THE EFFECT OF GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE

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Abstract: *The purpose of this study was to determine the effect of Good Corporate Governance on financial performance in banking companies listed on the Indonesia Stock Exchange. In this study, Good Corporate Governance is measured using the board of commissioners, the board of directors, and the audit committee, while financial performance is measured using the Return on Assets (ROA). The population used in this study were all banking companies listed on the Indonesia Stock Exchange (IDX) in 2017-2019 totaling 39 companies. Sampling was done by using purposive sampling method. And the number of companies that have become a sample is 15 companies. The data collection technique in this study uses the documentation method. The analysis technique used in this research is descriptive statistics, multiple linear regression analysis, partial test, and determinant test. The results of this study indicate that the board of commissioners has no effect on financial performance. The board of directors has no effect on financial performance. The Audit Committee has an effect on financial performance. The Board of Commissioners, the Board of Directors and the Audit Committee simultaneously influence the financial performance of banking companies listed on the Indonesia Stock Exchange.*

Keywords: *Board of Commisioners, Board of Directors, Audit Committee, Return On Asset*

Introduction

Corporate governance has increased with the opening of large-scale financial scandals such as the Enron scandal in the United States involving accountants, which is an important element of good corporate governance, (Widiatmaja, 2010). Corporate Governance is a set of regulations governing the relationship between shareholders, company management, creditors, government, employees and other internal and external stakeholders relating to their rights and obligations. (Sutedi, 2011). Corporate Governance as a legal system and practices to exercise authority and control in the company's business activities, including special relationships between shareholders, the board of directors, the board of commissioners and their committees (Khairandy & Malik, 2007).

Good corporate governance is a structure that regulates a harmonious relationship pattern regarding the roles of the board of commissioners, directors, shareholders and other stakeholders (Juwika & Hani, 2015). The board of commissioners as a company organ has the duty and responsibility to supervise and provide advice to the board of directors and ensure that the company

implements GCG, (KNKG, 2006). According to Bank Indonesia regulation number 11/33 / Ppbi / 2009, the board of directors is authorized and fully responsible for managing the company for the interests of the company in accordance with the company's goals and objectives. The audit committee is an additional committee whose purpose is to control the process of preparing the company's financial statements to prevent fraud from the management.

Corporate governance as an independent variable indicates the Board of Commissioners (X1), the Board of Directors (X2), the Audit Committee (X3), while financial performance is the dependent variable. Financial performance, namely reviewing data, calculating, measuring, interpreting, and providing solutions to company finances in a certain period (Jumingan, 2006). Mengukur kinerja keuangan perusahaan dapat menggunakan rasio-rasio keuangan seperti rasio likuiditas, rasio solvabilitas dan rasio profitabilitas. (Kasmir, 2012).

One of the successes of measuring the financial performance of a company, especially a bank, is by measuring the rate of return on assets or Return On Assets (ROA) which of course can be a benchmark in making company decisions. Return on assets (ROA) can be used to assess the condition of bank profitability in Indonesia. The higher the ROA, it means that the bank is more effective in using assets to generate profits. The problem that arises in the financial performance of banking companies is that the Return on Assets (ROA) is still low and there are even some banking companies with negative Return On Assets (ROA) values.

The increase in ROA can be realized if the bank can work efficiently (Hamidah, Erwinda, & Mardiyati, 2013). This is not in line with the research results (Wehdawati, Swandari, & Swandari, 2015) which shows that the variable of the number of commissioners has no effect on ROA and ROE. The independent board proportion variable has a significant negative effect on ROA and ROE. The variable of the number of boards of directors has no effect on ROA and ROE. Managerial ownership variables have no effect on ROA and ROE. And the firm size variable has no effect on financial performance (Warsono, Fitri, & Rahajeng, 2009). The results showed that there was no direct and significant positive effect of the implementation of good corporate governance on EVA Momentum as a measure of company performance (Anton, 2012). Theoretically, the relationship between Good Corporate Governance and company financial performance is very influential (Pramono, 2006).

Literature Review

Performance as a result of work either in the form of work potential or even activities that have a negative impact on the company (Wibowo, 2004). Measurement of company performance that arises as a result of the management decision-making process, because it involves the use of capital, efficiency and profitability of company activities. (Munawir, 2014). Measurement of financial performance is carried out to be able to find out the state and financial development of the company and to know the results achieved from the past and the current time. The developments in the measurement of financial performance are increasingly diverse and have their respective advantages and disadvantages (Dewayanto, 2010). Measurement of financial performance uses profitability ratios, which measures the company's ability to generate profits by using company-owned resources, such as assets, capital or company sales (Sudana, 2015). This ratio is a measure of whether the owner or shareholders can get an appropriate rate of return on their investment (Kamaludin, 2011). Return on Assets (ROA) shows the company's ability to use all its assets to generate profit after tax. The greater the ROA, the more efficient the use of company

assets Return on Assets (ROA) can be used to assess the condition of bank profitability in Indonesia.

Good Corporate Governance (GCG) is a company management system that reflects a synergy between management and shareholders, creditors, government, suppliers and other stakeholders (Pramono, 2006). GCG is basically a system (input, process, output) and a set of regulations that govern the relationship between various interested parties (stakeholders) (Zarkasyi, 2010). GCG can also be interpreted as a set of systems that regulate and control a company to create value added for stakeholders (Effendi, 2009). This study uses elements of corporate governance, namely the board of commissioners, the board of directors, and the audit committee.

The role of the board of commissioners is expected to minimize agency problems that arise between the board of directors and shareholders. As with the resources dependency theory, it says that the large number of the board of commissioners will increase access to various resources to the external environment and have a positive impact on company performance (Al-Amarneh, 2014). The task of the board of commissioners is to coordinate the activities of the members of the board of commissioners so that the implementation of the duties of the board of commissioners can run effectively (Zarkasyi, 2010).

The board of directors has the main function of giving responsible attention to the management of the company in order to achieve the company's goals and objectives. The board of directors is a role model for other members of the company and stakeholders in implementing a quality code of ethics and Corporate Governance (Warsono et al, 2009). The size of the board of directors is measured by the number of members of the board of directors. The increasing number of the board of directors will make the coordination and operations between the divisions in a banking company more effective which in turn can improve the company's performance (Faisal, 2005).

The audit committee as a committee that works professionally and independently formed by the board of commissioners, thus its task is to assist and strengthen the function of the board of commissioners in carrying out the supervisory function of the financial reporting process, risk management, audit implementation and implementation of corporate governance in companies (Puradiredja, 2006). The purpose of establishing an audit committee is to assist the board of commissioners to oversee the integration of financial reports, the qualification and independence of independent or external auditors, the performance of the company's internal auditors and external auditors, the company's compliance with applicable laws and regulations. (Zarkasyi, 2010). Companies that are monitored by institutional investors can influence management (Novia, 2012). In general, a Limited Liability Company is a form of ownership of the company founder or company founder family (Wulandari, 2006). Institutions monitor the development of their investments professionally, so the level of control over management actions is very high so that the potential for fraud can be suppressed (Murwaningsari, 2009). Managerial ownership is the proportion of shareholders by management who actively participate in making company decisions, namely directors and commissioners (Pujiati & Widanar, 2009). Managerial ownership is the concentration of share ownership owned by management in a company (Prasetyantoko, 2008).

Method

The research approach is a way of looking at an object or problem, a way to observe or understand (Martono, 2010). This research approach uses a quantitative research approach. Quantitative research is research that uses quantitative analysis tools (Hasan, 2006). The population in this study are all banking companies listed on the Indonesia Stock Exchange (BEI) totaling 39 companies, where these companies publish their financial reports to the general public. The period in this research is 2017-2019. Population is the subject of research (Suharsimi, 2010). The research sample was 15 banking companies. The sampling technique used in this research is purposive sampling method, namely the sample is drawn using consideration. The data collection technique in this study uses the documentation method. The analysis technique used in this research is descriptive statistics, multiple linear regression analysis, partial test, and determinant test.

Result and Discussion

Based on data obtained from banking companies listed on the Indonesia Stock Exchange for the 2017-2019 period, the average value of Profitability (ROA) is 1.48 percent. Meanwhile, the average number of the Board of Commissioners is 6, the Board of Directors is 7, and the Audit Committee is 3 people. The average number of commissioners, boards of directors, and audit committees is fixed each year, this means that in the last 3 years there has been no increase in the number of members of the board of commissioners, board of directors, and audit committee.

Table 1: Normality Test (Kolmogorov Smirnov)

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		45
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,44119976
Most Extreme Differences	Absolute	,131
	Positive	,131
	Negative	-,099
Test Statistic		,131
Asymp. Sig. (2-tailed)		,250[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: SPSS Results (2020)

From the table above, it can be seen that the variables of the board of commissioners, board of directors, audit committee and financial performance (ROA) are normally distributed because each of the variables has a probability of more than 0.05 (5%). Variable values that meet the standards set can be on the line Asymp.sig. (2-tailed). From this table, there is the Asymp.sig value. (2-tailed) = 0.250 (25%). From this value it can be concluded that the Asymp.sig (2-tailed) value is greater than 0.05, which means the variable has been normally distributed.

Table 2: Multicollinearity Test

Coefficients[a]

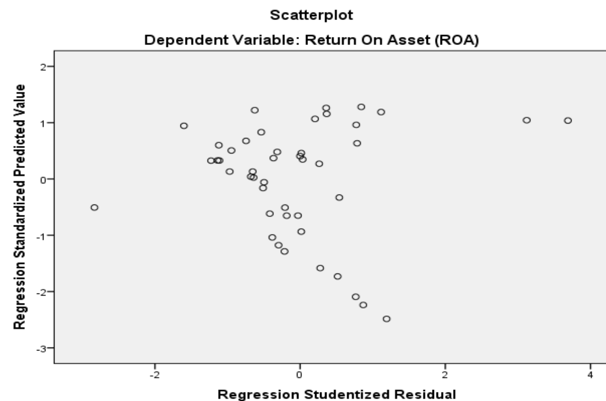
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Dewan Komisaris	,720	1,389
	Dewan Direksi	,720	1,389
	Komite Audit	,720	1,389

a. Dependent Variable: Retrun On Asset (ROA)

Source: SPSS Results (2020)

So in this study it can be concluded that there is no multicollinearity between the independent variables.

Figure 1: Heteroscedasticity Test



Source: SPSS Results (2020)

From the results of the output of SPSS version 23 (scartterplot image) above, it is found that the points that spread out and do not form a regular pattern and the points spread above and below the number 0. So, the conclusion is that the independent variable does not have heteroscedasticity symptoms.

Table 3: Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,692[a]	,479	,441	,45706	1,027

a. Predictors: (Constant), Dewan Komisaris, Dewan Direksi, Komite Audit

b. Dependent Variable: Return On Asset (ROA)

Source: SPSS Results (2020)

From the data above, it is known that the Durbin - Watson value = 1.027, it can be concluded that there is no autocorrelation in this study.

Table 4: Test of the coefficient of determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,692[a]	,479	,441	,45706

a. Predictors: (Constant), Dewan Komisaris, Dewan Direksi, Komite Audit
b. Dependent Variable: Return On Asset (ROA)
Source: SPSS Results (2020)

When viewed from the Adjusted R Square value of 0.441, it shows that the proportion of the influence of the Board of Commissioners, Board of Directors, Audit Committee on Return On Assets (ROA) is 44.1%, which means that the Board of Commissioners, Board of Directors, Audit Committee have a proportion of influence on financial performance. measured by Return On Asset (ROA) of 44.1% while the remaining 55.9% (100% - 44.1) is influenced by other variables outside the study.

Table 5: Multiple Linear Regression Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,098	,188		5,846	,000
	Dewan Komisaris	-,327	,054	-,830	-6,050	,650
	Dewan Direksi	-,052	,033	-,181	-1,571	,124
	Komite Audit	,053	,021	,337	2,491	,017

a. Dependent Variable: Retrun On Asset (ROA)
Source: SPSS Results (2020)

The regression equation can be found based on column B which is the regression coefficient for each variable as follows:

$Y = 1,098 + (-0,327)X_1 + (-0,052)X_2 \ (0,053)X_3$

Table 6: Significant Test Results t

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,098	,188		5,846	,000
	Dewan Komisaris	-,327	,054	-,830	-6,050	,650
	Dewan Direksi	-,052	,033	-,181	-1,571	,124
	Komite Audit	,053	,021	,337	2,491	,017

a. Dependent Variable: Retrun On Asset (ROA)
Source: SPSS Results (2020)

From table 6, it can be seen that the board of commissioners has a tcount <ttable, which is -6.050 <2.019 with a significance value of 0.650> 0.05. where tcount is in the receiving area Ho so that Ho is accepted and Ha is rejected. This shows that the variable of the Board of Commissioners (X1) has no significant effect on Return On Assets (Y). Then the conclusion is

hypothesis 1 is rejected. The board of directors has a value of tcount <ttable, namely -1.571 <2.019 with a significance value of 0.124> 0.05. where tcount is in the receiving area Ho so that Ho is accepted and Ha is rejected. This shows that the variable of the Board of Directors (X2) has no significant effect on Return on Assets (Y). Then the conclusion is hypothesis 2 is rejected. The audit committee has a value of t count <t table, namely 2.491> 2.019 with a significance value of 0.017 <0.05. where tcount is in the receiving area Ha so that Ha is accepted and Ho is rejected. This shows that the Audit Committee variable (X3) has a significant effect on Return On Assets (Y). Then the conclusion is hypothesis 3 is accepted.

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7,871	3	2,624	12,559	,000[b]
	Residual	8,565	41	,209		
	Total	16,436	44			

a. Dependent Variable: Return On Asset (ROA)
b. Predictors: (Constant), Komite Audit, Dewan Direksi, Dewan Komisaris
Source: SPSS Results (2020)

From table 7 it can be seen that Fcount is 12.559 at a significant level of 0.000. Then Fcount> Ftable is 12.559> 3.23 with a significance value of 0.000 <0.05, it can be concluded that the board of commissioners, the board of directors and the audit committee has a significant effect on financial performance as measured by using Return On Asset (ROA).

The Board of Commissioners has no significant effect on financial performance as measured by using Return On Assets in banking companies listed on the Indonesian stock exchange for the 2017-2019 period. These results indicate that the more the board of commissioners of a company, the more it does not affect the company's financial performance. The board of commissioners in a company places more emphasis on monitoring the implementation of the board of directors' policies. Therefore, the more the number of commissioners will increase access to various resources to the external environment. The results of this study are in accordance with (Zarkasyi, 2010). And the results of this study are inversely proportional to research conducted by (Ibrahim & Samad, 2011).

The board of directors has no significant effect on financial performance as measured by using Return On Assets in banking companies listed on the Indonesian stock exchange for the 2017-2019 period. These results indicate that the more the board of directors of a company has no effect on the company's financial performance. This is because the main function of the board of directors itself is to pay attention responsibly to the management of the company in order to achieve the goals and objectives of the company, if the number of boards of directors is in accordance with what is stipulated in the company. These results are not in accordance with the results of the study (Faisal, 2005).

The audit committee has a significant effect on financial performance as measured by using Return On Assets in banking companies listed on the Indonesian stock exchange for the 2017-2019 period. These results indicate that the more audit committees a company has, the company's financial performance will increase. The results of this study were also strengthened by the existence of regulations by Bapepam LK No. IX.1.5 states that the minimum number of audit

committees in a company is 3 people. And in support of the creation of good bank governance, every bank listed on the stock exchange must have an audit committee.

The Board of Commissioners, the Board of Directors and the Audit Committee have a significant effect on financial performance as measured by using Return On Asset (ROA). The results of this study indicate that by increasing the board of commissioners, board of directors and audit committee together, it will be able to improve the company's financial performance. This research is supported by theory (Pramono, 2006). This is also supported by the results of previous research conducted by (Perdani, 2016).

Conclusion

Based on the results of research and discussion, the following conclusions can be drawn:

1. The Board of Commissioners has no partial effect on company performance.
2. The Board of Directors has no partial effect on company performance.
3. The Audit Committee has a partial effect on company performance
4. The Board of Commissioners, the Board of Directors and the audit committee have a simultaneous effect on company performance

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