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Corporate Governance and Financial Performance in Emerging Markets: The Mediating Role of Intellectual Capital in Indonesian Manufacturing Firms

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Abstract:
This study examines the effect of Good Corporate Governance (GCG) on financial performance and investigates the mediating role of Intellectual Capital in Indonesian manufacturing companies. The implementation of effective corporate governance is expected to enhance organizational efficiency, strengthen monitoring mechanisms, and improve the utilization of strategic resources, ultimately leading to better financial performance. This research employs Agency Theory, Stakeholder Theory, and the Resource-Based View (RBV) as the theoretical foundations to explain the relationships among governance mechanisms, intellectual capital, and firm performance.

The study uses secondary data obtained from the annual reports and financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. Good Corporate Governance is proxied by the board of directors, board of commissioners, and audit committee, while financial performance is measured using Return on Assets (ROA). Intellectual Capital is measured using the Value Added Intellectual Coefficient (VAIC) model. Multiple linear regression and mediation analysis are employed to test the proposed hypotheses.

The findings indicate that the board of directors, board of commissioners, and audit committee positively influence Intellectual Capital. Furthermore, Intellectual Capital has a significant positive effect on financial performance. The results also reveal that Intellectual Capital mediates the relationship between corporate governance mechanisms and financial performance, indicating that effective governance contributes to higher firm performance through the enhancement of intellectual resources. These findings highlight the strategic importance of Intellectual Capital as an intangible asset that strengthens the effectiveness of corporate governance practices in creating sustainable competitive advantages and improving financial outcomes.

Keywords: Good Corporate Governance, Board of Directors, Board of Commissioners, Audit Committee, Intellectual Capital, Financial Performance, ROA

BACKGROUND

Good Corporate Governance (GCG) has become an essential aspect of modern business management, particularly in enhancing transparency, accountability, and corporate performance. In an increasingly competitive business environment, companies are required not only to maximize profits but also to ensure that governance mechanisms function effectively to protect stakeholders' interests and support sustainable growth. Effective corporate

governance can reduce agency conflicts between managers and shareholders by improving monitoring and decision-making processes, thereby contributing to better financial performance.

Financial performance reflects a company's ability to generate profits from its available resources and is commonly used by investors, creditors, and other stakeholders to evaluate organizational success. One of the most widely used indicators of financial performance is Return on Assets (ROA), which measures the efficiency of a company in utilizing its assets to generate earnings. Previous studies have reported inconsistent findings regarding the relationship between corporate governance mechanisms and financial performance. Some studies found that governance structures positively influence financial outcomes, while others reported insignificant or even negative relationships. These inconsistencies indicate that additional factors may explain how governance mechanisms affect firm performance.

Recent developments in business management emphasize the growing importance of intangible assets as key drivers of organizational value creation. Among these assets, Intellectual Capital has gained significant attention due to its ability to enhance innovation, operational efficiency, and competitive advantage. Intellectual Capital encompasses human capital, structural capital, and relational capital, which collectively contribute to the creation of value and long-term organizational sustainability. According to the Resource-Based View (RBV), intangible resources that are valuable, rare, difficult to imitate, and non-substitutable can provide sustainable competitive advantages and improve firm performance.

From the perspective of Agency Theory, governance mechanisms such as the board of directors, board of commissioners, and audit committee play important roles in monitoring management activities and ensuring that corporate resources are utilized effectively. These governance bodies can also encourage the development and management of Intellectual Capital by promoting strategic decision-making, organizational learning, and knowledge-based resource allocation. Consequently, Intellectual Capital may serve as an important mechanism through which corporate governance influences financial performance.

Several previous studies have examined the relationship between corporate governance, Intellectual Capital, and financial performance. Research conducted by Jara Hardiyanti Jalih and colleagues found that Intellectual Capital was unable to mediate the relationship between corporate governance and financial performance, although governance mechanisms significantly influenced Intellectual Capital. In contrast, studies by Lesatanova Tricahya Avilya and Imam Ghozali reported that Intellectual Capital positively contributes to financial performance. These mixed findings suggest the need for further investigation regarding the role of Intellectual Capital as a mediating variable in the relationship between governance mechanisms and firm performance.

This study contributes to the existing literature by examining the mediating role of Intellectual Capital in the relationship between Good Corporate Governance and financial performance in Indonesian manufacturing companies. Unlike previous studies that primarily focused on ownership structures or independent commissioners as governance proxies, this research employs three governance mechanisms board of directors, board of commissioners, and audit committee to provide a more comprehensive understanding of governance effectiveness. Furthermore, this study focuses on manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2024 period, a sector that plays a significant role in Indonesia’s

economic development and increasingly relies on knowledge-based resources to maintain competitiveness.

The findings of this study are expected to provide theoretical contributions by extending the application of Agency Theory, Stakeholder Theory, and the Resource-Based View in explaining the interaction between corporate governance, Intellectual Capital, and financial performance. Practically, the results may offer valuable insights for corporate managers, investors, and regulators regarding the importance of strengthening governance structures and developing Intellectual Capital to improve financial performance and achieve sustainable competitive advantages.

THEORETICAL FRAMEWORK

Agency Theory

Agency Theory explains the relationship between shareholders (principals) and managers (agents) in a company. According to this theory, conflicts may arise because managers tend to pursue their own interests rather than maximizing shareholders' wealth. As a result, corporate governance mechanisms are needed to monitor managerial behavior and reduce agency problems. Effective governance structures, such as the board of directors, board of commissioners, and audit committee, help ensure that management decisions are aligned with the interests of shareholders and other stakeholders. Consequently, the implementation of Good Corporate Governance (GCG) is expected to improve corporate efficiency, accountability, and financial performance.

Stakeholder Theory

Stakeholder Theory argues that a company is responsible not only to its shareholders but also to various stakeholders, including employees, customers, suppliers, creditors, regulators, and society. The long-term success of a company depends on its ability to create value for all stakeholders. Corporate governance mechanisms play a vital role in balancing stakeholder interests and ensuring that organizational decisions contribute to sustainable value creation. Through effective governance practices, companies can enhance stakeholder trust, strengthen organizational reputation, and improve overall performance.

Resource-Based View (RBV)

The Resource-Based View (RBV) emphasizes that sustainable competitive advantage originates from valuable, rare, inimitable, and non-substitutable resources. In the modern business environment, intangible assets have become increasingly important in creating organizational value. Intellectual Capital, which consists of human capital, structural capital, and relational capital, represents a strategic resource that fulfills the criteria of RBV. Effective management of Intellectual Capital enables firms to improve innovation, operational efficiency, and financial performance. Therefore, companies that successfully develop and utilize their intellectual resources are more likely to achieve superior performance compared to their competitors.

Good Corporate Governance

Good Corporate Governance refers to a system of rules, practices, and processes used to direct and control corporate activities. Governance mechanisms are designed to ensure transparency, accountability, responsibility, independence, and fairness in organizational decision-making. In this study, Good Corporate Governance is represented by three governance mechanisms: the board of directors, the board of commissioners, and the audit committee.

The board of directors is responsible for managing corporate operations and formulating strategic decisions. A larger and more effective board may provide greater managerial expertise and improve organizational performance. The board of commissioners serves as a supervisory body that monitors management activities and protects stakeholders' interests. Meanwhile, the audit committee supports the board of commissioners by overseeing financial reporting processes, internal controls, and audit activities. Together, these governance mechanisms contribute to better corporate oversight and enhanced organizational performance.

Intellectual Capital

Intellectual Capital refers to the knowledge-based resources that create value and contribute to organizational competitiveness. It consists of three main components: human capital, structural capital, and relational capital. Human capital includes employees' knowledge, skills, expertise, and competencies. Structural capital refers to organizational systems, procedures, databases, and technological infrastructure that support business operations. Relational capital represents relationships with customers, suppliers, investors, and other stakeholders.

This study measures Intellectual Capital using the Value Added Intellectual Coefficient (VAIC) model, which evaluates a company's efficiency in utilizing intellectual resources to generate value. Intellectual Capital is considered a critical intangible asset that enables firms to improve productivity, innovation, and financial performance.

Financial Performance

Financial performance reflects a company's ability to generate profits and utilize its resources efficiently. It serves as an important indicator for evaluating the effectiveness of management and corporate strategies. In this study, financial performance is measured using Return on Assets (ROA), which indicates how effectively a company utilizes its total assets to generate net income.

ROA is widely used because it provides a comprehensive measure of profitability by considering both earnings and asset utilization. A higher ROA indicates better financial performance and greater efficiency in managing corporate resources.

Relationship Between Good Corporate Governance, Intellectual Capital, and Financial Performance

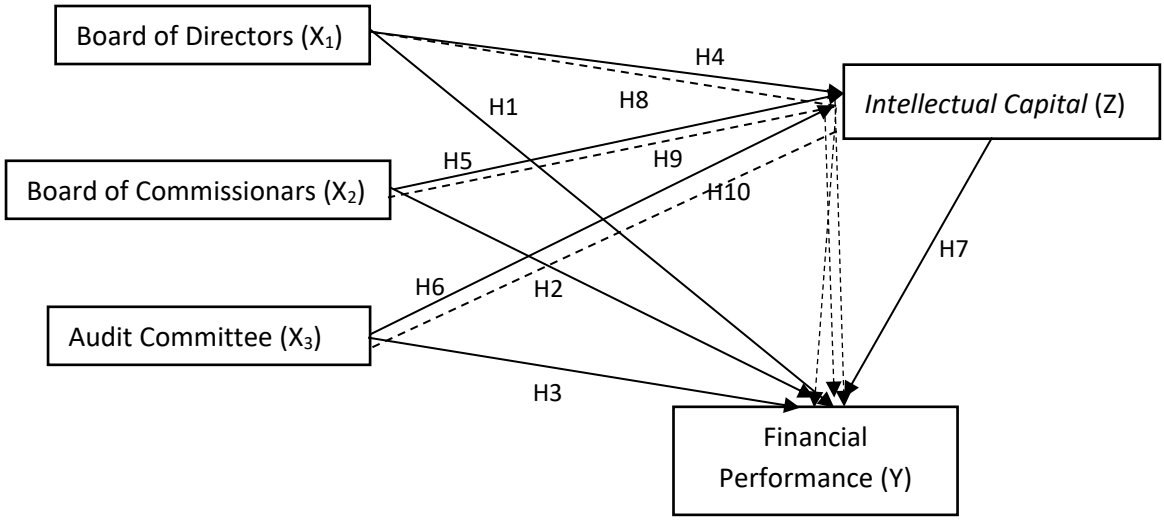
Effective corporate governance mechanisms are expected to enhance financial performance by improving monitoring activities, reducing agency conflicts, and facilitating better strategic decision-making. Governance structures can also encourage the development of Intellectual Capital through investments in human resources, organizational systems, and stakeholder relationships. As a strategic intangible resource, Intellectual Capital contributes to value

creation, innovation, and operational efficiency, which ultimately improve financial performance.

Based on Agency Theory, Stakeholder Theory, and the Resource-Based View, this study proposes that Intellectual Capital acts as a mediating variable in the relationship between Good Corporate Governance and financial performance. Companies with effective governance mechanisms are more likely to develop and utilize Intellectual Capital efficiently, resulting in superior financial outcomes and sustainable competitive advantages.

Conceptual Framework of the Study

This study examines the direct effect of Good Corporate Governance mechanisms, namely the Board of Directors, Board of Commissioners, and Audit Committee, on Financial Performance measured by Return on Assets (ROA). Furthermore, Intellectual Capital, measured using the Value Added Intellectual Coefficient (VAIC), is proposed as a mediating variable in the relationship between corporate governance mechanisms and financial performance.



METHOD

Research Design

This study employs a quantitative research approach to examine the effect of Good Corporate Governance on financial performance with Intellectual Capital as a mediating variable. Quantitative research is considered appropriate because it enables the measurement and analysis of causal relationships among variables using statistical techniques. The study utilizes secondary data obtained from the annual reports and financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Population and Sample

The population of this study consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2024. The sample was selected using a purposive sampling method based on specific criteria to ensure the availability and consistency of the required data.
The sample selection criteria are as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2021–2024.
2. Companies that published complete annual reports and audited financial statements throughout the observation period.
3. Companies that disclosed information related to the board of directors, board of commissioners, audit committee, and financial performance.
4. Companies with complete data required for calculating Intellectual Capital using the Value Added Intellectual Coefficient (VAIC) method.
5. Companies that reported positive earnings during the observation period.

Based on these criteria, the final sample consisted of manufacturing companies that met the research requirements, resulting in balanced panel data for the study period.

Data Sources and Collection Techniques

This study uses secondary data obtained from publicly available sources, including annual reports and financial statements downloaded from the official website of the Indonesia Stock Exchange (IDX) and the respective corporate websites. Data collection was conducted using the documentation method, whereby relevant information was extracted and recorded for further analysis.

Operational Definition and Measurement of Variables

Independent Variables
Board of Directors (X1)
The board of directors is responsible for managing the company and making strategic decisions. In this study, the board of directors is measured by the total number of directors serving in the company during a given year.

Board of Directors = Total Number of Directors

Board of Commissioners (X2)

The board of commissioners functions as a supervisory body that monitors managerial activities and corporate policies. This variable is measured by the total number of commissioners in the company.

Board of Commissioners = Total Number of Commissioners

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Audit Committee (X3)

The audit committee assists the board of commissioners in overseeing financial reporting, internal control systems, and audit activities. This variable is measured by the total number of audit committee members.

Audit Committee = Total Number of Audit Committee Members

Mediating Variable
Intellectual Capital (Z)

Intellectual Capital is measured using the Value Added Intellectual Coefficient (VAIC) developed by Pulic. The VAIC model evaluates a company's efficiency in utilizing intellectual and physical resources to create value.
The VAIC calculation consists of the following stages:

$$VA = OUT - IN$$

Where:

- VA = Value Added
- OUT = Total Revenue
- IN = Operating Expenses (excluding labor expenses)

Human Capital Efficiency:

$$HCE = VA / HC$$

Structural Capital Efficiency:

$$SCE = SC / VA$$

Where:

$$SC = VA - HC$$

Capital Employed Efficiency:

$$CEE = VA / CE$$

The overall VAIC score is calculated as:

$$VAIC = HCE + SCE + CEE$$

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Dependent Variable
Financial Performance (Y)

Financial performance is measured using Return on Assets (ROA), which reflects a company's ability to generate profits from its total assets.

$$\textbf{ROA = Net Income / Total Assets} \times \textbf{100\%}$$

A higher ROA indicates better efficiency in utilizing company assets to generate profits.

Data Analysis Technique

The data were analyzed using IBM SPSS Statistics. Several statistical procedures were employed to test the research hypotheses.

Descriptive Statistics

Descriptive statistical analysis was used to summarize the characteristics of the research variables, including the minimum value, maximum value, mean, and standard deviation.

Classical Assumption Tests

Before conducting regression analysis, several classical assumption tests were performed to ensure the validity of the regression model, including:

1. Normality Test
2. Multicollinearity Test
3. Heteroscedasticity Test
4. Autocorrelation Test

Multiple Linear Regression Analysis

To examine the influence of Good Corporate Governance on Intellectual Capital, the following regression model was employed:

$$\textbf{IC} = \alpha + \beta 1\textbf{BD} + \beta 2\textbf{BC} + \beta 3\textbf{AC} + \varepsilon$$

Where:

- IC = Intellectual Capital
- BD = Board of Directors
- BC = Board of Commissioners
- AC = Audit Committee
- A = Constant
- β = Regression Coefficients
- ε = Error Term

To examine the influence of Good Corporate Governance and Intellectual Capital on financial performance, the following regression model was used:

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$$ROA = \alpha + \beta 1BD + \beta 2BC + \beta 3AC + \beta 4IC + \varepsilon$$

Where:

- ROA = Financial Performance
- IC = Intellectual Capital
- BD = Board of Directors
- BC = Board of Commissioners
- AC = Audit Committee

Hypothesis Testing

Hypothesis testing was conducted using:

1. Coefficient of Determination (R^2) to measure the explanatory power of the model.
2. F-Test to evaluate the overall significance of the regression model.
3. t-Test to assess the significance of individual independent variables.

A significance level of 5% ($\alpha = 0.05$) was used as the decision criterion.

Mediation Analysis

The mediating role of Intellectual Capital was examined using path analysis and the Sobel Test. Mediation occurs when Intellectual Capital significantly transmits the effect of Good Corporate Governance mechanisms on financial performance.
The Sobel Test statistic is calculated as follows:

$$Z = (a \times b) / \sqrt{(b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2)}$$

Where:

- a = Coefficient of the relationship between independent variable and Intellectual Capital
- b = Coefficient of the relationship between Intellectual Capital and financial performance
- Sa = Standard error of coefficient a
- Sb = Standard error of coefficient b

A mediation effect is considered significant when the p-value is less than 0.05.

RESULT

Multiple Regression Analysis

This study employed two regression models to examine the direct and indirect relationships among the research variables. The first model analyzed the effect of Good Corporate Governance mechanisms on Intellectual Capital, while the second model examined the influence of Good Corporate Governance and Intellectual Capital on Financial Performance (ROA).

Model 1: Determinants of Intellectual Capital

The first regression model used Intellectual Capital (VAIC) as the dependent variable. The results indicate that the Board of Directors and Board of Commissioners positively and significantly affect Intellectual Capital. Specifically, the Board of Directors has a coefficient

of 0.719 (p = 0.044), while the Board of Commissioners has a coefficient of 1.579 (p = 0.000). These findings suggest that stronger governance structures contribute to the development and utilization of intellectual resources within manufacturing firms. In contrast, the Audit Committee does not significantly influence Intellectual Capital, as indicated by a coefficient of -0.859 and a significance level of 0.359 (p > 0.05).

Model 2: Determinants of Financial Performance

The second regression model examined the effect of governance mechanisms and Intellectual Capital on financial performance measured by Return on Assets (ROA). The results reveal that Intellectual Capital positively and significantly affects ROA, with a coefficient of 0.001 and a t-value of 2.795 (p = 0.006). This finding indicates that firms with higher intellectual capital efficiency tend to achieve better financial performance. Furthermore, the direct effects of the Board of Directors, Board of Commissioners, and Audit Committee on ROA were found to be positive and significant, supporting the role of corporate governance in enhancing firm profitability.

Hypothesis Testing Results

The hypothesis testing results are summarized as follows:

Hypothesis	Relationship	Result
H1	Board of Directors → Financial Performance	Supported
H2	Board of Commissioners → Financial Performance	Supported
H3	Audit Committee → Financial Performance	Supported
H4	Board of Directors → Intellectual Capital	Supported
H5	Board of Commissioners → Intellectual Capital	Supported
H6	Audit Committee → Intellectual Capital	Not Supported
H7	Intellectual Capital → Financial Performance	Supported
H8	Board of Directors → Intellectual Capital → Financial Performance	Supported
H9	Board of Commissioners → Intellectual Capital → Financial Performance	Supported
H10	Audit Committee → Intellectual Capital → Financial Performance	Supported

The findings indicate that nine out of ten proposed hypotheses are supported. Only the direct relationship between the Audit Committee and Intellectual Capital (H6) is not supported. Nevertheless, the mediation analysis demonstrates that Intellectual Capital plays a significant role in transmitting the effect of governance mechanisms on financial performance.

Mediation Analysis

The mediating role of Intellectual Capital was examined using bootstrapping procedures. The results show that Intellectual Capital significantly mediates the relationship between the Board of Directors and financial performance. The mediation effect is classified as partial mediation, indicating that the Board of Directors improves financial performance both directly and indirectly through Intellectual Capital.

Similarly, Intellectual Capital partially mediates the relationship between the Board of Commissioners and financial performance. The supervisory role of the Board of Commissioners contributes to the effective utilization of intellectual resources, which subsequently enhances company profitability.
The mediation analysis also demonstrates that Intellectual Capital significantly mediates the relationship between the Audit Committee and financial performance. The indirect effect value is 0.0024, with confidence intervals ranging from 0.0009 to 0.0043, which do not include zero. Therefore, the mediation effect is statistically significant. Since both the direct and indirect effects are significant, Intellectual Capital functions as a partial mediator in the relationship between the Audit Committee and financial performance.

Model Evaluation

The overall regression models are statistically significant. The F-test results show that Model 1 has an F-statistic of 13.572 ($p = 0.000$), while Model 2 has an F-statistic of 12.612 ($p = 0.000$). These findings confirm that the independent variables jointly explain variations in Intellectual Capital and Financial Performance.
The coefficient of determination indicates that Model 1 explains 16.2% of the variation in Intellectual Capital (Adjusted $R^2 = 0.162$), while Model 2 explains 17.7% of the variation in Financial Performance (Adjusted $R^2 = 0.177$). Although the explanatory power of the models is moderate, the results suggest that governance mechanisms and Intellectual Capital are important determinants of corporate performance in Indonesian manufacturing companies.

DISCUSSION

The Effect of the Board of Directors on Financial Performance

The results indicate that the Board of Directors has a positive and significant effect on financial performance. This finding suggests that a larger and more effective board enhances managerial decision-making and improves the company's ability to utilize its resources efficiently. The Board of Directors plays a strategic role in formulating business policies, allocating resources, and responding to market dynamics, all of which contribute to improved profitability.

This finding supports Agency Theory, which argues that effective governance mechanisms reduce agency conflicts and improve organizational performance. A well-functioning board strengthens managerial oversight and ensures that corporate strategies are aligned with shareholders' interests. The result is also consistent with previous studies that found a positive relationship between board effectiveness and financial performance, indicating that the board serves as a critical mechanism for value creation within the firm.

The Effect of the Board of Commissioners on Financial Performance

The empirical results demonstrate that the Board of Commissioners positively affects financial performance. This finding indicates that effective supervisory functions contribute to better corporate governance practices and organizational outcomes. Through monitoring and evaluation activities, the Board of Commissioners ensures that management acts in accordance with corporate objectives and stakeholder interests.

From the perspective of Agency Theory, the Board of Commissioners functions as an important monitoring mechanism that minimizes opportunistic managerial behavior and reduces agency

costs. Effective supervision encourages management to operate more efficiently and transparently, ultimately leading to improved financial performance. This result is consistent with prior studies that emphasize the importance of board oversight in enhancing corporate profitability and accountability.

The Effect of the Audit Committee on Financial Performance

The findings reveal that the Audit Committee has a positive and significant effect on financial performance. This result suggests that audit committees contribute to improving financial reporting quality, strengthening internal control systems, and enhancing corporate transparency. These functions reduce information asymmetry and increase stakeholder confidence in the company's operations.

Stakeholder Theory explains that transparent and reliable financial information strengthens stakeholder trust and supports long-term business sustainability. The audit committee serves as an essential governance mechanism that ensures accountability and compliance with regulatory requirements. Consequently, firms with effective audit committees tend to exhibit stronger financial performance.

The Effect of the Board of Directors on Intellectual Capital

The results indicate that the Board of Directors positively influences Intellectual Capital. This finding implies that directors play an important role in encouraging investments in knowledge, innovation, employee competencies, and organizational development. Strategic decisions made by directors directly affect the company’s ability to create and utilize intellectual resources.

This result supports the Resource-Based View (RBV), which emphasizes that competitive advantage originates from valuable and difficult-to-imitate resources. Directors who possess diverse expertise and experience can facilitate knowledge creation and organizational learning, thereby improving Intellectual Capital. The finding also confirms that effective leadership is essential for maximizing the value of intangible assets.

The Effect of the Board of Commissioners on Intellectual Capital

The Board of Commissioners was found to have a positive and significant effect on Intellectual Capital. This result suggests that effective supervision encourages management to invest in strategic intangible resources that support long-term organizational growth. The monitoring role performed by commissioners helps ensure that management prioritizes sustainable value creation rather than focusing solely on short-term financial objectives.

This finding is consistent with the Resource-Based View, which highlights the importance of strategic resource management in achieving competitive advantage. Through effective oversight, the Board of Commissioners contributes to the development of organizational knowledge, employee capabilities, and internal processes that collectively enhance Intellectual Capital.

The Effect of the Audit Committee on Intellectual Capital

The results indicate that the Audit Committee does not significantly affect Intellectual Capital. This finding suggests that the primary responsibilities of the audit committee are concentrated

on financial reporting, compliance, and internal control rather than on the direct development of knowledge-based resources.

Although audit committees contribute to governance quality, their activities may not directly influence investments in human capital, innovation, or organizational learning. Consequently, the audit committee's role in enhancing Intellectual Capital appears to be indirect and less substantial compared to that of the Board of Directors and Board of Commissioners. This result supports studies suggesting that governance mechanisms do not always have a direct impact on intangible asset development.

The Effect of Intellectual Capital on Financial Performance

The findings demonstrate that Intellectual Capital positively and significantly affects financial performance. This result confirms that companies capable of managing intellectual resources efficiently are more likely to achieve superior profitability. Intellectual Capital enhances organizational productivity, innovation capability, and operational effectiveness, all of which contribute to better financial outcomes.

This finding strongly supports the Resource-Based View, which argues that intangible assets are critical sources of sustainable competitive advantage. Human capital, structural capital, and relational capital collectively create value and improve organizational efficiency. Therefore, firms that effectively manage their Intellectual Capital can generate higher returns from their assets and maintain long-term competitiveness.

The Mediating Role of Intellectual Capital in the Relationship Between the Board of Directors and Financial Performance

The mediation analysis reveals that Intellectual Capital significantly mediates the relationship between the Board of Directors and financial performance. This finding indicates that directors not only influence financial performance directly but also improve performance by enhancing intellectual resources within the organization.

This result suggests that effective directors promote knowledge development, innovation, and organizational learning, which subsequently strengthen financial performance. The finding reinforces the argument that governance mechanisms create value through both direct managerial effectiveness and indirect enhancement of strategic intangible assets.

The Mediating Role of Intellectual Capital in the Relationship Between the Board of Commissioners and Financial Performance

The results demonstrate that Intellectual Capital significantly mediates the relationship between the Board of Commissioners and financial performance. Effective supervisory activities encourage management to invest in intellectual resources that contribute to organizational competitiveness and profitability.

This finding supports the notion that governance mechanisms are more effective when they facilitate the development of strategic resources. Through its monitoring role, the Board of Commissioners indirectly improves financial performance by fostering an environment that supports knowledge creation and organizational learning.

The Mediating Role of Intellectual Capital in the Relationship Between the Audit Committee and Financial Performance

The mediation analysis indicates that Intellectual Capital significantly mediates the relationship between the Audit Committee and financial performance. Although the Audit Committee does not directly influence Intellectual Capital, it contributes indirectly by improving information quality, transparency, and internal control systems that support knowledge management processes within the organization.

This finding suggests that Intellectual Capital serves as an important mechanism through which governance practices create value. The result extends the Resource-Based View by demonstrating that governance structures can enhance organizational performance through the effective utilization of intangible resources. Consequently, Intellectual Capital acts as a strategic bridge linking governance effectiveness and financial performance in manufacturing companies.

CONCLUSION

This study investigates the effect of Good Corporate Governance mechanisms, namely the Board of Directors, Board of Commissioners, and Audit Committee, on financial performance with Intellectual Capital serving as a mediating variable in manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2024 period.

The findings demonstrate that the Board of Directors, Board of Commissioners, and Audit Committee have a positive and significant effect on financial performance. These results indicate that effective governance mechanisms contribute to improved corporate profitability by enhancing managerial oversight, strategic decision-making, transparency, and accountability. The study also reveals that the Board of Directors and Board of Commissioners positively and significantly influence Intellectual Capital, while the Audit Committee does not have a significant direct effect on Intellectual Capital. This finding suggests that strategic and supervisory governance functions play a more substantial role in developing knowledge-based resources than monitoring functions focused primarily on financial reporting and compliance.

Furthermore, Intellectual Capital is found to have a positive and significant effect on financial performance, confirming its importance as a strategic intangible asset that supports value creation, operational efficiency, and sustainable competitive advantage. The mediation analysis reveals that Intellectual Capital significantly mediates the relationship between the Board of Directors and financial performance, the relationship between the Board of Commissioners and financial performance, and the relationship between the Audit Committee and financial performance. These findings indicate that effective governance mechanisms improve financial performance not only directly but also indirectly through the enhancement and utilization of intellectual resources.

Theoretically, this study extends the application of Agency Theory, Stakeholder Theory, and the Resource-Based View by demonstrating that Intellectual Capital serves as an important mechanism linking corporate governance and financial performance. Practically, the findings suggest that manufacturing companies should strengthen governance structures while simultaneously investing in the development of intellectual resources, including employee competencies, organizational systems, innovation capabilities, and knowledge management

practices. Such efforts are essential for achieving sustainable competitive advantages and improving long-term financial performance.

Managerial Implications

The results highlight the need for corporate leaders and policymakers to recognize Intellectual Capital as a strategic resource that enhances the effectiveness of corporate governance. Companies should focus on improving the quality of board oversight, strengthening governance practices, and fostering a knowledge-based organizational culture. By integrating governance excellence with Intellectual Capital development, firms can create greater value for stakeholders and achieve superior financial outcomes.

Limitations and Future Research

This study is limited to manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2024 period and employs Return on Assets (ROA) as the sole measure of financial performance. Future research may expand the scope by including other industrial sectors, extending the observation period, and utilizing additional financial performance indicators such as Return on Equity (ROE), Tobin's Q, or Market-to-Book Ratio. Future studies may also incorporate other governance and organizational variables, such as ownership structure, institutional ownership, board independence, or innovation capability, to provide a more comprehensive understanding of the determinants of financial performance.

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