



Analysis of the Effect of Corporate Governance on Profitability and Market Performance Empirical Studies on Non-Financial Public Companies Listed on the Indonesian Stock Exchange In 2008

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ABSTRACT

The economic crisis that happened in the Asian region, especially in Indonesia in early July 1997 caused many corporate bankruptcies. The impact of that case is the increasing awareness of the importance of good corporate governance in all its aspects within the company. Corporate governance issues also arise because of conflicts of interest in the company between the shareholders and the management of the company which is known as The Agency Problem. With the implementation of good corporate governance within the company, it is expected to bring positive impact to the company, especially for the company's performance. The factors of corporate governance that will be examined its effect on firm performance are independent commissioners, audit committees, external auditors and foreign ownership and the control variables are firm size and leverage of the company that may affect the implementation of corporate governance on firm performance. This study relates the corporate governance factors to profitability performance as represented by return on assets and market performance as represented by price to book value by using data that provided of 105 companies coming from eight industries (all industries except banking and financial industry) that listed in IDX in 2008. This study found that the independent commissioner had no positive and significant influence both on market performance and profitability performance. The audit committee has positive and significant influence on market performance, but not to profitability performance. The external auditor has a positive and significant impact on the profitability performance but not to market performance. Meanwhile, foreign ownership doesn't have a positive and significant influence for both profitability and market performance.

1. Introduction

Companies that have issued shares (go public) will try to make a good and attractive financial report in order to attract the interest of potential investors who will invest in the company so that later the company can obtain additional funds that can be used as capital to develop its business both from the company's production side as well as from the company's expansion

side such as capital to build a new factory, buy fixed assets and so on. A potential investor before making a decision to make an investment in the company in the form of equity participation (purchasing shares) of the company.

Potential investors are very careful in determining their attitude in making an investment decision. The Indonesian economy was founded on foreign debt without proper management and supervision, the economy operates on a culture of corruption, collusion and nepotism which causes economic activity to be inefficient, high-cost and full of mark-ups. The lesson from the economic crisis is the increased awareness of the importance of corporate governance. This awareness was born after examining the causes of the fragility of economic fundamentals, namely the absence of good corporate governance in all aspects of state management.

Recognizing the importance of good governance as one of the reform agendas to rehabilitate the national economy which had fallen due to the economic crisis, since the signing of the first Letter of Intent (LoI) with the IMF on October 31, 1997, Indonesia has begun to apply the principles of Good Corporate Governance, which is one of the important parts is the inclusion of a schedule for improving corporate governance in Indonesia.

The development of issues regarding corporate governance was also triggered by the existence of several internal problems within the company such as the existence of The Agency Problem. This agency problem is a problem that occurs among shareholders (principals/owners/decision makers) due to differences in interests with the company's management (agents/directors). Meanwhile, shareholders hope that management can act professionally in managing the company and all of its resources. Every decision and action taken by management should prioritize the interests of shareholders and aim for the benefit of the growth (value) of the company.

The relationship between corporate governance structure and firm value and financial performance has been previously studied by Aryati and Mediyanti (2005) whose results state that; First, there is no significant relationship between the percentage of independent commissioners compared to firm value using the Tobins'Q Model formula, and on financial performance. Second, the results of the analysis of the percentage of company ownership by institutions with firm value show insignificant results, this means that there is no influence between the percentage of company ownership by institutions with firm value and financial performance.

The implementation of Corporate Governance can increase with the existence of an effective audit committee, so that it can be said that the audit committee is an important component in Corporate Governance. Herwidayatmo (2000) explains that an effective audit committee is very important in order to improve the quality of company management. In May 2000, Bapepam issued a circular letter recommending Issuers/public companies to have an audit committee. Because at present, many companies have more audit committee members than those specified by Bapepam, for the reason that companies really need the presence of an audit committee, not just as a mere fulfillment of Bapepam's requirements.

The external auditor is responsible for providing an opinion in his audit report on the company's financial statements. Although the financial statements are the responsibility of the company's management, independent auditors are responsible for assessing the fairness of management's statements in the report through their audit report. Therefore, audit reports issued by external auditors are required to have high quality because it will affect the level of confidence of users of the report in terms of the interests of each user.

Shareholders also play an important role in influencing the company's performance. As summarized in the research by Douma, George, and Kabir (2003) which explains that there is a

significant influence between the percentage of foreign ownership on the performance of public companies in India using the proxy return on assets (ROA) and market performance. From his research it is proven that foreign ownership, namely ownership of foreign financial institutions and ownership of foreign corporations has a significant positive effect on the performance of company profitability and company market performance.

2. Method

The samples used in this study were 105 public companies in all non-financial industries, namely agriculture industry, mining industry, basic industry and chemical, miscellaneous industry, consumer goods industry, property, real estate and building construction industry, infrastructure, utilities and transportation industry, and trade and services industry which published complete financial statements and have been audited by external auditors in 2008 on the website of the Indonesia Stock Exchange.

The sample collection method is by purposive sampling, with the following criteria: 1). Public company listed on the Indonesia Stock Exchange in 2008; 2). Publish a complete annual financial report on the Indonesian Stock Exchange website; 3). Being in the non-financial industry, namely the agriculture industry, mining industry, basic industry and chemical, miscellaneous industry, consumer goods industry, property, real estate and building construction industry, infrastructure, utilities and transportation industry, and the trade and services industry; 4). Publish annual financial reports in Rupiah; 5. Recorded a positive value of earnings in the 2008 financial statements.

Table.1 Sample Selection

Total companies listed on the IDX in 2008	432
Incomplete company and financial statements	(241)
Companies with complete financial statements	191
Banking and financial company	(69)
Total Public Companies	122
Public companies that record negative earnings (due to exchange rate loss)	(17)
Total Sample Companies	105

Sampling method. The sampling method in this study used a purposive sampling method, namely a sampling technique using certain considerations and limitations so that the selected sample is relevant to the research objective. Data Collection Methods, this study uses historical data sources. The type of data used is secondary data obtained from various sources. Secondary data is data obtained indirectly from third parties, through intermediary media. Secondary data is data taken through the Indonesian Stock Exchange website. The data taken is company data contained in the non-financial industry on the Indonesia Stock Exchange in 2008.

Data Processing Method. Data processing is carried out to test the hypotheses that have been made previously, namely regarding company performance, both in terms of profitability in the form of Return on Assets (ROA) values and in terms of market performance in the form of Price to Book Value (PBV). The initial step of data processing is to convert raw data into predetermined proxies using the Microsoft Excel program. After the proxy value of each variable has been obtained, then the data is processed using a linear regression model. The linear regression aims to be able to estimate the coefficients of a linear equation that uses one or more independent variables which are the best predictors of the value of the dependent variable.

2.1 Hypothesis Testing Methods:

Testing Based on Statistical Basic Assumptions. In this study, the classical assumption test was used before testing the hypothesis using multiple regression analysis. To find out whether the estimator value of the regression coefficient is the best linear unbiased estimator (BLUE) based on Gujarati (2003), the classic assumption test that will be used in this study includes:

Normality Test, Normality Test aims to test whether in the regression model, the confounding or residual variables have a normal distribution. In this normality test there are two ways to see whether the residuals are normally distributed or not, namely by means of graphical analysis and statistical tests (Ghozali, 2005).

Multicollinearity Test This multicollinearity test is needed to determine whether or not there are independent variables that are similar to other independent variables in one model. The similarity between independent variables in a model can cause a very strong correlation between one independent variable and another independent variable.

Heteroscedasticity Test, Heteroscedasticity test has the aim of testing whether the variance of the independent variables is not constant from time to time. According to another assumption, namely the homoscedasticity assumption, it states that the variance of each element of disturbance/error of the independent variables is constant.

Model Testing. After the regression model is formed, this model will then be tested for suitability with the requirements of a good econometric model, so that later accurate estimation results will be obtained. The tests used are tests commonly used in simple regression models based on Gujarati (2003), namely:

Independent Variable Significance Test (t-stat). This test aims to determine whether there is a significant relationship from each independent variable to the dependent variable. The t-stat test was carried out using a significance level of 5% in one direction (one tail).

Overall Regression Equation Test (joint-test). This test aims to determine the effect of the independent variable jointly on the dependent variable by looking at the significance value of F. The joint test is carried out by conducting a statistical test F (F -test). The F statistical test was carried out by analyzing the results of ANOVA (Analysis of Variance) processing.

R-squared test (R^2) and Adjusted R-squared (Adjusted R^2) The R^2 test was conducted to determine the extent to which the ability of the independent variables to explain the dependent variable in a regression equation. The R^2 value lies between the values 0 to 1.

3 Analysis and Results

3.1 General Description of the Research Object

The research objects taken were 105 companies in the non-financial industry, namely agriculture industry, mining industry, basic industry and chemical, miscellaneous industry, consumer goods industry, property, real estate and building construction industry, infrastructure, utilities and transportation industry, and trade and services industry. The author determines that the object of research is companies that have been listed on the Indonesia Stock Exchange (IDX) and are incorporated in the non-financial industry because these companies are regulated by the Capital Market Supervisory Agency (Bapepam) and by laws that have been stipulated. by the government.

The author determines that the objects used as research are non-financial companies that have been registered on the IDX so that research is not related to special government and banking regulations. This chapter will present the results of data analysis based on the research of a number of variables used in the multiple regression analysis model to determine whether there is an influence of corporate governance as the independent variable with the profitability and market performance of the company as the dependent variable using financial ratio Return on Assets (ROA) as a measure of profitability performance and Price to Book Value (PBV) ratio as a measure of company's market performance.

3.2 Discussion of Research Results

Descriptive Statistics, This section will describe or describe the data from each variable that has been processed. The descriptive statistical data included is N, namely the number of samples

used by the authors, the minimum value of each variable, the maximum value of each variable, the mean (average) of each variable and standard deviation.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Means	Std. Deviation
Boc	105	.14	1.00	.3874	.13026
Forown	105	.1011	.9975	.495480	.2706428
Roa	105	.0000	.3920	.073914	.0855516
Pbv	105	.01	19.20	1.6530	2.73454
Lnta	105	24.85	32.02	27.7751	1.65711
Lev	105	.03	.96	.5063	.21364

From the results of the descriptive statistics above, it can be seen that the average value of the independent variable BOC (Board of Commissioners) is 0.3874, with a standard deviation of 0.13026. This means that on average the company has a proportion of independent commissioners of 38.74% of the total board of commissioners in the company.

3.3 Testin Based on Statistical Basic Assumptions

The next test is a test to find out whether the model used in this study is in accordance with the basic statistical assumptions or not. This test is carried out so that the parameter values meet the BLUE (Best Linear Unbiased Estimator) requirements. The tests carried out were the multicollinearity test, the heteroscedasticity test and the normality test.

3.4 Normality test

The normality test was carried out to find out whether the regression model, confounding variables or residuals have a normal distribution. This test uses the normality test with the normal probably plot of standardized residual and the Kolmogorov-Smirnov Test table for each variable and the results are as follows:

Table 2. Kolmogorov-Smirnov Test.

	BOC	FOROWN	ROA	PBV	LNTA	Lev
N	105	105	105	105	105	105
Normal Parameters	Means					
	0.3874	0.49548	0.073914	1653	27.7751	0.5063
std. Deviation	0.13026	0.270643	0.085552	2.73454	1.65711	0.21364
Most extreme Differences	absolute					
	0.232	0.1	0.218	0.274	0.063	0.079
	Positive					
	0.232	0.1	0.218	0.269	0.063	0.056
	Negative					
	-0.206	-0.084	-0.194	-0.274	-0.039	-0.079
Kolmogorov-Smirnov Z	2.38	1028	2,237	2,807	0.644	0.807
asymp. Sig. (2-tailed)	0.000	0.241	0.000	0.000	0.801	0.533

The heteroscedasticity test gave a significance result of 0.244 where from these results it can be said that the data in this study did not occur heteroscedasticity because the results above the significance of 0.05 ($0.244 > 0.05$) which means that H_0 cannot be rejected.

3.5 Multicollinearity Test

The multicollinearity test is performed by calculating the variance inflation factor (VIF) value of each independent variable. The multicollinearity test is used to determine whether the regression model that has been formed has a correlation or a linear relationship between the independent variables, namely corporate governance.

Table 3. Kolmogorov-Smirnov Test.

Model	UnstandardizedC oefficients		Standardized Coefficients Betas	t	Sig.	Collinearity Statistics	
	B	std. Error				tolerance	VIF
1 (Constant)							
BOC	-2,207	2,735	-0.063	-0.807	0.422	0.975	1025
AUDCOM	-0.788	1.08	0.139	1,455	0.149	0.814	1,228
AUDITS	0.728	0.501	0.241	2,444	0.016	0.761	1,315
FOROWN	0.775	0.317	0.141	1,505	0.135	0.838	1,194
LNTA	0.844	0.561	-0.014	-0.14	0.889	0.734	1,363
Lev	-0.014	0.098	-0.368	-4.108	0.000	0.922	1,084
	-2,782	0.677					

The independent commissioner variable (Board of Commissioners) has a VIF value of 1,025, the audit committee variable (Audit Committee) has a VIF value of 1,228, the external auditor variable has a VIF value of 1,315, the foreign ownership variable has a VIF value of 1,194, the variable firm size (LNTA) has a VIF value of 1,363 and the leverage variable has a VIF value of 1,084.

3.6 Heteroscedasticity Test

The heteroscedasticity test was carried out to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. A good regression model must fulfill the homoscedasticity requirement, where the variance value of the independent variables has a constant value. Analysis with graphic plots has a significant weakness, because the number of observations that affect the results of the plot. The fewer the number of observations, the more difficult it is to interpret the graph plot results. Therefore, a statistical test is needed that is more able to guarantee the accuracy of the results. The statistical test that can be used to detect the presence or absence of heteroscedasticity in this study is the Glesjer test.

3.7 Statistical Criteria Testing

After the data obtained is converted into proxies that represent the variables in this study, then a regression model is formed. The regression model is then tested for suitability with the requirements of a good econometric model, so that the right estimation results can be obtained.

3.8 Test R-Squared (R^2) and Adjusted R-Squared (Adj R^2)

This test aims to determine how much the independent variables in this study are able to explain the dependent variables, namely Return On Assets (ROA) and Price to Book Value (PBV).

3.9 Main Analysis

On the results of data processing that has been done before, namely the results of the overall regression equation test (joint test) produce an F Sign value for each dependent variable ROA of 0.000 and PBV of 0.003 which is below the significance level of 5%. This shows that each independent variable, namely independent commissioners, audit committees, external auditors, foreign ownership, as well as control variables, namely company size and leverage value, can jointly influence company performance significantly, both in terms of profitability and in terms of market performance

4. Conclusion

The proportion of independent commissioners has not been empirically proven to have a significant effect on both the profitability and the market performance of non-financial public

companies in Indonesia in 2008. The audit committee has not been empirically proven to have a significant effect on the profitability of non-financial public companies in Indonesia in 2008, but it has been empirically proven to have an effect on the market performance of non-financial public companies in Indonesia in 2008. This shows that, companies that have a number of audit committees that exceed the provisions of BAPEPAM, are not proven to be able to oversee the performance of company management so that they cannot improve company profitability. External auditors are empirically proven to have a significant effect on profitability, but external auditors are not proven to have an effect on the market performance of non-financial public companies in Indonesia in 2008. This shows that external auditors affiliated internationally with the Big Four groups can contribute good advice and input to companies, so companies can improve profitability performance. The percentage of foreign ownership has not been empirically proven to have an effect on company performance, both in terms of profitability and in terms of market performance. This shows that the presence of foreign investors is not able to influence the company to improve its performance more effectively and efficiently. Firm size has not been empirically proven to have an effect on firm performance, both in terms of profitability and in terms of market performance. This shows that a company with a larger size (total asset value) is unable to manage the company more strictly and better so that it cannot increase its profitability. Disclosure of financial information with leverage ratios has been empirically proven to influence company performance, both profitability and market performance. This shows that companies that disclose their financial information in this leverage ratio are able to provide reliable financial information for investors so that they can increase the value of the company and can reduce the uncertainty of the company's prospects in the future.

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