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The Role Of Intellectual Capital And Profitability In The Relationship Between Good Corporate Governance And Firm Value

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Abstract

This study aims to examine the effect of Good Corporate Governance on firm value with profitability and intellectual capital as intervening. Firm value reflects investor confidence regarding the company's current position and optimism for the company's future growth. Good Corporate Governance, Profitability, and Intellectual Capital are predicted to be factors which affect the firm value. The research data in the form of secondary data obtained from annual reports and financial reports published by the IDX and models similar to Hatane (2019) and Gwenda (2013) are used to examine the effect of Good Corporate Governance in companies. It was found that Good Corporate Governance has an effect on profitability, intellectual capital, and firm value, and profitability has an effect on firm value, but intellectual capital has not been able to increase firm value. This research contributes to the understanding of the concept of Good Corporate Governance with a scoring system and the relationship between Profitability, Intellectual Capital, Firm Value and Corporate Governance. This finding provides empirical support for the previous theory that effective Corporate Governance plays an important role in increasing Profitability, Intellectual Capital and Firm Value.

Keywords: Intellectual Capital, Profitability, Good Corporate Governance, Firm Value

INTRODUCTION

The era of globalization makes competition in the business world become increasingly competitive. In order to strengthen the company's existence, it is necessary for companies to increase their firm value. Increasing firm value becomes very important because high firm value reflect the prosperity of the shareholders, and how well the company manages the company thus it can attract investors. Referring to the 2015-2018 company's Composite Stock Price Index data published by the Indonesia Stock Exchange, there are fluctuations in the company's stock prices, especially in the manufacturing sector. Fluctuations that occur are the main attraction to be re-examined related to factors that can affect the firm value.

Good Corporate Governance is one of the factors which affect firm value (Siagian et al., 2013). The purpose of implementing Good Corporate Governance is to create and provide added value for all stakeholders in a sustainable manner over a long period of time through an increase in good corporate governance. Through the good implementation of Good Corporate Governance, it is expected to have an impact on the oversight of the company which will increase its effectiveness in realizing organizational goals. Based on the findings (Durnev and Kim, 2005), the better the GCG of a company can increase its stock price. It is through this increase in stock prices that becomes a benchmark that GCG can affect firm value. Wahab et al. (2007), through their observation of companies on the Malaysian Stock Exchange, also found that there was a significant positive effect on corporate governance index on the measured welfare of shareholders with book value of equity. However, there are differences in findings by Connelly et al. (2012), which in their findings suggest that corporate governance has a negative effect on firm value. Based on this there are still many potential factors that can be explored in more depth, in the context of developing firm value research.

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Studies on the effect of GCG on firm value include research by Gwenda and Juniarti (2013), Siagian et al. (2013), Irawan and Devie (2017) and Tumanggor (2019) provide results that Good Corporate Governance has a significant positive effect on firm value. Whereas research conducted by Purbopangestu and Subowo (2014) provides results that Good Corporate Governance has a significant negative effect on firm value. According to research conducted by Li Ju and Shun Yu (2011), Sabrin et al. (2016), and Irawan and Devie (2017) regarding profitability give the result that profitability has a significant positive effect on firm value. Whereas Hamidah et al. (2013) gives the result that profitability has a significant negative effect on firm value.

Previous studies regarding the effect of GCG on firm value were not unidirectional. Researchers suspect there are other factors that bridge the relationship between the two variables. The first factor is profitability. High profitability associated with good company prospects that trigger investors to increase stock demand. The company’s ability to generate high profits or have a high level of profitability will cause added value to the company. Research on Good Corporate Governance conducted by Tjondro and Wilopo (2011), Rimardhani (2016), and Oktaryani et al. (2017) gives the result that Good Corporate Governance has a significant positive effect on profitability. Whereas Hamidah et al. (2013) states that profitability has a significant negative effect on firm value. In addition, increasing intellectual capital is important in today’s knowledge-based economy. Companies that manage and explore intellectual resources to their full potential can also reflect the company’s competitive advantage (Solikhah et al., 2010). Research by Makki and Lodhi (2014) and Hatane et al. (2019) gives the result that Good Corporate Governance has a significant positive effect on intellectual capital. While research conducted by Masitha (2019) gives the result that Good Corporate Governance has a significant negative effect on intellectual capital. The results for the latest research are about Intellectual Capital conducted by Randa and Solon (2012), Bemby S. et al. (2015) and Juwita and Angela (2016) provide results that Intellectual Capital has a significant positive effect on firm value. While research conducted by Ariani (2013) which results that Intellectual Capital does not have a significant negative effect on firm value. This study uses a better model than previous studies by Hatane et al. (2019). Besides that, the completeness of the GCG index measuring instrument becomes an important factor to be able to measure GCG appropriately, so this research develops the GCG Score from research from Javed and Iqbal's research (2007) and Gwenda and Juniarti (2013) which consists of five sub-indexes namely shareholder rights, board of directors, outside directors, audit committees and internal audits as well as disclosure to investors.

LITERATURE REVIEW

1. Firm Value

Maximizing firm value is very important for a company, because with maximizing the firm value, it means the company is also maximizing the prosperity of shareholders which is the main goal of the company (McWilliams and Siegel, 2000; Barnett, 2007) In general, high firm value would provide the confidence among investors about the company’s position in current and future growth of the company (Hasnawati and Sawir, 2015). Firm value in this study is defined as market value. Firm value can provide maximum shareholder prosperity if the company’s shares increase (Ende, 2017). The higher the stock price, the higher the shareholder prosperity. To achieve the firm value, the investors gave their management to professionals. These professionals are positioned as managers and commissioners. Enterprise value or also called firm value is an important concept for investors, because it is an indicator for the market to assess the company as a whole. Considering the purpose of the company is to maximize shareholder prosperity, by maximizing the value of the company it is very important

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for the company because that way the company's prosperity will be achieved and the prosperity of the company will be obtained (Bocken et al., 2014).

2. Good Corporate Governance and Profitability

GCG is a process that regulates and controls a company to improve business success while still taking into account the interests of stakeholders and reducing agency conflict in order to achieve company goals (Rimardhani, 2016). Good Corporate Governance is proxied by five sub-indexes consisting of Shareholder rights (sub-index A) consisting of 5 indicators, Board of Directors (sub-index B) consisting of 6 indicators, Outside directors (sub-index C) consisting of 13 indicators, Audit Committee and Internal Auditor (sub-index D) consisting of 11 indicators and Disclosure to Investors (sub-index E). Profitability is a measure used to assess the ability and success of companies in generating profits (Fahmi, 2013). Profitability is profit in the form of material obtained by a company, thus profitability can indicate the level of success of the company in generating profits (Kartikasari and Merianti, 2016). Good and consistent GCG implementation will make all company activities run effectively and efficient (Basri et al., 2017; Mahrani and Soewarno, 2018), this is because GCG practices aim to protect each stakeholder's interests which will also facilitate the company in achieving its goals to produce high profitability (Riandi and Siregar, 2011). This is in line with the results of research on Good Corporate Governance conducted by Tjondro and Wilopo (2011), Rimardhani (2016), and Oktaryani et al. (2017) provide results that Good Corporate Governance has a significant positive effect on profitability. Based on the statement above, the research hypothesis that can be formulated is as follows.

H1: Good Corporate Governance has a significant effect on profitability.

3. Good Corporate Governance and Intellectual Capital

Good Corporate Governance is responsible for creating, developing and improving Intellectual Capital (IC) (Masitha, 2019). Intellectual Capital is a group of knowledge assets that are attributes of the organization and contribute significantly to increasing the competitive position by adding value to stakeholders (Marr and G., 2001). The research that was first conducted by Keenan and Aggestam (2001) measured using the concept of the VAIC model developed by Pulic (1998) revealed that the role of Corporate Governance (CG) in the implementation of Intellectual Capital has three components namely human capital, structural capital, and relational capital. In accordance with the results of research conducted by Keenan and Aggestam (2001) concluded that CG and IC are indeed related and the effect of CG on IC is an attractive main factor in an organization to encourage efficient and effective corporate activities. The implementation of Good Corporate Governance can produce qualified employees (Alfraih, 2018), the development of information technology and the intertwining of the roles of various parties within the company that can have an impact on relationships with shareholders (Tejedo-Romero et al., 2017). This is in line the results of research by Makki and Lodhi (2014) and Hatane et al. (2019) show that Good Coporate Governance has a positive and significant effect on Intellectual Capital. Based on the statement above, the research hypothesis that can be formulated is as follows.

H2: Good Corporate Governance has a significant effect on Intellectual Capital.

4. Good Corporate Governance and Firm Value

Good Corporate Governance functions as a mechanism for monitoring and controlling managers so that decisions are made in the interests of shareholders (Siagian et al., 2013). The increase in firm value is made as an effort to maintain its excellence and to maintain operational continuity so that the benefits and prosperity of stakeholders can be improved. Zuhroh (2019).

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In implementing good corporate governance management, the possibility to take actions which can harm shareholders can be minimized (Tanjung, 2015; Hidayat and Kusumastuti, 2015; Nofrivul and Subroto, 2017). It can be concluded that companies with better corporate governance practices will have higher values (Arora and Sharma, 2016; Siagian et al., 2013). This is in line with the results of research by Gwenda and Juniarti (2013), Siagian et al. (2013), as well as Irawan and Devie (2017) show that Good Coporate Governance has a positive and significant effect on firm value. Based on the statement above, the research hypothesis that can be formulated is as follows.

H3: Good Corporate Governance has a significant effect on Company Value.

5. Profitability and Firm Value

Profitability is the company's ability to generate profits or the ability of an entity from various resources used in operational activities (Kasmir, 2014). High profitability shows the effectiveness and efficiency in managing a company (Keramidou et al., 2013) because a high level of profitability will increase stock prices, and will attract investors to invest their capital in the company (Tamrin et al., 2017; Kurniaty et al. , 2018). The better profitability growth means the prospect of the company in the future is also considered better, meaning that the better the firm value. This is in line with the results of research by Li Ju and Shun Yu (2011), Sabrin et al. (2016), and Irawan and Devie (2017) shows that profitability has a positive and significant effect on firm value. Based on the statement above, the research hypothesis that can be formulated is as follows.

H4: Profitability has a significant effect on firm value.

6. Intellectual Capital and Firm Value

Intellectual capital owned by the company is one aspect which is considered by investors before investing their shares (Sudibya and Restuti, 2014). If IC can give investors an idea of good employment prospects in the future (Bakshani, 2014), the demand for company shares will increase so that the stock price and market performance will also increase. The effective and efficient utilization of intellectual capital will affect the achievement of competitive advantage and will further be reflected in the high firm value. In line with the results of research by Randa and Solon (2012), Bemby S. et al. (2015) and Juwita and Angela (2016) show that Intellectual Capital has a positive and significant effect on firm value. Based on the statement above, the research hypothesis that can be formulated is as follows.

H5: Intellectual Capital has a effect on firm value.

RESEARCH METHODS

1. Population and Sample

The population used in this study are all companies listed on the Indonesia Stock Exchange (IDX) in 2015-2018. The sample used in this study is the financial statements and annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2014-2018, while the sampling method in this study uses a purposive sampling method which is then obtained 50 samples from 200 samples of manufacturing companies.

2. Variables and Indicators

The independent variable in this study is Good Corporate Governance measured using the CG Score Proxied by five sub-indexes consisting of Shareholder rights (sub-index A) consisting of 5 indicators, Board of Directors (sub-index B) consisting of 6 indicators, Outside directors (sub-index C) consisting of 13 indicators, Audit Committee and Internal Auditor (sub-index D) consisting of 11 indicators and Disclosure to Investors (sub-index E) consisting of 3

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indicators. This measurement is carried out by giving a check list (✓) on the items disclosed by the company. If the company meets the principles of GCG, it will be given point 1, if not fulfilled, then given point 0. Intervening variables in this study, namely profitability is measured by using the Return on Assets (ROA) ratio, which is the company's overall ability to generate profits with the total amount of assets available to the company. The Intellectual Capital variable was measured using the concept of the VAIC model developed by Pulic (1998). The dependent variable in this study is firm value which is measured using the Tobin's Q approach. Tobin's Q approach is a measurement of the firm value of a forward-looking company that can reflect investors' assessments of the company.

3. Analysis Techniques

The data analysis technique used in this study uses the Structural Equation Model based on Partial Least Square (SEM-PLS) with SmartPLS 3.0 software.

DATA ANALYSIS RESULTS

Descriptive Statistical Analysis

Table 1. Descriptive Statistics Analysis

	N	Min	Max	Mean	Median	STDEV
GCG	200	0.486	0.676	0.560	0.560	0.039
Profitability		-0.176	0.334	0.041	0.035	0.070
Intellectual Capital		0.410	99.510	28.127	23.560	20.393
Firm Value		0.313	29.789	11.052	0.978	14.084

Sources : SmartPLS (2020).

The Table 1 above shows that Good Corporate Governance variable has a minimum value of 0.486 and a maximum value of 0.676. While the average value of 0.560 and the standard deviation of 0.039 with a mean value of 0.560. Then it can be concluded that the data on the Good Corporate Governance variable has a good level of accuracy because the average value of 0.560 is higher than the mean value of 0.560.

The profitability variable has a minimum value of -0.176 and a maximum value of 0.334 while an average value of 0.041 and a standard deviation value of 0.0.070 with a middle value of 0.035. Then it can be concluded that the data on the profitability variable has a good level of accuracy because the average value of 0.041 is higher than the middle value of 0.035.

Intellectual capital variable has a minimum value of 0.410 and a maximum value of 99.510. While the average value is 28,127 and the standard deviation is 20,393 with a mean value of 23,560. Then it can be concluded that the data on the intellectual capital variable has a good level of accuracy because the average value of 28,127 is higher than the mean value of 23,560.

Firm value variable has a minimum value of 0.314 and a maximum value of 29,789. While the average value of 11,052 and the standard deviation of 14,084 with a mean value of 0.987. So it can be concluded that the data on the firm value variable has a good level of accuracy because the average value of 11,052 is higher than the middle value of 0.987.

Structural Model Analysis Results

Table 2. R-square (R^2)

	R Square	R Square Adjusted
Profitability	0.092	0.088
Intellectual Capital	0.068	0.063

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Firm Value	0.199	0.186

Sources : SmartPLS (2020).

Based on the results of data processing in the Table 2, it can be explained that the value of R-Square (R^2) is adjusted on the profitability variable of 0.088 or equal to 8.8%. This means that the profitability variable can be explained by the Good Corporate Governance variable by 8.8% while 91.2% is explained by other variables. In addition, it can also be seen in the value of R-Square (R^2) in the intellectual capital variable which shows a value of 0.063 or 6.3%. This means that the variable intellectual capital can be explained by Good Corporate Governance by 6.3% while the remaining 93.7% is explained by other variables. While the value of R-Square (R^2) on the firm value variable is 0.186 or 18.6%. This means that the firm value variable can be explained by Good Corporate Governance, profitability, and intellectual capital variables by 18.6% while 81.4% is explained by other variables.

Test Path Coefficients

Hypothesis testing can be seen in the P values obtained through the bootstrapping method in the Path Coefficients Table 3.

Table 3. Path Coefficients Test

	Original Sample (O)	*Sample Mean* (M)	*Standard Deviation* (STDEV)	*T Statistic*	*P Value*
GCG → Profitability	0.304	0.300	0.060	5.102	**0.000**
GCG →Intellectual Capital	0.261	0.265	0.080	3.266	**0.001**
GCG→Firm value	0.169	0.172	0.064	2.641	**0.009**
Profitability → Firm value	0.343	0.353	0.080	4.286	**0.000**
Intellectual Capital→ Firm value	-0.108	-0.108	0.088	1.237	**0.217**
GCG → Profitability→ Firm value	0.104	0.106	0.033	3.159	**0.002**
GCG → Intellectual Capital→ Firm value	-0.028	-0.030	0.027	1.030	**0.304**

Sources : SmartPLS (2020).

Based on Table 3 show that Good Corporate Governance significantly positive effect on profitability, hypothesis 1 is accepted. The higher the application of good corporate governance, the activities carried out by the company will run more effectively and efficiently thus it can generate high profits. Good Corporate Governance has a significant positive effect on intellectual capital, hypothesis 2 is accepted. Good Corporate Governance can help companies to align the differences of interests between managers and principals so that in their activities the company can maximize the potential of intellectual capital in generating superior human resources, technology, and customer relationships. Good Corporate Governance has a significant positive effect on firm value.

DISCUSSION

1. The Effect of Good Corporate Governance on Profitability

Based on the results of this study indicate that Good Corporate Governance has a positive and significant effect on profitability. In accordance with agency theory, the implementation of Good Corporate Governance can reduce agency costs caused by differences in interests

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between managers and stakeholders so that Good Corporate Governance can minimize activities which can harm both parties (Ilmi et al., 2017). To improve profitability, good corporate governance can be carried out and the company can run its business efficiently to achieve company goals (Riandi and Siregar, 2011). Decision making by the company can run optimally as seen in the company's ability to generate profits. This is in line with the results of research on Good Corporate Governance conducted by Tjondro and Wilopo (2011), Rimardhani (2016), and Oktaryani et al. (2017) and Hatane et al. (2019) provide results that Good Corporate Governance has a significant positive effect on profitability.

2. The Effect of Good Corporate Governance on Intellectual Capital

Based on the results of this study indicate that Good Corporate Governance has a positive and significant effect on Intellectual Capital. The component of Good Corporate Governance consisting of shareholder rights, board of directors, outside directors, audit committee and internal audit and investor relations can carry out intellectual resource management activities in accordance with the principles of GCG. Raghunandan (2001) revealed that Good Corporate Governance can minimize agency costs, therefore, the company's operational processes in maximizing intellectual capital can run well. Good Corporate Governance is also believed to help companies to align the interests of managers and shareholders in increasing the long-term value of the company with intellectual capital (Noradiva et al., 2016). This is in line with the results of research by Makki and Lodhi (2014) and Hatane et al. (2019) showing that Good Coporate Governance has a positive and significant effect on Intellectual Capital.

3. The Effect of Good Corporate Governance on Firm Value

Based on the results of this study indicate that Good Corporate Governance has a positive and significant effect on firm value. These results support the agency theory which states that the application of Good Corporate Governance is needed to reduce agency problems (Appuhami and Bhuyan, 2015). Stakeholders entrust the management of the company to managers to manage the company then it can provide the benefits expected by shareholders. A high Corporate Governance score indicates that the implementation of GCG is getting better in the company (Gwenda and Juniarti, 2013). The better implementation of Good Corporate Governance means that activities that can harm shareholders can be minimized. The existence of Good Corporate Governance also reflects the high firm value thus it will increase investor confidence in investing its capital. This is in line with the results of research by Gwenda and Juniarti (2013), Siagian et al. (2013), and Irawan and Devie (2017), and Hatane et al. (2019) showing that Good Coporate Governance has a positive and significant effect on firm value.

4. The Effect of Profitability on Firm Value

Based on the results of the study it can be seen that profitability has a positive and significant effect on firm value. Profitability is the level of net income that can be achieved by the company while carrying out business activities. To maintain the continuity of business activities, companies must be in conditions that can generate profits to be able to attract capital from outside (Syamsuddin, 2009). This can be interpreted that the higher the profitability, the higher the company's ability to utilize its resources to the maximum (Sabrin et al., 2016). In line with signal theory, high profits will give an indication that the company has good prospects for the present and the future, thus it can increase the firm value in the eyes of investors (Fahmi, 2013). This is in line with the results of research by Li Ju and Shun Yu (2011), Sabrin et al. (2016), and Irawan and Devie (2017) showing that profitability has a positive and significant effect on firm value.

5. The Effect of Intellectual Capital on Firm Value

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Based on the results of the study, intellectual capital has a negative and not significant effect on firm value. This happens because for now intellectual capital has not been used as a tool for decision making so the market does not give high valuation to companies that have high intellectual capital. At present intellectual capital reporting has not been done adequately and detailed so investors are still difficult to see the intellectual capital owned by the company. These results give an indication that the valuation of a company is based more on physical resources that can be seen clearly in the annual report. The company's management also value physical investment more than intellectual capital investment because the company considers intellectual capital to be an abstract investment (Lestari, 2017). These results support the research of Ariani (2013), Yuskar and Dhia (2014), Lestari (2017), and Hatane et al. (2019) which states that intellectual capital has no significant negative effect on firm value. While this research is not in line with Randa and Solon (2012) which states there is a significant positive effect between intellectual capital and firm value.

6. Intervening Test

Based on the analysis of the effect of Good Corporate Governance on firm value mediated by profitability shows positive and significant results. The results indicate that companies that have high Good Corporate Governance can increase the firm value indirectly through profitability, while the analysis of the effect of Good Corporate Governance on firm value mediated by intellectual capital shows negative and insignificant results. These results indicate that companies that have high Good Corporate Governance cannot increase firm value indirectly through intellectual capital. According to Siagian et al. (2013) that there is an effect between Good Corporate Governance and firm value, where Good Corporate Governance is expected to monitor and control managers not to make decisions that can harm stakeholders so that it helps the company increase the firm value in the eyes of investors. But intellectual capital has not been able to mediate the effect of Good Corporate Governance on firm value because Intellectual capital has not been reported in detail in the annual report. Intellectual capital is currently still considered a new concept for the company and requires a long period of time to be able to see the impact produced. This result indicates that investors in Indonesia have not given more insight to companies that have relatively high efficiency in managing intellectual capital. , because investors might argue that high intellectual capital requires high investment so that it can reduce the benefits to be gained because it is allocated to finance intellectual capital (Ariani, 2013).

CONCLUSION

Good Corporate Governance significantly positive effect on profitability, hypothesis 1 is accepted. The higher the application of good corporate governance, the activities carried out by the company will run more effectively and efficiently thus it can generate high profits. Good Corporate Governance has a significant positive effect on intellectual capital, hypothesis 2 is accepted. Good Corporate Governance can help companies to align the differences of interests between managers and principals so that in their activities the company can maximize the potential of intellectual capital in generating superior human resources, technology, and customer relationships. Good Corporate Governance has a significant positive effect on firm value. Hypotheses 3 are accepted. The implementation of Good Corporate Governance can reduce activities that can harm both parties both managers and stakeholders then the firm value will increase in the eyes of investors. Profitability has a significant positive effect on firm value, hypothesis 4 is accepted. The high level of profitability will give a signal that the company is in a favorable condition for now and in the future so that investors are interested in investing their capital in the company. Intellectual Capital has no significant negative effect on the firm value, the hypothesis 5 is rejected. It is possible because the company's intellectual capital

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reporting has not been specifically disclosed so that investors currently have not considered intellectual capital in decision making. Good Corporate Governance on firm value mediated by profitability. The component of Good Corporate Governance can assist companies in carrying out activities in accordance with GCG principles so that profitability can increase firm value. Intellectual Capital is unable to mediate the effect of Good Corporate Governance on firm value. Good Corporate Governance is expected to control managers not to make decisions that can harm stakeholders so as to increase firm value, but currently intellectual capital is still considered a new concept and requires a long period of time to see the resulting impact.

LIMITATION

In the fourth model the effect of Good Corporate Governance, profitability, intellectual capital on firm value obtained the coefficient of determination R-Square (R^2) adjusted on the variable is still low at 18.6% so there are many other factors that are not tested in the research model. Many companies have not described salary costs as an element of Human Capital in detailed annual reports so that the sample obtained is only 50 companies per year.

SUGGESTION

For academics, further research can conduct research on this topic by adding Corporate Social Responsibility (CSR) as an intervening variable (Masitha, 2019). This is because companies that implement Good Corporate Governance will conduct CSR as a form of accountability and companies that have good performance and social environment will get a positive response by investors, so the higher Corporate Social Responsibility will result in an increase in firm value. For companies, it is better to optimize the use of intellectual capital. From the results of the study showed that the average VAIC score of the sample company was 28,127. This score is included in the category of good performance according to the Business Performance Indicator (Kamath, 2007), but the results of this study indicate that the high VAIC score is not able to increase firm value. This indicates that manufacturing companies have not optimized the use of intellectual capital as an important resource to increase investor confidence. For investors, in investing funds must consider the high firm value with factors such as Good Corporate Governance and Profitability. The higher the application of good corporate governance, the activities that can harm stakeholders can be minimized so that the company's ability to generate profits will also increase. High firm value is one of the indicator of how well the company is in carrying out its activities and how much profit will be obtained.

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