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THE QUALITY GOOD CORPORATE GOVERNANCE OF INDONESIA TRUSTED COMPANIES

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ABSTRACT

This study was conducted to analyze the effect of the implementation of good corporate governance quality to financial performance of go-public companies listed in the Indonesia Stock Exchange and included in the Indonesia Trusted Companies According to IICG in 2017. The measurement of Corporate Governance Perception Index (CGPI) includes four different weight values, including self-assessment (15%), documents (25%), paper (12%), and observations (48%). The population in this study was all go-public companies on the Indonesia Stock Exchange in 2017. The sample was taken by purposive sampling method, and which meet the criteria as go-public company as the Indonesia trusted companies consisting of 34 companies. The Statistical methods employed simple linear regression with SPSS version 21. Based on the analysis of data using simple linear regression as explained previously, it was found that the model developed in this study is worthy (fit) and successfully demonstrated as a good model. The following is a discussion of the correlation between the variables hypothesized in this study. The variable of good corporate governance quality has significant positive effect on both simultaneously and partially to the ROA and has the ability to affect ROA by 22.6% and the remaining 77.4% is explained by other variables.

Keywords: Good corporate governance quality, Indonesia Trusted Companies, Corporate Governance Perception Index, financial performance, simple linear regression.

Introduction

Corporate governance started to become an issue hotly discussed since the business scandals of poor corporate governance in British companies around 1950s and further continued until causing recession in the 1980s (Indriastuti, 2012; Sabeni, 2005). In Indonesia, the issue of corporate governance started to emerge after Indonesia experienced a period of prolonged crisis since 1998. Many argue that the prolonged repair process of economic crisis in Indonesia is due to weak corporate governance implemented in the company in Indonesia. Since then, both governments and investors started to pay more significant attention for the improvement of corporate governance practices in Indonesia. Lately, many countries have even done the rating implementation of corporate governance at the enterprise level. In Indonesia, the rating application of corporate governance for companies listed on the Indonesian Stock Exchange (BEI) has been carried out by the Indonesian Institute for Corporate Governance (IICG) every year since 2001 under the name of Corporate Governance Perception Index (CGPI).

The companies included in the top ten rankings of Corporate Governance Perception Index (CGPI) are those having the best quality of corporate governance in Indonesia. The existence of these companies would be an attraction for investors and creditors. That is because the quality of implementation of good corporate governance (hereinafter referred GCG) has been shown to increase the company's progress through ever-increasing performance and the soundness of the company so as to allay the suspicions of the other party. In addition, Good Corporate Governance (GCG) is able to ensure a company in sustainable (maintained) manner of the unhealthy business climate (SWA Sembada, 2017).

(Rossi and Panggabean, 2012) indicates that there is a significant positive relationship between corporate governance with ROE (operational performance). (Veno, 2015) said that corporate governance (The size of the council of directors and audit committee) have a significant positive effect to the corporate performance. (Tisna and Agustami, 2016) shows that good corporate governance and company size partially and simultaneously influence the company's financial performance. (Setiawan, 2016) show that corporate governance (institutional ownership) has a significant effect on the company's financial performance

The grading of GCG implementation in this study is based on Corporate Governance Perception Index (CGPI). CGPI is the ranking of the implementation of GCG on companies in Indonesia through research which is designed to improve the quality of implementation concept of Corporate Governance (CG) through continuous improvement to conduct evaluation and perform benchmarking (IICG, 2006). CGPI is organized by The Indonesian Institute for Corporate Governance (IICG).

Quality of Good Corporate Governance

The quality of the implementation of corporate governance is an assessment of corporate governance which in turn raises the predicate (consisting of "most trusted", "trusted" and "fairly trusted" predicate) on how Good Corporate Governance (GCG) is implemented by a company. The rating of Corporate Governance Perception Index (CGPI) has four different weight values, including the self-assessment (15%), documents (25%), paper (12%), and observations (48%). CGPI Value is calculated by summing final value of the compliance of regulations, policies, guidelines, and best practices in the implementation of Good Corporate Governance (GCG) in Indonesia and other countries. Overall, it is required at least 40 documents for public companies and 36 documents for SOE (IICG, 2006). While in paper stage is judged based on paper design which reflects on the program and the results of the implementation of Good Corporate Governance (GCG) as a unitary system of the participated companies in CGPI. In detail, themes and rules in the manufacture of paper is determined by IICG. The completion of papers is intended to help the company describes its efforts in implementing Good Corporate Governance (GCG) at the time of observation (IICG, 2006).

The assessment phase is revisiting or direct observation to all the participated companies of CGPI to ensure practical implementation of Good Corporate Governance (GCG) as a business management system in the company. The Implementation of each company observation in the CGPI is done for a maximum of 1 (one) working day, which is divided into two sessions, i.e., discussion forums with commissioners and directors; and functional management. The stages of observation have the highest weight taking into account the direct review process to ensure the data, information, and the enterprise business process that encourages the enforcement of the principles of Good Corporate Governance (GCG) (IICG, 2006). In detail, the rating level of the assessment is as follows:

Table 1: Rating of CGPI Assessment

The Criteria of the quality of Corporate Governance Implementation	Rating Level of CGPI Grade
Most Trusted	85.00 – 100
Trusted	70.00 – 84.99
Fairly Trusted	55.00 – 69.99

Source: (IICG, 2006) and (SWA Sembada, 2017).

The Good Corporate Governance and Financial Performance

Corporate governance is a fundamental factor to improve the sustainable performance of the company (Davies. A., 1999). The company's performance can be measured by the financial performance. Financial performance is important as a benchmark for investors in its decision to invest in a company (Indriastuti, 2012). Some methods in the measurement of financial performance are by using the Return on Asset (ROA) as the ratio of Net Income After Tax of the overall asset which shows productivity on the size of assets in providing return on investment (Indriastuti, 2012). ROA is used to measure the effectiveness of company in generating profits by exploiting assets held. (Tisna and Agustami, 2016) shows that good corporate governance and company size partially and simultaneously influence the company's financial performance. (Setiawan, 2016) show that corporate governance (institutional ownership) has a significant effect on the company's financial performance. (Veno, 2015) said that corporate governance the size of the council of directors and audit committee) have a significant positive effect to the corporate performance. (Rossi and Panggabean, 2012) indicates that there is a significant positive relationship between corporate governance with ROE (operational performance).

Population and Sample

The population in this study was all go public companies listed on the Indonesia Stock Exchange in the year of 2017. The samples were conducted with a purposive sampling method with the following criteria:

1. The companies listed in the Indonesia Stock Exchange that have financial data in the Indonesian Capital Market Directory (ICMD) or have published the financial

report on the Indonesia Stock Exchange (in the www.idx.co.id sites) as well as on a personal site as research sample for the year 2017.

2. The companies listed in the Indonesia Stock Exchange (BEI) which are included in the Corporate Governance Perception Index (CGPI) published by The Indonesian Institute for Corporate Governance (IICG) and SWA Sembada magazine in 2017.
3. The companies in Corporate Governance Perception Index (CGPI), which were awarded as "The Indonesia Trusted Companies" in 2017.

Here are the stages in acquiring the sample results of the company as research object:

Table 2: Phase in Acquiring Research Samples

Stage	Criteria	Total
I	*go public* Company in the IDX in the year of 2017	390
II	The company publishes its financial statements, but not published in ICMD or not published on the company website in 2017	(105)
III	The company is not included in the CGPI rating in 2017	(251)
IV	The companies are included in the ranking of CGPI and awarded as Indonesia Most Trusted Companies In 2017 (the number of sample)	34

Source: Secondary data processed (2017)

Table 3: The Companies Won The Indonesia Trusted Companies in 2017

No	Category	Company Name
1	The Most Trusted Companies	PT Aneka Tambang Tbk
		PT Asuransi Jasa Indonesia (Persero)
		PT Bank Central Asia Tbk
		PT Bank Mandiri
		Bank Negara Indonesia (Persero) Tbk
		PT Bank OCBC NISP Tbk
		PT Bank Syariah Mandiri
		PT Bank Rakyat Indonesia
		PT Bank Tabungan Negara (Persero) Tbk
		PT Bukit Asam Tbk
		PT Telekomunikasi Indonesia (Persero) Tbk
2	The Trusted Companies	PT Angkasa Pura II
		PT Asuransi BRI Life
		PT Asuransi Jiwa Inhealth Indonesia
		PT AXA Mandiri Financial Services
		PT Bakrie & Brother Tbk
		PT BNI Syariah
		PT Bank DKI

		PT Bank Mandiri Taspen Pos
		PT Bank Riau Kepri
		PT Garuda Indonesia (Persero) Tbk
		PT Indonesia Power
		PT Mandiri AXA General Insurance
		PT Mandiri Manajemen Investasi
		PT Mandiri Sekuritas
		PT Mandiri Tunas Finance
		PT Pelabuhan Indonesia III
		PT Pembangunan Jaya Ancol Tbk
		PT Pertamina (Persero)
		PT PLN (persero)
		PT Semen Indonesia (persero) Tbk
		PT Telekomunikasi Selular
		PT Timah (Persero) Tbk
		PT Wijaya Karya (Persero) Tbk

Source: https://swa.co.id/business-champions/companies/companies-good-corporate-governance/barisan-perusahaan-penerima-penghargaan-indonesia-trusted-companies-2017

The Measurement on Research Variables

Good Corporate Governance Quality

Corporate governance quality is an evaluation of company management which then leads to a predicate (consists of predicates “most trusted”, “trusted”, and “fair trusted”) how a Good Corporate Governance (GCG) is implemented by a company. The result of grading which refers to the score of Corporate Governance Perception Index (CGPI) is an instrument which is used in measuring how good the quality of corporate governance implementation, in this study it was counted by the formula which is developed by The Indonesian Institute of Corporate Governance (SWA Sembada, 2017):

QGCG = (15% X *Self Assessment*)+(25% X Document Completeness) +(12% X Paper)+(48% X Observation)

Return On Assets (ROA)

ROA was used to measure the effectiveness of companies in producing profit by utilizing assets they have. ROA or ROI was acquired by comparing between net income after tax (NIAT) and assets generally showed the size of assets’ productivity in giving return on stock investment (Kasmir, 2010).

Technique of Data Analysis

The technical analysis of this study uses simple linear regression (Ghozali, 2016), the hypothesis test was conducted by analyzing the effect of the quality of corporate governance implementation on financial report, with the following model:

$$\mathbf{ROA = \alpha + \beta_1\ QGCG + e}$$

Where:

ROA : Return on Asstes
α : Constanta
β_1 : Regression Coefficience
QGCG : The quality of Good Corporate Governance
e : Error

Result

The Simultaneous Significance Test (F Statistical Test)

The test on the effect of independent variables together on their dependent variables was conducted using F test. The result of statstical calculation showed that F count= 2,836 with siginificance of 0,008. By using 0,05 of significant level, it could be obtained that the significant score was lower than 0,05. This means that independent variables of good corporate governance had positive significant effect on ROA.

Table 4: F Statistical Test

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1323.143	1	189.020	2.836	.008[a]
	Residual	2465.739	1	66.642		
	Total	3788.881	2			

The Test on Determination Coefficience

The score of Determination Coeffecience (adjusted R^2) was 0,226 which means that only 22,6% of ROA in this study could be explained by the variables of good corporate governance, while 77,4% of other ROA could be explained by other variables.

Table 5: The Result of the Test on Determination Coefficience

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson

1	.591[a]	.249	.226	8.16343	2.092

The Test on Partial Significance (T Statistical Test)

Regression linearity in this study was acquired as follow:

ROA = 14.134 + 184.480QGCG + e

The result of the linearity showed that positive coefficience was acquired on the variable of good corporate governance quality. If the test on Goodness of Fit had been implemented, the result of t score and its significant level could be used to test hypothesis test as follow: based on the result of calculation using ROA, it obtained t score as much as 1,425 with the probability score of 0,016 which showed the lower score than 0,05. Therefore, it can be concluded that the hypothesis which stated that "the quality of good corporate governance has positive siginficant effect on ROA" **was accepted.**

Table 6: The Result of the Test on t Statistic

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	14.134	14.358		.984	.331
	KGCG	184.480	129.426	.354	1.425	.015

Discussion

Corporate governance is a fundamental factor to improve company performance sustainably (Davies. A., 1999). It can be measured by one of which is by its financial performance. It becomes something important because it becomes a benchmark for investors in thier investment decision in a company (Kasmir, 2010). Return on Asset (ROA) is one of measures of company's financial performance which was obtained from the ration between Net Income after Tax and assets generally showed the size of assets' productivity in giving return on stock investment (Indriastuti, 2012). ROA was used to measure the effectiveness of company in producing profit by ultilizing assets they have. The better the quality of good corporate governance which has been implemented in a company, the better its financial performance.

This finding is in line with the study which was conducted by (Artini & Puspaningsih, 2011) the ownership structure had a significant positive impact on corporate value. (Rossi and Panggabean, 2012) indicates that there is a significant positive relationship between corporate governance with ROE (operational performance). (Veno, 2015) said that corporate governance (The size of the council of directors and audit committee) have a significant positive effect to the corporate performance. (Tisna and Agustami, 2016) shows that good corporate governance and company size partially and simultaneously influence the company's financial performance. (Setiawan, 2016) show that corporate governance (institutional ownership) has a significant effect on the company's financial performance. (Saputra, 2010) indicate that managerial ownership, have a significant and positive effect on firm value.

This finding is different with (Farida, et al, 2010) saids that relationship between corporate governance implementations (consist of the amount of commissioner board, existence of audit committee, board of independent commissioner, managerial ownership and institutional ownership) toward financial performance was mediated by earnings management of banking industries in Indonesia had not significant. (Saputra, 2010) indicate that family ownership, institution ownership and foreign ownership was not significant effect on firm value. (Rossi and Panggabean, 2012) indicates that there is no significant relationship between corporate governance with Tobin’s Q (market performance). (Juniarti, 2013) show that GCG do not prove significantly to predict the probability of companies experiencing financial difficulties. (Nizamullah, 2014) showed that the implementation of GCG as measured by a composite score of PBI 8/4 / PBI / 2006 (Bank Indonesia, 2006) a significant and negative impact on financial performance in the national banking companies go public in Indonesia Stock Exchange as measured by Return on Assets (ROA). (Setiawan, 2016) show that corporate governance (composition of independent board of commissioners, number of board of directors) does not have a significant effect on the company's financial performance. (Kurniawan, 2018) showed that GCG do not influence to company value.

GCG implementation has an effect on the company's financial performance in the "Indonesia Trusted Company" category. Companies that consistently implement GCG will have improved financial performance. GCG composite rating values measured based on Bank Indonesia Regulation No.8 /4/PBI/2006 (Bank Indonesia, 2006) have an effect on financial performance as measured by ROA and have a positive effect. This shows an indication that the implementation of GCG is very good and produces a level of financial performance as measured by higher ROA.

Conclusion

Based on the data analysis using simple linear regression as explained before, it obtained that the model developed in this study is fit and successfully appears as a good model. Followings are discussion about the correlation among variables hypothesized in this study. The variable of good corporate governance quality has positive and siginificant effect either simultaneously or partially on ROA, and has an ability in affecting ROA variable as much as 22,6% while the rest 77,4% was explained by other variables. The limitations in this study can be stated that: (1) difficult in finding company’s financial report which is inckuded into CGPI grading and can get reward as Most Trusted Companies of Indonesia 2011 which is comprehensive because not all companies disclose their annual report in their website; (2) lack of ability of variable of good corporate governance quality in explaining ROA variable, which only reached 22,6%.

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