

GOOD CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE: DOES LEVERAGE MATTER?

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Abstrak

Penelitian ini bertujuan untuk mengetahui pengaruh *Good Corporate Governance* terhadap Kinerja Keuangan dengan Leverage sebagai variabel moderasi. Populasi yang digunakan dalam penelitian ini adalah sektor perbankan yang terdaftar di Bursa Efek Indonesia periode 2018-2021. Teknik pengambilan sampel yang digunakan adalah purposive sampling dan diperoleh sebanyak 23 perbankan, sehingga jumlah observasi dalam penelitian ini adalah 92 data observasi. Metode analisis yang digunakan adalah analisis regresi linier berganda dan MRA. Hasil penelitian ini menunjukkan bahwa pada tahun 2018-2021 variabel *Good Corporate Governance* tidak berpengaruh terhadap Kinerja Keuangan. Selain itu, hasil penelitian juga menunjukkan bahwa leverage mampu memoderasi pengaruh GCG terhadap kinerja keuangan.

Kata Kunci: Kinerja Keuangan, *Good Corporate Governance*, *Leverage*

Abstract

This study aims to determine the effect of Good Corporate Governance on Financial Performance with Leverage as a moderating variable. The population used in this study are banking companies listed on the Indonesia Stock Exchange for the 2018-2021 period. The sampling technique used was purposive sampling and obtained as many as 23 banking companies as a sample with 92 observations. The analytical method used is multiple linear regression analysis and MRA. The results of this study partially show that in 2018-2021 the Good Corporate Governance variable did not affect Financial Performance. The results of the study show that in 2018-2021 the Good Corporate Governance variable had significant effect on Financial Performance with Leverage as a moderating variable.

Keywords: Financial Performance, *Good Corporate Governance*, *Leverage*

INTRODUCTION

Companies must improve their performance in the current era of selective competition because it will help them devise competitive strategies against rivals, especially in the financial industry. The most crucial factor that aids in a company's strategy development is good financial performance. The results of this study demonstrate that using corporate resources will lead to advancement and financial benefits (Sari et al., 2022). If a company's financial performance is sturdy, investors will be interested in spending their money on improving its image. All relevant laws and regulations must be followed for a firm to perform financially appropriately. The advancement of the business as a result of the implementation of proper and legal financial regulations leads to suitable financial performance Fahmi in (Sholihah & Fidiana, 2021).

In Indonesia, corporate entities or business players view strong corporate governance as confined to following rules that don't directly affect financial results (Yuliana & Kholilah, 2019). This opinion explains why Indonesian companies' adoption of excellent corporate governance could be better and serves as one of the contexts for looking at how effective corporate governance affects financial performance. The audit committee, the Board of directors, and the Board of commissioners serve as the study's management structure parameters. By handling and determining the relationships, rights, and obligations of all parties involved, including the General Meeting of Shareholders (GMS), the Board of Commissioners, and the Board of Directors, good corporate governance aims to improve organizational control methods and techniques

(Mindrawati & Hastuti, 2023). Implementing good corporate governance applications is beneficial for regulating and managing companies to provide additional value for all stakeholders and deliver financial performance advancement.

Several previous studies have explored the influence of Good Corporate Governance on financial performance, including (Zona, 2020), which depicts GCG as having a positive impact on financial performance with leverage acting as a moderating element. Similarly, the findings of Fapila & Zulaikha (2023) research show that GCG has a good and substantial influence on financial performance. According to previous research, the Board of Commissioners negatively and considerably impacts financial performance (Irawati et al., 2019; Wong et al., 2021). According to a study, the Board of Directors has little influence on financial performance (Harmaen et al., 2022). The audit committee has a favorable but non-significant influence on financial performance (Irawati et al., 2019).

This study is comparable to studies undertaken by previous research (Zona, 2020). The independent variable (GCG), the dependent variable (financial success), and the moderating variable (leverage) are all used in the equation. The distinction of this research is deleting the independent variables of intellectual capital and capital disclosure due to inconsistent findings from the study's independent variables. Furthermore, the research methodologies employed differ from previous research (Zona, 2020). In addition to the basic differences between the two research, such as the observation time and the analytical methods utilized (Fapila & Zulaikha, 2023; Puspa & Yulinda, 2019; Sari et al., 2022).

Researchers chose to research banking sector because the banking sector is expected to have a positive future outlook (Putri & Kholilah, 2023; Saputra & Kholilah, 2023). After all, the daily activities of Indonesian citizens are currently inextricably linked to banking services, and banking is a company that contributes significantly to the country's income. This study's banking measurement examines the company's financial performance. The financial accounts of firms listed on the Indonesian Stock Exchange can be used to analyze banking financial performance.

METHOD

This study's research technique is quantitative, as it aims to assess the influence of variables on each other. Quantitative data is a research approach based on positivistic research information (concrete data) in the form of numbers computed using statistics as a calculating medium relevant to the subject being examined to conclude (Sekaran & Bougie, 2016). Purposive sampling was utilized as a sample approach in this research. The following are the parameters for collecting this study sample: (a) Banking companies that are listed on the Indonesia Stock Exchange in 2018-2021; (b) Banking companies that are registered and submit complete financial reports sequentially from quarters 1-4 of 2018-2021; (c) Banking companies that have all indicators and research variables; and (d) Banking companies that can protect their assets and debts as a whole. Eventually, 23 research samples and 96 data observation were gathered.

Table 1. The Variable Operationalization

Variable	Definition	Indicators
Financial Performance	Financial performance is the outcome obtained by a company's management after correctly managing the company's assets for a specific period (Musyafa & Kholilah, 2023).	Return on Assets: $ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$ Kasmir in (Zakiyah et al., 2022)
Board of Commissioners	The Board of Commissioners is responsible for reviewing the directors' administration of the company and offering advice to the directors (Zarkasyi, 2019).	Board of Commissioner = The number of members of the company's Board of Commissioners.

Dilanjutkan

Lanjutan Table 1. The Variable Operationalization

Variable	Definition	Indicators
Board of Directors	The Board of directors is responsible for developing shareholder wealth, boosting company performance, and allocating resources (Khaoula & Moez, 2019).	Board of Directors = The number of members of the company's Board of Directors.
Audit Committee	Complementary organs are required to apply good corporate governance principles, which carry out the guiding function in the execution of company management and manage critical activities connected to the company's current financial reporting system (Irawati et al., 2019).	Audit Committee = The number of members of the company's audit committee.
Leverage	The total debt utilized to purchase corporate assets. A high-leverage corporation has larger leverage than capital (Zakiyah et al., 2022; Sutama & Lisa, 2018)	Debt to Asset Ratio: $DAR = \frac{Total\ Debt}{Total\ Assets} 100\%$

Two model in this research stated below.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \dots \dots \dots (1)$$

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_1 * X_4 + \beta_6 X_2 * X_4 + \beta_7 X_3 * X_4 + \epsilon \dots (2)$$

Information:

- Y = Financial Performance
- X₁ = Board of Commissioners
- X₂ = Board of Director
- X₃ = Audit Committee
- X₄ = Leverage
- X₁*X₄ = Board of Commissioners *Leverage (moderating variable)
- X₂*X₄ = Board of Director * Leverage (moderating variable)
- X₃*X₄ = Audit Committee * Leverage (moderating variable)
- α = The constant of an equation
- β = Slope or Regression Coefficient
- ε = Standard Error

RESULT AND DISCUSSION

Result

The significance values for residual normality were 0.200, larger than 0.05 based on the Kolmogorov-Smirnov 1-Sample test results. As a result, the residuals in this research are normally distributed. A significance result of 1.000 was achieved using the Runs-Test test. It is a number bigger than 0.05. This result demonstrates no autocorrelation in the residuals in this research. The significance of each variable is more than 0.05, according to the Glejser test results. This result demonstrates that the research model is heteroscedastic, which indicates that there is no relationship between the size of the data and the residual error and that increasing the data does not result in a greater residual error. The test results demonstrate that each variable's tolerance is more than 0.10. This result demonstrates that the study model does not exhibit multicollinearity.

Table 2. Multiple Linear Regression Test Results

Variable	B
Constant	8,366
Board of Commissioners	0,054
Board of Director	-0,060
Audit Committee	-0,063

Based on the results of the multiple linear regression calculations above, the following equation may be used to characterize the connection between the independent variables and the dependent variable:

$$FP = 8,366 + 0,054 X_1 - 0,060 X_2 - 0,063 X_3 \dots\dots(1)$$

The coefficient of determination measures the proportion of variation explained by the regression equation vs total variance. The adjusted R Square value of 0.017 shows that the dependent variable can explain 1.7% of the independent variable. In comparison, other variables other than the independent variables included in the model explain the remaining 98.3%.

Table 3. MRA Test Result

Variable	B
Constant	49,712
Board of Commissioner	11,471
Board of Director	-8,729
Audit Committee	-1,913
Board of Commissioner * Leverage	-3,480
Board of Directors * Leverage	2,652
Audit Committee * Leverage	0,581
Leverage	-13,223

Based on the outcome of the moderation regression calculation above, the following equation may be used to represent the connection between the independent variable and the dependent variable, as well as the moderating variable:

$$FP = 49,712 + 11,471 X_1 - 8,729 X_2 - 1,913 X_3 - 13,223 X_4 - 3,480 X_1X_4 + 2,652 X_2X_4 + 0,581 X_3X_4 \dots(2)$$

Table 4. R² Test Result

Variable	Adjusted R-Square
Board of Commissioners, Board of Direksi, Audit Committee, Board of Commissioner * Leverage, Board of Director * Leverage, Audit Committee * Leverage and Leverage	0,253

The adjusted R Square value of 0.253 suggests that the independent variable can explain 25.3% of the dependent variable. At the same time, other variables other than the independent variables included in the model explain the remaining 74.7%.

Table 5. Hypothesis Test Result

Variable	T-count	Sign	Result
Board of Commissioner	0,242	0,811	H ₁ Rejected
Board of Director	-0,352	0,749	H ₂ Rejected
Audit Committee	-0,343	0,736	H ₃ Rejected

According to the multiple regression test results, there is no association between Good Corporate Governance and Financial Performance. Each variable's significance value (Sig) is larger than 0.05. As a result, H₁, H₂, and H₃ in this study is not supported.

Table 6. Fourth Hypothesis Test Result with Moderating Variable

Variable	T-count	Sign	Result
Board of Commissioner * Leverage	-2,881	0,397	H _{4a} Rejected
Board of Directors * Leverage	2,069	0,011	H _{4b} Supported
Audit Committee * Leverage	0,486	0,020	H _{4c} Supported

Leverage as a moderating variable can moderate the effect of GCG on the financial performance of banking companies because the significance value (Sig) of each variable is greater than 0.05. As a result, the fourth hypothesis is supported in this study.

Discussion

The Effect of Board of Commissioners on Financial Performance

According to the data presented above, the Board of Commissioners in good corporate governance does not affect the financial performance of banking companies from 2018 to 2021. This result demonstrates that the Board of Commissioners plays a minor role in overseeing corporate operations as, given the number of members on the Board of Commissioners, they can only oversee the process's outcomes. According to signaling theory, the demographics of the Board of Commissioners is one of the Board's features connected to the company's information content. The Board's composition, with its role in the supervisory function, can affect management in generating financial reports to achieve a quality report that would enhance the company's financial performance. Independent commissioners, according are ideally placed to carry out this role to develop companies with good corporate governance (Fapila & Zulaikha, 2023). The Board of Commissioners represents the whole company, including internal and external companies and independent commissioners. The research results for the first hypothesis are consistent with the previous research that the Board of commissioners do not influence the organization's financial performance (Maryati & Anggraini, 2023).

The Effect of Board of Directors on Financial Performance

According to the research findings, the Board of Directors does not affect banks' financial performance from 2018 to 2021 regarding good corporate governance. The number of members of the Board of Directors might impact the company's different characteristics. An increase or decrease in the number of directors on the Board does not influence financial performance outcomes, implying that the Board's efficacy in controlling resource management performance is suboptimal. According to signaling theory, the company's Board of directors has more information about the company. Hence it is obligated to communicate information about the company to investors to enhance financial performance. The Board of directors is responsible for developing shareholder wealth, boosting company performance, and allocating resources (Khaoula & Moez, 2019). According to the previous research having too many management members would negatively impact the company since the number of members could encourage arguments and misunderstanding (Van de Brake et al., 2020). The research results for the second hypothesis are consistent with the previous research that the Board of Commissioners do not influence the organization's financial performance (Van de Brake et al., 2020).

The Effect of Audit Committee on Financial Performance

According to the data above, the audit committee does not affect financial performance from 2018 to 2021. There is no mechanism to assess the effectiveness of audit committee members. In addition, the audit committee serves as a board of commissioners in the research sample. If the audit committee has two roles, it may result in less effective management control and monitoring, reducing organizational efficiency (Fitrianingsih & Asfaro, 2022). Since the audit committee and the independent commissioners are inextricably linked, if the independent commissioners lose their independence, so will the audit committee. As a result, market participants do not trust the audit committee's view or the trustworthiness of financial statements. According to signaling theory, the audit committee will play an effective role in strengthening the credibility of financial statements and assisting the Board of Commissioners in gaining the trust of shareholders to meet their information disclosure requirements.

Establishing an audit committee within the company will help the quality of financial reports, which can enhance the company's financial performance. The audit committee is a component of internal corporate governance that plays a role in control. If the audit committee functions properly, it will increase the company's performance while preventing or minimizing the potential for manipulative techniques and substantial errors in managing

its activities. The audit committee plays a significant role in optimizing the supervisory function so that disinformation does not arise, resulting in losses to the organization (Widianingsih, 2018). Hence the audit committee does not influence financial performance. The research results for the third hypothesis need to be consistent with the previous research that the audit committee influence the organization's financial performance (Widianingsih, 2018).

The Effect of Good Corporate Governance on Financial Performance with Leverage as a Moderating Variable

According to the study's outcomes, leverage can moderate the connection between banking companies' financial performance and good corporate governance from 2018 to 2021. The more loan capital a company consumes, the greater the chance of loan payback default. According to signal theory, financial information will provide a good signal to interested parties. The financial reports will indicate the overall assets and the level of debt that the company must evaluate before investing. The potential risk of outstanding loans grows directly proportional to the cash spent. When a company's leverage level rises, the profit of the company will decrease (Musyafa & Kholilah, 2023). As a result, management must continue to seek to increase the efficiency of capital management in order to minimize debt and survive (Winarno, 2017). Improving financial performance is one management method that may increase capital management's efficacy. In this manner, management may meet its duties to contributors while simultaneously meeting the company's objectives. This result is supported by previous study that explains that good corporate governance impacts financial performance, with leverage as a moderating variable (Zona, 2020).

CONCLUSION

Based on the previously explained studies, research results, and discussions, it is possible to conclude that good corporate governance does not influence the financial performance of banks listed on the IDX, and leverage is able to moderate good corporate governance relationships with the financial performance of banks listed on the IDX. According to the research, several limitations in this study include the low coefficient of determination each year, suggesting that the independent variables in this study have yet to integrate variables that impact financial performance fully, and this study uses secondary data. The problem with secondary data is that it is acquired by third parties who may have less control than the researcher. Furthermore, they may not answer the researcher's queries clearly.

REKOMENDATION

The future research has to add variables that can increase the effect of financial performance and then it is expected to be able to add data that is under the actual situation, such as primary data from responsible parties as well as banking parties, it is intended that their operational operations will be further optimized by taking consideration of the amount of debt that will be needed to satisfy their asset commitments and providing a fair minimum capital to allow investors to invest with confidence.

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