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CORPORATE GOVERNANCE ON CHEMICAL COMPANY ON ASIAN ECONOMIES

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Abstract

Capital market actors use financial report information as a benchmark or guideline in conducting stock buying and selling transactions in a company because the financial statements are a reflection of the company's financial performance. This study aims to determine the effect of corporate governance on the company's financial performance. used is purposive *sampling*, the final sample is 30 basic and chemical industry companies listed on the Indonesia Stock Exchange in 2016-2018. The analytical method used is a simple linear regression analysis of panel data using SPSS 24.00. Based on the results of the study, it shows that corporate governance has no effect and is not significant on the company's financial performance. It is recommended for further research if you want to follow up on corporate governance and company financial performance or with similar research topics, you can expect to add other variables, such as institutional ownership variables. Investors who will invest in basic industrial and chemical companies should make financial reports that become an image of the company's financial performance as a reference in making decisions.

Keywords: Corporate Governance, Company Financial Performance

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1. INTRODUCTION

The good or bad financial condition of a company can be seen from the company's performance because financial performance reflects management's performance in a certain period. The financial performance of a company is a picture of the activities carried out to achieve business goals in a certain period (Keswani et al., 2022). Company performance can be measured by analyzing and evaluating past financial reports and used to predict future financial position and performance.

Financial performance has an important role in determining the smooth running of the company's activities. Evaluation of financial performance can be done using financial statement analysis (Muda and Wahyuni, 2019). Analysis of financial statements can be done using financial ratios. To find out whether the company's financial condition and performance are good, the results of calculating financial ratios must be compared with previous years or with industry averages.

The importance of the company's financial performance is one way that can be done by the company's management, to fulfill its obligations to interested parties in achieving the company's vision and mission. The company's financial performance is the result and condition of the company's finances which are analyzed with analytical tools so that it can be seen how the company's financial condition is in a specified period. Assessment of the company's financial performance can be seen, among others, through profitability.

According to Fahmi (2016), Profitability aims to "measure overall management effectiveness obtained concerning sales and investment". The better the profitability, the better it describes the company's ability to obtain high profits.

The company's financial performance will be optimal if the company implements good corporate governance and the company will be more optimal in achieving company goals. This is because good corporate governance (GCG) can form a clean, transparent, and professional management work pattern which in turn has a positive impact on improving the company's financial performance.

According to Like (2016) the financial performance of a company is determined by the extent to which the company is serious about implementing good corporate governance. The results of this study are following the theory which states that the application of GCG is useful for improving the company's financial performance. The National Committee on Corporate Governance Policy (2012) states that Good Corporate Governance (GCG) contains five main principles, namely transparency, accountability, responsibility, independence, and fairness, and is created to protect the interests of all parties (stakeholders). The better the corporate governance of a company, the better the performance of the company is expected to be.

Corporate Governance is a guideline for managers to manage companies according to best practices (Muda et al., 2018). Managers will make financial decisions that can benefit all parties (stakeholders). Managers work effectively and efficiently to reduce the cost of capital and minimize risk. The business is expected to generate high profitability. Investors will get income (return) per expectations.

Good Corporate Governance (2012) states that Good Corporate Governance contains five main principles, namely openness, accountability, responsibility, independence, and fairness, and is created to protect all parties interests. The better the corporate governance of a company, the better the performance of the company is expected to be. The elements of Corporate Governance that have been described in this study will focus on managerial ownership because share ownership by managers is seen to align potential differences in

interests between shareholders outside of management so that agency problems are assumed to disappear if there are managers who also act as owners.

Managerial ownership is a condition in which the manager takes part in the company's capital structure in other words, the manager has a dual role as a manager as well as a shareholder in the company. The financial statements show this situation is represented by the large percentage of ownership by managers. Information regarding this matter is available in the notes to the financial statements, which must include this information (Sugiarto, 2015).

Ownership of shares by managers will encourage the pooling of interests between principals and agents so that managers act per the wishes of shareholders and can improve company performance. Managerial share ownership will encourage managers to be careful in making decisions because they directly experience the benefits of the decisions taken and share the losses as a consequence of making wrong decisions (Listyani, 2016).

Performance reporting is a reflection of the obligation to present and report the performance of all resource activities that need to be accounted for. The company's performance is influenced by several factors, including whether or not a concentration of ownership is concentrated, profit manipulation, and disclosure of financial statements. Ownership which is mostly concentrated by institutions will facilitate control so that it will improve company performance. Concerning the performance of a company can be seen from the financial statements which are often used as the basis for evaluating company performance. One type of financial report that measures the success of a company's operations for a certain period is the income statement. However, the profit figures generated in the income statement are often influenced by the accounting method used. Disclosure of financial statements will provide useful information for the use of financial statements. Disclosure as an aspect of good corporate governance is expected to be the basis for seeing whether the company's performance is good or not.

Company performance can be assessed through various indicators or variables to measure company success, generally focusing on performance information derived from financial reports. These financial reports are useful for helping investors, creditors, prospective inventors, and other users in making investment decisions, credit decisions, stock analysis, and determining the prospects of a company in the future. Company performance assessment is carried out to motivate employees to achieve organizational goals and in knowing the standards of behavior that have been previously set to achieve good company goals.

Capital market participants use financial report information as a benchmark or guideline in conducting share buying and selling transactions in a company because the financial statements are a reflection of the company's financial performance. Therefore, for a company, maintaining and improving financial performance is a must so that these shares continue to exist and remain in demand by investors. The financial statements issued by the company are a reflection of the company's financial performance. This financial information has a function as a means of information, management accountability tool to company owners, description of indicators of company success, and as material for consideration in decision making.

2. LITERATURE REVIEW

Corporate Governance is a system that directs and controls the company. The Indonesian Institute for Corporate Governance (IICG) defines GCG as the process and structure implemented in running the company, with the main objective of increasing shareholder value in

the long term while taking into account the interests of other bettors. In addition to fulfilling the interests of shareholders, GCG is intended to guarantee sustainability.

According to Sedarmayanti (2016), "Corporate Governance is a system, process, and a set of rules that regulate the relationship between several interested parties, especially in the narrow sense, the relationship between shareholders, the board of commissioners, and the board of directors for the achievement of organizational goals". Corporate Governance is intended to regulate this relationship and prevent significant errors in corporate strategy and ensure that errors that do occur can be corrected immediately.

GCG implementation encourages the creation of healthy competition and a conducive business climate. Therefore, the implementation of GCG by companies in Indonesia is very important to support sustainable economic growth and stability. GCG implementation is also expected to support the government's efforts to uphold good governance in Indonesia. Currently, the government is trying to implement good governance to create a clean and authoritative government.

According to Wardayati (2015), "GCG is an arrangement and institutional relationship that directs and controls the company". To regulate and control various interested parties, GCG is required. This concept was proposed to improve the performance company by monitoring management performance and ensuring management accountability to stakeholders based on the regulatory framework.

In connection with the growing awareness of the importance of Corporate Governance, the OECD (2012) has developed the principles of Good Corporate Governance which can be applied flexibly according to the circumstances, culture, and traditions of each country, namely Transparency, Accountability, Responsibility, Independence, Fairness and Equality.

According to Sutedi (2016), several elements in corporate governance can guarantee the functioning of Good Corporate Governance, Corporate Governance - Company Internal, and Corporate Governance - Company External. From the various aspects of Corporate Governance that have been described previously, this research will focus on managerial ownership. Managerial ownership is the proportion of ordinary shares owned by management (Directors and Commissioners) as measured by the percentage of total management shares. The existence of managerial ownership can suppress agency problems, and the greater managerial ownership in a company, the more active management will be to improve the company's financial performance.

Financial performance is an analysis carried out to see how far a company has carried out by using the rules of financial implementation properly and correctly. Company performance is a description of the financial condition of a company which is analyzed with financial analysis tools so that it can be known about the good and bad financial condition of a company that reflects work performance in a certain period. This is very important so that resources are used optimally in dealing with environmental changes. Measuring tools that can be used are by using several ratios, namely Liquidity Ratios, Leverage/solvability Ratios, Activity Ratios, Profitability/Profitability Ratios, Valuation Ratios, and others.

Per the previous explanation, financial performance which is a proxy for Managerial Ownership can mitigate agency problems, and can describe a hypothesis on the relationship between Corporate Governance and Financial Performance, namely:

H1 = Corporate Governance affects the Company's Financial Performance in basic and chemical industry companies in Indonesia

3. METHODS

This research is *explanatory*. Research *Explanatory* is a study that aims to explain the causal relationship between independent and dependent variables (Sekaran and Bougie, 2017). In this regard, the population in this study are basic industrial and chemical companies listed on the Indonesia Stock Exchange (IDX) in 2016-2018. In three years. The population in this study is 200 populations from companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange from 2016 to 2018 which will be the object of research, so it is necessary to take samples. The number of samples used in this study was 30 companies in three consecutive years.

4. RESULTS AND DISCUSSION

4.1. Results

After testing the responses to the research questionnaire, the researcher can perform a descriptive analysis as below.

Table 1
Descriptive Variable

Variable	N	Min.	Max.	Average	Std. Deviation
Corporate governance	100	23	90	64	15
Company Financial Performance	100	52	250	213	26

After the Descriptive Analysis, the researcher will conduct a Validity Test and Reliability Test. A validity test is a procedure to ensure whether the questionnaire that will be used to measure the research variables is valid or not. In addition, the reliability test is a test used to measure a questionnaire which is an indicator of a variable. A questionnaire is said to be reliable or reliable if a person's answer to the statement is consistent or stable from time to time. The following are the results of the Validity Test and the Reliability Test of this study,

Table 2
Validity Test

Variables	Item	r Calculate	Table r	Information
Corporate governance	X1.1	0.664	0.312	Valid
	X1.2	0.504		Valid
	X1.3	0.489		Valid
Company Financial Performance	Y1.1	0.549	0.312	Valid
	Y1.2	0.742		Valid

Table 3
Reliability Test

No	Variable	Cronbach's Alpha	Description
1	Corporate governance	0.666	Reliable
2	Company Financial Performance	0.688	Reliable

Hypothesis testing was carried out with multiple regression analysis to test the effect of Corporate Governance and Company Financial Performance. The test results are shown as follows:

Table 4
Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.678	0.460	0.415	4.20762

The results of the coefficient of determination test in the table above show the adjusted r-square value of the regression model used to determine how much ability the independent variable has in explaining the dependent variable or how much influence the independent variable has on the dependent variable. Based on Table 4, the adjusted r-square value is 0.415, this shows that 41.5% of Company Financial Performance is influenced by the variables of Corporate Governance. In addition, 58.5% are influenced by other variables not examined in this study.

Table 5
F Test - Simultaneous Test

Model		of Sum of Square	Df	Mean Square	F	Say
1	Regression	542,028	3	180,676	10,205	0.000
	Residual	637,347	36	17,704		
	Total	1179,375	39			

Based on the table below above that multiple regression testing shows the calculated F result of 10.205 with a significance level of 0.000 which is smaller than 0.05, where the calculated F value is 18.485 greater than the F table value which is 2.87 (df1 = 4-1 = 3 and df2=40-4=36). This means that Corporate Governance has a significant effect on Company Financial Performance.

Table 6
T-Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Say.
		B	Std.Error	Beta		
1	(Constant)	10,516	6,979		1,507	1,141
	Corporate governance	0.944	0.326	0.458	2.897	0.006

Based on the table above, the estimation model can be analyzed as follows:

$$Y = 10.516 + 0.944 X1 e$$

Information:

Y	= Company Financial Performance
X1	= Corporate Governance
a	= Constants
1	= Regression Coefficient
e	= Standard *error*

4.2. Discussion

The results of the interpretation of the research hypotheses that are proposed can be seen as follows:

Corporate Governance has a significant effect on the Company's Financial Performance. Based on the table above, it can be seen that the Corporate Governance has a t value count 2.897> t table value of 2.024 (sig. = 0.05 and df = nk, which is 40-4 = 36) with unstandardized coefficients beta of 0.458 and a significance level of 0.006 which is smaller than 0.05, then hypotheses are accepted. This means that Corporate Governance has a significant effect on the Company Financial Performance.

5. CONCLUSION

Based on the data obtained as well as the data analysis that has been carried out and the discussion that has been carried out in the previous chapter, conclusions can be drawn regarding the Effect of Corporate Governance on Financial Performance in Basic and Chemical Industry Companies in Indonesia. This is evidenced by unstandardized coefficients beta of 0.458 and a significance level of 0.006 which is smaller than 0.05.

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