The Effect of Good Corporate Governance on Financial Performance on Companies Listed in the Indonesia Stock Exchange in 2019-2021

Rosiana Dewi[1], Sudarto [2*], Aulia Dian Saputri[3], Indira Ayu Ramadhani[4], Salsabilla Maulia Putri [5]

[1] University of Jenderal Soedirman, rosianaadewiii@gmail.com, Indonesia
[2*] University of Jenderal Soedirman, sudarto1907@unsoed.ac.id, Indonesia
[3]University of Jenderal Soedirman, auliadiansaputri@gmail.com, Indonesia
[4]University of Jenderal Soedirman, indiraayu2000@gmail.com, Indonesia
[5]University of Jenderal Soedirman, salsabillamp099@gmail.com, Indonesia
*Sudarto

ABSTRACT

This research aims to determine the effect of managerial ownership, audit committee, independent board of commissioners and board of directors size on financial performance of companies listed on the Indonesia Stock Exchange in 2019-2021. The research sampling method is purposive sampling. The data sample used in this research is a 28 manufacturing companies. Researchers analyzed the data using multiple linear regression. The results showed that partially managerial ownership, audit committee, and independent board of commissioners had a significant positive effect on financial performance, while the size of the board of directors was not significant. Simultaneously managerial ownership, audit committee, independent board of commissioners and the size of the board of directors have a significant influence on the company's financial performance.

Keywords: Managerial Ownership, Audit Committee, Independent Board of Commissioners, Size of The Board of Directors, Financial Performance.

1. Introduction

Currently, the implementation of corporate governance is very much needed to fulfill the trust of the public and the international community as an absolute requirement for companies to be able to develop better and healthier with the aim of obtaining maximum profit from operating results, maintaining the survival of the nation, company growth and creating prosperity for the people. members and society. The implementation of corporate governance requires commitment from all levels of the organization and begins with the establishment of basic policies and rules that must be adhered to.

In general, corporate governance is a system designed to determine policies in increasing the success of a company. Corporate governance includes shareholders, board of directors, management remuneration, policies on corporate governance and investors. Corporate governance is described as having legitimacy, accountability and competence in policy and service delivery while respecting the law and human rights (Srivastaya, 2009).

The company's financial performance is a description of the company's financial condition which is analyzed with financial analysis tools, so that it can be used to determine the good or bad financial condition of a company. The company's financial performance is closely related to the effectiveness and efficiency of the use of resources owned by the company in achieving the previously planned goals. Financial performance is very important for the company because it can fulfill its obligations to interested parties in achieving the company's vision and mission. Financial performance can be assessed through profitability, liquidity and leverage.

Research according to Jordi Paniagua, Rafael Rivelles, Juan Sapena (2018) has tested that corporate governance has no significant effect on the company's financial performance. Research according to Eny Maryanti & Bambang Tjahjadi (2013), shows that corporate governance affects the financial performance of manufacturing companies listed on the Indonesia Stock Exchange. Research according to Mikha Tri Apriliani & Totok Dewayanto (2018) shows that independent boards, women's boards and company size have no effect on financial performance, but board size and company age have a positive influence on company performance.

There are differences in the results regarding the effect of corporate governance on the financial performance of companies listed on the Indonesia Stock Exchange. In this study, we used a different approach from previous researchers. Therefore, the researcher will close the gap by testing whether there is " **The Effect of Good Corporate Governance on Financial Performance on Companies Listed in the Indonesia Stock Exchange in 2019-2021**".

2. Literature Review and Hypothesis Development

2.1 Literature Review

2.1.1 Company Perfomance

Performance is a description of the level of achievement of the company's activities in realizing the goals, objectives, mission and vision of the organization contained in the company's planning strategy. According to Munawir, (1998) financial performance is the work performance that has been achieved by the company in a certain period and is stated in the company's financial statements.

Return On Equity (ROE) Is a ratio to measure net profit after tax with own capital. The higher the ROE, the better. This means that the position of the owner of the company will be stronger and vice versa if the lower the ROE, the position of the owner of the company will be weaker. The formula for finding ROE:

$$ROE = \frac{Net\ Profit}{Total\ Equity} \times 100\%$$

2.1.2 Independent Board of Commissioners

The independent Board of Commissioners is a corporate organ that is collectively assigned and responsible for supervising and providing advice to the Board of Directors. According to Bank Indonesia Regulation no.8/4/PBI/2006 article 4 in zarkarsy: 2008 regarding independent commissioners explains that "Independent Commissioners are boards of commissioners who do not have financial status, management, share ownership and or other status with other members of the board of commissioners, directors and or controlling shareholders or other statuses that can affect their ability to act independently (Zakarsy, 2008). The role of the independent board is as an intermediary between owners and managers in order to increase the owner's confidence in the company's performance.

2.1.3 Managerial Ownership

Managerial ownership is the level of share ownership of the management who actively participates in decision making, such as directors and board of commissioners (Wahidahwati 2002). Managerial ownership can be measured by the proportion of shares owned by the company at the end of the year and expressed as a percentage. The greater the proportion of management ownership in the company, the management will try harder for the benefit of the shareholders who incidentally are themselves (Mahadwartha and Hartono 2002).

2.1.4 Audit Committee

The audit committee is a committee that works professionally and independently which is formed by the board of commissioners. According to Puradiredja (2016, 4), public companies are required to form an audit committee that works collectively and functions to assist the board commissioners and supervisory boards in carrying out their duties.

2.1.5 Size of the Board of Directors

The board of directors is a group of individuals who are elected by the company's shareholders to represent the company's interests and ensure that the company's management acts on their behalf. The number of board members can affect the management of management. The board of directors according to Hardikasari (2011) is someone who is appointed to lead the company in running the business, which will take the company's strategy in the short or long term. Alshetwi (2017) reveals that a large board size has broad and diverse knowledge and skills needed to secure company assets by providing good advice and reducing manager dominance thereby increasing company performance. & Locke (2012) found a positive influence between board size on firm performance.

2.2 Hypothetical Development

2.2.1 The effect of managerial ownership on financial performance

Gudono (2000) examines the impact of share ownership by the manager on the performance of a business entity compared to a compensation contract. The results of the study show that the manager's share ownership has a significant positive effect on financial performance (combination of ROA, ROE, PER). Managers who own shares of business entities tend to carry out strategies to improve the performance of business entities in the long term. Mehran (1994) in Puspitasari and Ernawati (2010: 196) reveals similar research results by stating that there is a significant positive effect between the percentage of shares owned by the manager and the financial performance of the business entity. Incentives in the form of shares given to managers encourage them to work harder and smarter in improving.

H1. Managerial Ownership has a positive effect on financial performance

2.2.2 The effect of the audit committee on financial performance

According to previous researchers, Yuliani and Sukirno (2018) stated that the audit committee has an effect on the company's financial performance, because the audit committee is tasked with helping the board of commissioners to monitor the financial reporting process by management, but it is not in accordance with the results of research from Ainiet al. (2017) and Widyati (2013) which state that the audit committee has no significant effect on the company's financial performance.

H2. The audit committee has a positive effect on financial performance

2.2.3 The effect of independent board of commissioners and financial performance

In Puspitasari and Ernawati (2010: 197), Mehran (1994) suggests that the proportion of independent commissioners has a positive effect on the profitability and value of a business entity (especially on ROA and Tobin's Q). With the existence of independent commissioners, the interests of shareholders, both majority and minority are not ignored, because independent commissioners are more neutral towards decisions made by managers. The results of research from Fitria Hamka, Ketut Patra, Jumawan Jasman (2018) suggest that independent commissioners have a positive effect on financial performance.

H3. Independent Board of Commissioners has a positive effect on financial performance

2.2.4 The effect of size of the board of directors and financial performance

Orozco et al., (2018) stated that low board size is likely to result in low financial performance. It can be concluded that the number of the board of directors in a company can affect the financial performance positively or negatively. Hassan et al., (2017) stated that a high director size is estimated to have directors with various backgrounds, abilities, education, and diverse perspectives, so as to improve the company's financial performance.

H4. Size of the board of directors has a positive effect on financial performance

3. Research Methodology

3.1 Research Design

This type of research is a quantitative research with secondary data analysis research methods found at http://www.idx.co.id. The data obtained were tested with analytical tools, so there is no need to provide the sample under study. In this study, the location used is the Indonesia Stock Exchange. The object of research in this study is the performance of manufacturing companies listed on the Indonesia Stock Exchange. The research subject is the Indonesia Stock Exchange.

3.2 Population Targets, Samples and Data Sources

3.2.1 Population

The population in this study were all companies engaged in manufacturing which were listed on the Indonesia Stock Exchange which found 28 companies.

3.2.2 Samples

The sampling technique used is purposive sampling with the following sampling criteria:

- Listed on the Indonesia Stock Exchange in 2019-2021.
- The company has carried out production activities in the period 2019-2021.
- Have a complete company financial report.
- The company has an independent board of commissioners
- The company has a board
- The company has an audit committee

- The company has managerial ownership

3.2.3 Data Sources

The source of data in this study is secondary data sourced from the Annual Financial Statements from 2019-2021 at http://www.idx.co.id. The method of data collection in this research is to use a literature study because the required data already exists and only performs testing.

3.2.4 Data Analysis

The data analysis in this study uses the following analysis:

- Multiple Regression Analysis

Multiple regression analysis is an analysis that connects two or more variables to determine the magnitude of the effect of changes in variables on other variables. To determine corporate governance (independent board of commissioners, size of the board of directors and audit committee) and company performance, the following multiple linear formula is used:

$$Y = \alpha + \beta 1 X_1 + \beta 2 X_2 + \beta 1 X_3 + \beta 1 X_4 + e$$

- Statistic Test
  - Simultaneous Test (F-Statistical Test)
    According to Suliyanto (2009) explained that the calculated F is used to test the model's determination (goodness of fit) whether the independent variable can explain changes in the dependent variable or not.
  - Partial Test (T-Statistic Test)
    According to Suliyanto (2011) the T test aims to test whether the independent variable has a significant effect on the dependent variable or not. If there is a value of t arithmetic > t table with provisions (α = 0.05), it can be concluded that it has an effect.

4. Results

4.1 Multiple Regression Analysis

Coefficients

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-1.405	.333		-4.216	.000
	Managerial ownership	.173	.077	.200	2.256	.027
	Audit Committee	.347	.119	.299	2,918	.005
	Independent Board of Commissioners	1.059	.235	.401	4,502	.000
	Board of Directors Size	.012	.012	.104	1.014	.314

a. Dependent Variable: ROE

The regression coefficient value for the managerial ownership variable is 0.173. this value shows a positive (unidirectional) effect between managerial ownership and ROE variables. This means that if the managerial ownership variable increases by 1%, on the contrary, the ROE variable will decrease by 0.173. assuming that the other variables are held constant.

The regression coefficient value for the audit committee variable is 0.347. This value shows a positive (unidirectional) effect between the audit committee variables and ROE. This means that if the audit committee variable increases by 1%, on the contrary, the ROE variable will decrease by 0.347. assuming that the other variables are held constant.

The regression coefficient value for the independent board of commissioners variable is 1.059. This value shows a positive (unidirectional) effect between the independent board of commissioners and ROE variables. This means that if the independent board of commissioners variable increases by 1%, otherwise the ROE variable will decrease by 1,059. assuming that the other variables are held constant.

The value of the regression coefficient for the variable size of the board of directors is 0.012. this value shows a positive (unidirectional) effect between the variable size of the board of directors and ROE. This means that if the variable size of the board of directors increases by 1%, on the contrary, the ROE variable will decrease by 0.012. assuming that the other variables are held constant.

4.2 Statistic Test

4.2.1 Simultaneous Test (F-Statistical Test)

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2,690	4	.673	14,602	.000b
	Residual	3.638	79	.046		
	Total	6328	83			

a. Dependent Variable: ROE

b. Predictors: (Constant), Board of Directors Size, Independent Board of Commissioners, Managerial Ownership, Audit Committee

The results of the research data test are declared to have a significant effect if the significance value is less than 0.05 (Ghozali, 2018). Based on the results of the regression test above, the resulting significance of 0.000 which means the independent variable is measured bymanagerial ownership, audit committee, independent board of commissioners, size of the board of directorseffect on the dependent variable as measured by financial performance.

4.2.3 Partial Test (T-Statistic Test)

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.405	.333		-4.216	.000
	Managerial ownership	.173	.077	.200	2.256	.027
	Audit Committee	.347	.119	.299	2,918	.005
	Independent Board of Commissioners	1.059	.235	.401	4,502	.000
	Board of Directors Size	.012	.012	.104	1.014	.314

a. Dependent Variable: ROE

The results of the research data test can be said to have a significant effect if the significance value of each variable is less than 0.05 (Ghozali, 2018). From the results of the regression test above, the value of sig. produced by managerial ownership variable of 0.027, audit committee variable of 0.005, independent board of commissioners variable of 0.000 and board of directors size variable of 0.314. Thus the managerial ownership variable, audit committee, independent board of commissioners has a significance value of less than 0.05 which means that it partially has a significant effect on the financial performance variable. While the variable size of the board of directors has a significance of 0.314 which means that it partially has no effect on the financial performance variable.

5. Discussion

5.1 Effect of managerial ownership on financial performance

Hypothesis test suggests that managerial ownership has a positive effect on financial performance. The results of this study are in line with previous research, namely Gundono (2000) which states that share ownership by managers has a significant positive effect on financial performance (combination of ROA, ROE, PER). Managers who own shares of business entities tend to carry out strategies to improve the performance of business entities in the long term.

5.2 Effect of the audit committee on financial performance

Hypothesis test suggests that the audit committee has a positive effect on financial performance. The results of this study are in line with the research of Yunita Kurnia Shanti (2020) which states that the audit committee has a direct and significant influence on the company's financial performance.

5.3 Effect of independent board of commissioners and financial performance

Hypothesis test suggests that the independent board of commissioners has a positive effect on financial performance. The results of this study are in line with the research of Puspitasari and Ernawati (2010: 197), Mehran (1994) that the proportion of independent commissioners has a positive effect on the profitability and value of a business entity (especially on ROA and Tobin's Q). The existence of independent commissioners will prevent the interests of shareholders, both majority and minority, from being ignored, because independent commissioners are more neutral towards decisions made by managers. The results of research from Fitria Hamka, Ketut Patra, Jumawan Jasman (2018) also suggest that independent commissioners have a positive effect on financial performance.

5.4 Effect of board of directors size and financial performance

Hypothesis test suggest the size of the board of directors has no significant effect on financial performance. This is contrary to the research of Orozco et al., (2018) which states that low board size is likely to result in low financial performance. It can be concluded that the number of the board of directors in a company can affect the financial performance positively or negatively.

6. Conclusion

From the results of the research and discussion used, it can be concluded that the independent variables as measured by managerial ownership, audit committee, independent board of commissioners, partially affect financial performance variables. While the variable size of the board of directors has no partial effect on the financial performance variable. These results prove that the hypothesis H1, H2, H3 can be accepted, while the hypothesis H4 for the variable size of the board of directors is not accepted because the results state that these variables have no significant effect on the dependent variable. There are limitations in this study, namely the independent variables studied can only explain the dependent variable by 39.6%, while the remaining 60.4% is explained by variables other than the independent variables in this study.

References

Al-ahdal, W. M., Alsamhi, M. H., Tabash, M. I., & Farhan, N. H. (2020). The Impact of Corporate Governance on Financial Performance of Indian and GCC Listed Firms: an Empirical Investigation. *Research in International Business and Finance, 51*.

Apriliani, M. T., & Dewayanto, T. (2018). Pengaruh Tata Kelola Perusahaan, Ukuran Perusahaan dan Umur Perusahaan terhadap Kinerja Perusahaan. *Diponegoro Journal Of Accounting, 7 (1)*, 1-10.

Brigham, E. F., & Houston, J. F. (2007). *Dasar-dasar Manajemen Keuangan.* Jakarta: Salemba Empat.

Budiyanto, R. S. (2014). *Pengaruh Tata Kelola Perusahaan Dan Ukuran Perusahaan terhadap Kinerja Keuangan Perusahaan.* Surabaya: Sekolah Tinggi Ilmu Ekonomi.

Bursa Efek Indonesia. (2019). *Laporan Tahunan*. Retrieved from www.idx.co.id

Bursa Efek Indonesia. (2020). *Laporan Tahunan*. Retrieved from www.idx.co.id.

Bursa Efek Indonesia. (2021). *Laporan Tahunan*. Retrieved from www.idx.co.id.

Edi, & Felicia. (2022). Analisis Pengaruh Tata Kelola Perusahaan Terhadap Kinerja Perusahaan yang Terdaftar di Bursa Efek Indonesia Periode 2016-2020. *Jurnal Ekonomi dan Ekonomi Syariah, 5 (No. 1)*, 613-624. doi:https://doi.org/10.36778/jesya.v5i1.597

Firlina, I., & Sulasmiyati, S. (2017). *Pengaruh Ukuran Perusahaan, Profitabilitas, dan Solvablitas terhadap Audit Delay (Studi Pada Perusahaan LQ 45 Sub-Sektor Bank serta Manufaktur yang Terdaftar di Bursa Efek Indonesia (BEI) Tahun 2011 – 2015).* Malang: Universitas Brawijaya.

Hamka, F., Patra, I. K., & Jasman, J. (2018). Pengaruh Penerapan Good Corporate Governance terhadap Kinerja Keuangan (Studi Kasus pada PT. Unilever Indonesia Periode 2010-2017). *Jurnal Manajemen, 4*(1), 14-19.

Karyono. (2019). *Pengaruh Tata Kelola Perusahaan terhadap Kinerja Perusahaan (Studi Empiris pada Perusahaan Lq-45 Tahun 2013-2017).* Semarang: Universitas Diponegoro.

Krisyadi, R., & Jeslyn. (2021). *Analisis Pengaruh Tata Kelola Perusahaan terhadap Kinerja Keuangan pada Perusahaan yang Terdaftar di Bursa Efek Indonesia.* Batam: Universitas Internasional Batam.

Maryanti, E., & Tjahjadi, B. (2013). Analisis Dan Corporate Social Responsibility Good Corporate Governance terhadap Kinerja Keuangan yang Mempengaruhi Nilai Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia. *Jurnal Ekonomi dan Bisnis*, 047-062.

Paniagua, J., Rivelles, R., & Sapena, J. (2018). Corporate Governance And Financial Performance: The Role Of Ownership And Board Structure. *Journal of Business Research, 89,* 229-234.

Prantama, A. N., Suhadak, & Topowijono. (2015). Pengaruh Penerapan Good Corporate Governance terhadap Kinerja Keuangan (Studi Pada Perusahaan Real Estate & Property yang Terdaftar Di Bursa Efek Indonesia Tahun 2011-2013). *Jurnal Administrasi Bisnis, 1*(2).

Putra, R. H. (2017). *Pengaruh Tata Kelola Perusahaan terhadap Kinerja Keuangan Perusahaan.* Surabaya: Sekolah Tinggi Ilmu Ekonomi.

Sari, E. K. (2018). *Analisis Pengaruh Tata Kelola Perusahaan terhadap Kinerja Keuangan yang Terdaftar di Bursa Efek Indonesia.* Batam: Universitas Internasional Batam.

Sugiyono. (2007). *Statistika Untuk Penelitian.* Bandung: CV Alpabeta.

Suliyanto. (2018). *Metode Penelitian Bisnis untuk Skripsi, Tesis, & Disertasi.* Yogyakarta: Andi.

Usman, O., & Yakubu, U. A. (2019). An investigation of the post-privatization firms' financial performance in Nigeria: the role of corporate governance practices. *Corporate Governance, Vol. 19, No. 3*(3 June 2019), 404-418. doi:https://doi.org/10.1108/CG-05-2018-0190

Winda, & Praptoyo, S. (2021). Pengaruh Struktur Modal dan Tata Kelola Perusahaan terhadap Kinerja Keuangan Perusahaan Manufaktur yang Terdaftar Di BEI. *Jurnal Ilmu dan Riset Akuntansi, 10*.

Zuchruf, F., Suhadak, Mangesti, R. S., & Muhammad, S. (2019). The effect of corporate governance, firm size and capital structure on financial performance: A study of state-owned enterprises listed in the indonesia stock exchange during period of 2013-2016. *Russian Journal of Agricultural and Socio-Economic Sciences, 93(9),* 3-16.