Can Good Corporate Governance Influence the Firm Performance? 
Empirical Study from Indonesia Transportation Firms
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Abstract
Good corporate governance is one factor for the company to improve its performance and maximize shareholder value. The principles of transparency, accountability, responsibility, independence, and fairness are guidelines that must be used by all corporate entities in every company activities; therefore, they can run effectively and efficiently. However, the data shows that the implementation of good corporate governance in Indonesia is still low. Policies and regulations made by the government and companies can improve the low level of good corporate governance. Hence it can improve company performance, especially in terms of financial performance. This study aims to determine the effect of good corporate governance through managerial ownership, independent commissioners, and the board of directors on the company’s financial performance through Return on Assets in transportation sub-sector companies listed on the Indonesia Stock Exchange. The data collection method uses secondary data in the form of company annual reports from 2017-2019. The data analysis technique used regression analysis with panel data. The research findings show that managerial ownership, independent commissioners, and the board have no effect on financial performance as proxied by Return on Assets.


Abstrak

JEL Classification: G21, G30, G32
DOI: https://doi.org/10.26905/afr.v4.i1.6017

1. Introduction
The performance of a company’s financial statements is one approach to evaluate the company performance. Financial statements are pre-
pared to offer information on a company's financial status, performance, and financial position, which will be used for various decision-making purposes in the company. The maximum company value can be reflected in the amount of money and the increase in profits received by shareholders (Chen & Al-Najar, 2012; Haryanto et al., 2018; Putri et al., 2018; Suhandak et al., 2019; Banamtuian et al., 2020; and Jemunu et al., 2020). Company value is influenced by many factors, one of which is through good corporate governance (GCG). According to SOE Minister Regulation PER-01/MBU/2011, The principles of Good Corporate Governance, transparency, accountability, responsibility, independence, and fairness are guidelines that must be followed by all corporate entities, including company leaders and employees, in taking every action, making decisions, and following rules that support the company's and shareholders' interests. These principles must be implemented following the rules set by the government and the company. The components of GCG must be related to one another, because if the company has complied with and used the GCG principle guidelines, the company's performance will definitely be better, so that from the financial side, namely profit, will also increase. Be-sides, a good governance system will produce a long-term economic value that is sustainable for shareholders and other stakeholders. Therefore, GCG does not only have a positive impact on shareholders but also for stakeholders, especially the broader community that supports the national economy.

The application of good corporate governance in Indonesia is still considered low. According to the ACGA (Asian Corporate Governance Association), in 2018, Indonesia's corporate governance score is still at the bottom of 34% of the twelve countries and still inferior to other southeast Asian countries such as the Philippines, Thailand, Malaysia, and Singapore. Indonesia has also made little progress in corporate governance reform, with governance low on the government's agenda. The securities regulator is isolated, and the stock exchange puts little focus on corporate governance. The assessment is based on the lack of firmness in enforcement regulations and activities related to corporate governance, lack of participation by IDX in promoting better corporate governance, rules on related party transactions and other major areas of shareholder rights that remain far behind best practice, and the absence of blackout rules for insiders, especially in the capital market, and the lack of information on the OJK website, especially the availability of timely data in English.

Some cases in Indonesia, such as one of the listed transportation companies, Garuda Indonesia, involves financial reporting originating from the detected manipulation (Pratiwi, 2019). Hence, a good governance system can improve the quality of transparency, accountability, and responsibility, especially in financial reporting (Farzad Eivani, 2012; and Safkaur et al., 2019). The Indonesian government has made several attempts to improve good corporate governance, especially public companies listed on the Indonesia Stock Exchange. It aims to make the corporate governance level of listed companies equivalent to corporate governance in the ASEAN region (OJK, 2015).

Moreover, the company maximizing the wealth and value of shareholders can be achieved if the shareholders (principal) give the company's management to professionals who are referred to as managers (agents). However, the relationship between agent and principal is often tinged with conflict. Agency conflicts are conflicts of interest between managers and shareholders caused by the separation of ownership and control, in which the manager maximizes his utility at the expense of shareholder value (Ducassy & Montandrau, 2015; Badu & Appiah, 2017; Naimah & Hamidah, 2017; Dethamrong et al., 2017; Lee & Chu, 2017; and Ducassy & Guyot, 2017). Agency conflict will impact the relationship between the principal and the agent becomes terrible and will also affect the company's financial performance.

One way to minimize the conflicts between principals and agents is through managerial ownership. Managerial ownership is the ownership of shares by firm management as a percentage of the total number of shares owned (Santi & Wardani, 2018). The importance of GCG in Indonesia is marked by the emergence of additional organs in the company's structure. These organs are not directly affiliated with the company. These additional organs are independent commissioners, independent directors/unaffiliated directors, audit committees, and company secretaries.

Research conducted by Pillai & Al-Malkawi (2018); Liu et al. (2018); Bhagat & Bolton (2019); Hady (2019); Arniti et al., (2019); and Bhagiawan & Mukhlasin (2020) shows a positive influence between the independent board of commissioners on firm performance as measured by ROA. However, research conducted by Aryani et al. (2017);
Herdjiono & Sari (2017; Eksandy, 2018; and Putri & Zarefar, 2020) shows that the independent board of commissioners have a negative effect on firm performance. Moreover, research by Taufil-Mohd et al. (2013); Bijalwan & Madan (2013); Amran et al (2013); Kamardin (2014); Rashid (2020) and Dakhllah et al. (2021) shows that there is a positive and significant effect between managerial ownership and corporate firm performance (ROA). On the other hand, research by Wiranata & Nugrahanti (2013) shows that that managerial ownership have a negative effect on ROA. The research also conducted by Rahmawati et al (2017) and Ahmed et al. (2018) shows positive influence between board of directors on firm performance. Meanwhile, according to the research conducted by Latief et al. (2014) shows that there is negative relationship between board of directors on financial performance. Therefore, based on the results of the previous studies and the phenomena that has been described, the author interested in examining the effect of good corporate governance that proxied by managerial ownership, independent commissioner and board of directors on financial performance through Return on Asset at transportation sub sector companies listed on Indonesia Stock Exchange partially and simultaneously.

2. Hypothesis Development

The Influence of Managerial Ownership on Firm Performance

Jensen and Meckling (1976) stated that a higher level of managerial ownership structure increases firm performance due to incentives. Managerial ownership acts as a direct incentive for managers to behave in the best interests of the shareholders. The higher the percentage of shares owned by top executives, the more likely the manager will make decisions that maximize shareholder wealth.

According to Amran et al (2013) and Kamardin (2014), Insider ownership of a firm’s equity is predicted to boost the firm value as internal and external interests realign. Therefore, it is resulting in less conflict among the shareholders. Management is positively associated with improved asset utilization efficiency, which indicates lower agency costs and is projected to increase firm value as internal and external interests are aligned. Hence, it can reduce conflict between shareholders, which can also impact the firm performance. This is also in line with Kamardin (2014), where the results of his re-search show that managerial ownership affects on the firm performance through ROA.

H2: Managerial ownership has a significant influence on Firm Performance.

The Influence of Independent Commissioner on Firm Performance

An independent board of commissioners can improve the supervisory function in the company because independent commissioners have no family or business relationship with the directors or shareholders, hence reducing agency problems and preventing opportunistic behavior. Jensen and Meckling (1976) stated that the greater the number of monitors, the lower the likelihood of conflict occurring and ultimately lowering agency costs.

According to the KNKG (2006), the number of independent commissioners must ensure that the supervisory mechanism runs effectively and by statutory regulations. With independent commissioners as a separate organ in the company, it is hoped to reduce agency problems. With an independent board of commissioners, both majority and minority shareholders are not neglected because independent commissioners are more neutral towards decisions made by managers (Pusptiasari & Ernawati, 2010). An independent board of commissioners can help the company avoid external threats to maintain company resources to get more profit, which can improve financial performance (ROA). This is supported by research conducted by Sarafina & Saif (2017), which states that the independent commissioner affects the company’s financial performance through ROA.

H2: Independent Commissioner has a significant influence on Firm Performance.

The Influence of Board of Directors on Firm Performance

As an essential organ in the company, the Board of Directors is assigned and responsible collegially for managing the company each member of the Board of Directors has their own duties and authorities, therefore that they can carry out their duties and make decisions based on the division of tasks and authorities. However, the implementation of these duties and decisions is a shared responsibility (KNKG 2006). The number of board members is considered a factor affecting company performance. The Board of Directors’ composition must be adjusted towards the need and development of the company. The composition of the
Board of Directors must also be such that it allows for an effective, precise, and fast decision. It can make and act independently in the sense that it does not have an interest that could interfere with its ability to carry out its duties independently and critically (Danir, 2014:105). However, there is no one optimal measure for the board. The size of the board of directors can vary from country to country due to the different cultures in each country (Zabri et al., 2016; Alqatamin, 2018; and Ajili & Bouri, 2018).

From an agency perspective, it can be argued that a larger proportion of boards tend to be wary of agency problems simply because more board members will review management actions. Larger numbers of board members tend to have more knowledge and skills at their disposal, and the abundance of perspectives they gather tends to increase cognitive conflict (Fauzi & Locke, 2012). Because more members of the board of directors in the company, it can increase the board of directors’ ability as the party who runs the company’s operational activities. Because, with a large number of boards of directors who have their respective expertise and abilities according to their specialization and experience, it is expected to improve the firm performance. This is also supported by Rahmawati et al. (2017) and Ahmed et al., (2018) which state that the board of directors affects the firm as proxied through ROA.

H3: Board of Directors has a significant influence on firm Performance.

3. Data and Method

The type of data used in this study is panel data, which consist of cross-section and time-series data. This study uses panel data, which is three years from 2017 to 2019. Based on the shape or characteristics of the data, this study uses quantitative data. Quantitative data used in this research is in the form of the company’s annual report through the company’s financial statements. Based on the source of data collection, the data used in this study is secondary data. The research data is sourced from transportation sub-sector companies listed on the Indonesia Stock Exchange (BEJ). Secondary data was collected by using the documentation technique. The sampling technique used is the non-probability sampling method through purposive sampling with some criteria 1) Transportation sub-sector companies in Indonesia registered on IDX in 2017-2019. 2) Transportation sub-sector companies that do not consistently publish annual reports in 2017-2019. 3) Transportation sub-sector companies that do not have data related to the variables in 2017-2019. The number of samples is 18, with 54 observations. The firm performance is measured using return on assets obtained from net income divided by total assets. Meanwhile, good corporate governance as an independent variable is proxied through managerial ownership, divided by the number of outstanding shares. The proportion of independent commissioners is calculated by adding up the independent boards of commissioners in the company and then dividing by the number of boards of commissioners in the company. The board of directors is calculated by adding up the board of directors in the company. The data analysis technique used panel data regression analysis.

4. Result

Descriptive Analysis

The mean of MOWN (Managerial Ownership) data is 0.083, it means that the average of managerial ownership owned by the board of commissioners and directors of transportation sub-sector companies from 2017-2019 is 0.083. The median of Managerial Ownership (MO) data is 0.005, the maximum value of Managerial Ownership (MO) data is 0.602, the minimum value of Managerial Ownership (MO) data is 0.000. With a standard deviation it can be seen that the level of data distribution (variance) Managerial Ownership (MO) deviates from an average of 0.152.

The mean of the Independent Commissioner (IC) data is 0.418, it means that the average of the proportion of independent commissioner of transportation sub-sector companies from 2017-2019 is 0.418. The median of the Independent Commissioner (IC) data is 0.330, the maximum value of the Independent Commissioner (IC) data is 0.670, the minimum value of the Independent Commissioner (IC) data is 0.250. With a standard deviation, it can be seen that the level of data distribution (variance) of the Independent Commissioner (IC) deviates from an average of 0.123.

The mean of the data for the Board of Directors (BOD) is 4.130, it means that the average of the proportion of board of directors of transportation sub-sector companies from 2017-2019 is 4.129630. The median of the data for the Board of Directors (BOD) is 4, the maximum value of the data for the Board of Directors (BOD) is 6, the minimum value for data for the Board of Direc-
tors (BOD) is 3.000. With a standard deviation it can be seen that the level of data distribution (variance) of the Board of Directors (BOD) deviates from an average of 0.802.

Table 1. Statistic Descriptive

<table>
<thead>
<tr>
<th></th>
<th>Y</th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>-0.023</td>
<td>0.083</td>
<td>0.418</td>
<td>4.130</td>
</tr>
<tr>
<td>Median</td>
<td>0</td>
<td>0.005</td>
<td>0.330</td>
<td>4.000</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.170</td>
<td>0.602</td>
<td>0.670</td>
<td>6.000</td>
</tr>
<tr>
<td>Maximum</td>
<td>0.040</td>
<td>0.000</td>
<td>0.250</td>
<td>3.000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.996</td>
<td>0.152</td>
<td>0.122</td>
<td>0.802</td>
</tr>
</tbody>
</table>

Where: Y = Firm Performance, X1 = Managerial ownership, X2 = Independent Commissioner, X3 = Board of Directors.

Based on the results of the normality test of the data, it shows that the data is normally distributed. The classical assumption test in the form of autocorrelation test, heteroscedasticity test, and multicollinearity test showed that there was no autocorrelation, no heteroscedasticity and no inter-independent multicollinearity, so that the data could be tested for regression.

Multiple Regression Analysis

Based on data that has been processed in the classical assumption test, it can be stated that all data in this study are normal, multicollinearity, heteroscedasticity, and autocorrelation do not occur. Therefore that the processed data can meet the requirements for multiple regression models. This multiple regression analysis can be seen as table 2.

Table 2. Result of Multiple Regression

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.009</td>
<td>0.097</td>
<td>-0.090</td>
<td>0.929</td>
</tr>
<tr>
<td>MOWN</td>
<td>-0.040</td>
<td>0.123</td>
<td>-0.321</td>
<td>0.750</td>
</tr>
<tr>
<td>IC</td>
<td>0.201</td>
<td>0.132</td>
<td>1.522</td>
<td>0.134</td>
</tr>
<tr>
<td>BOD</td>
<td>-0.023</td>
<td>0.018</td>
<td>-1.287</td>
<td>0.204</td>
</tr>
<tr>
<td>Effects Specification</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cross-section random</td>
<td></td>
<td></td>
<td>0.068</td>
<td>0.499</td>
</tr>
<tr>
<td>Idiosyncratic random</td>
<td></td>
<td></td>
<td>0.068</td>
<td>0.501</td>
</tr>
<tr>
<td>Weighted Statistics</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R-squared</td>
<td>0.096</td>
<td>Mean dependent var</td>
<td>-0.011</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.042</td>
<td>S.D. dependent var</td>
<td>0.067</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.066</td>
<td>Sum squared resid</td>
<td>0.218</td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>1.779</td>
<td>Durbin-Watson stat</td>
<td>1.626</td>
<td></td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.163</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unweighted Statistics</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R-squared</td>
<td>0.155</td>
<td>Mean dependent var</td>
<td>-0.023</td>
<td></td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>0.413</td>
<td>Durbin-Watson stat</td>
<td>0.858</td>
<td></td>
</tr>
</tbody>
</table>

Hypothesis Testing

Coefficient of Determination

It can be seen that the coefficient of determination $R^2$ is 0.096 or 9.64%. The coefficient of determination ($R^2$), in essence, measures how far the model's ability to explain variations in the independent variables (Ghozali & Ratmono, 2017). This shows that Managerial Ownership (MO) (X1), Independent Commissioner (IC) (X2), and Board of Directors (BOD) (X3) can explain ROA (Y) with an effect of only 9.64%, while other variables outside the study explain the remaining 90.36%.

Based on the test results (table 2), partially the Managerial Ownership variable, Independent Commissioner variable, and the Board of Directors variable have no effect on the firm performance. This shows that GCG as proxied by Managerial Ownership, Independent Commissioner, and the Board of Directors does not affect the firm performance. Simultaneously shows that the Managerial Ownership variable, Independent Commissioner variable, and the Board of Directors variable have no effect on the firm performance.

5. Discussion

The Influence of Managerial Ownership on Firm Performance

Based on the results of the analysis that has been carried out, it shows that managerial ownership has no effect on financial performance, where the average number of shares owned by management, especially board members is relatively low. Therefore, the role of managerial ownership as a supporting instrument to improve performance and prevent agency conflicts within the
company is felt to be lacking, which can have an impact on management performance in improving company performance, which can have an impact on the firm performance.

The results of this study are in line with the results of previous studies conducted by Wiranata & Nugrahanti (2013) and Nuraeni (2010), which shows that managerial ownership has no significant influence on firm performance through ROA. It explained that managerial ownership is too low. Therefore, management performance in managing the company is not optimal. Managers as minority shareholders have not been able to participate in deciding on the company actively, so it does not affect firm performance. This research is also not in line with research conducted by Kamarin (2014) and Amran et al. (2013), which shows that managerial ownership significantly influences firm performance through ROA. It stated that the greater the percentage of shares owned by top managers, the more likely the manager will make consistent decisions by maximizing shareholder wealth. Moreover, the average proportion of managerial ownership in the sample companies in those studies is relatively high compared to the proportion of shares in the sample companies of researchers, namely 23.80% and 44.63%. This is supported by Sulong & Nor (2010) research, which explains the range of other relationships between performance and managerial ownership ranging from 27% to 67%. Within this range, the relationship is positive, and managers and shareholders' interests appear to be aligned (alignment theory). Because if managerial ownership continues to increase beyond 67%, management power starts to dominate again at the expense of shareholder interests (entrenchment theory).

The Influence of Independent Commissioner on Firm Performance

Based on the analysis results indicate that the independent commissioner has no significant effect on firm performance. This means that the existence of an independent commissioner cannot guarantee the accurate functioning of supervision, management, and decision making in a company.

The results of this study are in line with the results of previous research conducted by Darmadi & Sodikin (2013); Herdijono & Sari (2017); Eksandy (2018); Handriani & Robiyanto (2019) which shows that independent commissioner has no significant influence on firm performance through ROA. It explained that the influence of independent commissioner is not significant because of the small percentage of independent commissioner in increasing firm performance. A board of commissioners with more independent members will provide greater oversight of company management to improve firm performance (ROA). It can be seen that as much as 60% of the sample of transportation sub-sector companies still have one independent commissioner each year, and as many as 60% of them still show negative performance through negative ROA values every year. Moreover, According to previous research, which is also in line with the results of this study Azis and Hartono (2017) and Irma (2019), which also shows that independent commissioner has no significant influence on financial performance through ROA. It stated that the proportion of independent commissioners does not make a positive contribution to financial performance, which means that the size of the proportion of independent commissioners cannot guarantee a good supervisory function, management, and accurate decision making within a company. The appointment of independent commissioners who are independent within the company aims to improve the quality of the company’s accountability through supervision to create transparent business activities and avoid the emergence of deviant behavior from managers. However, the appointment of independent commissioners tends to be considered a formality in implementing good corporate governance. There are still also the companies that have one independent commissioner (Azis & Hartono, 2017). The independent board of commissioners, a party not affiliated with the company, is considered less competent in making decisions because the board of commissioners is more dominant (Irma, 2019). The problem that is often found in Indonesian companies is the sterility of the supervisory function of the Board of Commissioners. On the contrary, the President Commissioner or the Board of Commissioners takes on the role and authority that the Board of Directors should carry out. It is necessary to have clarity of duties and functions of company organs to create a check and balance mechanism of authority and roles in managing the company (Daniri, 2014: 12). Besides that, in this variable, the coefficient value is 1.522053. When viewed from the direction of the influence of the regression analysis results, this study shows that the greater the proportion of independent commissioner, the higher the company’s firm performance.
The Influence of Board of Directors on Firm Performance

Based on the results of the analysis shows that a large number of directors in the company can not affect the firm performance properly. The Board of Directors has not coordinated and made the right decisions in carrying out better control functions.

The results of this study are in line with the results of previous research conducted by Kamardin (2014), Latief et al. (2014); Satriadi et al. (2018), Asyati & Farida (2020). It is stated that the more members of the board of directors, the risk of a conflict of interest will increase because the board of directors will prioritize personal interests rather than the interests of the principal, which can have an impact on the firm performance, especially on the company’s financial performance. The board of directors can utilize company resources to fulfill personal interests and not carry out the interests of the company.

This can hamper the effectiveness and efficiency of the company, especially in the use of assets, therefore that the agency cost becomes high and can reduce or impact the company’s profitability. It can be seen that as much as 79% of the sample of transportation sub-sector companies still have average or more than average of board directors each year, and as many as 53% of them still show negative performance through negative ROA values every year. The disadvantage of having a large board of directors is the occurrence of misunderstanding and poor coordination between the board of directors (AL-Matari, 2012). This can cause management performance to be less effective. Moreover, conflicts that often arise along with the increasing number of members of the board of directors, can cause problems within the company. A smaller board size provides better results for company performance than a large board size (Yermack, 1996; Bhagat & Bolton, 2019; Kao et al., 2019; Merendino & Melville, 2019)

6. Conclusions and Suggestions

Conclusions

Based on the results of panel data regression through the Random Effect Model, the variable of managerial ownership, independent commissioners, and board of directors have no significant effect on firm performance simultaneously as proxied by Return on Assets (ROA) in transportation sub-sector companies listed on the Indonesia Stock Exchange year 2017-2019. Partially both managerial ownership, independent commissioners, and board of directors have no significant partial effect on firm performance as proxied by Return on Assets (ROA) in transportation sub-sector companies listed on the Indonesia Stock Exchange in 2017-2019.

Suggestions

Based on the results of the research, the authors provide suggestions for the development of further research, namely, to extend the research period, add more variables that might affect the implementation of corporate governance on firm performance, the object of research can be developed, especially companies in other sectors listed on the Indonesia Stock Exchange and for further research, it is expected to pay attention to company data with the same value every year to avoid multicollinearity problems and to meet the BLUE requirements, such as the audit committee. For companies, the results of this study are used as consideration to further improve their management performance by reducing the number of managerial ownership, increasing the number of independent commissioners and non-independent commissioners to increase the supervisory function of the board of commissioners, as well as reducing the proportion of the board of commissioners. Also, reduce the proportion of the board of directors because it can affect its firm performance. For Investors, the results of this study can be used as consideration for making investment decisions, and investors can pay attention to the number of managerial ownership, independent commissioners, and board of directors in a company.

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