

Corporate Governance and Intellectual Capital on Financial Performance of Bank Sector Companies: Indonesia Stock Exchange 2008-2012

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Abstract

The aim of this study was to assess the influence of corporate governance and intellectual capital on financial performance of Bank Sector companies. The bank sector companies as unit data is listed at Jakarta Indonesia Stock Exchange (IDX) period 2008-2012. These unit data was represented by the audited financial statements of company and historical data of stock prices in Indonesia Stock Exchange from the year of 2008 to 2012. Companies sampled in the study were only companies which meet the sampling criteria, i.e. 130 companies. Data was analysed with Generalized Structured Component Analysis (GSCA). Result of research indicates that corporate governance does not have significant influence on the intellectual capital. Similarly, that intellectual capital does not have significant influence on corporate governance. However, corporate governance and intellectual capital significantly influence financial performance of banking sector companies listed at the IDX in 2008-2012. It means that any changes in corporate governance and intellectual capital may impact on the financial performance of the banking sector companies listed at IDX

Keywords: Corporate Governance, Intellectual Capital, Financial Performance.

Introduction

The current trend of global economy requires the companies to have high competitive ability in the challenging global market. The ability is very important and leads to a knowledge-based resources as a major factor in maintaining the competitive advantage for the company (Kiong and Lean, 2009).

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This is in line with the opinion of Al-Musalli and Ku-Ismail (2012) who stated that with the presence of the knowledge-based economy, intellectual capital compared to physical and financial capital becomes one major factor in creating corporate value as well as maintaining the competitive advantage of the companies. The emergence of "new economy" that is principally driven by developments in information technology and science has also showed the growing interest in the disclosure of intellectual capital (Bontis, 2002).

Related to that, the issue of corporate governance has become heated discussion since the occurrence of the various scandals which indicate poor corporate governance. Such scandals like Enron and WorldCom in the US, Marconi in Britain and Royal Ahold in the Netherlands have made financial experts put their concern to the role of corporate governance. Institutional investors start evaluating the role of corporate governance in their investment policies.

In Indonesia, for example, the number of troubled banks cases (such as in the case of Bank Lippo, Bank Summa, Bank BNI and Bank Century) were because of an unhealthy banking practices and undermining the principles of corporate governance by the company management has been going on (Suhardjanto et al. 2012). The acknowledgement related to the influence of intellectual capital on the creation of value and competitive advantage of the company has increased, but an exact proportion for the intellectual capital has been still being developed. Pulic (2000) suggests an indirect measurement of the intellectual capital on the efficiency of the value added generated by the intellectual ability of the company (Value Added Intellectual Coefficient - VAIC).

In the developing countries, such as in Indonesia, the presence of banking industry becomes very important in the process of economic development. The focus of the selection sub-sector bank as the research object in this study was due to some reasons, namely (a) bank is a business sector that is "intellectually intensive" (Joshi et al, 2012); (b) bank also includes service sector, where customer service is very dependent on the intellect, mind, intelligence of the human capital; (c) bank is an institution that is known as risk-taking entity (van Oorschot, 2009); (d) bank in conducting its operational activities is more associated with risks as compared to manufacturing companies and other enterprises; and (e) banking is considered to have a high level of regulation as stipulated by the Regulations of Bank Indonesia.

Research on the influence of corporate governance and intellectual capital to the financial performance, to the researcher, has not been conducted. Taliyang and Mariana (2011) explained that the disclosure of intellectual capital in the company was 72.6%, but the level of disclosure of intellectual capital within Malaysian companies was still relatively low at around 3.45%.

Besides, it was also found that the corporate governance had a positive and significant relationship effects on the level of intellectual capital, while the measurement of the audit committee does not have a significant relationship with the disclosure of intellectual capital.

Similarly, a study conducted by Al-Musalli and Ku-Ismael (2012) on intellectual capital and Board Performance Characteristics of GCC Banks in the period of 2008 to 2010. The independent variable was independent commissioner; the dependent variable was the performance of the intellectual capital of the banks. The results showed that the performance of intellectual capital on the banks listed at the GCC was low. The proportion of independent directors also has a significant negative correlation with the performance of intellectual capital on the banks registered in the Arab states' Gulf Cooperation Council (GCC).

Further Wu et al. (2012) has conducted a research on the Company Design in Taiwan. The assessment was on the intellectual capital affected the performance of the organization by considering corporate governance as moderating variable, using CFA analysis tools. The results of the research showed that the intellectual capital and corporate governance had a positive and significant impact on the performance of company's organization.

The research by Safieddine et al. (2009), however, provided findings that intellectual capital enhanced the ability of AUB (American University of Baerut). There was also a significant relationship between the corporate governance and intellectual capital, but having a weak relationship between the intellectual capital and corporate governance at AUB (American University of Baerut). The presence of foreign companies to the Indonesian market demand the domestic companies and enterprises to improve the value and performance of the company in time of facing the increasing competition in the global economy trend.

In the repairing process, the company should gain more relevant information about the elements that are measured. It is not only tangible assets but also intangible assets in order to disclose the value and performance of the company. In addition to improving the disclosure of financial statements in the form of the disclosure of intellectual capital, a company is also necessary to carry out the implementation and management of good corporate governance (Ningrum and Rahardjo, 2012). Thus, our study was aimed to assess the influence of corporate governance and intellectual capital on financial performance of Bank Sector companies that listed in the Jakarta Indonesia Stock Exchange (IDX) period 2008-2012.

2. Research Method

The purpose of this study was to measure the influence of corporate governance and intellectual capital to the financial performance through explanatory research. The research was conducted with a perspective to explain the causal relationship within the variables through hypothesis testing (Cooper and Schindler, 2001). In the terms of the legality of data, this research was *ex post facto* as the research data were sourced from the financial statements and annual reports of the companies that have been published without any changes of the content. The data collection in this study was through observation as the data can only be read and gathered from the financial statements and annual reports that have been published in accordance with the research variables to be studied.

2.1. Research Location

The unit of analysis in this research was the banking sector companies listed at the Indonesia Stock Exchange (IDX) by retrieving data from ICMD, financial statements and annual reports of these companies. The research location was at the bank sector companies located or operating in the territory of the Republic of Indonesia and listed at the Indonesia Stock Exchange (IDX) during 2008-2012 periods.

2.2. Population and Samples

The population of this study was go-public companies in banking sector listed at the Indonesia Stock Exchange (IDX) Jakarta in 2008-2012 amounted to 35 banks.

The sampling method was done by using purposive sampling, whereas the company as the sample under consideration and meet the criteria of a variable as follow:

1. The companies are listed at Indonesia Stock Market within 2008 to 2012.
2. The companies' stocks were in active transaction during the research time
3. The companies should have information publications about financial statements and annual reports routinely within 2008 to 2012.
4. The companies should apply corporate governance, consisting of the proportion of audit committee and the proportion of independent commissaries.
5. Each annual report and financial reporting should disclose the information about the intellectual capital

Based on the above criteria using purposive sampling techniques, it could be determined the amount of sample consisting of 26 banks. It was done because there were 9 other banking sector companies were not listed at the IDX since 2008, the number of samples can be seen in Table 1.

The samples in this study were bank sector companies listed at the Indonesia Stock Exchange until 2007 and still active within 2008 to 2012 with a complete and continuous the annual report, financial statements and ICMD of the year from 2008 to 2012. The amount of sample was as much as $26 \times 5 \text{ years} = 130 \text{ samples}$.

Table 1: Samples of Bank Sector Companies

No	CODE	NAME OF THE COMPANIES
1	AGRO	Bank Rakyat Indonesia Agro Niaga Tbk.
2	BABP	Bank ICB Bumi Putera Tbk.
3	BACA	Bank Capital Indonesia Tbk.
4	BBKP	Bank Bukopin Tbk.
5	BBNI	Bank Negara Indonesia (Persero) Tbk.
6	BBNP	Bank Nusantara Parahyangan Tbk.
7	BBRI	Bank Rakyat Indonesia (Persero) Tbk.
8	BCIC	Bank Mutiara Tbk.
9	BDMN	Bank Danamon Indonesia Tbk.
10	BEKS	Bank Pundi Indonesia Tbk.
11	BKSW	Bank KesawanTbk.
12	BMRI	Bank Mandiri (Persero) Tbk.
13	BNBA	Bank BumiArthaTbk.
14	BNGA	Bank CIMB NiagaTbk.
15	BNII	Bank Internasional Indonesia Tbk.
16	BNLI	Bank Permata Tbk.
17	BSWD	Bank Swadesi Tbk.
18	INPC	Bank Artha Graha International Tbk.
19	MCOR	Bank Windu Kentjana International Tbk.
20	NISP	Bank NISP OCBC Tbk.
21	SDRA	Bank Himpunan Saudara Tbk..
22	BVIC	Bank Victoria Internasional
23	MAYA	Bank Mayapada Internasional
24	MEGA	Bank Mega Tbk
25	PNBN	Bank Pan Indonesia Tbk
26	BBCA	Bank Central Asia Tbk

Source: Data processed (2014)

2.3. Types and Sources of Data

The type of data in this research was quantitative data and it was secondary data. Data for this study were obtained from the financial statements and annual report and ICMD bank sector companies listed at the Indonesia Stock Exchange until 2007 and active within 2008 to 2012 were downloaded from the official website of Indonesia Stock Exchange (www.idx.co.id).

The data used in this research were the study of documentation, in the form of ICMD, financial statements and the annual report within 2008-2012. This was done by collecting, recording, and calculating the relevant data with the study.

2.4. Operational Definition

There were three variables being studied in this research, namely corporate governance, intellectual capital, financial performance. The following is detail explanation of each variable.

2.4.1. Corporate Governance

Corporate governance is a set of rules system to direct and control the company for the stakeholders' interests. Corporate governance in this study was measured using indicators Proportion of the Independent Audit Committee and Independent Commissioners.

a. Independent Audit Committee. The basic reason of the establishment is to empower the commissioner in conducting supervising function. An effective audit committee will help to create transparency and quality of financial reporting, compliance to applicable regulations, and also the internal controls are adequate (Lee et al., 2010). The audit committee is another mechanism that has impact on internal corporate governance to improve the quality of financial management and performance of the company (Coleman, 2007). In this study, the proportion of Independent audit committee was a percentage of an independent audit committee members held by the company.

$$\text{Independent Audit Committee Proportion} = \frac{(\sum \text{Independent Audit Committee})}{(\sum \text{Audit Committee})} \times 100\%$$

b. Independent Commissioners. To implement good corporate governance, the Indonesia Stock Exchange (IDX) requires the registered companies to have an independent commissioner. The independent commissioners will serve to provide an objective and independent assessment that can be use as the bases for the Board in decision-making process (Tricker, 1994).

The independent commissioners become the best position to carry out the monitoring function in order to establish a company with corporate governance. It is also suggested that the inclusion of commissioners from outside the company (independent commissioner) may increase the effectiveness of the Board in supervising the company's management to prevent any fraudulent related to financial statements (Beasley, 1996). The proportion of independent commissioner in this study is refers to the study Eng and Mak (2003).

$$\text{Independent Commission Proportion} = \frac{\sum \text{Independent Commission}}{\sum \text{Commission}} \times 100\%$$

2.4.2. Intellectual Capital

Intellectual capital in this research was referred as the performance of intellectual capital as measured by value added created by the indicator Value Added Capital Employed (VACA), Value Added Human Capital (VAHU) and Structural Capital Value Added (STVA). The combination of these three value added was symbolized by the name of VAIC developed by Public (1998).

a. Value Added Capital Employed (VACA)

VACA is a comparison between the value added (VA) with physical capital works (CA). This ratio is an indicator for the VA made by a unit of physical capital (Pulic, 1998), with the following formula:

$$\text{VACA} = \frac{\text{VA}}{\text{CA}}$$

b. Value Added Human Capital (VAHU)

VAHU is how much VA formed by fee expenses by the workers (Human Capital). The relationship between VA and HC indicates the ability of HC to make the value on a company. Thus, it indicates the ability of HC to create the value in a company (Public, 1998).

$$VAHU = \frac{VA}{HC}$$

c. Structural Capital Value Added (STVA)

STVA shows the contribution of structural capital (SC) in the formation of values. SC is VA reduced by HC. HC contributes to the formation of greater value contribution SC (Public, 1998).

$$STVA = \frac{SC}{VA}$$

The ratios were the calculation of intellectual ability of a company. This formulation was the number of coefficients previously mentioned. The result was a new and unique indicator, i.e. VAIC, which indicates the ability of intellectual capital of the organization that can also be considered as Business Performance Indicators (BPI).

2.4.3. Financial performance

Financial performance is a measure of the company achievements, in the form of financial statements of the companies in a given period, e.g. annual financial statement. In the study, financial performance was measured by indicators of ROA and ROE.

a. Return on Assets (ROA). It reflects the company's business benefits and efficiency in the utilization of total assets. ROA can be calculated by the following formula (Brigham and Houston, 2011):

b.

$$ROA = \frac{\text{Net Income After Tax}}{\text{Total Asset}} \times 100\%$$

c. Return on Equity (ROE). It is a profitability ratio associated with investment gains. ROE measures how much income one company can produce every penny of the shareholders' capital. It indicates the strength of income from the book value of shareholders' investments and it is used when comparing two or more firms in an industry continuously (Van Horne, 1989). Thus, the formula to find ROE according to Chen et al. (2005) is as follows:

$$\text{ROE} = \frac{\text{Net Income Before Tax}}{\text{Total Equity}} \times 100\%$$

2.5. Inferential Statistical Analysis

Data analysis techniques used to answer the research hypothesis was General Structure Components Analysis (GSCA). The analysis is following below rationales:

- a. It can replace the factor with a linear combination within the indicators (manifest variables) in the SEM analysis.
- b. It is developed to avoid the weakness of Partial Least Square (PLS), which is equipped with a global optimization procedure and also retaining local optimization procedure (as applied in PLS).
- c. It can also be applied to the complex relationship between variables (can be both recursive and non-recursive), involving higher-order component (factor) and multi-group comparison (Tenenhaus, 2008)
- d. It is a new method of SEM-based component which is very important and can be used for the calculation of the score (non-scale) and can also be applied to a very small sample.
- e. The issues related to singularity and multi co linearity often become serious obstacles in using the structural model analysis of covariance-based SEM. Hwang (2009) said that in the practices it allows GSCA multi colonicity occurrence, which happens a strong correlation among the exogenous variables.
- f. GSCA can be used on structural models involving variables with reflexive or formative indicator.

3. Result of Research

3.1. Variable Description

3.1.1 Corporate Governance Variable (X₁)

The average proportion of independent audit committee in the banking sector companies listed at the Indonesia Stock Exchange in 2008 to 2012 was 56%. According to the Decision of the Board of Directors PT Jakarta Stock Exchange Number Kep-305/BEJ/07-2004, the audit committee is responsible for providing independent professional opinion to the Board of Commissioners regarding the reports or other aspects submitted by the directors to the Board of Commissioners.

Independent commissioners in the audit committee are expected to improve the quality of supervision to the management in running the company and compliance with the regulations. It will also be more efficient in the system of reporting to the Board of Commissioners because of the independent audit committee can deliver findings to the board of commissioners at anytime. According to Anderson and Reed (2004), a company that has an independent audit committee will have a lower debt financing costs; while according to Wild (1994) the market will give favorable reaction to the earnings report after the establishment of the audit committee. Klein (2006) found a negative linear relationship between the independent audit committee with earnings management.

In addition, Klein suggested that a more independent board composed of CEOs in order to be more effective in the monitoring process to the company's financial accounting.

In the 2008-2013, banking sector companies listed at the Indonesia Stock Exchange had the average independent board commissioners of 58% of the number of commissioners in the company. In accordance with Law No. 40 of 2007 on Limited Enterprise Article 120 Paragraph (1) states that the charter of company can be set up for 1 (one) or more independent commissioner and 1 (one) Commissioner Envoy. According to the Decision of the Board of Directors of Jakarta Stock Exchange Number Kep-305/BEJ/07-2004 on Independent Commissioner, however, the company must have at least 30% (thirty percent) of the members of the Board of Commissioners. Thus the average proportion of independent commissioner is in Board of Commissioners in the banking sector companies has already complied with the provisions of Law No 40 of 2007 and Decision of the Board of Directors of the Jakarta Stock Exchange Number Kep-305/BEJ/07-2004.

The independent commissioners are the party that does not have access to any fraud, but they have the right to obtain financial information of the company. For the independent commissioners, the performance and value of a good company are expected to become the goals in the future. Thus, the supervision from the independent commissioners to performance management is needed. A company with a large proportion of independent commissioners may increase the financial performance and the value of the company in the upcoming years.

3.1.2. Disclosure of Intellectual Capital Variable (X_2)

Disclosure of intellectual capital variable (X_2) is with the following indicators: VACA ($X_{2.1}$), VAHU ($X_{2.2}$) and STVA ($X_{2.3}$). The results showed that the average of VACA is 0.21. This illustrated that the average banking sector companies listed at the Indonesia Stock Exchange had been utilizing the capital employed fund, which the value added could be created by one unit of physical capital. Public (1998) assumes that if one unit of CE (Capital Employed) produce greater returns than other companies, it means the company utilizes its CE better. Based on the concept of Resource-Based Theory (RBT), in order to compete with other companies, the company needs an asset management capability in both physical assets and intellectual assets. VACA is a form of the company's ability to manage its resources in the form of capital assets. With good management of capital assets, it is believed that the company may increase the market value and the performance of the company. Thus, the better utilization of Intellectual capital is part of the intellectual capital disclosure of a company.

Human Capital employed Coefficient (VAHU) had the average of 1.22. This showed that the banking sector companies listed at the Indonesia Stock Exchange in 2008-2012 had average of 1.22 funds for the labors that can create value added. The relationship between VA with Human Capital employed indicates the ability of Human Capital to create value in the company.

Based on the concept of Resource-Based Theory (RBT), in order to compete with the other companies, it needs human resources with high quality. Additionally, companies must be able to manage the qualified resources maximally in order to create value added and competitive advantages that may ultimately improve the financial performance and corporate value.

Structural Capital Coefficient (STVA) had average value of -0.25. This showed -0.25 contribution of structural capital (SC) in value creation. STVA measures the amount of SC needed to produce 1 rupiah of VA and it is an indication of how the success of the SC in value creation. SC is not an independent measure as HC in the value creation process. That means the greater the contribution of HC in value creation it will be the smaller contribution of the SC in this regard.

3.1.3. Financial Performance Variable (Y_1)

Financial Performance Variable (Y_1) is indicated by ROA ($Y_{1,1}$) and ROE ($Y_{1,2}$). ROA average of 1.20 showed the company's capability to conduct efficient use of total assets for the company's operations. This showed that the banking sector companies listed at the Indonesia Stock Exchange in 2008-2012 had averaged ROA of 1.20, giving an overview to the investors on how the companies converting the money that had been invested in net income. In short, ROA was an indicator of the profitability of the company in using its assets to generate a net income.

ROA is calculated by dividing the net income by the average total assets of the company. The higher the ROA, the company is more efficient in using their assets. This means that the company can make money (earnings) more even with little investment.

The average Return on Equity ($Y_{2,2}$) of banking sector companies listed at the Indonesia Stock Exchange in 2008-2012 was 14.5; this means that on every rupiah in equities of banking sector companies listed at the Indonesia Stock Exchange will generate income of 14.5% per year. The greater ROE, it will be better for the company.

3.2. Confirmatory Factor Analysis

The proportion of independent audit committees ($X_{1,1}$) and the proportion of independent commissioners ($X_{1,2}$) had the same value of loading/weight of 0.368. This indicates both indicators had the same contribution weight influence on the corporate governance.

The Intellectual Capital VAHU ($X_{2,2}$) had a value of loading/weight 0.461, VACA ($X_{2,1}$) 0.419, STVA ($X_{2,3}$) 0.368. This indicates that VAHU was a dominant indicator that explains the intellectual capital variable, followed by the VACA and STVA had the lowest contribution to the intellectual capital. The indicator of ROA ($Y_{1,1}$) has a value of loading/weight of 0.537 and ROE ($Y_{1,2}$) has a value of loading/weight of -0.537. This indicates that the ROA and ROE have the same dominant contribution to the financial performance even though they have the opposite direction (affecting positively or negatively).

3.3. GSCA Analysis: Hypothesis Testing

The results of the analysis provide FIT value of 0.315 or variables included in the model which can explain the diversity or the phenomena of 31.5%, the rest (68.5%) was explained by variables which are not included in the model.

In order to simplify the analysis and conclusion, and then trimming was performed to the path model (hypothesis) by removing variables that have significant coefficients ($= 0$). Estimation results and P value of each path coefficient (Table 2) presented the path diagram drawings submitted after Trimming (Fig. 1).

Table 2: Estimation results and P Value of Each Path Coefficient

Path Coefficient					
	Estimation	SE	CR	p	Information
$X_1 \rightarrow X_2$	0.057	0.052	1.08	0.282	Not significant
$X_2 \rightarrow X_1$	0.059	0.045	1.31	0.193	Not significant
$X_1 \rightarrow Y_1$	-0.065	0.015	4.2	0.000	Significant
$X_2 \rightarrow Y_1$	0.758	0.035	21.56	0.000	Significant

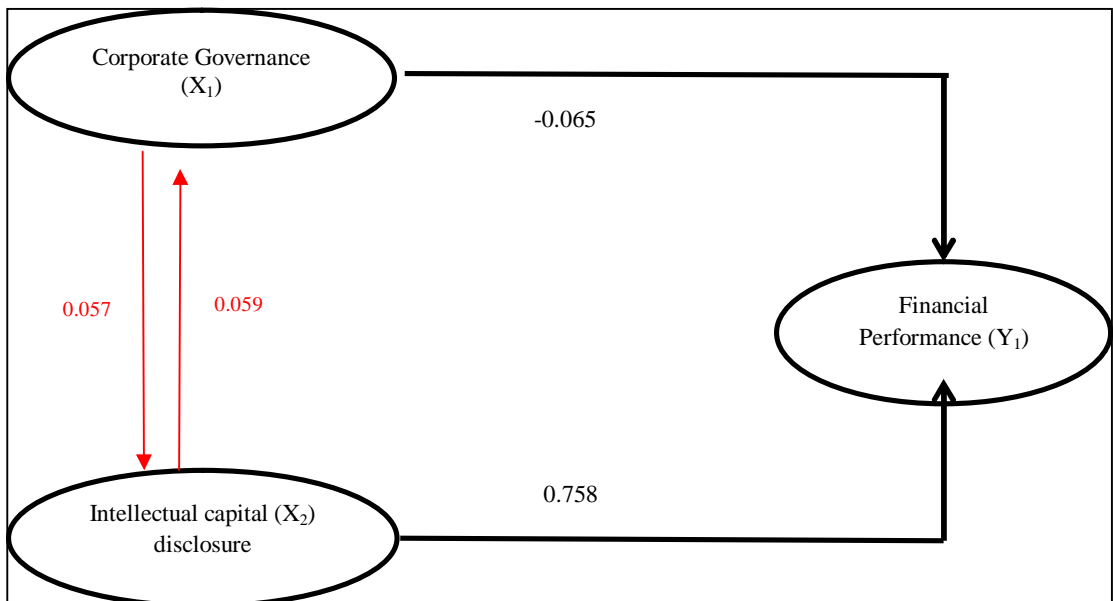


Figure 1: Path Diagram**3.4. Discussion on Research Finding****3.4.1 Corporate Governance on Intellectual Capital**

Corporate governance does not have a significant positive correlation to intellectual capital disclosure of the banking sector companies listed at the Indonesia Stock Exchange in 2008-2012. These findings were not consistent with the results of Wu et al. (2012), Safieddine et al. (2009), Hidalgo et al. (2010), Taliyang and Jusop (2011), as well as Falikhatun et al. (2011), whose findings stated that corporate governance and intellectual capital disclosure have significant influence, and vice versa. Instead, these findings supported the research by Al-Mushalli and Ku-Ismail (2012) that also explained corporate governance does not have significant influence to the intellectual capital disclosure.

Given the path coefficient was positive, it can be said that any changes to the corporate governance variables in the banking sector companies listed at the Indonesia Stock Exchange, does not give the influence on the changes in the intellectual capital variable on the banking sector companies listed at the Indonesia Stock Exchange. Corporate governance practices with the indicator of proportion of independent audit committee and the proportion of independent commissioner do not have significant influence to the direction of a positive relationship to the intellectual capital. It explain that the addition of one independent audit committee member and one independent commissioner is believed only to meet the formal provisions, while the majority of the shareholders still play the significant role to the company, thus performance of the Board may not increase (Gideon, in Carningsih 2010).

This result was also confirmed by the other opinion (Tirta, in Carningsih 2010) which states that the appointment of one independent audit committee and independent commissioner by the company may only be conducted for the sake of regulatory compliance and it is not intended to uphold good corporate governance (GCG) in the company. This condition was also confirmed from the results of a survey of the Asian Development Bank which states that the dominant control from the company's founder and majority ownership makes independent audit committee and Board of Directors are no longer independent.

Monitoring function that is supposed to be the responsibility of board members becomes ineffective, and then the performance of the company which is represented in the financial statements has also been ignored by the Intellectual capital disclosure with VAIC approach that is expected to create value added to the company was not effective.

The same explanation by Falikhatun et al. (2011) was due to the weakness of the implementation of corporate governance of banking sector in Indonesia and small attention of the banking sector companies on the intellectual capital. This condition was because the existence of corporate governance and intellectual capital disclosure by the companies was primarily to comply with *Bapepam* and just focus only on the operating performance of the company. Besides, even when it was analyzed from the tendency of corporate governance model applied in Indonesia is more directed to follow the implementation model of continental Europe as the reference of some characteristics of the system. Instead the application of Anglo-Saxon model, where capital markets play an important role in the economy, the mechanism that is used is called the external (outsider) control system.

(a) laws on companies in Indonesia are adopted according to the "French civil-law tradition" of European continent, (b) the use of a dual board structure of the company (two-tier board system) as also found in various countries in European continent, (c) the concentration ownership of the company, even go public, to only particular group of people, (d) the dominant source of corporate financing from outside the company in the form of debt, and (e) illiquid capital markets and the ineffectiveness of control mechanisms by the market (Lukviarman, 2004)

3.4.2. Intellectual Capital on the Corporate Governance

Results of analysis generated path coefficient of 0.059 and P 0.193, this means intellectual capital disclosure does not have significant influence to the positive relationship with the direction of the corporate governance in banking sector companies listed at the Indonesia Stock Exchange in 2008-2012. Given the path coefficient was positive, it can be said that any changes in the intellectual capital disclosure variable in the banking sector companies listed at the Indonesia Stock Exchange will not give any impact to the changes in the corporate governance variable in banking sector companies

Falikhatusun et al. (2011) stated that this condition was due to the small attention by the company on the intellectual capital and weak implementation of corporate governance in the banking sector in Indonesia. Intellectual capital disclosure and corporate governance practices where the company was done only to comply with the provisions of Accounting Standards and *Bapepam*, and they just focus on the operating performance of the company. Thus, the disclosure of intellectual capital with VAIC approach that is expected to create value-added companies was not met. Zulkarnaen and Mahmud (2013) mentioned one of the reasons is due to unstable climate of capital market in 2009 so that the company prefers financial reporting which is directly related to the performance of companies and excludes the voluntary reports.

3.4.3. Corporate Governance on the Financial Performance

Corporate governance is a significant negative effect on the direction of a negative relationship to the financial performance of the banking sector companies listed at the Jakarta Stock Exchange in 2008-2012. The path coefficient was negative, it can be interpreted that any practices of corporate governance does not directly affect the financial performance of the company in Indonesian banking sector. Results of this study are consistent with results of research conducted by Abdullah et al. (2008), Kumar and Singh (2012), Syriopoulos and Tastsaronis (2012), Wu et al. (2012), and Adi et al. (2013) in which the findings stated that corporate governance significantly affect or relate to financial performance.

It means that whenever there is a change in the corporate governance variable in banking sector companies listed at the Indonesia Stock Exchange to 1, there will be declining changes in financial performance variable in banking sector companies listed at the Indonesia Stock Exchange of 6.5%, and vice versa if there is an increase.

The application of corporate governance in the banking sector companies listed at the Indonesia Stock Exchange negatively influences to the financial performance. This indicates the existence of other variables outside the model that has more affect to the financial performance of the company of the banking sector. It is due to the practice of banking in Indonesia neglected or override the principles of corporate governance (Suhardjanto et al. 2012).

Corporate governance practices with the indicators Proportion of Independent Audit Committee and Independent Commissioner have significant but negative effect on the financial performance. This can explain that the addition of one independent audit committee member and independent commissioners is possibly only to meet the formal provisions. While the majority of shareholders (handlers/founders) still play an important role, so the performance of the Board does not increase (Gideon, in Carningsih, 2010).

This result was also confirmed by the opinion (Tirta, in Carningsih, 2010) which states that the appointment of an independent audit committee and independent commissioner by the company may only be done for regulatory compliance only and is not intended to uphold good corporate governance (GCG) of the company. This condition is also confirmed from the results of the survey Asian Development Bank which states that the strong control of the company's founders and majority ownership makes the audit committee and board of directors are not independent (Carningsih, 2010). When the monitoring function which is supposed to part of the responsibility of board members becomes ineffective, the performance of the company will decline.

3.4.4. Intellectual Capital on the Financial Performance

The disclosure of intellectual capital has significant influence on the financial performance in the banking sector companies listed at the Indonesia Stock Exchange 2008-2012. Given the path coefficient was positive, it means that the disclosure of Intellectual capital will be able to improve the financial performance of the banking sector companies. The findings of this study were consistent with previous studies by Chen et al. (2005), Tayles et al. (2007), Cohen and Kaimenakis (2007), Wang (2011), Maditinos et al. (2011), Karacan and Ergin (2011), Wu et al. (2012), which states Intellectual capital disclosure has positive and significant impact on the financial performance of the company.

It can be said that any changes in the intellectual capital disclosure variable in the banking sector companies listed at the Indonesia Stock Exchange to 1, it will lead to changes in the financial performance variable of the banking sector companies amounted to 75.8%, and vice versa if there is a decrease.

4. Conclusion

Corporate governance does not have significant influence on the intellectual capital and vice versa, in banking sector companies listed at the Indonesia Stock Exchange in 2008-2012. Meanwhile, Corporate Governance has significant influence to the financial performance of banking sector companies listed at the Indonesia Stock Exchange in 2008-2012. These findings corroborated some previous researches which state that corporate governance and intellectual capital positively influence the financial performance. Given the indicators ROA and ROE, it means that any changes in corporate governance may impact despite negatively on the financial performance of the banking sector companies listed at the Indonesia Stock Exchange.

Intellectual capital disclosure has significant influence on the financial performance of the banking sector companies listed at the Indonesia Stock Exchange in 2008-2012. It means that the intellectual capital disclosure through Value Added Intellectual Coefficient (VAIC) may have significant influence to improve financial performance with the indicators ROA and ROE.

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