance. Furthermore, Chen et al. (2005) found that Intellectual Capital had a positive effect on Financial performance. The same was also found by Ting and Lean (2009) and Clarke et al. (2011). Based on the theory and empirical that have been described, the following hypothesis can be formulated.

H2a: Human Capital has made a positive contribution to the Company's financial performance.

H2b: Structural Capital has made a positive contribution to the Financial performance Perusahaan.

H2c: Relational Capital has made a positive contribution to the Financial performance Perusahaan

Capital Structure which is a company's funding decision has a very important role in the company's profitability. The selection of capital components and the use of these components play an important role in determining financial strategies. This is because, a good balance of debt and equity can affect the company's financial performance or in other words that a company's financial performance is directly influenced by the Capital Structure decision.

Much research has been carried out on the Company's Capital Structure and Financial performance. Abor (2005) conducted a study on the Ghana Stock Exchange (GSE). Funding

decisions are explained by short-term debt ratios, long-term debt ratios and total debt ratios. The Company's financial performance is explained by Return On Assets (ROE), found a significant positive relationship between the ratio of short-term debt to ROE. This finding shows that short-term debt tends to be cheaper, and therefore increasing short-term debt with a relatively low interest rate will cause an increase in the level of profit. The total debt to ROE ratio was found to be a significant positive relationship. Increased debt position results in a financial performance, the higher the use of debt, the higher the profitability. These findings indicate that companies will be more profitable if using debt as a source of corporate financing.

Gatsi (2012) conducted research on the banking sector on the Ghana Stock Exchange. This study aims to empirically investigate the impact of debt use which is an important component of Capital Structure, on the profitability of banks listed on the Ghana Stock Exchange. The results of this study show that Capital Structure, a short-term debt consisting of savings and deposits, has a significant positive effect on financial performance and long-term debt in the form of bond issuance has a significant negative effect on financial performance.

Ahmad et al (2012) conducted research in Malaysia. This study measures company performance with Return on Assets (ROA) and Return on Equity (ROE), Short Term Debt (STD), Long Term Debt (LTD) and Total Debt (TD). The study found that only STD and TD had a significant positive relationship with ROA while ROE had a significant positive relationship with each level of debt. Skopljak and Luo (2012) conducted research in Australia related to the relationship between Funding Decisions and Company Performance. The findings show a significant positive relationship between Capital Structure and company performance. At a relatively low level of leverage, an increase in debt causes an increase in the efficiency of bank performance earnings, at a relatively high level leverage increases in debt causes a decrease in profit efficiency and bank performance. Nirajini and Priya (2013) conducted research in Sri Lanka on companies listed on the Colombo Stock Exchange. Capital Structure is explained by the company's debt ratio and the Company's financial performance explained by Return on Assets (ROA) and Return on Equity (ROE). This means that the increasing proportion of debt use, the ROA and ROE ratios will also increase. Based on theoretical studies, empirical studies and concepts that have been described, the following hypotheses can be formulated.

H₃ : Capital Structure has a positive effect on the Company's financial performance

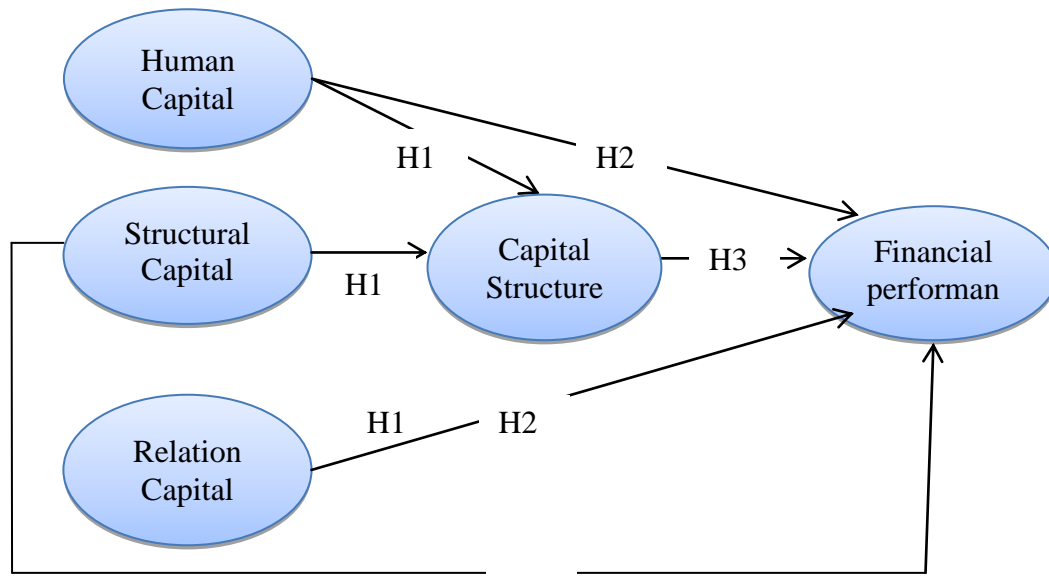


Figure 2. Research Conceptual Model

RESEARCH METHODOLOGY

Research Variable

This study uses three types of variables, namely exogenous variables, namely: Intellectual Capital: Human Capital (X1), Structural Capital (X2), and Relations Capital (X3), Capital Structure as Variable Mediation (Y1) and endogenous variables are Financial performance (Y2) then the variables used are made operational variable definitions as follows.

- 1) Human Capital (X1) as skills and expertise, problem solving skills, leadership style and everything related to employees and customers. Human Capital is a combination of knowledge, skills, innovativeness, and the ability of organizational members to carry out their duties. Human Capital is measured by indicators (Edvinson and Malone, 1997): (1) Capability (X11); (2) Sustainability (X13); (3) Employee Satisfaction (X12);
- 2) Structural Capital (X2) is a structure that is owned by an organization so that it can optimally elaborate its individual human beings to achieve the best work performance for the organization (Bontis, 2001). Indicators of structural capital include: (1) Internal Structural (X21) and External Structural (X22),
- 3) Relations Capital (X3) is the extent of the success of an organization in transforming its relationship with consumers into a sustainable competitive advantage (Duffy., 2000 and Kym., 2006). Capital Relations are measured by indicators: (1) Customers / Customers (X31) and (2) Partner / Network Systems (X32).

- 4) Capital Structure (Y1) referred to in this study is the proportion of debt used in Small Craft Industries in Gianyar Regency. Capital Structure is reflected in 3 (three) indicators: (1) Percentage of total debt usage compared to total assets (Y11); Percentage of total debt usage compared to total capital (Y12); and (3) Percentage of the use of long-term debt with total equity (Y13)
- 5) Financial performance (Y2), is the level of achievement or achievement of the company in a certain period of time in the Small Craft Industry in Gianyar Regency. The Company's financial performance is reflected in three indicators: (1) Growth in sales volume (Y21), is the average growth of company sales in the last three years; (2) Profit growth (Y22), namely the average growth in corporate profits in the last three years; and (3) asset growth (Y23), namely the average growth of company assets in the last three years.

Research Population and Sample

The population of this study is the Small Handicraft Industry which is recorded to be active in transactions in the last 5 (five) years and the products produced are at least 50% exported. This is done because the Small Handicraft Industry whose products are mostly exported will require greater or higher capital and intellectual compared to the Small Handicraft Industry that is not exported. Based on this, the population is 464 units, as shown in Table 1.

Table 1 : Number of Small Industries in the Gianyar Regency of Bali in 2016

No.	Industries Kecil Kerajinan	(Unit Usaha)
1.	Textile and other textile product	37
2.	Wood and Wood Processing	297
3	Gold and Silver	112
4	Iron and Aluminum	5
5	Palm Leaves and Pandan	2
6	Ivory and Bone	3
7	Petiole	1
8	Stone	3
9	Glass	4
Total		464

Source : Disperindag (2016)

Determination of the size of the sample is done by using the Slovin formula (Umar, 2004: 108) that is a minimal sample determined by the following formula.

$$\text{Slovin Formula : } n = \frac{N}{1 + Ne^2}$$

Annotation : n = sample size

N = population size

e = the percentage of sample sampling error that can still be tolerated

Based on calculations using the Slovin formula, the sample size can be calculated as follows:

$$n = \frac{N}{1 + Ne^2}$$

$$n = \frac{464}{1 + 464(0,10)^2} \quad n = 82$$

The minimum number of samples that must be taken is 82 business units, the sampling technique in this study is stratified proportional random sampling based on the type of small handicraft industry.

Data analysis method

This study uses a variance based or component based approach with Partial Least Square (PLS). With the reason that when the structural model to be analyzed meets the recursive model and the latent variable has indicators that are formative, reflexive, or mixed, then the most appropriate approach to use is PLS.

Descriptive statistical analysis is calculated based on the percentage of respondents' answers to the statements in the research questionnaire using the average value of each indicator proposed to describe the perceptions of all respondents. Respondent's assessment of each research instrument was carried out by classifying respondents' answers into 5 measurement scales through range interval formulations with the following formula:

$$\text{Interval} = \frac{\text{highest limit value} - \text{lowest limit value}}{\text{the total value used}}$$

$$\text{Interval} = \frac{5-1}{5} = 0,8$$

Based on the results it can be arranged range interval measurement results the following criteria,

1,00 - < 1,80 = Very low

1,80 - < 2,60 = Low

2,60 - < 3,40 = Fair

3,40 - <4,20 = High
 4,20 - 5,00 = Very High

FINDINGS

Description of Human Capital Variables (X1)

Human Capital is formed by three dimensions, namely: (1) Capability (X11) with indicators: having a certificate or education to become an entrepreneur or craftsman (X111), having the ability to understand work (X112), having time (willing) to take part in training (X113); (2) Sustainability (X12) with indicators: trying to meet customer demand (X121), trying to get orders (X122), trying to meet service standards (X123); (3) Satisfaction (X13); with indicators: trying to satisfy employees by conducting a job evaluation system (X131), trying to satisfy employees through the comfort of workplace environmental conditions (X132), trying to satisfy employees through a compensation system (X133).

Table 2: Description of Variables in Human Capital in the Handicraft Industry in Gianyar Regency

Indicator	Respond Frequency(f) & Percentage (%)										Mean
	1		2		3		4		5		
	f	%	f	%	f	%	f	%	f	%	
X11 Capability											
X111	Have a certificate or training which supports work as a Craftsmen										3,18
X112	HAVE the ability to understand the work done										4,24
X113	have time to attend training										2,82
	Mean										3,41
X12 Sustainability											
X121	Trying to fulfill customer demand										4,46
X122	Trying to get orders										4,40
X123	Trying to fulfill service standards as craftsmen										4,41
	Mean										3,96
X13 Satisfaction											

Table 2...

X131	Trying to satisfy employees by doing a job evaluation system	10	12,2	54	65,85	18	21,95	4,1
X132	Trying to satisfy employees through the comfort of working conditions	7	8,54	55	67,07	20	24,39	4,16
X133	Trying to satisfy employees through the compensation system applied	29	35,37	43	52,44	10	12,2	3,77
Mean								4,08
Human Capital Assessment Mean								3,82

The description of the Capital Structure variable is presented in Table 2, showing that Human Capital with Capability dimension has an average value of 3.41, with a fairly good category; Sustainability has an average of 3.96 with good categories and Satisfaction has an average of 4.08, with good categories. Overall, the condition of the Small Craft Industry of Human Capital in Gianyar Regency is categorized as good (average 3.82).

Description of Structural Capital Variable

Human Capital is formed by two dimensions, namely: (1) Internal Structural (X21) with indicators: having a vision and mission that are in line with the objectives of IKK Development in Bali Province (X211); have the ability to understand the functions of the IKK in improving regional economy (X221); has the ability of efficiency in carrying out the production process of the crafted products (X223); (2) External Structural with indicators: getting to know customers, getting to know all craft entrepreneurs who are engaged; know the working environment of the product craftsmen occupied. The variable description of Capital Structure is presented in Table 3, showing that the Internal Structural dimension has an average value of 3.43, with good categories and External Structural has an average of 3.56 with good categories. Overall, the condition of the Variable Structural Capital for Small-Scale Crafts Industry in Gianyar Regency is good (average 3.49).

Table 3: Description of Variables in Structural Capital in Small Handicraft Industries in Gianyar Regency

Indicator	Respond Frequency(f) & Percentage (%)										Mean
	1		2		3		4		5		
	f	%	f	%	f	%	f	%	f	%	
X21	Internal Structural										
X211	I have a vision and mission that is in line with the objectives of developing small industries in Bali Province										3,33
X212	I have the ability to understand the functions of small craft industries in improving regional economies										3,4
X213	I have the ability to efficiently carry out the craft production process that I work on										3,55
X22	External Structural										
X221	I know my customers well										3,88
X222	I know all handicraft entrepreneurs in Gianyar										3,6
X223	I know the work environment of the craftsmen that I have been working on										3,52
Mean											3,56
Structural Capital Assessment Mean											3,49

Description of Relationship Capital Variables (X3)

Capital Relations is formed by two dimensions, namely: (1) Customer (X31) with indicators: customer intents to make transactions (X311), customer trust (X312), Image / product image (X313); (2) Partner / network system (X32) with indicators: having the ability to negotiate with partners (X321), has the ability to occupy a superior position in dealing with partners (X322); strive to provide partner satisfaction (X323). The variable description of Capital Relations in Table 4 shows that showing that the Customer dimension has an average value of 3.80, with a good category and the System Partner / network has an average of 3.83 with a good category. Overall, the condition of the Small Scale Craft Capital Relations Variables in Gianyar Regency is good (an average of 3.82).

Table 4: Description of Capital Relationships Variables in the Handicraft Industry in Gianyar Regency

Indicator	Respond Frequency(f) & Percentage (%)										Mean
	1		2		3		4		5		
	f	%	f	%	f	%	f	%	f	%	
X31	Customer										
X311	customers often make transactions.		33	40,24	47	57,32	2	2,44	3,6		
X312	customers believe in the products that I make		15	18,29	64	78,05	3	3,66	3,9		
X313	the product image occupied		10	12,2	68	82,93	4	4,88	3,9		
Mean											3,8
X32	Partnership system/ network										
X321	have negotiation skills with partners		14	17,7	64	78,05	4	4,88	3,9		
X322	has the ability to occupy a superior position in dealing with partners		41	50	38	46,34	3	3,66	3,5		
X323	trying to give satisfaction to partners		9	10,98	65	79,27	8	9,76	4		
Mean											3,8
Structural Capital Assessment Mean											3,8

Description of the Capital Structure Variable (Y1)

The Capital Structure is a Decision on Financing the Small Craft Industry, formed by three indicators including: comparison of total debt usage with total assets, comparison of total debt usage with total capital, comparison of the use of long-term debt with total own capital. Based on Table 5, it can be explained that the indicators that form the first Capital Structure (Y1) are Comparison of total debt usage with total assets (Y11), second is the comparison of total debt usage with equity (Y12) and third is the comparison of total long-term debt usage with total own capital (Y13). Capital Structure of Small Industry Crafts in Gianyar Regency has an average with a mean value of 2.13, which indicates that the IKK in Gianyar Regency uses Debt between 20% - 60% compared to total assets and total own capital. The biggest rating related to Capital Structure is the comparison indicator of total debt usage with total own capital having an average value of 2.30. This implies that the IKK in Gianyar Regency uses less debt between 20% - 60%.

Table 5: Capital Structure Variable Description on the Handicraft Industry in Gianyar Regency

Indicator	Respond Frequency(f) & Percentage (%)										Mean
	1		2		3		4		5		
	f	%	f	%	f	%	f	%	f	%	
Y11 comparison of total debt usage with total assets	32	39,02	27	32,93	12	14,63	10	12,2	1	1,22	2,04
Y12 comparison of total debt usage with total equity	18	21,95	33	40,24	22	26,83	6	7,32	3	3,66	2,3
Y13 comparison of total long term debt with total equity	16	39,02	39	13,41	17	26,83	6	7,32	4	7,32	2,04
Mean											2,13

Description of financial performance variable (X4)

Relations Capital is formed by three Customer indicators (X31) with indicators: the company's sales volume has increased in the last three years (Y21), company assets have increased in the last three years (Y22), the company's net profit has increased in the last three years (Y23). The description of the Financial performance variable is presented in Table 6.

Table 6: Description of Financial Performance Variables in the Handicraft Industry in Gianyar Regency

Indicator	Respond Frequency(f) & Percentage (%)										Mean
	1		2		3		4		5		
	f	%	f	%	f	%	f	%	f	%	
Y2 Customer											
Y21	In the last three years, the company's sales volume has increased										
			5	6,1	50	60,98	26	31,71	1	1,22	3,28
Y22	In the past three years, the company's assets have increased										
			2	2,44	64	78,05	16	19,51	0	0	3,17
Y23	In the last three years, the company's net profit has increased										
			3	3,66	48	58,64	30	36,59	1	1,22	3,35
Mean											3,27

Based on Table 6, it can be explained that the Financial performance variable (Y2) shows that the indicator of increasing sales volume (X21) has an average value of 3.80, with the category of stable increase, the increase in assets has an average of 3.17, with an increase category stable and the increase in net income has an average of 3.35 with a category of stable increase. Overall the financial performance of the IKK in Gianyar Regency was a stable increase (average of 3.27).

Results of Hypotheses Testing

This study uses Partial Least Square (PLS) analysis technique. After evaluation of the measurement model (outer model) to determine the validity and reliability of indicators that measure latent variables, and evaluation of structural models (inner model) to determine the accuracy of the model, where indicator measurement models variable indicators are valid and the exact model used is that 88.5% of Financial performance variations can be explained by the Capital Structure, Human Capital, Relational Capital and Structural Capital. The output of Partial Least Square (PLS) analysis is presented in Figure 3.

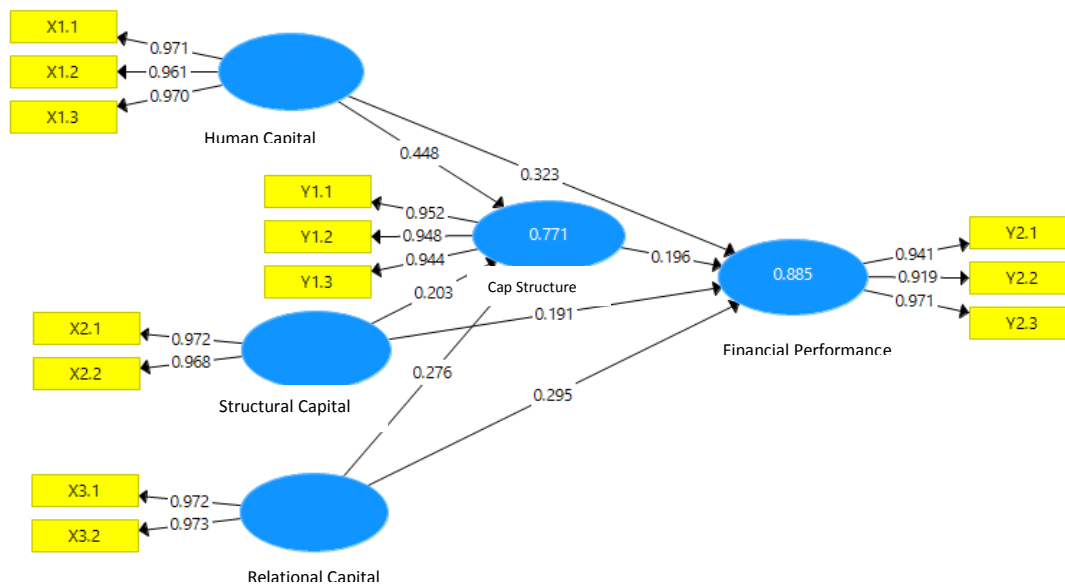


Figure 3: Partial Least Square (PLS) Output

Table 7: Hypotheses Test Result

Relationship Between Variables	Original sample estimate	Mean of subsamples	t- Statistic	P Value	Result
Human Capital -> Struktur Modal	0,446	0,428	3,746	0,000	Significant
Structural Capital -> Struktur Modal	0,276	0,286	2,551	0,011	Significant
Relation Capital -> Struktur Modal	0,203	0,214	2,280	0,023	Significant
Human Capital -> Financial performance	0,323	0,345	2,223	0,027	Significant
Structural Capital -> Financial performance	0,295	0,277	2,451	0,015	Significant
Relation Capital -> Financial performance	0,191	0,190	2,056	0,040	Significant
Capital Structure -> Financial performance	0,196	0,194	2,058	0,040	Significant

Effect of Human Capital on the Capital Structure

The results of hypothesis testing with the PLS approach produce path coefficients of the direct effect of Human Capital on the Capital Structure with a value of 0.446 and t-statistics 3.746. The value of t-statistics is 3.746 and P Value of 0.000 is smaller than 5%. This means that the effect

of Human Capital on the Capital Structure is significant. Thus, hypothesis 1a (H1a) which states that Human Capital has a significant positive effect on the Capital Structure is accepted. This means that Human Capital is a skill and expertise, which is related to employees and customers which includes capability, business continuity, and attention to employee satisfaction in the Kerajin Small Industry in Gianyar Regency requiring greater capital sourced from debt. The higher the Intellectual capital of Human Capital, the higher the desire to increase business by using debt funding, so that the company's Capital Structure increases.

Effect of Structural Capital on the Capital Structure

The path coefficient is the direct influence of Structural Capital on the Capital Structure with a value of 0.276 and t-statistics 2,551. Values t-statistics 2,551 and P Value 0,011 are smaller than 5%, this means that the effect of Structural Capital on Capital Structure is significant. Thus, hypothesis 1b (H1b) which states that Structural Capital has a positive and significant effect on the Capital Structure is accepted. This means that Structural Capital is a structure owned by the organization so that it can optimally elaborate on its human individuals to achieve the best work performance for the organization which includes Internal Architecture (having a vision and mission that is in line with the development of small regional industries, understanding small industry functions in improving regional economy, having efficiency in managing the production process) and External Structures (getting to know all customers, getting to know all the handicraft businesses that exist, and being familiar with the business working environment) owned by Small Craft Industry entrepreneurs in Gianyar Regency requires more capital large originating from debt. The higher the Intellectual capital of Structural Capital, the higher the desire to increase business by using debt funding, so that the company's Capital Structure increases.

Effect of Relations Capital on the Capital Structure

The path coefficient of Direct Capital's influence on the Capital Structure with a value of 0.446 and t-statistics 3.746. The value of t-statistics is 3.746 and P Value 0.023 is smaller than 5%. This means that the effect of Human Capital on the Capital Structure is significant. Thus, the hypothesis 1c (H1c) which states that the Relations Capital has a significant positive effect on the Capital Structure is accepted. This means that Relations Capital is the extent to which the success of an organization in changing its relationship with consumers becomes a sustainable competitive advantage that includes Relations with Customers (internal customers making transactions, customer trust, product image) and Relationships with Partners / networks (negotiation ability, superior transaction ability, customer satisfaction) owned by Small Craft

Industry entrepreneurs in Gianyar Regency require greater capital sourced from debt. The higher the Intellectual capital of Relations Capital, the higher the desire to increase business by using debt funding, so that the company's Capital Structure increases.

Effects of Human Capital on Financial performance

Path coefficients are direct effects of Human Capital on Financial performance with values of 0.323 and t-statistics 2,223. The value of t-statistics is 2.222 and P Value 0.027 is smaller than 5%. This means that the effect of Human Capital on Financial performance is significant. Thus, hypothesis 2a (H2a) which states that Human Capital has a significant positive effect on Financial Performance is accepted. This means that Human Capital is a skill and expertise, which is related to employees and customers which includes capability, business continuity, and attention to employee satisfaction in the Small Craft Industry in Gianyar Regency able to improve its financial performance as seen from the increase in sales volume, assets and profits. The higher Intellectual capital of Human Capital, can improve financial performance.

This condition supports Resource Based View (RBV) Theory. The RBV theory reveals that the company's internal capabilities as an important factor in managing the unique resources owned by the company so that the company is able to achieve competitive advantage (Barney: 1991) (Schienstock: 2009). Intellectual Capital Management by optimizing the role of Human Capital (Human Capital) as a whole entity to create superior performance. The findings of this study also support the findings of previous studies conducted by Bontis et al. (2000), Edvinson and Malone. (1997); Roos and Roos, (1997); which revealed that the intellectual capital component of human capital has a significant positive effect on the organization's business performance. Ozkan et al. (2017) found that Intellectual Capital had a positive effect on Financial performance. The same was found by Chen et al. (2005) Ting and Lean (2009) and Clarke et al. (2011).

Effect of Structural Capital on Financial Performance

The path coefficient of the direct influence of Structural Capital on Financial performance with a value of 0.295 and t-statistics 2.451. The value of t-statistics is 2.451 and P Value 0.015 is smaller than 5%. This means that the effect of Structural Capital on Financial performance is a significant positive. Thus, the hypothesis 2b (H2b) which states that capital structure has a significant positive effect on financial performance is accepted. This means that Structural Capital is a structure owned by the organization so that it can optimally elaborate on its human individuals to achieve the best work performance for the organization which includes Internal Architecture (having a vision and mission that is in line with the development of small regional

industries, understanding small industry functions in improving the regional economy, having efficiency in managing the production process) and External Structures (getting to know all customers, getting to know all craft businesses, and being familiar with the worker's environment) owned by Small Craft Industry entrepreneurs in Gianyar Regency are able to improve their financial performance seen from increased sales volume, assets and profits. The higher Intellectual capital from Structural Capital, can improve financial performance.

This finding supports the Resource Based View (RBV) Theory. The RBV theory reveals that the company's internal capabilities as an important factor in managing the unique resources owned by the company so that the company is able to achieve competitive advantage (Barney: 1991) (Schienstock: 2009). Intellectual Capital Management by optimizing the role of Human Capital (Human Capital) as a whole entity to create superior performance. This study also supports the findings of previous research conducted by Bontis et al. (2000), Edvinson and Malone. (1997); Roos and Roos, (1997); which revealed that the main component of intellectual capital, namely structural capital, had a significant positive effect on the organization's business performance. Ozkan et al. (2017) found that Intellectual Capital had a positive effect on Financial performance. The same was found by Chen et al. (2005) Ting and Lean (2009) and Clarke et al. (2011).

Effect of Relations Capital on Financial performance

The path coefficient of the direct effect of Relations Capital on the Capital Structure with a value of 0.191 and t-statistics 2.056. The value of t-statistics is 2.056 and P Value 0.040 is smaller than 5%. This means that the effect of Relations Capital on Financial performance is a significant positive. Thus, the hypothesis 2c (H2c) which states that Relational Capital has a significant positive effect on accepted Financial performance. This means that Relations Capital is the extent to which the success of an organization in changing its relationship with consumers becomes a sustainable competitive advantage that includes Relations with Customers (internal customers making transactions, customer trust, product image) and Relationships with Partners / networks (negotiation ability, superior transaction ability, satisfaction of partners owned by Small Craft Industry entrepreneurs in Gianyar Regency able to improve their financial performance as seen from the increase in sales volume, assets and profits. The higher the Intellectual capital of Relation Capital, can improve financial performance.

This finding supports the Resource Based View (RBV) Theory. The RBV theory reveals that the company's internal capabilities as an important factor in managing the unique resources owned by the company so that the company is able to achieve competitive advantage (Barney: 1991) (Schienstock: 2009). Management of Intellectual Capital by optimizing the role of Relation

Capital (Relation Capital) as a whole entity to create superior performance. The findings of this study also support the findings of previous research conducted by Bontis et al. (2000), Edvinson and Malone. (1997); Roos and Roos, (1997); which revealed that the main component of intellectual capital, namely relation capital, had a significant positive effect on the organization's business performance. Ozkan et al. (2017) found that Intellectual Capital had a positive effect on Financial performance. The same was found by Chen et al. (2005) Ting and Lean (2009) and Clarke et al. (2011).

Capital Structure influence on financial performance

The path coefficient of the direct effect of Relations Capital on the Capital Structure with a value of 0.196 and t-statistics 2,058. The value of t-statistics is 2.058 and P Value 0.040 is smaller than 5%. This means that the effect of Capital Structures on Financial performance is significant. Thus, hypothesis 3 (H3) which states that Capital Structure has a significant positive effect on accepted Financial performance. This means that the Capital Structure which is the balance of Debt versus Own Capital used by the company, is able to improve its financial performance as seen from the increase in sales volume, assets and profits. The higher the debt used by the Small Craft Industry in Gianyar Regency is able to improve its financial performance. The findings of this study also show that the Small Craft Industry in Gianyar Regency is able to manage the debt used so as to produce a profit that is greater than the cost / interest on the debt.

The findings of this study support the findings of previous research conducted by Abor, (2005), the same results were also found by Ahmad (2012) in Malaysia, Skopljak and Luo (2012), Nirajini and Priya (2013) in Sri Lanka, Christi et al (2013) in India; Mahmudi and Mohammadi (2015) in Tehran; and Mujahid et al (2015) in Pakistan. where more debt is used compared to own capital which is a reflection of the company's Capital Structure has a positive effect on financial performance.

CONCLUSION

Based on the description in the previous chapters, it can be summarized as follows.

- 1) Intellectual capital which includes Human Capital; Structural Capital and Relations Capital have a positive effect on the Company's Capital Structure and Financial performance. This shows that the increase in Intellectual Capital includes Human Capital which consists of capability, business continuity, and attention to employee satisfaction; Structural Capital which consists of external and internal structural structure and Relation Capital which consists of customer relations and partner / network relationships

to increase the use of capital sourced from debt and Financial performance in Small Craft Industries in Gianyar Regency.

- 2) Capital Structure has a positive effect on the Company's financial performance. The higher use of debt compared to own capital can improve the financial performance of the Small Craft Industry in Gianyar Regency, which is seen from the increase in sales volume, assets and profits.

FURTHER STUDIES

This study has limitations only using Intellectual capital non-financial variables as the determination of Capital Structural and Financial performance, there are many other variables that need to be considered in future research such as Cultural Organization, Entrepreneurial Orientation, Service Quality and others as variables that affect the Capital Structure and Financial performance.

REFERENCES

- Abor, Joshua., (2005). The effect of capital structure on profitability: empirical analysis of listed firms in Ghana. *Journal of Risk Finance*, Vol. 6, pp. 438-450.
- Ahmad, Zuraidah and Abdullah, Norhasniza Mohd Hasan. 2012. Capital Structure on Firma Performance : Focusing on Consumers and Industrial Sectors on Malaysia Firma. *International Review of Business Research Paper* Vol.8 No.5, pp.137-155
- Barney, Jay. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*. Vol. 17, No.1, 99 -120
- Bontis N. (1998), "Intellectual capital : an explanatory study that develops measures and models", *Managements Decision*, Vol. 36 No. 2, pp 63 – 76.
- Bontis N., Keow, W. and Richardson, S. (2000), "Intellectual capital and business performance in Malaysian industries", *Journal of Intellectual Capital*, Vol. 1 No. 1, pp. 85 – 100.
- Bontis, N. (2001), "Assessing knowledge assets : a review of the models used to measure intellectual capital", *International Journal of Management Review*, Vol. 3 No. 1, pp. 41 – 60.
- Bontis, N. and Fitz-enz, J. (2002), Intellectual capital ROI: a causal map of human capital antecedents and consequents, *Journal of Intellectual Capital*, Vol. 3 No. 3, pp 223 – 47
- Brigham, Eugene F. and Daves, Philip R. 2010. *Intermediate Financial Management*. 10 edition. Cengage Learning
- Brigham, Eugene F. and Houston, Joel F. (2011). *Fundamentals of Financial Management, Concise* 7th Edition. South-Western College Pub; 7th edition (January 26, 2011)
- Chechet, Ishaya Luka and Olayiwola, Abduljeleel Badmus. (2014). Capital Structure and Profitability of Nigerian Quoted Firms: The Agency Cost Theory Perspective. *American International Journal of Social Science*. Vol. 3 No. 1; January 2014
- Chen, M.C., Cheng, S.J, and Hwang, Y. (2005). An empirical investigation of the relationship between intellectual capital and firms' market value and financial performance. *Journal of Intellectual Capital*, Vol 6 Issue 2. pp 149-176
- Chisty K.A. and Ali, KH. (2013). Impact of Capital Structure on Profitability of Listed Company (Evidence from India). *The International Journal of Management Science and Information Technology (IJMSIT)*. Vol 1 No 1 Pp 1 – 5.
- Chong, H. Gin. (2008). Measuring Performance of Small-and Medium sized Enterprises : the grounded theory approach. *Journal of Business and Public Affairs* Vol.2, Issue 1.

- Clarke, M., Seng, D., & Whiting, R. H. (2011). Intellectual capital and firm performance in Australia. *Journal of Intellectual Capital*, 12, 505– 530. <http://dx.doi.org/10.1108/14691931111181706>
- Covin, J.G and Slevin, D.P. (1989). Strategic Management of Small Firm in Hostile Benign Environment. *Strategic Management Journal*, 10 : 75-78
- Duffy, J. (2000). "Something funny is happening on the way to knowledge management". *Information Management Journal*, Vol. 34, pp. 64-8.
- Edvinsson, L. and Malone, M.S. (1997). *Intellectual Capital: Realizing Your Company's True Value by founding it Hidden Brainpower*. New York: Harper Business
- Fitz-enz, J. (2000) *The ROI of Human Capital: Measuring the Economic Value of Employee Performance*, AMACOM, New York.
- Gatsi, John Gartchie. (2012). Capital Structure of Ghanaian Banks : An Evaluation of Its Impact on Performance. *The IUP Journal of Bank Management*. Vol XI. Issue : 4 November. p.86-99
- Klein, K.L., (1998) *The Strategic Management of Intellectual Capital*. Boston: Butterworth-Heinemann.
- Mahmudi, S. and Mohammadi, H. (2015). The Relationship Between the Capital Structure and the Performance of the Firm Listed in the Tehran Stock Exchange, *Journal of Scientific Research and Development*, Vol 2, No 1 pp 208-216.
- Moon, Y.j. and Kym, H.G., (2006). A Model for The Value of Intellectual Capital. *Canadian Journal of Administration Sciences*, 23(3), 253-269
- Mujahid, M., Aktar, K and Bahawapur (2014). Impact of Capital Structure on Firm Financial Performance and Shareholders Wealth : Textile Sector of Pakistan, *International Journal of Learning & Development*, Vol 4, No 2, pp 2164-4063.
- Nirajini, A and Priya, K B. (2013). Impact of Capital Structure on Financial Performance of the Listed Trading Companies in Sri Lanka. *International Journal of Scientific and Research Publications*, Volume 3, Issue 5, p.1-9
- Pangm D,N. and Hoang, T.P.T. (2013) Corporate Ownership and Firm Performance in Emerging Market : A Study of Vietnamese Listed Firms, *Proceeding of World Business and Social Science Research Conference 24-25 October 2013*. Novotel Bangkok on Siam Square, Bangkok, Thailand, ISBN : 978-1-922069-33-7.
- Prusak, L. (2001), *Where Did Knowledge Management Come From?*. Armonk: IBM System Journal. Vol.40, p.1002-1007.
- Quang, D.X. and Xin, W.Z. (2014) The Impact of Ownership Structure and Capital Structure on Financial Performance of Vietnamese Firms, *International Business Research*, Vol 7 No 2.
- Roos, J., Roos, G, Edvinsson, L, and Dragnotti, N.C. (1998), *Intellectual Capital: Navigating In The New Business Landscape* (trans, by Roos, J.), New York University Press, New York, NY.
- Scharborough N.M, and Zimmerer T.W. (2008). *Effective Small business Management*, Mcmillan, New York.
- Scheinstock, Gerd. (2009). *Organizational Capabilities : Some reflections on the concept*. Available on www.iareg.org
- Skopljak, Vedran and Luo, Robin. (2012). Capital Structure and Firm Performance in the Financial Sector : Evidence from Australia. *Asian Journal of Finance and Accounting*. Vol. 4, No. 1.
- Stewart ,Thomas A. (1997). *Intellectual capital: the new wealth of organizations*, Doubleday New York, NY, USA
- Ting,Irene Wei Kiong and Lean,Hooi Hooi (2009) Intellectual capital performance of financial institutions in Malaysia, *Journal of Intellectual Capital*, Vol. 10 Issue: 4, pp.588-599,
- Weaver, Samuel C. and Weston, J. Fred. (2005). *Strategic Financial Management : Applications of Corporate Finance*. Thomson South-Western.
- Zakaria, Z., Purhanudin, N., and Palanimally. (2014), Ownership Structure and Firm performance : Evidence From Malaysian Trading and Services Sector. *European Journal of Business and Social Science* Vol 3, No 2 pp 32-43.