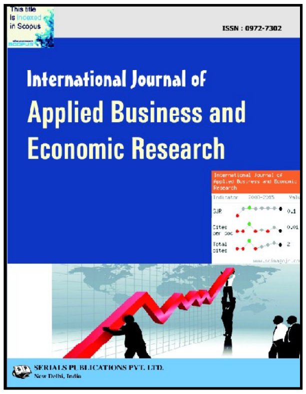

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The Influence of Intellectual Capital and Good Corporate Governance on the Financial Performance of Banking Companies Registered in Indonesia Stock Exchange

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Abstract: The inhibited performance of banking intermediaries resulted in profitability and efficiency declines reflected on ROA ratio going down to 2.32% in 2015 from 2.85% in the previous year. The purpose of this research is to determine the influence of intellectual capital and good corporate governance on financial performance of banking companies registered in Indonesia Stock Exchange in 2013 to 2015 both partially and simultaneously. Intellectual Capital is defined by the public model of Value Added Intellectual Coefficient (VAIC^{TM}) while Good Corporate Governance is defined by Institutional Ownership and Independent Commissioner. The dependent Financial Performance variable is defined by Return on Asset (ROA). Analysis method is multiple linear regression and classic assumption test supported by SPSS 2.0. This research uses the data of banking companies registered in Indonesia Stock Exchange in 2013 to 2015 with 42 populations and 29 company samples. Based on the results, it can be concluded that Intellectual Capital and Good Corporate Governance simultaneously affects Financial Performance measured by Return on Asset (ROA). As partially, Intellectual Capital affects Financial Performance measured by Return on Asset (ROA) but the variables Institutional Ownership and Independent Commissioner do not.

Keywords: Intellectual Capital, Good Corporate Governance, Institutional Ownership, Independent Commissioner, Financial Performance

1. INTRODUCTION

1.1. Background

The rapidly developing economy, especially in the field of information technology, changes many aspects of life. Significant changes happen to business behaviour and management in Indonesia as well as other countries in the world. The forming of ASEAN Society of Economy in the end of 2015 became the first chapter of economy quality development for the free market of Southeast Asia. The ASEAN Society of Economy has two sides of a currency for Indonesia. One side provide ample opportunity to prove the excellent quality of Indonesian products and resources, while the other could be a threat for Indonesia if the country squanders this opportunity. The existence of the free market could improve Indonesia's export but the country has to be aware of competition risks threatening the local industries in competing with superior foreign products.

Figure 1: Financial Performance (ROA)

It can be seen from the graph that the inhibited performance of banking intermediaries resulted in profitability and efficiency declines reflected on ROA ratio going down to 2.32% in 2015 from 2.85% in the previous year. Thus, banking companies have to improve their financial performance in order to survive the strict competition made even more challenging by the existence of the ASEAN Society of Economy.

1.2. Research Objectives

Based on the presented issues, the objectives of this research are:

1. To analyse the influence of Intellectual Capital on the Financial Performance of banking companies registered in Indonesia Stock Exchange.
2. To analyse the influence of Institutional Ownership on the Financial Performance of banking companies registered in Indonesia Stock Exchange.
3. To analyse the influence of Independent Commissioner on the Financial Performance of banking companies registered in Indonesia Stock Exchange.
4. To analyse the influence of Intellectual Capital and Good Corporate Governance on the Financial Performance of banking companies registered in Indonesia Stock Exchange.

1.3. Literature Review

1.3.1. Stakeholder Theory

The stakeholder theory is the theory that emphasises on organisation accountability way over financial performance or simple economy. The theory states that an organisation will voluntarily divulge information on environment performance and the social and intellectual aspects of the organisation beyond its obligation to fulfil the real expectation or standard approved by the stakeholder (Deegan, 2004).

1.3.2. Resource Based Theory

Resource Based Theory (RBT) is a theory that analyses and interprets organisational resources in order to comprehend how an organisation reaches its continuous competitive superiority. RBT is the new promising framework to analyse a source and its continuous competitive superiority (Barney, 1991; Peppard dan Rylander, 2001).

1.3.3. Intellectual Capital

Intellectual Capital is hard to understand, but once found and exploited, it could give an organisation a new resource to compete and win (Bontis, 1996). Bontis *et al.* (2000) generally states that researchers identify three main constructs of Intellectual Capital which are Human Capital (HC), Structural Capital (SC), and Customer Capital (CC).

1.3.4. Agency Theory

According to Jansen and Meckling (1976), agency relationship is a contract between a manager (agent) and an investor (principal). When the agent and principal make the effort to maximise their respective utilities with different will and motivation, then it is a reason not to trust the agent who may not act based on the principal's approval.

1.3.5. Good Corporate Governance

Corporate Governance is a concept to improve company performance through supervision or monitoring on the management's performance ensuring its accountability towards stakeholders based on the frame of regulations (M. Nasution and D. Setiawan, 2007). The implementation of Good Corporate Governance can be seen from Institutional Ownership which is the company's stock owned by financial institutions such as banks, insurance companies, pension fund companies, and investment banks; and Independent Commissioner consisting of three main elements affecting the effectiveness of a hall of commissioners the most, which are independence, competence, and commitment.

1.3.6. Financial Performance

Financial Performance is the determination of certain standards to measure the success of a company in making profits. Determining financial performance is influenced by some company qualities in making sales. A company can improve its sales and profits by creating interactive communications and convincing the customers.

1.3.7. Return on Asset (ROA)

Return on Asset (ROA) is a ratio measuring the profits made from every asset used. A company's capability in making profits in an opeartion is the main focus of the company's achievement assessment.

1.3.8. Banking

Banking is everything about banks, including institutions, business activities, and processes in running its main function as the collector and distributor of society's funds. Banking involves economy democracy and the principle of awareness.

1.4. Hypotheses

The hypotheses of this research are as follows:

H_1: Intellectual Capital affects Return on Asset (ROA).

H_2: Institutional Ownership affects Return on Asset (ROA).

H_3: Independent Commissioner affects Return on Asset (ROA).

H_4: Intellectual Capital and Good Corporate Governance simultaneously affect Financial Performance.

2. RESEARCH METHODOLOGY

2.1. Research Object

This research uses the data of banking companies registered in Indonesia Stock Exchange in 2013 to 2015.

2.2. Data Gathering Method

The data used in this research is secondary in nature. It consists of yearly financial reports from banking companies registered in Indonesia Stock Exchange from 2013 to 2015. The data was acquired from the Indonesia Stock Exchange website on http:\\www.idx.co.id. Based on the sample criteria with the purposive sampling technique, 29 out of 42 companies are deemed fit to be the research sample.

3. RESULTS AND DISCUSSION

Based on the data analysis, these following results are acquired:

Table 1
Multiple Regression Test Results

Model		*Unstandardised Coefficients*		*Standardised Coefficients*
		B	*Std. Error*	*Beta*
1	(Constant)	0.004	0.006	
	VAIC	0,005	0.001	0.658
	IO	0.002	0.003	0.063
	IndC	-0.016	0.008	-0.160

From the above data, the regression equation is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \ldots\ldots + \beta_n X_n + e$$

$$ROA = 0,004 + 0,005\ VAIC + 0,002\ IO - 0,016\ IndC + e$$

Table 2
Coefficient of Determination Test Results (R^2)

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	0.692	0.479	0.460	0.0062728

Based on the above results, R value is 0.692 with R-Square 0.479 which is the square value of 0.692. Meanwhile, the value of Adjusted R^2 is 46% (0.460). This shows that the independent variables (Intellectual Capital, Institutional Ownership, and Independent Commissioner) have 46% defining value on the Return on Asset (ROA). The remaining 54% is influenced by other variables not discussed in this research.

Table 3
F-Test Results

Variable(s)	*Calculated F*	*F Significance*	*Conclusion*
VAIC, IO, IndC, → ROA	25.387	0.000	Influential

From the above results, F value is 25.387 with significance value 0.000. It can be concluded that, with 0.000 significance which is less than 0.005, the hypothesis is accepted. Intellectual Capital, Institutional Ownership, and Independent Commissioner simultaneously affect Return on Asset (ROA).

Table 4
T-Test Results

Variable(s)	*Calculated T*	*T Significance*	*Conclusion*
VAIC	8.270	0.000	Influential
IO	0.735	0.465	Uninfluential
IndC	-1.874	0.064	Uninfluential

1. H_1. The significance value of Intellectual Capital (VAIC) towards Return on Asset (ROA) is 0.000 (less than 0.05). H_1 accepted. Intelletual Capital (VAIC) partially affects Return on Asset (ROA).
2. H_2. The significance value of Institutional Ownership (IO) towards Return on Asset (ROA) is 0.465 (more than 0.05). H_2 rejected. Institutional Ownership (IO) does not affect Return on Asset (ROA).
3. H_3. The significance value of Independent Commissioner (IndC) towards Return on Asset (ROA) is 0.064 (more than 0.05). H_3 rejected. Independent Commissioner (IndC) does not affect Return on Asset (ROA).

4. CONCLUSION AND SUGGESTIONS

4.1. Conlusion

Based on the above explanation and the data gathered, the conclusions of this research are:

Table 5
Summary of Research Results

Hypothesis	*Statistic*	*Result*	*Description*
H_1 Intellectual Capital	0,000	Influential	Higher Intellectual Capital value owned by a company means better financial performance. This shows that the company is capable of exploiting its Intellectual Capital to add value to itself and improve its financial performance.
H_2 Institutional Ownership	0.465	Uninfluential	Institutional Ownership is not directly involved in company operational.
H_3 Independent Commissioner	0.064	Uninfluential	The indirect role of Independent Commissioner in company management limits itself in improving financial performance.
H_4 Intellectual Capital, Institutional Ownership, and Independent Commissioner	0.000	Influential	The mechanism of Intellectual Capital and Good Corporate Governance as a simultaneous variable will affect a company's financial performance greatly when applied properly.

1. Intellectual Capital (VAIC) affects Financial Performance measured by Return on Asset (ROA) ratio of banking companies' registered in Indonesia Stock Exchange.
2. Institutional Ownership (IO) does not affect Financial Performance measured by Return on Asset (ROA) ratio of banking companies' registered in Indonesia Stock Exchange.
3. Independent Commissioner (IndC) does not affect Financial Performance measured by Return on Asset (ROA) ratio of banking companies' registered in Indonesia Stock Exchange.
4. Intellectual Capital and Good Corporate Governance simultaneously affect Financial Performance measured by Return on Asset (ROA) ratio of banking companies' registered in Indonesia Stock Exchange.

4.2. Suggestions

Based on the conclusion and limitations of this research, the following are suggested:

2. For future researchers
   Use more samples found not only in conventional public banks, but also in Shari'a public banks with a longer period of time in order to get maximum results. Add more dependent variables in terms of financial performance.
3. For investors
   Use Intellectual Capital as a consideration in making an investment instead of considering only the physical aspect of a company. Pay more attention towards the Good Corporate Governance of a banking company to ensure supervision and monitoring on financial performance, avoiding violations.
4. For banks
   The implementation of Good Corporate Governance is an essential matter in banking. This should be a focus of the banking world since it shores up the advancement of banking performance greatly.

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