
GOOD CORPORATE GOVERNANCE FACTORS TOWARD FINANCIAL PERFORMANCE

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Abstract

This research was conducted to examine the effect of Good Corporate Governance on the Company's Financial Performance. The purpose of this study is to determine the influence of Good Corporate Governance on the Financial Performance of Companies listed on the IDX 80 IDX index for 2019 - 2021. Good financial performance will affect many stakeholders because company performance is a picture of the company's condition, if the company's performance is bad, it will affect stakeholder decisions. Factors can affect financial performance are Good Corporate Governance. Good Corporate Governance research is proxied by the number of board of directors, the number of boards of commissioner meetings and managerial ownership. This study uses quantitative methods of secondary data with the population of companies listed in the IDX 80 index in 2019 – 2021. The sample method is the purposive sampling method. The data used is the company's annual report obtained through the Indonesia Stock Exchange website. The results of the study obtained the results are that the number of boards of directors does not have a significant effect on financial performance, the number of meetings of the board of commissioners has a significant positive effect on financial performance, managerial ownership has a positive effect on financial performance.

Keywords: Good Corporate Governance, Intellectual Capital, Internal Control, Financial Performance

Introduction

The development of a company is an important component so that the company survives in the era of industrial competition, companies are competing to improve competitiveness in various fields, both technological, social, financial and economic fields. The company's efforts to improve the quality of the company are by implementing good corporate governance. IICG (The Indonesian Institute For Corporate Governance) functions as part of the community to encourage the formation of a trusted, moral, and dignified business atmosphere in Indonesia. As a non-profit and independent organization, this organization also supports and assists companies in implementing the concept of Good Corporate Governance.

Company performance is described through financial conditions that make it possible to identify whether a company is in good or bad financial condition, which shows work performance over a certain period of time. It is also useful as a basis for decision making for both internal and external parties. Company performance can be measured by company profitability. Profitability is a financial ratio that shows the company's ability to generate profits with all the company's sales activities. Companies must adopt good corporate governance (GCG) because increasing company profitability requires the implementation of good corporate management. According to Saragih (2013) the profitability ratio is used to measure the company's financial performance. The ratio between income available to common shareholders (AECS) and the company's total assets is known as ROA. One very important profitability ratio, return on assets (ROA) is used to determine how well a company's ability to generate profits by managing all of its assets. A higher return on assets (ROA) value indicates that the company has the ability to generate large profits from excellent asset management.

According to Al-Amin & Rosyadi (2018) Good Corporate Governance one of the keys to business success is its ability to expand and generate profits in the long term while competing successfully on a global scale. Increasing the productivity and efficiency of the company is one of the benefits of implementing GCG, so that it has a significant effect on company profits and has an impact on investor confidence. According to Hanum (2018) that GCG is expected to not only focus on benefits for management and company employees, but for stakeholders, consumers, suppliers, government, and the community environment related to the company. Initially, the implementation of Good Corporate Governance (GCG) in Indonesia was still entirely voluntary so that there were no penalties given to companies that did not implement.

The economic crisis that occurred in the world caused Good Corporate Governance (GCG) to become an important focus for improving better company management. In the United States, there was an economic crisis which caused the improvement / restructuring of Good Corporate Governance (GCG) to be carried out.

Companies that collapsed and were very influential in the United States were Xerox, Enron Corp and Worldcom. In 1999, according to the World Bank, the economic crisis that occurred was due to a failure in the implementation of Good Corporate Governance (GCG). In Indonesia itself, the Good Corporate Governance (GCG) case occurred at PT Lippo Tbk and PT Kimia Farma, namely the financial report manipulation scandal, which encouraged the implementation of Good Corporate Governance to be increasingly voiced and urged mandatory in the management of issuers (Yusuf et al., 2022).

In the Good Corporate Governance mechanism in Indonesia, which adopts a two-tier system, shareholders delegate their authority to supervise the company which is carried out by the board of directors and the board of commissioners. So that the board of directors and commissioners have strategic characteristics and roles to improve the company through the company process. The board of directors according to PT Law number 40 of 2017 states that the board of directors is a person in the company who is authorized and responsible for all company activities. Meanwhile, the board of commissioners is the source of the company's resilience and success.

Based on previous research, there is a research gap on the effect of Good Corporate Governance on financial performance with the object of research, namely companies listed on the IDX 80 index from 2019 to 2021. In this study, Good Corporate Governance is measured using the board of directors, board of commissioners and managerial ownership. Meanwhile, financial performance is measured using Net Profi Margin (NPM). Based on the background described above, the authors conducted a study with the title "Good Cororate Governance Factors Toward Financial Performance."

Methods

The type of research used in this research is descriptive quantitative analysis, which has the aim of providing a clear and accurate data analysis of the problems discussed by the author. The population in this study are all companies listed on the Indonesia Stock Exchange (IDX) IDX 80 stock index for the 2019-2021 period. And the total population of this study was 80 companies. The sampling technique in this study used purposive sampling method, namely there are criteria for sampling in the following way:

- a. Companies included in the IDX 80 stock index
- b. Companies that disclose financial reports for the period 2019 – 2021
- c. Have complete information needed for research purposes

Based on the sample criteria, the total sample to be studied is 79 companies. The data used in this study uses secondary data in the form of complete financial reports sourced from the Indonesia Stock Exchange website (www.idx.co.id). The research was conducted on IDX 80 stock index companies listed on the IDX in 2019-2021. The data analysis technique used is descriptive statistical analysis, classical assumption test to test normally distributed regression models, no autocorrelation, multicollinearity, and heteroscedasticity problems, then multiple linear regression tests, hypothesis testing (coefficient of determination, partial t test and simultaneous F test).

Results and Discussion

The Effect of the Board of Directors on the Company's Financial Performance

The results of testing the first hypothesis (H1) with the t-statistic test show that the variable number of boards of directors has a tcount of -0.108 with a significance of 0.914. The t count result is compared with the t table of 1.9703 so that it is obtained that $t \text{ count} < t \text{ table}$, $-0.108 < 1.9703$. It is concluded that the number of boards of directors has no significant effect on the company's financial performance. So that the first hypothesis (H1) in this study which states that the number of boards of directors has a significant effect on financial performance can be accepted. This is because the number of board of directors owned by the company in the IDX 80 stock index during 2019 - 2021 does not change significantly every year so that it has no impact on the company's financial performance. So that the board of directors variable is not a variable that significantly affects the company's financial performance. In line with research by Yuniarti & Syaichu, (2018) Situmorang & Simanjuntak (2019) and Novitasari et al., (2020) that the composition of the board of directors has no significant effect on financial performance.

The Effect of the Board of Commissioners on the Company's Financial Performance

The results of the second test (H2) with the t-statistic test show that the variable number of board meetings has a tcount of 2.235 and a significance of 0.028. If the tcount is compared with the ttable, the tcount is greater than the ttable, $2.235 > 1.9703$ and the significance is smaller than 0.05 ($0.028 < 0.05$). It can be concluded that the number of board meetings has a positive effect on the company's financial performance, so that the second hypothesis (H2) in this study which states that the number of board meetings has a significant effect on financial performance is accepted, this is because the more meetings or meetings held by the board of commissioners, the smaller the company's managed accruals. This means more board meetings, more management supervision and more financial performance. In accordance with the theory that Bapepam-LK also requires issuers and public companies to disclose the implementation of corporate governance in annual reports such as the number of meetings of the board of commissioners and directors, the number of attendance of members of the board

of commissioners and directors at the meeting, the number of meetings and attendance of the audit committee, the implementation of duties and responsibilities of the board of commissioners and directors and the remuneration of the board of commissioners and directors (Bapepam-LK, 2010). In line with Susmanto et al.'s research, (2021) that board of commissioners meetings have a positive effect on ROE. Buachoom (2018) that the number of meetings of the board of commissioners has a significant influence on company performance on public companies in Thailand. Contrary to research by Al-Amin & Rosyadi (2018) Prasetyo and Dewayanto (2019) that board of commissioners meetings have no effect on financial performance.

The Effect of Managerial Ownership on Corporate Financial Performance

The results of the third test (H3) with the t-statistic test show that the managerial ownership variable has a tcount of 2.059 and a significance of 0.43. With a tcount greater than the t table ($2.059 > 1.970$), managerial ownership has a significant effect on the company's financial performance. It can be concluded that the third hypothesis (H3) in this study which states that managerial ownership has a significant effect on financial performance is accepted. This is because regardless of the number of shares owned, it is possible that management and shareholders in the company have the same interests. As a result, managers will be more motivated to improve their company's performance. This study supports the theory of Jensen and Meckling (1976) which states that to reduce conflicts of interest between agents and principals can be done by increasing managerial ownership in a company. In agency theory research, managerial ownership will improve the financial performance of a company. This is because managers know how the real condition of the company is. Managers who own shares in the company will strive to be able to improve the financial performance of their company in order to benefit. This is so that the manager can get a profitable return on the investment he has placed in the company. In line with Rachman's research (2016) that managerial ownership has a positive effect on company performance. Hermiyetti & Katlanis (2014) confirmed that managerial ownership has a positive and significant effect on the company's financial performance. But this research contradicts Safitri & Kamil. Krishna (2020) and Yuniarti & Syaichu (2018) that managerial ownership has no significant effect on financial performance.

Conclusions

Based on the results of the discussion on the research on the effect of Good Corporate Governance proxied by the board of directors, board of commissioners and managerial ownership on the company's Financial Performance. listed on the IDX 80 Index from 2019 to 2021, it can be decided that the number of boards of directors has no significant effect on financial performance, the number of board meetings has a positive effect on financial performance, managerial ownership has a positive effect on financial performance, intellectual capital has no effect on financial performance, and internal control has no effect on financial performance.

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