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# Implementing Good Corporate Governance to Improve Company Performance

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**Abstract**
The purpose of this study is to determine the effect of the implementation of corporate governance mechanisms, namely independent variables consisting of the board of commissioners, managerial ownership, foreign ownership and audit quality. The dependent variable is company performance a control variable, which is company size. The data used in this study are secondary data involving 103 companies listed on the Indonesia Stock Exchange for the period 2015-2018. The data used in this study were analyzed using SPSS Version 25. The results of this study show that: the board of commissioners, Ownership's managerial, foreign ownership, and quality audit only variables that affect the performance ofthe company early while the variable size of the company can not be a variable control of the performance of the company.
**Keywords:** Corporate Governance, Board of Commissioners, Managerial Ownership, Foreign Ownership, Audit Quality, Company Size, and Company Performance

## Introduction

Company performance is a measure of the success of the implementation of financial functions within a company. Good performance must be supported by the application of good corporate governance mechanisms as well. The economic crisis that hit Asia in 1997 was identified as related to the poor performance of companies and the weak competitiveness of companies in these countries, as well as weak protection of investors (Setiawan, et al., 2005 in Pratiwi, 2010). Conditions that year still left an impact on the financial scandals of large companies in 2008 such as Lechman Brothers and in 2012 such as JP Morgan. The case makes the company management obliged to act professionally in managing the company and the decision making must be based on the interests of its shareholders, but this is often done by management to take actions that can be selfish by ignoring the interests of other parties in the company. Therefore, protection is needed for various interested parties, namely by implementing Good Corporate Governance in the company.

Shleifer and Vishny (1997) state that corporate governance is considered as a mechanism that can protect minorities from expropiation by managers and controlling shareholders by emphasizing legal mechanisms. If a company has implemented good corporate governance, it is expected to have applied the principles of corporate governance such as transparency and accountability. A success from the application of GCG principles is that the company has a good governance, so that these principles can be shared, implemented and controlled.

Corporate governance is a concept proposed for the improvement of company performance through supervision or monitoring of management performance and ensuring management accountability to stakeholders by basing on a regulatory framework (Marihot,2007).

Corporate governance refers to the methods of organization that are regulated, administered, directed or controlled, and the objectives for which it is regulated. Various participants, who have an interest in the organization, determine the direction and performance of the organization. Major participants are shareholders, management and the board of directors (Dellaportas, 2005).

According to the Minister of Finance of the Republic of Indonesia based on the decision No.740/kmko/1989 dated June 30, 1989, stated that the performance is the company's achievements in a period that reflects the level of health of the company. Company performance is a measure of the success of managers in running a company. Therefore, both public and private companies must view corporate governance not only as mere accessories, but also as an increase in company performance and value (Darmawati, 2004).

Measurement of company performance in this study using Tobin's Q ratio Tobin's Q is a useful indicator to measure the performance of companies that judging by the way in managing the asset management company (Sudiyanto, 2010) in the measurement of company performance using Tobin's Q.

This research tries to develop previous studies which have not been consistent, by replicating research conducted by Darmawati, et al. (2004), by adding GCG mechanism consisting of: number of boards commissioner, audit quality, ownership managerial and foreign, its influence on company performance, which is listed on the stock exchange Indonesia.

## Theory Basis and the Formulation of Hypotheses

### Agency Theory

Agency theory is a theory used in this study. Agency theory explains the relationship between two people, namely agents (managers) and principals (company owners). Agency conflicts can occur because of the compilation of company owners and management. According to Jensen and Meckling (1976) potential conflicts of interest can occur between related parties such as between shareholders and company managers (between equity costs) or between shareholders and creditors (debt agency fees). To minimize information asymmetry between the two parties, a Good Corporate Governance concept is needed. According to Jensen and Meckling (1976) states that the theory is a statement that proves information asymmetry between managers as agents and owners (shareholders) as the principal, then agency theory becomes the foundation that reveals theories about the company that can be used as a result of corporate governance. good (Haat, et al. 2008). The relationship of agency theory with this research is the result of research on good companies will support because of good governance practices. This is done by providing better protection to its shareholders (Haat, et al. 2008).

**Board of Commissioners**

According to National Governance Policy Committee (KNKG), 2006, distinguishes the board of commissioners into two categories. The first is an independent board of commissioners and the second is a non-independent board of commissioners. An independent board of commissioners is a commissioner that is not from an affiliated party with the company. While non-independent commissioners are commissioners who have an affiliation with the company. Affiliated is a party that has a business and family relationship with controlling shareholders, members of the board of directors and other commissioners, as well as with the company itself.

The optimal size of the board of commissioners can improve company performance. this is due to effective communication, coordination of tasks and independence. the existence of an audit committee will increase the quality of financial reporting and reduce manipulation, so that the accounting process will produce quality financial reports. but the number of audit committees that are too large will also have an adverse effect on the company, especially those related to improving company performance. companies with large audit committees will not work effectively and focus as they should. this is due to the large number of tasks divided among the many members of the audit committee, so that it will affect the decline in company performance.

**H1: Board of commissioners influences company performance.**

**Managerial Ownership**

Based on agency theory, differences in interests between managers and shareholders cause conflicts that are commonly called agency conflicts. This potential conflict of interest causes the importance of a mechanism that is applied that is useful to protect the interests of shareholders (Yulius, 2013). One way to reduce conflicts between principals and agents can be done by increasing the managerial ownership of a company.

Managerial ownership is the level of party ownership management that actively participates in decision making (Haruman in Yulianto, 2011). The greater the ownership of management, then management tend to be more focused on shareholders, because managerial ownership increases then managers will be motivated to improve performance and have an impact on improving company performance so in this case it will have a good impact on the company as well as fulfilling the interests of shareholders who are none other than himself.

Research conducted by Putra (2013) shows that result managerial ownership has a significant positive effect on performance company. This result supports agreement with ownership managerial can encourage managers to act in accordance with interests shareholders and can improve company performance.

**H2: Managerial Ownership influences company performance.**

**Foreign Ownership**

Foreign shareholding is the number of shares of a company owned by a foreign party. Companies that are partly owned by foreigners are usually inclined to face information asymmetry problems due to geographical and language barriers. Therefore companies with large foreign ownership will be compelled to report or disclose their information voluntarily and broadly. The disclosure of information can reduce agency costs that occur in the company (Rahmadiyani, 2012).

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Based on agency theory by Jensen and Meckling (1976), that relationship is not both between managers and shareholders can lead to agency conflicts. Shareholding foreign companies can reduce agency conflicts that occur with the manager because, foreign parties who have high shares in a company will certainly appoint it to avoid serving on the board of commissioners or board of directors there are agency conflicts between managers and shareholders. Julius (2013) and Nur'aeni (2010) states that foreign ownership has a positive and significant influence on company performance. This is based on the existence of a fairly large proportion of foreign ownership in a company thus makes the foreign capital owner (PMA) carry out the monitoring process effectively for the company. The same thing was expressed by Majumdar (1999) and Kumar (2004) that foreign ownership has a positive and significant effect on performance company. The number of foreign parties who invest their shares in the company will improve the performance of companies whose shares are invested, this happens because of parties foreign investors who invest their capital have a system of supervision, management, technology and innovation, expertise and good enough marketing that can bring a positive influence on company.

**H3: Foreign ownership affects company performance**

### Audit Quality

The auditor's report is important in an audit because the report informs the user of information about what the auditor is doing and the conclusions he obtained, then the auditor has the responsibility to assess whether there is great doubt about the ability of the business unit in maintaining the survival of the company. so the audit report affects the performance of a company.

Audit quality (audit quality) is defined as a joint probability of an auditor's ability to find a violation in the client's financial reporting and report the violation (DeAngelo, 1981). According to Ching (2015) in his research which concluded that high audit quality can contribute to the company's financial performance because Public Accounting Firm with a large size is always seen to have higher audit quality so as to increase investor confidence.

**H4: Audit quality has a significant effect on company performance.**

### Company Size

The size of the company that is reflected from the total assets owned by the company can provide economic benefits for the company and generate cash inflows for the company from operating these assets (Immanuella, 2014). Large companies basically have greater financial strength in supporting performance but on the other hand companies are faced with greater agency problems.

**H5: Firm size has a significant effect on company performance.**

## Method of Research

### Population and Sample

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2018. The sample used in this study is 103 annual reports of the company. The sampling technique uses purposive sampling method, namely the technique of determining samples with certain criteria.

**Research Model**

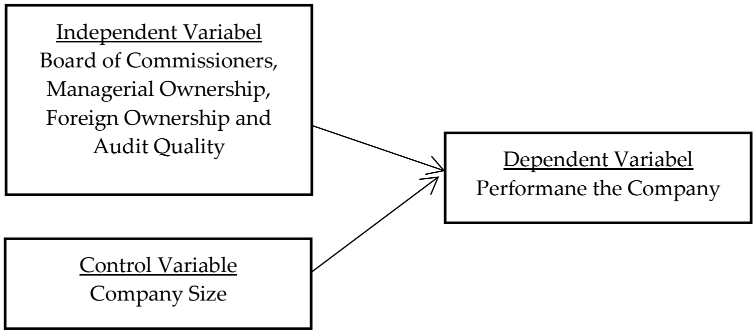


**Fig 1. Research Model**

The data analysis method used in this study is a quantitative data analysis method that is processed by the Statistical Package For Social Science (SPSS) computer program 25. Hypothesis testing in this study uses multiple linear regression analysis. The model of the multiple linear regression equation constructed in this study is as follows.

$$\mathbf{Y = \alpha + \beta 1.DEKOM + \beta 2.INSIDER + \beta 3.FOREIGN + \beta 4.AUDIT + \beta 5.UP + \varepsilon} \quad [1]$$

Where:
Y = Company Performance
A = Constant
B1, β2, β3 = Regression Coefficient
DEKOM = Board of Commissioners
INSIDER = Managerial Ownership
FOREIGN = Foreign Ownership
AUDIT = Audit Quality
UP = Company Size
e = Error Rate (error)

**Variable Measurement**

**Board of Commissioners Composition**

$$\frac{\sum \text{Independent Commisioner}}{\sum \text{Company Commisioner}} \times 100\% \quad [2]$$

**Managerial ownership**

$$\frac{\%\text{Share owned by management}}{\text{number of shares outsanding}} \quad [3]$$

**Foreign Ownership**

$$\frac{\text{total foreign share ownership}}{\text{number of shares outstanding}} \times 100\% \quad [4]$$

**Audit Quality**

Audit quality is expressed as a dummy variable, i.e. if a company uses big four audit services equal to 1 and 0 if it does not use big four audit services.

**Company Size**

The size of the company can be measured by the total assets owned by the company. Determinants of company size are based on total assets.

**Performance the Company (Tobins'q)**

$$\frac{\text{stock market value} + \text{long} - \text{term debt}}{\text{Total asset}} \times 100\% \text{ [5]}$$

**Results and Discussion**

**Test for normality with skewness and kurtosis**

This test aims to test whether in the regression model dependent variable, independent variables or both are normally distributed or not. A good regression model is normal data or normal detecting. The normality test with skewness and kurtosis can be seen in Table.

TABLE 1.
DESCRIPTIVE STATISTICS

**Descriptive Statistics**

| | N | Skewness | | Kurtosis | |
|---|---|---|---|---|---|
| | Stat | Stat | S. Err | Stat | S. Err |
| DEKOM | 325 | 1,116 | .135 | .135 | .270 |
| INCIDER | 32 | -,947 | .414 | -.578 | .809 |
| FOREIGN | 325 | 1,203 | .135 | -.032 | .270 |
| AUDIT | 325 | .306 | .135 | -1,918 | .270 |
| UP | 324 | 1,130 | .135 | -.029 | .270 |
| TOBINS'Q | 325 | 2,374 | .135 | 7,322 | .270 |
| Valid N (listwise) | 32 | | | | |

TABLE 2.
DESCRIPTIVE STATISTICS

**Descriptive Statistics**

| | N | Min | Max | Mean | Std. Deviation |
|---|---|---|---|---|---|
| DEKOM | 325 | .25 | 1.00 | .5968 | 197789 |
| INCIDER | 32 | .76 | 1.57 | 1.2858 | .28086 |
| FOREIGN | 325 | .00 | .93 | 1956 | 29732 |
| AUDIT | 325 | .00 | 1.00 | .4246 | .49505 |
| UP | 324 | .00 | 12.41 | 3.4737 | 3.70471 |
| TOBINS'Q | 325 | .12 | 3.35 | .7168 | .48690 |
| Valid N (listwise) | 32 | | | | |

TABLE 1.
COEFFICIENT OF DETERMINATION ($R^2$)

**Summary Model**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .778 [a] | 605 | .489 | 2592 |

a. Predictors: (Constant), AGE, INCIDER, UP, AUDIT, FOREIGN, DEKOM,

The regression model obtained adjusted R $^{2\ \text{value}}$ of 0.592. This means that 59.2% of variation in Company Performance can be explained by the board of commissioners, managerial ownership, foreign ownership, debt financing, audit quality, company size and company age while the rest can be explained by factors other than the independent variable.

**Research Results and Discussion**

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | -069 | .482 | | -.144 | .887 |
| | DEKOM | 257 | .728 | 108 | .353 | .727 |
| | INCIDER | .410 | .195 | .319 | 2,103 | .046 |
| | FOREIGN | .029 | .430 | .010 | .067 | .947 |
| | AUDIT | .464 | .154 | 649 | 3,012 | .006 |
| | UP | .007 | .016 | .067 | .420 | 678 |

**The Effect of the Board of Commissioners on Company Performance**

The hypothesis test table above provides a sign value. DEKOM of 0.727 > 0 , 05 , meaning that DEKOM has no effect on TOBINS'Q. This shows that the number of members of the board of commissioners that is more less can enable companies to get higher performance. Through the role of the board of commissioners in carrying out the oversight function of the company's operations by the management, the total membership of the board of commissioners should be able to provide oversight of the results of the company's operational processes. So the first hypothesis ($H_1$) is rejected.

The board of commissioners has no effect on company performance, shows that big the small size of the board of commissioners does not have influence on company performance. Research this is consistent with research conducted by Kartikasari & Setiawan (2008) who discovered that the composition of the board of commissioners is not significantly influence the quality profit. Whereas this research contradicts research conducted by Dalton, et al. (1999) in Darmawati, et al. (2004) stated the existence positive relationship between board size with company performance. Whereas Eisenberg, et al. (1998) in Wardhani (2006) states that there is a negative relationship between board size with company performance.

The board of commissioners has no effect on company performance, this is possible because the board of commissioners can't coordinate, communication, and decision making in run better control functions for improve company performance. Theoretically that the role of the board of commissioners in a the company is more focused on the monitoring function from implementing the directors' policies. The role of the commissioner this is expected to minimize the problem agency arising between the board of directors with shareholders. Therefore the board of commissioners should be able to oversee the performance of the board of directors so the resulting performance is in accordance with the interests of shareholders.

**Effect of Managerial Ownership on Company Performance**

For INSIDER the above hypothesis gives a sign value of 0.046< 0,05 meaning INSIDER affects TOBINS'Q. Therefore the hypothesis ($H_2$) is accepted. Managerial ownership can help the unity of interests between shareholders and managers, the more the proportion of managerial ownership, the better the company's performance.

Tarigan (2004) states that managerial ownership is a situation where the manager owns the company's shares or in other words the manager as well as the company's shareholders. In financial statements, this situation is indicated by a large percentage manager's share ownership in the company. Because this matter is important information for users of financial statements then this information will be disclosed in the notes to the financial statements.

Based on the results of this study it is known that the variable Managerial ownership has an influence on company performance. This means that this research supports the research conducted by Ardiningsih and Ardiyani, 2008, Melinda and Sutejo, 2010 and Nur'aeni, 2010 which states that managerial ownership has influence on company performance.

**Effect of Foreign Ownership on Company Performance**

Based on testing the second hypothesis to get the results that the FOREIGN variable gives a sign value. 0.947>0,05 means that FOREIGN has no effect on TOBINS'Q. Then $H_3$ is rejected. These results make it clear that in the case that foreign owners do not carry out strict monitoring of management in running the company, or in other words foreign owners have not been able to implement good corporate governance like foreign companies in general, so this has an impact on company performance.

Foreign ownership has no effect on financial performance because foreign ownership is not the only ownership which drives a significant share price. Large or small amount foreign ownership owned by the company will not affect the company's performance. According to Pangaribuan (2017) in fact the field of foreign ownership compromise with management that discusses the benefits in terms of not personally in general. So that foreign ownership has no effect on financial performance. The results of this study support the research conducted by Pangaribuan (2017) and Atmaja (2016).

**The Effect of Audit Quality on Company Performance**

Variable audit quality has sig. 0,000 is smaller than the probability value of 0.05 or 0.006 <0.05, which means that audit quality significantly influences company performance. Based on a constant of 0.561 and has a positive value indicates the audit quality variable has a direct relationship with company performance. So $H_5$ accepted meaning of audit quality significantly affect the performance of the company.

Results of previous studies regarding audit quality on performance Companies include: First, Farouk and Hassan (2014) concluded that the quality of auditors measured using competence and independence the auditor has a significant influence on the company's financial performance.

**Effect of Company Size on Company Performance**

The hypothesis test table above provides a sign value. UP of 0.678 > 0 , 05 , meaning that UP has no effect on TOBINS'Q. These results are not in line with research conducted by (Tisna and Agustami, 2016) which states that company size has a positive effect on company performance. So the first hypothesis ($H_5$) is rejected. The condition is probably caused by the use of assets that are not optimal so that it is not able to improve performance. Large companies basically have greater financial strength in supporting performance, but on the other hand, large companies are also faced with greater agency problems because it is more difficult to monitor.

Research conducted by Fachrudin (2011) measures the company does not affect the company's performance. This shows that the size of the company is not a guarantee that the company will have good performance.

**Conclusions, Limitations and Suggestions**

Based on the results of data analysis and the discussion that has been put forward, some conclusions can be drawn as follows: The data used in this study are normally distributed, there is no multicollinearity. The test results show of all seven variables namely board of directors, managerial ownership, foreign ownership, and quality audit quality audit only variables that affect the performance of company early while the variable size of the company can’t be a variable control of the performance of the company.

This research provides several contributions, including: as input for companies and investors to consider the quality of the company in measuring managerial ownership, foreign ownership, audit quality, company size and the board of commissioners to improve company performance. add to the literature on research on company quality that is currently not much done and provide evidence that company quality and audit quality affect company performance.

This research has limitations, namely: this study took a sample of companies included in manufacturing companies on the Indonesian Stock Exchange with a observation year from 2015 to

2018, so the results of the study have not been able to provide broader generalization power to other insurance sectors.

Based on the limitations of the study as described above, the following are some suggested improvements for future researchers; for further research is expected to increase the area of coverage in order to give a sample of research results that give a generalization that is stronger and better. The next researcher is expected to test other variables that are relevant to the company's performance.

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