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# THE EFFECT OF GOOD CORPORATE GOVERNANCE ON THE PROFITABILITY OF MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE 2016-2020

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**Abstract:**

*The purpose of this research on corporate governance is to be able to provide information to find out how influential the management system that occurs within a company is on the profits to be obtained by the company. In this study, we will discuss about corporate governance which will be measured using 5 (five) categories of independent variables including the board of commissioners, board of directors, audit committee, management ownership and institutional ownership which will be juxtaposed with the dependent variable, namely return on equity (ROE). ). The sample population is obtained from financial statement data that has been published by companies on the Indonesia Stock Exchange (IDX) in the research period from 2016 to 2020. The total sample that has been selected according to the criteria is 153 companies. From the research that has been carried out, it shows that the board of commissioners, board of directors, managerial ownership and institutional ownership affect ROE. However, the audit committee seems to have an effect on the ROE variable but it is not significant.*

***Keywords:*** *GCG, Indonesia Stock Exchange, ROE*

## 1. Introduction

The emergence of accounting scandals such as the case of PT. Garuda Indonesia. Where the presentation of the 2018 financial statements is not presented properly, it will decrease the confidence of investors to invest their capital. On the information site that includes information about PT. Garuda Indonesia stated that it should have recorded a loss in 2018 of USD 244.95, but in the financial statements presented throughout 2018 the company received a profit of USD 809.84 thousand that has a high surge according to 2017 which suffered a loss of USD 216.58 million.

Some experts define good corporate governance with the similar explanation, basically corporate governance is a method used to dominate the relationship that occurs in the stakeholder center (LMS Kristiyanti, 2021), which is related to rights and obligations or it can be concluded that corporate governance is a system which has a focus on controlling a performance system in company. The implementation of corporate governance in this era is very necessary so that companies can maintain their performance in the face of other tight business competitors in the business field, and can apply ethics in business consistently (Budiyono, and Putri, 2021). Factors in corporate governance that will be used in this study are the board of commissioners as x1, the board of directors as x2, the audit committee as x3, managerial ownership as x4 and institutional ownership as x5 and y is ROE.

In previous analyzes that have been carried out by Sherly and Imam (2016) and Melanthon (2017) the board of commissioners' variable is stated to have an effect on the ROE variable. From this, we can conclude that the total number from members of the board of commissioners has an important role in the company to carry out their duties. The duties of the board of commissioners are as supervisors in companies where the company has been running according to GCG standards or not. The board of commissioners will provide ideas, input and suggestions to the board of directors so that they can become further considerations for the running of the company. The increasing number of commissioners can make communication and exchange of ideas and innovation ideas easier in the company.

From the research of Sherly and Imam (2016), the board of directors' variable is stated to have an effect on ROE, as well as in the next 3 (three) years research conducted by Puspita, Yuli (2019), Ahmad Azmy (2019), and (Handayani, 2019) the board of directors is also stated to have influence on ROE. This means that this variable has an equally important role for the company where the board of directors, which basically has the task of making decisions for the sustainability of the company in earning profits, is needed in this business circle. In fact, the more boards of directors in the company will make decision making, policies and authority for the sustainability of the company more efficient because of the cooperation between members.

According to research conducted by Pahlawan, Dian et al (2018), and Ahmad Azmy (2019), they get good results for the audit committee variable where this variable has an influence on ROE. Basically, the audit committee is an officially certified organization, where they are tasked to supervising the process of reporting financial statements. Although they act independently when carrying out their duties and are not allowed to vote in the GMS, they have the task of assisting the board of commissioners in presenting the company's financial statements. They also supervise the control structure in the company so that it can be carried out properly and appropriately.

Research on managerial ownership variables that has been carried out by Helfina, et al (2016) states that there is an influence on ROE. These results can be interpreted that the percentage of managerial or individual ownership shares is able to boost the existence of a company to be able to stand on a par with other companies in the business community. A good percentage of shares in this ownership can be a benchmark for investors to entrust their shares to the company.

From Agung and Nila's research (2017), which got very good results where institutional ownership is stated to be influential in earning profits in the company. From this research, we can understand that the presentation of the total institutional shares owned by the company can determine how well the company's performance, it is because with many investors investing their shares in the company, the company's performance will be good because it is considered to be able to manage the shares that have been entrusted by investors to the company.

## Literature Review

### Agency Theory

Agency theory that has been put forward by Jansen and Meckling in 1972 according to him this theory "is a theory that discusses the relationship between managers (agents) and investors (principals)", in this case it can be said that there are investors who will give authority to managers to manage and make decisions. decision in obtaining the benefit of the funds. This theory certainly does not run smoothly where risks and conflicts of interest between owners and agents can occur at any time where managers do not always carry out their duties in accordance with the interests of investors.

The control exercised by the manager, in agency theory, it has been explained that there will be separation, in other words, investors or shareholders are not allowed to interfere when managers carry out their duties to manage. Agency theory assumes that share ownership is the total of the number of stock investments owned by shareholders or investors and who will manage is the manager (agent) whose task is to maximize the rate of return or it can be said that the profit from the shares owned by investors (Utami, 2021).

**Good Corporate Governance**

*Good corporate governance* is a performance event that has been arranged so that the company can run and control the company. The Indonesian Institute for Corporate Governance (IICG) defines "that corporate governance is an organizational structure that will be applied to run a company, which aims to be able to improve the company's performance and the value of share ownership or investors in the long term using permanent attention to the interests of investors using other trustee.

**Profitability**

Profitability has the idea of a performance system in the company by looking at the profits that can be obtained (Iin Emy and Anik, 2020). This is done so that it can provide benefits for the company so that it can be a hypnotic strategy for companies for making investment decisions. It can be interpreted that if the company has a performance that is considered good then the profits to be obtained by the company will increase, the impact of this good profit is that investors will have high confidence to entrust their funds to the company.

Of the many calculation ratios to determine profit, in the current study the calculation ratio that we will use to calculate the company's profit is return on equity (ROE). Where the measuring tool will measure how much the company's ability to gain the profit according to a certain capital. This ratio will measure profitability which will be seen from the perspective of investors. Below is a way to find out the total return on equity (ROE) according to Hamdani (2018:136):

$$\text{ROE} = \frac{\text{net profit after tax}}{\text{Total Equitas}} = 100\%$$

**Board of Commissioners**

According to Hamdani, (2018: 82), the Board of Commissioners is a corporate organ that is collectively tasked and responsible for supervising and advising the board of directors and ensuring that the company implements it. It can be assumed that the total number of these variables plays an important role in the company in carrying out its duties. The duties of the board of commissioners are as supervisors in companies where the company has been running according to GCG standards or not. The board of commissioners will provide ideas, input and suggestions to the board of directors so that they can become further considerations for the running of the company. The increasing number of commissioners can make communication and exchange of ideas and innovation ideas easier in the company.

Board of commissioners = Number of members of the board of commissioners

**Board of Directors**

According to the book that has been written by Hamdani (2018, 86) states that the board of directors is a company organ that has an important role and responsibility in running the company. This group plays a role in carrying out the task of making synchronous decisions using the division of tasks and authority. This means that this variable has an equally important role for the company where the board of directors, which basically has the task of making decisions for the sustainability of the company in earning profits, is needed in this business circle. In fact, the more boards of directors in the company will make decision making, policies and authority for the sustainability of the company more efficient because of the cooperation between members.

Board of directors = Number of members of the board of directors

**Audit Committee**

The decision from the Chairman of the Capital Market and Financial Institutions Supervisory Agency (Bapepam LK-OJK) number Kep.643/BL/2012 dated December 7, 2012 stated that companies must have an audit committee. Basically, the audit committee is an officially certified organization, where they are tasked to supervising the process of presenting financial statements. Although they act independently when performing their duties and are not allowed to vote in the GMS, they have a duty to assist the commissioners in presenting the company's financial statements. They also supervise the control structure in the company so that it can be carried out properly and appropriately. The way to find out the number of the audit committee is to use the following equation:

Audit committee = Number of audit committee members

**Managerial Ownership**

Managerial ownership is the number of shares owned by the management of the company. Managerial ownership can be measured by calculating the percentage of shares owned by the company's managerial using all the company's outstanding shares, said Rusdiyanto, et al (2018: 81). This means that the percentage of managerial or individual ownership shares is able to boost the existence of a company to be able to stand on a par with other companies in the business community. A good percentage of shares in this ownership can be a benchmark for investors to entrust their shares to the company. To be able to calculate the size of managerial ownership, the following formula can be used:

$$\text{Managerial Ownership} = \frac{\text{the number of shares of the manager}}{\text{total outstanding shares}} \times 100\%$$

**Institutional Ownership**

Institutional ownership is the existence of investments from institutions or institutions that are considered to be a monitoring procedure that is considered to be effective in every decision-making that will be taken by managers. A company with a high institutional share value will be able to indicate the greater the ability of the institution to monitor or control management.

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It can be interpreted that the percentage of total institutional shares owned by the company can determine how well the company's performance is because with many investors investing their shares in the company, the company's performance is good because it is considered to be able to manage the shares that have been entrusted by investors to the company in his book. To measure the size of institutional ownership, the following formula can be used:

$$\text{Institutional ownership} = \frac{\text{number of shares Institutional ownershi}}{\text{total outstanding shares}} \text{ x } 100\%$$

**Hypothesis**
H1 : The Board of Commissioners has a positive impact on ROE.
H2 : The Board of Directors has a positive impact on ROE.
H3 : The Audit Committee has a positive impact on ROE.
H4 : Managerial Ownership has a positive impact on ROE.
H5 : Institutional ownership has a positive impact on the ROE.

**Framework**

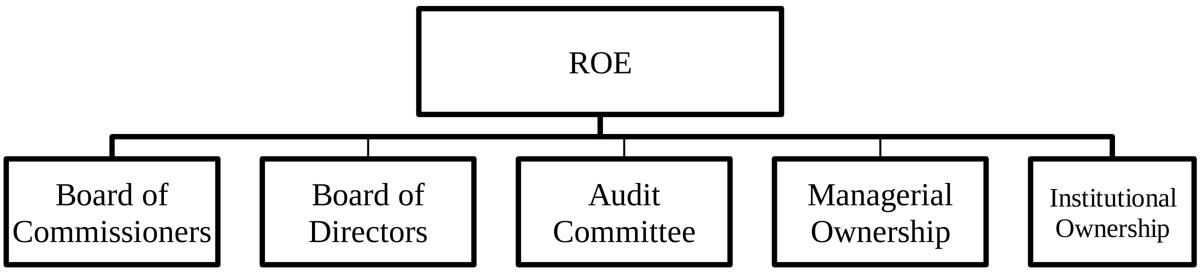


**Figure 1.** Framework of Research

## 2. Research Method

### Population and Sample

The population used in this study are manufacturing companies that have been verified on the Indonesia Stock Exchange (IDX) in the 2016 to 2020 research year. The sample will be taken using a purposive sampling technique. The following will serve as research criteria:

a. The company has published financial reports from 2016 to 2020 on the Indonesian stock exchange.

b. Companies that earn positive profits during the study period. Because by using positive company profits, the company has good performance.

The company to be researched must be equipped with an organizational structure for corporate governance in general, especially regarding the board of directors, board of commissioners, audit committee, managerial ownership, and institutional ownership.

## 3. Results and Discussion

### 3.1. Results

**Descriptive Statistics**

This test will be carried out so that we can find out the description of the data to be carried out in research relating to research variables in manufacturing companies for the period 2016 to 2018 namely with the GCG variable. The following are descriptive data with a value of (N) 153:

**Table 1.** Descriptive Statistics

**Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Dewan Komisaris (X1) | 153 | 2,00 | 12,00 | 4,1699 | 1,92214 |
| Dewan Direksi (X2) | 153 | 2,00 | 12,00 | 5,0327 | 2,23730 |
| Komite Audit (X3) | 153 | 1,00 | 5,00 | 3,1046 | ,48887 |
| Kepemilikan Manajerial (X4) | 153 | ,00 | 99,25 | 14,6995 | 22,39776 |
| Kepemilikan Istitusional (X5) | 153 | ,67 | 894,38 | 73,1673 | 103,10563 |
| Profitabilitas (Y) | 153 | ,07 | 1158,39 | 16,1396 | 94,05608 |
| Valid N (listwise) | 153 | | | | |

b. All requested variables entered.

**Normality test**

Is a test that will be used in order to find out that the form of regression, disturbing variables, or residuals have normal values. The test will use the skewness-kurtosis test method. The following are the test results obtained:

**Table 2.** Normality Test

**Descriptive Statistics**

| | N | Skewness | | Kurtosis | |
|---|---|---|---|---|---|
| | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| Unstandardized Residual | 153 | ,287 | ,196 | ,606 | ,390 |
| Valid N (listwise) | 153 | | | | |

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$Skewness = \frac{0,287}{0,196} = 1.449$

$Zkurtosis = \frac{0,606}{0,390} = 1,530$

It is known that the z table value is at a significant level of 0.05 or ± 1.96. The table above shows the Skewness value of 1.449 < 1.95 and Zkurtosis of 1.530 < 1.96. So it can be concluded that the data presented is normal data.

## Classic Assumption Test

### Multicollinearity Test

This test is used with the intention of knowing that the regression model in this study has a correlation between the independent variables or not. This time in this study we can find the results by looking at the tolerance level and variance inflation factor (VIF). The review is presented below:

**Table 3.** Multicollinearity Test

**Coefficients[a]**

| Model | | Correlations | | | Collinearity Statistics | |
|---|---|---|---|---|---|---|
| | | Zero-order | Partial | Part | Tolerance | VIF |
| 1 | (Constant) | | | | | |
| | Dewan Komisaris (X1) | ,268 | ,211 | ,197 | ,933 | 1,072 |
| | Dewan Direksi (X2) | ,275 | ,165 | ,153 | ,798 | 1,254 |
| | Komite Audit (X3) | -,054 | ,019 | ,017 | ,956 | 1,046 |
| | Kepemilikan Manajerial (X4) | ,222 | ,183 | ,170 | ,811 | 1,233 |
| | Kepemilikan Istitusional (X5) | ,128 | ,197 | ,183 | ,923 | 1,083 |

a. Dependent Variable: Profitabilitas (Y)

It is known that the tolerance value of all independent variables is > 0.10. In addition, the VIF value of all independent variables is also < 10. This result means that the factors in this study do not have evidence of the occurrence of multicollinearity phenomena.

### Autocorrelation Test

This test is intended to be able to see the linear regression model whether there is a correlation. The measurement used to find the presence of autocorrelation is by using the Durbin-Waston test. Below is the output using the Durbin-Waston meter:

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**Table 4.** Autocorrelation Test

**Model Summary**[b]

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | ,408[a] | ,167 | ,139 | ,77383350 | 2,024 |

a. Predictors: (Constant), Kepemilikan Istitusional (X5), Dewan Komisaris (X1), Komite Audit (X3), Kepemilikan Manajerial (X4), Dewan Direksi (X2)

b. Dependent Variable: Profitabilitas (Y)

Based on the data above, the Durbin-Watson value is 2.024. This value will be checked in the Durbin-Watson table in 5% sig. After knowing that the Durbin-Watson value is 2.024 where it has a larger size based on the upper limit (du) which is 1.8036 and smaller based on (4-du) (4–1.8036) = 2.1964 or can be summarized as 1 ,8036 < 2.024 < 2.1964 located in the non-auto-correlation area, this means that the research data does not have auto-correlation.

### Heteroscedasticity Test

The test using this method is intended to be able to find out that the regression model has an unequal variation from one residual to another. This examination was carried out using the *Glejser* test method which is presented in the following table:

**Table 5.** Heteroscedasticity Test

**Coefficients**[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | ,740 | ,337 | | 2,195 | ,030 |
| | Dewan Komisaris (X1) | -,108 | ,060 | -,151 | -1,790 | ,075 |
| | Dewan Direksi (X2) | -,033 | ,103 | -,029 | -,322 | ,748 |
| | Komite Audit (X3) | -,041 | ,225 | -,015 | -,181 | ,856 |
| | Kepemilikan Manajerial (X4) | -5,741E-5 | ,016 | ,000 | -,004 | ,997 |
| | Kepemilikan Istitusional (X5) | 6,079E-5 | ,043 | ,000 | ,001 | ,999 |

a. Dependent Variable: ABS_RES1

It is known that the value of the *glejser* test, the value of the independent variable sig, X1 is 0.075, X2 is 0.748, X3 is 0.856, X4 is 0.997 and X5 is 0.999 more than 0.050, then the independent variable data in this study avoids the symptoms of heteroscedasticity and is sufficient to be used as a research examiner. with multiple linear regression test model.

**Coefficient of Determination Test ($R^2$)**

Testing using the $R^2$ test essentially explains how far the model is capable of being applied to variations in the dependent variable. If the value of $R^2 = 1$ is known, then the independent variable has a perfect impact on the dependent variable. Conversely, if the value of $R^2 = 0$, then the independent variable does not have a perfect impact on the dependent variable.

**Table 6.** Coefficient of Determination Test ($R^2$)

**Model Summary**[b]

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | ,408[a] | ,167 | ,139 | ,77383350 | 2,024 |

a. Predictors: (Constant), Kepemilikan Istitusional (X5), Dewan Komisaris (X1), Komite Audit (X3), Kepemilikan Manajerial (X4), Dewan Direksi (X2)

b. Dependent Variable: Profitabilitas (Y)

Based on the test data above, the value of Adjusted R2 is 0.408 or 40.8%. This figure shows the magnitude of the impact of the variables X1, X2, X3, X4 and X5, to the Y variable combined, while the remaining 100% - 40.8% = 59.2% is the result that has an impact on other factors.

**F Test**

The test using the F-test is designed to identify whether multiple linear regression variations have an effect on the dependent variable.

**Table 7.** F Test

**ANOVA**[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 17,630 | 5 | 3,526 | 5,888 | ,000[b] |
| | Residual | 88,026 | 147 | ,599 | | |
| | Total | 105,657 | 152 | | | |

a. Dependent Variable: Profitabilitas (Y)

b. Predictors: (Constant), Kepemilikan Istitusional (X5), Dewan Komisaris (X1), Komite Audit (X3), Kepemilikan Manajerial (X4), Dewan Direksi (X2)

With = 5% sig value 0.000 <0.05 and f value 5.888, it states that variable X has a simultaneous impact on variable Y.

**Multiple Linear Regression Analysis Test**

Testing in this way will let us know how the influence of variable X on variable Y:

**Table 8.** Multiple Linear Regression Analysis Test

**Coefficients**[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1,650 | ,534 | | 3,087 | ,002 |
| | Dewan Komisaris (X1) | ,251 | ,096 | ,204 | 2,619 | ,010 |
| | Dewan Direksi (X2) | ,332 | ,164 | ,171 | 2,027 | ,044 |
| | Komite Audit (X3) | ,082 | ,356 | ,018 | ,229 | ,819 |
| | Kepemilikan Manajerial (X4) | ,056 | ,025 | ,188 | 2,255 | ,026 |
| | Kepemilikan Istitusional (X5) | ,165 | ,068 | ,191 | 2,437 | ,016 |

a. Dependent Variable: Profitabilitas (Y)

The parallelism of this analysis states that the equations that we will use for the analysis are:
**ROE = 1.650 + 0. 251.Board of commissioners + 0.332.Board of Directors + 0.082.Audit Committee + 0.056.Managerial Ownership +0.165.Institutional Ownership + e**

**Hypothesis Testing**

Tests using this test will be used using the t-test result method with the aim that we can find out the impact of each independent variable individually on the independent variable. If the significance level of the t-test results is < 5%, then the X variable has a significant influence on the Y variable, below is the result of the calculation table:

**Table 9.** t-Test

**Coefficients**[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1,650 | ,534 | | 3,087 | ,002 |
| | Dewan Komisaris (X1) | ,251 | ,096 | ,204 | 2,619 | ,010 |
| | Dewan Direksi (X2) | ,332 | ,164 | ,171 | 2,027 | ,044 |
| | Komite Audit (X3) | ,082 | ,356 | ,018 | ,229 | ,819 |
| | Kepemilikan Manajerial (X4) | ,056 | ,025 | ,188 | 2,255 | ,026 |
| | Kepemilikan Istitusional (X5) | ,165 | ,068 | ,191 | 2,437 | ,016 |

a. Dependent Variable: Profitabilitas (Y)

T-test results:

1. The DK variable on the ROE variable obtain a value of 0.010 < 0.050, this means that the DK variable has a significant positive impact on ROE.

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2. The DD variable on the ROE variable has a value of 0.044 < 0.050, meaning that the DD variable has a significant positive impact on ROE.
3. The KA variable on ROE obtains a value of 0.819 > 0.050. This means that the KA variable has a positive but not significant impact on ROE.
4. The KM variable on ROE produces a value of 0.026 < 0.050. It can be stated that the KM variable has a positive and significant impact on ROE.

The KI variable on ROE produces a value of 0.016 < 0.050. It can be stated that the KI variable has a positive and significant impact on ROE.

### 3.2. Discussion

The board of commissioners makes the performance more optimal where the board performs the task of supervising, communicating, and providing advice to the board of directors will run conducively, thus the company's profit will increase. The board of directors is able to make all policies within the company and the decisions that have been determined run according to expectations, that's why there are more boards. In companies, the audit committee has a role as a financial reporting supervisor, but its existence cannot increase the profitability of the company, because the audit committee only serves as a supervisor for the company's financial reporting. Managerial ownership is very influential on the company's performance, because when the managerial stock is high it will make investors sure to invest their shares. However, if the total managerial share is low, it makes investors consider all the risks that will be faced later on their resources. If the number of institutional or institutional shares is seen to be larger than managerial or individual ownership, it will strengthen the institutional or institutional party to be able to become supervisors in supervising the workings of managers, so that they do not act as their own wishes.

## 4. Conclusion

From the result of the research, it shows that the board of commissioners, board of directors, managerial ownership and institutional ownership affect ROE. The board of commissioners makes the company performance more optimal, where the board performs the task of supervising, communicating, and providing advice to the board of directors will run conducively, thus the company's profit will increase

However, the audit committee seems to have an effect on the ROE variable but it is not significant. The audit committee has a role as a financial reporting supervisor, but its existence cannot increase the profitability of the company. Managerial ownership is very influential on the company's performance, because when the managerial stock is high it will make investors sure to invest their shares. But, if the total managerial share is low, it makes investors consider all the risks that will be faced later on their resources.

### Limitations

The attachment of this study is the value of Adjusted $R^2$ = 0.408 or 40.8% which can be assumed that the ROE variable can only be explained by the GCG variable of around 40.8%.

**Suggestion**

1. From the limitations of the study, suggestions are given for the next researcher to add variables or replace them with other variables that do not yet exist and/or are used in this study.
2. The time period of the research and the object to be used is also expected to be expanded, so that in future research researchers can get maximum and good results.

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