Quest Journals
Journal of Research in Business and Management
Volume 10 ~ Issue 12 (2022) pp: 99-112
ISSN(Online):2347-3002
www.questjournals.org

Research Paper

Good Corporate Governance on the Financial Performance of Manufacturing Companies Listed On the Indonesia Stock Exchange

[1] Baso Amir, [2] Amiruddin, [3] Darmawati, [4] Muhammad Irdam Ferdiansah
([1,2,3,4,]Hasanuddin University)
Corresponding Author: basoamirfeuh@gmail.com

Abstract
This study aims to empirically examine the effect of the application of good corporate governance on financial performance in manufacturing companies. The components of corporate governance used in this study are institutional ownership, managerial ownership, independent commissioners, and audit commissions. The population in this study is a manufacturing company registered in Bursa Efek Indonesia in 2014-2016 with a sampledetermination method, namely purposive sampling method. The sample in this study amounted to 28 companies. This study was conducted using annual report data. The data analysis method used is multiple linear regression analysis. The results of this study show that simultaneously and partially, institutional ownership, managerial ownership, independent commissioners , and audit committees affect financial performance.

Keywords: *Good corporate governance, institutional governance, managerial ownership, independent commissioners, financial performance*

R*eceived 08 Dec., 2022;* ***R****evised 20 Dec., 2022; Accepted 22 Dec., 2022* *© The author(s) 2022.*
P*ublished with open access at* ***www.questjournals.org***

I. Introduction

The Company's performance is one of the measures of success in the implementation of financial functions in the company. A good measure of company performance begins with the confidence of investors in a company that the funds they invest in are in safe conditions and are expected to provide good returns as well. The economic crisis that hit Indonesia and several other countries in Asia in mid-1997 was identified as related to poor performance and corporate governance and the low competitiveness of companies in the country as well as weak investor protection (Lestariningsih, 2008: 115).

Weak corporate governance is characterized by selfishactions by ignoring the interests of investors, thus causing a fall in investors' expectations about the return on investment that has been invested.

The development of the corporate governance perspective starts from the existence of an agency model or agehncy theory. Agency theory identifies potential conflicts of interest between parties (principals and agents) within the company that influence the company's behavior in a variety of different ways (Lestariningsih, 2008:119).

Corporate Governance (CG) is corporate governance that explains the relationship between various parties in the company that determines the direction and performance of the company. Issues regarding Corporate Governance began to become an important discussion, especially in Indonesia, namely after Indonesia experienced a prolonged crisis period. Many parties say that the weak process of repairing the crisis problems that occur in Indonesia is due to the very weak Corporate Governance implemented in companies in Indonesia. Since then, both the government and investors have begun to pay significant attention to the practice of Corporate Governance.

The crisis that hit Indonesia made the Indonesian government respond by signing a Letter of Intent with the International Monetary Fund (IMF) which encouraged the creation of a climate that is more conducive to the implementation of Good Corporate Governance. The Government of Indonesia established a special institution called the National Committee for Corporate Governance Policy (KNKCG) in 1999 through a decree of the Coordinating Minister for Economic, Financial and Industrial Affairs, involving 30 representatives from

the public and private sectors to recommend the principles of national good corporate governance. In November 2004, based on a decision of the Coordinating Minister for Economic Affairs, the KNKCG was changed to the National Committee for Policy Governance (KNKG) with the consideration of expanding its scope to public sector governance. Furthermore, KNKG has published the first National Good Corporate Governance (GCG National Guidelines) in 1999, which were later revised in 2001 and 2006.

Furthermore, to support the reform efforts carried out by the government, various initiatives emerged initiated by various groups who were concerned about rebuilding Indonesia after the crisis. Organizations that pioneered the importance of governance practices

manage good companies in Indonesia, among others, the Indonesia Institute for Corporate Directorship (IICD), the Indonesian Institute for Corporate Governance (IICG), the Forum for Corporate Governance in Indonesia (FCGI), the Indonesian Institute of Audit Committees (IKAI) and the Indonesian Institute of Commissioners and Directors (LKDI). The organization aims to promote concern for governance by holding seminars and conferences, assisting companies to conduct self-assessments, providing education and training programs, conducting assessments of governance practices, and providing an annual index of governance perceptions.

Research by The Indonesian Institute for Corporate Governance (IICG), 2002, found that the main reason companies implement Good Corporate Governance is regulatory compliance. The Company believes that the implementation of Good Corporate Governance is another form of enforcement of business ethics and performance ethics that has long been the company's commitment, and the implementation of Good Corporate Governance is related to improving the company's image. Furthermore, IICG defines the definition of good Corporate Governance as the structures, systems, and processes used by the company's organs as an effort to provide added value to the company on an ongoing basis in the long term. The description above implies that in corporate governance, there are three important elements, namely structure, system and process.

Structure has a very fundamental role in the implementation of a corporate governance mechanism. The Indonesian Institute for Corporate Governance (IICG) defines a structure as the basic structure or framework of company management based on the distribution of rights and responsibilities among the company's organs (board of commissioners, directors and shareholders) and other stakeholders, as well as rules and procedures for decision making in corporate relations.

While the system is a formal and informal procedure that supports the structure and operational strategy in a company. This means that the structure is the basic framework on which the elements are placed. An important element is the process. The Indonesian Institute for Corporate Governance (IICG) defines a process as the activity of directing and managing a planned business in order to achieve company goals, align company behavior with expectations from society, and maintain company accountability to shareholders. This suggests that the so-called process is an element whose application requires the presence of structures and systems that govern it. Therefore, the processes that exist in an enterprise, are strongly influenced by the systems that run within the company. The implementation of a good corporate governance mechanism requires a transparent process for determining company goals, achievements, and measuring performance.

Affirmation of the implementation of Good Corporate Governance is increasingly necessary because seeing several cases regarding the poor financial performance of companies still occurs even though it has stayed away from the crisis period of 1997-1998. Some cases that occur in Indonesia, such as PT. Lippo Tbk and PT. Kimia Farma Tbk which also involves poor financial reporting. This is also evidenced by research conducted by Fanny (2010) which tests whether the application of the principles of good corporate governance can affect the financial performance of companies that are still listed on the Indonesia Stock Exchange (IDX). The results show that there is no difference before and after the obligation to apply the principle. From this research, it can be concluded that there are still many companies in Indonesia that apply the principles of corporate governance only because of regulatory encouragement and avoid legal sanctions compared to considering the principle of good corporate governance as part of the company's culture to improve the company's own financial performance.

In general, there are several characteristics inherent in the practice of Good Corporate Governance. First, the practice of Good Corporate Governance must provide space for outside the company's management to play an optimal role so as to allow synergy between them. Second, in the practice of Good Corporate Governance, there are values that make company and private management more effective in working in realizing the welfare of the people. Values such as efficiency, fairness, and responsiveness are important values. Third, the practice of Good Corporate Governance is the practice of managing a company that is clean and free from corruption and manipulation and oriented towards the interests of stakeholders. Therefore, company management practices are considered good if they are able to realize transparency, accountability, responsibility, independence, and fairness (Windah and Gabriela, 2013)

Good Corporate Governance can help create conducive and accountable relationships between elements in the company. The Company believes that the implementation of Good Corporate Governance is another form of enforcement of business ethics and work ethics that has long been the company's commitment,

and the implementation of Good Corporate Governance is related to improving the company's image. Companies that practice Good Corporate Governance will experience image improvement, and an increase in company value.

At the GMS (General Meeting of Shareholders) of the National Committee for Governance Policy (KNKG) 2006, it was stated that for the realization of Good Corporate Governance, public companies must have corporate organs including the Board of Commissioners, Board of Directors, Corporate Secretary, Institutional Ownership, Managerial Ownership, Independent Commissioners, Company Size, Audit Quality or Audit Committee. In this study, indicators of GCG mechanisms include: institutional ownership, managerial ownership, independent commissioners and audit committees.

According to Jensen and Meckling (1976:307) institutional ownership and managerial ownership are the two main mechanisms of Good Corporate Governance that help control agency issues. Institutional ownership is the ownership of shares by governments, financial institutions, incorporated institutions, foreign institutions, trust funds and other institutions at the end of the year (Shien, et al. 2006 in Sabrinna, 2010). According to Indra Widjaja (2008: 143) institutional ownership is one of the factors that can affect a company's financial performance. The existence of ownership by institutional investors will encourage increased more optimal supervision of management performance, because share ownership represents a source of power that can be used to support or vice versa towards management performance. The greater the ownership by the financial institution, the greater the power of the financial institution's voice and encouragement to supervise management and consequently will give a greater impetus to optimize the value of the company so that the company's financial performance will also increase.

Managerial ownership is share ownership by company management as measured by the percentage of the number of shares owned by management (Sujono and Soebiantoro, 2007 in Sabrinna, 2010). The agency approach considers the managerial ownership structure as an instrument or tool to reduce agency conflicts among some claims against the company.

Company ownership is one of the mechanisms that can be used so that managers carry out activities in accordance with the interests of the company owner. Managerial ownership can also be used as a way to address agency issues. Managers will be motivated to improve their performance which is also the desire of shareholders. Siregar (2005:311) the greater the proportion of shareholdings in the company, the management tends to try more vigorously for the benefit of shareholders who are none other than themselves. Managerial shareholding will help the unification of interests between managers and shareholders, so that managers feel firsthand the benefits of the decisions taken and also bear losses as a consequence of making wrong decisions.

Too high managerial ownership is also not good for the company, because it can create defense problems, which means that if managerial ownership is high, they are in a strong position to exercise control over the company and external shareholders will have difficulty controlling the manager's actions. This is due to the high voting rights that managers have. So it is feared that it will have a negative effect on the company's financial performance.

According to Windah and Gabriela (2013) Non-Executive Directors can act as mediators in disputes that occur between internal managers and oversee management policies and provide advice to management. In this case, the independent commissioner is the best position to carry out the monitoring function in order to create a good company.

Furthermore, the company's financial performance will be good if the company is able to control the behavior of the company's top executives to protect the interests of the company's owners (shareholders), one of which is the existence of an audit committee. The audit committee is expected to be able to supervise financial statements, supervise external audits and supervise the internal control system in accordance with the Decree of the Minister of State-Owned Enterprises Number: 117 / M-MBU / 2002. Because of their responsibility to oversee internal control and financial statements, Good Corporate Governance orders that audit committees must have a level of competence in finance (Tugiman, 1995).

In relation to performance, financial statements are often used as a basis for assessing the company's performance. One type of financial statement that measures the success of a company's operations for a certain period is the income statement. According to Statement of Financial Accounting Concept (SFAC) No.1, profit information is an indicator to measure the performance of management's accountability in achieving predetermined operating goals and help owners to estimate the company's earnings power in the future. However, the profit figures generated in the income statement are often influenced by the accounting methods used (Kieso and Weygandt, 1995:127), so high profits do not necessarily reflect large cash. In this case, cash flow has more value to ensure the company's performance in the future. Cash flow shows the results of operations whose funds have been received in cash by the company and are burdened with expenses that are cash and have actually been issued by the company (Pradhono, 2004). One type of measurement of the company's financial performance is the cash flow ratio analysis method.

Cash Flow Return On Asset (CFROA) is one of the measurements of a company's financial performance by analyzing the cash flow ratio which is part of the efficiency ratio, and is useful for determining the cash generated by companies with available assets (Giacomino and Mielke, 1993).

This research developed several studies conducted previously, namely by Indri Suprapti (2012) who conducted research with the object of manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX). The indicators of corporate governance mechanisms used in this study are profit management, institutional ownership, managerial ownership, audit committee and audit quality. The results of this study show that simultaneously there is a significant influence of profit management, institutional stock distribution, percentage of management shares, audit committee, and audit quality on financial performance in manufacturing companies in the consumer goods industry sector category listed on the IDX.

Gabriela Cynthia Windah et al (2013) with the title of research on the effect of the application of corporate governance on the company's financial performance. Survey Results of The Indonesian Institute Perception Governance for the period 2008-2011. Financial performance in this study is measured by Return of Assets (ROA) and Return of Equity (ROE) as a measure of the company's operational performance, and Tobin's Q is used as a measure of the company's market performance. The result of this study is that there is no effect of GCG implementation on financial performance if measured using ROA and Tobin's Q as a measure of the company's market performance, while there is an effect if measured using the company's operational performance (ROE).

Referring to the results of empirical research that has been carried out, it appears that the empirical evidence shows how important the application of Good Corporate Governance is in supporting the achievement of company goals.

II. Materials and Methods

2.1 Institutional Ownership of Financial Performance

According to Indra Widjaja (2008: 141) that ownership by institutions will encourage increased more optimal supervision of management performance, because share ownership represents a source of power that can be used to support or vice versa against the existence of management. Bathala, et al (1994) in Sabrinna (2010) also found that institutional ownership can replace managerial ownership in controlling agency costs. The greater the ownership by the financial institution, the greater the power of the financial institution's voice and encouragement to supervise management and consequently will give a greater impetus to optimize the value of the company so that the company's performance will also increase. This is supported by research conducted by Anindhita Ira Sabrinna (2010) which found a positive influence between institutional ownership and the company's financial performance. Institutional Ownership is considered as a controller for companies to create good and increasing performance (Arifani, 2013). Based on this description, the hypothesis of this study is:

H1: Institutional ownership has a positive influence on financial performance

2.2 Managerial Ownership of Financial Performance

Jensen and Meckling (1976:338) mention that the greater the shareholding by management, the less tendency for management to optimize the use of resources while reducing agency costs due to differences in interests. This happens because managers who have involvement in the company through managerial ownership will also feel ownership of the company so that all decisions taken by managers will be made more carefully considering all the consequences that occur due to the decisions taken will also have an impact on managers. Research conducted by Haque et al. (2013) which found a significant positive influence between managerial ownership and company financial performance. The shareholding of the company by managers tends to carry out strategies to improve its long-term financial performance. Incentives in the form of shares given to managers spur them to work harder and smarter in increasing the value of the business entity, which also belongs to the manager. Based on this description, the hypothesis of this study is:

H2: Managerial ownership has a positive influence on financial performance

2.3 Independent Commissioner of Financial Performance

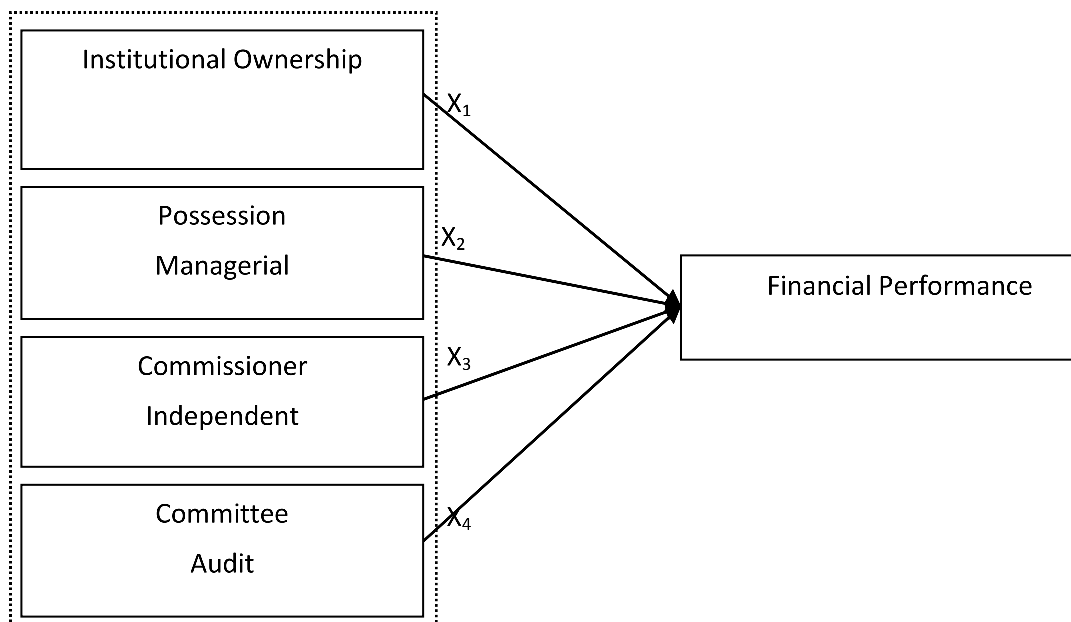
Independent commissioners are the best position to carry out monitoring functions in order to create a company that implements good corporate governance. The greater the number of independent commissioners, the decisions made by the board of commissioners prioritize the interests of the company, thus affecting the company's performance. Research related to the existence of the board of commissioners in Indonesia was also widely carried out Rizky Arifani (2013) said that independent commissioners are proven to have an influence on financial performance. With the appointment of an independent commissioner at the GMS, it will directly provide supervision to the board of directors in the implementation of policies that have been made to achieve the company's goals. Sri Wijayanti and Siti Mutmaina (2012) examined whether the proportion of independent

commissioners affects the company's financial performance. The results of this study are known that partially the influence of corporate governance in this case the proportion of independent commissioners affects financial performance. Based on the description above, the hypothesis of this study is:
H3 : Independent commissioner positively affects financial performance

2.4 Audit Committee on Financial Performance

The audit committee is a committee established by and responsible to the board of commissioners in assisting in carrying out the duties and functions of the board of commissioners. Based on the principles of Good Corporate Governance, the audit committee in the company encourages the implementation of the principles of accountability and transparency. In the principle of accountability, the audit committee ensures that the company's internal control structure is carried out properly, the implementation of internal audits is in accordance with applicable audit standards, and follow-up findings of audit results are carried out by the management. In the principle of transparency, the audit committee will consult with external auditors and internal auditors to ensure that the company's financial statements when reporting to the public are in accordance with general accounting principles. Transparency aims to balance information so that there is no indication for the company's directors to use more information and commit fraud. The existence of an audit committee within the company will further improve management performance because the supervision carried out will reduce or overcome the manipulation of financial statements and increasingly strict internal controls. Thus, improved performance through the audit committee can increase investor confidence through supervision within the company and the application of the principles of Good Corporate Governance. According to the National Committee on Governance Policy (2002), based on practice and experience in the international sphere, most effective audit committees consist of 3 to 5 members. In a study conducted by Haque et al. (2013) stated that the size of the audit committee was proven to have a positive effect on the company's financial performance. Based on the description above, the hypothesis of this study is:
H4 : The audit committee has a positive effect on financial performance.
This research consists of independent good corporate governance variables that have mechanism indicators in the form of institutional ownership, managerial ownership, independent commissioners and audit committees, as well as dependent variables on financial performance as measured by Cash Flow Return on Assets (CFROA). This research is expected to prove that Good Corporate Governance affects the company's financial performance.

Figure 2.1 Research Framework



Source : Development from several sources

2.5 Research methods

This research was conducted to analyze the Application of Good Corporate Governance to the Financial Performance of Manufacturing Companies listed on the Indonesia Stock Exchange for the 2014-2016

period. The type of research method used is a quantitative research method, where the data obtained is realized in the form of numbers, scores, and analysis using descriptive statistics.

Research and data collection are carried out on manufacturing companies listed on the Indonesia Stock Exchange (IDX) which are accessed online through the official system, namely http://www.idx.co.id. The time dimension of the study used is cross sectional, which means that this research was carried out at a certain time. In this study, the observation period used was 2014-2016. The population that will be examined in this study is all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2014-2016 period which amounted to 127 companies and reported complete financial statements and published on the official IDX website. The reason why researchers choose manufacturing industry companies as the research population is because manufacturing companies have more influence on the environment.

This study uses the company's annual report for 2014-2016 to see the implementation of Good Corporate Governance. Researchers chose 2014-2016 because it was the most recent year in which data collection was accessible.

The latest annual report will reflect the company's current condition so that the research results will be used as valuable information for capital market participants.

Sempel collection in this study using purposive sampling technique, namely the sample taken is a sample that has certain criteria selected from the population.

Sampling using purposive sampling with the following criteria.

a. The company is in the manufacturing industry listed on the Indonesia Stock Exchange (IDX) for the period 2014-2016.

b. The Company publishes annual financial statements for As of Dec 31, 2014-2016.

c. Manufacturing companies have data on institutional ownership, managerial ownership, independent commissioners, and audit committees.

Based on the above criteria, the number of companies that have these criteria is obtained. The following is a selection table for determining the number of samples.

Table 2.1 Selection of Sample Count Determination

Information	Sum	
Population	127	
Sample Criteria :		
	Appropriate	Non-Compliant
1. Companies that publish financial statements As of Dec 31, 2014-2016	(94)	(0)
2. Manufacturing Companies that have data on independent commissioners	(91)	(3)
3. Manufacturing companies that have data on institutional shareholding and managerial ownership	(28)	(63)
4. Manufacturing companies that have audit committees	(28)	(0)
Total Samples	28	

Source : *Indonesian Stock Exchange* (IDX)

Based on the selection of determining the number of samples, companies that meet the criteria for determining the number of samples are obtained, namely 28 companies.

The data used in this study is secondary data, namely data obtained from other parties who have collected it and published it. The data is sourced from the company's annual report which is obtained from the Indonesia Stock Exchange (IDX) data base available online on the http://www.idx.co.id website. The data used in this study are data on the annual reports of manufacturing companies regarding institutional ownership, managerial ownership, independent commissioners, and audit committees, as well as company financial statements.

Data collection of this study sample was carried out by non-observation method or indirect observation at companies that have been determined as population. In this case, the researcher is not present directly to conduct the research, the researcher only collects data through data that is already available or in other words, the researcher uses the online documentation method to obtain data on the IDX website, namely www.idx.co.id.

Basically, the management's goal is to improve the company's financial performance which will later increase interest from investors to invest in the company. In this study, financial performance was measured using CFROA (*Cash Flow Return On Asset*) in this case cash flow has more value to ensure the company's performance.

Pradhono (2004) said that cash *flow* shows the results of operations whose funds have been received in cash by the company and are burdened with expenses that are cash and have actually been issued by the company.

CFROA is calculated using the following formula.

$$CFROA = \frac{\text{CFFO before } interest \text{ and } taxes}{\text{Total } Assets} \times 100\ \%$$

Information:

CFROA	= *Cash flow return on assets*
CFFO before interest and taxes	= Cash Flow from Operation Before Interest And Taxes
Total Assets	= Total Assets

III. Result

3.1 Data DescriptionAnalysis Results

The information needed in this study is secondary data obtained from www.idx.co.id in the form of financial data of manufacturing companies 2014-2016 which are described in statistical form. The results of descriptive statistical analysis using SPSS which show the average value (*mean)* and standard deviation of the research variables with a total sample of data with details in 201 4-2016 there were 28 manufacturing companies that were used as samples.

The statistical analysis used in this study consists of N is the amount of data, minimum and maximum values, mean values, and standard deviations. In summary, the results of the descriptive analysisf are presented in the table below.

Table 3. 1

Descriptive Test of Research Data

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
KI	84	0.1017	0.9023	. 368938	. 1710523
MILES	84	0.0011	0.0098	. 003978	. 0019672
K.IND	84	0.3333	0.8000	. 566332	. 2098934
Audit Committee	84	1	5	2.77	1.046
CFROA	84	0.0009	0.7992	. 070946	. 0348197
Valid N (listwise)	84				

Source : SPSS 21.0 Data Processing Results (Secondary Data, 2014-2016)

The independent variables in this study are *Good Corporate Governance* which is proxied with institutional ownership, managerial ownership, independent commissioners, ande audit commits. Meanwhile, the dependen variable is financial performance which is proxied with the CFROA bell varia.

Based on Table 3. 1 it is seen that in institutional ownership (KI) it has a beverage value of 0. 1017 which is in the company Beton Jaya ManunggalTbk in 2014, seandgkan the maximum is 0. 9023 which is in the company Alaska IndustrindoTbk in 2016. While the average (*mean*) is 0. 3689 with a standard deviation (standard deviation) of 0. 1710.

In the managerial ownership variable (KM) hasa minimum value of 0. 0011 which is in the company Fajar Surya WisesaTbk in 2014, while the max simumvalueis 0. 0098 which is in the company Chitose International Tbk in 2016. While with an average value (*mean*) of 0. 0039, and standar deviation (standard deviation) of 0. 00196.

For the independent commissioner variable (K.IND) has a beverage value of 0.3333 while the maximum value is 0.8000. Meanwhile, the average score shows that the independent commissioner has met the recommended standard of 0.5663 with a standardaviation (standard deviation) value of 0. 2098.

In the variables the audit committeehas a minimum value of 1, and a maximum value of 5, with an average (*mean*) of 2.77 with a standard deviation value (standard deviation) of1.04 6.

In the dependent variable, namely financial performance as measured by CFROA, it has a beverage value of 0.0009 which is in the IndalAluminium Industry Tbk company in 2014, while the maximum value is 0. 7992 which is in Prima alloy steel company Universal Tbk in 2016. For an average value of 0. 0709, and the standar deviation value of 0. 03481.

3.2 AutokoRelation Test Results

The next test is Uji autocorrelation, this test aims to determine the presence or absence of irregularities korelation that occur between residuals on one observation and other observations on regression models. A prerequisite that must be met is the absence of autocorrelation in the regression model. A test method that is often used is the Durbin-Watson test (DW test) using SPSS 21. The decision from this test is to look at the DW value, if the Durbin Watson value value between -2 and +2 means that there is no autocorrelation. The results of autocorrelation testing are presented in the table below.

Table 3.2
Autocorrelation test results
Model[Summary b]

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	. 239[a]	.057	.010	.1430641	1.914

a. Predictors: (Constant), Audit Committee, K.IND, KM, KI
b. Dependent Variable: CFROA

Source : SPSS 21.0 Data Processing Results (Secondary Data, 2014-2016)
Based on the test results above, it can be seen that the value in them odel of the study is 1. 914, which is between -2 to +2. So it can be concluded that the research data did not undergo autocorrelation.

3.3 Multicholinearity Test Results

The multicholinearitas test aims to find out whether the regression model found a correlation between independent variables (Ghozali,2006). In a good regression model there should be no correlation among its independent variables. In the research, the testing methods used are Tolerance and VIF (*Variance Inflation Factor*) tests with the help of SPSS 21. If the tolerance value > 0.10 and the VIF < 10, then it can be interpreted that there is no multicholinearity in the study. And conversely, if the tolerance is <0.10 and the VIF is > 10, then there is a multicollinearity disorder in the study. The results of the independent variable multicholinearity test can be seen in the following table.

Table 3.3
Multicholinearitas test results
Coefficients[a]

Variable	Collinearity Statistics	
	Tolerance	VIFs
KI	.954	1.049
MILES	.989	1.011
K.IND	.951	1.051
Audit Committee	.992	1.008

Source : SPSS 21.0 Data Processing Results (Secondary Data, 2014-2016)

Based on the table of multicholinearity test results of the VIF (*Variance Inflation Factor*) column, it is known that the VIF value of the institutional ownership variable (KI) is 1.049, the managerial ownership variable (KM*)* with a value of 1.011, the independent commissioner variable (K.IND) with a value of 1,051, and the audit committee variable is 1,008. From the results of the multicholinearitas review, it can be seen that the *tolerance* value of all independent variables is greater than 0.10 and the VIF value of the independent variable is smaller or not greater than 10.00. So that based on this value, it can beconcluded that there is no problem multicolinearity among the independent variables tested.

3.4 HeteroskedasticityTest Results

The heteroskedasticity test in this study was used to determine the presence or absence of deviations in the classical assumption of heteroskedasticity. In other words, to find out the existence of variant inequality of the residual for all observations on the regression model (Ghozali, 2006). The test to detect the presence or absence of heteroskedasticity is to use *a scatterplot* graph between the predicted values of dependent variables. If in the*scatterplot* chart the point spreads above or below the zero value on the Y axis, it can be concluded that the regression model does not contain heterochedasticity or can be called homokedasticity (Ghozali, 2006). Following the results of the heteroskedasticity test shown in Figure 3.1below.

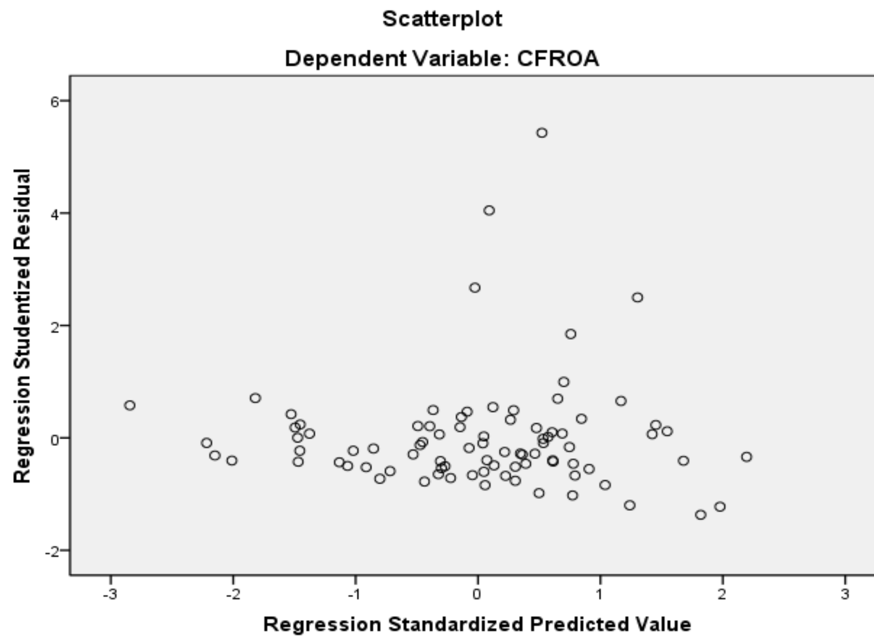


Figure 3.1 *Scatterplot* Regression

Based on the *figure s* catter plot regression above , it can be seen that the points s catter plot regression spread above and below the number 0 and the points *s catterplot*regression do not form a pattern which is clear so that it can be concluded that there is no problem of heteroskedasticity in regression models and regression models are relatively good at inferring the results of the study.

3.5 NormalityTest Results

This test is carried out to find out whether the sample data is normal or in other words to find out whether the population of data distributed secara is normal or not. There are two ways to detect whether residuals are normally distributed or not, namely by graphs and statistical tests (Ghozali, 2006) In this study, the data normality test used a *normal probability plot* graph. The results of the n ormality test of the data are shown in Figure 3. The following 2.

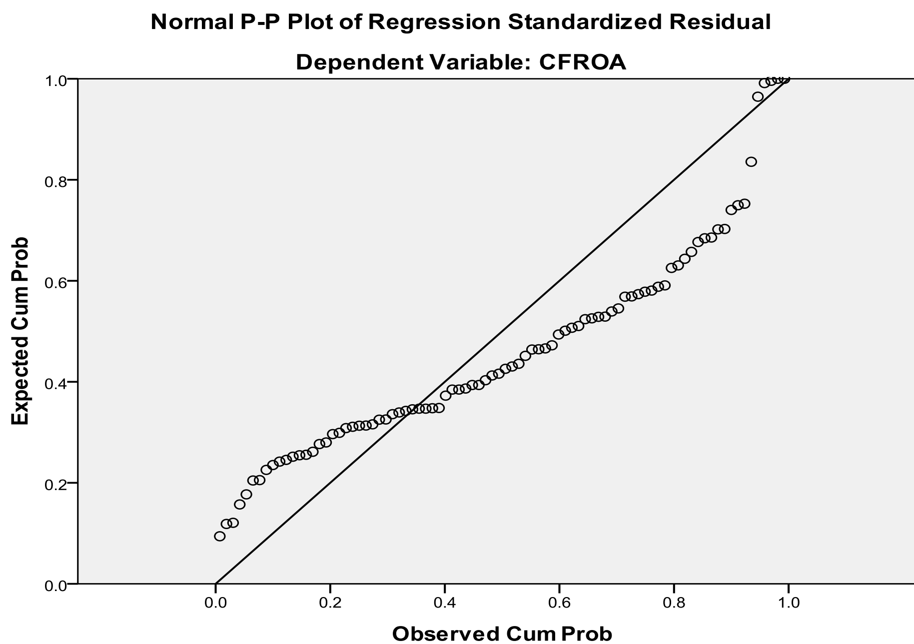


Figure 3.2 Graph *normal probability plot*

Based on Figure 3.2 above, it can be seen that the research data is around the normal line. This means that the research data arenormally distributed and the regression model meets the assumption of normality.

3.6 Results of Multiple Linear Regressionanalysis

The analytical method used to assess the broad variability of risk disclosure in this study is *multiple regression analysis*. Regression analysis is a statistical tool that provides an explanation of the relationship pattern between two variables, namely independent variables and dependent variables. To make it easier to analyze data, all data processing is carried out using the SPSS (Statistical *Package for Social Science*) program. The regression results from the primary data processed can be seen in table 3.4 as follows :

Table 3.4
Multiple Linear Regression Test Results
Coefficients[a]

Variable	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	. 324	.082		.070	.045
KI	.047	.072	.074	.657	.013
MILES	.015	.056	.018	.076	. 040
K.IND	.129	.121	.121	1.068	.028
Audit Committee	.004	.010	.027	.243	. 008

a. Dependent Variable: CFROA

Source : SPSS 21.0 Data Processing Results (Secondary Data, 2014-2016)

Based on the analysis table above, it can be seen the influence of independent variables in the form of institutional ownership, managerial ownership, independent commissioners, and audit committees on CFROA obtained the following regression equation model:

$$Y = 0.324 + 0.047X_1 + 0.015 X_2 + 0.129 X_3 + 0.004 X_4 + \varepsilon$$

The value of the constant with the regression coefficient in table 4.4 can be explained as follows.

1. A constant of 0.324 indicates that if the independent variables (isntitusional ownership, managerial ownership, independent commissioners, and audit committees) are assumed to be unchanged (constant) or equal to zero. then the resulting financial performance effect (CFROA) is 0.324 units.
2. The variable coefficient of institutional ownership (X 1) of 0.047 indicates that every time institutional shareholding increases by 1%, then the financial performance generated by institutional ownership will increase by 0.047%.
3. The variable coefficient of managerial ownership (X_2) of 0.0 15 indicates that every increase in managerial shareholding by 1%, then the financial performance produced by managerial ownership will increase by0.015%.
4. The coefficient of the independent k omisaris variable (X_3) of 0.129 indicates that every increase in independent k omisaris by 1%, then the financial performance produced by independent komisaris will increase by0.129%.
5. The audit k omite variable coefficient (X_4) of 0.004 indicates that every time the audit committee increases by 1%, then the financial performance generated by the audit komite will increase by 0.004%.

3.7 Hypothesis TestResults

3.7.1 Coefficient of Determination Test Results (R^2)

The coefficient of determination test (R^2) aims to measure how far the model's ability to explain the variation of the dependent variable is proportion or the percentage oftota l variation in the dependent (related) variable. Ghozali (2006) further explained that the value of the coefficient of determination is between zero and up to one. Adjusted *value of* R^2 that is close to one, means the ability of independent variables to provide almost all the information needed to predict the variation of dependent variables or What percentage can be explained by independent variables to dependent variables. From the results of the regression analysis, it can be seen in the output of the *summary model* and presented in the following table.

Table 3. 5
Coefficient of Determination Test
Model Summary b

Variable	R	R Square	Adjusted R Square	Std. Error of the Estimate
1 d	. 254[a]	. 347	.025	. 3102123

a. Predictors: (Constant), Audit Committee, KI, KM, K.IND
b. Dependent Variable: CFROA

Source : SPSS 21.0 Data Processing Results (Secondary Data, 2014-2016)

Based on table 4. 5 above, the regression analysis of the *summary model* in the R square column obtained an adjused value of R^2 (*R square*) of 0.347 or (34. 7%). This value shows that the percentage of influence relationships of independent variables (institutional ownership, managerial ownership, independent commissioners, and audit committees) has an influence of 34.7% on dependent variables (financial performance). Meanwhile, 65.3% were influenced by other variables outside this study.

3.7.2 Simultaneous Signification Test Results (F Test)
The F test is used todetermine the influence of independent variables together (simultan) on dependent variables (Ghozali, 2006). Significant means the relationships that occur can apply to the population. In this study, it used a significance level of 5%. Where the decision is seen if the probability value < 0.05, then it can be said that there is a significant influencein the same way between the independent variables and the dependent variables. The results of the Statistical F test can be seen as follows.

Table 3. 6
Simultaneous S test (F test)
ANOVA[b]

Type	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.025	4	.006	.364	.033[a]
Residual	1.366	81	.017		
Total	1.391	85			

Source : SPSS 21.0 Data Processing Results (Secondary Data, 2014-2016)

Based on the data in table 3. 6 above, the statistical F obability pr value is 0.364 with a significance value smaller than 5% (< 0.05), which is 0.033. This proves that the institutional ownership variable, managerial ownership variable, indepeden commissioner variable, and audit komite together (simultaneously) affect the company's financial performance.

3.7.3 Individual Parameter SignificationTest Results (Statistical Test *t*)
The statistical test t is used to partially test each variable. The results of the t test can be seen in the coefficients table in the sig (*significance*) column. If the probability value of significance < 0.05, then it can be said that there isno effect between the independent variables on the dependent variables partially. The results of the t Test can be seen as follows.

Table 3. 7
Partial Test (T Test)

Coefficients[a]

Variable	T	Sig.
(Constant)	.070	.045
KI	.657	.013
MILES	.076	. 0 40
K.IND	1.068	.028
Audit Committee	.243	. 008

a. Dependent Variable: CFROA

Based on Table 3.7 The results of the t test obtained the following results.
1.The first hypothesis obtained a value of t = 0.657 with a significance value = 0.013 (p value < 0.05), which means that institutional ownership has a positive and significant effect on financial performance. Thus the first hypothesis is accepted.
2.The second hypothesis obtained a value of t = 0.076 with a significance value = 0.040 (p value < 0.05), which means that managerial ownership has a positive and significant effect on financial performance. Thus the second hypothesis is accepted.
3.The third hypothesis obtained a value of t = 1.068 with a significance value = 0.028 (p value < 0.05), which means that independent commissioners have a positive and significant effect on financial performance. Thus the third hypothesis is accepted.
4.The fourth hypothesis obtained a value of t = 0.243 with a significance value = 0.008 (p value < 0.05), which means that the audit committee has a positive and significant effect on financial performance. Thus the fourth hypothesis is accepted.

IV. Discussion

4.1 Effect of Institutional Ownership on Financial Performance

The results of the study from the first hypothesis testing showed that institutional ownership had a positive and significant effect on the company's financial performance, with a value of t = 0.657, and a significance value = 0.013 (p value < 0.05), therefore the first hypothesis was accepted.

The results of this study support the theory used, namely agency theory. The theory explains the relationship of a company's financial performance to the disclosure of company environmental information. In keagenen theory, it also requires the principal to obtain disclosure of company information from the agent, especially regarding the company environment which is used as a basis for measuring how far the company is in achieving the expected goals. Companies that have good financial performance will certainly increase company profits which affects the breadth of financial information disclosure so as to reduce agency costs incurred. The results of this hypothesis test also support research conducted by Anindhita Ira Sabrina (2010) and Haque et al. (2013) which also measure financial performance with one of its independent variables, namely institutional ownership and having research results in the form of institutional ownership has a positive and significant effect on financial performance. This is because the greater the ownership by financial institutions, the greater the power of the financial institution's voice and encouragement to help management performance and consequently will provide a greater impetus to optimize the value of the company so that the company's financial performance will also increase.

4.2 Effect of Managerial Ownership on Financial Performance

The second hypothesis obtained a value of t = 0.076 with a significance value = 0.040 (p value < 0.05) which means that managerial ownership has a positive and significant effect on financial performance. Thus the second hypothesis is accepted.

The results of this study support the theory used, namely agency theory. The theory explains the relationship of a company's financial performance to the disclosure of company environmental information. In the theory of agency, it also requires the principal to obtain disclosure of company information from the agent, especially regarding the company's environment which is used as a basis for measuring how far the company has achieved the expected goals. In solving problems about the lack of disclosure of information about the environment, one of which is the managerial ownership factor. Management that has high ownership in a company will continue to strive productively to increase company value in order to improve the company's image and image for the welfare of shareholders and the survival of the company itself. The results of this hypothesis test also support research conducted by Haque et al. (2013) and Anindhita Ira Sabrina (2010) which also measure financial performance with one of its independent variables, namely managerial ownership and having research results in the form of managerial ownership has a positive and significant effect on the company's financial performance.

4.3Independent Commissioner's Effect on Financial Performance

The third hypothesis states that independent commissioners have a positive and significant effect on financial performance, so the third hypothesis is accepted. This can be seen in the value of t = 1.068, with a significance value of 0.028 (p value < 0.05), the significance probability value of the independent commissioner indicates that the independent commissioner has a positive and significant effect on financial performance.

The results of this study support the theory used, namely agency theory. The theory explains the relationship of a company's financial performance to the disclosure of company environmental information. In agency theory, it requires the principal to obtain disclosure of information from the agent needed to measure how far the company has achieved the expected goals. Companies that have good financial performance will

certainly increase company profits which will affect the breadth of financial information disclosure so as to reduce agency costs incurred. The results of this hypothesis testing also support research conducted by Sri Wijayanti and Siti Mutmainnah (2012) which states that independent commissioners have a positive and significant effect on financial performance. Independent commissioners play an important role in directing the strategy and overseeing the running of the company and ensuring that managers actually improve the company's financial performance as part of achieving the company's objectives. Based on the observations of independent commissioners, it is the best position to carry out the monitoring function in order to create a good corporate governance company. The greater the number of independent commissioners, the decisions made by the board of commissioners prioritize the interests of the company, thus affecting the company's performance.

4.4The Audit Committee's Effect on Financial Performance

The fourth hypothesis obtained a value of $t = 0.243$ with a significance value = 0.008 (p value < 0.05), which means that the audit committee has a positive and significant effect on financial performance. Thus the fourth hypothesis is accepted.

The results of this study support the theory used, namely agency theory. The theory explains the relationship of a company's financial performance to the disclosure of company environmental information. In agency theory, it also requires principals to obtain disclosure information from the agent's efforts needed to measure how far the company is in achieving its expected goals. Companies that have good financial performance will certainly increase company profits which will affect the breadth of financial information disclosure so as to reduce agency costs incurred.

The results of testing this hypothesis support the research conducted by Haque et al. (2013) which stated that the audit committee had a positive and significant effect on the company's financial performance. This is because the existence of an audit committee is very important in order to improve the company's financial performance, especially from the aspect of control. With the effective running of the audit committee function, the control over the company's performance will be better, so that agency conflicts that occur can be minimized, and with good financial statements, it will certainly improve the company's financial performance.

V. Conclusion

Based on the results of the test and the analysis process that has been carried out, several conclusions are made as follows.

1. The Good Corporate Governance mechanism in the form of institutional ownership affects the company's financial performance. This shows that the greater the ownership by financial institutions, the greater the power of the financial institution's voice and encouragement to assist management and consequently will give a great impetus to optimize the value of its company. The results of this study support the theory used (agency theory), namely, requiring the principal to obtain the information needed in measuring the achievement of company goals obtained from the agent's business where information on the company's environment can be contained in improving the company's financial performance.
2. The Good Corporate Governance mechanism in the form of managerial ownership affects the company's financial performance. This is because managerial ownership is the decision-making party and control of functions in the company. The results of this study if connected with agency theory, the managerial party is a motivated party to continue to expand the disclosure of environmental information to principals in order to improve the company's image and image so that it has an impact on improving the company's financial performance.
3. The Good Corporate Governance mechanism in the form of an independent commissioner affects the company's financial performance. This shows that the greater the number of independent commissioners, the more directly supervise the board of directors in the implementation of policies made to achieve better company goals. The results of this study support the theory used (agency theory), which requires the principal to obtain the information needed to measure the achievement of company goals obtained from the agent's business where information on the company's environment can be contained in improving the company's financial performance.
4. The Good Corporate Governance mechanism in the form of an audit committee affects the company's financial performance. This is because the existence of an audit committee is very important in order to improve the company's financial performance, especially from the aspect of control. With the effective functioning of the audit committee, the control over the company's performance will be much better. The results of this study support the theory used (agency theory), which requires the principal to obtain the information needed to measure the achievement of company goals obtained from the agent's business where information on the company's environment can be contained in improving the company's financial performance.

5.1 Advice

1. Based on the results of the study, it was found that simultaneously and partially the Good Corporate Governance mechanism affects the company's financial performance, so it is necessary to maintain a culture of Good Corporate Governance in the company, especially manufacturing companies listed on the Indonesia Stock Exchange to maintain the continuity of operational activities carried out by the company in the future.
2. Future research may try to use more complex financial performance proxies to see the consistency of research results.
3. The upcoming research is expected to add years of research, for example four to five years, to see the magnitude of the effect of implementing better Good Corporate Governance on financial performance.
4. In this study, no GCG element can be added outside the mechanism because it is not an element that can be combined with the GCG mechanism. So that future research is expected to try other measurement variables such as risk management or business ethics in this case corporate social responsibility as part of the program of implementing good corporate governance.

References

[1]. Arifani,Rizky. 2013. "Pengaruh good corporate governance terhadap kinerja keuangan perusahaan". Skripsi. Program Studi Akuntansi Fakultas Ekonomi dan Bisnis Universitas Diponegoro. Semarang.

[2]. Arifin, Zaenal, 2005. Teori Keuangan dan Pasar Modal , Ekonisia, Yogyakarta.

[3]. BadanPengawas Pasar Modal. 2004. Keputusan Ketua Badan Pengawas Pasar Modal No. KEP-29/PM/2004 (Peraturan No IX.I.5) tentangPembentukandan Pedoman Pelaksanaan Kerja Komite Audit.

[4]. Bursa Efek Jakarta. 2001. SE-008/BEJ/12-2001. KeanggotaanKomite Audit.

[5]. Cornett, M. M., Marcus, A. J., Saunders, A., and Tehranian, H. 2006, Earnings Management, Corporate Governance, and True Financial Performance. Working Paper. Southern Illinois University, Carbondale.

[6]. Financial Accounting Standard Board.1978. Statement of Financial Accounting Concept No. 1 – The Objectives Of Financial Statement.Connecticut: FASB Publication.

[7]. Forum Corporate Governance Indonesia, 2001. "Corporate Governance: "Tata KelolaPerusahaan"(Online) (https://muhariefeffendi.files.wordpress. com/2009/12/fcgi_booklet_ii.pdf, diakses pada tanggal 13 Desember 2017).

[8]. Forum Corporate Governance Indonesia. 2003. Corporate Governance. Forum for Corporate Governance in Indonesia. Jakarta.

[9]. Ghozali,Imam.2006.AplikasiAnalisisMultivariateDenganProgramSPSS.Cetakan IV.Badan Penerbit Universitas Diponegoro. Semarang.

[10]. Giacomino, D.E. and D.E. Mielke. (1993). Cash Flows:Another Approach To Ratio Analysis. Journal of Accounting (March).

[11]. Indra Widjaja dan Faris Kasenda, 2008,Pengaruh Kepemilikan Institusional, Aktiva Berwujud Ukuran Perusahaan Dan Profitabilitas Terhadap Struktur Modal Pada Perusahaan Dalam Industri Barang Konsumsi Di BEI, Jurnal Manajemen/Tahun XII,No.02:139-150.

[12]. Jensen M.C and W Meckling.1976. Theory of the firm: managerial behavior, Agency cost, dan ownership structure, journal of financial economic.3. 305-360.

[13]. Kieso,Donald E and Weygand, Jerry J. 1995. Intermediate Accounting. Diterjemahkan Herman Wibowo. Edisi ketujuh. Jilid 1. Jakarta : Binarupa Aksara.

[14]. Komite Nasional Kebijakan Governance. 2006. Pedoman Umum Good Corporate GovernanceIndonesia.(Online) (http://www.bapepam.go.id/pasarmodal/publikasi_pm/info_pm/Pedoman%20GCG%20Indonesia%202006.pdf,diakses pada tanggal 22 Desember2017).

[15]. Lestariningsih,2008. "Peranan Penerapan Good Corporate Governnancedalam Pengembangan Perusahaan Publik". Jurnal Spirit Publik vol 4 No 2. Oktober. Hal 113-122.

[16]. OrganizationForEconomicCorporationandDevelopment(OECD).2004.Prinsip-Prinsip Good Corporate Governance.

[17]. Peraturan Menteri Badan Usaha Milik Negara Nomor: KEP-117/M/MBU/2002 tahun 2002, tentang Penerapan Praktek Good Coorporate Governancepada Badan Usaha Milik Negara.

[18]. Pradhono 2004. "Pengaruh Economic Value Added, Residual Income, Earnings, dan Arus Kas Operasi Terhadap Return yang Diterima Pemegang Saham. Jurnal Akuntansi dan Keuangan Vol 6 No.2.

[19]. Rachmawati, Andri dan Hanung Triatmoko. 2007. Analisis Faktor-Faktor yang Mempengaruhi Kualitas Laba dan Nilai Perusahaan. Makasar: Simposium Nasional Akuntansi X, IAI, 2007.

[20]. Sabrinna, Anindhita Ira. 2010. "Pengaruh Corporate Governance dan Struktur Kepemilikan terhadap Kinerja Perusahaan". Skripsi. Program Studi Akuntansi,Fakultas Ekonomi Universitas Diponegoro. Semarang.

[21]. Said, Darwis, Ria Mardiana, dan Grace T Pontoh. 2012. "Pedoman Penulisan Skripsi".Edisi Pertama. Fakultas Ekonomi dan Bisnis Universitas Hasanuddin.Makassar.

[22]. Sekaran, Uma dan Roger Bougie. 2013. "Research Methods for Business : ASkill-Building Approach. Chennai :Sixth Edition, Penerbit Wiley.

[23]. Siregar,Sylvia Veronica N.P & Sidharta Utama. 2005. "Pengaruh Struktur Kepemilikan, Ukuran Perusahaan, dan Praktek Corporate Governance Terhadap Pengelolaanlaba(Earnings Manajement)".JurnalRiset Akuntansi Indonesia Vol. 9, No. 3, September 2006 hal. 307-326.

[24]. The Indonesian Institute for Corporate Governance,2002. Laporan Hasil Survei,Indonesian Institute for Corporate Governance. Jakarta.

[25]. Tugiman. 1995. PengaruhKarakteristikKomite audit terhadapketetapanwaktupelaporankeuangan pada perusahaanpublik yang tercatat di BEJ. JurnalAkuntansiKeuangan Vol 3 No.5.

[26]. Wahyudi, Untung dan Hartini P. Pawestri. 2006. Implikasi Struktur Kepemilikan terhadap Nilai Perusahaan; dengan Keputusan Keuangan Sebagai Variabel Intervening. Padang: Simposium Nasional Akuntansi IX, IAI, 2006.

[27]. Windah, Gabriela Cynthia. 2013."Pengaruh Penerapan Corporate Governance terhadap Kinerja Keuangan Perusahaan Hasil Survey the Indonesian Institute Perception Governance (IICG)".Jurnal Ilmiah MahasiswaUniversitas Surabaya Vol.2, No.1.

[28]. Http://www.idx.co.id