



Icon-LBG 2016

**The Third International
Conference on Law,
Business and Governance**

PROCEEDINGS

Hosted by
Faculty of Law, Faculty of Economics and Faculty of Social Science
Bandar Lampung University (UBL)

Icon-LBG 2016

THE THIRD INTERNATIONAL CONFERENCE
ON LAW, BUSINESS AND GOVERNANCE 2016

20, 21 May 2016
Bandar Lampung University (UBL)
Lampung, Indonesia

PROCEEDINGS

Organized by:



Faculty of Law, Faculty of Economics and Faculty of Social Science
Bandar Lampung University (UBL)
Jl. Zainal Abidin Pagar Alam No.89 Labuhan Ratu, Bandar Lampung, Indonesia
Phone: +62 721 36 666 25, Fax: +62 721 701 467
website :www.ubl.ac.id

PREFACE

The Activities of the International Conference are in line and very appropriate with the vision and mission of Bandar Lampung University (UBL) to promote training and education as well as research in these areas.

On behalf of the Third International Conference on Law, Business and Governance (3th Icon-LBG 2016) organizing committee, we are very pleased with the very good response especially from the keynote speaker and from the participants. It is noteworthy to point out that about 46 technical papers were received for this conference.

The participants of the conference come from many well known universities, among others : International Islamic University Malaysia, Unika ATMA JAYA, Shinawatra University, Universitas Sebelas Maret, Universitas Timbul Nusantara, Universitas Pelita Harapan, Universitas Bandar Lampung, Universitas Lampung.

I would like to express my deepest gratitude to the International Advisory Board members, sponsor and also to all keynote speakers and all participants. I am also grateful to all organizing committee and all of the reviewers who contribute to the high standard of the conference. Also I would like to express my deepest gratitude to the Rector of Bandar Lampung University (UBL) who give us endless support to these activities, so that the conference can be administrated on time

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THE EFFECT OF THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE ON THE COMPANY FINANCIAL PERFORMANCE

A) Aminah^{1*} and Nurdiawansyah^{1**}

¹Accounting Program Study Faculty of Economics and Business Bandar Lampung University

*Corresponding email: aminah@ubl.ac.id

**Corresponding email: nurdiawansyah.iwan@gmail.com

Abstract

This study aims to test and analyze the effect of implementation Good Corporate Governance on the company financial performance. The population in this study is all of the companies which registered as CGPI's candidate of 3 years period (2012-2014) and listed in Indonesian Stock Exchange. Sampling using purposive sampling in order a total sample of 11 companies that meet the criteria of the study sample set. The results showed that implementation of GCG that represented by scoring CGPI, and measurement of the company financial performance is based on profitability ratios which is ROA, ROE, and NPM. The results showed that implementation of GCG that represented by scoring CGPI negatively affect and insignificant on ROA. While the implementation GCG has positive effect but insignificant on ROE. On the other hand, the implementation of GCG has positive effect and significant on the performance of financial company that measured by NPM. It means that implementation of GCG don't give a significant effect on the company financial performance.

Keywords: GCG, ROA, ROE, NPM

1. INTRODUCTION

The implementation of Good Corporate Governance in Indonesia has been become a must for companies which has been listed as go public companies. In participate in increasing the competitive advantages and the belief of the investor, company which implement Good Corporate Governance constantly to keep the belief of humans and the investors. Good Corporate Governance is a clear direction to make a decision in a entity. The benefit of the implementation of Good Corporate Governance can increase the value of company, the company financial position, decrease the risk that has a possibility which is done by board of commissioners with the decisions that give some advantages themselves (TrinandadanMukodim, 2010).

Nowadays the principal of Good Corporate Governance has been become a recommendation for the investors and foreign creditor to make the decision to invest or not in the entity. The principle of Good Corporate Governance consist of transparency, accountability, responsibility, independency and fairness. The existence of the principles make the company's position become strong and can face challenges and the competition for the future. Transparency can neutralize corruption, collusion, and nepotism that maybe happen in the big companies.

The implementation of Good Corporate Governance can not separated by 3 domains that relate each other, they are state and the component as regulator, the business world as market's actor, and the community as the user of goods and services in a business world (Sedarmayanti, 2012). The problem that is a conflict between external and internal in entity, which they are a affair difference. The other side, part of the external GCG as a decisions in the company because they can not be free in taking a decision and must with GCG's procedure (Fahmi, 2013).

To support the existence of implementation of GCG, the governance is take a part quite enough contribution with issuing the Minister of BUMN Decree Num. 117/M-MBU/2002 date July 31, 2002 about Implementation GCG's Praticeat BUMN. Related to renewal of law existence at Ltd and BUMN, and pay attention to the business company development that more

dynamic and competitive, company is expected to increase the implementation of good corporate governance, need to adjust to Ministerial Decree Num Kep-117/M-MBU/2002 dated July 31, 2002. Performance is a goal achievement from a activity or particular that measured with the standard that have specified in the beginning the company have been built (Zarkasyi, 2008). Financial performance appraisalment is the of procedure that can be done by management for fulfill the duty on stockholders and achieve the company's goal. A financial performance is the one of element that showed effectiveness and efficiency operational of company in order to reach their goal (Arifani, 2013).

Ristifani (2009) mentioned that the relation of implementation principle of good corporate governance on performance at PT Bank Rakyat Indonesia (Persero) Tbk. has continuous direction very strong and affected the performance. Trinanda and Mukodim (2010) investigated about *Effect of application of Corporate Governance on The Financial Performance of Banking Sector Companies* showed that *Good Corporate Governance* have a significant effect to Return on Equity, Return on Investment, Return on assets and Net profit margin. Its mean implementation of good corporate governance therefore will result in the financial performance will be good. This matter is described that good company's management.

2. POPULATIONS AND SAMPLE

Population in this research is all of the company which take a part from 2012-2014 that amount 56 companies, 29 companies including go public companies. Sample has defined with purposive sampling which criteria the companies took a part for 3 years continuously (2012-2014), so it can be taken 11 companies.

Variable of Research

Dependent Variable

Dependent variable in this research is company's financial performance which proxied with *Return on Assets* (Y_1), *Return on Equity* (Y_2), dan *Net Profit Margin* (Y_3).

Return on Assets (ROA)

Value of ROA is used to measure the companies' effectivity in making profit for company with exploit asset that they have (Ang, 1997).

$$\text{ROA (\%)} = \frac{\text{Net Income}}{\text{Average Assets}} \text{ (Kieso, 2011)}$$

Return on Equity (ROE)

ROE is a measurement company's ability to earn the return or effectivity of the company in making profit with exploit shareholder's equity which is belonged to the company.

$$\text{ROE (\%)} = \frac{\text{Net Income}}{\text{Average Ordinary Shareholders' Equity}} \text{ (Kieso, 2011)}$$

Net Profit Margin (NPM)

NPM is a part of profitability ratio that calculate the income on sales (Fahmi, 2014).

$$\text{NPM (\%)} = \frac{\text{Net Income}}{\text{Net Sales}} \text{ (Kieso, 2011)}$$

Variabel Independen (X)

The definition of GCG from Cadbury Committee based on stakeholders theory as sets of the rule that regulate the relation of stokeholders, company's manager, the creditor, government, employee, the external and internal which related the right and obligation or the system that control the company (Tjagerdkk., 2003). The independent variable of this research is the implementation of GCG (X) with the indicator *self assessment, document, paper, and observation*

Type and Source of Data

The type of the research is explanatory research, because this research explain the effect Good Corporate Governance on financial performance of the company. Data is used in this research is secondary data. Source of the data is gotten from swa.co.id and www.idx.co.id. Data that used is financial report of the go public companies that listed in BEI and have implemented GCG and participate in the programme that was held by IICG for 3 years constantly (2012-2014).

The Method of collecting Data

The method of collecting data in this research is documentation method that is a technique of collecting data with accumulating and analyze documents, include the written document or picture and then has learnt and was quoted a necessary notes.

3. THE METHOD OF ANALYZE DATA

Method of analyze statistic data can be done with using simple regression linear analysis. Simple regression linear analysis can be done if independent variable (X) that amount 1 (Ghozali, 2006). The processing data was done with EViewsversi 6.0. This research with simple linear regression model as follows:

$$\text{Model 1: } Y_1 = \alpha + \beta_1 X + e$$

$$\text{Model 2: } Y_2 = \alpha + \beta_2 X + e$$

$$\text{Model 3: } Y_3 = \alpha + \beta_3 X + e$$

Clues:

$$Y_1 = \text{Return On Assets (ROA)}$$

$$Y_2 = \text{Return On Equity (ROE)}$$

$$Y_3 = \text{Net Profit Margin (NPM)}$$

α = Constants

$\beta_1, \beta_2, \beta_3$ = Regression Coefficient

X = *Good Corporate Governance (GCG)*

e = error

Descriptive Statistics

Descriptive statistics is statistic that describe phenomenon or characteristics of data (Jogiyanto, 2004). Descriptive statistics give a figure of variables that is examined which is seen from mean, minimum, maximum, and standard deviations.

Coefficients Determination

According Ghozali (2011), R^2 value is used to measure ability level of the model in explaining the variation dependent variable. A small R^2 value means ability of the independent variables in explaining the variations too limited. The more close number 1, therefore the ability of the model will be better in explaining the dependent variable.

Partial Test

According Ghozali (2011), the based of t test shows how far the effect of 1 independent variable individually in explaining the dependent variable. The test is done with the significance level 0,05 ($\alpha = 5\%$).

4. RESULT OF THE RESEARCH AND DISCUSSION

Descriptive Statistics

In this research, the processing data as follows with table 4.2, 4.3, 4.4 the calculation of descriptive statistics on 33 sample of companies showed that average of scoring CGPI adalah 85.911. Average of ROA, ROE, and NPM respectively 5.210, 14.514, and 19.008.

Table 1
 Output of Descriptive Statistics

	CGPI	ROAM
Mean	85.91121	5.210606
Maximum	92.36000	22.86000
Minimum	75.68000	-12.00000
Std. Dev.	3.646754	6.875641
Observations	33	33

Source: Secondary Data had been processed, 2015

This table showed the biggest ratio of ROA is 22.86% and the biggest reduction of ratio is -12%. The increase of ROA bigger than the value of the reduction so it can be hoped to help the investor in making their decision to invest on candidate of CGPI's company.

Table 2
 Hasil Uji Statistik Deskriptif

	CGPI	ROEM
Mean	85.91121	14.51424
Maximum	92.36000	34.21000
Minimum	75.68000	-40.58000
Std. Dev.	3.646754	13.30911
Observations	33	33

Source: Secondary Data had been processed, 2015

This table showed the biggest ratio of ROE is 34.21% and the biggest reduction of ratio is -40.58%. From this result of the processing, can be concluded that the reduction larger than ROE, there have possible on certain situation which company don't use their own equity to control their business.

Table 3
 Hasil Uji Statistik Deskriptif

	CGPI	NPM
Mean	85.94156	19.00750
Maximum	92.36000	37.70000
Minimum	75.68000	-9.46000
Std. Dev.	3.700869	13.18157
Observations	33	33

Source: Secondary Data had been processed, 2015

This table showed the biggest ratio of NPM is 37.70% and the biggest reduction of ratio is -9.46%. From this result of the processing, can be concluded that the increase of NPM much larger than the reduction, so it can help the investor in assessing a candidate of CGPI company.

Simple Regression Linear Analysis

Table 4
 Output of Simple Regression Linear Analysis

Dependent Variable: ROA
 Method: Pooled Least Squares
 Date: 01/19/16 Time: 23:46
 Sample: 2012 2014
 Included observations: 33
 Cross-sections included: 1
 Total pool (balanced) observations: 33
 Cross sections without valid observations dropped

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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C	17.66737	29.03132	0.608563	0.5472
CGPI	-0.144996	0.337627	-0.429455	0.6706
R-squared	0.005914	Mean dependent var		5.210606
Adjusted R-squared	-0.026153	S.D. dependent var		6.875641
S.E. of regression	6.964971	Akaike info criterion		6.778356
Sum squared resid	1503.835	Schwarz criterion		6.869053
Log likelihood	-109.8429	Hannan-Quinn criter.		6.808873
F-statistic	0.184432	Durbin-Watson stat		0.831604
Prob(F-statistic)	0.670562			

Source: Secondary Data had been processed, 2016

The equation of simple regression based on the output at table 4 as follows: $Y_1 = 29,03132 + 0.337627X$. The result can be explained that constants (α) 29,03132 means if the score of GCG's implementation constant or worth 0, ROA (Y_1) will amount 29,03132. Next, coefficient X (β_1) is 0.337627 and positive, means that if GCG (X) increase 1% so it cause ROA (Y_1) will amount 0.33762.

Table 5
Hasil Uji Regresi Linear Sederhana

Dependent Variable: ROE
Method: Pooled Least Squares
Date: 01/19/16 Time: 23:53
Sample: 2012 2014
Included observations: 33
Cross-sections included: 1
Total pool (balanced) observations: 33
Cross sections without valid observations dropped

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-23.90687	55.93777	-0.427383	0.6721
CGPI	0.447219	0.650543	0.687454	0.4969
R-squared	0.015016	Mean dependent var		14.51424
Adjusted R-squared	-0.016758	S.D. dependent var		13.30911
S.E. of regression	13.42016	Akaike info criterion		8.090085
Sum squared resid	5583.122	Schwarz criterion		8.180782
Log likelihood	-131.4864	Hannan-Quinn criter.		8.120602
F-statistic	0.472594	Durbin-Watson stat		1.302716
Prob(F-statistic)	0.496908			

Source: Secondary Data had been processed, 2016

The equation of simple regression based on the output at table 5 as follows: $Y_2 = 55.93777 + 0.650543X$. The result can be explained that constants (α) 55.93777 means if the score of GCG's implementation constant or worth 0, ROE (Y_2) will amount 55.93777. Next, coefficient X (β_1) is 0.650543 and positive, means that if GCG (X) increase 1% so it cause ROE (Y_2) will amount 0.650543.

Table 6
 Hasil Uji Regresi Linear Sederhana

Dependent Variable: NPM
 Method: Pooled Least Squares
 Date: 01/19/16 Time: 23:57
 Sample: 2012 2014
 Included observations: 33
 Cross-sections included: 1
 Total pool (balanced) observations: 33
 Cross sections without valid observations dropped

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-93.07603	52.05181	-1.788142	0.0839
CGPI	1.304183	0.605122	2.155240	0.0393
R-squared	0.134076	Mean dependent var		19.00750
Adjusted R-squared	0.105212	S.D. dependent var		13.18157
S.E. of regression	12.46888	Akaike info criterion		7.944810
Sum squared resid	4664.188	Schwarz criterion		8.036419
Log likelihood	-125.1170	Hannan-Quinn criter.		7.975176
F-statistic	4.645061	Durbin-Watson stat		1.006987
Prob(F-statistic)	0.039291			

Source: Secondary Data had been processed, 2016

The equation of simple regression based on the output at table 4.5 as follows: $Y_3 = 52.05181 + 0.605122 X$. The result can be explained that constants (α) 52.05181 means if the score of GCG's implementation constant or worth 0, NPM (Y_3) will amount 52.05181. Next, coefficient X (β_1) is 0.605122 and positive, means that if GCG (X) increase 1% so it cause NPM (Y_3) will amount 0.605122.

Coefficients Determination

Based on output EViews on table 6 above, showed that the value of coefficients determination Adjusted R-Squared is -0.026153. That means ROA (Y_1) can not be explained by scoring CGPI. The same as table 6 above, showed that Adjusted R-Squared -0.016758. That means ROE (Y_2) can not be explained by scoring CGPI. Based on output EViews on table 4.7 above, showed that the value of coefficients determination Adjusted R-Squared 0.105212. It means NPM (Y_3) can be explained by scoring CGPI at 10.5%, besides the rest 89.5% is affected by other factors exclude the research of variables.

Partial Test (T test)

Based on output EViews 6 table 4.5, 4.6, 4.7 can be concluded that:

Table ., can be seen that GCG is represented by scoring CGPI has t calculate 0.429455. Value of t table for $n=33$ and $\alpha=2.5\%$ is 2.03452. It showed t calculate < t table, so GCG don't give a significant effect and negative on ROA. The result was seen from table 4.6 GCG with t calculate is 0.687454. Value of t table for $n=33$ and $\alpha=5\%$ is 1.69236. It showed t calculate < t table, so GCG don't give a significant effect but the result of regression showed GCG has a positive effect on ROE. Table 6 showed GCG has t calculate is 2.155240. Value of t table for $n=33$ and $\alpha=5\%$ is 1.69236. It showed t calculate > t table, so GCG give a significant effect and the result of regression showed GCG has a positive effect on NPM.

Discussion

The Effect Good Corporate Governance On ROA

First hypothesis said that GCG has a effect on ROA, and the result of this research show that GCG has a negative effect on ROA. The negative effect showed the companies with score CGPI with indicator self assessment around 12%-25% can't guarantee that financial performance proxied ROA increase. Eventhough score GCG high, ROA hasn't able to give profit to the company with exploiting the assets which has issued for operational activities.

The Effect Good Corporate Governance On ROE

GCG with indicator CGPI has a positive effect on ROE, it can be seen from the result of the coefficient. So output of EViews can be concluded GCG has a positive effect and not significant

on ROE. Second hypothesis is accepted. The result is in accordance with NofianidanNurmayanti (2010) stated that GCG has a positive effect on ROE as the one measurement of company's financial performance. If company implement the GCG, so the return of investment for stockholders or the ability of making profit will increase. In the end, many investors will invest theirs on the company.

The Effect Good Corporate Governance On NPM

The result of regression showed GCG has a positive effect on NPM and significant. The higher score CGPI, company can increase their net profit cause company has known in public. This result was supported by TrinandanMukodim (2010), CG has a significant effect on NPM. It means, the good corporate governance will cause the good NPM. It describe that agent of the company realize the long-term benefits from implementation of GCG is a direct financial effect such as the increase of company's net income, company will be good, and going-concern for the longest time.

5. CONCLUSION

The conclusion of this research is Good Corporate Governance which indicator with scoring CGPI has a negative and insignificant on ROA, scoring CGPI has a positive effect and insignificant on ROE, and a positive effect and significant on NPM.

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Bandar Lampung University
Zainal Abidin Pagar Alam Street No. 26 Labuhan Ratu
Bandar Lampung, Indonesia | www.ubl.ac.id | Phone +62 721 773 847