THE EFFECT OF GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE IN THE LQ45 INDEX LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE 2017-2021 PERIOD

Rizka Ariyanti 1*, M Iqbal Notoatmojo 2, Eriza Safitri 3
1,2,3ITSNU, Pekalongan
1rizkaariyanti81@gmail.com 2iqbalbwox@gmail.com

Received: 04/11/2022; Revised: 14/11/2022; Published: 15/11/2022

ABSTRACT
This study aims to determine how the influence of Good Corporate Governance with indicators of institutional ownership, independent commissioners, and audit committees on the financial performance of LQ45 companies for the 2017-2021 period. The method used in this study is a descriptive method with a quantitative approach. Sources of data used in this study are secondary data sources. Statistical analysis used in this study is multiple linear regression analysis. Based on the results of the analysis, it can be seen that institutional ownership has a significant positive effect on financial performance (ROA), while the independent board of commissioners and audit committees have a significant negative effect on financial performance (ROA). Companies must balance share ownership between management and institutions so that there is no majority or minority party, all are responsible for making policies so that both can increase the value of the company.

Keywords: financial performance, institutional ownership, independent board of commissioners, audit committee

INTRODUCTION

The company's financial performance is a word that is often used to describe a company's success or success. The company's financial performance is seen from the perspective of management performance and financial performance. The company's ability to generate profits is the most important focus in assessing the company's financial performance. The financial report produced by the company is one of the information that can be used in assessing the company's financial performance because this financial report reflects the actual state of the company within a certain period of time.

Good Corporate Governance are the principles applied by the company to improve the performance and contribution of the company, as well as to maintain the company's sustainability in the long term. The main objectives of Good Corporate Governance are to increase business success and accountability, create a system of checks and balances, prevent misuse of company resources and continue to encourage company growth. Correct and consistent implementation of Good Corporate Governance is expected to create strong fundamentals for increasing corporate value in the long term through high performance improvement and the creation of a positive corporate image. In general, the implementation of Good Corporate Governance is carried out internally and can encourage more democratic organizational management (participation of many interests), more accountable (there is accountability for every action), and is more transparent and will increase confidence that the company can provide long-term benefits.

From research conducted by Bella Riantiarta Agatha, Siti Nurlaela, and Yuli Chomsatu Samrotun (2020) shows the results that Managerial Ownership, Institutional Ownership, Independent Board of Commissioners, and Audit Committee simultaneously have a significant positive effect on the company's financial performance (ROA). Partially Managerial Ownership, Independent Board of
Commissioners, Audit Committee have a significant positive effect on company performance (ROA). Meanwhile, institutional ownership has no effect on financial performance (ROA). Different research results are shown by Richy Salwa Utari (2020) which shows the results that partially Institutional Ownership, Independent Board of Commissioners, and Audit Committee have a significant effect on financial performance. Meanwhile, managerial ownership has no significant effect on financial performance.

THEORETICAL FOUNDATION AND HYPOTHESIS DEVELOPMENT

Theoretical Basis

Financial Performance

The company's financial performance is closely related to measurement as well as performance appraisal. This performance measurement and assessment is a qualification and efficiency as well as the effectiveness of a company in operating the company's business during the accounting period. According to Munawir (2012: 31) the purpose of measuring the company's financial performance is to determine the level of liquidity, solvency level, level of profitability, and level of stability. The tool to analyze the condition of the company's financial performance in this study uses Return On Assets (ROA) which is a profitability ratio to measure the company's ability to generate profits because this ratio represents all company activities. Return On Assets is an indicator of the company's ability to earn a return on a number of assets owned by the company. Good or bad company management can be seen from the high or low percentage of results from the calculation of Return On Assets. The higher the percentage generated from the calculation of Return On Assets, it means that the more efficient the use of assets from the company concerned.

Good Corporate Governance (GCG)

Good Corporate Governance is definitively a system that regulates and controls companies that create added value for all stakeholders. There are two things that are emphasized in this concept, first, the importance of the right of shareholders to obtain correct and timely information and second, the company's obligation to make accurate, timely, transparent disclosures of all information on company performance, ownership, and stakeholders. There are four main components needed in the concept of Good Corporate Governance, namely Fairness, Transparency, Accountability, and Responsibility. These four components are important because the consistent application of the principles of Good Corporate Governance has been proven to improve the quality of financial reports and can also become an obstacle to performance engineering activities which result in financial statements not reflecting the company's fundamental values.

In the implementation of the implementation of Good Corporate Governance in the company, careful phasing can be carried out based on an analysis of the situation and condition of the company, and the level of readiness, so that the implementation of Good Corporate Governance can run smoothly and get support from all elements within the company. In general, companies that have succeeded in implementing Good Corporate Governance use stages consisting of 3 main stages, namely Awareness Building, Good Corporate Governance Assessment, and Good Corporate Governance Manual.

Institutional Ownership
Institutional ownership is share ownership owned by companies or non-bank financial institutions or institutions that manage funds for other people. Share ownership is owned by parties in the form of institutions such as government, private, domestic and foreign institutions. The higher the level of institutional ownership, the stronger the level of control carried out by external parties to the company so that the agency costs that occur within the company are decreasing and the value of the company is also increasing.

Institutional owners have the ability to ensure that company management makes decisions that will maximize shareholder wealth.

According to Eriandani (2013), institutional investors usually control a large number of shares so that they can influence company decision making. Institutional ownership has the advantage of controlling the management through an effective monitoring process. Institutional share ownership owned by the institution will increase supervision of the company to minimize the level of fraud committed by the management. Institutional owners will try to make positive efforts that will improve the company's financial performance. The greater the ownership by the institution, the greater the voting power and encouragement of the institution to oversee management and consequently will provide a greater impetus to optimize the value of the company so that the company's performance will also increase. Automatically the higher the institutional ownership, the stronger the control over the company, the performance or value of the company which will increase if the owner of the company can control the behavior of management to act according to company goals.

**Independent Board of Commissioners**

Independent Commissioners are commissioners who do not have business ties or family relationships with shareholders or directors and are free from business relationships or other relationships that may affect their ability to act independently or act solely for the benefit of the company. The interests of managers and shareholders can be harmonized by the existence of an independent board of commissioners, because they represent the main internal parties to monitor the behavior of exploiting short-term opportunities or benefits and ignoring management's long-term benefits.

The Independent Board of Commissioners has an important role, which is in charge of ensuring the implementation of the company's strategy. To guarantee this, it is necessary to have members of the board of commissioners who have integrity, are not legally flawed and do not have business or other relationships with the controlling (majority) shareholders, either directly or indirectly. The Independent Board of Commissioners has an important role in the company because it can prevent non-transparent management actions. The existence of an Independent Board of Commissioners means that the interests of stakeholders, both minority and majority are not ignored because independent commissioners are more neutral towards decisions made by managers.

The independent board of commissioners will determine the success of the company in improving financial performance and achieving company goals, so as to minimize losses that may arise. In addition, it can help companies avoid problems that occur inside and outside the company, so that they can help companies get more profits so as to improve the company's financial performance. The Independent Board of Commissioners greatly determines the success of the company in achieving its goals and improving the company's financial performance, so as to minimize losses that may arise. In addition, it can help companies avoid external threats, so that companies can get more profits, which in turn can improve financial performance.

**Audit Committee**

The audit committee is a committee that carries out internal supervision of the company, bridging between shareholders and the board of commissioners with control activities carried out by management as well as internal and external auditors. The principle is to optimize the supervisory function so that there is no mismatch of information (information asymmetry) that results in
company losses, thereby reducing the value of the company. The audit committee is responsible to the board of commissioners to help carry out tasks related to finance and accounting procedures, so that the company's performance is increasing. Specifically, the audit committee assists the board the commissioner in terms of supervision and is responsible for maintaining access to communication between stakeholders.

The existence of a professional and independent audit committee in a company is an absolute requirement to safeguard the interests of stakeholders and protect the rights of shareholders. The audit committee as one of the corporate governance mechanisms is able to reduce the practice of manipulation and fraud by upholding the principles of corporate governance, transparency, fairness, responsibility, and accountability which in the process inhibits fraudulent practices in manipulation within the company (Manik, 2011)

HYPOTHESIS DEVELOPMENT

The Effect of Institutional Ownership on Financial Performance

Institutional Ownership is share ownership owned by the founding institution of the company, not public institutional shareholders as measured by the percentage of the number of shares owned by internal institutional investors. The application of institutional ownership and the presence of institutional investors in a company can improve company performance.

The greater the ownership by the institution, the greater the voting power and encouragement of the institution to oversee management and consequently will provide a greater impetus to optimize the value of the company so that the company's performance will also increase. Automatically the higher the institutional ownership, the stronger the control over the company, the performance or value of the company which will increase if the owner of the company can control the behavior of management to act according to company goals.

H1: Institutional Ownership (X1) has a significant positive effect on Financial Performance on LQ45 Index 2017-2021 Period

Influence of Independent Board of Commissioners on Financial Performance

The company will produce good financial performance, if there is an Independent Board of Commissioners which has a balancing function in the decision-making process in order to provide protection for minority shareholders and other parties related to the company. The independent board of commissioners plays an important role for the company, because it can prevent non-transparent management actions, can be neutral towards decisions made by managers without ignoring the stakeholders, both minority and majority.

The Independent Board of Commissioners greatly determines the success of the company in achieving its goals and improving the company’s financial performance, so as to minimize losses that may arise. In addition, it can help companies avoid external threats, so that companies can get more profits, which in turn can improve financial performance.

H2: Independent Board of Commissioners (X2) has a significant positive effect on Financial Performance on the LQ45 Index for the 2017-2021 Period

Influence of the Audit Committee on Financial Performance

The audit committee is one part of the stakeholders formed by the Board of Commissioners to assist the supervisory process, especially related to internal control, risk management, financial reporting and audit activities. The more members of the audit committee related to finance and accounting procedures will have a positive influence so that the company's performance will increase.
The audit committee assists the Board of Commissioners in terms of supervision and is responsible for maintaining access to communication between stakeholders. The existence of a professional and independent Audit Committee in a company is an absolute requirement to safeguard the interests of stakeholders and protect the rights of shareholders. The more the number of audit committees owned by a company will provide better protection and control over the accounting, financial and performance processes of the company.

H3 : The Audit Committee (X3) has a significant positive effect on Financial Performance on the LQ45 Index for the 2017-2021 Period

Influence of Institutional Ownership, Independent Board of Commissioners, and Audit Committee on Financial Performance

The higher the institutional ownership, the stronger the control over the company, the performance or the value of the company which will provide a greater impetus to optimize the value of the company so that the company's performance will also increase.

The Independent Board of Commissioners really determines the company's success in achieving its goals and improving the company's financial performance and can help the company avoid external threats, so that the company gets a positive influence on Financial Performance

The audit committee is one part of the stakeholders formed by the Board of Commissioners to assist the supervisory process, especially related to internal control, risk management, financial reporting and audit activities. The more members of the audit committee related to finance and accounting procedures will have a positive influence so that the company's performance will increase.

The audit committee assists the Board of Commissioners in terms of supervision and is responsible for maintaining access to communication between stakeholders. The existence of a professional and independent Audit Committee in a company is an absolute requirement to safeguard the interests of stakeholders and protect the rights of shareholders. The more the number of audit committees owned by a company will provide better protection and control over the accounting, financial and performance processes of the company.

H4 : The Audit Committee (X3) has a significant positive effect on Financial Performance on the LQ45 Index for the 2017-2021 Period

Influence of Institutional Ownership, Independent Board of Commissioners, and Audit Committee on Financial Performance

The higher the institutional ownership, the stronger the control over the company, the performance or the value of the company which will provide a greater impetus to optimize the value of the company so that the company's performance will also increase.

The Independent Board of Commissioners really determines the company's success in achieving its goals and improving the company's financial performance and can help the company avoid external threats, so that the company gets more profit, which in turn can improve financial performance.

The existence of a professional and independent Audit Committee in a company is an absolute requirement to safeguard the interests of stakeholders and protect the rights of shareholders. The more the number of audit committees owned by a company will provide better protection and control over the accounting, financial and performance processes of the company.

H5: Institutional Ownership, Independent Board of Commissioners, and Audit Committee (X4) simultaneously have a significant effect on Financial Performance on the LQ45 Index for the 2017-2021 Period

Based on the theoretical study and the development of hypotheses that have been stated above, the framework of thought in this study is as follows:
METHODOLOGY

This type of research uses an explanatory type, where this study aims to analyze the relationships between one variable and another (Sugiono, 2017:32). Research variables are everything in any form that is determined by the researcher to be studied so that information is obtained about it, then conclusions are drawn (Sugiyono, 2013:38). The variables used in the study can be classified into: (1) independent (independent) variables, namely variables that explain and influence other variables, and (2) dependent (bound) variables, namely variables that are explained and influenced by independent variables.

The technique used in this research is documentation and literature study. The documentation technique is carried out by taking secondary data, namely data collected by the author from various existing sources, obtained from the 2017-2021 annual financial statements for LQ45 companies that went public on the Indonesia Stock Exchange (IDX) through the www.idx site.

Operational definition
Financial performance

The dependent variable or dependent variable in this study is financial performance. Financial performance can be measured by Return On Assets (ROA). Return On Assets (ROA) is a type of profitability ratio that is able to assess the company's ability to earn a profit from the assets used.

Return On Assets (ROA) can be calculated using the formula:

\[
Return \text{ On Assets} = \frac{Net \text{ Profit After Tax}}{Total \text{ Aset}} \times 100\%
\]

Institutional Ownership (X1)

Institutional ownership is share ownership in a company owned by other institutions or institutions such as private, domestic and foreign companies. Institutional ownership in financial statements, this
situation can be seen from the large percentage of company share ownership by institutional investors. Institutional ownership can be calculated using the formula:

\[
\text{Institutional Ownership} = \frac{\text{Number of Institutional Shares}}{\text{Total Shares Outstanding}} \times 100\%
\]

**Independent Board of Commissioners (X2)**

The Independent Board of Commissioners is a party who is not appointed in the capacity to represent any party and is solely appointed based on his background of knowledge, experience, and professional expertise to fully carry out his duties for the benefit of the company. Independent Board of Commissioners in the financial statements, this situation can be seen from the company's management structure, in the number of independent commissioners.

Independent Board of Commissioners can be calculated using the formula:

\[
\text{Board of Commissioners} = \frac{\text{Number of Members of the Board of Commissioners}}{\text{Number of Independent Commissioners}} \times 100\%
\]

**Audit Committee**

According to Article 1 paragraph (1) of OJK Regulation 55/2015, the Audit Committee is a committee formed by and responsible to the board of commissioners in helping carry out the duties and functions of the board of commissioners. The audit committee in the financial statements, this situation can be seen from the company's management structure as part of the audit committee. The measurement of the audit committee in this study is by using the proportion of the audit committee, namely the comparison of the number of audit committees with the number of commissioners as is done.

The Audit Committee can be calculated using the formula:

\[
\text{Audit Committee} = \frac{\text{Number of Audit Committee}}{\text{Number of Board of Commissioners}} \times 100\%
\]

**Multiple Linear Regression Analysis**

Linear regression analysis is an analysis to determine the influence or linear relationship between independent variables on the dependent variable, and to predict or predict a value of the dependent variable based on the independent variable. Linear regression analysis is divided into 2, namely simple linear regression analysis and multiple linear regression analysis.

Simple linear regression analysis is to analyze the linear effect between one independent variable and one dependent variable. While multiple linear regression analysis is to analyze the linear effect between two or more independent variables with one dependent variable. The linear regression equation in this study is formulated as follows:

\[
Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e
\]

\( Y = \) Financial Performance
\( \beta_0 = \) intercept
\( \beta_1, \beta_2, \beta_3 = \) Regression Coefficient
\( X_1 = \) Institutional Ownership
\( X_2 = \) Independent Board of Commissioners
\( X_3 = \) Audit Committee
\( e = \) The residual value (standard error)
RESULT AND ANALYSIS

Normality test

Based on table 4.1, the results of the normality test are known to have a significance value of 0.386 > 0.05, it can be concluded that the residual value is normally distributed.

Based on table 4.1, the above shows that the results of the normality test with the Kolmogorov-Smirnov test obtained a significance value. This means proving that the residual data has a normal distribution because it has met the requirements for a significance value of more than 0.05.

Multicollinearity Test

Based on table 4.2, above shows that all independent variables have a tolerance value of more than 0.10 and a VIF value of less than 10. The value of tolerance and VIF for each variable is that the KI (Institutional Ownership) variable has a tolerance value of 0.992 and a VIF value of 1.008. The DKI variable (Independent Board of Commissioners) has a tolerance value of 0.941 and a VIF value of 1.063. Then the variable KA (Audit Committee) has a tolerance value of 0.943 and a VIF value of 1.060.

Based on the results obtained, it can be concluded that there is no multicollinearity in the regression model and is feasible to use.
Heteroscedasticity Test

Based on Figure 4.3 above, it shows that the dots or small circles spread randomly and spread above and below the number 0. They do not form a certain pattern, and spread above and below the Y axis zero, so it can be concluded that there is no heteroscedasticity in the model.

Multiple Linear Regression Analysis

Table 4.4

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>10.846</td>
<td>1.639</td>
<td>6.616</td>
</tr>
<tr>
<td></td>
<td>KI</td>
<td>9.637</td>
<td>1.362</td>
<td>.594</td>
</tr>
<tr>
<td></td>
<td>DKI</td>
<td>-2.797</td>
<td>.423</td>
<td>-.579</td>
</tr>
<tr>
<td></td>
<td>KA</td>
<td>-4.259</td>
<td>1.132</td>
<td>-.329</td>
</tr>
</tbody>
</table>

a: Dependent Variable: ROA

Coefficient of Determination Test (R2)

Table 4.5

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.804*</td>
<td>.647</td>
<td>.625</td>
<td>1.75536</td>
</tr>
</tbody>
</table>

a: Predictors: (Constant), KA, KI, DKI
b: Dependent Variable: ROA

DISCUSSION AND CONCLUSION

1. Based on tables 4.4 and 4.5. above, the regression equation for multiple linear regression is as follows: \( Y = 10,846 + 9,637 \text{ KI} - 2,797 \text{ DKI} - 4,259 \text{ KA} \).
2. Based on table 4.5, the following results are obtained:
3. 1. Based on the results of hypothesis testing, it is obtained that \( t \) count is 6.971 and \( t \) table is 1.975 and has a significance value of 0.000 <0.05. This shows that Institutional Ownership has a significant positive effect on Financial Performance (ROA). The existence of institutional
ownership can reduce conflicts of interest in the company. The higher the institutional share ownership, the higher the role in managing funds from various parties to invest, which will automatically improve the company's financial performance. Where high institutional share ownership will make investors have more power in exercising control over operational activities in managing assets company so as to limit the actions of management who abuse power for personal gain.

4. Institutional parties are professional parties who have the ability to be more effective in controlling a company and controlling the behavior of managers. These results are in line with research conducted by Richy Salwa Utari (2020) which states that institutional ownership has a significant effect on financial performance. Research conducted by Brigitta Clarabella Petta and Josua Tarigan (2017) which states that institutional ownership has a significant effect on capital structure. Company so as to limit the actions of management who abuse power for personal gain.

5. Based on the results of hypothesis testing, the t-count is -6.615 and the t-table is 1.975 and has a significance value of 0.000 <0.05. This shows that the Independent Board of Commissioners has a significant negative effect on Financial Performance (ROA). The higher the independent board of commissioners will reduce the company’s financial performance which results in a decrease in the ability of the board of commissioners to carry out supervision in coordination and communication. Independent commissioners in the company are considered unable to have a good impact, especially in their duties to monitor or supervise company managers so that market players do not fully trust the performance of independent commissioners in the company. Supervision that should be carried out by independent commissioners has not been carried out optimally, especially in preventing work that is detrimental to the company.

These results are in line with research conducted by Adil Ridlo Fadillah (2017) which states that the independent board of commissioners has a significant negative effect on the company’s financial performance. Research conducted by Khoirunnisa and Arni Karina (2021) states that the independent board of commissioners has a significant negative effect on the company's financial performance.

6. Based on the results of hypothesis testing, it is obtained that t count is -3.761 and t table is 1.975 and has a significance value of 0.000 <0.05. This shows that the Audit Committee has a significant negative effect on Financial Performance (ROA). The Audit Committee is the main factor to determine the effectiveness of supervision over the company's financial statements. The larger the number of the Audit Committee, the more low financial performance of the company. The Audit Committee has become less effective in supervising the company's financial performance. The establishment of the Audit Committee within the company is only based on compliance with regulations, where regulations require companies to have an audit committee and result in the ineffectiveness of the existence of an audit committee in supervising the company's performance. These results are in line with research conducted by Tiara Indah Nur Fadillah, Hari Setiono and Muhammad Bahril Ilmiddafiq (2020) which states that the audit committee has a significant negative effect on the company's financial performance.
Institutional Ownership, Independent Board of Commissioners and Audit Committee have a significant effect on Financial Performance (ROA). The significance value obtained is 0.000, which means 0.000 < 0.05 and f count is 29.900 > f table is 2.660. In addition, the results of the coefficient of determination test show that the Adjusted R Square value is 0.625 or 62.5%, which means that Institutional Ownership, the Independent Board of Commissioners and the Audit Committee can affect the dependent variable by 62.5% while the remaining 37.5% can be explained by other variables not included in this study.

Suggestion

1. It is hoped that further researchers can add other independent variables that can affect the financial performance (ROA) of LQ45 Companies such as Managerial Ownership, Board of Commissioners Meetings, and Audit Committee Meetings.
2. It is hoped that further research will use a period of more or more than 5 years in order to reflect the condition of the company in the long term.
3. Companies should balance share ownership between management and institutions so that there is no majority or minority party, all are jointly responsible for making policies in increasing management utility and institutional parties do not prioritize their personal interests so that both can increase the value of the company.

REFERENCE


