Effect Of GRC And Intellectual Capital On Company Performance

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EFFECT OF GRC AND INTELLECTUAL CAPITAL ON COMPANY PERFORMANCE

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Abstract

This research was conducted on companies that won the Top GRC Award in 2019 and 2020 with secondary data collection methods. The data is collected through purposive sampling techniques. The sample used in this research is 30 companies.The analysis method used is to use SPSS for multiple linear regression analysis. The results present that governance, risk, compliance (GRC) and intellectual capital have a positive effect on the companies performence that have won Top GRC awards.

INTRODUCTION

The dynamic business environment provides complex challenges for all types of organizations, both Micro, Small and Medium Enterprises (MSMEs), corporations, non-profit organizations and government institutions. To be able to face these dynamic challenges, organizations need a superior GRC implementation approach. But in fact, the implementation of GRC is still in a silo nature so that it does not provide added value to the organization. The silos of the GRC are reflected in the form of weak coordination, conflicts/overlaps, gaps, and cost inefficiencies (GRC Forum Indonesia, 2020).

Governance risk management compliance (GRC) is a term that underlies an organization's approach to three areas, namely corporate governance, corporate risk management, and regulatory compliance. Attention to the importance of Governance Risk Management Compliance was mainly triggered by the issuance of the Sarbanes-Oxley Act (SOX) in 2002 in the United States (US) which required US public companies to design and implement governance controls for SOX compliance. Since then, however, GRC's focus has expanded from simply compliance with SOX to adding value to the business through improved operations decision-making and strategic planning (Shahim et al., 2017).

The GRC Maturity Survey (GRC Maturity Survey) conducted by the Open Compliance & Ethics Group (OCEG) in 2019 exposed the fact that 14% of respondents have fully or substantially integrated GRC processes and technology, while 23% still have a silos, while the rest do not have an adequate level of GRC maturity.

In another survey released by the Asian Corporate Governance Association (ACGA) and CLSA Limited in 2018 regarding CG Watch 2018: Hard Decisions Asia Faces Tough Choices in CG Reform, it was found that Indonesia needs significant improvement efforts to be able to compete with other countries. in Asia. Although the practice of transparency by organizations in Indonesia shows improvement through the implementation of better financial reporting accounting standards, based on the survey results, there are still some violations in trading and insider trading (GRC Forum Indonesia, 2020).

GRC Forum Indonesia defines GRC as an integrated and holistic approach to organizations to ensure an organization acts ethically and in accordance with risk appetite, internal policies, and external regulations through the alignment of strategies, processes, technology and people, thereby increasing efficiency and effectiveness (GRC Forum Indonesia, 2020).

Currently, the world economy has experienced significant developments, which are marked by developments in information technology, competition and the growth of innovation which has caused several companies to change their business procedures (Black et al., 2015).

Companies that still want to survive will soon change the way of doing business based on the workforce, into business based on an insight, thus the characteristics or characteristics of the company into a company based on knowledge. Along with the changing economy which has a knowledge-based nature with the implementation of knowledge management (knowledge management) so that the success of a company depends on the existence of a capitalization and transformation by that knowledge (Claessens et al., 2012).

Intellectual Capital was first coined by Galbaraith in 1969. Intellectual Capital is another term for intangible assets. Intellectual Capital (IC) is an invisible asset and is a combination of human, process and customer factors that provide a competitive advantage for the company (Bukh, P. ., Larsen, H, 2015). Intellectual Capital (IC) is recognized as one of the most important intangible assets in the information and knowledge era. Intellectual Capital (IC) by Nahapiet, J., & Ghoshal (1998) refers to the knowledge and abilities possessed by a social collectivity such as an organization, intellectual community, or professional practice. Intellectual Capital (IC) represents a resource that is valuable and capable of acting on knowledge.

Intellectual capital is a topic that has only developed in recent years. In Indonesia, the phenomenon of intellectual capital (IC) began to develop, especially after the emergence of Statement of Financial Accounting Standards (PSAK) No. 19 latest revision of 2000 is now PSAK No. 19 2015 revision on intangible assets. According to PSAK No. 19, regarding intangible assets including science and technology, design and implementation of new systems or processes, licenses, intellectual property rights, market knowledge and trademarks. Intangible assets are non-monetary assets that can be identified and do not have a physical form and are held for use in producing or delivering goods or services, rented out to other parties, or for administrative purposes (Ikatan Akuntan Indonesia, 2015).

Business people realize that the disclosure of intellectual capital will give positive things to the company's performance. Because if the company provides information about intellectual capital, it will certainly increase a positive response to investors so that it can increase stock prices (Nimtrakoon, 2015). The relationship between intellectual capital and the company's financial performance has been proven by several researchers in Indonesia and abroad.

Chen et al., (2005) research is a development of Firer & Williams, (2013) research, here Chen et al., (2005) uses the market to book value ratio on equity (MB) variable and the company's financial performance is proxied by return on equity. (ROE), return on assets (ROA), revenue growth (GR) and employee productivity (EP). The sample used is 4,254 public companies on the Taiwan Stock Exchange. Chen et al., (2005)succeeded in proving that intellectual capital has an effect on market value and company performance. Similar to the research of Chen et al., (2005), (Tan et al., 2017) succeeded in proving that intellectual capital is positively related to the company's financial performance and the company's financial performance in the future.

Financial performance is one of the factors that can indicate the success of a company in achieving its goals. Information about the company's performance is useful, one of which is to determine the next policy to be taken by the management. Profit is very important for the company because to carry out its life a company must be in a favorable condition, without profit it will be difficult for the company to attract capital from outside (Zeghal & Maaloul, 2011).

The company's financial performance can be measured using profitability ratios. profitability is a ratio that describes the ability of a company to earn a profit through all existing capabilities and resources such as sales activities, cash, capital, number of employees, number of branches and so on. Because the higher the level of profitability of a company, the survival of the company will be more guaranteed (Pramod & Puja, 2012).

In this case, the level of profitability is measured using the ratio of Return on Assets (ROA). ROA (Return on Assets) is a ratio to measure the company's ability to generate profits based on the total number of assets

available in the company. ROA is used as an indicator of financial performance because this variable in previous studies showed better performance measurements (Mavridis, 2014).

From the various studies that have been mentioned, it can be concluded that there are many different things in each of the studies produced, therefore it is necessary to carry out research related to the influence of Governance, Risk, Compliance (GRC), Intellectual Capital (IC) on the company's financial performance. GRC and IC are concepts which if not implemented will lead to weak coordination, and lead to inefficient cost management that affects company performance. However, if GRC and IC are applied to a company, they can be the right alternative for companies when facing various weakening conditions in various industrial sectors and other commodities in order to support the national economy and improve company performance. So the hypotheses in this study are: (1) GRC has a positive effect on the financial performance of companies that won the TOP GRC Awards, (2) IC has a positive effect on the financial performance of companies that won the TOP GRC Awards.

Research on the influence of Governance, Risk, Compliance (GRC), IC on the company's financial performance focuses more on corporate companies listed on the stock exchange in general based on the type of industrial sector, such as property companies, automotive, to customer goods. Meanwhile, this research is more specific to companies that won the TOP GRC Awards, which are also several companies listed on the IDX and have a large role in contributing to the country's GDP. The Indonesian government is also very concerned about the development of GRC implementation in the business world. GRC and IC need to be investigated whether these two concepts will have an impact on the company. In the future, there is hope that this research will be useful in the development of the industrial sector, and can assist relevant parties in making decisions so that companies in Indonesia are aware of the importance of implementing GRC and IC and will be able to contribute more to the economy of the Indonesian people.

METHOD

The type of research that researchers use is a quantitative approach utilizing descriptive analysis and verification methods which have the aim of showing systematic and factual facts as well as the relationships between variables that are traced by collecting data, processing, analyzing, interpreting in statistical tests. This study population is the companies that won the TOP GRC Awards in 2019 and 2020 respectively, that is, 30 companies listed in the IDX Stock Exchange, and those not listed in the IDX Stock Exchange, including financial and non-financial industries, and commerce manufacture. For sampling, the sampling technique used was purposive sampling. The sampling criteria are companies that respectively won the TOP GRC Awards in 2019 and 2020. The data type used is the secondary data downloaded from the company's official website. The multiple linear regression analysis methods were processed using SPSS software.

Table 1. Operationalization of Relationships Between Variables

No	Variables	Definition	Indicators	Measurement	Scale
1	GRC	GRC is an integrated and holistic approach to organizations to ensure an organization acts ethically and in accordance with risk appetite, internal policies and external regulations through alignment of strategy, processes, technology and people, thereby increasing efficiency and effectiveness. (GRC Forum Indonesia, 2020)	GRC Forum Indonesia	Scoring	Ordinal
2	Intellectual Capital	Intellectual Capital Intellectual capital (IC) as a company knowledge that can be used in business processes to create added value for the company. (Zeghal and Maaloul, 2010)	VAIC	VAIC= VACA + VAHU + STVA	Ratio
3	Company performances	The company's financial performance is a description of the company's financial condition which is analyzed using financial ratios. (Sukhemi, 2007).	ROA	Profit After Tax/ Total Assets Ratio	Ratio

RESULT

This research was conducted on 30 companies in the top GRC award categories in 2019 and 2020 as research samples. Data collected over two years, namely from 2019 and 2020. To answer the research problem, the following data will be analyzed on governance, risk and compliance, intellectual capital, and the performance of each company.

Before testing the hypothesis using linear regression analysis, several assumptions must be met so that the conclusions from the regression are not biased, including test of multicollinearity, test of normality, test of heteroscedasticity and test of autocorrelation.

The normality test in the statistical calculations using the Kolmogorov-Smirnov one-sample test showed that Asymp. Sig. (2-tailed) has a value of 0.200 and is more above 0.05. Since the Kolmogorov-Smirnov test significance is more above 0.05, it can be concluded that the regression model corresponds to the normality assumption.

Looking at the VIF (Variance Inflation Factor) and Tolerance values, it shows that the tolerance value for each of the GRC, and IC, variables are greater than 0.1. The Variance Inflation Factor values of the three independent variables is < 5. Thus it can be concluded that there are no multicollinearity symptoms occur among the three independent variables.

To ensure that there is autocorrelation in the regression model, the test is continued using the run test. The significance value in the run test results is 1.0 and is greater than 0.05. Thus, it can be ascertained that there are no symptoms of autocorrelation in the regression model.

Heteroscedasticity testing in statistical calculations can use the Glejser test as long as the significance probability value is above 0.05 indicating that the three independent variables have no relationship with absolute residuals. From this it can draw the conclusion that there is no heteroscedasticity in the regression model. Table 2 is shown the multiple linear regression analysis results.

Table 2. Estimated Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	45,807	13,487		3,396	,001
	GRC	3,447	1,167	,277	2,953	,005
	VAIC	,298	,096	,323	3,090	,003

The determination coefficient test (R2) design to involved the ability of independent variable clarify the dependent variable (Table 3).

Table 3. Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,712[a]	,507	,480	4,55215	2,360

In the above table, the determination coefficient (R Square) can be seen of 0.507 indicates that governance, risk and compliance and intellectual capital variables simultaneously contribute 50.7% to the company's performance. The remaining 49.3% is affected by other non-governmental factors, risk and compliance and intellectual capital.

To test the hypothesis, a simultaneous test was used through the F test obtained through the Anova table as presented in Table 4.

Table 4. Anova table to test the simultaneous effect

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1192,578	3	397,526	19,184	,000[b]
	Residual	1160,435	56	20,722		
	Total	2353,013	59			

Because Fcount (19.184) is greater than Ftable (2.769) and the significance value is less than 0.05, it can be concluded that governance, risk and compliance and intellectual capital simultaneously affect firm performance in the category companies top GRC awards in 2018 and 2019.

DISCUSSION

Governance, risk & compliance have a positive effect on the performance of the top GRC award category companies in 2018 & 2019. Companies with higher governance, risk & compliance (GRC) ratings tend to have better performance (return on assets). The reason the GRC affects the company's performance is because companies that implement GRC will consider a number of aspects of sustainable development, nature conservation products, as well as regulations supporting sustainable economic development and believe that in creating long-term investment profits it depends on the economic system, governance, environment, and environment. social.

The organization is planned and consciously uses the combined concept of GRC and integrates economic, environmental, and social aspects into a development strategy in order to take into account the integrity of the environment and the safety, ability, welfare, and quality of life of present and future generations.

Companies that implement GRC will also have a sustainable strategy and focus on developing priority programs so that it affects the company's performance. By applying the priority areas of the organization that are superior, the goals of the organization can be achieved. Then, organizations also need to monitor performance and conformance to risk exposure and governance in each company's activities that aim to maintain unity to form that value. The organization must also see the contribution it can make to its environment through regulations and business implementation and the implementation of business strategies by an organization that seeks to minimize negative impacts and integrate environmental, economic, governance, and social aspects of each sector or the strategy of each actor. business.

In addition, companies that implement GRC will have risk management and good governance that affect the company's performance, risk management in order to prevent, avoid, and minimize bad influences that arise through immaterial or material losses. An organization must also observe the implementation of aspects of social responsibility and protection and management of the surrounding environment in an open, responsible, accountable, fair and independent manner.

GRC affects company performance because implementing GRC will create informative communication to support connectivity, coordination, and collaboration (customer capital). These conditions are expected to make it easier for an organization to understand the needs needed to improve collaboration and coordination with all interested parties who have a work program that is strongly related to the achievement of organizational goals. The results of this study are in line with research by (Durnev, A., & Kim, 2012), (Hoyt et al., 2011), (Lobo & Zhou, 2012) which state that disclosure of governance, risk & compliance has a positive effect on company performance.

Intellectual capital has a positive effect on the performance of the top GRC award category companies in 2018 & 2019. Companies with higher value added intellectual coefficients tend to have better performance (return on assets). Intellectual capital has a very important role, namely as a resource to generate competitive advantage for the company. More specifically, it is stated that intellectual capital is the company's main strategic resource to generate profits. According to Fiori et al., (2017) intellectual capital contributes in terms of increasing the company's competitive position. The company's intellectual capital generates added value that leads to competitive advantage. The added value comes from increasing the effectiveness and efficiency of the company's routine activities. Thus intellectual capital is one of the factors that can improve company performance. To gain a competitive advantage, it is very important for companies to use knowledge efficiently and increase innovation potential.

The findings of this study support Resource Based Theory. Resource Based View which explains if the company's resources, especially intangible assets, will have more influence in achieving the company's performance. Based on the resources based view in relation to human capital, the education and experience of the top management team are very valuable, rare, can not be imitated and are resources that cannot be replaced (Barney, 2011). Supported by a knowledge based view, knowledge is a very strategic and significant resource (Stewart, 2011). However, this knowledge and experience is spread across various types of industries and companies, so the performance of each company will vary.

Intellectual capital can have a direct influence on assets or assets owned by the company if the company can manage the components of intellectual capital optimally. As a result of this condition, the company will manage the wealth owned by the company properly measured by using ROA (return on assets). If the intellectual capital of a company is large, the profits that will be obtained by the company will also increase, this condition

will also result in a greater ROA value. Thus, under these conditions intellectual capital can contribute to the company's financial performance. This is in line with the research of Yateno, (2020), Pulic, (2004), Chen et al., (2005), Tan et al., (2017) which states that Intellectual capital has a positive effect on company performance.

CONCLUSIONS

Governance, risk & compliance have a positive effect on company performance. Companies that implement GRC will have a sustainable strategy and focus on developing priority programs that affect the company's performance, and will create informative communications to support connectivity, coordination, and collaboration. These conditions are expected to make it easier for an organization to understand the needs needed to increase collaboration and coordination of all parties who have interests that have a work program that is strongly related to the achievement of organizational goals in order to improve company performance.

Intellectual capital can have a direct influence on assets or assets owned by the company if the company can manage the components of intellectual capital optimally. If the intellectual capital of a company is large, the profits that will be obtained by the company will also increase, this condition will also result in a greater ROA value. Thus, under these conditions intellectual capital can contribute to the company's financial performance. Companies with higher value added intellectual coefficients tend to have better performance (return on assets). The limitation of this study is that it is difficult to obtain GRC data before the company wins the Top GRC Award, so that researchers only assess the company's performance after the company has won the Top GRC Award. Based on the limitations of the study, suggestions for future researchers include: (1) Adding the number of research samples before and after the company won the Top GRC Award in order to produce a more comprehensive research. (2) Conducting a different comparison test of the company's performance before winning the Top GRC Award and after winning the Top GRC Award. (3) In this study only the independent variables GRC and IC, it is hoped that further research will add research variables such as the level of leverage, capital structure, stock returns, and firm performance. It is hoped that by testing these variables, comprehensive research results will be obtained in the future.

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