

ANALYSIS OF THE INFLUENCE OF INTELLECTUAL CAPITAL AND CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE

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Abstract

This study aims to examine and analyze the effect of intellectual capital and corporate governance on financial performance. This paper presents a new spectrum and recommendation to stakeholders. Previous research related to this already exists, but however, the results are not consistent. This study uses a method developed by Public, namely Value Added Intellectual Capital Efficiency, as an indicator for measuring intellectual capital, and uses three indicators of corporate governance, namely managerial ownership, proportion of independent commissioners, and proportion of independent audit committee. The sample used in this study were 28 manufacturing companies in the consumer goods industry sector listed on the IDX. The results of this study indicate that intellectual capital and the proportion of independent commissioners have a positive and significant effect on the company's financial performance; managerial ownership has a negative and significant effect on the company's financial performance; and the proportion of independent audit committee has a positive effect on the company's financial performance, but the effect is not significant.

Keywords: Intellectual Capital; Good Corporate Governance; Financial Performance.

INTRODUCTION

In this twenty-first century where technology continues to develop rapidly and modernly, the business world is becoming increasingly competitive, where knowledge is the main concern, thus changing the current business strategy, which was originally based on labor (labor-based business). Become a knowledge-based business. Currently, both the business world and researchers are focusing on intellectual capital, namely knowledge in a company that is able to create value when used in line with the company's mission, vision, and goals. Intellectual capital consists of employee knowledge and experience, databases and information systems, business relationships, and alliances (Saunders, 2016 in Buallay et al., 2019). And since the start of the ASEAN Economic Community (AEC), companies must be able to utilize their resources more effectively and efficiently in order to compete and create sustainable value (Pratama, 2016 in Hatane et al., 2017). Hence, intellectual capital management is considered a competitive strategic resource in today's knowledge-based economy. Based on many previous studies, it is stated that intellectual capital adds value to the company by increasing the exchange of knowledge and the creation of new knowledge. In addition, various studies have also found that intellectual capital positively affects firm performance and wealth (Celenza, 2014; Singh et al., 2016; Inkinen, 2015, Zerenler, 2008; Phusavat et al., 2011 in Buallay et al., 2019).

However, even so, there are problems in managing and controlling intellectual capital within the company, due to its complexity and diversity. If intellectual capital is not managed properly,

then its value-added capacity will not be fully utilized (Van, 2001 in Buallay et al., 2019). One way for companies to manage intellectual capital effectively is by implementing good corporate governance to ensure that managerial decisions are made to increase shareholder interest through the efficient use of intellectual capital. According to Keenan and Aggestam (2001) in Hatane et al. (2017), corporate governance is responsible for creating, developing, and enhancing intellectual capital. Thus, companies that have good corporate governance will also improve company performance and ultimately increase the value of the company in the eyes of shareholders. Previous research related to this already exists, but however, the results are not consistent.

Talking about corporate governance, in the last few decades, corporate governance itself has also become a public concern due to various scandals and the collapse of large companies such as Enron, Tyco, Xerox, and WorldCom, which are due to the lack of efficient mechanisms for governance. Corporate governance leading to unethical business practices. The scandals and collapses of these large companies illustrate that corporate governance is one of the important elements in achieving the success of a company, improving performance, creating corporate value, and detecting fraudulent practices within the company. In addition, companies that realize the importance of corporate governance practices and take the initiative to implement them, not just fulfilling mandatory requirements, will gain additional benefits from investors (Aggarwal & Williamson, 2006 in Bansal & Sharma, 2016). So that firm, efficient, and transparent corporate governance is the key to company profitability, growth, and stability (Bansal & Sharma, 2016).

In today's knowledge-based economy, corporate governance is also increasingly prominent because the competitiveness of the business world in all sectors, both nationally and internationally, is increasingly competitive. For this reason, intellectual capital and corporate governance are two important and interrelated things, which if processed and implemented effectively will provide a competitive advantage and added value for companies in today's knowledge-based economy.

Thus, in this study the author will analyze the influence of intellectual capital and corporate governance on the company's financial performance. The consumer goods sector in the manufacturing industry has been chosen as the object in this study because the Indonesian economy is dominated by household consumption expenditures. Based on data from the Central Statistics Agency (2020), more than half of Indonesia's GDP comes from household consumption expenditure, which is 58.14% in the first quarter of 2020, 57.85% in the second quarter of 2020, and 57.31% in the third quarter of 2020. These results indicate a decrease in the contribution of household consumption to Indonesia's GDP every quarter which is none other than the Covid-19 pandemic that is currently engulfing the world, which not only affects the Indonesian economy, but also the global economy. When viewed from the growth rate of household consumption expenditures for food and beverages (other than restaurants) in the first quarter of 2020, there was an increase of 0.93% when compared to the fourth quarter of 2019 which was only -0.74%. Food and drink is increasing, considering it is a priority human need. However, in the second quarter of 2020, the growth rate of spending on food and beverages

decreased by -3.96%, and rose again in the third quarter of 2020 by 3.30%. On the other hand, the growth rate of household consumption expenditure on housing and household equipment also declined at the beginning of the pandemic, namely in the first quarter of 2020 it decreased by -0.46%, compared to the fourth quarter of 2019 of 1.67%. And in the third quarter of 2020, the growth rate of spending on household appliances increased dramatically by 0.96%, compared to the second quarter of 2020 which was only -0.21%. (BPS, 2020). When viewed in terms of the growth rate of the food and beverage industry, in the third quarter of 2020 there was an increase of 4.23%, compared to the previous quarter which was only 1.87%. The growth rate of the pharmaceutical industry also increased in the third quarter of 2020, which was 5.69%, compared to the previous quarter which was only 2.87% (BPS, 2020).

LITERATURE REVIEW AND HYPOTHESES

Stakeholder Theory

According to (Ghozali and Chariri, 2014), stakeholder theory is a theory which states that a company is not an entity that only operates for its own interests, but must provide benefits to all its stakeholders (shareholders, creditors, consumers, suppliers, government, society). The variables used relate to the parties with an interest in the interests of the company, so the researcher uses stakeholder theory as a grand theory in this study. Stakeholders are divided into two types, namely primary stakeholders and secondary stakeholders. Primary stakeholders are parties who have an economic interest in the company and bear the risk. Included in the primary stakeholders are investors, creditors, employees, government, and local communities. Secondary stakeholders have an influence on the company's image, but the survival of the company is not influenced by this stakeholder group.

Agency Theory (Agency Theory)

Agency is a contract between management (agent) and shareholders (principal) to do the work and then delegate decision-making authorization to the agent. Shareholders (principals) in this case demand accountability from the management (agents) through reporting financial and non-financial information of the company. Agency theory also implies that there is information asymmetry between managers as agents and owners as principals. work and represent stakeholders in making decisions regarding activities company Jensen & Meckling (1976).

Intellectual Capital

Brooking (1996) in Forte et al (2019) defines intellectual capital as a combination of intangible assets from the market, intellectual property, which is human-centered and the infrastructure that enables the company to function. According to Edvinsson and Malone (1997) in Forte et al (2019), intellectual capital refers to the ownership of knowledge, applied experience, organizational technology, customer relations and professional skills that provide a competitive advantage for companies in the market. So it can be concluded that intellectual capital is an asset in the form of knowledge or thinking power owned by the company, which does not have a physical form (intangible), and with the intellectual capital, the company will get additional profits and give the company an added value compared to competing companies.

Intellectual capital consists of three main components, namely human capital, structural capital, and relational capital (Sardo & Serrasqueiro, 2017). The first component of intellectual capital, namely human capital is a source of innovation and development for the company, includes human resources and includes things such as education, knowledge, skills, competencies, motivation, and experience developed by employees and they take with them when they enter the company.

Human resources can be transferred and do not belong to a particular organization because employees are considered the owners of human capital (Roos et al., 1998 in Nazari & Herremans, 2007). Structural Capital describes the basic structure of the company that supports employees in achieving optimal intellectual performance and overall business performance, and supports managers in maintaining beneficial relationships with key external stakeholders. Human resources (HC) are the main factors for developing structural capital (SC), so it can be said that structural capital "depends" on human capital (Nazari & Herremans, 2007). However, structural capital is knowledge that remains in a company even when employees leave the company (Ordonez De Pablos, 2004; Roos et al., 1998 in Nazari & Herremans, 2007), therefore, the company is the main owner of structural capital. Thus, although it is influenced by human capital, structural capital exists objectively and independently of human capital (Chen, J. et al., 2004 in Nazari & Herremans, 2007).

There are two important elements in structural capital, namely intellectual property and infrastructure assets. Intellectual property is protected by intellectual property laws such as patents, copyrights and trademarks. While infrastructure assets are elements of intellectual capital that can be created within the company or owned by companies from outside such as corporate culture, management processes, information systems, network systems, etc. Relational capital includes all assets and resources involved in developing and managing good relationships between companies and external entities, including formal business collaborations and all other informal relationships with stakeholders such as customers, suppliers, banks, and non-profit organizations (Ahmadi et al., 2012; Sardo and Serrasqueiro, 2018; Smriti and Das, 2018 in Forte et al., 2019).

Corporate Governance

Cadbury (1992) in Rashid (2008) suggests that corporate governance is related to the creation of shareholder value by effectively utilizing company assets. According to Morin and Jarrell (2001) in Rashid (2008), corporate governance is a framework that controls and protects the interests of various parties in the market. Good corporate governance serves to maximize shareholder value legally, ethically and sustainably, while ensuring equality and transparency for all stakeholders - customers, employees, investors, company partners, governments, and society (Murthy, 2006 in Shil, 2008).

Corporate governance is a must in a company to ensure the creation of the values needed for various stakeholder groups. The importance of corporate governance in the company arises because of the separation of ownership between those who control and those who have residual claims (Epps & Cereola, 2008 in Chaghadari & Chaleshtori, 2011). The separation of

ownership is often explained by agency theory which states that the separation of ownership in a company can motivate managers, who act as agents, to take over company assets in a way that affects the wealth of shareholders (principal) (Reddy et al., 2010). So agency theory suggests GCG as a mechanism to reduce agency conflict by monitoring manager performance and aligning management goals with stakeholders (Brickley & James, 1987 in Chaghadari & Chaleshtori, 2011).

Thus, the main function of corporate governance (GCG) is as a means of monitoring/monitoring management performance and as a guarantee of management accountability to stakeholders based on a certain regulatory framework. Thus, the purpose of corporate governance is to demonstrate management transparency and accountability in meeting the expectations of all stakeholders, by using resources efficiently and being accountable for the management of these resources. There are various indicators available to ensure managers act in the interests of shareholders. This indicator is classified into two, namely internal and external indicators. Internal indicators such as ownership by managers and the board, board independence, board size and board committee formation, while external indicators, such as block ownership, level of debt financing, market for corporate control, and product market competition (Barnhart and Rosenstein, 1998; Denis, 2001 in Reddy et al., 2010). This study only focuses on three internal indicators, namely managerial ownership, independent commissioners, and independent audit committees.

According to the National Committee on Governance Policy (KNKG) on the General Guidelines for Corporate Governance in Indonesia (2006), to achieve business sustainability, companies must apply the principles of GCG, namely Tariffs (Transparency, Accountability, Responsibility, Independence, and Fairness) in every aspect of business and in all areas. Company ranks.

1. Transparency (Openness)

Transparency contains elements of disclosure and the provision of material and relevant information, and is easily accessible and understood by stakeholders so that objectivity in running the business is maintained (National Committee on Governance Policy, 2006).

2. Accountability (Accountability)

Accountability contains elements of clarity of functions within the organization and how to account for them. Companies must be able to account for their performance in a transparent and fair manner. For this reason, the company must be managed properly, measurably and in accordance with the interests of the company while taking into account the interests of shareholders and other stakeholders. (National Committee on Governance Policy, 2006).

3. Responsibility

Companies must comply with laws and regulations and carry out their responsibilities to the community and the environment so that long-term business continuity can be maintained and be recognized as a good corporate citizen (National Committee on Governance Policy, 2006).

4. Independence

Companies must be managed independently so that each organ of the company does not dominate each other and cannot be intervened by other parties (National Committee on Governance Policy, 2006).

5. Fairness (Fairness and Equality)

In carrying out its activities, companies must always pay attention to the interests of shareholders and other stakeholders based on the principles of fairness and equality (National Committee on Governance Policy, 2006).

Financial Performance

One of the factors to assess the effectiveness and efficiency of a company in achieving its goals is through the company's performance (Pertiwi & Pratama, 2012). The effectiveness of the company is seen from the ability of management to make the right decisions in order to achieve company goals. While the company's efficiency is seen from the comparison between income and expenses, namely with certain expenses, what is the optimal income that can be obtained by the company. The company's performance also shows the amount of utility generated by the company for all its stakeholders. The more the performance of a company increases, the satisfaction of stakeholders with the company also increases. So, company performance describes a company's ability to manage and control all its resources to achieve company goals, namely to earn profits.

There are several ways that can be used to evaluate company performance, one of which is through financial statement analysis, which uses traditional accounting measures based on the relationship between financial statement items (Hunton et al., 2003). This study uses Return on Assets (ROA) as a measure of company performance. Since ancient times, ROA is often used by researchers as a measure of company performance starting from Balakrishnan et al., 1996; Barber and Lyon, 1996; Barua et al., 1995; Bharadwaj, 2000; Hitt and Brynjolfsson, 1996; and Weill, 1992. Since ROA combines profitability and firm efficiency (Skousen et al., 1998 in Hunton et al., 2003), ROA tends to be a useful indicator of overall performance.

Framework

This study will analyze four hypotheses that will be formulated in the development of the hypotheses below. The following illustrates the rationale underlying this research in Figure 1.

Framework

This study will analyze four hypotheses that will be formulated in the development of the hypotheses below. The following illustrates the rationale underlying this research in Figure 2.1.

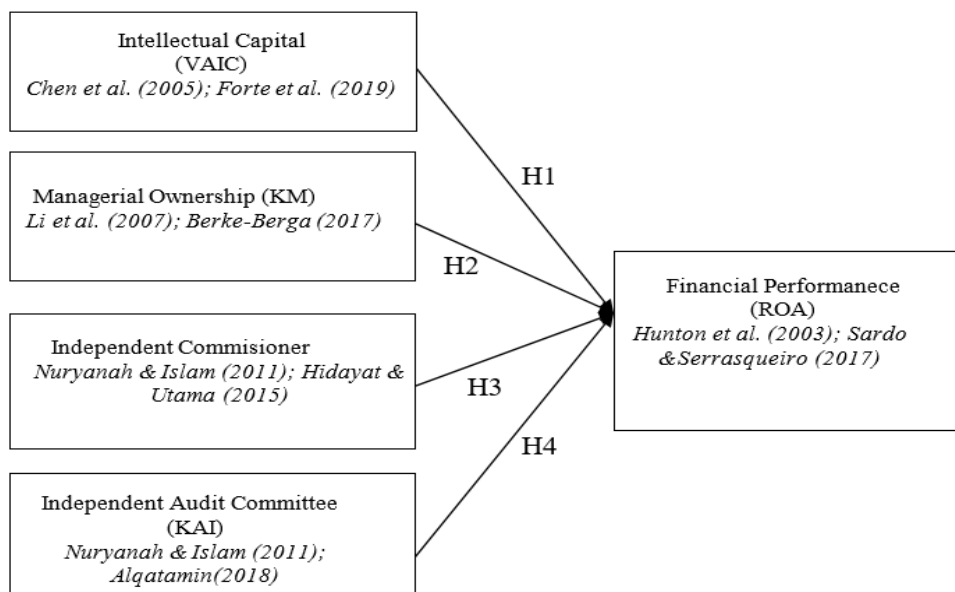


Figure 1: Research framework
Processed by the Author

Hypothesis 1 will analyze the effect of intellectual capital which is calculated using VAIC (Value Added Intellectual Capital Efficiency) and on financial performance which is calculated using Return on Assets (ROA). Hypothesis 2 will analyze the effect of the first corporate governance indicator, namely Managerial Ownership (KM) on financial performance (ROA). Hypothesis 3 will analyze the effect of the second indicator of corporate governance, namely the Independent Commissioner (KI) on financial performance (ROA). And hypothesis 4 will analyze the effect of the last corporate governance indicator, namely the Independent Audit Committee (KAI) on financial performance (ROA).

The Effect of Intellectual Capital on Financial Performance

According to the Resource-based View (RBV) theory, intellectual capital resources such as skills, competencies, knowledge and experience can be considered as scarce, firm-specific and difficult to imitate strategic resources, which are the main drivers of competitive advantage and firm financial performance (Ahangar, 2011; Zéghal and Maaloul, 2010 in Forte et al., 2019). As also stated by Rahman and Ahmed (2012) in Forte et al. (2019), intellectual capital represents the most valuable asset of a company which is also considered responsible for increasing returns. Companies that have human capital with high ability, competence, and commitment will increase productivity and efficiency both individually and collectively, thereby increasing the company's ability to generate profits. Structural capital reflects the ability of the system, structure, strategy, and corporate culture to meet market demands and achieve organizational goals. If the company has good structural capital, it will certainly facilitate the achievement of organizational targets including company profitability. Thus, the three main components of intellectual capital, namely human capital, structural capital and

relational capital, must be utilized optimally in order to create superior intellectual capital, which in turn will improve company performance.

Many previous studies have investigated the influence of intellectual capital on firm performance in various countries and industries. The majority of these studies show a positive and significant influence of intellectual capital on company performance. Chen et al. (2005) examined the relationship between VAIC and the performance of firms listed on the Taiwan Stock Exchange between 1992 and 2002, and the results also show that there is a significant positive relationship between intellectual capital and firm performance across four different performance proxies. Using a large sample of listed non-financial companies from 14 countries in Western Europe, Sardo and Serrasqueiro (2017) also find a significant and positive relationship between intellectual capital and financial performance and market value. Forte et al. (2019) investigates the effect of intellectual capital on 135 companies listed on the Italian Stock Exchange for the period 2008 to 2017, and the results also show that there is a significant positive relationship between intellectual capital and firm performance as calculated using ROA. On the other hand, Firer & Williams (2003) investigated the relationship between intellectual capital and performance of 75 companies listed on the Johannesburg Stock Exchange, but failed to find a strong relationship between the main components of VAIC and the company's financial performance.

Based on the research above whose results have not been consistent, this study formulates the following hypothesis:

H1: Intellectual capital has a positive effect on financial performance.

The Effect of Corporate Governance on Financial Performance

Oman (2001) in Shil (2008) also argues that corporate governance improves a company's financial performance by creating an environment that motivates managers to maximize return on investment, improve operational efficiency and ensure long-term productivity growth. Corporate governance also ensures the alignment of the company with the interests of investors and society, by creating fairness, transparency and accountability in business activities among employees, management and the board. This study uses three indicators of corporate governance, namely managerial ownership, independent commissioners, and independent audit committees.

Effect of Managerial Ownership on Financial Performance

Managerial ownership is seen as an appropriate control mechanism to reduce agency conflicts that cause high agency costs. Jensen and Meckling (1976) in Mukhtaruddin et al. (2014) suggested that one way to reduce agency costs is to increase management's share ownership. The proportion of shares controlled by managers can influence company policy. Managerial ownership will align the interests of management and shareholders, so that managers will directly benefit from the decisions taken and bear losses as a consequence of making wrong decisions (Aryani et al., 2010 in Mukhtaruddin et al. 2014). Thus, the interests of managers and shareholders will be aligned and will have a positive impact on improving the company's

financial performance. Li et al. (2007) found that managerial ownership has a positive and significant effect on firm performance. Berke-Berga et al. (2017) analyzed the effect of managerial ownership on the financial performance of companies listed on the Baltic Stock Exchange and found a positive and significant relationship between the two. Widhiadnyana & Ratnadi (2019) analyzed the effect of managerial ownership on financial distress (financial distress) and found a negative and significant relationship between the two, which means that the higher the managerial ownership in the company, the lower the financial difficulties. On the other hand, Jusoh et al. (2013) found that managerial ownership has a negative and significant effect on company performance. Mandaci & Gumus (2010) also found an insignificant effect of managerial ownership on company performance. Based on the research above whose results have not been consistent, this study formulates the following hypothesis:

H2: Managerial ownership has a positive effect on financial performance.

The Influence of Independent Commissioners on Financial Performance

The board of commissioners plays an important role in the implementation of GCG. The board of commissioners is the center of the company's resilience and success which is tasked with ensuring the company's strategy, requires accountability and is responsible for overseeing management in increasing efficiency, competitiveness and company value (Mukhtaruddin et al. 2014). This research emphasizes more on the independent board of commissioners, namely commissioners who come from outside the company. Agency theory states that the ability of the board of commissioners in an effective supervisory mechanism depends on its independence from management (Beasley, 1996 in Widhiadnyana & Ratnadi, 2019). Having a commissioner from outside the company (independent commissioner) can increase the effectiveness of the board of commissioners in supervising management to prevent fraudulent financial statements and can mediate issues raised and act as management advisors, so as to create a company with good corporate governance. Research conducted by Nuryanah & Islam (2011) shows that the proportion of independent commissioners has a significant and positive effect on company performance. Hidayat & Utama (2015) also found that the proportion of independent commissioners had a positive and significant effect on company performance as measured by Tobin's Q and ROA. So this study also predicts a positive relationship between the proportion of independent commissioners on the company's financial performance, by proposing the following hypothesis:

H3: The proportion of independent commissioners has a positive effect on financial performance.

The Influence of the Independent Audit Committee on Financial Performance

The existence of an audit committee is also very much needed in the implementation of GCG. An audit committee is formed, elected, and dismissed by the board of commissioners. The audit committee is considered important to maintain transparency in a company. If the audit committee can carry out its functions properly, the transparency of the company's management obligations as outlined in the financial statements will be more reliable (Mukhtaruddin et al. 2014). Members of the audit committee are also part of the board of directors, considering that

the audit committee is chaired by one of the independent directors of the company concerned. So that the responsibility of the audit committee is also aligned with the board of directors, which is responsible for formulating strategies to improve the company's financial health. So, if the audit committee presents financial statements in accordance with the actual state of the company, the board of directors can formulate effective strategies to improve company performance. Nuryanah and Islam (2011) state that independent audit committees improve the quality of audit reports and improve company performance. Alqatamin (2018) analyzed the relationship between audit committee independence and company performance as measured using ROA in 165 companies listed on the Amman Stock Exchange and found that audit committee independence had a significant and positive effect on company performance. On the other hand, research conducted by Al-Matari et al. (2012) found an insignificant relationship between the independence of the audit committee and the company's performance. Based on the research above, the results are not consistent, so this study formulates the following hypothesis:

H4: The proportion of independent audit committee has a positive effect on financial performance.

RESEARCH METHODOLOGY

The population in this study are manufacturing companies in the consumer goods industry which are listed on the Indonesia Stock Exchange (IDX) during the 2015-2019 period and which have published financial statements for the relevant period. The sample in this study was determined by purposive sampling method, namely the method of collecting samples by determining certain limitations or considerations. From a population of 43 companies, which meet the criteria for being a sample in this study, 28 manufacturing companies in the consumer goods industry sector are listed on the Indonesia Stock Exchange in the 2015-2019 period. So the total sample in this study was 140 samples.

Dependent Variable

In this study, there is only one dependent variable that is influenced by the independent variable or independent variable, namely the company's financial performance which is calculated using ROA. Financial performance is the ability of a company to manage and control all its resources to achieve company goals. Financial performance in this study is calculated using Return on Assets (ROA). ROA can evaluate the company's performance and reflect the level of efficiency in using assets to gain profits (Firer and Williams, 2003; Chen et al. 2005).

ROA can be calculated as follows:

$$ROA = (\text{Net profit}) / (\text{Total assets})$$

Independent Variable

Intellectual Capital

Intellectual capital in this study is proxied by Value Added Intellectual Capital Efficiency (VAIC). VAIC is a method that allows management, shareholders and related stakeholders to monitor and evaluate the efficiency of the company's value added. The Value Added

Intellectual Coefficient (VAIC) consists of three efficiency inputs, namely Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), and Capital Employed Efficiency (CEE). The VAIC calculation consists of several stages, which are as follows (Smriti & Das, 2018):

1. VA (Value Added) = OP + EC + D + A, where OP is operating profit, EC is employee costs, D is depreciation expense, and A is amortization expense).
 2. HCE (Human Capital Efficiency) = VA/HC, where HC is the wages and salaries of employees.
 3. SCE (*Structural Capital Efficiency*) = SC/VA, dimana SC merupakan selisih antara VA dan HC.
 4. CEE (Capital Employed Efficiency) = VA/CE, where CE is the capital used, which is measured by the number of assets less short-term liabilities.
4. VAIC (*Value Added Intellectual Capital Efficiency*) = HCE + SCE + CEE

$KM = (\text{Total shares owned by management}) / (\text{Total shares outstanding at the end of the year})$

Apart from several weaknesses of VAIC, one of them is related to HC calculation which involves treating employee costs as an investment and SC calculation which can be fundamentally related to operating margin accounting measures (Dženopoljac et al., 2016; Smriti and Das, 2018 in Forte et al., 2019), VAIC also has many advantages. First, VAIC is based on simple calculations. Second, the size of the VAIC and its components is based on data from financial statements, which are reliable and have been audited. Third, because it is based on ratios, VAIC provides quantitative and standardized measures that allow easy comparisons between firms (Firer and Williams, 2003).

Corporate Governance

According to agency theory, managerial ownership serves as a direct incentive for managers to act in the interests of shareholders (Kamardin & Haron, 2011 in Hatane et al., 2017). By holding part of the company's ownership, managers will focus on the long-term value of the company and make investments that increase long-term value, such as intellectual capital investment (Saleh et al., 2009 in Hatane et al., 2017). Therefore, a larger percentage of shares owned by managers will help align the interests of managers and shareholders' interests. Managerial ownership is measured by dividing the shares owned by the board with the total common shares outstanding (Kamardin & Haron, 2011; Noradiva et al., 2016; Saleh et al., 2009 in Hatane et al., 2017).

$KM = (\text{Total shares owned by management}) / (\text{Number of shares outstanding at the end of the year})$

The Independent Commissioner functions to provide an objective and independent assessment that can be considered by the board of directors in making decisions (Beasley, 1996 in Arifin, 2017). The inclusion of commissioners from outside the company (independent commissioners) increases the effectiveness of the board of commissioners in supervising

management to prevent fraudulent financial statements (Beasley, 1996 in Arifin, 2017). The proportion of Independent Commissioners in this study is the percentage of the number of commissioners from outside the company (independent) to the total number of commissioners (Eng & Mak, 2003 in Arifin, 2017), as follows:

$$KI = (\text{Number of independent commissioners}) / (\text{Number of commissioners})$$

The role of the auditor is very important in applying the principles of corporate governance and increasing the value of a company. The principles of corporate governance suggest that auditors should work independently and carry out their duties in a professional manner. The establishment of an Audit Committee in a company is intended to empower commissioners in carrying out their supervisory functions (Arifin, 2017). An effective audit committee will help create transparency and quality of financial reporting, compliance with applicable regulations, and adequate internal control (Coleman, 2007 in Arifin, 2017). The Audit Committee is a mechanism that influences corporate governance to improve the quality of management and financial performance of the company (Tricker, 1994 in Arifin, 2017). In this study, the proportion of the Independent Audit Committee is the percentage of independent audit committee members held by the company (Coleman, 2007 in Arifin, 2017), as follows:

$$KAI = (\text{Number of independent audit committees}) / (\text{Number of audit committee members})$$

Research Model

The purpose of this study focuses on evaluating the influence of intellectual capital and corporate governance on the company's financial performance. This study uses multiple linear regression analysis and uses a one-tailed model equation. One-tailed model is a one-way model, because it only considers individual effects in the research model. To test the hypothesis, this study only has one model that analyzes the relationship between intellectual capital (VAIC) and corporate governance, which consists of three indicators, namely managerial ownership, the proportion of independent audit committees, and the proportion of independent commissioners on financial performance calculated using ROA. . The following is the model in this study:

$$ROA = + 1VAIC + 2KM + 3 KAI + 4KI + 5CR + 6DER + e \quad (1)$$

Where,

ROA: Return on Assets

VAIC: Value Added Intellectual Capital Efficiency KM: Managerial Ownership

KAI: Proportion of Independent Audit Committee KI: Proportion of Independent Commissioners CR : Current Ratio

DER: Debt to Equity Ratio

: Constant

1-β6: Parameter coefficiente : Standard error

RESEARCH RESULTS AND DISCUSSION

Descriptive statistics

Based on the results of statistical processing using Stata Ver.14 software, the following descriptive statistical results are presented which include the average, standard deviation, minimum value, and maximum value of all variables in Table 1.

From the table Table 1 it can be explained that ROA as the dependent variable has the highest value (max) of 0.5267035 (52.67%) owned by PT Multi Bintang Indonesia Tbk, and the lowest value (min) of 0.0005258 (0.053%) owned by PT Sekar Bumi Tbk, with an average (mean) of 0.1182299, and a standard deviation of 0.1032344. The higher the ROA value of a company, the better the company's performance in generating net income.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	140	0.1182299	0.1032344	0.0005258	0.5267035
VAIC	140	4.626186	2.283233	2.139632	11.41783
KM	140	0.0633486	0.1547127	0	0.818
KAI	140	0.9905	0.0499111	0.67	1
KI	140	0.4189929	0.1062888	0.333	0.8
CR	140	2.825695	1.885429	0.58422	9.27653
DER	140	0.7840878	0.6391142	0.0761251	2.909487

Source: IDX secondary data processed with Stata

The first independent variable, VAIC, has the highest value (max) of 11.41783 owned by PT Multi Bintang Indonesia Tbk, and the lowest value (min) of 2.139632 is owned by PT Nippon Indosari Corpindo Tbk, with an average (mean) of 4.626186, and standard deviation of 2.283233. The higher the VAIC value, the higher the efficiency of value creation by the company through its intangible assets. KM (Managerial Ownership) has the highest value (max) of 0.818, namely from PT Industri Jamu and Pharmacy Sido Muncul Tbk, and the lowest value (min) of 0, which means that neither board member nor management owns company shares. KM has an average (mean) of 0.063, and a standard deviation of 0.154. KAI (Independent Audit Committee) has the highest score (max) of 1, which means that all members of the audit committee in the company are independent/external parties who are not affiliated with the company, and the lowest score (min) of 0.67 is owned by PT Tempo Scan Pacific Tbk. KAI has an average (mean) of 0.9905, and a standard deviation of 0.049. KI (Independent Commissioner) has the highest value (max) of 0.8, which belongs to PT Unilever Indonesia Tbk, and the lowest value (min) of 0.333. In OJK Regulation No.10/POJK.04/2018 Article 21(3), it is stated that the number of Independent Commissioners must be at least 30% (thirty percent) of the total members of the Board of Commissioners, so that when viewed from the lowest value of the KI variable, namely 0.333, indicating that all of the sample companies in the study have complied with the OJK regulations. KI has an average (mean) of 0.418, and a standard deviation of 0.106.

Table 2: Model Validity

Number of obs	140
F (6, 133)	39.00
Prob > F	0.0000
R-squared	0.6349
Root MSE	0.29237

Source: IDX secondary data processed with Stata Ver.14

Based on Table 2 above, the results of the F test that have been carried out on the model in this study show significant results because the results are less than 5%, which is 0%. This means that all variables independent in this study simultaneously has a significant effect on the dependent variable ROA. The R-squared value in this research model is 0.6349, which means that all independent variables in this study can explain the dependent variable ROA of 63.49%, and the remaining 36.51% is explained by other variables outside this research model.

Hypothesis Testing

From the results of the research data regression, the following results were obtained:

Table 3: Regression Results

bc_ROA	Coef.	Robust Std. Err.	t	P > t	[95% Conf. Interval]	
VAIC	0.1358048	0.0129849	10.46	0.000	0.1101211	0.1614885
KM	-0.4355831	0.1327733	-3.28	0.001	-0.6982035	-0.1729627
KAI	0.1480582	0.7749743	0.19	0.849	-1.384811	1.680927
KI	1.377024	0.2520772	5.46	0.000	0.8784254	1.875623
CR	0.0721723	0.0169549	4.26	0.000	0.0386362	0.1057084
DER	-0.2044681	0.0643681	-3.18	0.002	-0.3317858	-0.0771505
_cons	-3.132388	0.7787411	-4.02	0.000	-4.672708	-1.592069

Source: IDX secondary data processed with Stata

DISCUSSION

The Effect of Intellectual Capital on Financial Performance

Hypothesis 1 states that intellectual capital has a positive effect on financial performance. Based on the regression results in Table 3 above, the significance level of the VAIC independent variable on the dependent variable ROA is 0% with a coefficient of 0.1358048. It can be concluded that the independent variable VAIC significantly affects the dependent variable ROA, because the significance level is below 5%. The value of the VAIC coefficient on ROA shows positive results, so that the effect given by VAIC on ROA is also positive. This means that the higher the intellectual capital (VAIC), the company's financial performance (ROA) will also increase. Thus, hypothesis 1 in this study is accepted.

These results indicate that the efficient use of intellectual capital can improve the performance of manufacturing companies in the consumer goods industry sector in Indonesia for the 2015-2019 period. Higher levels of investment in intellectual capital are associated with greater efficiency, which positively affects firm performance and also enables firm growth and wealth (Sardo and Serrasqueiro, 2017). By investing in intellectual capital, it can increase the contribution of employees in the form of knowledge to the company, so that the company can benefit, namely increased innovative capacity and greater financial performance. This shows that intellectual capital is a very valuable asset that companies should not ignore. The results of this study are in line with the research of Chen et al., (2005) and Sardo & Serrasqueiro (2017).

Effect of Managerial Ownership on Financial Performance

Hypothesis 2 states that managerial ownership has a positive effect on financial performance. This hypothesis is tested using a one tailed model approach, then the P value is divided by two. So based on the regression results in Table 3, the significance level of the independent variable KM on the dependent variable ROA is 0.0005 or 0.05%, with a coefficient of -0.4355831. This shows that the independent variable KM significantly affects the dependent variable ROA, because the significance level is below 5%. However, although KM significantly affects ROA, the effect given is negative, which means that the higher managerial ownership in a company, the company's financial performance (ROA) will decrease. Therefore, hypothesis 2 in this study was rejected.

The negative relationship between managerial ownership and firm performance causes this result to be inconsistent with the convergent interest hypothesis by Jensen and Meckling (1976), which states that more equity ownership by managers will eliminate agency problems and improve firm performance. On the other hand, this result is in line with Demsetz's (1983) research which proposes the divergence of interest hypothesis (entrenchment hypothesis), where an increase in managerial ownership will reduce company performance. Demsetz (1983) in Jusoh et al. (2013) state that firms that give stock to managers to align their interests with those of owners may not solve agency problems or reduce agency costs and thus fail to improve firm performance. In addition, Rose (2005) states that increasing ownership by internal (managerial) parties does not reduce the problem of moral hazard, which is embedded in the separation of ownership and control. When managers have relatively large equity stakes, it allows them to use the influence they have for personal gain, rather than for the benefit of shareholders. In conclusion, managerial ownership does not affect the performance of manufacturing companies in the consumer goods industry sector for the 2015-2019 period in Indonesia. These results are in line with the results of Jusoh et al. (2013); Mandaci & Gumus (2010).

The Influence of Independent Commissioners on Financial Performance

Hypothesis 3 states that the proportion of independent commissioners has a positive effect on financial performance. Based on the regression results in Table 3 above, the significance level of the independent variable KI on the dependent variable ROA is 0% with a coefficient of

1.377024. So it can be concluded that the independent variable KI significantly affects the dependent variable ROA, because the significance level is below 5%. The coefficient value of KI on ROA shows positive results, so that the influence given by KI on ROA is also positive. This means that the higher the proportion of independent commissioners on the board of commissioners, the company's financial performance (ROA) will also increase. Thus, hypothesis 3 in this study is accepted. The results of this study indicate that the proportion of independent commissioners has a significant and positive effect on company performance, thus supporting the argument that the independence of the board of commissioners is an important attribute that can improve company performance. These results support the theory of Berle and Means (1933) Nuryanah & Islam (2011), which states that independent commissioners increase the effectiveness of oversight and strategic planning of the board's role which leads to better company performance. The independent board of commissioners represents the shareholders to monitor the activities and performance of the management and executive directors, in order to ensure that the management works for the interests of the stakeholders, and not for their own interests, which in turn will improve the company's performance. The results of this study are in line with the research results of Nuryanah & Islam (2011); Hidayat & Utama (2015).

Influence of the Independent Audit Committee on Financial Performance

Hypothesis 4 states that the proportion of independent audit committees has a positive effect on financial performance. This hypothesis is tested using a one tailed model approach, then the P value is divided by two. So based on the regression results in Table 3, the significance level of the independent variable KAI on the dependent variable ROA is 0.4245 or 42.45%, with a coefficient of 0.1480582.

This shows that the independent variable KAI has a positive effect on the dependent variable ROA, which means that the higher the proportion of independent audit committee members in the audit committee, the company's financial performance (ROA) will also increase. However, although it has a positive effect on the dependent variable ROA, the effect is not significant, because the level of significance is more than 5%. Thus, hypothesis 4 in this study was rejected.

One of the reasons that may support the insignificant result of the relationship of the independence of the audit committee to the company's performance is because the members of the independent audit committee are not good enough in carrying out their duties as a monitoring mechanism that should result in better company value and improve company performance. This may be due to the knowledge, background, or experience of each member of the independent audit committee that is not relevant to the qualifications that should be possessed by members of the audit committee.

Thus, in selecting independent audit committee members, it is very important for Indonesian companies to appoint individuals with relevant expertise and backgrounds in order to perfect the company's long-term plans, namely value creation, which in turn will also improve the company's financial performance. The results of this study are in line with the results of research by Al-Matari et al. (2012).

CONCLUSION AND IMPLICATION

This study was conducted to examine and analyze the influence of intellectual capital and corporate governance on financial performance. In this study intellectual capital was measured using VAIC, financial performance was measured using ROA, and corporate governance was measured using three indicators, namely managerial ownership, independence of the board of commissioners, and independence of the audit committee. The sample used in this study were 28 manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange for the 2015-2019 period. From this study, several conclusions were obtained, namely as follows:

1. Intellectual capital has a positive and significant effect on financial performance, which means that the higher the company's investment in intellectual capital, the company's financial performance will also increase. The results of this study are in line with the results of Chen et al., (2005) and Sardo & Serrasqueiro (2017).
2. Managerial ownership affects the company's performance negatively and significantly, which means that the higher the managerial ownership in the company, the company's financial performance will decrease. These results are in line with the research results of Jusoh et al. (2013); Mandaci & Gumus (2010).
3. The proportion of independent commissioners affects financial performance positively and significantly, which means that the higher the proportion of independent commissioners on the board of commissioners, the company's financial performance will also increase. The results of this study are in line with the research results of Nuryanah & Islam (2011); Hidayat & Utama (2015).
4. The proportion of independent audit committees affects financial performance positively, but not significantly. This means that the higher the proportion of independent audit committees in the audit committee, the financial performance will also increase, but the effect is not significant. The results of this study are in line with the results of research by Al-Matari et al., (2012).

A larger sample size will indicate a more representative study result. Therefore, future research in the future should further expand and explore research samples that are different from this research, for example conducting research on the manufacturing industry as a whole, or even conducting research in countries located in the same region, for example ASEAN. , which consists of Indonesia, Thailand, Singapore, Malaysia, Philippines, Vietnam, Brunei Darussalam, Cambodia, Myanmar, and Laos. For further research, it can also use indicators of good corporate governance that are different from this study, the composition and size of the board of commissioners, duality of leadership structure, board diversity, director tenure, auditor rotation, qualifications of audit committee members, and others. , which affects the dependent variable used. And for further research on intellectual capital, it can examine the effect given by each component of the intellectual capital variable, VAIC, namely HCE (Human Capital Efficiency), SCE (Structural Capital Efficiency), and CEE (Capital Employed Efficiency) on the dependent variable used.

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