

Intellectual Capital, Good Corporate Governance, And Performance Of Companies In Indonesia

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Abstract: *The purpose of this study was to examine the effect of intellectual capital (measured by VAICTM-Pulic (1998)) and Good Corporate Governance (proxied by institutional ownership, independent board of directors, and board of directors) on company performance (proxied by Return on Assets (ROA)) on automotive companies and components on the Indonesia Stock Exchange.*

The research methodology with the positivism paradigm uses secondary data, namely the financial statements of all automotive companies and their components listed on the Indonesia Stock Exchange (IDX) for the 2014-2018 period.

The results of the study prove that the variable Intellectual capital, constitutional ownership, and independent board of commissioners affect the company's performance (Return On Assets), while the variable board of directors has no effect on company performance.

Research limitations: researchers use a small population of automotive company data and components in Indonesia, so the suggestion for the next researcher is to use another company with a larger population or add other variables that affect company performance.

Implications: This research is useful for investors to pay attention to various factors, namely Intellectual capital, constitutional ownership, and independent board of commissioners because based on the results of the study, these variables affect company performance, and the issuer must also consider the three factors that influence performance in determining the company's strategy.

Keywords: *Intellectual capital, institutional ownership, independent board of directors, and board of directors, Financial Performance.*

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I. Introduction

Increasing economic competition, resulting in companies must create competitive advantage. This is intended to improve company performance. One way to create competitive advantage is to manage intellectual capital (IC). Intellectual capital can be used as energy in increasing company excellence and performance.

The importance of IC resources in value creation is consistently increasing, because of the shift from an industry-based economy to a knowledge base (Orens and Lybaert, 2009). Intellectual capital (IC) is the main source of wealth creation and sustainable competitive advantage for companies (Chahal and Bakshi, 2016). The importance of increasing IC information for the economy has led to the International Accounting Supervisory Agency, asking companies to voluntarily disclose that information in company reporting (Oliveira, Rodrigues, and Craig, 2006). A good corporate governance, can cause companies to develop long-term value by investing in Intellectual Capital (Nadeem, De Silva, Gan, Zaman, 2017). Intellectual capital will further develop if it is supported by a mechanism of good corporate governance.

Implementation of Good Corporate Governance (GCG) is a necessity for all companies. The increasingly fierce competition, causing company management must be more efficient and effective, to improve company performance. Good corporate governance (GCG) provides protection for the interests of shareholders and creditors. Nam and Nam's research (2004) and Rashid and Islam (2013) show that GCG has an important role in influencing company performance in financial markets.

Thus, good corporate governance can be defined as a set of rules governing the relationship between shareholders, company managers, creditors, government, employees, and other interested parties, relating to their rights and obligations. The main objective of corporate governance is to create added value for all interested parties or stakeholders (Forum for Corporate Governance in Indonesia, 2002). The value of stakeholder maximization is the result of GCG mechanisms (Mutairi, Tian, Hasan, and Tan, 2012).

Financial performance is the company's ability to generate profits at the level of sales, assets and certain capital whose development can indicate investors in assessing the company's long-term performance.

The ratio used in assessing financial performance is Return on Assets (ROA). The higher ROA value shows that the company is better at managing its assets. Empirical evidence shows that GCG affects financial performance and decision making has been carried out by Sheikh and Wang (2012), Mollah, Farooque, and Karim (2012), and Hassan and Halbouni (2013). Faradina and Gayatri (2016) and Simarmata and Subowo (2016) stated that intellectual capital has a positive effect on the company's financial performance.

This study aims to examine the effect of intellectual capital (measured by VAICTM, the measurement model developed by Pulic (1998)) and Good Corporate Governance (proxied by institutional ownership, independent board of commissioners, and board of directors) on Company Performance (proxied by Return on Assets (ROA)) in automotive and component companies on the Indonesia Stock Exchange.

This research contributes to expanding research on the development of intangible assets namely intellectual capital and good corporate governance mechanisms to improve company performance.

The next section in this article is organized as follows: Part 2 literature review and hypothesis development; Section 3 provides an overview of the research model, methodology, and data analysis. Section 4 provides empirical evidence. Section 5 provides a discussion and conclusion.

II. Literature Review and Hypothesis Development

Agency Theory

Agency theory is one of the basic paradigms in corporate governance research. This theory views a person as a rational individual who seeks to maximize their own interests (Fama & Jensen, 1983a, 1983b). Agency theory is a theory that regulates the relationship between principals and agents, where one party (the principal) delegates work to another party (agent). Agency theory was developed by Michael C. Jensen and William H. Meckling in 1976 and attempted to explain the relationship between labor contract mechanisms.

According to Sari & Priyadi (2017) to harmonize the different interests between principals and agents, good corporate governance was built to minimize agency conflict. so that the company's performance increases.

Resource Based Theory (RBT)

Resources based theory, is a theory that discusses the resources owned and the company's ability to manage and utilize them well, so as to create sustainable competitive advantage. Competitive advantage can be achieved by implementing a value creation strategy (Hitt, Michael, and Hoskisson, 2007). Intellectual capital consisting of human capital, structural capital and customer capital can be the basis for generating competitive advantage (Daneshi, 2013). The assumption of this theory is how the company is able to compete to gain a competitive advantage by managing its resources in accordance with the company's capabilities (Hadiwijaya 2013).

Intellectual Capital Affects Return on Assets

Intellectual capital is defined by the European Commission (2006) as a combination of intangible resources and organizational activities in changing the quantity of material, financial and human resources in a system that can create value. The components of intellectual capital have been categorized in various ways, but are widely accepted in the literature (Bontis, 2001, Casanueva & Gallego, 2010, Córcoles, 2013) with the classification of intellectual capital consisting of three basic components which are closely related as follows:

a. Human Capital

Human capital is the amount of explicit knowledge. Human capital is a source of innovation and improvisation, but this component is difficult to measure. Employee knowledge and capabilities are very important sources in company innovation (Wang and Chang, 2005)

b. Structural Capital

Structural capital is the ability of an organization to produce optimal intellectual performance and overall business performance through sustainable processes, companies and structures that can support employee businesses (Leitner, 2004, Sawarjuwono & Kadir, 2003). Daneshi (2013) Structural capital is hardware, software, databases, organizational structures, patents, good name, and other things that are used by company workers to support the company's business processes and activities.

c. Relational Capital

Ulum (2012) describes the component of relational capital as a component which provides a real value. Relational capital shows the relationship of an organization both with its stakeholders whether or not. Relational capital can be seen from various parts outside the environment that can add value to an organization.

Based on the description above, the research hypothesis:

H₁: Intellectual Capital Affects Return on Assets

Good Corporate Governance (GCG)

According to the Forum for Corporate Governance in Indonesia (2002), the aim of corporate governance is to create added value for stakeholders. There are several benefits of implementing GCG, including improving company performance, facilitating obtaining cheaper financing funds, and returning investor confidence to invest in Indonesia. According to the National Committee on Governance Policy (2006), there are five basic principles of GCG, namely: 1) Transparency, 2) Accountability, 3) Responsibility 4) Independence, 5) Fairness and Equality. Good Corporate Governance in this study proxied by constitutional ownership, an independent board of commissioners, a board of directors.

Constitutional Ownership influences Return on Assets

Institutional ownership in the company will encourage increased oversight of management performance, because it can represent a source of power that can be used to support management performance. (Subagyo, Maruroh, Bastian. 2018). Institutional ownership is ownership of company shares by financial institutions. A high level of institutional ownership will lead to greater oversight by institutional investors, which can hinder managers' opportunistic behavior (Hery, 2014).

A number of significant and empirical studies have formed a strong relationship between the concentration of ownership and company performance (Javid and Iqbal, 2010; Tsao and Chen, 2012; Wu, Xu, and Phan, 2011). Within the company there are controlling shareholders for supervision and reducing the freedom of self-serving managers' activities (Liu, Miletkov, Wei, and Yang, 2015). Research hypotheses are:

H₂: Constitutional Ownership influences Return on Assets

Board of Commissioners In

Efforts to maintain investor confidence and interests are by appointing independent commissioners. Independent commissioners are members of the board of commissioners who have no relationship with other members of the board of commissioners, members of the board of directors, and controlling shareholders (Mohammad Samsul, 2006). Independent Commissioners are an independent oversight mechanism to reduce agency conflicts and improve financial performance (Cravens and Wallace, 2001). Nasution and Setyawan (2007) suggest that the inclusion of the board of commissioners will increase the effectiveness of the board in overseeing management to prevent fraudulent financial statements. Hypothesis:

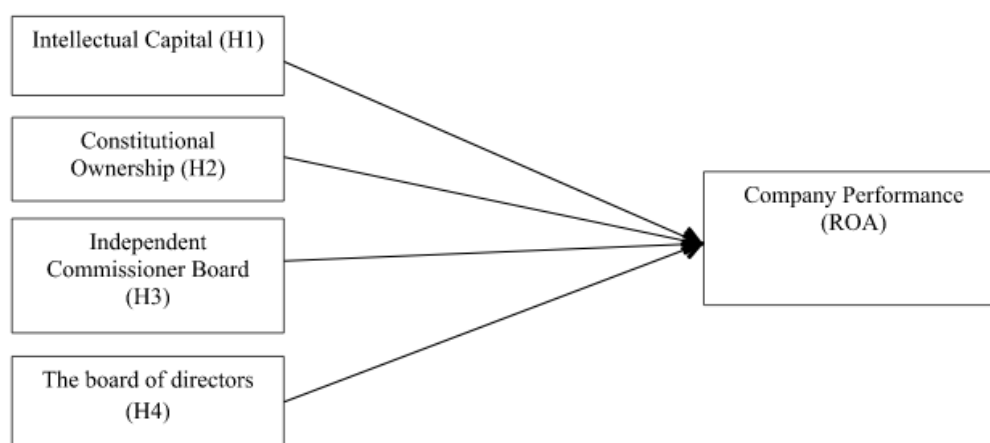
H₃: Independent Commissioners Affect Return on Assets

The Board of Directors Affects Return on Assets

According to the Financial Services Authority Regulation No. 33 / POJK.04 / 2014, directors are issuers' organs that are authorized and are fully responsible for managing the issuer for the benefit of the issuer, with the intent and purpose and representing the issuer. The Board of Directors shall consist of at least 2 (two) members of the board of directors and 1 (one) member of the board of directors shall be appointed as president director or president director.

H₄: Board of Directors Affects Return on Assets

Figure 3.1 Conceptual Framework Research



Population and Sample

This type of research is positivism using a population of all automotive companies and components listed on the Indonesia Stock Exchange (IDX) for the 2014-2018 period. The sampling method uses purposive sampling. The criteria are as follows:

1. Automotive companies and components listed on the Indonesia Stock Exchange in the 2014-2018 period
2. Automotive companies and components that publish annual reports (annual report) and financial reports in a row for the 2014-2018 period
3. Automotive companies and components that publish financial statements using the rupiah currency for the 2014-2018 period
4. Automotive and component companies that did not experience a loss during 2014-2018
5. Automotive companies and components that have data related to research during 2014-2018

Data Types and Sources

The type of data in this study is secondary data, namely the financial statements of automotive companies and components listed on the Indonesia Stock Exchange in 2014-2018. The financial statements are accessed from the site www.idx.go.id.

Variables and Operational Definitions of Variables

1. Independent Variable

The independent variables in the study are Intellectual Capital, Constitutional Ownership, Independent Board of Commissioners, and Board of Directors.

The following are the steps to calculate Intellectual Capital (IC) with VAIC:

1. Calculating Value Added (VA)

VA is calculated as the difference between output and input.

$$VA = OUT - IN$$

Information:

OUT = Output: total sales and other income.

IN = Input: sales expenses and other costs (other than employee expenses).

2. Calculating Value Added Capital Employed (VACA)

VACA is an indicator for VA created by a unit of physical capital. This ratio shows the contribution made by each unit of CE to the organization's added value.

$$VACA = VA / CE$$

Information:

VACA = Value Added Capital Employed: ratio of VA to CE.

VA = value added

CE = Capital Employed: available funds (equity, net income)

3. Calculate the Value Added Human capital (VAHU)

VAHU shows how much VA can be generated with funds spent on labor. This ratio shows the contribution made by each rupiah invested in HC to the organization's added value.

$$VAHU = VA / HC$$

Information :

VAHU = Value Added Human capital: the ratio of VA to HC.

VA = value added

HC = Human capital: employee burden.

4. Calculate the Structural capital Value Added (STVA)

This ratio measures the amount of SC needed to produce 1 rupiah from VA and is an indication of how successful SC is in value creation.

$$STVA = SC / VA$$

Information :

STVA = Structural capital Value Added: ratio of SC to VA.

SC = Structural capital: VA - HC

VA = value added

5. Calculate the Value Added Intellectual Coefficient (VAIC).

VAIC indicates an organization's intellectual abilities that can also be considered as an indicator of company performance (Business Performance Indicator). VAIC is the sum of the 3 previous components, namely: VACA, VAHU, and STVA.

$$VAIC = VACA + VAHU + STVA$$

Institutional Ownership (KI)

Institutional ownership can encourage increased oversight of more optimal management performance, and reduce agency costs, so as to increase company performance (Sukirni, 2012).

$$\text{Constitutional Ownership} = \frac{\text{Number of Shares of Institutional Investors}}{\text{Number of shares outstanding}}$$

Independent Board of Commissioners (DKI)

Independent Commissioners are members of the board of commissioners who have no relationship with other members of the board of commissioners, members of the board of directors, and controlling shareholders. (Mohammad Samsul, 2006).

$$\text{Independent Board of Commissioners} = \frac{\text{Proportion of Independent Commissioners}}{\text{Total Number of Commissioners in the Company}}$$

Board of Directors (DD)

The board of directors is fully responsible for managing the company for the interests and purposes of the company and representing the company, both inside and outside the court in accordance with the provisions of the articles of association. (Siallagan&Machfoedz, 2006) measures the board of directors based on the number of members of the board of directors in the company in units.

$$\text{Board of Directors} = \text{Number of Members of the Board of Directors}$$

2. Dependent variable

Return on Assets (ROA)

Financial performance is measured based on the aspect of profitability that measures the level of effectiveness of company management on sales and investment income in the acquisition of profits in a period. The profitability ratio formula used is:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

Data Analysis and Hypothesis Testing Techniques

Data analysis method

This research uses multiple regression analysis. This analysis is carried out to find the presence or absence of the influence of independent variables (Intellectual Capital, Constitutional Ownership, Independent Board of Commissioners, Board of Directors) on the dependent variable (Return on Assets). The multiple linear regression equation model in this study is as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$$

Information:

Y = Return On Assets

β_0 = Constant

β_{1-4} = Regression coefficient of the independent variable

X₁ = Intellectual Capital

X₂ = Constitutional ownership

X₃ = Independent Board of Commissioners

X₄ = Board of Directors

e = Variable error (error terms) of 5%

III. Results And Discussion

Data Description

This study uses automotive companies and components listed on the Indonesia Stock Exchange as research samples. After making selections based on established criteria and pasting procedures, 55 samples were obtained in the year of observation. The sampling criteria are as follows:

Table 1
Sampling Research

Criterion Research Samples	Total Company
Automotive and components companies listed on the Stock Exchange 2014-2018 period	13
Automotive and components companies are not published its annual report and financial statements for the period 2014-2018	(0)
Automotive and components companies are not presenting the	(0)

financial statements in the Rupiah during the period 2014-2018	
Automotive and components companies who do not obtain a net profit during the period 2014-2018	(0)
Automotive and components companies who do not have the data associated with research during 2014-2018	(2)
total sample	11
Number of Years of Research	5
number of observations	55

IV. Research Results And Discussion

Research result

table 1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,661a	,651	,619	,611	1,124

a. Predictors: (Constant), DD, IC, DKI, KI

b. Dependent Variable: ROA

table 2 ANOVA

Model		Sum of Squares	df	mean Square	F	Sig.
1	Regression	1,433	4	,358	8,483	,000b
	residual	2,534	60	,042		
	Total	3,967	64			

a. Dependent Variable: ROA

b. Predictors: (Constant), DD, IC, DKI, KI

The statistical results in table 1 show that the R Square or determination coefficient of 0.651 means that ROA can be explained by Intellectual capital, constitutional ownership, independent commissioners, and the board of directors at 65.1 percent. Adjusted R Square of 0.619 or 61.9%, meaning that ROA is influenced by Intellectual capital, constitutional ownership, independent commissioners, and the board of directors at 61.9 percent. While the remaining 38.1% is influenced by other variables outside the regression model used. And the regression model is declared fit or fit, because the sig value or error rate of 0,000 is smaller than 0.05.

Table 3 Multiple Linear Regression Test Results

Model	Coefficients unstandardized		standardized Coefficients	t	Sig.	
	B	Std. Error	beta			
1	(Constant)	4,450	,331		13,440	,000
	IC	,002	,057	,005	,034	,010
	KI	,207	,050	,516	4,096	,000
	DKI	,192	,065	,340	2,946	,005
	DD	-,035	,043	-,085	,814	,419

The model of this research is as follows:

$$ROA = 4,450 + 0,002 IC + 0,207 KI + 0,192DKI - 0,035 DD + e$$

The results of testing the hypothesis are as follows:

1. Intellectual capital affects the Return On assets (ROA)

Intellectual capital variable shows t arithmetic = 0.034, regression coefficient value of 0.002 with a significance level of 0.010 < 0.05, so hypothesis 1 is accepted, showing that the Intellectual capital variable has an effect on ROA. According to Daneshi (2013), intellectual capital is able to contribute in terms of increasing the company's competitive position and being able to produce added value that leads to competitive advantage.

2. Constitutional Ownership influences Return On Assets (ROA)

The constitutional ownership variable shows t arithmetic = 4.096, the regression coefficient value is 0.207 with a significance level of 0.000 < 0.05, so hypothesis 2 is accepted, showing that the KI variable has a positive effect on ROA. High institutional ownership creates greater oversight, so as to reduce the opportunist behavior of managers (Wiranta and Nugrahanti, 2013).

3. The Independent Board of Commissioners influences Return On Assets (ROA)

The independent commissioner variable shows t count = 2.946, the regression coefficient value is 0.192 with a significance level of 0.005 < 0.05, so hypothesis 3 is accepted, meaning that the independent

commissioner variable influences ROA. Rini and Ghozali (2012) stated that the more independent commissioners, the better the company's performance. Research Müller (2014) states there is a significant positive effect on independent commissioners on company performance.

4. The Board of Directors has no effect on Return On Assets (ROA)

The board variable shows t arithmetic = 0.814, the regression coefficient value of - 0.035 with a significance level of $0.419 > 0.05$, so hypothesis 4 is rejected, indicating that the board of directors has no effect on ROA. The size of the board of directors that is too large causes agency problems. As a result, evaluations are difficult to do on the work of the board of directors, thereby reducing the company's performance. The results of this study, in contrast to the findings of Liu, Miletkov, Wei, and Yang, (2015) who examined the relationship between the board of directors and the performance of companies in China listed on the Shanghai Stock Exchange and Shenzhen Stock during 1999 to 2012. And found that the board of directors has positive relationship with the performance of Chinese companies.

V. Conclusions and suggestions

Intellectual Capital and Good Corporate Governance have become very valuable strategies for companies. According to Nuryaman (2015) and Maryanto (2017) Intellectual Capital influences company performance (Return on Assets). A high VAIC™ value will drive greater ROA.

The Good Corporate Governance mechanism represented by constitutional ownership and independent board of commissioners has a positive impact on company performance. This means that the presence of institutional ownership and independent commissioners are able to oversee management performance, so that financial performance increases. This statement is supported by research by Ficici and Aybar (2012) and Retno and Priantinah (2012), while the presence of the board of directors has not been able to influence the performance of the company, because the position of the board of directors is more like implementing company operational activities (Mollah, Farooque, and Karim, 2012).

The research population is limited to automotive companies and their components, so that researchers can then use other companies as populations, can add years of observation, and can add or modify with other variables.

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