Financial Management StudiesVol3(2) 2023: 11-22

FMS
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http://jkmk.ppj.unp.ac.id/index.php/fms
ISSN: 2798-4516; e-ISSN: 2798-4524

Financial
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The Effect of Corporate Governance for Financial Performance in LQ45 Companies That Will Be Listed in The Indonesia Stock Exchange From 2017 - 2021

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ARTICLE INFO

Received DD Month 20XX
20XX Month DD Approved
Published DD Month 20XX

Keywords:
Corporate Governance, and Financial Performance.

ABSTRACT

Company performance ratings are used as a measure of success in decision-making management, as success in achieving company goals is management's output. The purpose of this research is to ascertain how management with ownership, the board of commissioners, and independent commissioners affect LQ45 companies' financial performance on the IDX. The method for gathering the data is to use annual financial report data from LQ45 companies that are listed on the Indonesia Stock Exchange and can be accessed through the IDX website for the years 2017 to 2021. Nine companies meet the criteria for the research sample. The findings indicate that managerial ownership has a significant impact on ROA, while independent commissioners have no significant impact on ROA in LQ45 companies listed on the Indonesia Stock Exchange and the number of commissioners has a significant impact on ROA. However, ROA in LQ45 companies listed on the Indonesia Stock Exchange between 2017 and 2021 is unaffected by the combined number of commissioners and independent commissioners.

How to quote: Author 1., Author 2., & Author 3. (Year).Title manuscript. Journal of Financial Management Studies, Vol(No), xx-xx. DOIs:https://doi.org/10.24036/jkmkxxxxxx

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INTRODUCTION

Company performance is a measure of a company's performance as a result of management's decision-making process in the conduct of its business. A company's performance rating is used as a measure of the success of its management decisions, as the company's success in achieving its goals is the performance of management. The primary purpose of evaluating a company's performance is to measure its ability to generate profit using the assets it owns ability to fulfill company obligations, determine the company's ability to face competition, and use it as an evaluation for management for long-term goals. Financial performance greatly affects company profits, better financial performance , the better the profits will be generated, this will affect the increase in the company's stock price due to the large demand for these shares (Helfert, 2018). Companies may incur agency costs as a result of this conflict. The Supervisory Board is the center of corporate governance and is tasked with ensuring the implementation of corporate strategy and overseeing management in the conduct of business and holding accountability. According to Hidayat and Utama (2017), a high proportion of independent commissioners will improve the company's financial performance. According to Putra (2015), when the proportion of external commissioners is high, the external commissioners will give severe sanctions to employees whose performance has decreased.

According to Suryana, one of the indexes that is estimated to have bright prospects is the LQ45 index. This is due to Indonesia's rapid population growth and economic development, which has pushed various corporate sectors to seek high returns on investment. Because LQ45 companies, which are companies whose shares High liquidity and market capitalization, are included in this forum, they were chosen as research objects in this study. one of the indexes that is anticipated to have bright prospects going forward is the LQ45 index.

Research conducted by Pooja Gupta (2014) in his research Asian countries have the same cultural characteristics However, we do not share corporate governance practices. The study found that India has adopted more stringent US-style corporate governance practices compared to South Korea, which follows a form of stakeholder corporate governance. There are significant differences in disclosure obligations and governance practices between the two countries. South Korea initially did not believe in outside interference in the company's operations, and did not have independent directors and various committees as mandatory requirements to keep the company running.

Research conducted by Wahidul Sheikh (2021) in his research investigates The relationship between corporate governance, board practices and company performance in the context of Bangladeshi shipping companies. On this basis, this study was designed to examine relationships based on factual and managerial perception data. The study emphasizes that a shipping company's top-level

management is the decision maker, ensuring corporate his governance practices. The results of descriptive statistics show that most company management pays little attention to awareness of corporate governance practices.

Research conducted by Juliana Anis Ramli (2016) in corporate governance research has been widely associated with company performance. Based on traditional agency theory, maximizing shareholder value represents the goal of achieving better performance by maximizing profits. From another perspective, this study seeks to examine how well firms with high CG scores perform from a legal perspective (including profit measurement).

Research conducted by Ahmad Saiful Azlin (2019) in his research examined The relationship between corporate governance and corporate performance, and how the board's ethical commitments affect this relationship. Previous studies have provided mixed evidence for the relationship between corporate governance and corporate performance. This may be due to the influence of the board's ethical commitments, which shape the corporate governance mechanisms of the company and influence its performance.

Research conducted by Georges Tsafack (2016) in his research examines how the characteristics of corporate governance and institutional environment affect the presence of large foreign shareholdings, and how foreign ownership of companies affects their performance. In a sample of Chinese listed companies, we find that firm-level governance characteristics and country-level institutional environments influence the presence and extent of large-scale foreign capital. We also find an inverted U-shaped relationship between foreign fixed ownership and return on equity, return on equity, and Tobin's q. Implicit optimal foreign ownership increases when changes in the institutional environment reduce opportunities for controlling shareholders to exploit private interests.

LITERATURE REVIEW

The theory used in this study is agency theory and corporate governance. According to Jensen and Meckling (1976), the relationship that develops when one party (principal) gives authority and responsibility to another party (agent) to make decisions is called an agreement in agency theory. the supervisory function of the directors on the implementation of the directors' policies is more prominent. The commissioner's work is expected to minimize agency conflicts between shareholders and the board of directors. Jensen (1993) claims that agency theory informs the supervisory responsibilities of commissioners. From an agency theory standpoint, the board of directors is the primary Internal mechanisms to control opportunistic behavior of management to help shareholders and managers align their interests. According to agency theory, board of commissioners the ability to oversee a business increases when there are more independent commissioners on the board. According to agency theory, opportunistic behavior can occur because the board of commissioners requires an independent commissioner to supervise and control the actions of the board of directors (Jensen and Meckling, 1976).

According to Downes and Goodman (1999), management ownership means shareholders, in this case management owners of the company, who actively participate in the decision-making process of the affected companies. . Agency theory explains that the interests of management and those of shareholders can conflict. Because managers put their personal interests first and shareholders dislike their personal interests, these expenses increase corporate costs, resulting in a decrease in corporate profits and a decrease in dividends received. This agency relationship often experiences a conflict of interest between the two.

According to Rachmad (2016) conflicts in agency theory are usually caused by not taking risks because of mistakes made by decision makers. This can happen because company managers have more information about how to manage the company and important information about the company. Meanwhile, shareholders do not have more information than managers.

According to Ariyanto and Setyorini (2013) Managerial ownership does not affect a company's ability to make a profit. The more levels of managerial ownership will not increase profitability. This is because management participation in Indonesian companies is generally very low. The low share owned by management resulted in management not feeling part of owning the company because they could not have all the profits so that management was motivated to maximize its utility compared to the interests of shareholders.

This study focuses on three internal mechanisms that are considered important by every company to establish better corporate governance so Conflicts in decision-making in companies, i.e. management responsibility, number of directors, and independent commissioners.

A committee's role in a corporation is focused on overseeing the implementation of directors' policies. The role of officers is expected to minimize

agency issues arising between the board and shareholders. Therefore, the board needs to be able to monitor its performance so that the resulting performance benefits shareholders. (Wardhani, 2006).

According to Jensen (1993) the monitoring function carried out by commissioners is taken from agency theory. From an agency theory perspective, the board of directors represents the main internal mechanism for controlling management's opportunistic behavior so as to help align the interests of shareholders and managers. The number of Committee members are adequate in number to enable the Board of Trustees to function effectively and to practice corporate governance accountable to shareholders. (Ruvisky, 2005).

According to Coller and Gregory (1999) in stating The more board members there are, the better the CEO is managed and the more effective the oversight. Associated with agency costs, the board of commissioners will more easily monitor the company's operations and ensure that managers really do what the shareholders want. The effectiveness of the board of commissioners will indicate high asset turnover. The larger the size of the board of commissioners means that there will be greater supervision of management, so that management acting in line with shareholders' intentions and increasing capital turnover , and in the end will reduce agency costs.

METHOD

To collect secondary data, this study uses field research methods (Field Research), which is carried out by direct observation of the companies studied. Using the Causality Design research design. Sugiyono (2018) said that research using a causal design is useful for knowing how a variable affects other variables. The population of this study consists of businesses listed on LQ45. One of the indices on the Indonesia Stock Exchange (IDX) is LQ45. Every six (six) months, from February to July and August to January, the Indonesia Stock Exchange updates the stock register which is the basis for calculating the LQ45 index. The researchers used a purposive sampling strategy for their sample. Purposive sampling, as defined by Sekaran (2016),

1. In 2021, the company is registered as LQ45;
2. Not a financial institution;
3. Since 2017, members of the LQ45 Index have changed. Only nine businesses that met the above criteria for the sample used in the study.

In this study, the authors used documentation as a data collection method. The IDX official website (www.idx.co.id) as well as journals and books serve as a reference for collecting data for researchers, including LQ45 company Annual Financial Report Data listed on the Indonesia Stock Exchange for the 2017-2021 period. The liquidity ratio is expressed as the liquidity ratio, and the solvency ratio is expressed as the DER ratio , in this study. However, due to the large number of ratios in each theory, researchers only take one measurement for each ratio. For example, The liquidity ratio is expressed as the liquidity ratio, and the profitability ratio is expressed as the DER

ratio and the ROE ratio is a representation of the profitability ratio using multiple linear regression analysis method. SPSS software version 22 was used in this study.

Variable Operational Definitions
Table 1

No	Variable	Definition	Indicator
1.	Financial performance	The company's financial performance is an analysis of financial statements, which includes performance as achievements achieved by the company over a period of time that reflects the strength of the company.	$ROA = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$
2.	Managerial ownership	Share ownership which comes from the shareholders themselves or their management who is involved in making decisions for the company concerned.	Managerial ownership = total shares owned by management/ Number of outstanding shares x100%
3.	board of Commissioners	Measurement of the size of the board of commissioners uses the number of members of the board of commissioners. The more members of the supervisory board, the more control the CEO has and the more effective his supervision.	Board of Commissioners = Total of the Board of Commissioners
4.	Independent Commissioner	The measurement of the percentage of independent officers is as follows, and the percentage of independent committee members is measured by the ratio (%) of the number of independent committee members to the total number of directors.	DKI= Number of independent commissioners / Total number of members of the board of commissioners x 100%

RESULTS AND DISCUSSION

The number of samples Thirty of the LQ45 companies listed on the Indonesian Stock Exchange were used in this study. based on the results of data processing based on descriptive statistics. After conducting the outlier test, it turned out that only 30 of the 30 research samples remained. Table 2 displays the findings of this study's descriptive statistical analysis:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Means	StdDeviation
ROA	30	0	0,16	0,08	0,04
Managerial ownership	30	0	0,07	0,23	0,12
Independent commissioner	30	3	8	6,26	1,55
Number of commissioners	30	0,28	0,50	0,37	0,78
Total Asset Logs	30	7,22	8,25	7,65	0,30
ValidN (by list)	30				

Source: SPSS statistical data processing results (2022)

According to the descriptive analysis of return on assets (ROA), the minimum value is 0.00, and the maximum value is 16.5% higher than the minimum, with an average value of 8.5% and a standard deviation of 4.2%. The managerial ownership percentage has a minimum value of 0.00%, the maximum value is 0.7, the standard deviation is 0.12%, and the average value is 0.23%. Furthermore, the variable number of Commissioners have an average score of 26.6 with a standard deviation of 55.2, with a minimum of 3% and a maximum of 8%. Then the independent commissioner The variable has a mean of 37.8% and a standard deviation of 7.7%. Furthermore, the control variable in this study uses the total asset log where We know that the minimum is 22.1% and the maximum is 25.4%. and the average value is 65.6% while the standard deviation value is 29.2%.

Multiple Linear Regression Analysis

The purpose of this research is to dependent variable is influenced by the independent variables, multiple linear regression analysis is used. Following are the results of the SPSS analysis on the Impact of Corporate Governance on Company Performance in LQ45 Companies Listed on the Indonesia Stock Exchange from 2017 to 2021:

Table 2 Multiple Linear Regression Analysis

Model		Non standard Coefficient		Standard coefficient	Q	sig
		B	St. Error	Betas		
1	(constant)	,553	,123		4,510	,000
	Managerial ownership	-2,292	3,866	-,069	-,593	,559
	Number of commissioners	-,009	,003	-,327	-2,800	,010
	Independent commissioner	,307	,059	,559	5,165	,000
	Total Asset Logs	-,069	,016	-,471	-4,175	,000

Source: SPSS statistical data processing results (2022)

From table 2 above it can be explained that the results of the multiple linear regression analysis above: 1. The constant value of 55.3 is positive. The positive sign indicates that Independent and dependent variables have the same effect. This shows that the ROA value is 55.3 if all independent variables such as managerial ownership (X1), number of commissioners (X2), and independent commissioners (X3) remain constant or zero percent. 2. Because managerial ownership has a coefficient of -29.2, it

has no effect on ROA; for example, if 10 managerial ownership is reduced by one unit, the ROA will decrease by -29.2 units. 3. The coefficient of the number of commissioners is -0.9 indicating that the number of commissioners has no effect on ROA; however, ROA will decrease by -00. 9 units if the number of commissioners is reduced by one unit. 4. With a coefficient of 30,

DISCUSSION

Whereas managerial ownership has no significant effect on ROA in LQ45 Companies Listed on the Indonesia Stock Exchange for the 2017-2021 period. The reason why it is not significant is that the object used as the sample failed to prove the relationship between variable X and variable Y. The reason why it is not in accordance with the theory is that the research sample failed to prove the theory. Managerial ownership does not affect ability of a firm to generate profits. The more levels of managerial ownership will not increase profitability. This is because management participation in Indonesian companies is generally very low. This is in accordance with agency theory, namely the low share owned by management results in management not feeling part of owning the company because not all profits can be owned by them so that management is motivated to maximize its utility compared to the interests of shareholders, Ariyanto and Setyorini (2013). This can be seen from the management ownership percentage, which is 0.23%, how it affects financial performance, and is in line with Abdullah Sani's research (2020), which states that managerial and performance are negatively related. Similarly, this study expands on the literature by providing further explanation of when managerial ownership is beneficial for firms. Specifically, this research finds that at higher levels of board independence,

That the number of commissioners has a negative and significant effect on ROA in LQ45 Companies Listed on the Indonesia Stock Exchange for the 2017-2021 period. The results of this study are in accordance with agency theory, which means that if the number of commissioners increases, The CEO is easier to control and supervision is more effective. This is in line with research by Halil Emre Akbas (2016), which means that companies with larger boards tend to disclose more environmental information than companies with smaller boards. These results support the argument that increasing the number of members can contribute to board monitoring effectiveness and positively impact environmental disclosure levels as larger boards lead to diversity in terms of expertise, including finance and accounting. The larger the size of the company's supervisory board, which indirectly reduces the company's performance . Declining company performance will decrease the company's share price compared to the previous period, so that Investor interest in investing in companies declines. So, when a company's performance increases, it will be reflected in an increase in ROA, because ROA is one of the company's profitability ratios (an indicator of an increase or decrease in company performance). This can happen

because the presence of the board of commissioners at the meeting is only for formality and the meeting is not actually held to discuss the company. Besides that, this can also happen because the number of meetings held is indeed small, requiring all commissioners to attend, so that the average attendance percentage of commissioners can reach one hundred percent. Not only that, the number of meetings that are large but the number of commissioners is small requires all commissioners to attend meetings so that the average attendance percentage of commissioners can reach one hundred percent. The participation of the board of commissioners has a significant negative effect on financial performance, which means that the higher the participation of the board of commissioners, the lower the company's financial performance. Based on Law Number 40 of 2007 concerning Limited Liability Companies, the board of commissioners is the board in charge of supervising and providing advice to the directors of a limited liability company.

The Influence of Independent Commissioners on Financial Performance. The Independent Commissioner has considerable influence over this ROA in LQ45 Companies Listed on the Indonesia Stock Exchange for the 2017-2021 Period. In accordance with agency theory, it is explained that the more independent commissioners on the board of commissioners, the better the board of commissioners is in supervising the companyIndependent officers can be used to mitigate agency problems because they can communicate goals and desires of shareholders to managers. Information asymmetry often occurs between shareholders and managers, this occurs because there is a separation between the owner and the manager or those who control it. Therefore, shareholders as owners must always monitor the actions taken by managers so that managers always act according to the wishes of the owner. The way to monitor managers is through corporate governance. The principles of corporate governance are transparency, accountability, responsibility, independence and fairness. This is in accordance with the research of Carl B. McGowan, Jr. et al., (2021), stating that there is a positive influence of independent commissioners on financial performance. An independent director is a party that ensures the existence of corporate her governance within a company by providing information and oversight to the directors for the benefit of the company. Independent committee members are non-employee committee members who have no financial, managerial or proprietary relationship with the company. Independent commissioners are percentage of company independent committee members. The percentage of independent committee members is very important to influence company performance, because independent commissioners can think objectively without having an interest in various parties. The role of independent officers in the company is objective and that is, not bound by the interests of any party. If the proportion of independent commissioners Included in the composition of the Supervisory Board, supervision of management and the board of directors as well as the company's financial statements will also be tighter and more objective. So that management will always act according to company goals. When the proportion of the board of

commissioners is increased, the company's performance will increase. When the company's performance increases, the market valuation increase in corporate assets . This will attract the desire of investors to own these shares. According to the concept of corporate governance, a company will obtain maximum corporate value if the functions and duties of each actor in a modern business organization can be separated in the form of: (1) Board of Directors (BOD), where they work full time and are not allowed to have multiple jobs. They manage the company through various managerial decisions of the company. (2) The Board of Commissioners (BOC), includes ordinary commissioners and independent commissioners and the various committees they form. Then the market valuation of the company's assets will also increase.

The Influence of the Total Board of Commissioners and Independent Commissioners together on Financial Performance. Based on the results of data analysis, this means that together the number of commissioners and independent commissioners has a significant influence on ROA in LQ45 Companies Listed on the Indonesia Stock Exchange for the 2017-2021 period. This can be seen in the hypothesis test, namely the number of commissioners and independent commissioners has an influence of 21.1% with a significance level of 0.05% or 5%.

CONCLUSION

Management ownership does not affect the company's ability to generate profits. The more levels of managerial ownership will not increase profitability. In agency theory it is explained that the more independent commissioners on the board of commissioners, the better the board of commissioners is in supervising the company.

Managerial ownership has no significant effect on ROA in LQ45 Companies Listed on the Indonesia Stock Exchange for the 2017-2021 period. Managerial ownership does not affect the company's ability to generate profits. The more levels of managerial ownership will not increase profitability. The number of Commissioners has a considerable terrible impact on ROA in LQ45 Companies Listed on the Indonesia Stock Exchange for the 2017-2021 period. Independent commissioners have a significant effect on ROA in LQ45 Companies Listed on the Indonesia Stock Exchange for the 2017-2021 period.

Based on the results of the research that has been done, some suggestions can be given as follows. In this study, there are many corporate governance variables that have not yet been included in the research but are included in corporate governance, such as institutional ownership, foreign ownership, audit committee, board of directors, company size , company value, board of commissioners meetings, ownership concentration, employee performance, corporate governance implementation, corporate governance mechanisms, earnings quality, and ownership structure analysis. Therefore it is better to look at other variables that make a

significant contribution to financial performance such as hypotheses and other variables that have not been used in this study. To add to this research the sample of LQ45 companies should be the next researcher, It is better to add types of companies, not just researching companies such as manufacturing industry, non-financial services, banking and so on. And also in further research can add other dependent variables besides the variables already mentioned.

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