The Influence of Corporate Governance, Intellectual Capital on Financial Performance and Firm Value of Bank Sub-Sector Campanies Listed at Indonesia Stock Exchange in Period 2008-2012

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Abstract
This study examines whether corporate governance and intellectual capital affects the financial performance and firm value. Data were obtained from 26 companies of banking sector over 5 years (2008-2012). The analysis technique was using GSCA (General Structure Component Analysis). The result indicates that Corporate Governance has a significant effect on the Financial Performance and Firm Value. Disclosure of Intellectual Capitalhas significant effect on the Financial Performance and Firm Value. Financial Performance has a significant effect on Firm Value. However, Corporate Governance is not significantly effecting on the Intellectual Capital. Also,disclosure of Intellectual Capital is not a significant effect on Corporate Governance. This study only used two indicators to measure the variables of Corporate Governance and Financial Performance, so that further research is expected to add another proxy allegedly have effect on the Financial Performance and Firm Value.
Keywords :corporate governance, disclosure of intellectual capital, financial performance, firm value.

1.Introduction

In the last decade,*corporate governance* was considered essential to be revealed and discussed. The concepts of *Corporate Governance* arise because of the existence of limitation from agency theory. Agency problem arise from the gap between the interest of the shareholders as owners of the company with management as an agent and triggera conflict of interest. *Corporate Governance is* creating control mechanisms to enable the creation of profit sharing system and the balance of wealth for shareholders and create efficiencies for company.

The issue of *corporate governance* began to be discussed since the various scandals which indicate poor *corporate governance*. Enron and World Com scandals in United States, Marconi in UK and Royal Ahold in Netherlands make the experts in finance give attention to the role of *corporate governance*. In Indonesia, many case of in-problem banking, (as in the case of Bank Lippo, Bank Summa, Bank BNI, and Bank Century) due to unhealthy banking practices and override the principles of *corporate governance* have happened (Suhardjanto, *et al*, 2012).

Corporate governance mechanism which is so important and should be a concern are the proportion of Independent Audit Committee and Independent Commissioner proportion, because by Ministerial of BUMN Decree Number 117/Year 2002, and BUMN's Law Number 19/Year 2003, the establishment of an audit committee is a must. Independent Commissioner has the best position in carrying out the monitoring function so that *good corporate governance* companies is created. Based on Decision of Board of Directors of the Jakarta Stock Exchange Inc. Number: Kep-305/BEJ/07-2004, company should has Independent Commissioner at least 30% (thirty percent) of overall Board of Commissioners member.

The expansion of foreign company into the Indonesian market requires domestic companies to further improve its value and performance. Company need to have the strength of market value as value added, company must corrected its internal condition. One of them is the intellectual ability of the company or intangible capital which can enhance the performance and competitiveness of company.

Researches on the influence of *corporate governance and intellectual capital* on *financial performance* and *firm value* arenot much conducted before. Research by Hidalgo *et.al.* (2011) found that company with larger audit committee usually reveals greater *intellectual capital* in their annual report. Falikhatun, *et. al.* (2011) examine the influence of *corporate governance* on disclosure of *intellectual capital* at banking sector in Indonesia and the result is *corporate governance* with proxy independent commissioner doesn't affect the disclosure of *intellectual capital*.

Research in Indonesia on *intellectual capital* and *corporate governance* on *financial performance* and *firm value* is relatively rare. Several research were conducted, among others is by Ningrum and Raharjo (2012). They conducted research titled Analysis of the Influence of *intellectual capital* and *corporate governance* on *financial performance* and find that the variable of *intellectual capital* as measured by VAIC has a positive significant effect to profitability of ROA. The proportion of independent commissary has a significant effect on ROA but in

negative direction. Higher proportion of independent commissary would likely have result in a lower ROA.
Nugroho, (2012) in its research on factors influencing the disclosure of *intellectual capital* in manufacturing company listing on the Stock Exchange in 2010, it can be concluded that there is no influence of a variable proportion of independent commissary on the disclosure *intellectual capital* either simultaneously or partially.
The debate on the result of previous studies about the influence of *corporate governance*, *intellectual capital* on *financial performance* and *firm value* has motivated researchers to reexamine the arguments about the influence of *corporate governance* and *intellectual capital* on the *financial performance* and *firm value.*

1.1 Research Question

1. Is *corporate governance* have an effect on *intellectual capital*
2. Is *intellectual capital* have an effect on *corporate governance*
3. Is *corporate governance* have an effect on *financial performance*
4. Is *corporate governance* have an effect on *firm value*
5. Is *intellectual capital* have an effect on *financial performance*
6. Is *intellectual capital* have an effect on *firm value*
7. Is *financial performance* have an effect on *firm value*

1.2Research Objective

1. Examine and explain the influence of *corporate governance* on *intellectual capital*
2. Examine and explain the influence of *intellectual capital* on *corporate governance*
3. Examine and explain the influence of *corporate governance* on *financial performance*
4. Examine and explain the influence of *corporate governance* on *firm value*
5. Examine and explain the influence of *intellectual capital* on *financial performance*
6. Examine and explain the influence of *intellectual capital* on *firm value*
7. Examine and explain the influence of *financial performance* on *firm value*

2. Literature Review

In 1992, Cadburry Committee through what was called Cadburry Report issued a definition of *corporate governance* which is principle of instructing and controlling of the companies in order to reach a balance between strength and authority. According to Emirzon (2007),*corporate governance* is "as participants in determining the direction and performance of corporations". Asian Development Bank explains that *corporate governance* contains four main values: accountability, transparency, predictability and participation.
In general, governance practices can be distinguished based on the Anglo-Saxon model (as found in US, UK, and Australia) and continental European models (as found in Germany, French, and Netherlands) with its variants as implemented by the Japanese (Charkham, 1995 and Garrat, 2003).
Intellectual capital (IC) started when Tom Steward, in June 1991, wrote an article entitled Brain Power-How Intellectual Capital Is Becoming America's Most Valuable Asset, which introduces *intellectual capital* to management (Ulum, 2009). In his article, Steward defines *intellectual capital* as follows:
"The sum of everything everybody in your company knows that gives you a competitive edge in the market place. It is intellectual material – knowledge, information, intellectual property, experience – that can be put to use to create wealth".
Definition of *intellectual capital* has been widely expressed by several researchers. Moasvi *et.al.* (2012), stated that *intellectual capital* is the equity based on organization knowledge. According to Chen in Lee *et.al* (2010) was defining *intellectual capital* as all skill, knowledge, information, experience, ability to solve problem and policies that displayed the company as a whole and includes human capital, structure capital, and customer/relational capital.
According Falikhatun, *ET al. (2011), there are* many models of *intellectual capital* suggested by experts, which has been used by previous studies.

Table 1.Models of *Intellectual Capital*

No	Studies	Intellectual capital model
1	Brooking, 1996 (UK)	Human-centered assets, Infrastructure assets, Market assets, and Intellectual property
2	Roos, Roos & Edvinsson, 1997 (UK)	Human capital, Organizational capital, Relational capital, and Renewal and development capital
3	Stewart, 1997 (US)	Human capital, structured capital, and Customer capital
4	Svelby, 1997(Sweden)	Human capital, Internal capital, and External capital
5	Edvinnson and Malone, 1997 (Denmark)	Human capital, Process capital, Customer capital, and Innovation capital
6	Allee, 2000 (US)	Human capital, Corporate identity, External relationship, and Internal Structure
7	Bontis et al., 2000 (Canada)	Human capital, Structured capital, Relational capital and Intellectual property
8	New Guideline, 2003 (Denmark)	Employees, Process, Customers, and Technologies

Source : Hunter, *et.al*, 2005

Performance is a pattern of actions to reach the goals which is measured by comparing with the various standards, and it can be stated that the performance was the work of the managers or the organization in carrying out the tasks assigned to them. Corporate performance is the result of many individual decisions which are made continuously by the management of a company.

In running a company, *financial performance* is very important thing to be measured and monitored its progress from year to year. Information about *financial performance* is a useful thing, one of them is to establish further policies to be taken by the management. In some discourse about *financial performance*, *intellectual capital* and *corporate governance* as the elements that need to be disclosed and applied to assess a company becomes increasingly considered, (Ningrum and Rahardjo, 2012). Research relating to *financial performance* conducted with indicators ROA and ROE.

Modigliani and Miller (1958), explain that *firm value* is the total sum of the market value of debt to market value of the stock. While Ros *et.al* (2008) expressed that *firm value* is equal to the market value of debt and equity, subtracted by cash and equivalents to cash acquired by company.

*Firm value*is very important because the high value of the company will followed by higher shareholders prosperity (Brigham and Houston, 2011). The higher stock price, the higher the *firm value*. Shareholder and the company's prosperity is represented by the price of market shares as reflection of the investment decision, financing and asset management.

2. Conceptual Framework and Research Hypothesis

Corporate governance in the narrow sense are basically talking about two aspects, namely: governance structure and governance mechanism in company. Governance structure is a structure of accountability relationship and division of roles between the various major organs of the company which is shareholders as the owners of the company, the commissioner as supervisors, and directors / management as the manager of the company.

Governance mechanism discuss on the work mechanism and actual interaction between the organs. Actual interaction among the organs may run off course from the existing structure although governance mechanism is influenced by governance structure.

Figure 1 as a concept model which is the crystallization of theoretical study shown the variables consist of *corporate governance, intellectual capital,* and the variables consist of *financial performance* and *firm value*

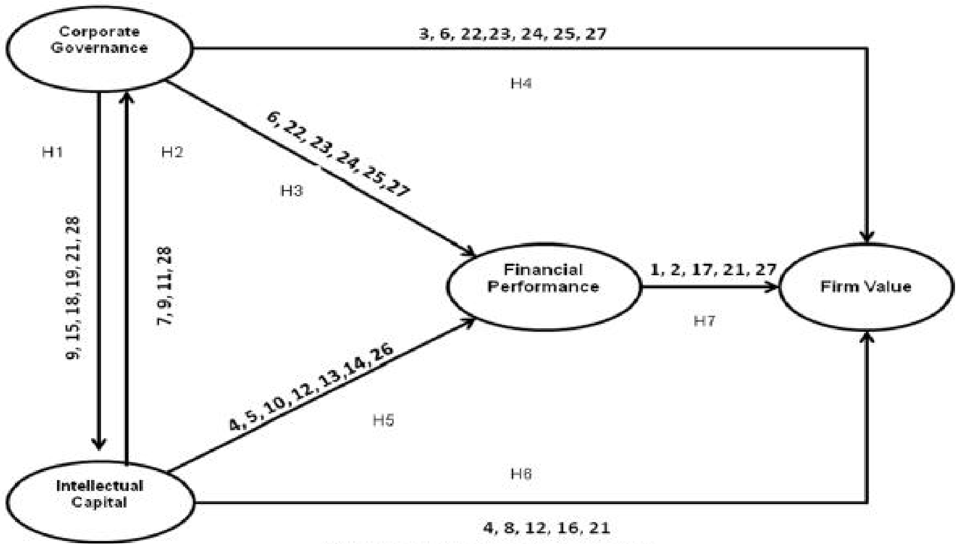

Figure 1 Conceptual Model

Description :

1. Demsetz and Villalonga (2001)
2. Chung et. al. (2003)
3. Hiraki, Inoue, Ito, Kuroki and Masuda (2003).
4. Tayles, Pike and Sofian (2007)
5. Cohen and Kaimenakis (2007)
6. Abdullah, Shah and Hassan (2008).
7. LiJing, Richard Pike and Roszaini Haniffa, (2008)
8. Orens,Aerts and Lyhaert (2009)
9. Safieddine and Noureddin (2009)
10. Zeghal and Maaloul (2010)
11. Lee, Wu and Chang (2010)
12. Maditinos D. Chatzoudes D., Tsairidis Ch and Theriou G (2011)
13. Wang Dan, (2011)
14. Phusavat, Comepa, Lutek and Ooi (2011)
15 Hidalgo, Garcia-Meca and Martinez (2010).
16. Karacan and Ergin (2011).
17. Gill Amarjid and Neil Mathur (2011)
18. Taliyang and Jusop (2011).
19. Falikhatun, Aryani and Prabowo, (2012).
20.Wu, Lee and Wang (2012)
21. Al-Musalli and Ku-Ismail (2012)
22. Kumar and Singh (2012).
23. Gill and Obradovich (2012)
24. Syripoulos and Tsatsaronis (2012)
25. Fallatah and Dickins (2012)
26. Alipour (2012)
27. Adi Tri Wahyu, Suhadak, Ragil and Mangesti (2013)
28.Abdul Wahid, Nor Asyiqin Abu, Latif & Malcolm Smith, (2013)

2.1 Hypothesis

Based on the background, basic theory, previous research, and the conceptual framework, then the hypothesis can be arranged. Alternative hypothesis to be tested in this study are as follows:

H1 : There is a significant effect of *corporate governance* on *intellectual capital*.
H2 : There is a significant effect of *intellectual capital* on *corporate governance*
H3 : There is a significant effect of *corporate governance* on *financial performance*
H4 : There is a significant effect of *corporate governance* on *firm value*
H5 : There is a significant effect of *financial performance* on *intellectual capital*
H6 : There is a significant effect of *intellectual capital* on *firm value*
H7 : There is a significant effect of *financial performance* on *firm value*.

3. Research Methods

This research used explanatory research, in which the research was conducted for the purpose of explaining the causal relationship between variables by testing the hypothesis (Cooper and Schindler, 2001).

The selection of sample was using Purposive Sampling, the number of sample is 26 banks listed on the Stock Exchange from 2008-2012.

Data for this study were obtained from the financial statements and annual reports and ICMD Bank subsectors company listed in BEI. Data analysis techniques are used to answer the research hypothesis testing and use the General Structure Component Analysis (GSCA).

4. Analysis and Result

The result of descriptive analysis for each variables indicator can be seen at Table 2.

Table 2.The result of descriptive analysis for Variables *Corporate Governance*, *Intellectual Capital*, *Financial Performance*, and *Firm Value*.

Indicator	**Minimum**	**Maximum**	***Mean***	***Std. Deviation***
Variabel*Corporate Governance*				
Proportion of Independent Audit Committee	0,25	1,00	0,56	0,10
Proportion of Commisary Independent	0,14	1,00	0,58	0,25
Variabel*Intellectual Capital*				
Value Added Capital Coefficient (VACA)	-0,37	0,89	0,21	0,17
The Human Capital Coefficient (VAHU)	0,02	5,77	1,22	0,97
Structural Capital Coefficient (STVA)	-5,56	7,80	-0,25	1,27
Variabel*Financial Performance*				
Financial Performance (ROA)	-52,09	5,15	1,20	5,14
Financial Performance (ROE)	-135,64	474,21	14,50	43,91
Variabel*Firm Value*				
Firm Value (MBR)	-1,74	8,55	1,81	1,54
Firm Value (*Tobin's Q*)	0,14	1,70	0,52	0,24
Firm Value (*Closing Price*)	1,69	4,02	2,79	0,65

Source : Data processed in 2014

Analysis result of confirmatory factor is completely presented at value loading factor of every indicator of each variable which can be seen in Table 3 to Table 6.

Table 3 Loading factor of indicator of Corporate Governance Variable

No.	Indicator	*Loading/Weight*
1.	X1.1	0.368
2.	X1.2	0.368

Table 3 showed that the indicator of the proportion of independent audit committee (X1.1) has Loading/Weight 0.368 and the proportion of independent directors (X1.2) has value Loading/Weight 0.368. This indicates that (X1.1) and (X1.2) have a same weight contribution and have an effect on *Corporate Governance*.

Table 4 Loading Factor indicator of Intellectual Capital Variable

No.	Indicator	*Loading/Weight*
1.	X2.1	0.419
2.	X2.2	0,461
3.	X2.3	0,368

Table 4 showed that the indicator of *The Human Capital Coefficient* (VAHU) (X2.2) has value of loading/weight of 0.461 and *Value Added Capital Employed* (VACA) (X2.1) has a value of loading/weight of 0.419, and *Structural Capital Value Added* (X2.3) has value of loading/weight 0.368. It indicates that indicator (X2.2) is a dominant indicator that explains the *intellectual capital*, then (X2.1) and followed by (X2.3) which has the lowest contribution on *Intellectual capital*.

Table 5 *Loading Factor* indicator of *Financial Performance* Variable

No.	Indicator	*Loading/Weight*
1.	Y1.1	0.537
2.	Y1.2	-0,537

Table 5 showed that the indicators ROA (Y1.1) has value of loading/weight -0.537 and ROE (Y1.2) has value of loading/weight 0.537. it indicates that (Y1.1) and (Y1.2) have a weight the same dominant contribution on *Financial Performance* despite having the opposite direction.

Table 6 *Loading Factor* indicator of *Firm Value* Variable

No.	Indicator	*Loading/Weight*
1.	Y2.1	0,450
2.	Y2.2	0,414
3.	Y2.3	0,420

Table 6 showed that the indicator MBR (Y2.1) has a loading/weight -0.450 dominant, *Closing Price* (Y2.3) has a loading/weight 0.420 and Tobin's Q (Y2.2) has value of loading/weight 0.414. it is indicates that (Y2.1) is an indicator of the dominant and (Y2.3) to influence *Firm Value*, then followed (Y2.2) has the lowest contribution on *Firm Value*.

Analysis result of GSCA give value of FIT of 0.315 or variable in the model able to explain diversity or phenomenon of 31,5%, and the rest (68,5%) was explained by variable that are not included in model.

The examination of hypothesis at this research were conducted by examine the band in structural models which is significant. To know the band relation (influence) which is significant, we conducted t-test on hypothesis :

H_0 : Distinct real coefficients of 0 ($\beta_i = 0$) → no significant influence.
H_1 : coefficients significantly different from 0 ($\beta_i \neq 0$) → significant influence.
And the statistic test t (=CR) with the formula :

$$CR = \frac{\hat{\beta}}{SE(\hat{\beta})}$$

Where *SE (β)* is standard error of a band coefficient which is tested by using technique of *resampling bootstarp*.

Methods of decision making referson P value and real level (α) of 0.05. If P <α then H_0 rejected and if P >α then H_0 accepted.
Result of test of P value for each band coefficient can be seen at table 7 and followed by diagram of band after trimming is also presented in Figure 2 below.

Table 7 Estimation result and P value of each band coefficient

Band Coefficient					
	Estimate	**SE**	**CR**	**P**	**Description**
X1->X2	0,057	0,052	1,08	0,282	Not Significant
X2->X1	0,059	0,045	1,31	0,193	Not Significant
X1->Y1	-0,065	0,015	4,2	0,000	Significant
X1->Y2	-0,164	0,032	5,1	0,000	Significant
X2->Y1	0,758	0,035	21,56	0,000	Significant
X2->Y2	0,418	0,032	12,98	0,000	Significant
Y1->Y2	0,407	0,017	24,46	0,000	Significant

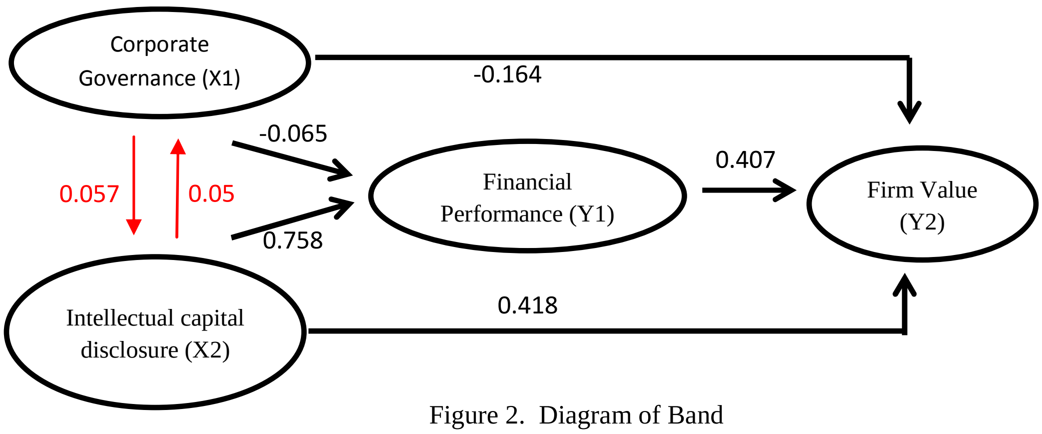

Figure 2. Diagram of Band

5. Hypothesis Result and Discussion

1. *Corporate Governance* has no significant effect on the *Intellectual capital.*

   Practice *of Corporate Governance* with indicators at Proportion of Independent Audit Committee and Independent Commissioner proportion have no significant effect with the direction which are positive to *Intellectual capital*. It described that the addition of an independent audit committee members and independent board is made on simply to comply with the formal requirement only, while the majority shareholders still plays an important role, so that the performance of the board is not increased (Gideon, in Carningsih 2010). These result also support the opinion (Tirta, in Carningsih 2010) which expressing that independent audit committee and the independent board by company only for regulatory compliance and not to be intended to enforce GCG in the company.
2. Disclosure of *intellectual capital* have an effect not significant on *corporate governance*.

Disclosure of *intellectual capital* with VAIC approach has an effect not significant with positive direction to *corporate governance*. Disclosure of *intellectual capital* and the existence of corporate governance practice were done only to comply with the provisions of Accounting Standards (IFRSs) and BAPEPAM and only focus on the performance of the company, so that disclosure of *intellectual capital* with VAIC approach is expected to create value added for the company. Zulkarnain & Mahmud (2013) mentions one of the cause is due to climatic factors of capital markets which have not yet stable in 2009 so that the company prefers to make report on the performance of the company only and overrule of voluntary reports.

3. *Corporate governance* has an significant effect and negative on *financial performance*.

   It indicates the existence of other variable outside the model which is more influencing on *financial performance* in banking company, because banking practices in Indonesia is disregard or overrules the principles of *corporate governance* (Suhardjanto *et.al* 2012).

4. *Corporate governance* has an significant effect and negative on *firm value*.

   It indicates the existence of other variables outside the model which is more influencing on *firm value* of banking company, for example global economic conditions, government policies, rules of law, political situation and others. *Corporate governance* variables have not been able to positively effect to *firm value.* Good Corporate Governance affects the company's stock price in the long term. This matter probably because market response to the implementation of corporate governance is not directly, and will require time.

5. Disclosure of *intellectual capital* is significantly influences the *financial performance*.

   The analysis result of line coefficient analysis was yielding 0.758 and P 0.00, so it can be said that the disclosure of *intellectual capital* has significant effect on *financial performance*. It can be said that any change in the variable disclosure of *intellectual capital* in the Banking sector companies listed on the Stock Exchange at 1will lead to changes on the *financial performance* variables on Banking sector companies listed on the Stock Exchange amounted to 75.8% and vice versa. The findings of this study are consistent with previous studies (Chen *et al.*(2005), (Tayles *et al.(2007)*,(Cohen & Kaimenakis (2007), (Zeghal & Maaloul (2010), (Wang (2011), (Maditinos*et al.*(2011), (Karacan and Ergin (2011), (Wu*et al.*(2012), which express disclosure of *Intellectual capital* have an significant and positive effect on *financial performance.*

6. Disclosure *of intellectual capital* significant effect on *firm value.*

   Effect of *Intellectual Capital* Disclosure of the *firm value* using VAIC *(Value Added Intellectual Coefficient)* method, where data and indicators disclosure of *Intellectual capital* can be seen at the company's annual financial statements, so that investors can directly understand the *value added* of the company it self, due to increase of *firm value* or the market value of the company should have *value added.* Ulum (2009) expressed that investors will give legitimacy positively to companies owning high expression *intellectual capital*, investors will assess that the company which has revealed *Intellectual Capital* totally.

7. *Financial performance* has a significant effect on *firm value.*

   The results of line coefficient analysis was yielding 0.407 and P 0.00, so it can be said that the *Financial performance* has significant influence on *firm value* at the Banking sector companies listed on the Stock Exchange from 2008-2012, thus it can be said *financial performance* has significant effect on *firm value.* This finding is consistent with the results of the study (Ulupui (2007), (Chung*etal.*(2003), (Gill & Obradovich (2012), (Gill & Neil (2011), Adi*et al* (2013)the result is that *financial performance* significant effect *with firm value.*
   The main objective of the company is to maximize *firm value.* This target is not only represent importance to all stockholders, but also will give the best benefits for society (Keown, *et al* 2004). The increase in *firm value* can be achieved if the company can achieve profits or profit target.

6.Conclusions and Recommendations

Based on the research findings, then some research conclusions can be stated as follows:

1. *Corporate governance* have an effect not significant on *intellectual capital* in the sub-sector banks companies listed on the Stock Exchange from 2008-2012.
2. Disclosure of *Intellectual capital* have an effect not significant on *corporate governance* of banking sub-sector companies on Stock Exchange 2008-2012.
3. C*orporate Governance* have a significant effect in negative direction on *financial performance* in banking sub-sector companies listed on the Stock Exchange from 2008-2012.
4. *Corporate governance* have a significant effect in negative direction on *firm value* in banking sub-sector companies listed on the Stock Exchange 2008-2012.
5. Disclosure *of Intellectual Capital* significantly influences the *financial performance*. *Capital* in banking sub-

sector companies listed on the Stock Exchange from 2008-2012.

6. Disclosure of *intellectual capital* significant effect on *firm value* banking sub-sector companies listed on the Stock Exchange from 2008-2012.
7. *Financial Performance* have an significant effect on *firm value* in sub-sector banking companies listed on the Stock Exchange from 2008-2012.

Suggestion in this research based on research findings and the limitations of the study

1. Suggestions for Further Research

   Future research is recommended in order to examine the effect *of corporate governance* on *intellectual capital* in different industries, include other indicators.
2. Suggestions for management and practitioners

   To banking sector company management and owner is suggested to carry out the banking sector based on the principles of *corporate governance* and regulations consistently and consequent, revealing *intellectual capital* with *VAIC* approach in accordance with Indonesian accounting standards or international accounting standard.
3. Financial Services Authority and the Indonesian Institute of Accountants can set standards and regulations of intellectual capital with Value Added Intellectual Coefficient*(VAIC)* approach.

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