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Good Corporate Governance and Company Size on Financial Performance

(Empirical Study of Companies Registered on the Jakarta Islamic Index (JII) for 2019-2021)

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Abstract: This study aims to examine the effect of Good Corporate Governance by the board of commissioners, board of directors, audit committee, independent commissioners, institutional ownership and company size on financial performance. The population of this study are companies registered on the Jakarta Islamic Index (JII) from 2019 to 2021. Sampling was carried out using the purposive sampling method, based on the specified criteria obtained a sample of 20 companies. The data analysis technique uses the classical assumption test and multiple regression analysis with SPSS 24. The results of this study indicate that the Board of Commissioners has no effect on Financial Performance, the Board of Directors has no effect on Financial Performance, the Audit Committee has no effect on Financial Performance, Independent Commissioners have a positive effect on Financial Performance, Institutional Ownership has no effect on Financial Performance, and Company Size has no effect on Financial Performance.

Keywords: financial performance, good corporate governance, board of commissioners, board of directors, audit committee, independent commissioners, institutional ownership, company size

I. INTRODUCTION

The development of business in this era of globalization is increasingly advanced and modern, causing competition in the business world to become increasingly stringent. The impact of this competition requires companies to maintain and improve their business performance. This is because the company's performance is the main thing that investors see when evaluating a company so that they can make the right decision to invest their funds in that company.

The role of investors also contributes to funding the operational activities of a company by investing capital and of course expecting a large return on the investment. Therefore, in carrying out its business, in addition to increasing profits, the company will also be able to increase the efficiency of the company to avoid financial problems, thus ensuring the sustainability of the company (Nurhidayah, 2020). One way to ensure the sustainability of the company is to improve the company's financial performance. Financial performance is an analysis to assess the extent to which a company has carried out activities according to the rules of financial implementation. This means that financial performance can provide an overview of the company's success in the form of results achieved from various activities that have been carried out (Fahmi, 2013 in Fitriyani, 2021).

One of the factors that influence financial performance, namely the implementation of good corporate governance and the principles of good corporate governance, this must be done by every company so that the company can survive and be sustainable in increasingly fierce competition, so that companies can implement business ethics comprehensively and consistent and able to create a healthy business, efficient and transparent business climate. However, in reality, many companies do not work according to standards and concepts. This is caused by poor internal control that leads to

financial irregularities and scandals that have a negative impact on the company in the long term. To prevent irregularities in the company, good and correct corporate governance is needed (Fahmi & Rahayu, 2017; Aprilia, 2021).

One of the benefits of implementing good corporate governance (GCG) is increasing company efficiency by creating better decision-making processes, increasing company operational efficiency and further improving the services provided to stakeholders. Therefore, most companies that implement good corporate governance (GCG) tend to outperform companies that do not implement good corporate governance (GCG) both in terms of operational and financial performance (FCGI in Nisa, 2022).

In addition, it is indicated that company size can affect the company's financial performance, because with a large company size, it has an excess of sources of funds obtained to finance its investment in obtaining profits. Large companies that are well estabilished will find it easier to obtain capital in the capital market compared to small companies.

Financial performance is an explanation of the company's financial condition in a certain period related to various aspects such as raising and distributing funds based on indicators of capital adequacy, liquidity and profitability (Jumingan, 2006; 239 in Abdul Malik, 2022). Financial performance in this study is measured using profitability ratios, namely Return On Assets (ROA). ROA is calculated by dividing net income by total assets. The reason for using ROA to measure a company's financial performance is related to profits and financial statements are used to evaluate business performance (Pradhono et al, (2004) in Haryolaksito, (2020).

Over time, more and more Islamic capital markets have emerged. In Indonesia, one of the Islamic capital market instruments is the Jakarta Islamic Index (JII). JII is a stock index in Indonesia which consists of the 30 most liquid Islamic stocks listed on the IDX. Sharia stocks included in JII are stocks that have passed the selection criteria from the Financial Services Authority (OJK) and IDX (Hartini, 2018; Prameswari et al., 2019). When the Jakarta Islamic Index was launched from 2000-2007 it has experienced an increasing trend. At the same time, the performance of other indices such as the Jakarta Composite Index (IHSG) also fluctuated, as did the LQ-45 index. This phenomenon leads to the conclusion that the performance of companies belonging to the JII group continues to increase and is more stable, even though the JII group is a relatively new group of companies on the Indonesian stock market compared to the LQ-45 index and the IHSG. Because companies listed on JII continue to improve their performance and do not contain speculative elements or fixed profits, it is assumed that companies are more fair in dividing their company's profits (Haryolaksito, 2020).

Based on the results of previous studies, inconsistent results were found, so that the researchers were bothered to conduct another study "The Influence of Good Corporate Governance and Company Size on the Financial Performance of Study Companies in Companies Registered on the Jakarta Islamic Index (JII) in 2019-2021".

The formulation of the research problem is whether the board of commissioners, board of directors, audit committee, independent commissioner, institutional ownership and company size affect financial performance. So the purpose of this study is to examine the effect of the board of commissioners, board of directors, audit committee, independent commissioners, institutional ownership and company size on financial performance.

II. HEADINGS

Agency Theory

Agency theory is the basis used to explain corporate governance. Agency theory explains conflict of interest and information asymmetry between principal and agent. Different interests, principals (shareholders) want greater and faster returns from the money or capital they invest in the company, while agents want maximum compensation or an intensive way to accommodate them in running and managing company performance (Sutedi, 2011 in Aprilia 2021).

Financial performance

Financial performance is an analysis carried out by the company to see how far the company has carried out in accordance with the rules for implementing financial reports correctly and properly. Prepare financial reports in accordance with SAK or GAAP and other applicable standards or regulations (Fahmi, 2013 in Suaidah & Setyoningrum (2021).

Good Corporate Governance

Good corporate governance is a set of rules that determine the relationship between management stakeholders, creditors, government, employees and other internal and external stakeholders with respect to their rights and obligations, or in other words the system that directs and controls the company (Nisa, 2022).

Board of Commissioners

The board of commissioners as the core of corporate governance, which is responsible for ensuring the implementation of corporate strategy, overseeing management in managing the company, and demanding accountability (Fahmi & Rahayu, 2017).

Board of Directors

The board of directors is a board elected by the shareholders, whose job is to oversee the work in managing the company to fulfill the interests of the shareholders. The board of directors in a company is very important to achieve effective communication between board members. Good communication increases management control within the company so that management can reduce deviant behavior (Defalina & Aminar, 2016 in Nurhidayah, 2020).

Audit Committee

Based on the Indonesian Stock Exchange's decision through the Directors Decree 315/BEJ/06/2000 in Nurmughny Sulaiman et al., (2021) states that the audit committee is a committee formed by the company's board of commissioners, whose members are appointed and dismissed by the board of commissioners, whose job is to assist in carrying out checks deemed necessary on the implementation of the board of directors' functions in managing the company.

Independent Commissioner

The task of the independent board of commissioners is to encourage the application of the principles of good corporate governance in the company by carrying out their oversight duties effectively and providing advice to the board of directors in the event of irregularities in the management of the company. The increasing number of independent commissioners will show that the supervisory and coordinating functions of the independent commissioners will be better (Hidayat et al., 2021).

Institutional Ownership

According to Permanasari, (2010) in Suaidah & Setyoningrum (2021) Institutional ownership is the ownership of shares of a company by institutions or institutions such as insurance companies, banks, investment companies and other institutions.

Company Size

Company size is a measure in measuring the size of the company according to the existing classification. The size of the company is divided into 3 (three) sizes, namely large, medium and small. Company size reflects the amount of total assets owned by the company (Isbanah, (2015) in Hanifah & Hariyati, 2021).

III. Indentations and Equations

Data analysis method

Methods of data analysis in this study using multiple linear regression analysis method. Multiple regression analysis consists of Simultaneous Test (F Test), Partial Test (T Test) and the Coefficient of Determination (R2). Before testing the hypothesis on multiple linear regression, first do a classic assumption test. The classic assumption test in this study consists of a normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test with the help of the SPSS version 24 program. The following equations are used in the research of multiple linear regression analysis:

$KK = \alpha + \beta1DK + \beta2DD + \beta3KA + \beta4KIND + \beta5KI + \beta6UP + e$

Information :

KK = Financial Performance

α = Constant

β1 - β6 = Regression coefficient

DK = Board of Commissioners

DD = Board of Directors

KA = Audit Committee

KIND = Independent Commissioner

KI = Institutional Ownership

UP = Firm Size

e = Errors

IV. FIGURES AND TABLES

4.1 Descriptive Statistical Analysis

Table 1. Descriptive statistics

Variable	N	Minimum	Maximum	Means	std. Deviation
board of Commissioners	60	3,00	10,00	5,9500	1,82659
Board of Directors	60	4,00	11,00	6,7667	1,93423
Audit Committee	60	2,00	7,00	3,4833	0,87317
Independent Commissioner	60	20,00	83,00	42,0667	12,72108
Institutional Ownership	60	2,00	357,00	61,0667	44,67163
Company Size	60	30.95	3326,00	3103,7992	412,99893
ROA	60	0,00	36,00	8,2833	7,62710
Valid N (listwise)	60				

Source: data processed by the author, 2023

Based on the results of the descriptive statistical test presented in table 1shows that the average value of a company's financial performance as measured by ROA is 8,2833 with a standard deviation value of 7,62710. This means that the average company that is included in the JII group has the ability to generate a net profit on the management of all assets of 82,83%. Thus the company's performance is quite good because it is able to generate a net profit of around 82,83% of all existing assets. The minimum value of the financial performance of companies included in the JII group is 0,00. While the maximum value of the company's financial performance is 36,00.

The results of the descriptive analysis on the board of commissioners variable obtained an average value of 5,9500 with a standard deviation of 1,82659. This value can be interpreted thatthe average number of commissioners in the sample companies is 6 people. The minimum value of the board of commissioners is 3 and the maximum value of the board of commissioners is 10.

The results of the descriptive analysis on the board of directors variable show that, during the study period, it has an average value of 6,7667 with a standard deviation of 1,93423. This value means that the average number of board of

directors of the sample companies is 7 people. The minimum value of the board of directors is 4and the maximum value of the board of directors is 11.

The results of the descriptive analysis on the audit committee variable show that, during the study period, it has an average value of 3,4833 with a standard deviation of 0,87317. This value means that the majority of the sample company's audit committee is 4 people. The minimum value of the audit committee is 2 andmaximum value of 7.

The results of the descriptive analysis on the independent commissioner variable obtained an average value of 42,0667 with a standard deviation of 12,72108. This value means that on average the company has an independent board of commissioners of 42.07% of the total existing board of commissioners. This means that the company already has independent commissioners who are good at monitoring the performance of directors, and meet the standards and rules of BAPEPAM, namely a minimum of 30% of the existing commissioners are independent commissioners.The minimum value for independent commissioners is 20 and the maximum value is 83.

The results of the descriptive analysis on institutional ownership (IC) during the study period have an average value of 61,0667 with a standard deviation of 44,67163. This means that of the 20 companies included in the JII group listed on the IDX, the average share ownership by institutions is 61,067%. This means that institutional ownership is quite high in company share ownership. The minimum value of institutional ownership is 2 dan maximum value of 3,57.

Descriptive results on the average company size is equal to 3103,7992 (Log) with standard deviation 412,99893. Score minimum company size of 30,95. While the maximum value of company size is 33,26.

4.2 Classical Assumption Test

4.2.1 Normality Test

The normality test results use the Kolmogorov-Smirnov test. In this study, the Asymp value was generated. Sig. (2-tailed) of 0,200. It can be concluded that the residual data in this regression model is normally distributed because the Asymp value. Sig. (2-tailed) above 0,05.

4.2.2 Multicollinearity Test

Table 2. Multicollinearity Test Result Test

Variable	Tolerance	VIF	Conclusion
board of Commissioners	0,842	1,187	There is no multicollinearity
Board of Directors	0,693	1,444	There is no multicollinearity
Audit Committee	0,860	1,163	There is no multicollinearity
Independent Commissioner	0,732	1,366	There is no multicollinearity
Institutional Ownership	0,947	1,056	There is no multicollinearity
Company Size	0,935	1,069	There is no multicollinearity

Source: data processed by the author, 2023

Based on the results of the multicollinearity test analysis above, VIF values were obtained ranging from 1,056 to 1,444, all of which had values below 10. Thus the regression model of this study did not contain symptoms of multicollinearity and could be used for further analysis.

4.2.3 Heteroscedasticity Test

Based on the results of the heteroscedasticity test, it shows that the Scatter Plot graph above has a distribution pattern with data patterns spread above and below 0 on the Y axis, so it can be said that the regression model has no symptoms of heteroscedasticity.

4.2.4 Autocorrelation Test

Table 3
Summary model[b]

Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin Watson
1	,592a	,350	,277	6,48710	,894

Source: data processed by the author, 2023

Based on table 3, the results of the Durbin Watson test in the regression model obtained a number of 0,894. These values are -2 to +2 so it can be concluded that the regression model does not have autocorrelation.

4.3 Multiple Regression Analysis

Table 4. Results of Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	std. Error	Beta		
(Constant)	-0,293	7,791		-0 038	0,970
board of Commissioners	-0,028	0,504	-0,007	-0,055	0,956
Board of Directors	-0,032	0,525	-0,008	-0,061	0,952
Audit Committee	-0,101	1,043	-0,012	-0,097	0,923
Independent Commissioner	0,333	0,078	0,555	4,288	0,000
Institutional Ownership	0,025	0,019	0,145	1,276	0,208
Company Size	-0,002	0,002	-0,108	-0,945	0,349

Source: data processed by the author, 2023

Based on the results of the multiple linear regression analysis above, the regression equation model is as follows:

KK =–0,293 –0,028DK – 0,032DD – 0,101KA + 0,333KIND + 0,025KI + 0,002UP

The constant value is -0,293. This result can be interpreted that if the value of all independent variables is 0, then the value of financial performance will be -0,293.

4.3.1 Test of the Coefficient of Determination (R2)

Table 5. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	0,592a	0,350	0,277	6,48710

Source: data processed by the author, 2023

The results of the analysis of the coefficient of determination, the value of the coefficient of determination (Adjusted R Square) is 0,277. From these results it can be concluded that the magnitude of the variation in the independent variables influencing financial performance is 27,7% and the remaining 72,3% is influenced by other variables not included in the regression model.

4.3.2 Simultaneous Test (Test F)

Table 6. Simultaneous Test Results (Test F)

	Model	Sum of Squares	Df	MeanSquare	F	Sig.
1	**Regression**	1201,814	6	200,302	4,760	0,001b
	Residual	2230,370	53	42,082		
	Total	3432,183	59			

Source: data processed by the author, 2023

In Table 6 it can be seen that the F test shows a significant value of 0,001. The significant value is less than 0,05. This indicates that the independent variable has a simultaneous effect on the dependent variable. That is, any changes that occur to the board of commissioners, board of directors, audit committee, independent commissioners, institutional ownership and company size jointly affect financial performance.

4.3.3 Partial Test (T Test)

Table 7. T test results

Variable	t_{count}	Sig.	Information
board of Commissioners	-0,055	0,956	**Rejected**
Board of Directors	-0,061	0,952	**Rejected**
Audit Committee	-0,097	0,923	**Rejected**
Independent Commissioner	4,288	0,000	**Be accepted**
Institutional Ownership	1,276	0,208	**Rejected**
Company Size	-0,945	0,349	**Rejected**

Source: data processed by the author, 2023

Based on table 7 above, it is known that the independent commissioner variable has an effect on financial performance. This is proven bythe sig value of profitability is 0,000 <0,05 and the sig value of the independent commissioners is 0,000. while the variables of the board of commissioners, board of directors, audit committee, institutional ownership and company size have no effect on financial performance. It is proven that the significance value is greater than 0,05.

4.4 Discussion of Analysis Results

Influence of the Board of Commissioners on Financial Performance

The results of the data analysis show that the board of commissioners variable has a value of Sig. which is greater than the predetermined significance, namely 0,956 < 0,05. So the hypothesis is rejected, where the board of commissioners variable has no effect on financial performance.

Influence of the Board of Directors on Financial Performance

The results of the data analysis show that the board of directors variable has a Sig value. which is greater than the predetermined significance, namely 0,952 < 0,05. So the hypothesis is rejected, where the variable of the board of directors has no effect on financial performance. The bigger the board of directors will not improve the company's financial performance. A board of directors that is too large can make the process of seeking agreements and making decisions difficult, lengthy, and protracted so that the board of directors cannot carry out its duties effectively.

The Influence of the Audit Committee on Financial Performance

The results of the data analysis show that the audit committee variable has a Sig value. which is greater than the predetermined significance, namely 0,923 < 0,05. So the hypothesis is rejected, where the audit committee variable has no effect on financial performance. The high or low number of audit committees in the company does not affect the ups and downs of financial performance.

The Influence of Independent Commissioners on Financial Performance

The results of the data analysis show that the leverage variable has a Sig value. smaller than the predetermined significance level of 0,000 < 0,05. So the hypothesis is accepted, where the independent commissioner variables affect financial performance.

Effect of Institutional Ownership on Financial Performance

The results of the data analysis show that the institutional ownership variable has a Sig value. which is greater than the predetermined significance, namely 0,208 < 0,05. So that the hypothesis is rejected, where the institutional ownership variable has no effect on financial performance. This means that the size of the shares owned by the institution does not result in fluctuations in the company's financial performance.

The Effect of Company Size on Financial Performance

The results of data analysis show that the company size variable has a Sig value. which is greater than the predetermined significance, namely 0,349 < 0,05. So the hypothesis is rejected, where the variable firm size has no effect on financial performance. The size of a large company with large total assets does not necessarily make the company's financial performance better, it is possible that too many assets owned by a company can cause a lack of management of its current assets.

V. CONCLUSION

Based on the results of the analysis and discussion that has been described, then the following conclusions can be drawn: The board of commissioners has no effect on financial performance. The board of directors has no effect on financial performance. This is meaningful the larger the board of directors will not improve the company's financial performance. A board of directors that is too large can make the process of seeking agreements and making decisions difficult, lengthy, and protracted so that the board of directors cannot carry out its duties effectively.. The audit committee has no effect on financial performance. This is meaningful The high or low number of audit committees in the company does not affect the ups and downs of financial performance. Independent commissioners have an effect on financial performance. Institutional ownership affects financial performance. This is meaningful This means that the size of the shares owned by the institution does not result in fluctuations in the company's financial performance. And company size has no effect on financial performance. This is meaningful The size of a large company with large total assets does not necessarily make the company's financial performance better, it is possible that too many assets owned by a company can cause a lack of management of its current assets.

Limitations

Some of the limitations of this research include:

1. The sample in this study was limited to companies listed on the Jakarta Islamic Index (JII) so that the research results cannot be generalized to other types of companies.
2. The observation period in this study was only three years, namely 2019-2021.so that it cannot yet reflect the condition of the companies as a whole.
3. The results of the analysis of the coefficient of determination show the magnitude of the variation of the independent variable in influencing financial performance is equal to 27,7% while the remaining 72,3% is explained by other variables not used in this study.

Suggestion

With the limitations in this study, the authors provide suggestions to further researchers as follows:

1. For future researchers, it is expected to increase the number of samples with other types of industries. So that it is expected to produce better research results.
2. For future researchers, it is expected to increase the observation period so that it is expected to produce better research results.
3. For future researchers, it is expected to add other variables not included in this study which may have an influence on financial performance. Like variables liquidity, leverage, age or dividend policy.

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