IRJEMS International Research Journal of Economics and Management Studies
Published by Eternal Scientific Publications
ISSN: 2583 – 5238 / Volume 3 Issue 7 July 2024 / Pg. No: 299-303
Paper Id: IRJEMS-V3I7P133, Doi: 10.56472/25835238/IRJEMS-V3I7P133

Original Article

The Influence of Good Corporate Governance on the Profitability of Manufacturing Companies (A Study on Food & Beverage Subsector Companies Listed on the Indonesia Stock Exchange Period 2018-2022)

[1]Astrie Krisnawati, [2]Destyzhavia Clearesta
[1,2]School of Economics and Business, Telkom University, Indonesia.

Received Date: 13 June 2024 Revised Date: 28 June 2024 Accepted Date: 30 June 2024 Published Date: 17 July 2024

Abstract: *Companies that increase profits cannot avoid the risk of fraud. Companies can implement GCG in preventing and correcting the risk of fraud. This study investigates the effect of GCG on profitability. The purposive sampling method resulted in 25 companies in the 2018-2022 period. This study method uses quantitative. The result of this study partially does not affect profitability. However, it simultaneously affects profitability. Therefore, independent commissioners, audit committees, institutional ownership, and managerial ownership must work together to manage the company effectively. This research can inform investment decisions by identifying companies with strong GCG practices.*

Keywords: *Independent Commissioners, Audit Committees, Institutional Ownership, Managerial Ownership, Profitability.*

I. INTRODUCTION

The company's ability to achieve profit is a determining factor in decision-making. Companies need a place to obtain funds by issuing shares. In Indonesia, it is called the Indonesia Stock Exchange. In addition, every company is required to present information in its financial statements. The report can help stakeholders as a source of information to make decisions regarding the company's condition.

Companies maximizing profits are not always achieved due to various factors that can cause a decrease in financial performance and cause bankruptcy (Khaeria & Kristanti, 2023). Companies must have good corporate governance to organize and manage company management (Riyandika & Saad, 2020). The shareholders' interests are the managers' responsibility to manage all conflicts (Alawi, 2022). From the agency theory, it is known that there is a conflict between the principal and the agent. In addition, the application of GCG principles can increase investor confidence and the confidence of other parties involved in the capital market (Riyandika & Saad, 2020). Besides that, all companies face the risk of fraud, which can significantly impact their performance and hinder it (Subiyanti & Zannati, 2019). A real-world example occurred in 2019 when CV Gideon Sakti engaged in fraudulent procurement practices. These practices involved reducing the quantity of ingredients used and neglecting to fulfill contractual obligations towards Persons with Social Welfare Problems (PMKS). This resulted in a loss of IDR 875 million for the state (Detik, 2022).

The 1998 financial crisis in Indonesia severely disrupted the country's economy and had a detrimental impact on the implementation of GCG (Subarnas & Gunawan, 2019). This phenomenon also occurred in 2020 due to the COVID-19 pandemic, which made it difficult for many companies to survive. Consequently, companies resorted to market expansion through acquisitions or mergers. ICBP, for instance, expanded its business by acquiring Pinehill Company Limited shares worth IDR 41,67 trillion (CNBC, 2020). Similarly, in the same year, GOOD acquired a 55% stake in KEJU for IDR 953,7 billion, representing 825 million shares (Garudafood, 2020).

Companies with substantial financial revenues require the implementation of GCG to minimize the occurrence of problems. The application of GCG can predict the company's future financial difficulties (Anggraeni & Krisnawati, 2023). This was evident in 2021 when CEKA's performance in the first quarter of 2021 was unsatisfactory due to the lack of profit growth despite increased sales (Kontan, 2021). Besides that, the implementation of GCG in Indonesia still needs to be improved because it shows a decline in GCG principles (Riyandika & Saad, 2020). In 2022, one of the workers of PT Siantar Top experienced a work accident and was immediately dismissed by the company (Cakrawala, 2022).

Corporate performance is also an important aspect to consider so that companies can make sound decisions, compete effectively, and contribute to positive economic growth. The assessment of company performance can be conducted by calculating a company's profitability (Pasaribu & Simatupang, 2019). Therefore, this study investigates the effect of GCG on profitability.

II. LITERATURE REVIEW AND HYPOTHESES

A) *Financial Performance*

According to Riyandika and Saad (2020), financial performance reflects the effectiveness of a company's financial management. GCG can be achieved by implementing regulations that can improve financial performance (Budiman & Krisnawati, 2021). There are four financial performance ratios such as liquidity, solvency, activity, and profitability. In this study, the ratio used is profitability (Seto et al., 2023).

B) *Profitability*

According to Riyandika and Saad (2020), profitability is a financial ratio that measures a company's ability to generate profit. Return on Assets (ROA) helps evaluate the efficacy of a company's management in generating profits. The formula used:

$$ROA = \frac{Net\ Profit\ After\ Tax}{Total\ Assets} x\ 100\%$$

C) *Agency Theory*

Agency theory examines the interaction between the principal and the agent. According to this theory, the principal gathers information to assess the management's efficiency. However, managers often understand the company's internal workings more deeply. This asymmetry in information can lead to conflicts of interest, known as agency problems (Riyandika & Saad, 2020). Implementing GCG practices can mitigate agency problems by providing the company's board with the necessary tools to supervise and control management (Alawi, 2022).

D) *Stakeholders Theory*

Stakeholder theory, a cornerstone of management and business ethics, provides a framework for understanding the values that underpin organizational governance. This theory challenges the traditional shareholder primacy model, emphasizing that various stakeholders play a critical role in an organization's success (Anggusti, 2019).

E) *Good Corporate Governance*

Good corporate governance (GCG) is a cornerstone of effective risk management, providing a framework for addressing and resolving challenges. It is pivotal in fostering investor confidence, enhancing competitiveness, and driving economic growth. Corporate governance is needed to maintain company accountability (Manurung et al., 2018). According to Izdihar & Suryono (2022), GCG aspects that can be used, such as:

1. Independent Commissioner
   Independent Commissioner (IC), which can act objectively (Effendi, 2016). The IC acts as a counterweight. The ratio of IC to the total share of commissioners is comparable, at least 30% of all members (Subiyanti & Zannati, 2019). The formula used:

$$IC = \frac{Number\ of\ Independent\ Commissioners}{Number\ of\ Board\ of\ Commissioners}\ x\ 100\%$$

2. Audit Committee
   The audit committee (AC) ensures that the financial statements, audit implementation, risk management, and GCG implementation are applicable regulations and principles (Effendi, 2016). The formula used:

$$AC = \frac{Number\ of\ External\ Audit\ Committees\ Members}{Number\ of\ Audit\ Committees}\ x\ 100\%$$

3. Institutional Ownership
   Institutional Ownership (IO) can encourage effective corporate governance through strict supervision and high accountability (Alawi, 2022). IO can avoid earnings management (Manossoh, 2016). According to Khaeria and Kristanti (2023), high institutional ownership can result in good company performance. The formula used:

$$IO = \frac{Number\ of\ Shares\ Owned\ by\ The\ Institution}{Number\ of\ Shares\ Outstanding} x\ 100\%$$

4. Managerial Ownership
   Managerial Ownership (MO), namely the shares of parties involved in managing the company. If managerial ownership is significant, it can reduce conflicts because it applies the precautionary principle in the decision-making process (Subiyanti & Zannati, 2019). The formula used:

$$MO = \frac{Number\ of\ Managerial\ Shares}{Number\ of\ Shares\ Outstanding} x\ 100\%$$

Relationship among variables is set out as several hypotheses:
- Hypothesis-1: Independent commissioning has a significant effect on profitability.
- Hypothesis-2: Audit committee has a significant effect on profitability.
- Hypothesis-3: Institutional ownership has a significant effect on profitability.
- Hypothesis-4: Managerial ownership has a significant effect on profitability.
- Hypothesis-5: GCG aspects simultaneously have a significant effect on profitability.

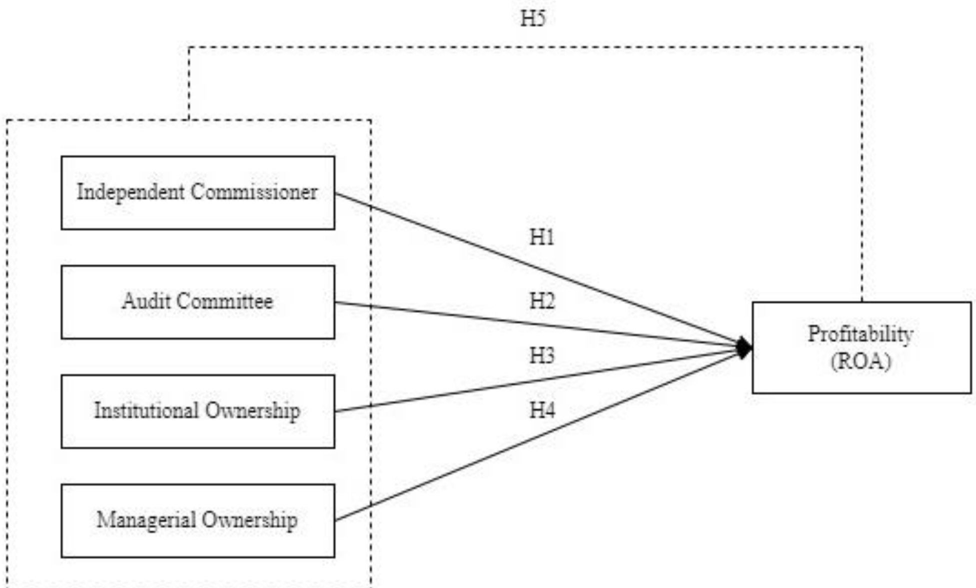

Fig 1. Conceptual Framework Diagram

III. METHODOLOGY

This study method uses quantitative. The population is 25 companies in the food and beverage sector listed on the IDX. The determination of samples used purposive sampling based on criteria published in financial reports for 2018–2022. This study uses descriptive statistics and panel data regression.

IV. RESULTS AND DISCUSSION

A) Descriptive Statistics

Descriptive research aims to describe an event systematically and accurately. Descriptive analysis shows the "shape" of the data and recognizes how variable values are distributed (Hardani et al., 2020). The data used was 25 companies for five years, so the research data amounted to 125.

Table 1: Descriptive Statistics

	Y	X1	X2	X3	X4
Mean	0,091005	0,393800	0,069333	0,599539	0,105758
Max.	0,975484	0,750000	0,666667	1,000000	1,000000
Min.	-0,154406	0,333333	0,000000	0,000000	0,000000
Std. Deviation	0,148792	0,079691	0,181076	0,265380	0,205018
N	125	125	125	125	125

B) Hypothesis Test

Table 2: t-test Results

Variable	Coefficient	t-Statistic	Prob.
C	0,122866	0,701724	0,4845
X1	-0,116300	-0,373035	0,7099
X2	-0,002360	-0,010199	0,9919
X3	0,020813	0,147326	0,8832
X4	0,015351	0,108294	0,9140

The panel data regression model equation:

$$ROA = 0{,}122866 - 0{,}116300\mathrm{X1} - 0{,}002360\mathrm{X2} + 0{,}020813\mathrm{X3} + 0{,}015351\mathrm{X4}$$

The Effect of Independent Commissioners on Return On Asset (ROA)

The probability of independent commissioners (X1) is 0,7099 > 0,05 or t-statistic -0,373035 < t-table 1,97944. Research from Riyandika and Saad (2020) supports the statistical results showing that the independent commissioner does not significantly affect profitability.

The Effect of Audit Committee on Return On Asset (ROA)

The probability of audit committee (X2) is 0,9919 > 0,05 or t-statistic -0,010199 < t-table 1,97944. Research from Alam et al. (2023) supports the statistical results, showing that the audit committee does not significantly affect profitability.

The Effect of Institutional Ownership on Return On Asset (ROA)

The probability of institutional ownership (X3) is 0,8832 > 0,05 or t-statistic 0,147326 < t-table 1,97944. Research from Susilowati et al. (2022) supports the statistical results, showing that institutional ownership does not significantly affect profitability.

The Effect of Managerial Ownership on Return On Asset (ROA)

The probability of managerial ownership (X4) is 0,9140 > 0.05 or t-statistic 0,108294 < t-table 1,97944. Research from Aryani (2019) supports the statistical results showing that managerial ownership does not significantly affect profitability.

The Effect of GCG Aspects Simultaneously on Return On Asset (ROA)

Table 3: F Test Results

Prob(F-statistic)	0,005075

The probability value is 0,005075 < 0,05. Research from Izdihar and Suryono (2022) supports the statistical results, showing that GCG aspects simultaneously affect profitability.

V. CONCLUSION

Based on the results, GCG aspects have no significant effect partially but have a significant effect simultaneously on profitability. The practical and theoretical implications for companies are to pay attention to and improve GCG factors that influence decision-making in increasing profits. For investors, it is important to make a source in making investment decisions by choosing companies that implement GCG. For academics, it can increase understanding of the factors affecting company profitability in GCG. It can be used as a reference for further research and is expected to be used in different sectors. It is suggested that additional independent variables relating to GCG, specifically the board of directors, be included.

V. REFERENCES

[1] N. Khaeria and F. T. Kristanti, "The Impact of Corporate Governance and Liquidity on Financial Distress with Firm Size as Moderating Variable," *Jurnal Manajemen Indonesia*, vol. 23, no. 2, pp. 198–208, 2023.

[2] M. Riyandika and B. Saad, “Pengaruh Good Corporate Governance terhadap Profitabilitas pada Sektor Perbankan yang Terdaftar di BEI pada Tahun 2017-2019,” *Jurnal Keuangan dan Perbankan*, vol. 17, no. 1, pp. 35–46, 2020.

[3] S. M. Alawi, "The Role of Corporate Governance Towards Insider Trading Profitability," *Journal of Economic and Administrative Science*, vol. 19, no. 1, Aug. 2022, doi: 10.1108/JEAS-04-2022-0110.

[4] S. Subiyanti and R. Zannati, “Pengaruh Good Corporate Governance Terhadap Profitabilitas Kinerja Perbankan,” *Jurnal Manajemen Strategi dan Aplikasi Bisnis*, vol. 2, no. 3, pp. 127–136, Sep. 2019.

[5] Detik, “2 Tersangka Dugaan Korupsi Pengadaan Makan-Minum PMKS di Medan,” DetikNews. [Online]. Available: https://news.detik.com/berita/d-5910824/2-tersangka-dugaan-korupsi-pengadaan-makan-minum-pmks-di-medan

[6] D. Subarnas and Y. Gunawan, "Effect of Good Corporate Governance on Profitability," *Journal of Auditing, Finance, and Forensic Accounting (JAFFA)*, vol. 7, no. 2, pp. 44–96, Sep. 2019, doi: https://doi.org/10.21107/jaffa.v7i2.6427.

[7] CNBC, “Akuisisi Pinehill, Indofood CBP Cari Utang Bank Rp 37 T,” CNBC Indonesia. [Online]. Available: https://www.cnbcindonesia.com/market/20200609084557-17-164008/akuisisi-pinehill-indofood-cbp-cari-utang-bank-rp-37-t

[8] Garudafood, “Kinerja Semester 1 2020 Turun, Garudafood Tetap Optimis dengan Akusisi Prochiz,” Garuda Food. [Online]. Available: https://garudafood.com/kinerja-semester-1-2020-turun-garudafood-tetap-optimis-dengan-akusisi-prochiz

[9] N. S. Anggraeni and A. Krisnawati, “Pengaruh Good Corporate Governance terhadap Profitabilitas dan Nilai Perusahaan (Studi Kasus pada Sub Sektor Pertanian yang Terdaftar pada Bursa Efek Indonesia 2017-2021),” *Jurnal Ilmiah MEA (Manajemen, Ekonomi, dan Akuntansi)*, vol. 7, no. 3, pp. 233–244, Sep. 2023.

[10] Kontan, “Penyebab Laba Wilmar Cahaya (CEKA) Turun 26,05% di Kuartal I 2021,” kontan.co.id. [Online]. Available: https://industri.kontan.co.id/news/penyebab-laba-wilmar-cahaya-ceka-turun-2605-di-kuartal-i-2021

[11] Cakrawala, “Buruh PT Siantar Top Alami Kecelakaan Kerja, Speak Up ke Media. Langsung di Pecat,” Cakrawala.co. [Online]. Available: https://www.cakrawala.co/daerah/pr-7755949812/buruh-pt-siantar-top-alami-kecelakaan-kerja-speak-up-ke-media-langsung-di-pecat

[12] D. Pasaribu and M. Simatupang, “Pengaruh Good Corporate Governance terhadap Profitabilitas Perusahaan Industri Dasar dan Kimia yang Listing di Bursa Efek Indonesia,” *Jurnal Akuntansi dan Keuangan Methodist*, vol. 3, no. 1, pp. 23–32, 2019.

[13] M. F. M. Budiman and A. Krisnawati, “Can Good Corporate Governance Influence the Firm Performance? Empirical Study from Indonesia Transportation Firms," *AFRE Accounting and Financial Review*, vol. 4, no. 1, pp. 119–128, 2021, doi: https://doi.org/10.26905/afr.v4i1.6017.

[14] A. A. Seto *et al.*, *Analisis Laporan Keuangan*. Sumatera Barat: PT Global Eksekutif Teknologi, 2023.

[15] M. Anggusti, *Pengelolaan Perusahaan & Kesejahteraan Tenaga Kerja*. Jakarta: Penerbit Bhuana Ilmu Populer, 2019.

[16] D. T. H. Manurung, A. L. Hardika, D. W. Hapsari, and M. M. Sebayang, "The Role of Corporate Governance and Environmental Committees on Greenhouse Gas Disclosure," *Journal of Environmental Management and Tourism*, vol. 9, no. 7(31), pp. 1403–1413, 2018, doi: 10.14505/jemt.v9.7(31).05.

[17] A. Izdihar and B. Suryono, “Pengaruh Penerapan Good Corporate Governance terhadap Profitabilitas Perusahaan Manufaktur di BEI,” *STIESIA Jurnal Ilmu dan Riset Akuntansi*, vol. 11, no. 1, pp. 1–19, 2022.

[18] Muh. A. Effendi, *The Power of Good Corporate Governance: Teori dan Implementasi*, 2nd ed. Jakarta Selatan: Salemba Empat, 2016.

[19] H. Manossoh, *Good Corporate Governance untuk Meningkatkan Kualitas Laporan Keuangan*. Jakarta Selatan: PT. Norlive Kharisma Indonesia, 2016.

[20] Hardani *et al.*, *Metode Penelitian Kualitatif & Kuantitatif*. Yogyakarta: CV. Pustaka Ilmu Group, 2020.

[21] M. Alam, S. Akhtar, and M. A. S. Al-Faryan, "Do Indian Banks Perform Better in Corporate Governance than Other SAARC Nations? An Empirical Analysis," *Corporate Governance*, vol. 24, no. 4, pp. 799–830, Oct. 2023, doi: 10.1108/CG-02-2023-0059.

[22] D. Susilowati, Nurlia, and Juwari, "Good Corporate Governance Characteristic, Profitability and Firm Value: Evidence from Indonesia," *Iqtishoduna*, vol. 18, no. 2, pp. 99–121, 2022.

[23] K. H. Aryani, “Pengaruh Good Corporate Governance terhadap Profitabilitas Perbankan dengan Risiko Kredit sebagai Variabel Intervening (pada Perbankan yang Terdaftar di BEI Periode 2014-2016),” *Jurnal Distribusi (Jurnal Ilmu Manajemen dan Bisnis)*, vol. 7, no. 1, pp. 63–80, Mar. 2019.