The impact of vaic and gcg on financial performance and stock prices in metal industry sub sector manufacturing companies in indonesia

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Abstract

Stock price is one indicator of the success company management. If stock prices increase, investors or potential investors assume that the company has successfully managed their business. Stakeholders and shareholders also hope that company management can manage their resources to be able to create value added of intellectual capital. In achieving the company's goals, management need a system that can control the company by implementation of good corporate governance. Good corporate governance is believed to be able to encourage professional management. The purpose of this research was to examine the impact of intellectual capital and good corporate governance on financial performance and stock prices. The population of this research is manufacturing companies listed on the Indonesian stock exchange the period 2012-2018, a total sample of companies amounted to 14 samples were taken by using purposive sampling method. The results of this study indicate that (1) intellectual capital has significant positif effect on financial performance, (2) Intellectual capital has not significant positif effect on stock prices, (3) good corporate governance has not significant negative effect on financial performance, (4) good corporate governance has significant negative effect on stock prices, (5) intellectual capital has significant positif effect on stock prices with financial performance as intervening variable, (6) good corporate governance has not significant negative effect on stock price with financial performance as intervening variable, and (7) financial performance has significant positive effect on stock prices.

Keywords: Intellectual capital; gcg, financial performance; stock prices

INTRODUCTION

The manufacturing industry still show a positive growth in Indonesia. In line with that indication, the manufacturing company need to be concern to the competitive edge and increased their financial performance.

Nowadays the ability of companies in science and technology is very important, where human resources take a role. Not only in the term of their numbers, but also the important thing is quality and qualifications of human resources. Shareholders and stakeholders sincerely hope the company can manage their resources to be able to create value added for the company that represented in the form of tangible assets and intangible assets. The ability of company to create innovation, discover, knowledge, skill and experience as we kown as knowledge capital or intellectual capital.

If Intellectual Capital believed to be able to increase the value added, competitive edge and wealth for the company, the company also need a system that can control their activity in order to maintain sustainable growth as we known as good corporate governance (GCG). GCG has five based principles: Transparency, accountability, responsibility, independence and fairness. Implementation of GCG can encourage management to apply professionally and GCG is also intended to encourage shareholders, members of the board of commissioners and directors to make decisions and take action according to moral ethics (Hanggraeni, 2015:72)

The Central Statistics Agency has been noted, the manufacturing industry contributes to Indonesia's GDP 19,86 percent throughout 2018. In this case, ministry of industry still improving performance and investment in export-oriented manufacturing industries and import substitution. The ministry of industry also noted, investment in the manufacturing industry sector continued to grow significantly.

Capital investment was Rp. 195,74 trillion in 2014, then up to Rp. 222,3 trillion in 2018. The non-oil and gas processing industry was able to grow 4,77 percent in 2018. One of the sectors that is support and able to surpass economic growth is the metal industry with growth 8,99 percent. Amid the global economic instability, manufacturing industry growth 5,4 percent in 2019. The sectors that will support it in the road map of Making Indonesia 4.0 are in the automotive sectors (www.kemenprin.go.id, 2018).

The purpose of this research was to examine the impact of intellectual capital and good corporate governance on financial performance and stock prices of manufacturing companies sub sector metal industries listed on the Indonesia Stock Exchange (IDX) period 2012-2018.

Review of literature

Resource Based Theory (RBT) is a theory about how the company can manage and utilize their resources. Company resources can be divided into three types: tangible assets, intangible assets and human resources. Management resources such as employees (human capital), physical assets (physical capital) and structural capital will create the value added for the company, so that it can be influences to financial performances (Nikmah and Apriyanti, 2016).

Halim, et al (2016) state that different definitions of intellectual capital have been described by experts. According to Stewart (1997), Intellectual Capital is "The sum of everything everybody in your company knows that gives you a competitive edge in the market. Intellectual capital consist of material knowledge, information, intellectual property, experience that can be put to use to create wealth (Ulum, 2009:19).

Related to interaction of business activity, there is a relationship between shareholders and management called agency relationship. This relationship will occur whenever someone (owner) will do another party (Agent) to represent their interests. In all agency relationships there is a possibility of a conflict of interest between the agent and the owner. Agency problem is the possibility of a conflict of interest that occurs between shareholders and management in a company (Ross et al, 2015)

Agency theory is the basic thing used to understand the concept of Good Corporate Governance. Agency theory is seen as broader because this theory is considered to reflect more reality (Ross et al, 2015).

Brigham and Houston (2018) explain the financial management as follows "Financial management, also called corporate finance, focuses on decisions relating to how much and what types of assets to acquire, how to raise the capital needed to purchase assets, and how to run the firm so as maximize its value".

Gitman and Zutter (2012:4) describes financial management as follows: "Finance can be defined as the science and art of managing money. At the personal level, finance is concerned with individuals" decisions about how much of their earnings they spend, how much they save, and how they invest their savings. In a business context, finance involves the same types of decisions: how firms raise money from investors, how firms invest money in an attempt to earn a profit, and how they decide whether to reinvest profits in the business or distribute them back to investors".

Financial managers in a company will take various decisions for the company's shareholders. If we assume that shareholders buy shares to gain financial benefits, the answer is clear: the right decisions will increase the value of shares, and bad decisions will reduce the value of shares. The purpose of financial management is to maximize the value of a piece of stock that exists today (Ross et al, 2015).

The advantage of owning shares for investors is obtaining capital gains and dividends earned each year, especially in the form of cash dividends because they involve an adequate amount of cash which the company can pay to investors and the closing price (Pongkorung et al, 2018).

Good corporate governance has a significant positive effect on company performance. Company performance was calculated by two proxies, ROA and ROE (Sulastri and Nurdiansyah 2017). There is also research that supports a significant number of Good Corporate Governance variables on Return on Equity (Susanti et al, 2016). Earning Per Share (EPS) also has a significant effect on stock prices (Idawati and Wahyudi, 2015).

"Companies need to be aware that the application of corporate governance can be a positive influence on the company's shares which are traded on the stock exchange" (Mulyono et al, 2018).

The finding of the differences in the results of previous studies on Good Corporate Governance which proved that institutional ownership, the proportion of independent commissioners did not have a significant positive effect on ROA and ROE. The number of boards of directors has a significant positive effect on ROA and the number of board of directors has no significant positive effect on ROE (Revita, 2018). Other research states, there is no significant effect of the variables of Good Corporate Governance on Earning Per Share (Susanti et al, 2016).

From the description of the differences all research that have been described, motivating researchers to conduct further research related to Intellectual Capital and Good Corporate Governance and its impact on stock market prices through financial performance.

METHOD

The data in this study were obtained from secondary data. Secondary data has been published in the annual financial statements of 2012-2018 companies listed on the Indonesia Stock Exchange. The data sources are obtained from the Indonesia Stock Exchange website through (www.idx.co.id). The selection of sample was using Purposive Sampling, the number of sample is 14 manufacturing company sub sector metal industry listed on the stock exchange from 2012-2018.

Based on the conclusions of the literature and previous research, the conceptual of this researh is obtained as shown in Figure 1 below.

Analysis and results

Methods of decision making refers to P-value and real level (α) of 0.05. If P < α then H0 rejected and if P > α then H0 accepted. Result of test of P-value for every relation of variable can be seen at Table 1. and Table 2.

Tabel 1. Inner model test result – path coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P-Values
GCG -> Stock Prices	-0.369	-0.340	0.116	3.180	0.002
GCG -> Financial Performance	-0.080	-0.128	0.114	0.703	0.482
Financial Performance -> Stock Prices	0.585	0.577	0.117	5.004	0.000
VAIC -> Stock Prices	0.011	0.004	0.170	0.065	0.948
VAIC -> Financial Performance	0.574	0.517	0.267	2.155	0.032

Tabel 2. Inner model test result – total indirect effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDE)	P-Values
GCG -> Financial Performance -> Stock Prices	-0.047	-0.070	0.060	0.781	0.435
VAIC -> Financial Performance -> Stock Prices	0.336	0.311	0.169	1.992	0.047

Based on the inner model test result-path coefficients in table 1, Intellectual Capital (VAIC) has significant positif effect on financial performance, this indicates that p-value is 0,032 < 0,05. Intellectual Capital (VAIC) has not significant positif effect on Stock Price, this indicates that p-value is 0.948 > 0,05. GCG has not significant negative effect on financial performance, this indicates that p-value is 0,482 > 0,05. GCG has significant negative effect on stock prices, this indicates that p-value is 0,002 < 0,05. Intellectual Capital (VAIC) has significant positif effect on stock prices with financial performance as intervening variable, this indicates that p-value is 0,047 < 0,05. GCG has not significant negative effect on stock price with financial performance as intervening variable, this indicates that p-value is 0,435 > 0,05. Financial Performance has significant positive effect on Stock Prices this indicates that p-value is 0,000 < 0,05.

The R-square value of the direct effect of this study is 0.324 indicating that the strength of intellectual capital as measured by VAIC and GCG variables is able to explain and influence the financial performance variable by 32.40% during the seven years observation period 2012-2018. This means that Intellectual Capital VAIC and GCG variables can explain the variable financial performance by 32.40% and the remaining 67.60% is influenced by other variables outside of this study.

Furthermore, the R-square value of direct and indirect influences in this study is 0.487. The direct effect: Intellectual Capital (VAIC) variable on stock prices, GCG variable on stock prices, Financial Performance on Stock Prices, and indirect effect Intellectual capital (VAIC) on stock prices and financial performance as intervening variable: GCG on stock prices and financial performance as intervening variable can be explain and influence the stock prices variable by 48,7% during the seven years observation period 2012-2018. This means all direct and indirect effect of variable in this study can explain the variable Stock Prices by 48,7% and the remaining 51.30% is influenced by other variables outside of this study.

RESULT AND DISCUSSION

Based on the results, it can be seen that Intellectual Capital as measured by VAIC variables has significant positif effect on Financial Performance. This result also supports the opinion from previous research conducted by (Wijayani, 2017), (Nikmah and Apriyanti, 2016) that Intellectual Capital (VAIC) has a positif effect on ROA and EPS.

This study supports the results of previous studies conducted by (Halim et al, 2016) which stated that Intellectual Capital (VAIC) has an effect on profitability as measured by ROE and EPS. The results of this study are in line with previous studies conducted by (Caroline and Haryanto, 2015) which examined the effect of Intellectual Capital on company profitability as measured by ROA and ROE, it can be concluded that Intellectual Capital has a significant positive effect on company profitability.

Intellectual Capital as measured by VAIC variable has not significant positive effect on stock market prices. This research is in line with previous research conducted by Yunita (2012) in his research that when Intellectual Capital is managed optimally it can deliver the company to a good performance. If the company can show a good performance, it will attract many investors to invest in the company. That it can be increase the stock prices of the company. The results of this study are not in line with the research conducted by (Halim et al, 2016) which states that Intellectual capital (VAIC) directly affects stock prices which indicates that the greater Intellectual Capital will influence the stock price.

Good corporate governance (GCG) has not significant negative effect on financial performance. The results of this study are in line with the research by Nugrahanti and Novia (2012) managerial ownership is a condition in which management as the company manager and at the same time as shareholders in the company. It means the manager have multiple position as manager and investor. in this study the proportion of managerial ownership is still very small. Managers can feel less of benefits after they make decissions. This condition will not be able to unite the interests of managers and shareholders, so they cannot improve financial performance.

This study supports the results of previous studies conducted by Prawira and Haryanto (2015) showing that Institutional Ownership has a negative influence on financial performance. Based on the data in this research, institution ownership have a high share ownership and it will cause the institution take decission for their interest and ignoring the interest of minority shares. This reason will create unbalance condition in determining the direction of company policy. Unbalance condition will make condition of the company not condusif and finally that condition can not be able to increase the financial performance. This study also supports the results of previous studies conducted by Widhianningrum and Amah (2012), there are negative influences between independent commissioners and financial performance during the 2007-2009 financial crisis. His study shows that a large percentage of independent commissioners will reduce financial performance.

GCG (Good Corporate Governance) has significant negative effect on Stock Prices. This study supports the results of previous studies conducted by Widyasari et al (2015) which stated that percentage of independent commissioners has significant negative effect on firm value which measured by listing price.

This study supports the results of previous studies conducted by Sunarta et al (2017) which stated that "Based on Table of Path Coefficient indicates that the correlation is very weak and negative between GCG application and stock price. The coefficient value of -0.2112 means that the application of GCG has a weak negative correlation on stock prices. So, the increased GCG application causesa little decline in stock prices. The hypothesis testing shows that the application of GCG has a very significant effect on stock price which can be proved by the t-value > t-table". This study also supports the results of previous studies conducted by Mulyono et al (2018) yang menyatakan "The application of corporate governance in companies listed on the Indonesia Stock Exchange should be improved. It is reflected from the companies participating in the Corporate Governance Perception Index. In 2012, There were only 42 from 459 companies. Companies need to be aware that the application of corporate governance can be a positive influence on the company's shares which are traded on the stock exchange".

Intellectual Capital (VAIC) has significant positive effect on Stock Prices through Financial Performance. The results of this study are different from the research conducted by Halim et al (2016) which stated that Intellectual Capital (VAIC) has an effect on mediated stock prices (partial mediation) through ROA and EPS for companies listed on the Indonesia Stock Exchange (BEI) in the 2011 - period 2014. The difference in this study is Financial Performance can mediate in full (full mediation) the influence of Intellectual Capital (VAIC) on Stock Prices. Halim et al (2016) states that Financial Performance can mediate (partial mediation) the influence of Intellectual Capital (VAIC) on Stock Price.

Good Corporate Governance (GCG) has not significant negative effect on Stock Prices with Financial Performance as intervening variable. The results of this study explain that Financial Performance cannot mediate the effect of GCG on Stock Prices. The hypothesis of this study is GCG has not significant negative effect on Stock Prices with Financial Performance as intervening variable in manufacturing company, subsector metal industry period 2012-2018 cannot be proven.

Financial performance has significant positive effect on stock prices. The results of this study are in line with previous research conducted by Manoppo (2015) which stated ROA, ROE and EPS (Earning Per Share) has a significant negative effect on Stock Prices. This study supports the results of previous studies conducted by (Pongkorung, Tommy, and Tulung 2018)Halim et al (2016) which state that ROE and EPS have significant positif effect on Stock Prices. This means that the financial performance can influence changes in stock prices, if financial performance increase then stock prices will also increase and vice versa.

CONCLUSIONS

(1) Intellectual Capital has significant positive effect on Financial Performance, (2) Intellectual Capital has not significant positive effect on Stock Prices, (3) GCG has not significant negative effect on Financial Performance, (4) GCG has significant negative effect on Stock Prices, (5) Intellectual Capital has significant positif effect on Stock Prices with Financial Performance as intervening variable, (6) GCG has not significant negative effect on Stock Price with Financial Performance as intervening variable, and (7) Financial Performance has significant positive effect on Stock Prices.

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