

The Influence of Good Corporate Governance (GCG) Toward Financial Performance

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ABSTRACT

This research aims to find out how good corporate governance influences financial performance. Research was conducted at PT. State Electricity Company (PLN) for the 2014-2018 period. The research method used in this research is the explanatory method. The data analysis used in this research is simple linear regression analysis at a significance level of 5%. Hypothesis test results show that good corporate governance has a positive effect on the company's financial performance, with a contribution of 32.9%.

Keywords: Financial performance, Good Corporate Governance (GCG), State-Owned Enterprises (SOEs)

INTRODUCTION

The rapid development of knowledge and technology in business has resulted in every business entity having to keep racing to strengthen its business strategy and maintain good and appropriate company performance, to survive and compete with other entities (Husein, 2005).

The value of the company is determined by the performance of management and the company's financial performance. Measuring the company's financial performance in two ways: the internal side of the company by looking at the financial statements and the external side of the company, namely the value of the company by calculating the company's financial performance. An indicator that is often used to assess a company's financial performance is through financial ratios, such as financial ratio approach, both liquidity, profitability, solvency, activity, and market ratios (Sarafina and Saifi, 2017).

The financial statement of PT. Perusahaan Listrik Negara (PLN) is odd because the profits obtained in 2018 are quite significant. According to the financial statements of PT. Perusahaan Listrik Negara (PLN) in 2018 has a net profit of Rp 11.56 trillion, the profit increased by 162.30% or almost three times the profit in 2017 which was Rp. 4.42 trillion. Whereas in the third quarter of 2018 PT. Perusahaan Listrik Negara (PLN) still suffered a loss of Rp. 18.48 trillion (Arieza, 2019).

According to President Director of PT. Perusahaan Listrik Negara (PLN) Sofyan Basyir, and Director of Finance Sarwono, they said that were still very optimistic about financial report of PT. Perusahaan Listrik Negara (PLN) is still good and is estimated to be able to make a profit, because the operating profit in the third quarter of last year was around Rp. 9.06 trillion. However, there is something confusing about the 3rd quarter 2018, it differs between what the President Director and the Finance Director of PT. State Electricity Company (PLN). According to the Director of Finance in the third quarter of 2018 PT. Perusahaan Listrik Negara (PLN) has suffered a loss on the dollar exchange rate of Rp. 18.5 trillion, even though in the same quarter in 2017 PT. Perusahaan Listrik Negara (PLN) managed to earn Rp 3.04 trillion.

According to the Joint Regulation of the Minister of Finance number 23/PMK.01/2007 and the Minister of BUMN number: PER-04/MBU/2007 concerning Submission of Summary of State Enterprise Financial Statements that no later than February 15 each year. Finance Director of PT. Perusahaan Listrik Negara (PLN) Sarwono Sudarto, said that PT. Perusahaan Listrik Negara (PLN) will release financial report at the end of March 2019, but the fact is that until the end of April has not yet releasing an audited 2018 financial report. So, that delay in the financial reports of several strategic BUMNs cannot be separated from the responsibility of the board of commissioners and BUMN ministries which can be considered to have failed in monitoring and fostering them. They give bad Key Performance Indicator (KPI) scores to all their directors (Usman, 2019).

In 2016 and 2017 showed that the results of the assessment of the implementation of Good Corporate Governance of PT. Perusahaan Listrik Negara (PLN) have an increasing score from 87.14 in 2016 to 87.40 in 2017. This increase indicates that corporate governance is being carried out very well, but there is a discrepancy with the emergence of internal cases, occurrence of window dressing that even makes the performance of the directors as financial report makers and commissioners as supervisors questionable (Firdaus Baderi, 2019).

In overcoming the company's obstacles in making a profit, the company needs to have a good corporate governance system so that they are confident of getting a fair and high value return on their investment, which is to provide effective protection to shareholders and creditors (Purwani, 2010).

GCG relates to trust in companies that implement it and on the business climate in a country. The implementation of GCG in companies is very important because it will indirectly provide

guidelines for entities to increase value in the company and the trust of business partners (Sutedi, 2012).

Business actors consider GCG to be limited to compliance with regulations that do not have a direct impact on financial performance as is the case in marketing activities. So, this is why GCG is not optimal in terms of implementation among Indonesian companies (Purwani, 2010).

Is it true that GCG only fulfills compliance with the government or does it have an influence on company performance? Therefore, this study was conducted to determine whether there is an influence of GCG on the company's financial performance.

LITERATURE REVIEW

According to (Brigham & Houston, 2010) that, "Company financial performance can also be interpreted as a certain situation that has been achieved by the company after going through a process of activities for several years."

The purpose of assessing the company's financial performance according to Munawir, (2012) are for knowing:

1. The Liquidity Level, provides the company's ability to financial obligations that must be settled immediately when the time is billed.
2. The Solvency Level, tells the company's ability to financial obligations if the company is liquidated, both short-term and long-term financial.
3. The Level of Profitability, tells the company's ability to earn profits during a certain period.
4. Activity Level, this ratio is used to assess the efficiency and effectiveness of the company in the utilization of all resources or assets owned by a company.

According to the Organization for Economic Development (OECD, 2004): "Corporate governance is a set of relationships between the management of the board of directors, the board of commissioners, shareholders and stakeholders."

The principles of Good Corporate Governance according to the Regulation of the Minister of BUMN Number: PER-01/MBU/2011), are:

1. Transparency, openness in carrying out the decision-making process and disclosing material and relevant information about the company;

2. Accountability, clarity of functions, implementation, and accountability of management;
3. Responsibility, conformity in the management to the laws and regulations and corporate principles;
4. Independence, company is managed professionally without conflict of interest and influence or pressure from any party;
5. Fairness, justice, and equality in fulfilling the rights of stakeholders based on agreements and laws and regulations.

METHODS

The type of research used in this research is explanatory research. Explanatory research is research that aims to obtain answers about "how" and "why" (Nuryaman & Christina, 2015).

The type of data used in this research is quantitative data, namely data in the form of numbers. The quantitative data used is the annual report data of the company PT. Perusahaan Listrik Negara (PLN) for the 2014-2018 period.

The research instrument used is the ratio. In variable Y, financial performance ratios are used which consist of ROE, ROI, cash ratio, current ratio, collection period, inventory turnover, total asset turnover, and the ratio of own capital to total assets.

Meanwhile for variables, the ratio used to measure GCG is in accordance with the Decree of the Minister of State-Owned Enterprises in Decree SK-16/S.MBU/2012 which consists of 6 indicators, namely Commitment to implementing good corporate governance in a sustainable manner, Shareholders and GMS/capital owners, Board of Commissioners/supervisory board, Board of Directors, Information disclosure and transparency, and other aspects.

This research uses simple linear regression because there is only one independent variable X needed with one dependent variable Y and for shows how far the influence of this research, using t test for hypothesis testing with a confidence level of 95% and an analysis error is 5%.

RESULTST

Table 1. Hypothesis test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	10.937	1	10.937	1.474	.012 ^b
Residual	22.263	3	7.421		
Total	33.200	4			

a. Dependent Variable: KK (Y)

b. Predictors: (Constant), GCG (X)

Based on table 1, we can see that the sig value of 0.012 is smaller than the alpha significance value of 0.05 which indicates that Ho is rejected or Ha is accepted, which means that there is an influence between the implementation of GCG on financial performance.

Table 2. Coefficient determination

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	69.057	33.347		2.071	0.130
GCG (X)	0.531	0.437	0.574	3.214	0.012

a. Dependent Variable: KK (Y)

Based on table 2, it produces a value of a = 69,057, means that if there is no GCG, the consistent value of financial performance is 69,057. The value of b = 0.531, this number means that for every 1% addition to the GCG level, financial performance will increase by 0.531 so the regression equation is $Y = 69,057 + 0.531X$

Based on the hypothesis testing, the t-count value is 3.214 and t table is 3.182. Due to the value of t count > t table, then Ho is rejected and Ha is accepted, meaning that good corporate governance has an influence toward financial performance.

DISCUSSION

The results of the research that has been carried out show that the implementation of Good Corporate Governance at PT. Perusahaan Listrik Negara (PLN) for the 2014-2018 period is in the very good category. This is clearly visible in the table of self-assessment results carried out by PT. Perusahaan Listrik Negara (PLN). Judging from the indicators for assessing good corporate governance, which consists of 6, namely commitment to implementing good corporate governance in a sustainable manner, shareholders and GMS/capital owners, board of commissioners/supervisory board, directors, disclosure of information and transparency, as well as other aspects of the company has a high score due to internal problems at PT. Perusahaan Listrik Negara (PLN) which involves one aspect of Good Corporate Governance assessment, namely the board of directors which lacks transparency in presenting financial reports.

Commitment to implementing good corporate governance on an ongoing basis is influenced by the company having a good corporate governance code and code of conduct. The company implements good corporate governance guidelines and codes of conduct consistently by coordinating the management and administration of state administrators' wealth reports,

gratification control programs in accordance with applicable regulations, implementing policies on the reporting system for suspected irregularities in the company (whistle blowing system).

Shareholders have made the necessary decisions to safeguard the company's long-term and short-term business interests in accordance with statutory regulations and/or articles of association, approved the annual report including ratification of financial reports and implemented good corporate governance in accordance with authority and responsibility. The board of commissioners carries out continuous training/learning programs, divides tasks and determines the factors needed to support the implementation of tasks.

The Board of Directors carries out continuous training/learning programs, divides of tasks/functions, authority, and responsibility clearly. The Board of Directors prepares company plans, plays a role in fulfilling company performance targets, carries out operational and financial control over the implementation of company plans and policies.

Information disclosure and transparency are influenced by the company providing company information to stakeholders regarding company information that is relevant, adequate, and reliable in a timely. The company discloses important information in annual reports and financial reports in accordance with statutory regulations, and receives awards in the field of GCG and other fields. Other aspects are influenced by corporate governance practices to become benchmarks for other companies in Indonesia according to guidelines for implementing good corporate governance.

Based on the results of research that has been carried out, it is known that the implementation of financial performance at Perusahaan Listrik Negara (PLN) for the 2014-2018 period has not been very good, looking at several financial ratios which still produce negative ratios. However, there are several developments each year, although sometimes the movements fluctuate. This is clearly visible in the financial ratio table calculated by Perusahaan Listrik Negara (PLN). Judging from the indicators of good financial performance of state-owned companies which consist of 8 ratios, namely ROE (Return on Equity), ROI (Return on Investment), cash ratio, current ratio, collection period, inventory turnover, total asset turnover, ratio of own capital to total assets.

The financial performance of PT Perusahaan Listrik Negara (PLN) has started to improve, although it is not consistent every year. Fluctuations in the results of financial ratios in this

company show that there must be improvements every year so that they can improve the company's financial performance.

In the test, the factors contained in Good Corporate Governance are commitment to implementing good corporate governance in a sustainable manner, shareholders and GMS/capital owners, board of commissioners/supervisory board, directors, disclosure of information and transparency, as well as other aspects of the company have a role is important in improving good corporate governance and can be seen from the resulting scores which are increasing from year to year. And the factors contained in financial performance are ROE, ROI, Cash Ratio, Current Ratio, Collection Period, Inventory Turnover, Total Asset Turnover, Ratio of own capital to total assets are also factors that show how far where the results of the company's financial performance in a certain period from year to year, although the results fluctuate, can show increases and decreases that are not too drastic so that it does not always make the company in good condition and included in the middle category.

The better the implementation of Good Corporate Governance, the better the company's financial performance or the worse the implementation of Good Corporate Governance, the worse the company's financial performance. The results of this research are in line with (Hisamuddin & K, 2015) and (Praningrum & Mardiaty, 2016) which show that the better the implementation of GCG in a company can result in the company's operational activities being more effective and efficient, which in turn will increase financial performance. On the other hand, the results of this research contradict previous research conducted by (Aprinita, 2016) and (Ferial, Suhadak, & Handayani, 2016) which concluded that the independent variable, namely Good Corporate Governance, does not have a significant influence on the dependent variable, namely financial performance.

CONCLUSION

Based on the results of this research that GCG has an influence to the financial performance at PT. Perusahaan Listrik Negara (PLN). The suggestion in this study for companies is to further improve good corporate governance in communication and transparency indicators so that there are no suspicions or concerns who think negatively about the company's non-transparency in implementing programs and non-compliance with applicable regulations, by means of companies must be more transparent in reporting financial statements. and responsive to what the public wants so that there will be no negative allegations against the company.

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