

CHAPTER I

INTRODUCTION

1.1. Background of the Study

The company is an organization formed with the aim of achieving maximum profit. One of the challenges faced is business competition with competitors. Competition is the resistance and / or effort of one or more people to be superior to others with the same goal (KBBI, 1976). One concrete manifestation of this business competition is reflected in the interest of investors in the capital market in choosing and determining which stocks they will buy. Various considerations are needed before they decide which stocks to choose, including financial and non-financial performance factors. Financial performance is a subjective assessment of a company's ability to create revenue by utilizing assets from its major business mode. This phrase is also used as a generic indicator of a company's overall financial health throughout time (Efriyanti et al, 2012).

One of the most critical objectives in establishing a company is to improve the welfare of its owners or shareholders. Prosperity can be increased or seen from the company's good performance, one of which is financial performance because the company's financial performance can provide information about the company's goals or success. According to IAI (2007), information on financial performance, especially profitability, is needed to assess potential changes in the future and is supported by the company's ability to fulfill its responsibilities, which are realized through the liquidity ratio. Financial performance can be measured by several

approaches to financial ratios, including liquidity, profitability, solvency, activity and market ratios. In this study, researchers used the Profitability Ratio (ROA) as well as in measuring the company's financial performance. Profitability is the level of net profit that a company can achieve when running its operations.

Investors' policies and decisions in investing their capital into a company are more influenced by the profitability ratio of a company compared to other ratios, because investors think that the profitability ratio can provide an overview of the rate of return or profit that investors will receive from investment (Prasinta, 2012). As an illustration, quoted from the website www.marketbisnis.com states "Of the 34 property issuers that have released their financial statements for the period 31 December 2017, 18 issuers or 53% recorded a decrease in income with a decrease of 1% to 90%". In total, the 34 issuers' revenue grew by 12.48%, while profits grew by 25.9%. At first glance this value seems high, but the very high performance is only contributed by three issuers, namely BSDE, APLN, and ASRI. The income growth rate of all listed property companies if they did not involve the three companies was only 2.97%, while the profit actually fell significantly, reaching 11.2%. The decrease in income illustrates how the impact on the value of the company is created. Meanwhile, in another case in a property company in 2017 happened to PT Waskita Karya Tbk.

Waskita Karya's financial report shows that their short-term debt reached Rp. 16.6 trillion as of December 2017, an increase of nearly 147% from the same period in 2016 of Rp. 6.7 trillion, which means that the company's debt burden has increased compared to the previous year. This means that short-term debt can later affect the liquidity ratio of the company.

It is reasonable to presume that the financial performance produced by companies is closely related to the management of their financial targets. In addition, the lack of good implementation of the concept of good corporate governance in an organization will be related to the supervision and management of its workers, giving rise to this (Lestari, 2020). Based on research by Az'ari et al. (2020); Roosiana & Mahardika (2020); and Frendianisa (2021) stated that the implementation of Good Corporate Governance (GCG) is closely related to financial performance in an organization.

The existence of an effort to realize a form of good organizational governance and internal control is one of the activities that can encourage the creation of quality reporting within an organization (Triyani & Azwir, 2019). Corporate governance is a set of mechanisms by which external investors can protect themselves from misuse of managers by guiding and supervising company activities including the financial reporting process (Dong & Trung, 2020). The form of good corporate governance is a concept of Good Corporate Governance that has been echoed and has become a guideline in the implementation of good governance within the organization. The Organization For Economic Corporation And Development (OECD) discloses corporate governance as a system used in controlling and directing the business activities of a company, including in regulating the separation of duties, rights and obligations of those who are interested in the sustainability of the company including shareholders, the board of directors, managers, and all members, and other stakeholders (Abid & Khan, 2014).

According to Tisna (2017) "Good Corporate Governance system is a process and structure used by company organs (Shareholders / Capital owners, Commissioners / Board of Directors) to increase the success of the company's accountability business in order to realize shareholder value in the long term while still paying attention to stakeholder interests. Other, based on laws and regulations and ethical values." Based on this definition, companies can manage their organizations by applying the principles of good corporate governance in order to avoid agency problems. The concept of Good Corporate Governance (GCG) in Indonesia refers to the regulations applied to state companies (BUMN) as stipulated in the Regulation of the Minister of BUMN No. Kep-117 / M-MBU / 2002 regarding the implementation of GCG, there are five established principles, namely: (1) fairness, (2) transparency, (3) accountability, (4) responsibility and (5) independence (Agoes and Ardana, 2014). The existence of these principles can be applied in company management, where the duties of the agents appointed by the principal should prioritize the needs of shareholders and avoid self-interest. The company mechanism that helps the realization of GCG consists of managerial ownership, institutional ownership, public ownership, the size of the board of commissioners, the composition of the independent board of commissioners, the audit committee, and the size of the company that plays a role in implementing GCG (Pratiwi, 2017).

The implementation of this form of good corporate governance will be monitored and measured by the ASEAN Corporate Governance Scorecard (ACGS), which assesses that public companies in Indonesia are included in the ASEAN asset

class category. ACGS is an initiative on corporate governance from the Association of Southeast Asian Nations (ASEAN) in the implementation plan of the ASEAN Capital Market Forum (ACMF) which was held to promote ASEAN as a classy asset and increase global investor confidence in the quality of companies in the ASEAN region (Saleh, 2020). Based on the results of the ACGS assessment, 10 issuers are included in the 'ASEAN Asset Class' category which is presented in table 1.1 below:

Table 1.1
Indonesia Companies Listed in ASEAN Asset Class 2020

No	Company Name
10 Companies listed in ASEAN Asset Class from Indonesia	
1	PT Bank CIMB Niaga Tbk. (BNGA)
2	PT Bank Tabungan Negara (Persero) Tbk. (BBTN)
3	PT Bank Rakyat Indonesia (Persero) Tbk. (BBRI)
4	PT Aneka Tambang (Persero) Tbk. (ANTM)
5	PT Bank Mandiri (Persero) Tbk. (BMRI)
6	PT Bank Central Asia Tbk. (BBCA)
7	PT Bank Permata Tbk. (BNLI)
8	PT Jasa Marga (Persero) Tbk. (JSMR)
9	PT XL Axiata Tbk. (EXCL)
10	PT Maybank Indonesia Tbk. (BNII)
Companies with spikes in score listed in ASEAN Asset Class asal Indonesia	
1	PT Elang Mah kota Teknologi Tbk. (EMTK)
2	PT Vale Indonesia Tbk. (INCO)
3	PT Adaro Energy Tbk. (ADRO)

Source: trenasia.com 2020

Table 1.1 above shows the company data with the best GCG implementation rating that are included in the category organized by ACGS. This also shows a list of companies with the best forms of GCG implementation in Indonesia. Of the total

712 issuers listed on the Indonesia Stock Exchange (December 2020) only 1.8% of companies have implemented a good form of GCG, this data is very small when compared to the number of listed issuers. Based on the statement of IDX Director of Corporate Assessment I Gede Nyoman Yetna, the five aspects of the assessment included in the scorecard are shareholder rights, fair treatment of shareholders, role of stakeholders, disclosure and transparency, and finally the responsibility of the board of commissioners and directors (Saleh, 2020). This is of course closely linked to the published financial / annual reports because the committee will measure the form of GCG implementation, one of which is based on the reports presented by the public company. Based on research conducted by Doan et al (2018) and Tisna (2017), there are significant results between the relationship between the implementation of good corporate governance and the quality of published financial reports. However, in the research of Budianto et al. (2018) and Yasmeeen & Hermawati (2015), different results show that GCG is not fully influential and even does not support the creation of quality reporting in the company.

This research was conducted at manufacturing companies in Indonesia from 2017 to 2019. The object selection is because manufacturing companies have very complex business processes so that the placement of competent individuals and the implementation of GCG will affect the resulting performance and reporting (Nurhidayah, 2020). In addition, the group of manufacturing companies in Indonesia occupies a group whose businesses are classified as manufacturing contributing greatly and are the motor of driving the economy in Indonesia. Therefore, increasing the manufacturing industry is one of the instant ways the

government can improve the growth of the national economy (Rizki & Sudarno, 2020). Based on the description above, the writer wants to do research on the factors that affect the financial performance by the company in terms of the implementation of good corporate governance. So that the title of this research is "**The Effect of Good Corporate Governance towards the Financial Performance of Manufacturing Companies listed in Indonesia Stock Exchange**".

1.2. Problem Limitation

There are some limitations to this study. The scope is limited to the company's financial performance. Profitability Ratio will be used to evaluate Financial Performance.

For the independent variable, the scope is limited to Good Corporate Governance which consist of managerial ownership, institutional ownership, board of directors, board of commissioners, independent board of commissioners, and audit committee. Managerial ownership is measured as the percentage of equity shares owned by directors at the accounting year end. Institutional ownership is the amount of a company's available stock owned by mutual or pension funds, insurance companies, investment firms, private foundations, endowments or other large entities that manage funds on behalf of others. Board of Directors is an elected group of individuals that represent shareholders.

Board of Commissioners is an organ of an Issuer or a Public Company that is in charge for conducting a general and specific oversight in accordance with the Articles of Association as well as providing advice to the Board of Directors. Independent Board of Commissioners refers to members of Board of Commissioners originating from outside and Issued or a Public Company. Last, Audit Committee is operating committees of a company's board directors that is in charge of overseeing financial reporting and disclosure.

In addition, the research object in this research paper is confined to Manufacturing Companies listed in Indonesia Stock Exchange. This study will only look at the years 2017 to 2019.

1.3. Problem Formulation

Based on the explanation, several research questions can be drawn related to the background of the previous problem, including:

1. Does the Managerial Ownership affect the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017-2019 ?
2. Does the Institutional Ownership affect the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 – 2019 ?
3. Does the Board of Directors affect the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 – 2019 ?

4. Does the Board of Commissioners affect the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 – 2019 ?
5. Does the Independent Commissioner affect the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 – 2019 ?
6. Does the Audit Committee affect the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 – 2019 ?
7. Do the Managerial Ownership, Institutional Ownership, Board of Directors, Board of Commissioners, Independent Board of Commissioners and Audit Committee have simultaneous impact towards Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 – 2019 ?

1.4. Objective of the Research

As the result of the problem's formulation, it can be seen that the objectives of this study are to:

1. To identify the effect of Managerial Ownership towards the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 - 2019.

2. To identify the effect of Institutional Ownership towards the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 - 2019.
3. To identify the effect of Board of Directors towards the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 - 2019.
4. To identify the effect of Board of Commissioners towards the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 - 2019.
5. To identify the effect of Independent Commissioners towards the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 - 2019.
6. To identify the effect of Audit Committee towards the Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 - 2019.
7. To identify whether the Managerial Ownership, Institutional Ownership, Board of Directors, Board of Commissioners, Independent Board of Commissioners and Audit Committee have simultaneous impact towards Financial Performance of the manufacturing companies listed in Indonesia Stock Exchange for 2017 – 2019.

1.5. Benefit of the Research

From the discussion of the problems in the preparation of this research paper, it is expected that later it can be useful both theoretically and practically that can be applied, especially:

1.5.1 Theoretical Benefit

The results of this study are expected to increase knowledge in the field of science and scientific development for writers and readers about the financial performance of manufacturing companies in Indonesia.

1.5.2 Practical Benefit

a. For Company :

The results of this study are expected to provide an overview of the effect of Good Corporate Governance towards the Financial Performance of manufacturing companies listed in Indonesia Stock Exchange, so that they can become a consideration for company management in making policies. The result can give consideration for the manufacturing, whether they need to implement the Good Corporate Governance policy or not.

b. For University :

The results of this study are expected to provide references and contributions in terms of the availability of empirical evidence about the factors that affect the financial performance and is also expected to increase literature.

c. For Researchers :

This research is expected to be additional information and useful as a reference source for further research, especially those interested in studying the relationship between Good Corporate Governance on the Financial Performance of manufacturing companies listed in Indonesia Stock Exchange.

