THE EFFECT OF GOOD CORPORATE GOVERNANCE IMPLEMENTATION ON COMPANY PERFORMANCE

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ARTICLE INFO

Date received : 28 Oct 2022
Revision date : 19 Nov 2022
Date received : 25 Nov 2022

Keywords:
Leadership, Employee, Perf Independent Board of Commissioners,Managerial Ownership, Institutional Ownershipand Company Performance ormance

ABSTRACT

The purpose of this study is to prove the application of good corporate governance to company performance. This research uses quantitative research. The data analysis technique used is the classical assumption test, multiple linear regression test, and the coefficient of determination (Adjusted RSquare). The basis for sampling in this study using purposive sampling with a total sample of 7companies in the food and beverage sub-sector listed on the IDX. The resultsshowed that the independent board of commissioners had a significant effect oncompany performance with a tcount of 6.415 with a significance level of 0.000. Managerial ownership has a significant effect on company performance with atcount of 2.741 with a significance level of 0.012. Institutional ownership has asignificanteffecton company performance with at countof3,567 with asignificance level of 0.006. Taken together,the independent board of commissioners,management ownership and institutional ownership have asignificant effect on company performance with a value of Fcount of 14,304 whileF table is 2,874 and a significance level of 0.027. This can be seen in the results of the coefficient of determination (AdjustedRSquare), which means that the dependent variable that can be presented by the independent variable is 64.4%. While the remaining35.6% is presented by other variables thatare not included in theregression model.

INTRODUCTION

The company's financial performance is a description of the level of success achieved by the company in managing its operational activities. The company's financial performance is a major factor and is very important to assess the overall performance of the company itself. Starting from the assessment of assets, debt, liquidity and so on. When the company's financial condition is in good condition, investors will be more interested in investing their funds.

This will result in the value of the company will increase and can survive in the face of increasingly fierce competition. Conversely, if the company's financial condition is in a bad condition, the shareholders will conduct an analysis of the financial statements to assess past performance and identify opportunities and risks that will be faced in the future. Companies in the manufacturing industry are grouped into several sectors, including the consumer goods industry sector which consists of the food and beverage subsector, cigarette subsector, pharmaceutical subsector, cosmetics & household goods subsector and household appliances subsector with approximately 40 companies. Growth in the food and beverage industry subsector experienced a slowdown in the period ending June 2017 (http://www.detikfinance.com, accessed on April 10, 2021).

In this case, it is explained that the food and beverage industry experienced a slowdown of 7.19% compared to the first quarter of 2018 of 8.15%, even though it is also explained that the food and beverage industry has an important role in economic growth (Rangkuty, at al., 2020) in Indonesia, as it is known that this industrial subsector also increases Gross Domestic Product (GDP) by 34.42%, which means that food

and beverage companies are the largest subsector in the development of the industrial sector to GDP than other subsectors. In the previous year's records, it was proven that out of 50 large companies in Southeast Asia, there were only 2 companies from Indonesia that could be categorized as Top GCG, namely from the banking sector (CIMB Niaga and Danamon), in contrast to Thailand which had 23 companies included in Top GCG.

This study will discuss the effect of the implementation of good corporate governance proxied by the independent board of commissioners, managerial ownership, and institutional ownership on the company's financial performance using the Return On Asset (ROA) ratio.This research is very important to do because there are gaps or differences from the results of previous studies, so that it makes researchers increasingly interested in studying further which can later provide more adequate research results with relevant data in the current conditions.Therefore, in this study the authors took the title "The Effect of Good Corporate Governance Implementation on Company Performance (Empirical Study of Food and Beverage Sub-Sector Manufacturing Companies on the IDX 2016-2020)".

LITERATURE REVIEW

Agency Theory

An agency relationship is a contract in which one or more people (principals) order other people (agents) to perform a service on behalf of the principal and authorize the agent to make decisions that are best for the principal. If both parties have the same goal of maximizing firm value, it is believed that the agent will act in a way that is in accordance with the interests of the principal. Agency theory describes the relationship between shareholders as principals and management as agents. Management is the party contracted by shareholders to work in the interests of shareholders.

Agency theory suggests a relationship between the principal (owner) and agent (manager) in terms of company management, where the principal is an entity that delegates the authority to manage the company to the agent. According to Jensen and Meckling in Agus (2017: 19), agency theory explains the contractual relationship between the party who delegates certain decisions (principal / owner / shareholder) and the party who receives the delegation (agent / management). There is a conflict of interest between the owner and the agent due to the possibility of the agent acting against the principal's interests, thus triggering agency costs. As agents, managers are morally responsible for optimizing the profits of the owners (principals) by obtaining compensation in accordance with the contract. Thus there are two different interests in the company where each party seeks to achieve or maintain the desired level of prosperity.

Stewardship Theory

Stewardship theory is built on philosophical assumptions about human nature, namely that humans are essentially trustworthy, able to act responsibly, have integrity and honesty towards other parties. This is what is implied in the fiduciary relationship (relationship based on trust) that stakeholders want.The stewardship theory describes a situation where management is not motivated by individual goals but rather by their primary outcome goals for the benefit of the organization. The theory assumes. There is a strong relationship between satisfaction and organizational success. Organizational success describes the utility maximization of the principals and management groups. This group utility maximization will ultimately maximize the interests of individuals within the organizational group.

Stewardship theory explains that the organs contained in the company will maximize their performance so that the company's goals can be achieved. Thus, these organs will automatically implement good corporate governance in the company, so that the company's goals can be achieved and run well.

Company Performance

Azmil (2016: 30) suggests that company performance is the result of many individual decisions made continuously by management. Therefore, assessing company performance needs to involve analyzing the cumulative financial and economic impact of decisions made and considering them using comparative measures. The company performance in question is the performance of the company's financial sector.

Dessy (2019: 41) explains that, financial performance is one of the factors that shows the effectiveness and efficiency of an organization in order to achieve its goals. Effectiveness occurs when management has the ability to choose the right goal or the right tool to achieve the predetermined goal. Meanwhile, efficiency is defined as the ratio (comparison) between input and output, namely with certain inputs to obtain optimal output.Company performance can be measured using financial ratios. Financial ratios can also assess the good and bad financial decisions taken. Shareholder prosperity (which is indicated by the stock price) depends on good financial decisions. The financial decisions in question such as investment, funding and dividend policy.

In this study to assess company performance using the financial ratio return on assets (ROA). Cashmere (2016: 89) states that, ROA shows the company's ability to generate after tax operating profit from the total assets owned by the company. The profit calculated is earnings before interest and tax or EBIT (Earning Bfore Interest and Tax).

Good Corporate Governance (GCG)

GCG refers to a set of rules, practices and processes for controlling a company that involves balancing the interests of the company's stakeholders, such as shareholders, management, consumers, suppliers, financiers, government and society. It is important to implement in order to ensure the health of an ongoing company or business. However, a company or corporation is said to have good governance if every disclosure and transparency process is adhered to. Thus, the information provided to regulators, shareholders, and the general public is precise and accurate, both in financial, operational, and other aspects.

According to the Forum for Corporate Governance in Indonesia (FCGI-2006), adopting the definition of the Cadbury Committee of the United Kingdom, which is a set of rules governing the relationship between shareholders, company management, creditors, government, employees and other internal and external stakeholders relating to their rights and obligations, or in other words a system that directs and controls the company.

Good Corporate Governance (GCG) is a principle that directs and controls the company in order to achieve a balance between the power and authority of the company in providing accountability to shareholders in particular, and stakeholders in general. Of course this is intended to regulate the authority of directors, managers, shareholders and other parties related to the development of the company in a particular environment.Good Corporate Governance is a combination of basic principles in building an order of work ethics and cooperation in order to achieve a sense of togetherness, justice, optimization, and harmonization of relationships so that it can lead to a full level of development in an organization or business entity.

Benefits of Good Corporate Governance

The direct benefits felt by the company by realizing the principles of good corporate governance are increased productivity and business efficiency. Another benefit is increasing the company's operational capabilities and accountability to the public. It also minimizes the practice of corruption, collusion, and nepotism, as well as conflicts of interest. Good corporate governance can encourage organizational management that is more democratic (participation of many interests), more accountable (there is accountability for every action), and more transparent and will increase confidence that the company can provide long-term benefits.

METHOD

Based on the research approach, this research is a type of quantitative research. Kasmir (2012: 77) states that, associative / quantitative research is research that aims to determine the degree of relationship and pattern / form of influence between two or more variables, where with this research a theory will be built that serves to explain, predict and control a symptom. This study discusses the effect of independent variables on the dependent variable where, the independent board of commissioners, managerial ownership and institutional ownership as independent variables while company performance is the dependent variable.

This research was conducted in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2016 to 2020, namely, for a five-year period. The data used is the company's annual report obtained through the official website of the Indonesia Stock Exchange (www.idx.co.id).

The samples in this study were 7 food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2016 to 2020. The sampling technique used in this study was purposive sampling. To get the right calculations, researchers use a computer program specifically to help manage statistics, namely the SPSS (Statistical Packages for Social Sciences) program.

RESULT AND DISCUSSION

Descriptive statistics are part of data analysis that provides an initial description of each variable used in this study. Descriptive statistics are carried out to see the average value (mean), maximum, minimum and standard deviation of each variable.

1. The amountofobservation data is 35 data. The data is obtained from the total sample multiplied by the number of years of observation (7 x 5 = 35).

2. The firstindependentvariable, namely the independent board of commissioners (DKI), has a total research data (N) of 35, a minimum value of 0.51, a maximum value of 1009.63 and an average value (mean) of 129.9247 during the 2016-2020 period with a standarddeviationof 242.22626.

3. The secondindependentvariable, namely managerial ownership (KM), has a total research data (N) of 35, a minimum value of 0.00, a maximum value of 0.46 and an average value (mean) of 0.0854 during the 2016-2020 period with a standarddeviationof 0.12941.

4. The thirdindependentvariable, namely institutional ownership (KI), has a total research data (N) of 35, a minimum value of 0.33, a maximum value of 0.95 and an average value (mean) of 0.6591 during the 2016-2020 period with a standarddeviationof 0.22477.

5. The dependentvariable, namely return on assets (ROA), has a total research data (N) of 35, a minimum value of 0.20, a maximum value of 0.50 and an average value (mean) of 0.3467 during the 2016-2020 period with a standarddeviationof 0.04587.

6. The coefficient of determination (R2) shows the Adjusted R Square number of 0.644 or 64.4%, which means that the variation in the company performance variable (ROA) can be explained by the independent board of commissioners (DKI), managerial ownership (KM) and institutional ownership (KI) variables, the remaining 35.6% can be explained by other variables outside of the research variables.

Discusion

The Effect of the Independent Board of Commissioners on Company Performance

In theory, in a board of commissioners there is an independent commissioner position, namely a member of the board of commissioners who is not an employee or person who deals directly with the organization and does not represent shareholders. The independent board of commissioners variable (DKI) in table 4.6 has a tcount value of 6.415> t table 1.689 and a significance value of 0.000. The sig value of 0.000 < α (0.05), this means that the independent board of commissioners (DKI) variable has a significant effect on company performance (ROA). The results of this study support the results of research conducted by Dessy (2019) which states that, "the independent board of commissioners (DKI) has a significant effect on company performance (ROA)".

If independent commissioners are able to conduct more effective supervision of company managers, the supervisory function of independent commissioners can reduce the opportunistic behavior of directors and management. With more effective supervision, company performance will increase and improve company performance.

The Effect of Managerial Ownership on Company Performance

In theory, managerial share ownership is the proportion of common shares owned by management, which can be measured by the percentage of common shares owned by management who are actively involved in company decision making. The managerial ownership variable (KM) in table 4.6 has a tcount value of 2.741> t table 1.689 and a significance value of 0.012. The sig value of 0.012 < α (0.05), this means that the managerial ownership variable (KM) has a significant effect on company performance (ROA). The results of this study contradict the results of research conducted by Sri Rahayu (2014) which states that, "Managerial ownership (KM) has no significant effect on company performance (ROA)".

With managerial ownership in a company, managers directly benefit from the decisions taken and also bear the consequences of losses from making wrong decisions. This will make managers feel that they own the company and will try as much as possible to take actions that can maximize their prosperity. Thus, managerial ownership can harmonize potential differences in interests between shareholders and management and this will have an impact on improving company performance.

The Effect of Institutional Ownership on Company Performance

In theory, institutional ownership is a condition where institutions own shares in a company. In the type of company with very diffuse ownership, agency problems that often arise are between management (agents) and shareholders (shareholders). Companies with more diffuse ownership provide greater rewards

to management than companies with concentrated ownership. The institutional ownership variable (KI) in table 4.6 has a tcount value of 3.576> t table 1.689 and a significance value of 0.006. The sig value of 0.006 < α (0.05), this means that the institutional ownership variable (KI) has a significant effect on company performance (ROA). The results of this study support the results of research by AgusSuryanto and Refianto (2019) which state that, "Institutional ownership has a significant effect on company performance".

Institutional ownership has a very important role in minimizing agency conflicts that occur between managers and shareholders. The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision made by managers, so that managers will be more careful in making decisions. Monitoring carried out by institutions is able to reduce agency costs so that agency costs decrease and company value.

The Effect of Independent Board of Commissioners Managerial Ownership and Institutional Ownership on Company Performance

In theory, Good Corporate Governance (GCG) is a process and structure used to direct and manage the company's business and affairs towards increasing business growth and corporate accountability. The ultimate goal is to increase share value in the long term but still pay attention to the various interests of other stakeholders. The F-test results in table 4.7 show that, the F-count value is 14.304 while the Ftable is 2.874 with df numerator = 3, df denominator = 35 and a significant level α = 0.05 so that the F-count is 14.034>Ftable 2.874 and the significance level is 0.027 <0.05. Thus, H1 is rejected and H0 is accepted. This means that there is a significant influence between the independent board of commissioners (X1), managerial ownership (X2), and institutional ownership (X3) together on company performance (Y). The results of this study support the results of research conducted by AgusSuryanto and Refianto (2019) which state that,

"The independent board of commissioners, managerial ownership and institutional ownership together have a significant effect on company performance".

Basically, Good Corporate Governance is a combination of basic principles in building a work ethic and cooperation order in order to achieve a sense of togetherness, justice, optimization, and harmonization of relationships so that it can lead to a full level of development in an organization or business entity. If all company management works well, it will help improve company performance. Thus, good corporate governance will be the basis for the development of a new value system that is more in line with the changing business landscape.

CONCLUSION

This study aims to determine the effect of implementing good corporate governance on company performance. Based on the data that has been collected and tests that have been carried out on 35 samples using multiple linear regression models, it can be concluded that:

1) Good corporate governance as measured by the independent board of commissioners (DKI) has a significant effect on company performance (ROA) in food and beverage sub-sector companies listed on the IDX in 2016-2020.
2) Goodcorporategovernance as measured by managerial ownership (KM) has a significant effect on company performance (ROA) in the food and beverage sub-sector listed on the IDX in 2016-2020.
3) Goodcorporategovernance as measured by institutional ownership (KI) has a significant effect on company performance (ROA) in the food and beverage sub-sector listed on the IDX in 2016-2020.
4) Good corporate governance as measured by the independent board of commissioners (DKI), managerial ownership (KM) and institutional ownership (KI) together has a significant effect on company performance (ROA) in the food and beverage sub-sector listed on the IDX in 2016-2020.

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