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The Influence of Intellectual Capital on Corporate Profits and Its Impact on Stock Prices Listed Banking on the Indonesia Stock Exchange

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ABSTRACT

This study aims to know the effect of intellectual capital on profits and its impact on stock prices. Corporate profit is proxies by Return on Equity (ROE). Share prices are measured by closing share prices. The population in this study are banking sector companies listed on the Indonesia Stock Exchange (BEI) for the 2017-2019 periods. This study observed 32 issuers, using purposive sampling method by means of judgment sampling. Hypothesis testing in this study uses regression analysis and path analysis to see the path coefficient of each variable. The results showed that; intellectual capital has an effect on corporate profits, intellectual capital has an effect on stock prices, corporate profits have an effect on stock prices, and intellectual capital has an effect on stock prices through corporate profits.

Keywords: Intellectual Capital, Corporate Profits, Share Price.

1. INTRODUCTION

The development of the business world in highly advanced technology makes a manager in a corporate required to continue to innovate. The easiest way to accelerate this is by changing corporate governance to improve financial and non-financial performance in the corporate. If a corporate is able to change and innovate for the better, the hope is that it can attract stakeholders and shareholders in investing in the corporate. To form a good financial performance, it can be obtained from the maximum management of corporate resources so as to create value added in the corporate which consists of tangible assets and intangible assets that are managed effectively and efficiently. Currently, companies' efforts to create intangible assets rarely report how human resources are measured, this can be by reporting training costs, improving the quality of employees / management because this is an effort to increase the added value of the corporate which is intangible assets. Enhancementquality of employees / management, and indirectly human resources have added value to the corporate (Sawarjuwono and Kadir, 2003) [1].

The quality of intellectual capital has become a necessity in companies in encouraging the development of science-based companies. The phenomenon of intellectual capital began to develop, especially after the emergence of Financial Accountant Standard Statement (PSAK) No. 19 (revised 2000) regarding intangible assets. According to PSAK No. 19, intangible assets are non-monetary assets that can be identified and cannot have a physical form and are owned for use in producing or delivering goods or services, leased to other parties, or for administrative purposes (Ikatan Akuntan Indonesia, 2002) [2]. In 1997 Pulic conducted a research on intellectual capital using the "Value Added Intellectual Coefficient" (VAICTM) (Ulum, 2009) [3].

Considering the importance of intellectual capital for the current rapid economic development in the Indonesian capital market in mobilizing funds in the form of shares, and distributing returns to shareholders, as well as opening access to financial information for companies listed on the capital market today will greatly affect performance. capital market and the ups and downs of a corporate's stock price, this is because investors can easily make economic and financial decisions through the corporate's performance as reflected in the financial statements (Sunarto and Kartika, 2003) [4]. Financial performance can be proxied by Return on Equity (ROE) and Earning per Share (EPS). Good financial performance in generating profits will attract investors and potential investors to invest in the corporate in the form of stocks or other financial instruments. High stocks will make it attractive to investors because investors will get capital gains or dividends. Intellectual capital research with different themes, tries to link intellectual capital with stock returns. This research was conducted by (Muna and Prastiwi, 2014) who said that intellectual capital has a positive effect on stock returns, meaning that human capital is one of the components of intellectual capital in the form of abilities, skills, and knowledge that a corporate uses to produce professional services [5]. Thus superior and quality resources, so that the corporate can exploit to the maximum the ability of its employees properly owned by the corporate. This will increase the added value for the corporate, thereby increasing the performance of the corporate's employees. It is hoped that it can increase stakeholder confidence in the corporate's going concern so that stock returns also increase. The results of this study are different from the research conducted by (Aprilia & Isbanah, 2018) [6] and (Marlinda, 2018) [7] which states that intellectual capital has no effect on stock returns. It is hoped that it can increase stakeholder confidence in the corporate's going concern so that stock returns also increase.

Research has a novelty, namely in terms of measuring the intervening variables used. The intervening variables used by previous studies include (Muna and Prastiwi, 2014) [5], (Aprilia & Isbanah, 2018) [6] and (Marlinda, 2018) [7] are Return On Equity and Earning Per Share, while the intervening variables used by researchers currently use Return On. Equity (ROE). The reason for using Return On Equity is to measure the extent to which the corporate's ability to generate net income for investors or owners of the corporate's shareholder investment using its own capital. The banking sector corporate was chosen as the object of this research because in general, (1) the banking sector is a sector that still distributes its funds to financial assets on the Indonesia Stock Exchange (Jayanti & Binastuti, 2017) [8], (2) the banking sector is also categorized as an intelligence-based or knowledge-based industrial sector that innovates in the form of services and products as well as flexibility and knowledge which are important aspects in determining the success of a corporate in running its business so it will be difficult to assess the influence of intellectual capital on corporate stock return. This study was conducted to examine the effect of intellectual capital on stock returns with profit as an intervening variable in banking companies listed on the Indonesia Stock Exchange for the period 2017-2019. The purpose of this article is to examine the effect of intellectual capital on profits and its impact on the share prices of banking sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. (2) the banking sector is also categorized as an intelligence-based or knowledge-based industrial sector that innovates in the form of services and products as well as flexibility and knowledge which are important aspects in determining the success of a corporate in running a business that has been done so it will be difficult to assess the effect of intellectual capital on the corporate's stock returns. . This study was conducted to examine the effect of intellectual capital on stock returns with profit as an intervening variable in banking companies listed on the Indonesia Stock Exchange for the period 2017-2019. The purpose of this article is to examine the effect of intellectual capital on profits and its impact on the share prices of banking sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. (2) the banking sector is also categorized as an intelligence-based or knowledge-based industrial sector that innovates in the form of services and products as well as flexibility and knowledge which are important aspects in determining the success of a corporate in running a business that has been done so it will be difficult to assess the effect of intellectual capital on the corporate's stock returns. This study was conducted to examine the effect of intellectual capital on stock returns with profit as an intervening variable in banking companies listed on the Indonesia Stock Exchange for the period 2017-2019. The purpose of this article is to examine the effect of intellectual capital on profits and its impact on the share prices of banking sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. This study was conducted to examine the effect of intellectual capital on stock returns with profit as an intervening variable in banking companies listed on the Indonesia Stock Exchange for the period 2017-2019. The purpose of this article is to examine the effect of intellectual capital on profits and its impact on the share prices of banking sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. This study was conducted to examine the effect of intellectual capital on stock returns with profit as an intervening variable in banking companies listed on the Indonesia Stock Exchange for the period 2017-2019. The purpose of this article is to examine the effect of intellectual capital on profits and its impact on the share prices of banking sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period.

2. BASIS OF THEORY AND HYPOTHESIS DEVELOPMENT

2.1. Intellectual Capital

Intellectual capital is important information for investors. The higher the intellectual capital of a corporate, the higher the corporate's power, so that the corporate's prospects will be better. High intellectual capital is a positive signal for investors. Intellectual capital (intellectual capital) is an intangible asset in the form of information and knowledge resources that function to improve competitiveness and improve corporate performance (Widyaningrum, 2004) [9].

2.2. Profit

According to Hansen and Mowen (2001), that profit is operating profit minus taxes, interest costs, research and development costs. Net income is presented in the income statement by juxtaposing revenue and expenses [10]. According to Harahap (2009: 113) "Profit is the excess of income over expenses during an accounting period" [11]. Meanwhile, according to Suwardjono (2008: 464) "Profit is interpreted as a reward for the corporate's efforts to produce goods and services. This means that profit is an excess of income over costs (total costs inherent in production and delivery of goods / services)" [12]. Based on the above understanding, it can be concluded that profit is the excess of income over costs in return for producing goods and services during

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an accounting period.

2.3. Stock price

Determination of stock prices can be done through technical analysis and mental analysis. In technical analysis the stock price is determined based on past stock price records, while in fundamental analysis the stock price is determined on the basis of the fundamental factors that influence it, such as profits and dividends. Technical analysis is a methodology of forecasting stock price movements, either as individual stocks or the market as a whole. The most important thing in technical analysis is that the value of shares is the result of the supply and demand that occurs on the exchange by observing and studying stock price movements at any time, and then estimating the price of shares that should be bought or sold. Fundamental analysis has the assumption that every investor is rational, therefore fundamental analysis tries to study the relationship between stock prices and corporate conditions. Fundamental analysis tries to predict the stock price in the future by means of; (1) estimate the value of the fundamental factors that affect stock prices in the future. (2) apply the relationship of these variables.

2.4. Intellectual Capital has a positive effect on profits

Disclosure of intellectual capital properly and consistently will provide information to investors, this supports the theory of Signaling theory put forward by George Akerlof in 1970. According to (Muna and Prastiwi, 2014) based on the Signaling theory, the information content in the disclosure of information can be a signal for investors and other potential parties in making economic decisions [5]. Thus, the disclosure of intellectual capital can be a signal for investors. This study supports the results of research conducted by Muna and Prastiwi (2014), that intellectual capital has a positive effect on returns [5].

H1: Intellectual Capital has a positive effect on corporate profits.

2.5. Intellectual Capital has a positive effect on stock prices

Investors look more at or see the corporate's fundamental analysis to invest in the corporate. Investors in making decisions or planning prioritize the corporate's fundamental analysis compared to looking at technical analysis or what happens directly in the capital market so that investors who are first seen before placing their funds or investing will see fundamental analysis and financial reports that have occurred in the last five years. As well as seeing the performance of corporate employees in taking decisions to get the benefits that will be obtained after investing in the corporate with good corporate performance will cause profits in the corporate will increase, with increasing corporate profits automatically the profits to be obtained will also be higher.

H2: Intellectual Capital has a positive effect on stock prices.

2.6. Profit has a positive effect on stock prices

Companies that have good intellectual capital will certainly result in good corporate performance, this will certainly affect the level of profit that will be obtained by the corporate. Companies that have high profits will also have an effect on stock prices and will also increase, because an investor's high share price will also benefit. The results of research by Mutia (2012) [13], Paradiba and Nainggolan (2015) [14] found that earnings have an effect on stock prices.

H3: Profit has a positive effect on stock prices.

2.7. Intellectual Capital has an indirect positive effect on stock prices through earnings

Companies that can manage intellectual capital effectively and efficiently can increase the corporate's profits. Companies that have high profit rates will be the main attraction for potential investors. Investors will see the development of profit rates over the last five years. This shows that intellectual capital has an indirect effect on share prices through corporate profits.

H4: Intellectual Capital has an indirect positive effect on stock prices through corporate profits.

3. DATA AND METHODS

To complete the research used quantitative associative way. Associative research is research that aims to determine the relationship between two or more variables. The object of research in banking companies. The population taken from this study is banking companies listed on the Indonesia Stock Exchange, the sample used is banking companies for the 2017-2019 period. The sample technique used in sampling is purposive sampling.

DOI: 10.31695/IJASRE.2021.33987

Table 1. Criteria for Selection of Sample Amount

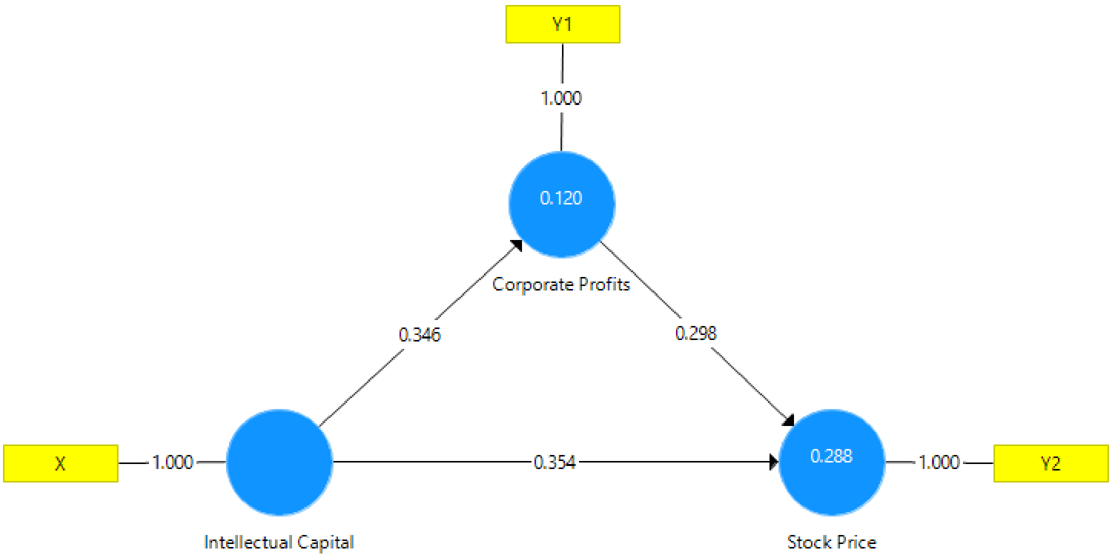
No.	Sample Selection Criteria	Total
1	Companies that consistently for three years reported	43
2	The entity has a negative earnings value	(10)
3	Companies that are listed on the Indonesia Stock Exchange but do not report financial reports	(1)
4	Number of Research Samples	32

The analysis technique used in the research this is Structural Equation Modeling-Partial Least Squares (SEM-PLS). PLS uses path analysis so that it is able to carry out a comprehensive analysis because testing is carried out simultaneously which is not found when using regression analysis tools.

4. RESULTS

4.1. Path Model

Creating a path model is the first step to perform analysis using PLS. The path model is made to provide an overview of the relationship between the intellectual capital variables, corporate profits and share prices. The path model in this study is also used to show the level of significance in hypothesis testing. The path model of this study is presented in Figure 1.



Picture 1. Path Model

Figure 1 shows that intellectual capital has a positive effect on corporate profits by 0.346, intellectual capital has a positive effect on stock price by 0.354, corporate profit has a positive effect on stock price by 0.298. Thus it can be concluded that the exogenous variables in this study have a positive effect on the intervening and endogenous variables.

4.2. Hypothesis test

Hypothesis testing using p-value for each effect. The results of hypothesis testing are presented in the following table.

Table 2. Hypothesis Testing Results Direct Effect

Hypothesis	Variable	Path Coefficients	t-value	p-value	Information
H1	Intellectual capital→ Corporate profits	0.346	4.107	0.000	Significant
H3	Intellectual capital→ Stock Price	0.354	4.660	0.000	Significant
H3	Intellectual capital→ Stock Price	0.298	3.034	0.003	Significant
H4	Intellectual capital→ Corporate Profits → Stock Price	0.103	2.328	0.020	Significant

Source: Processed data.

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Based on the table above, it can be explained as follows:

1) First Hypothesis Testing

The result of the effect of intellectual capital on corporate profits is 0.346 with a t value of 4.107 and a p value of 0.000 (p <0.05) is significant. Thus the first hypothesis which is statedIntellectual Capital has a positive effect on corporate profits statistically tested.

2) Second Hypothesis Testing

The result of the effect of intellectual capital on the stock price of 0.354 with a t value of 4.660 and a p value of 0.000 (p <0.05) is significant. Thus the second hypothesis which statesIntellectual Capital has a positive effect on stock prices statistically tested.

3) Third Hypothesis Testing

The result of the effect of corporate profits on stock price is 0.298 with a t value of 3.034 and a p value of 0.003 (p <0.05) is significant. Thus the third hypothesis which statesprofit has a positive effect on stock prices statistically tested.

4) Fourth Hypothesis Testing

The result of the effect of intellectual capital on stock price through corporate profits of 0.104 with a t value of 2.328 and a p value of 0.020 (p <0.05) is significant. Thus the fourth hypothesis which statesIntellectual Capital has an indirect positive effect on stock prices through corporate profits statistically tested.

5. DISCUSSION

5.1. The Influence of Intellectual Capital on Corporate Profits

Intellectual capital has an effect on corporate profits, which means that the better the management of intellectual capital in the corporate can increase the corporate's profits. Intellectual capital is important to achieve a competitive advantage so that it can increase corporate profits. As the opinion of Harrison and Sullivan (1997) which states that intellectual capital is a corporate's success, it is strongly influenced by the corporate's routine efforts to maximize different organizational values such as increasing profits, acquisition of innovations from other companies, consumer loyalty, reducing costs and productivity improvements [15]. Intellectual capital is a corporate asset that can be assessed and can be managed so that it can generate profits.

Companies that are able to manage organizational resources well will create a competitive advantage. By emphasizing the corporate's ability and structure that supports employees' efforts to produce optimal intellectual performance and overall business performance, for example the corporate's operational system, manufacturing processes, organizational culture, management philosophy and all forms of intellectual property owned by the corporate. Good management of the corporate's structural capital will have an impact on efficient production processes and are able to reduce unused production costs, thereby increasing the corporate's profit from assets. The results of this study are supportive Muna and Prastiwi (2014) [5], as well as Halim and Basri (2016) [16], who state that intellectual capital has a positive influence on stock prices.

5.2. The Influence of Intellectual Capital on Stock Prices

Intellectual capital has an effect on stock prices. This shows that companies that use their resources efficiently and effectively are able to generate competitive advantages. This competitive advantage is what makes the corporate superior compared to other companies. In addition, it can increase market perceptions of the corporate because the competitive advantage it has has a direct effect on better corporate performance. With the increase in market perceptions on the corporate will provide value for the corporate, so that the corporate's stock price has increased. Intellectual capital is a unique resource that is capable of creating a competitive advantage for a corporate and thereby increasing share prices.

Companies need to apply science-based management considering that this is a corporate asset that is indispensable for the corporate's success. By using science and technology, it will be possible to obtain how to use other resources efficiently and economically which will provide a competitive advantage. Intellectual Capital includes all knowledge of employees, the organization and their abilities to create added value and lead to sustainable competitive advantage. Intellectual Capital is identified as a set of intangible assets such as resources, capabilities, and competencies that drive organizational performance and value creation. Intellectual property that is managed efficiently by the corporate will increase market appreciation of the corporate's market value so that it can increase the share price. The results of this study support Muna and Prastiwi (2014) [5] and Halim and Basri (2016) [16] who state that intellectual capital has an effect on stock prices. However, the results of this study do not support Aprilia and Isbanah (2018) [1] and (Marlinda, 2018) [7] which state that intellectual capital has no effect on stock returns.

DOI: 10.31695/IJASRE.2021.33987

Effect of Corporate Profits on Stock Prices

Corporate earnings have an effect on stock prices, which means that higher corporate profits can increase stock prices. This shows that the corporate's high profit contains important information for investors, so that investors are interested in investing their shares in the corporate, thereby increasing the stock price.Corporate profit is one of the financial information used to measure the corporate's performance in a certain period. According to Harahap (2009), profit is an excess of income over expenses during an accounting period [11]. Earnings information is also used to predict future changes in earnings. Corporate profit is one of the main goals of the corporate in carrying out its activities. The profit earned by the corporate is used for various purposes, one of which is to improve the corporate's welfare. High profits can determine how the performance of a corporate and will also affect the corporate's profits in the future.

The corporate's net profit is one of the factors that investors see in the capital market to make choices in investing. One of the ways that investors can invest their funds is by buying shares. For companies, maintaining and increasing net income is a must so that stocks continue to exist and remain attractive to investors. The results of this study support Mutia (2012) [13] and Paradiba and Nainggolan (2015) [14] which state that earnings have an effect on stock prices.

The Influence of Intellectual Capital on Stock Prices through Corporate Profits

Intellectual capital affects stock prices through corporate profits, which means that well-managed intellectual capital can increase share prices, if corporate profits increase. Intellectual capital is a very valuable asset for a corporate, it poses a challenge for accountants to identify, measure and disclose it in financial reports. Information about the profits obtained by the corporate which is reflected in the financial statements will cause a reaction to the corporate's share price. If the profit earned by the corporate is high, then the dividends that will be distributed to shareholders are also high so that many investors are interested in investing in the corporate. Conversely, if the profits obtained by the corporate are low,

Investors have an interest in the corporate's ability to generate corporate profits. Investors expect to be able to predict dividends and changes in the corporate's stock market price well, because dividends are influenced by corporate profits, then corporate profits in the past are the most logical yardstick in predicting corporate profits in the future. To find out the resulting performance, profit can be one of the parameters. Profit describes as a whole about the state of the corporate and the success of the corporate's operations in a certain period, because profit comes from elements such as income and expenses related to the corporate's operating activities. Profits have information potential and predictor tools, profit is believed to be a reliable tool for its users as a basis for making economic decisions, especially to reduce the risk of uncertainty. Therefore, information on earnings is information that users of financial statements can rely on in evaluating corporate performance and is useful for making economic decisions such as investment decisions. Profit is an advantage of capital investment and is important information for investors to know the corporate's development.

6. CONCLUSIONS AND SUGGESTIONS

6.1. Conclusion

Based on the discussion, it can be concluded as follows:

1. Intellectual capital has an effect on corporate profits, which means that the better intellectual capital management can increase the corporate's profits.
2. Intellectual capital has an effect on stock prices, which means that the better intellectual capital management can increase the stock price.
3. Corporate profit has an effect on stock prices, which means that higher corporate profits can increase stock prices.
4. Intellectual capital has an effect on stock prices through corporate profits, which means that good intellectual capital can increase stock prices, if corporate profits increase.

6.2. Suggestion

Based on the research results that have been concluded above, the author tries to provide suggestions that are expected to provide useful benefits for the corporate and further researchers in the future. The suggestions are as follows:

1. It is hoped that the corporate can re-evaluate the amount of revenue and expenses so that the profit obtained is more optimal. This can be done by reducing the amount of expenses that must be issued so that the amount of income received will show a value greater than the amount of expenses that must be incurred. In addition, the corporate is also expected to be able to better read and analyze overall economic conditions, not only focusing on improving the corporate's fundamental condition or performance, because it is suspected that investors will also consider other factors as a reference in investing which will affect the stock market price itself.

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2. For further researchers, it is hoped that they can carry out research that is development and improvement in nature from this research, so that they can add insight and knowledge about the same problem with the same or different research methods and are expected to be able to examine other variables that can affect share prices besides intellectual capital and corporate profits.

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