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Effect of Intellectual Capital on Sustainable Financial Performance of Indonesian Pharmaceutical Firms with Moderating Role Knowledge Management

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ABSTRACT

In modern era, intangibles assets that include intellectual capital are equally important for the performance of any organization. This study intended to examine the role of Intellectual Capital (Human Capital, Relational Capital and Structural Capital) in sustainable financial performance of Indonesian pharmaceutical firms with moderating role of knowledge management. To achieve the objective of study, the data was collected by using cross sectional method and analysed by PLS statistical software. The results of this study show that Intellectual Capital (Human Capital, Relational Capital and Structural Capital) has significant relationship with sustainable financial performance of pharmaceutical firms. Components of intellectual capital are crucial to increase the financial performance of pharmaceutical firms in Indonesia. Furthermore, study found that knowledge management has moderating role on the relationship of human capital and structural capital with sustainable financial performance, however, knowledge management has no moderating role on the association of relational capital with sustainable financial performance of firms. The study presents a new empirical insight for managerial decision for pharmaceutical firms in Indonesia.

Keywords: Intellectual Capital, sustainable financial performance, knowledge management.

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INTRODUCTION

In the contemporary business world, intangibles assets are more focused that include intellectual capital (IC). On the other hand, in the financial reports of an organization, component of IC is ignored and not regarded as the important element of business value. Resultantly, businesses that possess higher worth of IC are undervalued as of their true value (Petty & Guthrie, 2000) that have the danger of losing competitive edge. The term "capital" prevailed from middle ages. Many of the renowned economists used it in their theories by assigning special importance to it; however, a common person can easily understand the meaning and sense of the term. In all the situations, capital and finance is substitutable. However, Fathi, Farahmand, and Khorasani (2013) have the opinion that in business terms, every mean that will generate cash flows for business are regarded as capital. Though, tangible form of resources is most obvious form in nature. Tangible resources include both financial and non-financial resources that are touchable. At present, another kind of resources is considered as intangible assets that include the mental capability of the employees and its association. Intangible are resources are progressively becoming important with respect to the productivity of the business because global economic conditions are converting from production based to knowledge-based operations. Additionally, Wong, Ho, and Singh (2007) have the opinion that knowledge-based economic operations are more important than land, labour and capital. Moreover, intellectual capital (IC) or scholarly capital is regarded as the strategic resource that generates competitive edge by guiding links for greater outcomes in the contemporary knowledge-based businesses (Kalkan, Bozkurt, & Arman, 2014).

Cenciarelli, Greco, and Allegrini (2018) defined IC as "the total knowledge that is surrounded in the personnel, organizational routines and network relationships of an organization". It includes three main elements that are human capital (HC), capital employed (CE) and structural capital (SC) (Anatolievna Molodchik, Anatolievna Shakina, & Barajas, 2014). HC is the common concept that involves capabilities, competences, trainings and commitment of the workers (Anuonye, 2015). Moreover, SC include all the structure of the business consenting of catalogues, organisational charts, operation guidelines, plans, procedures and other things apart from the human capital that possess the greater value as compare to its material value with the perspective of the business. However, CE includes entire financial and non-financial resources of a business (Barathi Kamath, 2007). Further, Kalkan et al. (2014) explained IC and include information, knowledge and expertise. Further, Gomezelj Omerzel and Smolčić Jurdana (2016) explained IC with regard to the market worth and the book value of the business. According to Amin and Aslam (2017), IC comprises of three elements. Firstly, human capital consisting of information, training and capability, secondly, structural capital that comprises of operations, procedures, arrangements, values and database. Thirdly, capital employed or operating capital that is the worth of the total assets helpful in enhancing business capacity and profit generation. Accordingly, Firer and Mitchell Williams (2003) presented an efficient framework that measure this value generation that is commonly known as value added intellectual coefficient (VAIC).

Double entry accounting system is the old-fashioned means of determining and valuing firm's productivity in the world which is mainly on physical assets (Ahangar, 2011).

Thus, absence of IC from the beginning lead the double entry system undervalues the actual facts of the firms in

their financial system. The new era of knowledge-based economy necessitates so many firms to develop a strategy for turning their activities into new knowledge-based economy in order to suite with the new competitive environment (Anuonye, 2016). Thus, the business environment is being change and traditional business models are no longer acceptable in achieving their dynamic conditions of a changing world market and to have a useful information to their existing and potential investors (Okpala & Chidi, 2010). Therefore, study to examine the effect of IC components on firms' profitability is necessary. In the olden day's firm's performance are only measured via three basic factors of productions that are labour, land and physical capital. Tremendous contribution of management in this modern time increase hundred percent profitability and productivity by moving from labour intensive into technological and mechanical economy (Huang & Jim Wu, 2010). Presently, knowledge is greater than land, labour and physical capital. In the contemporary modern economic settings, globalization has become powerful tool because of the greater advancement in the communication and information technology (ICT) that is why knowledge is regarded as the highly competitive resource of the business. Intellectual means and resources are necessarily required for a business to fins and transform ideas into useful technologies (Salman et al., 2012). Hence, IC plays the role of foundation regarding goals achievement of a business (Amin et al., 2014).

High acknowledgement of IC as a source of competitive edge generate innovative plans of overseeing the operations required in a business to attain high level of productivity with IC (Maditinos et al., 2011). Therefore, traditional financial and accounting evaluation system considered to be unsuitable and unmatchable where ICT and IC are acknowledged a basis of competitive advantage in the advanced world of economy. For the reason, traditional system of reporting does not present fair picture of business that may results in the misguiding of investors and other associated stakeholders in the making of appropriate economic decisions. In response to the knowledge-based economy, majority of the business around the globe focus on the IC to attain the principal of going concern as well as productivity enhancement (Ahangar, 2011). Economic value in not merely dependent on the creation of tangible products but also to the formation of IC in rapid transformation into knowledge-based economy. There is a great shift from blue collar positions to the white-collar jobs as greater number of employees is interested in the white-collar jobs because of the increasing dependence of businesses on IC to attain the monetary outcomes and growth objects (Guthrie, Ricceri, & Dumay, 2012). Additionally, IC is an intangible resource and capital that include information, management viewpoint, experience, identification, operations and human capitals as well which help the generation of value in a business.

IC capital is regarded as the difference between business value generation and a revenue booster when regarded appropriately (Striukova, Unerman, & Guthrie, 2008). Numerous multinational businesses that also include the World Intellectual Capital Initiative are trying to advance the apprehension of IC and associated reporting challenges. According to the report of "The Institute of Management Accountants (IMA)", the transformed consideration to the enhancing unrecognised amount of these intangible resources for reporting purpose. The report focuses on that these objects have established as the chief source of value in the public companies. Moreover, they enhance competitive ability as well as generate a critical component of a business future potential sustainability. In spite of prevailed difficulties in making IC as a component of reporting assets, its recognition is widely spreading all over the globe. Numerous large and small companies recognised that IC is an important regarding the sustainable performance of a business (Medeiros et al., 2013). Therefore, its significance is evaluated regarding the public benefit in a sustainable organization. With respect to the knowledge-based economy, appropriate administration of IC results in the sustainable competitive position. Purposefully, this is very critical with the perspective of pharmaceutical business that requires skilled and knowledgeable human capital (Al-Musali & Ismail, 2014). For the achievement of firm's strategic goals and confirm competitive achievement, pharmaceutical businesses are supposed to generate superior quality products by providing better training to their human capital, goodwill, systems and operations. On the other hand, having large investment in the intangible resources by the pharmaceutical sector, still the research area required to be studied. There are various studies that explore the appropriate application of IC in various sectors of economy such as banking (Al-Musali & Ismail, 2014) but the context of pharmaceutical business is under-explored yet. Previous studies highlighted the positive relation of IC efficiency with monetary performance (Mehralian et al., 2012). Pharmaceutical business can only attain their all objectives by applying all of their resources, intangible and tangible. For the purpose, it is significantly important to study that pharmaceutical industry is utilizing its IC that ultimately will enhance the growth of new economy. This research examines IC competence by applying the "value-added intellectual coefficient (VAICTM)" framework in pharmaceutical industry of Indonesia. This study will significantly contribute to the existing literature of IC and financial performance in pharmaceutical sector. Furthermore, finding will guide pharmaceutical industry in elf-assessment of their amount of resource efficiency and performance improvement.

Sustainable Financial Performance

Performance of firm can be described as the amount of attainment of nosiness objectives in comparison to the measurements anticipated. Business performance can be evaluated via various financial and non-financial tools. In general, many measures have been based around financial aspects, omitting significant non-financial features that include the importance of dynamic competence with the help of continuous research and development to advance performance of the business (Kamal et al., 2012). The performance is assessed because it stimulates and motivates the employees and helps business to attain the organisational goals according to the set standards for the purpose of taking actions and generation of desired outcomes. Performance evaluation of a business further carried out to deal with the situation in an operation that

negatively affects the performance and to initiate an appropriate action (Khalique, 2015). Company exists as a team or an organisation hence; it is regarded as the combine struggle for the achievement of a goal. In response to the globalization, market has become more saturated nowadays that is why businesses are required to attain more competitive edge and differentiate in comparison to their main competitors. Therefore, standard performance can be evaluated in numerous ways to know that to what extent the standard performance has been attained. (Mwangi & Iraya, 2014) also focus on the measurement of financial performance of general insurance business in Kenya to achieve the study objective on the importance of financial performance. Khadafi, Heikal, and Ummah (2014) said that financial performance measures the business efficiency regarding profit generation through the use of the assets. This will give the indication of the management level in managing the assets. Higher financial performance is good for the company because investors have the confidence to make investments that will generate the company's profit.

Kinyua and Mungai (2018) used multiple regressions method to study the performance of the company through profitability as a dependent variable. The profitability is a proxy of financial performance. Tugas (2012) in his research regarding ratio analysis said that financial performance is the important tool because it measures the level of company's efficiency in managing their investment of assets and use them to generate profits. It measures the amount of profit earned from investments made in assets. A high ratio indicates a company efficient in managing their assets to generate income. Net income derived from the income statement and the amount of assets reported in the balance sheet. Cekrezi (2015) use financial performance to measure the ability of the company. In his study, he defined performance is a concept that is not easy in terms of thermal and measurement. Performance is defined as the result of action and how to measure performance is dependent on the type of organization and the objectives to be achieved. Moreover, Omondi and Muturi (2013) examined that financial-related and customer-related performance and concluded that financial performance is an instant and short-term predictor of business performance, however customer related performance has long-term scope. Additionally, Gök and Peker (2017) considered growth of sales, market share and productivity. Furthermore, Dwyer and Mellor (1993) highlighted firm performance with respect to the accomplishment of performance goals, productivity of the product newly introduced and the overall perceived achievement. With the various kinds of performance, difference of opinion exists on the evaluation of performance. Objective measures of evaluation study the absolute statistics such components likewise sales income, return on assets and investment. However, subjective evaluations focus on the performance assessment of mangers in their businesses in comparison to their competitors. Performance of banks will be measured by asking respondents to rate the performance on the basis of profitability and growth of sales in comparison to their competitors and sector average. Previous researches highlight that subjective and objectives measure may be in line with each other (Carton & Hofer, 2010). Subjective measures are also regarded as the appropriate indicator of performance evaluation (Pearce, Robbins, & Robinson Jr, 1987). Moreover, these measures may enhance the response ratio in the cases where objective data in not accessible or difficult to extract (Dess & Robinson Jr, 1984). However, application of subjective method may be questioned with respect to its validity. Prior studies are evident that subjective approach is in line with objective business outcomes and furthermore with outside secondary data (Curkovic, Vickery, & Dröge, 2000). Numerous studies are available that have been adopted subjective assessment for the evaluation of firm performance that include the studies of Tracey, Lim, and Vonderembse (2005), Curkovic et al. (2000), Choon Tan, Lyman, and Wisner (2002). All these studies indicate that the subjective approach have valuable insights.

Intellectual Capital

Many scholars are in the consensus that there is no agreed definition of IC (Engström, Westnes, & Westnes, 2003). Gerpott, Thomas, and Hoffmann (2008) opined that, universally acceptable definition of IC appears have not been realised yet. However, Kalkan et al. (2014) published on "IC" and wrote, "IC is the intellectual material - knowledge, information, intellectual property, experience that can create wealth in an organization. Later Kalkan et al. (2014) lengthened the definition of IC by adding that the concept stands as a capital asset of IC of the business. Marr et al. (2003) viewed IC as "the sum of the knowledge of its members and the practical translation of this knowledge into brands, trademarks, and processes". Marr and Roos (2005) describe it as "the possession of the knowledge, applied experience, organizational technology, customer relationships and professional skills that provide a company with a competitive edge in the market". IC includes mental knowledge, property and experience that may be used and utilised to generate value in the company.

Fijalkowska (2008) opined that IC is nothing but goods/assets without physical existence but has an economic value. Jurczak (2008) also defined 'IC' as uses to encase the greater part of the non-unmistakable assets of a business, and its implications, authorisations and implicit knowledge of its employees and operations of collaborators and associates. IC with respect to the millennium means that less people will be involved in physical work and more people will be indulge in mental work (Kalkan et al., 2014). It always disappears on the organization monetary record yet it has more esteem for associations than physical resources. Financial wealth is driven more by learning and data than the production process. Thus, IC is a major contributor to a firm's earnings (Hashim, Adeyemi, & Alhabshi, 2018). Intellectual property assets (IP) include technical know-how, copy right patent registered number of the company and other numerous design rights.

Then human-centred assets (HCA) includes leadership design, business strategies creative, quick problem solving, entrepreneurial and management style embodied by the employees towards the attainment of the organization goals. Infrastructural assets (IA) or known as structural capital is assets that include all those technologies,

communication style, organizational chart, methodologies and other means which enable the organization to function effectively and efficiently. Finally, IC is also believed as the entire information that consisting of employees, business operations and associations of a business (Pienaar, 2012). As per IC, financial performance means significant actions or attainments that accumulate to a business ion the result of IC evaluation and implication (Anuonye, 2015). Traditional methods of accounting are not able to indicate the fair value of the business because it merely considers the tangible assets. Previous researchers concluded that IC generates greater worth for the firm (Fathi et al., 2013). Illustratively, (Januškaitė & Užienė, 2015) studied the association of IC and firm performance and concluded that IC significantly influence the profitability and productivity of a business. Similarly, Al-Musali and Ismail (2014) studied the IC and its impacts on monetary performance of banks in the context of Saudi Arabia and concluded that IC has positive relation with performance of banks. Moreover, Clarke, Seng, and Whiting (2011) concluded significant association of IC and profitability.

Human Capital

The term human capital consisting of the knowledge and abilities that helps an individual to perform in innovative manners (Dinda, 2008). It also includes skills, collective information, innovative ability, and capabilities of employees of a business. Hence, all these components are prevailed in the culture, values and environment of a business. Brooks and Muyia Nafukho (2006) explained that human capital is the ability applied by employees to accomplish their jobs and eventually in attaining organizational objectives. Furthermore, Davidsson and Honig (2003) considered and discussed three perspective of human capital that are "capability and potential, motivation and commitment, and innovation and learning". Firstly, capability and potential consist of qualification, professional abilities, experience, individual relations, morals, and the capability of existing workers to rotate inside the business. Secondly, motivation and commitment explain that to what extent employees' personal interests are in line with the business interests. Lastly, innovation and learning refer to the extent that how much employees are flexible for change. There must be a level of alignment among the competencies and business goals and are required to be formed with the help of more than one method such as buy, produce, borrow, bounce and bind. Commitment refers to the relationship among employees and their feeling about the firm.

Moreover, Bontis et al. (2009) have the opinion that to appropriately foster commitment, a firm should decrease demands, enhance resources and transform demands into properties. So, human capital is an accumulation of capability, behaviour and mental agility. Additionally, competence includes abilities that are considered to be the appearances of a business strategically associated information and its capability. However, attitude is including behavioural components of employees with respect to knowledge consisting of motivation and intention. Researchers like Martínez-Torres (2006) and Cabrita and Bontis (2008) emphasised the information, abilities, expertise and aptitudes having and applying by employees. While, Hsu and Fang (2009) argued that human capital not merely consisting upon employees but it also includes executive's capability, experience, information, expertise, behaviour, commitment and understanding. All these qualities are associated with employees, not with the business or firm. Conclusively, human capital has three main elements that are knowledge; consist of qualification, professional abilities and experience, personal behaviours and willingness or attitudes with respect to the business and their tasks.

Relational Capital

The idea of relational capital has its focus on the relational network, rooted within personal links with other individuals that are important for the better individual development (Kale, Singh, & Perlmutter, 2000). The resource is significant in its nature and resulting from the construction of associations (Cousins et al., 2006). Moreover, it indicates the knowledge prevailed in the links with the external environment (Martín-de-Castro et al., 2011). First of all, Dewhurst and Cegarra Navarro (2004) tried to identify and evaluate the concept of relational resources. Though, they have focused the customer relationship exclusively and ignored other kinds of relations that are important for the external competitive edge. After that, Hsu and Fang (2009) considered entire value of relations with respect to customers, stakeholders and supplier. Relational capital is the potential an organization has due to the extraneous intangible assets. It is the knowledge if competitor the business develops it in the relations with its clients, contractors, trade partners or the state (Hosseini & Owlia, 2016). Moreover, it has impact on the motivation, coordination, and communication of an individual. Furthermore, it has impact on the process of information sharing and knowledge creation (Thi Mai Anh et al., 2019). Hence, relational resources are important for businesses in many ways as these make available market knowledge-based standings of business. Moreover, it provides knowledge of market demands and opportunities and competitive perspectives. Further, it helps and guide businesses in developing new knowledge.

Structural Capital

Organizational capital which is also known as structural capital is theoretically different from other constructs where it embodies a dynamic competence instead of a component capability (Cleary, 2009). Cleary (2015) regarded it as the business operations and processes that include non-human combination of information and knowledge. Generally, two components are involved in the structural capital that is technology and architectural ability. Firstly, technological element is considered as the internal capabilities and information of a business that are significant for routine operations and. Secondly, architectural abilities are associated with the organizational ability to cooperate and integrate its individual competencies together in an innovative and flexible way to form new required competencies (Ortiz, Donate, & Guadamillas, 2017). Moreover, technology has direct linkage with the advancement of technical operations and functions. Additionally, it is helpful in generating new products and services, formation of

innovative manufacturing processes, and the improvement of the business knowledge base needs to deal with the possible technological variations. On the other hand, architectural competency is associated with the infrastructure of firm that is the outcome of intangible resources. Resultantly, business processes and activities are developed in effective and efficient ways that will provide integrated structure (Sharabati, Naji Jawad, & Bontis, 2010). Organizational culture, customs, attitudes, information, communication and business structure are included in these. Therefore, structural capital is commonly explained as the "embodiment, empowerment, and supportive infrastructure of human capital" (Cleary, 2015).

Knowledge Management

Knowledge is recognized as the basis of an organization's competitive advantage (Garcia-Perez, Gheriss, & Bedford, 2019). Proper and systematic management of organizational knowledge is the key to the success of an organization (Sabherwal & Becerra-Fernandez, 2003). Knowing knowledge as the organizational key resource in managing competitive advantage (Maier & Hadrich, 2011), managing knowledge has attracted organization's attention. This is supported by Gupta, Iyer, and Aronson (2000) who claimed that competitive advantage can be achieved when an organization ensures that relevant knowledge is transformed, distributed, and integrated. KM is the way how knowledge is been created, accessed and supported. KM is an important activity that adds value and closely link to organization's strategic plans where its activities will contribute to overall organizational strategic advantage and profitability (Duffy, 2000). For an organization to maintain its competitive advantage and overall OP, among few areas that should be in their radar are: (1) to improve their customer service; (2) be more innovative; (3) shorten their cycle times in crucial documents preparation; (4) improve their response time; (5) operate with minimum overhead such as people and facilities; (6) enhance their flexibility and adoption to the current environment; and (7) capture information, create new knowledge, share and learn. All these components ultimately increase the financial performance of organizations.

Research Framework and Hypotheses

This section presents proposed research framework of the study.

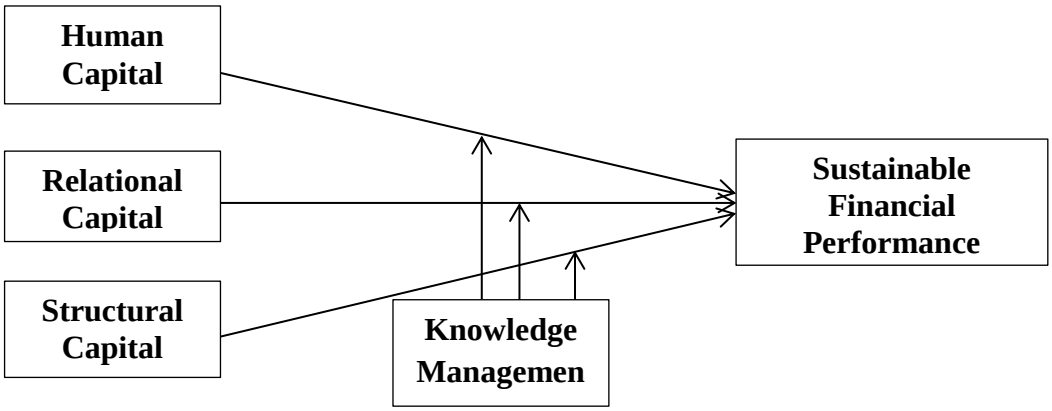

Figure 1: Proposed research framework

H_1: Human Capital has a significant positive role on sustainable financial performance of pharmaceutical firms in Indonesia.

H_2: Relational Capital has a significant positive role on sustainable financial performance of pharmaceutical firms in Indonesia.

H_3: Structural Capital has a significant positive role on sustainable financial performance of pharmaceutical firms in Indonesia.

H_4: Knowledge management has significant moderating effect on the relationship of Intellectual Capital with sustainable financial performance of pharmaceutical firms in Indonesia.

METHODOLOGY

The main purpose of this study is to evaluate the influence of Intellectual Capital which includes Human Capital, Relational Capital and Structural Capital on sustainable financial performance with moderating role of knowledge management. In this study, the quantitative approach was used. To achieve the above objectives, this study involved primary method of data collection. For the collection of data, survey questionnaire method was adopted and data was collected from the managers of Indonesian pharmaceutical firms. This study employs Likert-like scale measurement because it is easy to conduct, has instinctive appeal, adaptableness and decent reliability (BABBIE, 1990). Thus, this study employs 5 point Likert scales where respondents chose the answer among the given 5 rating scale options (from strongly disagree to strongly agree). The measurement items were adapted from previous literature. The collected data was analysed by using Smart-PLS statistical software.

ANALYSIS AND DISCUSSION

In analysing the data collected in order to answer the research questions of this study, Partial Least Square - Structural Equation Modeling (PLS-SEM) was implemented to analyse the data obtained.

Assessment of Measurement Model

Scale validity is described as the level in which a set of measured items truly reveals the theoretical latent construct they are designed to measure (Sekaran & Bougie, 2010). The "measurement model assessment" was completed through confirmatory factor analysis (CFA) to evaluate convergent validity, discriminant validity and reliability. Reliability was tested via cross loading and the value of alpha and "composite reliability". The square root of the AVE attained was further computed to assess discriminant validity. The threshold value for alpha and CR 0.7 was used and for AVE 0.5 was used.

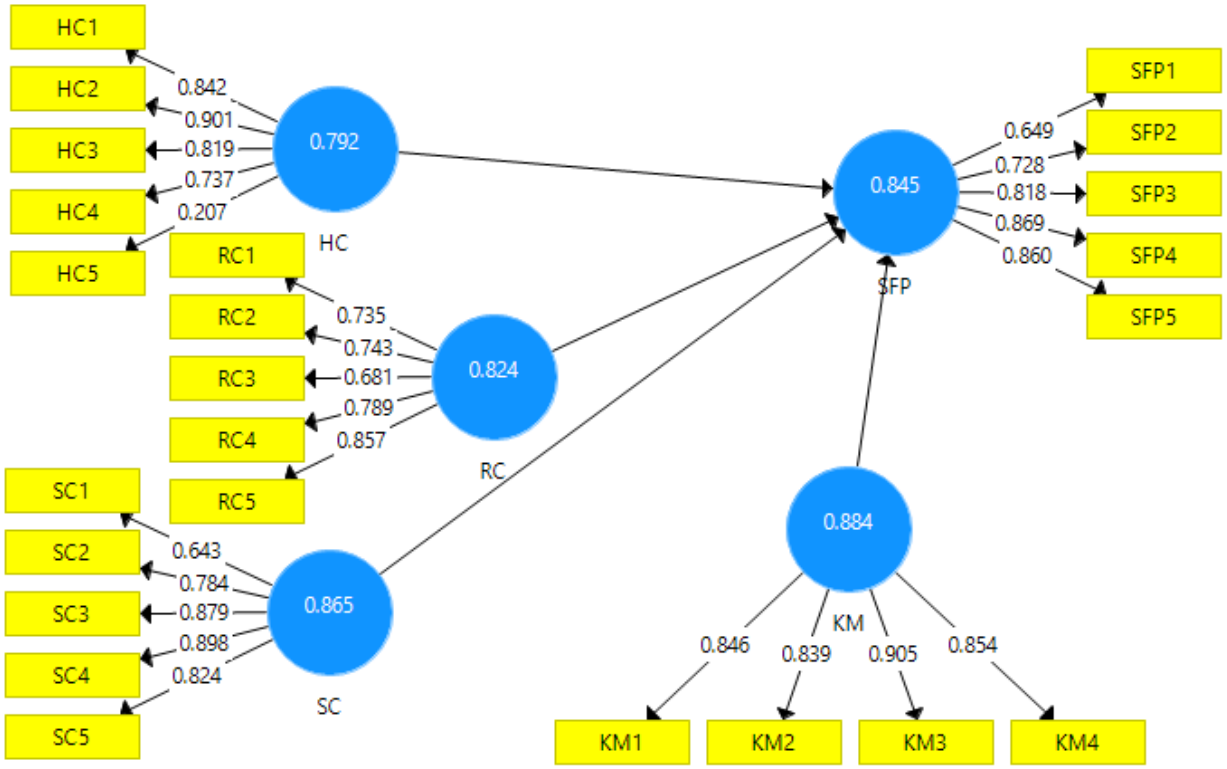

Figure 2. Measurement Model Assessment

TABLE 1. Values of alpha, CR and AVE

Sr#	Constructs	alpha	CR	AVE
1	HC	0.792	0.847	0.555
2	KM	0.884	0.920	0.742
3	RC	0.824	0.874	0.583
4	SC	0.865	0.904	0.657
5	SFP	0.845	0.891	0.623

Table 2 presents that the "square root of AVE" for the investigation of Validity of constructs.

TABLE 2. Discriminant Validity

Sr#	Constructs	1	2	3	4	5
1	HC	0.745				
2	KM	0.503	0.861			
3	RC	0.445	0.537	0.764		
4	SC	0.374	0.533	0.707	0.811	
5	SFP	0.512	0.748	0.617	0.572	0.789

Structural Model

The analysis was performed through Smart-PLS software package (Ringle, Wende & Will, 2005). Structure model was assessed for hypotheses testing. During the hypotheses testing, 0.05 significant level was fixed. Direct hypotheses were initially tested, followed by the mediating effect and a moderating effect. The results of structure model are given in Table 3 and Table 4.

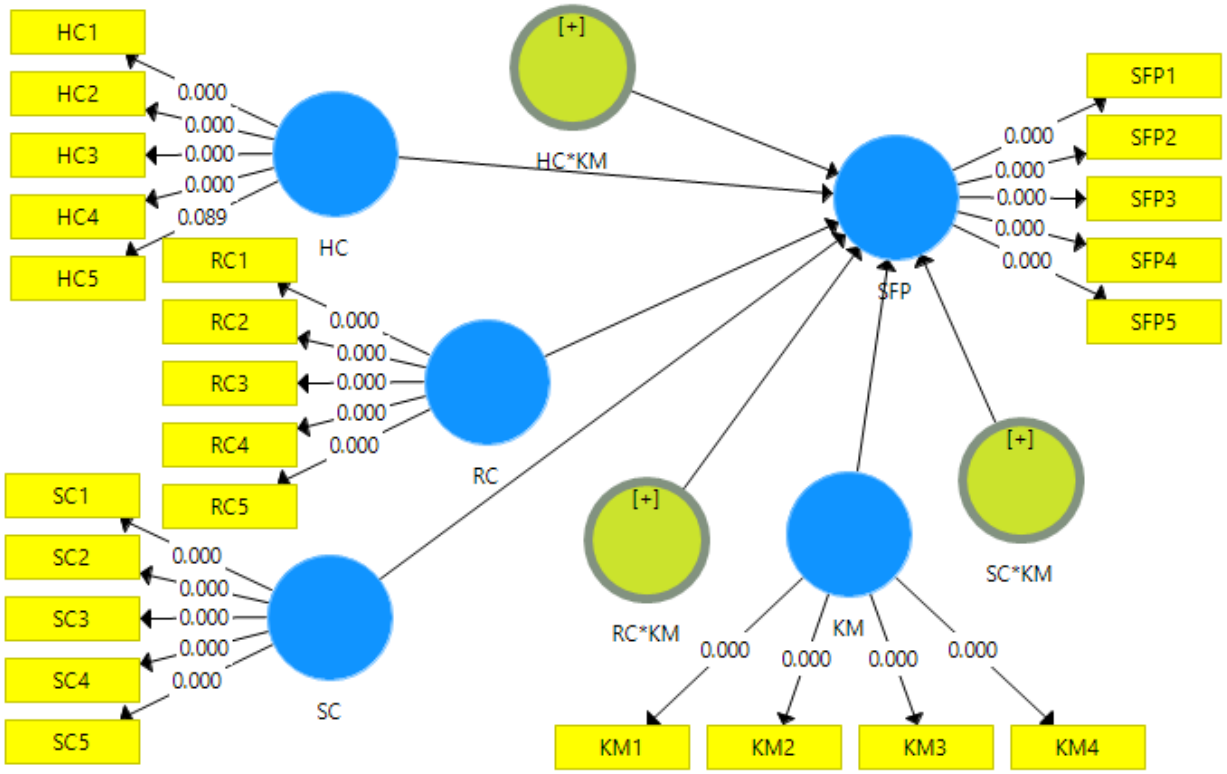

Figure 3. Structural Model Assessment

TABLE 3. Structural Model Assessment (Direct Results)

	(β)	(STDEV)	T Statistics	P Values
HC -> SFP	0.132	0.049	2.683	0.008
RC -> SFP	0.236	0.073	3.213	0.001
SC -> SFP	0.179	0.071	2.521	0.003

Results of structure model show that human capital has significant relationship with sustainable financial performance of Indonesian pharmaceutical firms. The t-value 2.683 and p-value 0.008 are according to the recommended threshold values and indicated that H1 supported by statistical analysis. Findings also illustrated that relational capital has influence on sustainable financial performance of Indonesian pharmaceutical firms. The t-value 3.213 is garter than the standard value 1.96 and p-value 0.001 is also according to the standard. These values illuminated that H2 accepted. Furthermore, study also found that structural capital has significant effect on sustainable financial performance of pharmaceutical firms in Indonesia. H3 also accepted because t-value is 2.521 and p-value 0.003 are according to the threshold values.

TABLE 4. Structural Model Assessment (Moderation)

	(β)	(STDEV)	T Statistics	P Values
HC*KM -> SFP	0.216	0.084	0.2.571	0.005
RC*KM -> SFP	0.080	0.071	1.130	0.259
SC*KM -> SFP	0.138	0.064	2.156	0.004

This study investigated the moderating role of knowledge management between the relationship of Intellectual Capital (Human Capital, Relational Capital and Structural Capital) with sustainable financial performance of Indonesian pharmaceutical firms. Results indicated that knowledge management has moderating effect on the relationship of human capital and structural capital with sustainable performance but it does not moderate the relationship of relational capital with sustainable financial performance of Indonesian pharmaceutical firms.

CONCLUSION

This study intended to investigate the relationship of relationship of Intellectual Capital (Human Capital, Relational Capital and Structural Capital) with sustainable financial performance of Indonesian pharmaceutical firms. Investigating the moderating of knowledge management on the relationship of Intellectual Capital (Human Capital, Relational Capital and Structural Capital) with sustainable financial performance was also the purpose of this study. To attain the purposes of this study quantitative technique of research was applied and cross sectional method with questionnaire was adopted for the collection of data. Collected data was analysed by PLS software and this study found that components of intellectual capital which includes human capital, relational capital and structural capital are significant antecedents of sustainable financial performance of Indonesian pharmaceutical firms. These elements significantly enhance the financial performance of pharmaceutical firms in Indonesia. Study also found the moderating role of knowledge management between the relationships of human capital and structural capital with sustainable financial performance but study found that knowledge management does not moderate the relationship of relational capital with financial performance of pharmaceutical firms in Indonesia. The findings of current study provide an insight regarding the role of intellectual capital in sustainable financial performance of pharmaceutical firms. The Findings are helpful for the managers and owners of pharmaceutical firms to enhance the financial performance of the firms.

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