



THE EFFECT OF CORPORATE GOVERNANCE AND INTELLECTUAL CAPITAL ON FINANCIAL PERFORMANCE WITH EARNINGS MANAGEMENT AS MEDIATION VARIABLE

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<p>Info Article Received : 02 November 2025 Revised : 03 Desember 2025 Accepted : 03 Januari 2026 Publication : 31 Januari 2026</p>	<p>Abstract: <i>This study examines the effect of corporate governance and intellectual capital on financial performance, with earnings management as a mediating variable, in banking companies listed on the Indonesia Stock Exchange during the 2017–2024 period. Using purposive sampling, 20 banks with a total of 160 observations were selected as the research sample. Data were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The results indicate that corporate governance and intellectual capital have a positive and significant effect on financial performance, with intellectual capital emerging as the most dominant factor. However, corporate governance and intellectual capital do not have a significant effect on earnings management. Furthermore, earnings management does not mediate the relationship between corporate governance or intellectual capital and financial performance. These findings suggest that improvements in financial performance within the banking sector are driven more by the direct implementation of sound corporate governance practices and effective management of intellectual capital rather than through earnings management practices.</i></p>
<p>Keywords: Corporate Governance, Intellectual Capital, Earnings Management, Financial Performance, Banking Sector</p>	
<p>Kata Kunci: Corporate Governance, Intellectual Capital, Manajemen Laba, Kinerja Keuangan, Sektor Perbankan</p>	<p>Abstrak: Penelitian ini bertujuan untuk menganalisis pengaruh corporate governance dan intellectual capital terhadap kinerja keuangan dengan manajemen laba sebagai variabel mediasi pada perusahaan perbankan yang terdaftar di Bursa Efek Indonesia selama periode 2017–2024. Metode pengambilan sampel menggunakan purposive sampling dengan jumlah sampel sebanyak 20 bank dan total 160 observasi. Analisis data dilakukan menggunakan metode Partial Least Square–Structural Equation Modeling (PLS-SEM). Hasil penelitian menunjukkan bahwa corporate governance dan intellectual capital berpengaruh positif dan signifikan terhadap kinerja keuangan perusahaan perbankan, dengan intellectual capital sebagai variabel yang memiliki pengaruh paling dominan. Namun demikian, corporate governance dan intellectual capital tidak berpengaruh signifikan terhadap manajemen laba. Selain itu, manajemen laba tidak mampu memediasi hubungan antara corporate governance maupun intellectual capital terhadap kinerja keuangan. Temuan ini mengindikasikan bahwa peningkatan kinerja keuangan perbankan lebih dipengaruhi oleh penerapan tata kelola perusahaan dan pengelolaan intellectual capital secara langsung, bukan melalui praktik manajemen laba.</p>
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INTRODUCTION

Financial performance is a fundamental element in assessing the success and stability of a company. In the era of globalization and increasingly complex business competition, measuring financial performance has become an important tool to provide a clear picture of the company's ability to manage resources, generate profits, and maintain operational sustainability. Good financial performance indicates that the company can improve investor welfare and grow well (Rahayu & Sari, 2018). Company performance can be influenced by various factors, one of which is how the company implements its management system. Corporate governance is one of the factors that affect company performance (Yusmulianto et al., 2023). Corporate governance is the key to a company's success in managing the company so that the quality of the financial statements produced is guaranteed. With good corporate governance, it is expected that the parties who play a role in running the company understand and carry out their functions and parts according to their respective authorities and responsibilities. According to agency theory by Jensen & Meckling (1976), corporate governance can reduce agency conflicts that arise between managers (agents) and shareholders (principals).

In addition to corporate governance, intellectual capital also plays an important role in improving company performance. According to resource-based theory, intellectual capital fulfills the criteria as a unique resource that is capable of creating competitive advantages for companies so that it can create value for companies and can be used to develop and implement strategies that can improve company performance (Wijayani, 2017). Intellectual capital is defined as knowledge resources in the form of employees and technology in companies that can be used in the process of creating value for companies (Bukh et al., 2005). The relationship between corporate governance, intellectual capital, and financial performance is very sensitive to earnings management practices. If a company does not implement good corporate governance and intellectual capital, management may be tempted to engage in earnings management to gain stakeholder trust and polish the value of financial statements according to expected goals.

Previous research on the relationship between corporate governance, intellectual capital, earnings management, and financial performance has produced varied findings (Fatimah & Setiany, 2023; Anik et al., 2021; Sibuea et al., 2023). This study refers to research by Fatimah & Setiany (2023), with development by adding audit committee as

an indicator of corporate governance measurement, M-VAIC™ as an indicator of intellectual capital measurement, and using Return on Assets (ROA) and Net Interest Margin (NIM) as indicators of financial performance measurement. The object of this research is banking companies listed on the Indonesia Stock Exchange for the period 2017-2024. The banking sector was chosen because: (1) it is a business sector that will continue to experience growth, and (2) banking companies are required to maintain transparency and accountability as they rely heavily on public trust. Based on these considerations, this study aims to examine the effect of corporate governance and intellectual capital on financial performance with earnings management as a mediation variable in banking companies.

METHOD

This research uses a quantitative method with an explanatory survey design. The population of this study is banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2017-2024. The sampling technique used is purposive sampling with the following criteria: (1) banking companies listed on the IDX for the period 2017-2024, (2) consistently publishing financial statements during the period 2017-2024 in Rupiah currency, and (3) obtaining positive net profit consecutively during the period 2017-2024. Based on these criteria, 20 banks were obtained as samples with an observation period of 8 years, resulting in a total of 160 observations.

The independent variables in this study are corporate governance (CG) and intellectual capital (IC). Corporate governance is measured using three indicators: institutional ownership, independent commissioners, and audit committee. Intellectual capital is measured using the Modified Value Added Intellectual Coefficient (M-VAIC™) which consists of Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), Capital Employed Efficiency (CEE), and Relational Capital Efficiency (RCE). The mediating variable in this study is earnings management (EM), measured using discretionary accruals with the Modified Jones Model. The dependent variable is financial performance (FP), measured using two indicators: Return on Assets (ROA) and Net Interest Margin (NIM). Data were collected through documentation from annual reports and financial statements published on the IDX website (www.idx.co.id).

The data analysis technique used is Partial Least Square Structural Equation Modeling (PLS-SEM) with SmartPLS 4.0 software. PLS-SEM was chosen because: (1)

the model formed has multilevel causal relationships, (2) there are latent variables that cannot be measured directly, and (3) the relationships between latent variables and their indicators are formative. The analysis includes evaluation of the measurement model (outer model) to test the validity and reliability of indicators, and evaluation of the structural model (inner model) to test the hypotheses and determine the relationship between constructs. The research conceptual framework is presented in Figure 1.

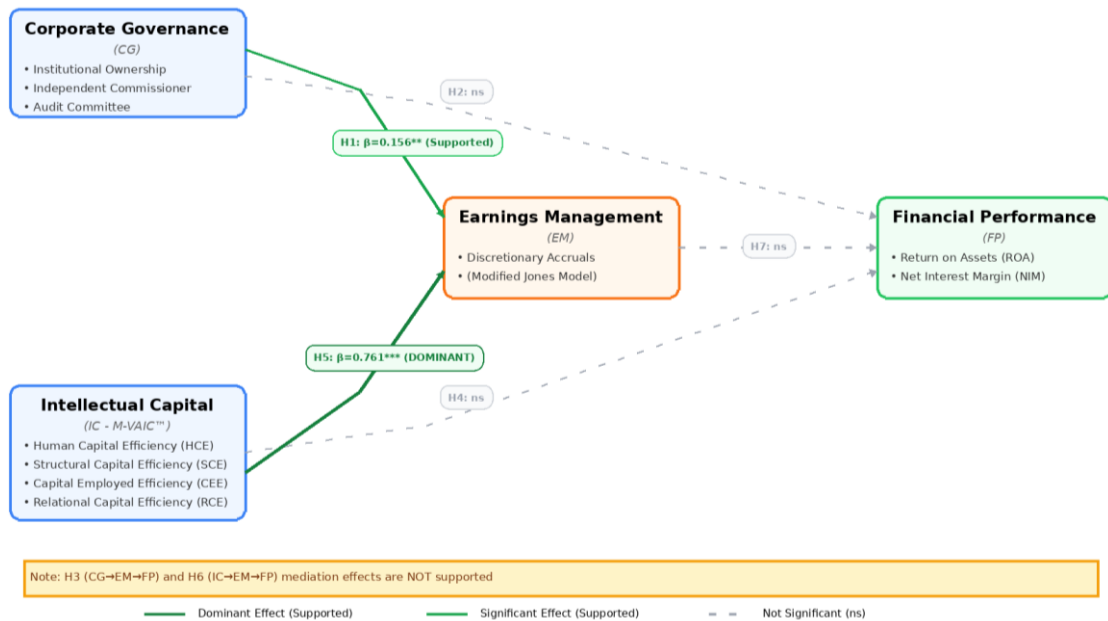


Figure 1. Research Conceptual Framework

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive analysis shows that the average institutional ownership in the sample banks during the 2017-2024 period was 94.99%, indicating that most bank shares are owned by institutions. The average proportion of independent commissioners was 57.96%, showing that most banks have met regulatory requirements. The average number of audit committee members was 1.35. For intellectual capital, the average M-VAIC score was 4.23, indicating good efficiency in managing intellectual resources. The average operating profit was IDR 9,366,032 million, with an average growth of 17.94%. The average total assets were IDR 367,975,554 million with an average growth of 10.17%. These descriptive statistics provide an overview of the characteristics of banking companies in the sample.

Measurement Model (Outer Model) Evaluation

The outer model evaluation shows that all formative indicators meet the validity and reliability criteria. The Variance Inflation Factor (VIF) values for all indicators are below 5.0, indicating no multicollinearity problems. For corporate governance, institutional ownership has the highest outer weight (0.812), indicating it is the most dominant dimension in the CG construct. For intellectual capital, Human Capital Efficiency (HCE) has the highest weight (0.654), showing that human capital is the most important component in creating value for banks. These findings confirm that the measurement instruments used in this study are valid and reliable.

Structural Model (Inner Model) Evaluation

The structural model evaluation shows that the R-square value for financial performance (FP) is 0.671, meaning that 67.1% of the variation in financial performance can be explained by corporate governance, intellectual capital, and earnings management. The R-square value for earnings management (EM) is very small (0.008), indicating that corporate governance and intellectual capital explain only 0.8% of the variation in earnings management. The Q-square value is 0.530, indicating that the model has good predictive relevance ($Q^2 > 0$). The SRMR value is 0.065, which is below the threshold of 0.08, indicating a good model fit. The complete structural model with path coefficients is presented in Figure 2.

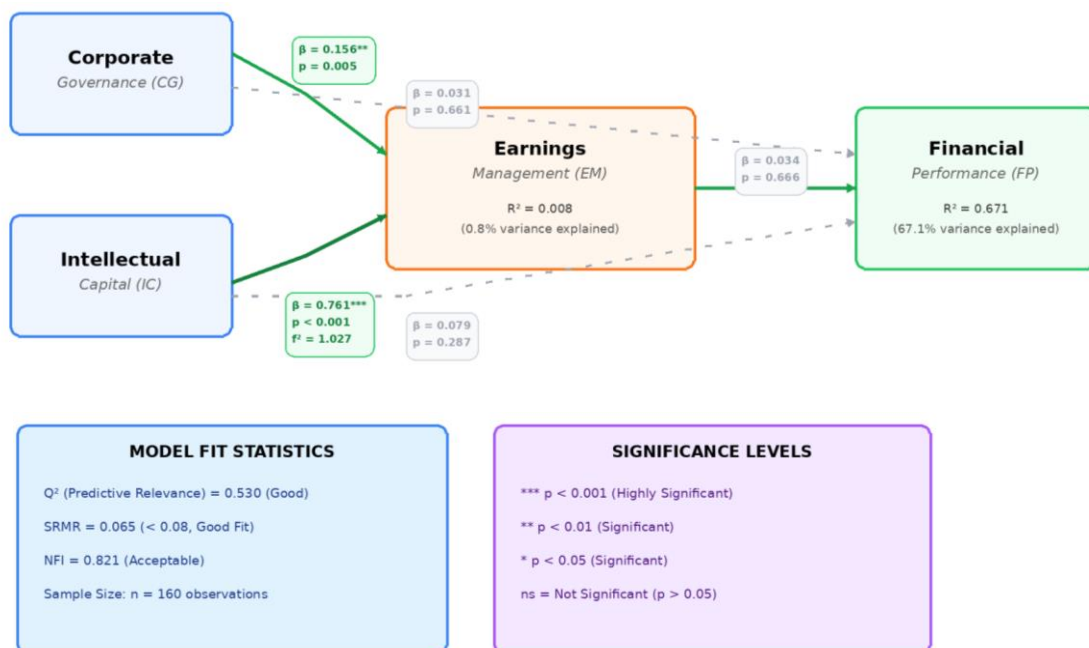


Figure 2. PLS-SEM Structural Model Results

Hypothesis Testing Results

Based on the path coefficient analysis with bootstrapping procedure ($n=500$), hypothesis testing was conducted to examine the direct and indirect effects among variables. Table 1 presents the complete results of hypothesis testing including path coefficients, t-statistics, p-values, and conclusions.

Table 1. Hypothesis Testing Results

H	Hypothesis	Path Coef.	t-Statistic	p-Value	Result
H1	CG → FP	0.156	2.837	0.005	Supported
H2	CG → EM	0.031	0.431	0.667	Not Supported
H3	CG → EM → FP	0.001	0.408	0.683	Not Supported
H4	IC → EM	-0.079	1.065	0.287	Not Supported
H5	IC → FP	0.761	16.419	0.000	Supported
H6	IC → EM → FP	-0.003	0.832	0.406	Not Supported
H7	EM → FP	0.034	0.816	0.415	Not Supported

Source: Data processed (2025)

The results show that two out of seven hypotheses are supported. H1 is supported, indicating that corporate governance has a significant positive effect on financial performance (path coefficient = 0.156, t-statistic = 2.837, p-value = 0.005). This finding suggests that better implementation of corporate governance mechanisms, including strong institutional ownership, effective independent commissioners, and well-functioning audit committees, is associated with better financial performance.

H5 is also supported, showing that intellectual capital has a significant positive effect on financial performance (path coefficient = 0.761, t-statistic = 16.419, p-value = 0.000). Intellectual capital emerged as the dominant determinant of financial performance in this model, with a very large effect size ($f^2 = 1.027$). Banks that can manage human capital quality, internal systems and processes, capital utilization, and relationships with stakeholders more efficiently show significantly better financial performance.

However, H2, H4, and H7 are not supported, indicating that corporate governance and intellectual capital do not significantly affect earnings management, and earnings management does not significantly affect financial performance. H3 and H6 are also not supported, showing that earnings management does not mediate the relationship between corporate governance or intellectual capital and financial performance. These findings indicate that in the highly regulated banking sector, the effects on financial performance occur directly rather than through earnings management mechanisms.

Discussion

The findings of this study confirm the important role of corporate governance in improving financial performance, consistent with agency theory which states that good governance mechanisms can reduce agency conflicts and improve company performance (Jensen & Meckling, 1976). The positive effect of corporate governance on financial performance indicates that banks with better governance structures, characterized by higher institutional ownership, greater proportion of independent commissioners, and more effective audit committees, tend to achieve better financial performance. These results support previous research by Markonah & Prasetyo (2022) and Mahrani & Soewarno (2018) who found a positive effect of corporate governance on financial performance.

Intellectual capital emerged as the most dominant factor affecting financial performance, with a very large effect size ($f^2 = 1.027$). This finding strongly supports resource-based theory which states that unique and valuable resources, including intellectual capital, can create sustainable competitive advantages (Penrose, 1959); Barney & Clark, 2007). The dominance of intellectual capital in this study suggests that in the knowledge-intensive banking sector, the ability to effectively manage human capital, structural capital, capital employed, and relational capital is crucial for superior performance. These results are consistent with research by Kumala et al., (2023), Marsintauli (2023), Suzan & Putri (2023), Aisyah & Pratikto (2022), Anik et al., (2021), and Innayah et al., (2020) who found a significant positive effect of intellectual capital on financial performance.

However, this study found that corporate governance and intellectual capital do not significantly affect earnings management. This finding differs from several previous studies (Sirait et al., 2022); (Siregar & Junidwan, 2022); (Jaya et al., 2021), but is consistent with research by Fatimah & Setiany (2023) and Sibuea et al., (2023). This can be explained by several factors. First, the banking sector in Indonesia is a highly regulated industry with strict supervision from Bank Indonesia and the Financial Services Authority (OJK), limiting the space for aggressive earnings management practices. Second, the corporate governance mechanisms measured in this study (institutional ownership, independent commissioners, audit committee) may represent more formal structural aspects rather than the actual quality of governance processes, which might explain the weak relationship with earnings management behavior. The finding that earnings management does not mediate the relationship

between corporate governance or intellectual capital and financial performance indicates that the effects on financial performance occur directly rather than through earnings management mechanisms. This suggests that in the highly regulated banking sector, good corporate governance and strong intellectual capital improve financial performance primarily through improved operational efficiency, better decision-making, enhanced risk management, and increased stakeholder trust, rather than through reduced earnings management practices. The direct effect pathway is more dominant because banks with better governance and stronger intellectual capital can generate genuine improvements in profitability and operational performance, which are reflected directly in financial ratios such as ROA and NIM.

CONCLUSION

This study concludes that corporate governance and intellectual capital have significant positive effects on financial performance of banking companies listed on the Indonesia Stock Exchange, with intellectual capital being the dominant determinant. The R-square value of 0.671 indicates that 67.1% of the variation in financial performance can be explained by these factors. However, corporate governance and intellectual capital do not significantly affect earnings management, and earnings management does not mediate the relationship between these variables and financial performance. These findings indicate that in the highly regulated banking sector, the improvements in financial performance from good corporate governance and strong intellectual capital occur directly through enhanced operational efficiency, better resource management, improved decision-making quality, and strengthened stakeholder trust, rather than through reduced earnings management practices.

Based on these findings, several recommendations can be made. For bank management and shareholders, it is recommended to: (1) continue strengthening the implementation of corporate governance by ensuring institutional shareholders play an active role as supervisors, strengthening the independence and competence of independent commissioners, and optimizing the function of audit committees beyond mere regulatory compliance; and (2) prioritize the development of intellectual capital as a core strategy for improving financial performance through capacity building programs for human resources, improvement of internal systems and procedures, strengthening information technology infrastructure, and managing relationships with customers and business partners as long-term investments. This study has several

limitations that should be acknowledged. First, the sample is limited to banking companies listed on the Indonesia Stock Exchange during 2017-2024, so generalization to other sectors or countries should be done with caution. Second, the measurement of variables uses limited indicators that are available in secondary data, which may not capture all dimensions of the constructs. Third, the research period covers the COVID-19 pandemic period which may have affected the relationship between variables. Fourth, the study uses only PLS-SEM as the analysis method without triangulation with other methods.

Future research is suggested to: (1) expand the sample to include other financial sectors or conduct cross-country comparisons to test the generalizability of findings; (2) enrich variable measurements with more comprehensive indicators, including qualitative aspects of corporate governance and earnings management; (3) add other mediator or moderator variables such as audit quality, credit risk, bank size, or macroeconomic factors to capture the complexity of relationships; (4) use multiple analysis methods for triangulation and robustness checks; and (5) extend the research period to examine the stability of relationships over different economic conditions.

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