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| RESEARCH ARTICLE

The Effect of Good Corporate Governance and Intellectual Capital Mechanism On Financial Performance with Profit Management as A Mediation Variable

Sarah Septia Fatimah[1] ✉ and Erna Setiany[2]
[12]*Faculty of Economics and Business, Universitas Mercu Buana, Jakarta, Indonesia*
Corresponding Author: Sarah Septia Fatimah, **E-mail**: sarah.septia@gmail.com

| ABSTRACT
This study aimed to determine the influence of good corporate governance and intellectual capital mechanisms on financial performance with profit management as a mediating variable for the industrial sector listed on the Indonesian stock exchange in 2018 – 2021. The sample was selected using a purposive sampling technique so that 34 companies (188 company years) met the criteria selected as sample. Data analysis techniques were performed using multiple regression and hypothesis testing using eviews 9 and the sobel test. Based on the results of multiple regression analysis with a significance level of 5%, this study shows that only the independent board of commissioners and audit quality variables have a significant effect on financial performance. Other variables have no effect on financial performance. In this study, earnings management is not able to significantly mediate the influence between GCG and intellectual capital.

| KEYWORDS

Good Corporate Governance Mechanism, Intellectual Capital, Profit Management, Financial Performance

| ARTICLE INFORMATION

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1. Introduction

The company's financial performance is an achievement that the company has achieved in a certain period that reflects the level of health of the company. Financial Performance is the performance of management, which is the expansion of financial value and estimated benefits. A company's performance can be assessed by analyzing its financial statements.

The company's financial statements are a reflection of the good or bad condition per company in one period. The company's financial performance is a manifestation of the principles of good corporate governance. Performance per company can be measured using financial performance, which is proxied using the profitability ratio, which is a ratio to assess the company's ability to seek profit (Kasmir,2014). Managers can influence reported profit levels by engaging in profit management practices. Profit management is concerned with the selection of accounting methods carried out by managers in financial reporting to increase profits or lower profits to suit the interests of managers or the interests of the company and the parties involved in the contract (Kanakriyah,2017).

When the company's profit increases, this will affect the market's response to the value or price of the company's shares so that the stock price increases. This rising share price reflects the prosperity of shareholders, or it can be said that shareholders benefit from the increase in the share price "because the stock price is the result of judgments in investment decisions, funding, and dividend policies. One of the efforts in achieving the company's goals is the increase in *Intelectual Capital*, known as intellectual capital. Intellectual literacy is a concept that can provide new knowledge-based resources and describe intangible assets that, if used optimally, allow companies to carry out their strategies effectively and efficiently (Gita & Wahyudi, 2021).

The phenomenon of financial performance often occurs in the real world today and causes problems and losses felt by various parties. Financial statements are the main parameter used to describe the company's performance. Due to its significant influence, some companies are known to carry out the act of 'manipulating' the company's financial statements. This stunt is usually done to beautify performance to remain attractive to shareholders and stakeholders, including investors, especially with the status of a public company whose annual financial statements can be seen transparently by the public. Finally, they give make up (beautify) financial statements because they are required to get benefits even though, on the one hand, their burden is high.

1.*1 Effect of Good Corporate Governance Mechanism on Financial Performance*

Research by Wu et al. (2009), cited in Ghozy's (2020) research found empirical evidence that an independent commissioner with high professionalism will result in more objective decisions and realize effectiveness in supervising managers. In accordance with agency theory, the role of an independent commissioner can minimize agency problems that arise between the board of directors and shareholders. Thus, the decisions taken are not in the interests of certain parties, and managers act only in the interests of the company and other stakeholders to improve financial performance. According to Saeed Al Mubarak and Mousa Hamdan (2016), a key element in the effectiveness of the board of commissioners is to have an independent commissioner. Therefore, with a larger number of independent commissioners, the decision-making process will be more objective, so it is expected to improve financial performance.

H1: Independent Board of Commissioners affects Financial Performance

H2: Institutional Ownership affects Financial Performance

H3: Audit Quality affects Financial Performance

1.2 The Effect of Intellectual Capital on Financial Performance

Financial performance is very important and becomes the main object for companies to continue to increase their company value as the company's sustainability in the future (going concern). The market value is able to provide maximum prosperity for shareholders if the company's share price increases. The value of the company reflects the company's assets. The value of the company can be said to have increased, as can be seen from the increase in its stock price. An increase in the share price of intellectual capital (Rivandi) indicates the shareholders' prosperity and the company's value (Ross, Westerfield, & Jaffe, 2013). Intellectual capital is an intangible asset that has high value and is a vital asset for companies because intellectual capital can improve company performance and create company value. The increase in Intellectual capital published in the annual report provides credible and profitable information for investors in making decisions. According to Orens, Aerts, & Lybaert (2009), information on intellectual capital provides an overview of the company's performance and is a key driver in increasing company value. Intellectual capital can be defined as the sum of the three main components of the organization, namely, (1) human capital, (2) structural capital, and (3) relational capital and use of Intellectual Capital.

H4: Intellectual Capital affects Financial Performance

1.3 Effect of Good Corporate Governance Mechanism on Profit Management

The effectiveness of the supervisory function by the board of commissioners requires high independence. As per agency theory, independent commissioners are considered by managers to be more vigilant regarding agency issues because independent commissioners are fully dedicated to overseeing management's attitudes and performance, as they also support the needs of independent commissioners in strengthening their reputation as decision-making experts. The supervision carried out can certainly minimize or even prevent profit management because the supervision is an incentive for management as agents to act as well as possible for the interests of principals, namely stakeholders, and suppress distorted attitudes in order to be properly responsible for their duties.

H5: Independent Board of Commissioners affects Profit Management

H6: Institutional Ownership affects Profit Management

H7: Audit Quality affects Profit Management?

1.4 The Effect of Intellectual Capital on Profit Management

The role and importance of physical capital in achieving sustainable profits are greatly reduced compared to intellectual capital (Asadollahi et al., 2013). On the one hand, due to the importance of accounting profit prediction as a factor influencing users' economic decisions and on the other hand, due to the importance of intellectual capital, as an important part of the company's overall capital, in achieving sustainable and long-term profits and the need to identify the impact of intellectual capital on the prediction of the company's future profit, the main problem of the study is to test the role and importance of the capital component intellectual in determining the ability of management in predicting future stock returns of the company.

H8: Intellectual Capital affects Profit Management

1.5 The Effect of Profit Management on Financial Performance

As explained in agency theory, managers have the potential to carry out moral hazard, which in this case is in the form of profit management practices when the GCG mechanism implemented by the company does not run optimally. Profit management is closely related to the level of profit obtained by the company. This is because the profit generated by a company is often used as a reference for users of financial statements in assessing the success rate of an entity. Therefore, an initiative arises for management to carry out profit management (Ghozy,2020). As a result of this profit management, the financial information provided is not in accordance with actual conditions or even inversely proportional to the actual conditions. In other words, management actions can degrade the quality of information related to the advantages presented in the financial statements. The low quality of such information can affect the company's financial performance. Profit Management can affect the Company's performance in accordance with the results of Fitriyani's research (2012), showing that profit management has a positive effect on company performance. This is supported by the research of Gunny (2005) cited in Wika's research (2017), which found empirical evidence that real profit management activities have a negative impact on future operational performance.

H9: Profit Management affects Financial Performance

1.6 Effect of Good Corporate Governance Mechanism on Financial Performance through Profit Management

The company's financial performance is determined by its seriousness in implementing corporate governance. Theoretically, the practice of Good Corporate Governance can improve a company's financial performance and reduce the risks that boards can make with decisions that are in their own favor. Generally, corporate governance can increase investor confidence to invest its capital, which will have an impact on its performance. The existence of a large independent commissioner and the company's decision to choose an external auditor with a good reputation can provide great supervision to management so as not to commit fraud in financial statements. The existence of institutional ownership can also add to the role of supervisors as institutional investors seek to protect the rights of shareholders.

The effect of GCG mechanisms on financial performance through profit management. A company's financial performance is determined by the degree to which seriousness to implement corporate governance. Theoretically, GCG practices can improve a company's financial performance and reduce the risks that may be carried out by the board with decisions that are in their own favor and corporate governance, in general, can increase investor confidence to invest capital that will have an impact on its performance. The existence of a large independent commissioner and the company's decision to choose a good external auditor Reputation can provide great supervision to management so as not to commit fraud in financial statements. The existence of institutional ownership can also increase the role of supervisors as institutional investors strive to protect the rights of shareholders (Mahrani & Soewarno, 2018).

In line with agency theory, supervision carried out by independent commissioners and the ability of external auditors who are experts in the field of finance can minimize fraudulent actions that may be carried out by companies such as profit management. In connection with the decline in profit, management carried out by management, the action taken by management to increase profits is to increase the company's operational activities. An increase in the company's operational activity is something that management will do for their personal benefit to obtain a greater incentive for the profits generated by the company. Over time, financial performance will increase following the increase in the company's operational activities (Ghozy, 2020).

H10: Independent Board of Commissioners affects Financial Performance through Profit Management

H11: Institutional Ownership affects Financial Performance through Profit Management

H12: Audit Quality affects Financial Performance through Profit Management

1.7 The Effect of Intellectual Capital Mechanism affects Financial Performance through Profit Management

Intellectual capital is an intangible asset that has high value and is a vital asset for companies because intellectual capital can improve company performance and create company value. The increase in Intellectual capital published in the annual report provides credible and profitable information for investors in making decisions. And Intellectual Capital provides an overview of the company's performance and is a key driver in the increasing value of the company. On the one hand, due to the importance of accounting profit prediction as a factor influencing the economic decisions of users and on the other hand, due to the importance of intellectual capital, as an important part of the overall capital of the company, in achieving sustainable and long-term profits as well as the need to identify the impact of intellectual capital on the prediction of the company's future profit. (Fajrhea,2016)

H13: Intellectual Capital affects Financial Performance through Profit Management

2. Research Methods

This study used the population of all Industrial Sub-Sector companies listed on the IDX in 2018. The condition of the Industrial Sub-Sector sector, which has the largest number of issuers and has the most diverse sectors, can describe the condition of public companies in Indonesia. The samples in this study were selected using the purposive sampling method with the following criteria: 1). Industrial Sub-Sector Companies listed on the IDX, 2). Industrial Sub-Sector Companies that provide complete financial reports and annual reports in 2018-2021. The source of data in this study is secondary data in the form of financial statements of Industrial Sub-Sector companies listed on the IDX in 2018 obtained from the Indonesia Stock Exchange website on the www.idx.co.id page.

2.1 Financial performance

Financial performance is defined as a company's efforts to manage and control its resources (IAI, 2007). There are several financial performance proxies used for this study, namely EPS.

- Earning per Shares
  EPS strongly influences stock prices, and when EPS increases, the stock price also increases and vice versa (Kasmir, 2017).

$$\mathrm{EPS} = \frac{\text{Laba Bersih}}{\text{Jumlah Saham yang Beredar}}$$

2.2 Good Corporate Governance Mechanism

The variables of the GCG mechanism consist of three proxies: audit quality, independent board of commissioners, and institutional ownership. The variables of the GCG mechanism consist of three proxies: audit quality, independent board of commissioners, and institutional ownership.

- Independent Board of Commissioners
  The proportion of the board of commissioners is denoted by KIND. The proportion of the board of commissioners is the ratio of the number of commissioners appointed from outside the company to the total number of commissioners. Muh Arief Effendi (2016)

$$\mathrm{KIND} = \frac{\text{Jumlah Dewan Komisaris Independen}}{\text{Total Dewan Komisaris}}$$

- Institutional Ownership
  According to (Immanuel et al., 2022), Institutional ownership is the ownership of shares by other institutions, namely ownership by other companies or institutions.

  Institutional ownership = (Total institutional shareholding/total outstanding company shares)

- Audit Quality
  Audit quality is measured using dummy variables, i.e. clients audited by BIG4 Public Accounting Firms will be given a value of 1, while clients audited by Non-BIG4 Public Accounting Firms will be given a value of 0.

2.3 Intellectual Capital

Value Added Intellectual Capital (VAICTM) Pulic (1998) found an indirect measurement of intellectual capital, namely the Value Added Intellectual Coefficient (VAIC™) method; this measurement aims to present information about the efficiency of value creation of tangible assets and intangible assets owned by the company.

VAIC™ = COW + VAHU + STVA

2.4 Profit Management

Mprofit management with a modified Jones model is:

$$\mathrm{DA}_{it} = \mathrm{TA}_{it} - \mathrm{NDA}_{it}$$

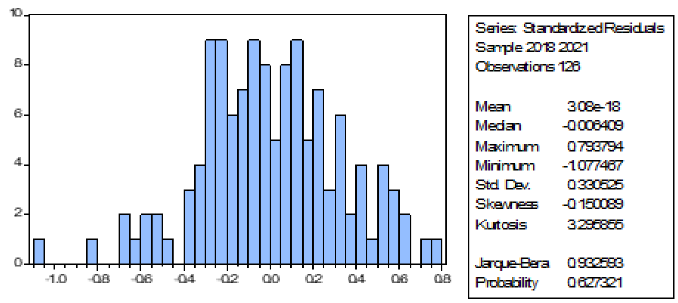
3. Results and Discussion

This study used 8 (eight) variables, namely 1 (one) dependent variable, 1 (one) mediation variable, 4 (four) independent variables and 2 control variables. The independent variables are: Independent Board of Commissioners, Institutional Ownership, Audit Quality and Intellectual Capital, and the dependent variables are Financial Performance. The mediation variable is Profit Management. While the control variables are: ROA and DER. The companies that will be sampled are Industrial Sub-Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021, totalling 47 companies. In this study, data were obtained from the IDX website and the web of each company. The secondary data used in this study are financial report data and company profiles of Industrial Sub-Sector companies listed on the IDX in 2018 – 2021.

3.1 Classical Assumption Test Results

The classical assumption test aims to obtain more precise estimates and conclusions in the study. The test of classical assumptions is considered important because to find out the fulfillment of the conditions used multiple regression.

3.1.1 Normality Test



The results of the JB Test normality test after cleaning the outlier data produce a probability or p-value of 0.627321 > 0.05, then H0 is accepted or the normal distributed residual value. It can be concluded that with a 62% confidence level that the error term or distributed residual value is normal.

Multicolonierity Test Results Multicolonierity testing is carried out to test whether, in a regression equation, there is a correlation or relationship between independent variables. Multicolonierity testing is carried out by looking at VIF values and tolerance. The results of multicolonierity testing are shown in the following table:

Variable	Coefficient Variance	Uncentered BRIGHT	Centered BRIGHT
C	0.027096	19.16903	ON
Independent Board of Commissioners	0.158657	18.20398	1.068989
Institutional Ownership	0.005035	2.905830	1.388120
Audit Quality	0.014695	1.650084	1.388166
Intellectual Capital	1.30E-05	1.351664	1.337156
Profit Management	2.651771	1.110140	1.057885
ROA	0.003326	1.354529	1.332846
THE	0.000472	1.423102	1.043204

The table above shows that all independent variables have a Tolerance value greater than 0.1 and a VIF value of less than 10, so it can be concluded that multicholinearity does not occur, and the regression model can be used for subsequent testing.

3.1.2 Heteroskedaskitas Test

Heteroskedasticity testing is performed to test whether, in a regression model, there is a variance inequality from the residual of one observation to another. This test uses the Spearman Test to correlate the absolute residual value with each independent variable.

Heteroskedasticity Test: Glejser

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.364317	0.032786	11.11210	0.0000
Independent Board of Commissioners	-0.038733	0.333540	-0.116126	0.9078
Institutional Ownership	0.026109	0.077498	0.336898	0.7370
Audit Quality	-0.107264	0.119744	-0.895783	0.3729
Intellectual Capital	0.002758	0.002738	1.007272	0.3166
Profit Management	0.834917	1.056319	0.790402	0.4315
ROA	-0.030209	0.042949	-0.703363	0.4837
THE	0.000615	0.014327	0.042904	0.9659

By using the Glejser method in the heterochedasticity test after Data Transformation (First Difference), it can be concluded that this regression model is free from heterochedasticity because the variables of Independent Board of Commissioners, Institutional Ownership, Audit Quality, Intellectual Capital, Profit Management, ROA and DER have sig values of 0.9078, 0.7370, 0.3729, 0.3166, 0.4315, 0.4837 and 0.9659, which are greater than 0.05.

3.1.3 Autocorrelation Test

The autocorrelation test has the purpose of seeing a linear model of whether or not there is a correlation between current untruths and untruths in the past.

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.258637	Prob. F(4,82)	0.0698
Obs*R-squared	9.328849	Prob. Chi-Square(4)	0.0534

Based on the results of the Autocorrelation test above, it can be seen that the p-value, Obs*R square 0.0534 > 0.05, so it can be concluded that there is no autocorrelation problem.

3.1.4 Panel Data Regression Analysis and Sub Structural T Test 2 (Financial Performance)

Dependent Variable: Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.009157	0.057397	-0.159537	0.8738
Independent Board of Commissioners	-1.728978	0.688516	-2.511167	0.0150
Institutional Ownership	-0.269464	0.158966	-1.695105	0.0957
Audit Quality	0.617517	0.236686	2.609017	0.0117
Intellectual Capital	0.008400	0.005909	1.421483	0.1608
Profit Management	-2.496701	1.941323	-1.286082	0.2038
ROA	0.087632	0.092285	0.949571	0.3465
THE	0.022937	0.027334	0.839125	0.4050

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.461810	Mean dependent var	-0.013436
Adjusted R-squared	0.089969	S.D. dependent var	0.569516
S.E. of regression	0.543292	Akaike info criterion	1.911487
Sum squared resid	16.23416	Schwarz criterion	2.966684
Log likelihood	-50.83991	Hannan-Quinn criter.	2.337710
F-statistic	1.241957	Durbin-Watson stat	3.352329
Prob(F-statistic)	0.228215		

Linear regression equation model, the panel data in this study obtained the following equation:

Y = -0.009157 - 1.728978X1 - 0.269464X2 + 0.617517X3 + 0.008400X4 - 2.496701Z + 0.087632K1 + 0.022937K2

Based on the regression equation, it can be interpreted that if the quality of the Independent Board of Commissioners increases by 1 unit, assuming the other variables remain, Financial Performance will decrease by 1.728978 times with ROA and DER as control variables if Institutional Ownership increases by 1 unit, assuming the other variables are fixed, then Financial Performance will decrease by 0.269464 times with ROA and DER as control variables if Audit Quality increases by 1 unit assuming other variables remain then Financial Performance will increase by 0.617517 times with ROA and DER as control variables if Intellectual Capital increases by 1 unit assuming the other variables remain then Financial Performance will increase by 0.008400 times with ROA and DER as control variables and if profit management increases by 1 unit assuming the other variables remain then Financial Performance will decrease by -2.496701 times with ROA and DER as control variables.

H1: Independent Board of Commissioners affects Financial Performance

Based on the t-test on $\alpha = 5\%$ in the table above, the probability value of the Independent Board of Commissioners variable of 0.0150 or less than 0.05, the H1 hypothesis is accepted.

H2: Institutional Ownership affects Financial Performance

Based on the t-test on $\alpha = 5\%$ in the table above, the probability value of the Institutional Ownership variable of 0.0957 or greater than 0.05, the H2 hypothesis is rejected.

H3: Audit Quality affects Financial Performance

Based on the t-test at $\alpha = 5\%$ in the table above, the probability value of the Audit Quality variable of 0.0117 or less than 0.05, the H3 hypothesis is accepted.

H4: Intellectual Capital affects Financial Performance

Based on the t-test at $\alpha = 5\%$ in the table above, the probability value of the Intellectual Capital variable of 0.1608 or greater than 0.05, the H4 hypothesis is rejected.

H9: Profit Management affects Financial Performance

Based on the t test on $\alpha = 5\%$ in the table above, the probability value of the Profit Management variable of 0.2038 or greater than 0.05, the H9 hypothesis is rejected.

3.1.5 Panel Data Regression Analysis and Sub Structural T Test 1 (Profit Management)

Dependent Variable: Profit Management

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.000973	0.003867	0.251688	0.8022
Independent Board of Commissioners	0.019585	0.046718	0.419216	0.6766
Institutional Ownership	-0.014160	0.010774	-1.314355	0.1939
Audit Quality	0.015810	0.016143	0.979364	0.3315
Intellectual Capital	-1.21E-05	0.000354	-0.034241	0.9728

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.119499	Mean dependent var	0.000979
Adjusted R-squared	-0.411838	S.D. dependent var	0.031487
S.E. of regression	0.037413	Akaike info criterion	-3.450476
Sum squared resid	0.081186	Schwarz criterion	-2.476449
Log likelihood	198.1724	Hannan-Quinn criter.	-3.057041
F-statistic	0.224902	Durbin-Watson stat	3.381352
Prob(F-statistic)	0.999996		

H5: Independent Board of Commissioners affects Profit Management

Based on the t test on α = 5% in the table above, the variable probability value of the Independent Board of Commissioners is 0.6766 or greater than 0.05, and the H5 hypothesis is rejected.

H6: Institutional Ownership affects Profit Management

Based on the t-test on α = 5% in the table above, the probability value of the Institutional Ownership variable of 0.1939 or greater than 0.05, the H6 hypothesis is rejected.

H7: Audit Quality affects Profit Management

Based on the t-test on α = 5% in the table above, the probability value of the Audit Quality variable is 0.3315, or greater than 0.05; the H7 hypothesis is rejected

H8: Intellectual Capital affects Profit Management

Based on the t test on α = 5% in the table above, The probability value of the Intellectual Capital variable is 0.9728 or greater than 0.05; the H8 hypothesis is rejected

3.2 Analysis of the Effect of Mediation

Analysis of the influence of mediation on this study using the help of the Sobel test, which is a test that serves to determine the presence or indirect influence of independent variables on dependent variables through intervening variables. In addition, the sobel test is used to test the ability to intervene variables to be mediators in the research framework model.

3.2.1 Mediation test of the influence of the Independent Board of Commissioners on Financial Performance through Profit Management.

	Input:		Test statistic:	Std. Error:	*p*-value:
a	0.019585	Sobel test:	-0.39857688	0.1226812	0.690205
b	-2.496701	Aroian test:	-0.32050439	0.15256543	0.748586
s_a	0.046718	Goodman test:	-0.59188079	0.08261442	0.55393042
s_b	1.941323	Reset all	Calculate		

From the test, it was found that the p-value of 0.690205 was greater than 0.05; it can be concluded that H10 was rejected, meaning that Profit Management was unable to significantly mediate the influence between the Independent Board of Commissioners on Financial Performance in Industrial Sub-Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021.

3.2.2 Mediating test of the effect of Institutional Ownership on Financial Performance through Profit Management.

	Input:		Test statistic:	Std. Error:	*p*-value:
a	-0.014160	Sobel test:	0.91920306	0.0384608	0.35798937
b	-2.496701	Aroian test:	0.80751799	0.04378018	0.41936811
s_a	0.010774	Goodman test:	1.09533141	0.03227634	0.27337147
s_b	1.941323	Reset all	Calculate		

3.2.3 Mediation test of the effect of Audit Quality on Financial Performance through Profit Management.

	Input:		Test statistic:	Std. Error:	*p*-value:
a	0.015810	Sobel test:	-0.77916954	0.05066015	0.43587985
b	-2.496701	Aroian test:	-0.66263101	0.05956987	0.5075669
s_a	0.016143	Goodman test:	-0.99168874	0.03980366	0.32134939
s_b	1.941323	Reset all	Calculate		

From the test, it was found that the p-value of 0.43587985 was greater than 0.05; it can be concluded that H12 was rejected, meaning that Profit Management was unable to significantly mediate the influence of Audit Quality on Financial Performance in Industrial Sub-Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021.

3.2.4 Mediation test of the influence of Intellectual Capital on Financial Performance through Profit Management.

	Input:		Test statistic:	Std. Error:	*p*-value:
a	-1.21E-05	Sobel test:	0.03416873	0.00088414	0.9727426
b	-2.496701	Aroian test:	0.02697766	0.00111982	0.97847755
s_a	0.000354	Goodman test:	0.05430901	0.00055626	0.95668897
s_b	1.941323	Reset all	Calculate		

From the test, it was found that the p-value of 0.9727426 is greater than 0.05; it can be concluded that H13 was rejected, meaning that Profit Management was unable to significantly mediate the influence between Intellectual Capital on Financial Performance in Industrial Sub-Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021.

4. Discussion

From the results of the model estimates, hypothesis testing was carried out in accordance with the purpose of this study. The t-test is performed by comparing the calculated value with table t. If it is calculated> ttabel, then it is said that the effect is significant, and if it is calculated< ttabel, then it is said that the effect is not significant. The results of hypothesis testing can be described below:

4.1 Effect of Independent Board of Commissioners on Financial Performance

In this study, the Independent Board of Commissioners had a significant effect on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. The independent board of commissioners is a member of the commissioners who are not affiliated with management, other commissioners and shareholders. In the existence of an independent board of commissioners, the interests of shareholders, both majority and minority, are not ignored because independent commissioners are more neutral to decisions made by managers of the board of commissioners with more independent members will tend to provide greater supervision of the company's management in improving company performance.

The number of independent boards of commissioners in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021 is less than the number of boards of commissioners. And in this case, it means that the more the number of independent board members will have a tendency to obtain better financial performance, the independent board of commissioners, as one of the mechanisms of good *corporate governance*, will easily play a role in improving the company's financial performance so that it will give a good signal to the company, a good signal to Such companies will increase the value of the company in the stock market. And the independent commissioner will act as a mediator in disputes that occur between internal managers and oversee management policy and provide advice to management. Supervision carried out by an independent board of commissioners can improve the performance of managers so that it can allow the company's performance to also improve.

The results of the study are in line with research conducted by Amyulianthy (2012), which states that the independent board of commissioners has a positive and significant effect on the company's performance, and also the results of research conducted by Santoso (2017), which states that the independent board of commissioners is proven to affect the company's financial performance, the existence of this independent board of commissioners is expected to be able to provide a supervisory function to the company more objectively and independent and ensure clean management and healthy company operations so as to support the improvement of the company's financial performance. This research is contrary to research conducted by Fitriani and Zamzami (2018) and Anggraini et al. (2019), which show that the size of the board of commissioners has no influence on financial performance.

4.2 The Effect of Institutional Ownership on Financial Performance

In the research, Institutional Ownership did not have a significant effect on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. Industrial Sector Companies listed on the Indonesia Stock Exchange in 2018 – 2021 in this study have a very high number of institutional ownership or companies whose institutional ownership is 50% of the number of shares outstanding in the company; there are around 138 out of 188 data studied. With it, it can be shown that the higher the institutional ownership, the stronger the control over the company, and the company's performance or value will increase if the company owner can control management behavior to act in accordance with the company's objectives. And with ownership from outside management or institutional parties, it can monitor management behavior and performance and can influence decisions made by management. However, the owner of the institutional shares itself is only one of the management supervisors of the company and where the party that makes decisions and carries out decisions related to the company is the board of directors and management of the company. So in this study, Institutional Ownership did not have a significant effect on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. And the results of this study are in line with the research conducted by Agassi and Eni (2021) and Brigitta and Josua (2017) and are contrary to Nicholas's research (2020).

4.3 Effect of Audit Quality on Financial Performance

In this study, Audit Quality had a significant effect on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. In the theory of agency that assumes that the human being is always self-interest, then the presence of an independent third party as a mediator on the relationship between the principal and the agent is indispensable; in this case, it is an independent auditor. Investors will be more inclined to accounting data resulting from high audit quality (Mutia et al., 2010). And in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021, many companies that use non-big4 KAP with the same KAP in this case, auditors who have many clients in the same industry will have a deeper understanding of the specific audit risks that represent the industry; it will still require more skill development than auditors in general. This additional expertise will generate positive returns in audit fees, so researchers hypothesize that auditors with a high concentration in a particular industry will provide higher quality. The results of this study are in line with the research of Agyei and Mensah (2018), which stated that the size of the company's public accounting firm affects the company's financial performance.

4.4 The Effect of Intellectual Capital on Financial Performance

In this study, Intellectual Capital did not have a significant effect on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. This can be caused because the capital invested by all issuers does not only come from their own capital but also through loans made by the company. We can know that the Value Added Intellectual Coefficient (VAIC™) consists of Value Added Capital Caefficient (VACA), Value Added Human Capital (VAHU), and Structural Capital Value Added (STVA).

This is the nominal amount that the company spends to pay salaries and benefits for employees and does not provide value added for the company. In the Industrial Sector, companies listed on the Indonesia Stock Exchange in 2018 - 2021 with an average value of -97,822, Illustrate a high employee burden, and the company hopes to get high value added from its employees and improve the company's financial performance. However, it did not work because, with a high employee burden, the company remained in a state of loss. This can be caused by the high budget of employee salary burdens, but it is not balanced with training and training, so employees cannot create value for the company. In other words, it is not enough for companies to simply recruit and promote intelligent individuals; companies must also support and nurture intelligent individuals to channel their human resources through organizational learning and externalization into the company's information systems.

And this indicates that structural capital has not been able to improve the company's financial performance. Structural capital has not been able to accommodate the workforce in developing ideas and products to improve performance. Work procedures, operating systems, and organizational culture have not increased added value effectively. High knowledge in a company cannot guarantee that the company can fulfill routine processes and structures that will support employees in producing good business performance. This can also be caused by technological developments and business competition causing business people to realize that the ability to compete for lies not only in tangible assets but rather in innovation, information systems, organizational management and human resources they have so as to create competitive advantages and better financial performance. And the company's structural capital efficiency has not been able to optimize its corporate structure to create a good financial performance. This indicates that the capital invested in the manufacturing industry of the consumer goods sector has not been able to generate added value and improve the company's financial performance. Capital derived from equity and net profit funds has not been effective for managing physical capital such as production equipment and machinery.

This study's results align with research conducted by (Oktavia, 2015) and Goswami (2016), which state that Intellectual Capital has no effect on financial performance.

4.5 Effect of Independent Board of Commissioners on Profit Management

In this study, the Independent Board of Commissioners did not significantly affect Profit Management in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. Board of Commissioners Independent of Commissioners in this study, where more and more independent boards of commissioners in a company cannot prevent profit management practices by managers. This has several possibilities; first, the size of the company's independent board of commissioners gives rise to effective communication so as to facilitate the supervision process. Second, efficient decision-making within an independent board of commissioners. Finally, the independent board of commissioners has sufficient expertise in carrying out each of its duties. The results of the research that has been carried out are in line with research conducted by Rahmawati (2013), which states that there is an influence between the board of commissioners on profit management. In this study, the size of the board of commissioners was measured from the number of all commissioners in the company in the current period, both commissioners and independent commissioners in the company.

4.6 The Effect of Institutional Ownership on Profit Management

In this study, Institutional Ownership did not significantly affect Profit Management in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. The results of this study show that institutional ownership does not have the ability to control management, so it cannot reduce profit management practices. This large shareholding should give institutional investors more power in controlling the company's operational activities. But in fact, institutional ownership cannot limit the occurrence of profit management. This is because institutional investors do not act as sophisticated investors who have more ability and opportunity to monitor and discipline managers to be more focused on company value, as well as limiting management policies in manipulating profits, but rather acting as temporary owners who are more focused on current earnings (Yang et al., 2009 in Agustia, 2012). In addition, institutional investors do not act as decision makers within the company. Transient investors will make managers take policies to achieve the profit targets desired by investors. Therefore, the existence of institutional ownership will not necessarily have an impact on improving the monitoring process, which affects the reduction of management actions in carrying out profit management. This study's results align with Lu'luilmaknun and Devvy (2020) and Riske Meitha Anggraeni (2013), who stated that there is no influence between institutional ownership and profit management. In this study, institutional ownership was measured by comparing the shares owned by the institution with the total number of shares outstanding by the company.

4.7 Effect of Audit Quality on Profit Management

In this study, Audit Quality did not significantly affect Profit Management in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. The results of this study are in line with Agung (2022), which states that the audit committee has no influence on profit management. In this study, the quality of public accounting firms was measured using a dummy; namely, if the company uses the services of a public accounting firm affiliated with the big four, it will be given a value of 1, and if the company uses the services of a public accounting firm that is not affiliated with the big four, it is given a value of 0. In the research of a few companies that use auditors with big four affiliates, but many companies use non big four auditors with the same KAP as other companies, These auditors who have many clients in the same industry will have a deeper understanding of the specific audit risks that represent those industries, but this is proven to be unable to limit the profit management behavior that companies do, This is because auditors who have many clients in the same industry will have a deeper understanding of the specific audit risks that represent the industry so that they can assist management in cheating or manipulating profits at the company.

4.8 The Effect of Intellectual Capital on Profit Management

In this study, Intellectual Capital did not have a significant effect on Profit Management in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. This proves empirically that intellectual capital cannot be a trigger indicator for profit management practices. In theory, it is stated that the utilization of capital assets and the utilization of funds owned by the company will be followed by an increase in the company's production activities that it will contribute to increasing the company's income which will improve the quality of the company's profits. So that the company does not need to do profit management.

However, in this study, intellectual capital proxied by VAIC to Profit Management shows that a company's intellectual capital cannot provide greater profitability and growth. In a sense, the greater the intellectual capital owned by the company, it is unable to suppress the existence of profit management. In agency theory, it is explained that management and stakeholders have different interests, so profit management is difficult to suppress. Education, employee experience, especially top-level employees, i.e. management is unlikely not to do profit management. Although the system in the company has been well designed, the management is still trying to find a way to be able to report the highest profit. This research is in line with the research conducted by Ferdinandus and Estralita (2020).

4.9 Effect of Profit Management on Financial Performance

In this study, Profit Management did not have a significant effect on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. Jensen and Meckling (1976) argue that agency relationships occur when a principal hires an agent to provide a service and then entrusts decision-making authority to the agent. There is a difference in interests between principals and agents, and agents have their own interests for them and ignore the interests of principals. Therefore, the agent's desire to do profit management arises. As a result, the company information provided to the principal by the agent does not reflect the actual financial state of the company. This result is in line with research conducted by Yus (2017), which states that profit management has no effect on financial performance. Profit management can be done by means of pure accrual manipulation, done at the end of the period when the agent knows the profit and can find out how much manipulation will be needed to make the profit achieved, but this accrual manipulation is limited by GAAP (Generally Accepted Accounting Principal). This can be interpreted to mean that the company will still carry out profit management for the benefit of the company but on the condition that it does not harm the investor and must still be in accordance with what has been limited by GAAP (Generally Accepted Accounting Principal).

4.10 Effect of Independent Board of Commissioners on Financial Performance through Profit Management

In this study, Profit Management was unable to significantly mediate the influence between the Independent Board of Commissioners on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. This indicates that if there is an increase in profit management, the relationship between the Independent Board of Commissioners and financial performance will not increase significantly.

4.11 The Effect of Institutional Ownership on Financial Performance through Profit Management

In this study, Profit Management was unable to significantly mediate the influence of Institutional Ownership on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. This indicates that if there is an increase in profit management, the relationship between Institutional Ownership and Financial performance will not increase significantly.

4.12 The Effect of Audit Quality on Financial Performance through Profit Management

In this study, Profit Management was unable to significantly mediate the effect of Audit Quality on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. This indicates that if there is an increase in profit management, the relationship between Audit Quality and Financial Performance will not increase significantly.

Profit management cannot mediate the relationship between *good corporate governance* and financial performance because, in the previous chapter, after being tested, it turns out that GCG has no effect on financial performance, and profit management also has no effect on financial performance. These results are in line with research conducted by Kalsum et al. (2020); Mardianto and Feeny (2019) stated that *good corporate governance* does not have a significant effect on the company's financial performance through profit management. It is proven in this study that the quantity or amount of the board of commissioners, institutional ownership, and audit quality do not affect financial performance. Profit management from the sample is positive and negative, and the average show negative values meaning that the average sample company performs profit management that is income decreasing, but in this study, it is proven that profit management does not affect financial performance.

4.13 The Effect of Intellectual Capital on Financial Performance through Profit Management

In this study, Profit Management was unable to significantly mediate the influence of Intellectual Capital on Financial Performance in Industrial Sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. This indicates that if there is an increase in profit management, the relationship between Intellectual Capital and financial performance will not increase significantly. Based on the resource-based theory, resources are considered the main determinants of a company's performance and contribute materially to sustainable competitive advantage and company success (Wernerfelt, 1984). However, in this study, the company has not been able to take advantage of the value of intellectual capital, so it has not been able to contribute value added to the company, the utilization of capital assets, and the utilization of funds owned by the company is still not optimal so that they are not able to support the company's production activities optimally so that it does not have an impact on the quality of the company's profits and also the procurement of capital assets on a large scale can result in the addition of the company's expenses through maintenance costs and depreciation costs. Meanwhile, management performance is measured based on the profits generated by higher profits, and in the company, there is a difference in interests between principals and agents, and agents have their own interests for them and ignore the interests of principals. Therefore, the agent's desire to do profit management arises. As a result, the company information provided to the principal by the agent does not reflect the actual financial state of the company. Therefore, Profit management cannot mediate the relationship between IC and financial performance.

5. **Conclusion and Recommendations**

5.1 Conclusion

From this research, it can be concluded that the study aims to determine the influence of good corporate governance and intellectual capital mechanisms on financial performance with profit management as a mediation variable. With the number of samples used as many as 188, the following conclusions can be drawn:

(1) The independent board of commissioners has a significant effect on the financial performance of industrial sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. (2) Institutional ownership has no significant effect on the financial performance of industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021. (3) Audit quality has a significant effect on financial performance in industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021. (4) Intellectual capital has no significant effect on the financial performance of industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021. (5) The independent board of commissioners has a significant effect on profit management in industrial sector companies listed on the Indonesia Stock Exchange in 2018 – 2021. (6) Institutional ownership has no significant effect on profit management in industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021. (7) Audit quality has a significant effect on profit management in industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021. (8) Intellectual capital has a significant effect on profit management in industrial sector companies listed on the

Indonesian stock exchange in 2018 – 2021. (9) Profit management has no significant effect on the financial performance of industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021. (10) Profit management was unable to significantly mediate the influence between independent boards of commissioners on financial performance in industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021. (11) Profit management was unable to significantly mediate the influence of institutional ownership on financial performance in industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021. (12) Profit management was unable to significantly mediate the effect of audit quality on financial performance in industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021. (13) Profit management is unable to significantly mediate the influence of intellectual capital on financial performance in industrial sector companies listed on the Indonesian stock exchange in 2018 – 2021.

5.2 Suggestion

This research is used to determine the influence of good corporate governance, and intellectual capital mechanisms on financial performance with profit management as a mediating variable for the industrial sector listed on the Indonesian stock exchange in 2018 – 2021. The suggestions that can be given to several related parties include: For the next research, it is hoped that it will continue the post-covid pandemic research period from this study because the authors took the research period before the covid pandemic period and are in the covid pandemic, namely 2019-2021. Adding to the post-covid pandemic research period, it will provide research results, such as how the study results will be if, before, in progress and after the covid pandemic.

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