The Role of Intellectual Capital and Good Corporate Governance Toward Financial Performance

by Indri Kartika

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Abstract. The purpose of this study is to analyze and test empirically the variables that affect financial performance. Using 520 manufacturing companies listed on Indonesia Stock Exchange for the period of 2010-2019, all data were processed by using the structural equation modeling analysis. The results of this study explained that intellectual capital and good corporate governance in terms of the board of commissioners have a significant positive effect on financial performance. The existence of intellectual capital and the board of commissioners can improve financial performance, so that manufacturing companies are able to survive and even be stable. The implication of this study is to enrich the literature review and to be used as policy making basis for the government and manufacturing companies. Moreover, it can be a basis for investors to consider an investement.

***Keywords**: intellectual capital; good corporate governance; financial performance; manufacturing companies.*

Abstrak. Tujuan penelitian ini untuk menganalisis dan menguji secara empiris variabel-variabel yang mempengaruhi kinerja keuangan. Menggunakan 520 perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia periode 2010-2019, semua data diolah dengan analisis model persamaan struktural. Hasil penelitian ini menjelaskan bahwa *intellectual capital* dan *good corporate governance* dari segi dewan komisaris berpengaruh positif signifikan terhadap kinerja keuangan. Adanya modal intelektual dan dewan komisaris dapat meningkatkan kinerja keuangan, sehingga perusahaan manufaktur mampu bertahan bahkan stabil. Implikasi dari penelitian ini adalah untuk memperkaya literature review dan digunakan sebagai dasar pengambilan kebijakan bagi pemerintah dan perusahaan manufaktur. Selain itu dapat menjadi dasar bagi investor untuk mempertimbangkan suatu investasi.

Kata Kunci: *intellectual capital; good corporate governance;* kinerja keuangan; perusahaan manufaktur.

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INTRODUCTION

Financial performance is often used as the basis for assessing company performance. According to Ararat et al., (2016), Financial performance can be interpreted as the condition of the company. Certain measures are needed to analyze the company financial performance. Financial performance can be used as a tool to analyze net profit margin. The higher the net profit margin, the better the financial performance in the eyes of investors. It is the reference of investors is how the company generates net profit from its net sales margin.

The company always tries to improve the company's financial performance. However, currently the business industry, especially manufacturing companies, is experiencing a difficult time. In 2017, British American Tobacco admitted the other side of company's financial performance. Bentoel consistently incurred a loss for the current year in 2017 which reached Rp. 480.06 billion. In 2018, it increased to Rp. 537.53 billion. In 2019, the losses incurred by Bentoel decreased by 42%, it became Rp. 312.32 billion. Bentoel also suffered a loss in 2020 in the first quarter for Rp. 43.29 billion. The company also has a facility repair and renovation project as well as building additions. The addition of these assets certainly requires a lot of capital. It causes the company to increase the number of current and non-current liabilities.

Based on data on losses incurred by British American Tobacco, the company incurs losses that fluctuate every year. Accordingly, it is necessary to improve the company's financial performance so that the company does not bear losses continuously. In order to improve financial performance, Intellectual Capital and Good Corporate Governance are required. Global economy condition makes competition among business actors increasingly competitive. Various kinds of innovations and intense competition have forced companies to change their management pattern from a labor based business to a knowledge based business. The approach and knowledge assets measurement used in this research is Intellectual Capital. Intellectual Capital is an intangible asset that provide value to the company and society including patents, intellectual property rights, copyrights, and franchises (Holienka and Pilkova, 2014).

Vladmir et al., (2017) argued that Intellectual Capital can boost the company's financial performance. Furthermore, the advances in technology, increasingly sophisticated information and fast information make every company increase the company's capacity for the better condition. Pulic (1998) developed an indirect measuring tool for intangible assets in form of Intellectual Capital using Value Added Intellectual Capital (VAICTM) method. Intellectual Capital consists of three main components, namely Human Capital, Structural Capital, and Capital Employed. A research by Mohamad et al., (2018); Poh et al., (2017); Ranani and Bijani (2014); Vladmir et al., (2017); Gunawan and Tarlita (2017) revealed that intellectual capital has a positive effect on financial performance. In contrast, Kabir and Thai (2017) proved that intellectual capital has a negative and significant effect on financial performance. Holienka and Pilkova (2014) stated that intellectual capital has a negative and insignificant effect on financial performance.

The board of commissioners is believed to have an important effect in the corporate governance system, particularly in monitoring the top management. Companies that have a lower percentage of the external board of commissioners will have less supervision on the company's financial performance (Mahrani and Soewarno, 2018). This role is expected to minimize agency conflicts that occur between the board of directors and shareholders because the board of commissioners is responsible for implementing corporate governance. Deep and Narwal (2014) indicated that there is a positive effect between the board of commissioners and financial performance. It is supported by the research of Ararat et al., (2016), that there is a positive and significant relationship between the board of commissioners and the company's financial performance.

Based on the description above, the purpose of this study is to analyze and test empirically the effect of intellectual capital and good corporate governance on financial performance. The novelty of this research is financial performance measurement using the net profit margin ratio. Net profit margin is an analytical tool for potential investors to find out how effective a company is in minimizing the use of its operating expenses. Net profit margin can reflect how effective a company is in minimizing its operating expenses. It is because the size of the net profit obtained from sales is strongly influenced by the company's ability to reduce cost of goods sold, operating expenses, general expenses and other expenses. In other words, if the company's net income is high, but the company is unable to manage expenses, it will impact on the decrease in the company's net income. Thus it can be said that the company is bad in terms of fundamentals, because the focus of the company is the net profit, not turnover. A good net profit margin ratio is the net profit margin ratio that experience an upward trend every year. Companies that can reduce costs such as cost of revenue, general expenses, financial expenses and other expenses, are able to make the maximum contribution to net income.

This research is expected to be able to contribute both theoretically and practically. Theoretically, this research is expected to be a reference for future research. This research can support resources based theory and agency theory. The resource based theory states that a company is able to improve its financial performance by optimizing the management of its resources (intellectual capital). This means that the company has a competitive advantage so that it can give more value for the company. The application of good corporate governance is useful for uniting various differences in interests between management in the company and company owners. It is in order to achieve company goals which can later improve the company's financial performance.

Practically, this study contributes (1) to manufacturing companies, as a reference on how to improve financial performance. The company can explore the available intellectual capital, especially human resources. When human resources feel comfortable in their work, productivity will increase so that it affects the company's financial performance. Companies can also implement good corporate governance through the board of commissioners who function as management supervisors in carrying out their duties. When managers can play their roles to the fullest, the company's financial performance will improve; (2) For regulators, the Financial Services Authority, it can be used as guidelines and material for consideration in making policies or regulations for manufacturing companies related to intellectual capital and implementation of good corporate governance; and (3) for investors, it can be the prediction about the annual financial statements so that the investors can be used as a reference for investment considerations.

LITERATURE REVIEW

Resources Based Theory

Resources Based Theory is a theory that explains the company's financial performance which can be optimal if the company has a competitive advantage, so that it can give more value for the company (Penrose, 1959). Competitive advantage is obtained by utilizing and managing existing resources within the company. The three types of resources, namely physical resources (technology, factories and equipment), human capital (training, experience, insight), and organizational resource capital (formal structure) (Vladmir et al., 2017). Based on this explanation, intellectual capital fulfills all of the criteria. Intellectual Capital consists of three main components, namely, human capital, structural capital, and employed capital. The company's competitive advantage will be created when the three main components above can be managed properly by the company. It aims to create value added that is useful for the company itself. The created competitive advantage will be a differentiator for the company and will automatically improve the company's financial performance.

Agency Theory

Agency theory is the basis that will be used to explain corporate governance. Agency theory explains that company management is an agent for shareholders that act with full awareness for its own interests (Jensen and Meckling, 1976). In implementing this theory, the owner of the company gives a mandate or task to the manager in order to manage the company properly. As the result,. the company value can be maximized. This triggered a problem in the ownership and management of the company known as agency conflict. Minimizing the conflicts between company owners and management, it is necessary to have a mechanism that can regulate governance within a company. The application of good corporate governance is useful for uniting various differences in interests. It is between management's interest in the company and company owners' interest to achieve company goals which can later improve the company's financial performance.

Financial Performance

A financial analysis aims to measure the extent of a company has implemented good and correct rules, for example in making financial reports in accordance with Financial Accounting standards or General Accepted Accounting Principles. Financial reports are descriptions of financial performance that occur in one accounting period. The financial report is a summary of transactions that have occurred in one year. Complete financial reports including balance sheets, income statements, financial reports, notes, and other reports (Kasmir, 2016).

Intellectual Capital

Intellectual capital is a resource of a company that can give a competitive advantage for the company. It uses to develop and implement company strategy to improve the company's performance (Ardiansari et al., 2018). A company is said to have an advantage when the company can create higher economic value than its competitors. According to Gunawan and Tartila (2017), Intellectual capital is considered as an asset in a knowledge-based company. It becomes the basis of the company's competence which can influence the company's development and excellence. In general, intellectual capital is divided into three components, Pulic (1998), they are:

a. Human Capital

Human Capital is defined as the values of the employees that can create potential. The values are reflected in the knowledge, competence, skills, experience, abilities and talents of an employee. Employees, who have more expertise and skills, can improve company performance and can ensure the company sustainability in the future.

b. Structural Capital

Structural capital is defined as knowledge which belongs to company asset and it is included in intellectual capital such as patents, copyrights, trademarks, process methodologies, models, documents, computer networks, software, and other administrative system. Structural capital consists of knowledge, culture, organization, intellectual procedures, processes, philosophy, system and database that describe the structures and processes developed by employees. It aims to make the employees become productive, effective and innovative. Structural capital will remain within the company even if there are some missing components such as trademark patents or company databases.

c. Capital Employed

Capital employed is the relationship between an organization or company and its customers or parties who have business with the company. Capital employed shows a good relationship between the company and its partners. Companies must be able to maintain supplier or creditor relationships, such as relationships with customers who are satisfied with the services or products of the company, as well as relationships between the company, government and society. The company's role in maintaining relationships with the company environment will also have an impact on the company's profit.

Good Corporate Governance

Good corporate governance is a set of rules governing the relationship between shareholders, company managers, creditors, government, employees, and other internal and external stakeholders regarding their rights and obligations. In other words, it is a system that regulates and controls company (FCGI, 2006). FCGI also explained that the goal of corporate governance is to create added value for all interested parties (stakeholders). In order to support the financial performance improvement, it is necessary to have good corporate governance (Good Corporate Governance). The implementation and management of good corporate governance is a concept that emphasizes the importance of shareholders' rights to obtain correct, accurate and timely information. The corporate governance mechanism used in this study is an internal mechanism, namely the Board of Commissioners.

Board of Commissioners

A company contains an individual organ that is tasked to conduct general and / or specific supervision based on articles of association. In addtion, they also can give advise for the board of commissioners as explained in law number 40 of 2007 concerning Limited Liability Companies: number, composition, criteria, concurrent positions, family relations, and other requirements for members of the board of commissioners subject to the provisions of the relevant authorities. The Indonesian Corporate Governance Forum stated that the board of commissioners has a very vital role in a company, especially in the implementation of Good Corporate Governance. Board of commissioners is the core of Corporate Governance which is assigned to ensure the implementation of corporate strategy, supervise management in managing the company, and oblige accountability. (Deep and Narwal, 2014). The duties of the board of commissioners as the main players in Good Corporate Governance implementation is to succeed the board of commissioners performance which will also improve the company's financial performance..

Intellectual Capital and Financial Performance

Vladmir et al., (2017) defined intellectual capital is knowledge, information, intellectual property and experience that can be used by a company to increase profits. Resources based theory by Penrose (1959) explains that the concept of intellectual capital will trigger a better company performance. The most obvious measurement is the profit generated by the company. The better the intellectual capital of a company, the better the company is in utilizing the company's resources to increase profits. Companies that are able to increase company profits from year to year will also have an impact on the company's financial performance.

A research by Mohammad et al., (2018); Poh et al., (2018) shows the results that intellectual capital has a positive effect on the company's financial performance. The same result is also shown by Ranani and Bijani (2014); Vladmir et al., (2017); Gunawan and Tartila (2017) that intellectual capital has a positive effect on financial performance. Based on these descriptions, the hypothesis is as follows:

H1: Intellectual capital has positive effect on financial performance

Corporate Governance and Financial Performance

Deep and Narwal (2014) argued that the main function of the board of commissioners is to supervise the completeness and quality of information reports on the performance of the board of directors. The board of commissioners as the top management system in the company has a significant role in supervision. Furthermore, in carrying out their duties, the board of commissioners must always hold meetings to assess and evaluate the performance of the board of directors. The board of commissioners meeting is a means of communication and coordination between board members in the company. It can be used as a discussion in determining the strategy and direction that the company wants to aim at. In addition, the board of commissioners' meeting can also discuss management evaluation in managing the company. The concept of agency theory by Jensen and Meckling (1976), regulates the relationship between agency and principal. Therefore, the the board of commissioners function as a supervisor to avoid agency conflict between the board of directors and shareholders.

A research by Ararat et al., (2016); Mahrani and Soewarno (2018); Deep and Narwal (2014); Fung (2014) revealed that the size of the board of commissioners has a positive effect on the company's financial performance. This means that the more the board of commissioners, the better the supervision level of the company. As the result, the company's financial performance will increase. Based on the description above, the second hypothesis is:

H2: Good corporate governance has positive effect on financial performance

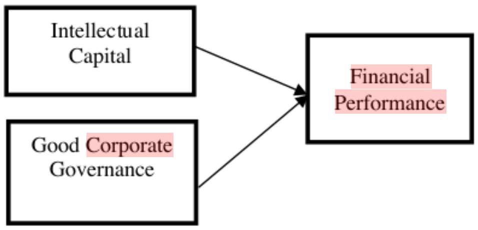

Figure 1. Research Model

RESEARCH METHODOLOGY

The populations in this study were all companies listed on Indonesia Stock Exchange in the period of 2010-2019. The sampling technique used purposive sampling technique, with the following criteria are manufacturing companies listed on Indonesia Stock Exchange, publish annual reports and present complete data related to research variables. Based on the criteria, the sample in this study were 520 manufacturing companies for the period of 2010-2019 (52 manufacturing companies x 10 years).

Intellectual capital is an intangible asset in form of information and knowledge resources that can increase the ability to compete and can improve company performance (Pulic, 1998). Intellectual capital is measured by using Value Added Intellectual Capital (VAIC) measurement tool. VAIC calculation is done by adding up the Value Added Human Capital, Structural Capital Value Added, and Capital Employed Value Added (Pulic, 1998).

$$\mathrm{VAIC^{TM}} = \mathrm{VACA} + \mathrm{VAHC} + \mathrm{STVA}$$

$$\mathrm{VAHC} = \frac{\text{Value Added (VA)}}{\text{Human Capital (HC)}}$$

$$\mathrm{STVA} = \frac{\text{Structural Capital (SC)}}{\text{Value Added (VA)}}$$

$$\mathrm{VACA} = \frac{\text{Value Added (VA)}}{\text{Capital Employed (CE)}}$$

The board of commissioners is a supervisory mechanism as well as a mechanism that can provide direction and guidance on corporate governance (Deep and Narwal, 2014). The board of commissioners is calculated by adding up all members of the board of commissioners in a company (Deep and Narwal, 2014).

$$\textit{Board of Commissioner} = \sum \text{The number of board of commissioners}$$

The company's financial performance can be interpreted as the company's ability to manage and allocate its resources to obtain company profits (Holienka dan Pilkova, 2014). In this study, financial performance is measured by Net Profit Margin (NPM). It is an analysis tool for potential investors to find out how effective the company is in minimizing the use of its operating expenses (Kasmir, 2016).

$$\mathrm{NPM} = \frac{\text{Net income after tax}}{\text{Net sales}}$$

The data analysis technique used in this study was SEM-PLS (Structural Equation Modeling based on Partial Least Square) with the SmartPLS 3.0 application. SmartPLS 3.0 is designed to analyze latent variables by using the manifest variable and multiple regression models. Meanwhile, the path analysis uses the observed variable (Ghozali & Latan, 2015). The research model is as follows:

$$\eta 1 = \gamma 1 \xi 1 + \gamma 2 \xi 2 + \varsigma$$

Information:

$\eta 1$	: Financial Performance
$\gamma 1, \gamma 2$	: Coefficient
$\xi 1$	: Intellectual Capital
$\xi 2$	: Good Corporate Governance
ς	: Residual Value

RESULT AND DISCUSSION

Descriptive Statistic Analysis

This study used several variables, including intellectual capital and good corporate governance as exogenous variables. Good corporate governance is proxied by the board of commissioners variable. The endogenous variable used in this study is financial performance. The variables were tested by using descriptive statistics. The test results can be seen in table 1 below:

Table 1. Descriptive Statistic

Variable	N	Min	Max	Mean	Median	Standar Deviation
Intellectual Capital	520	4.225	115.791	27.427	22.536	21.091
GCG-Board of Commissioners		2.000	9.000	4.058	3.000	1.759
Financial Performance		0.001	0.390	0.078	0.062	0.066

Based on table 1, the results can be explained as follows:

a. The intellectual capital variable has a minimum value of 4,225 with a maximum value of 115,791. The mean value is 22,536 and the average value is 27,427 with a standard deviation of 21,091. The minimum value of this variable is found in Martina Berto Tbk (MBTO), while the maximum value is found in Cahaya Kalbar Tbk (CEKA). In this variable the average value is greater than the standard deviation. It shows that the distribution of intellectual capital data does not occur due to the low variability of the data between the minimum and maximum values.

b. The GCG-board of commissioners variable has a minimum value of 2,000 with a maximum value. The mean value is 3,000, while the average is 4.058 with a standard deviation of the GCG-board of commissioners variable is 1.759. The minimum value of the board of commissioners variable occurs in Ataliers Mecaniques D'indonesie Tbk (AMIN), Betonjaya Manunggal Tbk (BTON), Chitose International Tbk (CINT), Ekadharma International Tbk (EKAD), Champion Pacific Indonesia Tbk (IGAR), Impack Pratama Industri (IMPC), Tri Banyan Tirta Tbk (ALTO), Asiaplast Industries Tbk (APLI), and Selamat Sempurna Tbk (SMSM). The maximum value of the board of commissioners variable in this study is found at Astra Otoparts Tbk. The average value of the board of commissioners variables in this study shows that it is greater than the standard deviation value. This means that the data distribution does not deviate due to the low data variability between the minimum and maximum values.

c. The minimum value of financial performance variable is 0.001 with a maximum value of 0.390. The middle value is 0.062 and the average value is 0.078 with a standard deviation of 0.066. The minimum value is obtained from Mulia Industrindo Tbk (MLIA) and the maximum value is obtained from Multi Bintang Indonesia Tbk (MLBI). The results of data processing on financial performance variable also show that the resulting average value is greater than the standard deviation. In conclusion, in the distribution of financial performance data, there is no deviation found because the minimum and maximum values have low data variability.

Measurement Model Results (Outer Model)

Convergent Validity and Average Variance Extracted (AVE)

Convergent validity has a function to determine the correlation between the indicator and its construct. Convergent validity is related to the principles of variable measurement in the correlation between the item / indicator score and the construct score. Convergent validity test can be seen from the outer loading factor value of each construct indicator. A research is reliable and valid if the correlation value is > 0.70 while the average variance extracted value is ≥ 0.50. The results of the correlation output between the indicator and its construct and the Average Cariance Extracted (AVE) can be seen in table 2 below:

Table 2. Outer loadings and Average Variance Extracted (AVE)

	Intellectual Capital	Board of Commissioners	Financial Performance
VAIC	1.000		
GCG-BC		1.000	
NPM			1.000
AVE	1.000	1.000	1.000

Table 2 shows that the outer loadings output results a value of more than 0.70. It means that each variable under study has a good convergent validity value. In other words, the convergent validity requirements have been met. Meanwhile, the average variance extracted output results a value of more than 0.50 which indicates that the AVE value is good for each construct and can be said to have met the requirements.

Discriminant Validity and Composite Reliability

Discriminant Validity is a test that aims to measure constructs with its indicators with other constructs. The high value of discriminant validity on a construct with its indicators illustrates that this construct is unique to other constructs. The value of discriminant validity can be seen from the cross loading.

Composite reliability is a test to assess the indicators reliability of a latent construct. In order to strengthen the reliability test, it can be seen through the value of cronbachs alpha. The construct is declared reliable if the composite reliability and cronbach alpha values are above 0.70. Following are the results of the cross loading output, composite reliability and cronbach's alpha:

Table 3. Cross loadings, Composite Reliability dan Cronbach Alpha

	Intellectual Capital	Board of Commissioners	Financial Performance
VAIC	1.000	0.921	0.988
GCG-BC	0.921	1.000	0.949
NPM	0.988	0949	1.000
Cronbach's Alpha	1.000	1.000	1.000
Composite Reliability	1.000	1.000	1.000

Based on table 3 above, it can be concluded that each construct with its indicator has a cross loading value greater than the other constructs. These results indicate that the latent constructs can be predicted better by each of the indicators compared to indicators from other constructs. The value of composite reliability and cronbanchs alpha is more than 0.70, which is

1,000. These results indicate that each latent construct has good reliability because it has met the requirements of the composite reliability test and Cronbachs alpha.

Structural Model Test Results (Inner Model)
Coefficient of Determination (R^2)
The tructural model test can be done with R-Square (R^2). The R^2 test is used to explain the effect of certain exogenous latent variables on endogenous latent variables whether they have a substantive effect or not. The R^2 test is good or able explain endogenous variables, if the value is close to 1. The following are the results of the R-Square (R^2) output:

Table 4. R-Square (R^2)

	R Square Adjusted
Financial Performance	0.33

Based on the results of the R-Square output in the table above, it can be seen that the R-Square Adjusted value on financial performance variable is 0.33 or 33%. These results indicate that the variable financial performance can be explained by the intellectual capital variable and the board of commissioners by 33%, whereas the remaining 67% explained by other variables.

Hypothesis Test Result (t-Test)
Hypothesis test can be seen using the P values. The values were obtained through the bootstrapping method in the Path Coefficient table. According to (Ghozali, 2016), in testing the hypothesis, it uses a significance probability of 0.05. The hypothesis can be accepted if it has a probability value or p value of <0.05 and using a t-statistic of > 1.96. Thus the construct indicator is valid. The following is the result of processed data in table 5:

Table 5.Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Decision
Intellectual Capital -> Financial Performance	**0.453**	0.461	0.040	11.337	**0.000**	Supported H1
Board of Commissioners -> Financial Performance	**0.125**	0.129	0.040	3.111	**0.002**	Supported H2

The intellectual capital variable on financial performance has a parameter coefficient of 0.453 as seen in the original sample column. This illustrates that the intellectual capital variable has a positive direction towards financial performance. It means that when the intellectual capital increases by one unit, it can increase financial performance by 45.3%, which other latent constructs are assumed as constant. In the results, the p value shows a value of 0,000 which means it is smaller than 0.050. It can be said to be significant and meets the requirements. Furthermore, the resulting t-statistic value is 11.337 which is said to be valid because it has met the requirements of > 1.96. Therefore, it can be concluded that the **first hypothesis (H1) is supported** because intellectual capital has a positive and significant relationship with financial performance.

The board of commissioners variable in the original column has a parameter coefficient of 0.125. These results indicate that the board of commissioners variable has a positive direction towards the financial performance variable. It means that, if the board of commissioners increases by one unit, it can increase financial performance by 12.5%, which other latent constructs are assumed as constant. The p value column shows a value of 0.002 and a t-statistics value of 3.111. In conclusion, these results have met the requirements because p value is <0.050 and t-statistics is > 1.96. Thus the **second hypothesis (H2) is supported** because the board of commissioners has the direction of a positive and significant relationship on financial performance.

Intellectual Capital and Financial Performance

The test results show that intellectual capital has a significant positive effect on financial performance. Companies that have good intellectual capital will be able to utilize internal resources in the company and can increase the level of production in the company. Gunawan and Tartila, (2017) argued that intellectual capital is considered as an asset in the company based on knowledge. This becomes the basis of the company's competence which can affect the company's development and excellence.

Resource-based theory states that the success of the company's sustainability and the resilience of the company's competitive growth strategy lies in the utilization of its resources. Intellectual capital that is well managed by the company can create value added for the company (Ozkan et al., 2016). On the basis of added value, investors will give added value to the company by adding investment value. Good management of intellectual capital is shown by the company with healthy performance activities, good communication between employees and managers, employees who carry out their duties properly and effectively and the company that implements an evaluation system to direct the company's goals or targets to be achieved. Therefore, every employee must be able to maintain health in order to achieve the company's goals.

This study has the same results with the research from Chowdhury et al., (2018), which states that the higher the intellectual capital value of a company, the better its financial performance. The same results are also shown in research conducted by Mohammad et al., (2018); Poh et al., (2018); Wijaya and Wiksuana (2018); Vladmir et al., (2017); Gunawan and Tartila (2017). However, these results are different from the research by Holienka dan Pilkova (2014) that intellectual capital has a negative and significant effect on financial performance.

Good Corporate Governance and Financial Performance

The test results show that good corporate governance from the side of board of commissioners has a positive and significant effect on financial performance. This indicates that the second hypothesis in this study is accepted. The board of commissioners has the duty and responsibility to implement corporate governance in accordance with applicable procedures. The supervisory function of the board of commissioners is to supervise the policies of the board of directors in running the company and to give direction to the board of directors (Deep and Narwal, 2014).

Based on agency theory, the existence of board of commissioners in a company can act as an intermediary between the board of directors and shareholders. In this case, the board of directors has the right to give direction and advice to the board of directors. So that in carrying out its duties, the board of directors will not go out of bounds.

These results are in line with research conducted by Deep and Narwal (2014) who said that the more the board of commissioners, the more effective the supervision of the board of directors. Moreover, the advice and input received by the board of directors will be more diverse. This result is supported by Ararat et al., (2016); Mahrani and Soewarno (2018), that good corporate governance has a positive effect on financial performance.

CONCLUSION

Based on the analysis of 520 manufacturing companies in Indonesia, it is explained that explained that intellectual capital and good corporate governance in terms of the board of commissioners have a significant positive effect on financial performance. The existence of intellectual capital and the board of commissioners can improve financial performance, so that manufacturing companies are able to survive and even be stable.

This study has several limitations, including: (1) the low ability of the intellectual capital variable and the board of commissioners in explaining financial performance variable, which is 33%. Meanwhile, there are several key variables that can also affect financial performance, (2) there are several companies that do not present complete data regarding the variables used in this study, so that the company sample data used each year is only 52 manufacturing companies. Suggestions for further research: (1) can add several independent variables, such as firm value, audit committee, managerial ownership, or institutional ownership; and (2) extending the study period.

The results of this study have implications: (1) for academics, as a reference regarding resource based theory and agency theory related to intellectual capital and good corporate governance. Spesifically, in terms of the board of commissioners that can improve financial performance; (2) for the management of manufacturing companies, it can be used as a reference for improving financial performance by optimizing the intellectual capital and implementing good also consistent good corporate governance; (3) For regulators, the Financial Services Authority, it can be used as a guideline and material for consideration in making policies or regulations for manufacturing companies related to intellectual capital and good corporate governance, especially the board of commissioners; and (4) for investors, this study can be used as a consideration for investing their shares in manufacturing companies.

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