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THE INFLUENCE OF GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE

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Abstract. *This research aims to test and analyze the influence of the number of board of directors (DD), the proportion of independent board of commissioners (PDKI), and institutional share ownership (KI) on financial performance. The sample from the population used was 17 state-owned companies listed on the IDX for the 2019 - 2022 period with 68 observation samples. Samples were taken using purposive sampling technique. The type of data used is the annual financial report of public state-owned companies. The research data analysis method is multiple linear regression analysis processed with SPSS 29 software. The results of this research prove that the variable number of board of directors (DD) has a negative influence on financial performance and institutional share ownership (KI) has a positive influence on financial performance. Meanwhile, the proportion of independent board of commissioners (PDKI) has no influence on financial performance and simultaneously all the independent variables tested influence financial performance.*

Keywords: *Board of directors, independent commissioners, institutional share ownership and financial performance.*

1. INTRODUCTION

The company's financial performance is one measure of the company's success in achieving its vision and mission (Sirat & Jannang, 2022). The company's financial performance is important for the company, because it is a reference for investors when looking at the company to determine investment decisions (Darma et al., 2022). One aspect that is the main attraction for investors is the profitability of a company. Munawir (2010), profitability shows a company's ability to generate profits during a certain period, so that a company's profitability can be measured by comparing the net profit obtained with the number of assets.

Praningrum and Mardiati (2016), One of the things that often happens is that company owners always want profits and growth for the company, so managers do several things, either in the right or wrong way, to increase company performance, as a result the company's financial performance will indeed increase. generate large profits but are vulnerable to fraud within the company. Besides that, there is the possibility that managers are more concerned with personal gain, which can trigger problems within the company and its management. The risk of non-disclosure of information regarding management and finance will also be higher. One way that can be done to overcome the risk of fraud occurring in a company is to implement good corporate governance.

Good Corporate Governance (GCG) is the main element in efforts to achieve the goal of increasing economic efficiency, including a series of relationships between company management, board of commissioners (PDKI), board of directors (DD), shareholders, creditors, government, employees and other internal and external stakeholders in accordance with their responsibilities.

This study uses three independent variables, namely the number of boards of directors (DD), independent commissioners (PDKI) and institutional ownership (KI). While the dependent variable used is financial performance as measured by Return on Assets (ROA).

Wendy & Harnida (2020), the number of board of directors (DD) has no effect on financial

performance. Meanwhile, Hardikasari (2011), the board of directors (DD) influences financial performance. Fadillah (2017), The greater the number of independent commissioners (PDKI) in a company, the greater the company's financial performance. However, research by Hadya, (2020) states that independent commissioners (PDKI) have no influence on financial performance. Wahyudi & Pawestri (2006), Institutional ownership (KI) can monitor management behavior and performance and can influence decisions taken by management.

The results of the research above show that there are gaps between previous studies, therefore further research is still needed to fully understand the influence of GCG on financial performance.

2. LITERATURE REVIEW AND DEVELOPMENT HYPOTHESIS

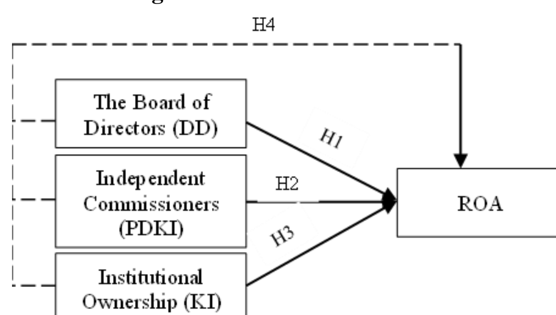
Agency Theory

Jensen & Meckling (1976), An agency relationship is a contract between two parties, namely the principal (Shareholder) which involves another party, namely the agent (Management) to carry out services in accordance with the principal's wishes and the agent will be given the authority to make the best decisions for the principal. In a corporation, shareholders as principals will hand over the company to be managed by management as agents, then management must be responsible for providing information on company reports to shareholders.

Good Corporate Governance

Monks & Minow (2001), states that CG is corporate governance which explains the relationships between various participants in a company that determine the direction and performance of the company. CG is also defined as a system that regulates and controls a company that creates added value for all stakeholders.

Figure 1. Research Framework



Financial Performance (ROA)

Return on Assets is the ratio between net profit after tax to the total number of assets, or a measure of how high the rate of return on company assets is. From this understanding, ROA is a tool to measure a company's ability to generate profits by managing total assets after adjusting for the costs of acquiring these assets. Apart from that, it is also possible to assess the company's effectiveness in generating profits by utilizing all the assets it owns (Mudrajad, 2002).

HYPOTHESIS

The individuals in a company called directors are in charge of achieving the organization's objectives. This is consistent with agency theory, which holds that the directors function as the company's agents by acting on its behalf. According to Hardikasari (2011), there is a strong correlation between financial performance and the number of board directors (DD). In light of the aforementioned reasoning, the following hypothesis is put out in this study:

H1. There is a significant influence between the number of board of directors (DD) and financial performance

The Independent Board of Commissioners (PDKI) is in charge of making the business effective, although they do it by influencing decisions rather than taking command of operations (KNKG, 2006). According to Mahrani & Soewarno (2018), independent commissioners (PDKI) can execute oversight duties to lessen conflicts between the board of directors (DD) and shareholders and ensure that the directors' actions align with their interests. In light of the aforementioned reasoning, the following hypothesis is put out in this study:

H2. The proportion of independent commissioners (PDKI) has a significant effect on financial performance.

Siregar & Utama (2005), Institutional ownership (KI) of a company's shares by financial institutions includes investment banking, banks, insurance firms, and pension funds. Wahyudi & Pawestri (2006), Reducing agency conflicts is mostly dependent on institutional ownership (KI). The corporation may incur agency charges as a result of this conflict. A potential strategy for decreasing agency expenses is to enhance institutional ownership (KI). In light of the aforementioned reasoning, the following hypothesis is put out in this study:

H3. Institutional ownership (KI) influences financial performance

According to agency theory, a company's performance will inevitably rise if its management has been executed accurately and successfully in line with GCG principles. According to research Wendy & Harnida (2020), financial performance is

significantly impacted by institutional ownership (KI), the make-up of the independent board of commissioners (PDKI), and the make-up of the board of directors (DD) all at the same time. The following hypothesis is put out in light of this relationship:

H4. There is a simultaneous influence between the number of board of directors (DD), the proportion of independent board of commissioners (PDKI), and institutional share ownership (KI) on financial performance.

3. RESEARCH METHODS

This research was conducted online on the Indonesia Stock Exchange website (www.idx.co.id). The population in this study used the annual financial reports of 28 State-Owned Enterprises (BUMN) companies that were listed on the Indonesia Stock Exchange (BEI) for the period. Determining the sample for this research was using a purposive sampling method. Based on the criteria, the number of company samples in this study was 17 public state-owned companies, with 68 observation samples.

4. RESULTS AND DISCUSSION

The first stage is to test the quality of the data through the classical assumption test. These include the normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

Table 1. Normality Test

	Unstandardized Residuals
N	68
Asymp. Sig. (2-tailed)	0.068

Source: SPSS 29

Based on table 1. above, proves that the research data has been distributed normally because the probability value exceeds 0.05, namely 0.068.

Table 2. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
DD	0.964	1,038
PDKI	0.944	1,060
KI	0.976	1,025

Source: SPSS 29

The results that the researchers obtained prove that the classical assumption of multicollinearity has been fulfilled by the data that the researchers collected so that multicollinearity does not appear. This can be observed in the VIF and tolerance values for all variables, each of which is <10 and exceeds 0.01.

Table 3. Heteroskedasticity Test

Model	Coefficients
	Sig
DD	1,000
PDKI	1,000
KI	1,000

Source: SPSS 29

Based on the test results above, it shows that all independent variables, namely the Board of Directors (DD), Independent Commissioners (PDKI) and Institutional Ownership (KI), have a sig value of >0.05, namely 1.000, so there are no symptoms of heteroscedasticity.

Table 4. Autocorrelation Test

Model	Durbin Watson
1	2,014

Source: SPSS 29

Based on the table above, dU < DW < (4-dU); means there is no positive or negative correlation, then it can be seen 1.6860 < 2.014 < 2.314. It can be concluded that the regression model above does not have an autocorrelation problem.

Table 5. F test

Model	F	Sig
Regression	8,602	0.001

Source: SPSS 29

Based on the F Test results above, it can be seen that the calculated F value is 8.620 with a significant value of 0.001. This shows that all independent variables simultaneously influence the dependent variable.

Table 6. T test

Model	B	Q	Sig.
(Constant)	-3.123	-18,338	0.001
DD	-0.288	-4,205	0.001
PDKI	-0.062	-0.799	0.428
KI	0.345	2,329	0.024

Source: SPSS 29

Upon testing the first hypothesis, t = -4.205 and sig <0.05, or 0.001, are found, and the coefficient's direction is -0.288. Thus, the first hypothesis is accepted and it can be argued that the board of directors (DD) has a detrimental effect on financial performance.

The second hypothesis is rejected because the testing indicates that sig>0.05, or 0.428, and the direction of the coefficient is -0.062. This indicates

that the variable proportion of independent commissioners (PDKI) has no bearing on financial performance.

Upon testing the third hypothesis, it was found that institutional ownership (KI) has a sig value < 0.05, specifically 0.024, and the direction of the coefficient is 0.345. This indicates that institutional ownership (KI) positively impacts financial performance, indicating the acceptance of the third hypothesis.

DISCUSSION

The influence of the number of board of directors (DD) on the company's financial performance

According to the results of testing the first hypothesis, it is stated that the number of board of directors (DD) has a negative effect on financial performance, which means that the higher the number of board of directors (DD), the financial performance will decrease. This illustrates that the board of directors (DD) continues to have a significant influence on financial performance through decisions that determine the direction of the company's financial performance and the company's survival. However, having more members on the board of directors (DD) that exceed the company's needs can be a burden for the company. Apart from causing additional costs in the form of compensation for each member, excess members can also hinder the efficiency of decision making. Apart from that, the risk of conflict between members also increases and gives rise to agency problems which will increase agency costs for the company.

Other research also proves that there is a negative influence of the size of the board of directors (DD) on company profitability as measured using ROA. One of them is from Hardikasari (2011), by stating that companies will lose their business opportunities due to slow decision making due to the excessive size of the board of directors (DD). KNKG (2006), the ideal number of board of directors (DD) is adjusted to the effectiveness of the decision making required and how complex the conditions of the company are .

The influence of the proportion of independent commissioners (PDKI) on company financial performance

of this research cannot prove that independent commissioners (PDKI) have an influence on financial performance. The results of this research show that independent commissioners (PDKI) do not have an influence on financial performance. This happens because the company only meets the minimum requirements for independent commissioners but has not maximized its role in supervising management in company operations

research by Hadya (2020), also confirms that there is no strong evidence that a company's financial performance can be influenced by the presence of independent commissioners (PDKI). The reason could be because their existence is only to fulfill the requirements or standards to be listed on the IDX in accordance with OJK regulations and the profitability that the company obtains is also never directly influenced by the presence of these commissioners.

The influence of institutional ownership (KI) on financial performance

Based on the test results, there is a positive influence between institutional ownership (KI) on financial performance, which means that the higher the institutional ownership (KI), the higher the financial performance will be.

The average level of institutional ownership (KI) of all sample companies is around 58.8%, which is considered high and has the power to carry out supervisory functions over the company. With a high percentage of ownership, supervision will be tighter so that the demands on management to improve company performance will be higher. Wahyudi & Pawestri (2006), Institutional ownership (KI) has a very important role in minimizing agency conflicts. This agency conflict can give rise to agency costs *for* the company. One way to reduce *agency costs* is to increase the amount of institutional ownership (KI).

Effect Simultaneous influence of GCG (number of board of directors, proportion of independent board of commissioners, and institutional share ownership) on financial performance.

Based on the results of this research test, it was concluded that the number of board of directors (DD), the proportion of independent board of commissioners (PDKI), and institutional share ownership (KI) simultaneously have a significant effect on financial performance. An appropriate number of board of directors (DD) that operates effectively and transparently will help minimize financial risks, optimize resource allocation, and ensure that the company's long-term financial goals are achieved and can strengthen strategic decision making and supervise management effectively.

Meanwhile, the proportion of independent commissioners (PDKI) is an important element for companies in monitoring company performance to implement good governance. Institutions have the resources and expertise to conduct in depth analysis of company performance and monitor management

actions to ensure that decisions are taken in line with shareholder interests. This is in accordance with agency theory Jensen & Meckling (1976), if company management has been carried out correctly and well in accordance with GCG principles, then the company's performance will automatically increase.

5. CONCLUSION

Financial performance is negatively impacted by the board of directors (DD), meaning that the more members there are on the board, the worse the financial results.

Financial performance is unaffected by the independent board of commissioners (PDKI), which implies that a large or small percentage of independent commissioners (PDKI) has no discernible impact on financial performance.

Financial performance is positively impacted by institutional share ownership (KI), so as the number of institutional share ownership (KI) rises, so will the financial performance.

Financial performance is simultaneously significantly impacted by internal corporate governance processes. According to agency theory, a company's performance will inevitably rise if its management has been executed appropriately and effectively in line with GCG principles.

It is expected of management to report firm finances in an open and responsible manner. Aspects of GCG can be used by prospective investors as a foundation for their selections. In order to help future researchers who might be interested in looking into the same issue again, it is hoped that shareholders will push management to give the company's GCG implementation more attention. Additionally, future researchers may add indicators to measure a company's GCG, such as external GCG indicators.

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