OPEN ACCESS
Vol. 7, No. 2, Oktober, 2019
Page. 44 – 96
DOI: https://doi.org/10.21107/jaffa.v7i2.6427

JOURNAL OF AUDITING, FINANCE, AND FORENSIC ACCOUNTING (JAFFA)
E-ISSN: 2461-0607 ISSN: 2339-2886
https://journal.trunojoyo.ac.id/jaffa/index

EFFECT OF GOOD CORPORATE GOVERNANCE ON PROFITABILITY

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Article Info:
Received: 25 July 2019
in revised form: 8 Agustus 2019
Accepted: 24 September 2019
Available Online: 13 Januari 2020

Keywords:
Good Corporate Governance, Profitability

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Abstract; *The research aims to decide the effect of good corporate governance on profitability in banking companies listed on Indonesia stock exchange from 2016 to 2017. This researchwas an explanatory research, using secondary data. The sample was selected using the purposive sampling method, which resulted in a total of 28 sample companies. The data analysis used was multiple linear regression. The results show that the board of directors significantly affect profitability and independent commissioners does not significantly affect profitability. Simultaneously, board of directors and independent commissioners significantly affect profitability.*

Abstrak; Penelitian ini bertujuan untuk mengetahui pengaruh Good Corporate Governance Terhadap Profitabilitas Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia Tahun 2016-2017. Model penelitian ini yaitu penelitian eksplanatori, dengan data sekunder. Sampel dipilih dengan metode purposive sampling dan menentukan kriteria-kriteria sehingga diperoleh sampel sebanyak 28 perusahaan. Data dianalisis dengan regresi linear berganda. Hasil penelitian secara parsial menunjukkan bahwa dewan direksi berpengaruh secara signifikan terhadap profitabilitas sedangkan dewan komisaris independen tidak berpengaruh secara signifikan terhadap profitabilitas. Sedangkan secara simultan dewan direksi dan dewan komisaris independen secara simultan berpengaruh signifikan terhadap profitabilitas.

INTRODUCTION

Good Governance is important in community. It is often called as Good Corporate Governance (GCG) in industrial aspect. Corporate Governance is conducted to improve company's operational actions by controlling management's operational actions and ensuring management accountability to shareholders based on existing rules (Setiawan and Nasution, 2007). GCG is expected to give a positive impact on company. GCG is stated as good if it fulfills several principles, such as independence, fairness, responsibility transparency, and accountability (KNKG, 2006). GCG in Indonesia began in 1990s but it has not yet met its maximum achievements. Therefore, it needs commitment to implement GCG. (Lupiyoadi and Hamdani, 2006: 111).

Financial crisis that occurred in 1998 in Indonesia damaged Indonesian economy, one of which resulted in national banking system performance decline. This decline also adversely affected GCG implementation in national banking sector. National banks in Indonesia are required to conduct GCG (8/4/PBI/ 2006). However, a poor GCG implementation has reduced investor to invest in Indonesia. GCG implementation in Indonesia is needed to support country's economy development. A good implementation is expected to increase the impression of a good bank, restore investor confidence, and increase compliance with applicable regulations (Dewayanto, 2010).

Banking is in rapid development and causing more competitive and tighter competition nowadays. Each bank is required to attract community interest. Technology and services also continue to be improved. Payment of transactions has also become easier with ATMs, internet banking, mobile banking, checks, current accounts, etc. The bank also provides insurance services, home ownership loan, business capital loan, etc. GCG challenges get larger when banks use digital technology in each of their products and services.

Previous studies found empirical evidences, which stated that Good Corporate Governance variables affect profitability. Istighfarin and Wirawati (2015) conducted research on Effect of Good Corporate Governance on Profitability in State-Owned Enterprises. The results indicate that institutional ownership and CGPI have a significant positive effect on profitability while size of independent board of commissioners and audit committee do not significantly affect profitability. Sherly Heriyanto, Imam Mas'Ud (2016) also conducted research on Effect of Good Corporate Governance on Company Profitability (Study of Registered Manufacturing Companies on Indonesia Stock Exchange in 2012-2014). The results conclude that board of commissioners has a significant positive effect on ROE, board of directors' variable has a significant positive effect on ROE and audit committee variable has no significant effect on ROE. Based on the description and presentation of various research, researchers are encouraged to conduct research under the title "Effect of Good Corporate Governance on Profitability" (Study of Registered Banking Companies on Indonesia Stock Exchange among 2016-2017).

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Good Corporate Governance (GCG)

GCG is a method of organizing and managing companies as well as company relationship with various interested parties, and increasing adherence to rules operated by applying responsibility, transparency, fairness, accountability, and independence. Giving more points to all parties who have an interest in company is GCG goal. GCG implementation in each country and company is different. Arief (2008: 3) stated that GCG develops corporate governance principles that include treating all stakeholders equally, protecting rights of stakeholders, contributing to company interests, being open and clear, and board of commissioners/director's obligations. National Committee of national Governance (*KNKG*) explains GCG fundamentals, such as independence, fairness, responsibility transparency, and accountability. Aras and Crowther (2010: 135) stated that good corporate governance procedures are allocated into internal and external methods. Internal methods control the company from within (GMS, board of

directors, board of commissioners, and board of directors meeting). External methods control the company from the outside (market control).

Independent Commissioners

Independent commissioners are commissioners who are not directly related to most stakeholders from one company (Yustiavandana and Surya, 2006: 135 in Hery, 2017: 30). According to Effendi (2009) in Hery (2017: 30), independent commissioners act to balance the decisions taken by the board of commissioners. The formula for calculating independent commissioners is:

$$\frac{independent\ commissioner\ board}{commissioner\ board}$$

Board of Directors

Board of Directors are people who are in power and have obligations regarding company's needs. The board is also responsible for running company according to company's goals. The board of directors can be said to be managers who do things for the company (Purba, 2011:66).

Profitability

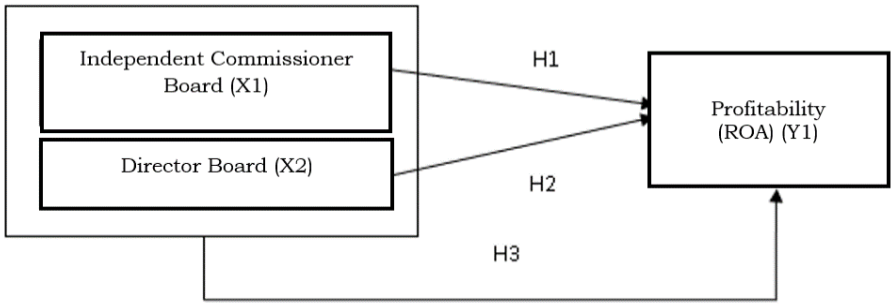
Profitability is earned profit when managing an agency. Profitability is measured by ratio, Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI). ROA/ROI is a used ratio to see value/return of shares and assess effectiveness in providing benefits (using company assets) (Soliha and Taswan, 2002). The used formula to calculate return on assets:

$$\frac{net\ income}{total\ aset}$$

Based on the theories and previous research, the hypothesis is:

H1 : Independent Commissioners affect Probability
H2 : Board of Directors affects Profitability
H3 : Independent Commissioners and Board of Directors affect Profitability

The research model is as follow:



RESEARCH METHODOLOGY

This research used explanatory research through quantitative approach. Explanatory research explains existing phenomena (Jogiyanto, 2005: 12), with a population of all banking companies on Indonesia Stock Exchange from 2016-2017, using non-probability sampling with the judgment sampling model, a purposive sampling technique. The 2018 data was not included because 2018 did not have complete financial statement. Proper sample to the criteria was 28 to 56 companies in 2 years observation. Data analysis used multiple linear regression. Further, variable operational definitions in this research are as follows:

Table 1. Variable Operational Definition

Variable	Definition	Indicator	Scale	Annotation
Independent Commissioners (X1) ⟶ Independent Variable	Commissioners who are not affiliated with other commissioners, members of board of directors, and controlling shareholders.	$\frac{number\ of\ independent\ commissioners}{total\ members\ of\ board\ of\ commissioners}$	Ratio	Adopted from Istighfarin (2015)
Board of Directors(X2) ⟶ Independent Variable	Board of Directors is part of company having authorization and a great responsibility for bank management. Board of Directors is measured by number of company members.	number of board of directors	Ratio	Adopted from Anjani (2017)
ROA (Y) ⟶ Dependent Variable	ROA, is a ratio to measure bank management ability in obtaining profits (earnings) as a whole and indicate level of performance efficiency is a ratio to measure bank management ability in managing available capital to generate profits after tax.	ROA = $\frac{net\ profit}{total\ aset}$	Ratio	Adopted from Tjondro and Wilopo (2011)

FINDINGS AND DISCUSSION

Classic Assumption Test

Normality Test

Normality test has acceptance/rejection criteria of asymp sig> α → H0 is accepted (residual data is normally distributed) and asymp sig ≤ α → H 0 is rejected (residual data is not normally distributed) (Sunjoyo, et al., 2013: 59). Normality test indicates 0.2 asymp. sig that is higher than the significant level (α) 0.05%. Based on asymp criteria. sig> α, Ho is accepted, meaning the data is normally distributed.

Multicollinearity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.029	.760		-1.355	.182		
	DKI	.424	.406	.138	1.047	.301	.939	1.065
	DD	.637	.171	.492	3.722	.001	.939	1.065

a. Dependent Variable: ROA

The fundamental for decision making in this test is if Tolerance value> 0.10 or equal to VIF value <10, there is no multicollinearity and if Tolerance value ≤ 0.10 or equal to VIF value ≥ 10, then there is multicollinearity (Sunjoyo, et al, 2013: 65). Multicollinearity test results indicate tolerance value on board of directors and independent commissioners is 0.939, which is higher than 0.10. VIF, which is 1.065 <10. This number means the data is free of multicollinearity.

Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.265	.503		2.514	.015		
	DKI	-.543	.269	-.286	-2.021	.049	.939	1.065
	DD	-.213	.113	-.266	-1.877	.067	.939	1.065

a. Dependent Variable: ABS

Fundamental basis for decision making in this test is if significance probability is above level of trust (α)> 5%, there is no heteroscedasticity and if significance probability is above level of trust (α) ≤5%, then there is heteroscedasticity (Ghozali, 2013: 142). Heteroscedasticity test results indicate that value of Sig. on board of directors is 0.67 and on independent commissioners is 0.49, GCG Sig. is higher than α, (5%). Therefore, the conclusion is there is no heteroscedasticity in all variables.

Auto-correlation Test

Fundamental basis for auto-correlation test decision making is sig> 0.05, there is no auto-correlation and sig assym ≤ 0.05, then there is auto-correlation (Sunjoyo, et al, 2013: 73). Asymp auto-correlation test result of sig 0.775 is higher than significant level (α) of 0.05%. Based on asymp criteria. sig> α does not have auto-correlation.

Multiple Linear Regression Analysis

The following is general equation of multiple regression:

$$\mathbf{Y_1 = a + b_1X_1 + b_2X_2 + e}$$

Annotation:

Y_1 = ROA
a = constant
b = regression coefficient
X_1 = Independent Commissioners
X_2 = Board of Directors
e = Standard Error

Obtained regression model:

$$Y_1 = -1.029 + 0.424\ X_1 + 0.637\ X_2 + e$$

An elaboration from the formula above:

α = -1.029, if value of board of directors and board of commissioners equals to zero, then ROA equals to -1.029.

β_1 = 0.424, if value of board of directors increases by one unit, then ROA will increase by 0.424 assuming other independent variables equal to zero.

β_2 = 0.637, if value of independent commissioners increases by one unit, then ROA will increase by 0.637 assuming other variables equal to zero.

Statistical t Test Results (Parsial)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.029	.760		-1.355	.182		
	DKI	.424	.406	.138	1.047	.301	.939	1.065
	DD	.637	.171	.492	3.722	.001	.939	1.065

a. Dependent Variable: ROA

The formulated hypothesis is as follows: if P value <α or t arithmetic> t table, then X variable has a significant effect on Y variable partially and if P value> α or t arithmetic <t table, then X variable X does not have significant effect Y variable partially (Ghozali, 2013: 98). Therefore, partial test results can be concluded as follow:

1. Sig. value of board of directors is 0.001, lower than 0.05. Hypothesis test result indicates that H0 is rejected. This result mean that board of directors has a significant effect on profitability.
2. Sig. value of independent commissioners is 0.301. This value is higher than the significant level. Hypothesis test result indicates that H0 is accepted, meaning that independent commissioners do not have significant effect on profitability.

Statistical F Test Result (Simultaneous)

The hypothesis is formulated as follows: if sig F value <sig α value, then X variable has a significant effect on Y variable simultaneously and if sig F value> sig α value, then X variable do not have significant effect on Y variable simultaneously. Based on hypothesis test results (F test) Sig. value is 0.002, smaller than the significant level. Hypothesis test results indicate that H0 is rejected, meaning that board of directors and independent commissioners have a significant effect on profitability simultaneously. This result is relevant with Sherly Heriyanto and Imam Mas'Ud (2016) research, stated that board of directors and independent commissioners have a significant effect on profitability simultaneously.

CONCLUSION AND SUGGESTIONS

The conclusions are:

1. Independent commissioners do not have a significant effect on profitability in registered banking companies on Indonesia Stock Exchange from 2016-2017. The role of independent commissioners is as the highest internal control to oversee and provide input to directors and ensure that company runs GCG (*KNKG*, 2006). The research results support *LPPI* statement that GCG practice is declining in banking.
2. Board of Directors partially has a significant effect on profitability. Therefore, the board of directors is responsible for company loss (Article 97 paragraph (2) of Company Law), so, it is unlikely that the board of directors will neglect/conduct mistakes when performing its duties.
3. Board of Directors and independent commissioners have a significant effect on profitability of registered banking companies on Indonesia Stock Exchange from 2016-2017. This research result supports Sherly Heriyanto and Imam Mas'Ud (2016) research stated that the board of directors and independent commissioners have a significant effect on profitability simultaneously.

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