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Analysis of The Good Corporate Governance Effect on Profitability in Registered Manufacturing Companies in Indonesia Stock Exchange

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ABSTRACT

This study aimed to find out the effect of Good Corporate Governance toward profitability of listed manufacturer companies in Indonesian stock exchange in 2012-2016 periods. The proxies of Good corporate governance are board of commissioners, board of directors, and audit committee. Moreover, the profitability is measured by Return On Equity (ROE). Population in this study were registered manufacturer companies in Indonesian stock exchange in 2012-2016 periods. The sampling technique is purposive sampling method. Based on this method, it is obtained 29 companies. The type of data is secondary data. The data processing uses SPSS (Statistical Package for Social Science) v.20. The data analysis technique used multiple linear regressions. The result of this study showed that partially, the Board of Commissioners and the Audit Committee have no significant effect on profitability while the Board of Directors has a significant influence on profitability. Simultaneously the Board of Commissioners, the Board of Directors, and the Audit Committee had a significant influence on profitability.

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INTRODUCTION

Today's growth and competition in the business world forces every company to determine the right strategies in managing the company. The ability of the company in terms of obtaining profits becomes a very important thing, these benefits are a picture for the company in maintaining a business in a sustainable manner (sustainability) which means that the company can survive in the global market. Companies that can disclose more information will give a positive signal to the market so that market participants are willing to invest in the company's shares. The more demand for company shares, the higher the value of the company. Thus, the company's performance can be maintained in the long run (Hamdani, 2016:127).

A manufacturing company is one company that has good prospects and promises for the future so that it can be an attraction for investors to invest their capital. However, the current conditions triggered intense competition between manufacturing companies. This competition is reflected in efforts to improve company performance. In other words, competing to produce high quality companies and attract investors to invest in the company. One of the company's efforts to improve the quality of the company is by implementing good corporate governance.

GCG is an old concept that is again popular because of social developments and the progress of business practices. In America GCG appeared around the 1970s. This term arose when the disclosure of fraud scandals involving large companies such as: Enron, Wordcom, Tyco, London and Commonwealth, Poly Peck, Maxwel, and other large companies. GCG in the Asian region began to be discussed around the end of the 1990s, after the economic crisis that hit countries in the Asian region. While GCG in Indonesia began in mid-1997, it peaked during the economic crisis. It was alleged that the economic crisis in Indonesia occurred as a result of weak GCG implementation and underlying ethics. The practices of GCG violations are carried out by large companies in Indonesia such as: Kimia Farma, Kereta Api, Lippo Bank, and PLN. This factt signifies the ineffectiveness of GCG implementation in Indonesia. Along with the development of GCG has become an interesting issue in the ASEAN region since 2009, because at that time the Ministers of Finance of the Association of South East Asian Nations (ASEAN) agreed on an implementation plan to promote the development of an integrated capital market. To meet the demands of business, today many companies are competing to implement GCG. But it is only limited to regulatory demands, while in the operational aspects GCG principles have not been fully integrated. The importance of GCG enforcement efforts is a reflection of the seriousness of the board in giving a commitment to the achievement of the stated company goals (Hamdani, 2016:7).

Corporate Governance or Corporate Governance is a system designed to direct corporate management professionally based on GCG principles which are expected to reduce agency conflicts that arise between majority shareholders and management (minority shareholders) within a company. GCG is managed by organs within the company (Hamdani, 2016:79).

In addition, profitability is one ratio to measure profit and the success of a company's operations. Profit (or possibly loss) affects the ability of a company to obtain funding or equity. In addition, it also affects the company's liquidity position and the company's ability to develop. Therefore, both creditors and investors are very interested in evaluating a company's ability to earn profits or profitability. ROE as one of the profitability ratios is a very important indicator for investors. ROE is needed by investors to measure a company's ability to generate profits based on certain capital. This ratio is a measure of profitability from the perspective of the shareholders (Hamdani, 2016:135).

Meanwhile, the objectives to be achieved in this study include knowing the effect of board size on company profitability, the influence of board size on company profitability, the influence of audit committee size on company profitability, and the influence of the size of the board of commissioners, board of directors, audit committee on company profitability.

LITERATURE REVIEW

Agency Theory

Regarding to agency theory, agency relations is a contract between a manager (agent) and an investor (principal). A conflict of interest between the owner and agent occurs because the possibility of an agent does not always act in accordance with the interests of the principal, thus triggering agency

costs. The assumption of this theory states that the separation between ownership and management of a company can cause agency problem. The owner of the company will give authority to the manager (manager) to take care of the course of the company such as managing funds and making decisions of other companies for and on behalf of the owner of the company. The manager does not act in the interests of the owner, because of conflict of interest. In the theory of agency share ownership is wholly owned by shareholders and managers (agents) who are asked to maximize the returns of shareholders (Hamdani, 2016:30).

Further, the GCG mechanism serves as a tool to discipline managers to comply with agreed contracts, so that the existence of a good governance mechanism based on corporate governance principles is expected to reduce agency problems in the company which can then improve company performance (Hamdani, 2016:32).

Good Corporate Governance

The term corporate governance was first introduced by the Cadburry Committee, England in 1922 which used the term in its report which came to be known as the Cadbury Report (Agoes, 2014:101). Meanwhile, corporate governance according to Cadburry Committee is a system that directs and controls the company. The Indonesian Institute for Corporate Governance (ILCG) defines GCG as a process and structure applied in running a company, with the main goal of increasing shareholder value in the long term while still taking into account the interests of other bettors.

According to Hamdani (2016:22) Corporate governance is an institutional arrangement and relationship that directs and controls the company. In the context of regulation and control among various interested parties, GCG is needed. Thus, it can be said that corporate governance is a system designed to direct the management of the company professionally based on the principles of transparency, accountability, responsibility, independence, fairness and equality.

1. General Meeting of Shareholders
   According to Hamdani (2016:80-81) The General Meeting of Shareholders as a corporate organ is a forum for shareholders to make important decisions relating to capital invested in the company, taking into account the provisions of the articles of association and legislation.

2. Board of Commissioners
   According to Hamdani (2016:82) The Board of Commissioners as a corporate organ has the duty and responsibility collectively to supervise and provide advice to the Board of Directors and ensure that the company implements GCG. However, the Board of Commissioners may not participate in making operational decisions. The position of each member of the Board of Commissioners including the President Commissioner is equal.

3. Board of Directors
   According to Hamdani (2016:86) The Board of Directors as a corporate organ has a collegial duty and responsibility in managing the company. Each member of the Board of Directors can carry out duties and make decisions in accordance with the division of duties and authority. The position of each member of the Board of Directors including the President Director is equivalent.

4. Audit Committee
   According to Hamdani (2016:92) The Audit Committee has the task of assisting the Board of Commissioners to ensure that financial statements are presented fairly in accordance with generally accepted accounting principles, internal and external control structures carried out in accordance with applicable audit standards and follow-up to audit findings carried out by management. The number of members of the Audit Committee must be adjusted to the complexity of the company while taking into account the effectiveness in decision making.

Profitability

Profitability is one to measure profit and the success of a company's operations in a certain period of time or in other words refers to long-term profit, not quarterly profit or current year (Robert dan Vijay, 2012:60). Profit (or possibly loss) affects the ability of a company to obtain funding or equity. In aBCition, it also affects the company's liquidity position and the company's ability to develop. Therefore, both creditors and investors are

very interested in evaluating a company's ability to earn profits or profitability (Haryono, 2011:500).

In this study profitability will be measured using Return on Equity (ROE). ROE as one of the profitability ratios is a very important indicator for investors, because in ROE shown the higher ROE shows the more efficient the company uses its own capital to generate investor profits planted in the company. ROE is needed by investors to measure a company's ability to generate profits based on certain capital. This ratio is a measure of profitability from the perspective of the shareholders. The ROE ratio can be calculated as follows:

$$ROE = \frac{Net\ profit\ after\ tax}{Total\ Equity}$$

METHOD

Research Design

This type of research is quantitative research. Quantitative research is a data processing technique in the form of numbers, or qualitative data that is ranked (scoring). This study uses secondary data obtained from financial reports on manufacturing companies that have been listed on the Stock Exchange in the period 2012-2016 through the website www.idx.co.id. The population in this study amounted to 128 companies which are data of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2012-2016. The sample in this study amounted to 29 companies which are the latest data on financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2012-2016. To determine the sample in the study, the sample technique used is Purposive Sampling, with the aim of getting samples that fit the specified criteria.

Method of Data Analysis

According to Ghozali (2016) Data analysis method is a method used to process research results to obtain a conclusion. The method used in this study is as follows:

Test Descriptive Statistics

Descriptive statistics provide a description or description of a data that is seen from the mean, standard deviation, maximum, minimum, sum, range, kurtosis and skewness. Descriptive statistics are intended to provide an overview of the distribution and behavior of the sample data.

Test of Classical Assumptions

Normality Test.

The normality test aims to test whether in the regression model, the disturbing or residual variables have a normal distribution. The test in this study used the Kolmogorov-Smirnov statistical test. This statistical test is useful for avoiding misleading results using graphics alone.

Multicolonearity Test.

The multicolonearity test aims to test whether the model is found to have a correlation between independent variables. A good regression model should not occur between the independent variables. To detect the presence or absence of multicolonearity in the regression model are as follows:

1) If the tolerance value is> 0.10 and the VIF value is <10, then there is no multicolonearity between the independent variables in the regression model.
2) If the tolerance value is <0.10 and VIF value is> 10, then there is multicolonearity between variables

Autocorrellation Test.

The autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding errors in period t and the disturbing errors in the t-1 period (before). A good regression model is a regression that is free from autocorrelation. To test the presence or absence of this autocorrelation can be done using Watson Statistics, namely by looking at the Durbin Watson correlation coefficient.

Heteroscedasticity Test.

Heteroscedasticity test aims to test whether in the regression model variance from residual inequality occurs one observation to another observation. If the residual variance from one observation to another observation remains, it is called Homoscedasticity and if it is different it is called Heteroscedasticity. A good regression model is Homoscedasticity or Heteroscedasticity does not occu.

Analysis of Multiple Linear Regression

Multiple regression analysis is used to predict the state (rise and fall) of the dependent variable (criterion), if two or more independent variables as predictor factors are manipulated (increase in value decreases). So a multiple regression analysis will be carried out if the number of independent variables is at least 2 (Sugiyono, 2016:275).
The multiple regression equation for testing the hypothesis in this study is:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Test the Hypothesis

Determination Coefficient Test (R^2).

The coefficient of determination (R2) to measure how far the ability of the model in explaining the variation of the dependent variable. The coefficient of determination is between zero and one. A value close to one means that the independent variables provide almost all the information needed to predict variations in the dependent variable.

Simultaneous Test (F Test)

Simultaneous tests are used to determine whether the independent variables simultaneously or simultaneously affect the dependent variable. The basis of decision making is by comparing F_{count} with Ft_{able}. This test is carried out with the following conditions: If $F_{count} \leq F_{table}$, then H_0 is accepted. If $F_{count} > F_{table}$, then H_0 is rejected (H_1) is accepted.

This test can also be done through a significant observation of f at level a in this study using a level of 5%. This analysis is based on a comparison between significant values f with a significant value of 0.05 where the conditions are: If significant f <0.05 then H_0 is rejected. If significant f> 0.05 then H_0 is accepted

Partial (t test)

The t statistical test is used to determine the effect of each independent variable on the dependent variable. Basic decision making by comparing tcount to t table. This test is carried out with the following conditions: If $-t_{table} \leq t_{count} \leq t_{table}$ then H_0 is accepted. If $t_{counts} < -t_{table}$ or $t_{count} > t_{table}$ then H_0 is rejected.

This test can also be done through a significant observation off at level in this study using a level of 5%. This analysis is based on a comparison between significant values f with a significant value of 0.05 where the conditions are: If it is significant t <0.05 then H_0 is rejected. If significant t> 0.05 then H_0 is accepted.

RESULT AND DISCUSSION

Descriptive Analysis Results

Table 1. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
GMS	145	2.000	13.000	4.38621	1.867805
BC	145	2.000	11.000	5.41379	2.465276
AC	145	3.000	5.000	3.12414	0.422998
ROE	145	-0.248	0.423	0.10788	0.104768
Valid N (listwise)	145				

General Meeting of Shareholders (GMS)

In the independent variable of the Board of Commissioners (GMS) it can be seen that the lowest value is 2,000 and the highest value is 13,000. The Board of Commissioners (GMS) has an average value of 4.38621 and a standard deviation of 1.867805.

Board of Commissioners (BC)

On the independent variable, the Board of Directors (BC) can find the lowest value of 2,000 and the highest value of 11,000. The Board of Directors (BC) has an average value of 5.41379 and a standard deviation of 2.465276.

Audit Committee (AC)

On the independent variable the Audit Committee (AC) can find the lowest value of 3,000 and the highest value of 5,000. The Audit

Committee (AC) has an average value of 3.12414 and a standard deviation of 0.422998.

Return on Equity (ROE)

In the Dependent variable Return On Equity (ROE) can be seen the lowest value of -0.0248 and the highest value of 0.423. Return On Equity (ROE) has an average value of 0.10788 and a standard deviation of 0.104768.

Classic assumption test

Normality Test Results

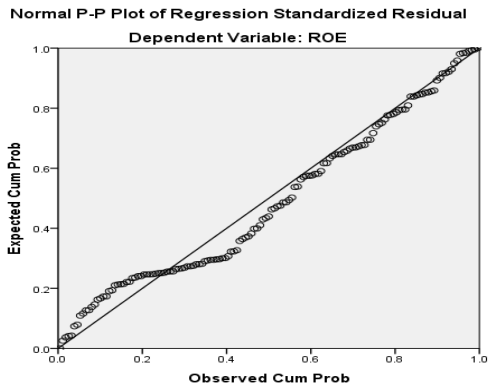
The normality test in this study used Kolmogorov-Smirnov using a significance level of 5%. The following are the results of the normality test:

Table 2. Normality Test Results

	Unstandardized Residual
N	145
Kolmogorov-Smirnov Z	1.233
Asymp. Sig. (2-tailed)	0.096

Based on the results of these tests the magnitude of the Kolmogorov-Smirnov value for the Unstandardized Residual is 1,233 with a significance probability of 0.096 being above α = 0.05. This means the research data is normally distributed.

Figure 1. Plot Graph



By looking at a Normal probability plot graph, it can be seen that the distribution points approach the normal line.

Multicolonearity Test Results

In multicollinearity tests can be seen from the value of Tolerance and Variance Inflation Factor (VIF). The following are the results of the multicolonerity test:

Table 3. Multicolonity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	GMS	0.705	1.419
	BC	0.677	1.477
	KA	0.933	1.072

The multicollinearity test results show that all variables have a tolerance value above 0.1, which means there is no correlation between independent variables whose value is more than 95%. The results of the calculation of variance Inflation Factor (VIF) indicate that the value of all variables is below 10. Thus it can be concluded that the regression model of this study does not occur multicollinearity and this regression model is feasible to use.

Autocorrelation Test Results

Autocorrelation test can be known by doing the Durbin-Watson (DW) test. The following are the autocorrelation test results:

Table 4. Autocorrelation test results

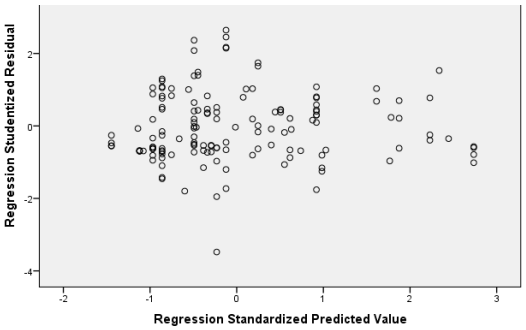
Model Summary[b]			
Model	Change Statistics		Durbin-Watson
	df2	Sig. F Change	
1	141[a]	0.002	0.905

Autocorrelation test results indicate that the DW value is 0.905. Based on the decision of the testing DW test obtained a statistical DW value between -2 to 2, it is indicated that there is no autocorrelation. Thus it can be concluded that there is no autocorrelation and the regression model is feasible to use.

Heteroscedasticity Test Results

Heteroscedasticity testing in this study is done by looking at the following scatterplot graph:

Figure 2. Scatterplot Graph



and do not form a clear pattern. This means that heteroscedasticity does not occur, so the regression model is feasible because it meets the assumption of heteroscedasticity.

By looking at the graph of the scatterplot above, it can be seen that the points are scattered randomly

Analysis of Multiple Linear Regression Results

Based on the test it can be seen the test results of multiple linear regression analysis:

Table 5. Results of Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-0.044	0.063	
	GMS	-0.004	0.005	-0.064
	BC	0.012	0.004	0.290
	KA	0.032	0.020	0.131

The equation compiled from the results of the data above is:

Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + e

ROE = -0,044-0,004 GMS + 0,012 BC + 0,032 AC + e

From the regression equation above, it can be concluded that:

1. The constant value of -0.044 means that if all the independent variables are considered constant, the value of the company's profitability will be -0.044.
2. The Board of Commissioners (GMS) regression coefficient value of -0.004 which is negative, means that if there is a 1% increase in the Board of Commissioners, the company's profitability (ROE) will decrease or decrease 0.004%.
3. The Board of Directors (BC) regression coefficient value of 0.012 is positive, meaning that if there is a 1% increase in the Board of Directors, the company's profitability (ROE) will increase by 0.012%.
4. The regression coefficient value of the Audit Committee (AC) of 0.032 is positive, meaning that if there is a 1% increase in the Audit Committee, the company's profitability (ROE) will increase by 0.032%.

Hypothesis Test Results

Determination Coefficient (R^2).

The following are the test results of the coefficient of determination (R2):

Table 6. Results of the coefficient of determination (R2)

Model	R	R Square	Adjusted R Square	Std. Eror of the Estimate
1	0.319[a]	0.102	0.083	0.10034

Based on the results of the above tests, showing the strength of the relationship between the dependent variable and the independent variable determined by R2 can be seen in the table above in the R square column which is equal to 0.102 or 10.2%. This means the strength of the relationship between the dependent variable and the independent variable in the regression model is 10.2% while the remaining 89.8% is explained by other variables.

Simultaneous Significance Test Results (F Test).

In this study the significance level used is 5% (a = 0.05) with df_1 = k-1 and df_2 = n-k so that df1 = 2 and df2 = 142 then the value of Ftable = 3.06 is obtained.

Table 7. F Test Results

Model		F	Sig.
1	Regression	5.335	0.002[b]
	Residual		
	Total		

Based on the results of the calculation of the calculated F test has a value of 5.335 and a

significance value of 0.002 which means it is smaller than the significance level of 0.05 or F count (5.335)> Ftable (3.06) then H0 is rejected. Thus it can be concluded that the independent variable which includes the Board of Commissioners (X1), the Board of Directors (X2) and the Audit Committee (X3) jointly or simultaneously has a significant effect on Profitability (Y).

Individual Significance Test (Uji t)

In this study the significance level used was 5% (ta / 2 = 0.025) with df = n-k so that df = 142 then obtained the value ttable = 1.97681.

Table 8. Test Results t

Model		t	Sig.
1	(Constant)	-0.703	0.483
	GMS	-0.678	0.499
	BC	2.993	0.003
	AC	1.584	0.115

Based on the results of t-test calculations can be concluded as follows:

1. The Board of Commissioners has a value of t count of -0,678 and a significance value of 0,499. Significant value 0,499> 0,05 or tcount (-0,678) <ttabel (1,97681) so that hypothesis H0 is accepted. Then it can be concluded that the Board of Commissioners variable does not significantly influence Profitability.
2. The Board of Directors has a value of t count of 2.993 and a significance value of 0.003. Significant value 0.003 <0.05 or tcount (2.993)> t table (1.97681) so that the hypothesis H0 is rejected. Then it can be concluded that the Board of Directors variables significantly influence Profitability.
3. The Audit Committee has a value of t count of 1.584 and a significance value of 0.115. Significant value 0.115> 0.05 or tcount (1.584) <ttable (1.97681) so that the hypothesis H0 is accepted. Then it can be concluded that the Audit Committee variable does not significantly influence Profitability.

Effect of the Board of Commissioners on Profitability

Based on the hypothesis test the board of commissioners does not significantly influence profitability. This is because the greater the number of board of commissioners is related to two things, namely the increasing problems in terms of communication and coordination and with the increasing number of boards available, supervision will also be increasingly difficult. With the weak supervision carried out by the board of commissioners, the purpose of the establishment of the board of commissioners did not work and there was no increase in performance. Therefore, the existence of the board of commissioners does not increase the effectiveness of supervision and also does not improve the company's performance as measured by the company's profitability.

The results of this study contradict the research conducted by Sulistyowati (2017) that the Board of Commissioners had a significant effect. While this research is in line with the research conducted by Wicaksono (2014) which states that the board of commissioners has no effect on profitability (ROE).

1)

2) **Effect of the Board of Directors on Profitability**

Based on the hypothesis test the board of directors has a significant effect on profitability. This is because from the research sample data, the number of boards of directors in the sample companies is in accordance with the applicable regulations, which consist of 1 member, but for companies related to collecting/managing funds the minimum number of board of directors is 2 members. The board of directors as the leader of a company is a determining factor for the formation of policies that the company will take. In addition, the board of directors determines what strategies the company will take in the short and long term for the company's sustainability so that it will be able to improve company performance as measured by the company's profitability. The results of this study are in line with the research conducted by Nurul, et al (2016) which states that the board of directors has an effect on profitability (ROE).

3)

4) **Effect of the Audit Committee on Profitability**

Based on the audit committee hypothesis test does not significantly influence profitability. This is because the audit committee is a new thing for the company so that in its performance monitoring system it has not been optimal, as a result the formation of this new audit committee is still experiencing problems. Thus some number of audit committees will not affect company performance as measured by company profitability. The greater the

size of the audit committee would be better for the company. This shows more optimal supervision. The results of this study contradict the research conducted by Aprianingsih dan Yushita (2016) that the Audit Committee had a significant effect. While this research is in line with the research conducted by Agung and Nila (2017) and Wicaksono (2014) which states that audit committees have no effect on profitability (ROE).

5) Effect of the Board of Commissioners, Board of Directors and Audit Committee on Profitability

Based on the hypothesis test using simultaneous significance tests that the Board of Commissioners, the Board of Directors and the Audit Committee simultaneously have a significant effect on profitability. This is because with the implementation of GCG, the decision-making process in the management of the company will produce optimal decisions so that it can increase efficiency and the achievement of established corporate goals. GCG is a system that directs and controls the company, by implementing GCG within the company it is expected that it will have a positive impact on the company.

The results of this study are also in accordance with the theory according to Hamdani (2016:22) that the application of GCG encourages the creation of healthy competition and a conducive business climate. Therefore, the implementation of GCG by companies in Indonesia is very important to support sustainable economic growth and stability. The results of this study are in line with the research conducted by Tjondro and R. Wilopo (2011) and Lidia, et al (2016) which states that GCG has an effect on profitability (ROE).

CONCLUSION

Based on the findings of this research some conclusions are summed up. First, the board of commissioners variable does not significantly influence the company's profitability. Secondly, variables of the board of directors significantly influence the profitability of the company. Third, the variable audit committee does not significantly influence the profitability of the company. Finally, the variables of the board of commissioners, board of directors and audit committee simultaneously have a significant effect on the profitability of the company.

Suggestion

Based on the findings and conclusion of this research, the companies are suggested to maintain and improve performance as measured by the company's profitability by implementing good and right GCG. In this case, the company must select the Board of Commissioners, the Board of Directors and the Audit Committee selectively because this position greatly determines the success and improvement of the company's profitability. Thus, both creditors and investors are very interested in evaluating the company's ability to earn profits or profitability so as to produce high quality companies and attract investors to invest in the company. For the next researchers are suggested to conduct similar study but with a different sector and with a larger number of samples so as to be able to strengthen the results of previous studies and add other variables that can affect the profitability of the company.

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