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The Effect of Banking Company Performance toward Good Corporate Governance Listed in Indonesia Stock Exchange

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Abstract

The purpose of this study was to measure performance of banking sector toward Good Corporate Governance (GCG). Independent variables used in this study is the Return on Equity (ROE), Return on Assets (ROA), Composition and Size of the Company's Corporate Assets. The dependent variable that is of GCG. The sample used in this study is banking company listed in Indonesia Stock Exchange 2010-2014 and CGPI with Purposive sampling of 10 commercial banks . The analysis used linear regression. The analysis showed that ROE and Size significantly and negatively related to GCG. ROA and Composition significantly and positively effect on GCG.

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Keywords: GCG, ROA, ROE, Fixed Assets Ratio, Performance Size

1. Introduction

GCG started started to emerge in 1998 when in Indonesia experienced a prolonged crisis. There were two trigger GCG issues, namely, the rapid environmental changes which had an impact on changing the map of global market competition. Second, the increasing number of interested parties (constituents) including complex ownership structures that affect the management of stakeholders (Syakhroza, 2000). Many say that the lengthy restoration process

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in Indonesia was due to the weak corporate governance applied within the company in Indonesia. Since then, both the government and investors began to give significant attention in the practice of GCG. GCG implementation in the business industry, especially in Indonesia, is the demands of the times so the companies can compete on international level. GCG is an effort to improve and provide progress upon company performance. Several studies have been conducted to prove that GCG implementation affect company's performance, Berghe and Ridder states that companies with poor performance are caused by poor governance. This statement is also supported by a research, Gompers et al. (2003) in Darmawati (2004), which indicates that there is a positive relationship between corporate governance and corporate performance as measured by Return on Assets (ROA). Milton (2000) in Darmawati (2004) also showed that the variables associated with GCG have a strong impact on company performance. But on the other hand, another research shows that GCG has no effect on the company's performance, Khomsiah et al (2003).

2. Theoritical Review

Good Corporate Governance (GCG)

Two main theories associated with GCG, namely Stewardship Theory and Agency Theory. Stewardship Theory is built on philosophical assumptions about human nature, namely that men are essentially trustworthy, able to act with full responsibility, integrity and honesty towards others. In other words, stewardship theory views management as something that can be trusted to act in the best possible way for the benefit of the public and stakeholders. Meanwhile, the Agency Theory, developed by Michael Johnson, believes that the company's management as "agents" for shareholders, which will act with full awareness of its own interests. GCG is defined as structures, systems and processes used by a company in order to provide more value sustainable in the long term. Meanwhile, according to Jensen and Meckling (1976), agency theory is a contract between the manager (agent) with the owner (principal). Klapper (2002) states that GCG is associated with means or mechanism to convince the owners of capital in obtaining the return on investment that has been invested. Syakhroza (2002) defines corporate governance as a system that uses the leadership of an organization to direct, control, and supervise the organization’s resources management in an efficient, effective, economical and productive with the principles of transparency, accountable, responsible, independent and fairness to achieve organizational goals. Theoretically, corporate governance practices can improve the performance of a company, reduce the risks that might be done by the board with a decision which only benefits themselves. Generally, GCG can increase the investors’ confidence to invest which happens to affect performance (Darmawati et al, 2004). The research, conducted by Pranata (2007), aims to determine the effect of applying GCG on ROE, Net Profit Margin (NPM). The samples are 35 companies taken by purposive sampling at publicly traded company listed on the Indonesia Stock Exchange during 2001-2005 and big 10 in the group based on the index of GCG. Results from this study indicate that the application of GCG positively affect return on equity (ROE), Net Profit Margin (NPM) as well as changes in the scores of GCG implementation caused by other factors which are not included in the regression model.

3. Previous Studies

Aggarwal, Priyanka (2013) find that governance ratings have positive and significant impact on corporate financial performance, Companies that follow the CGPI survey showed a willingness to become a trusted and open. This effort should be perceived positively by stakeholders (Juniarti and The Lia Natalia, 2012). The results of McKinsey & Co. (2002) survey have shown that investors tend to avoid companies with poor corporate governance. Investors’ attention given to GCG is as big as the attention to the company's financial performance. Investors believe that companies implementing good corporate governance practices has sought to minimize the risk of making mistakes, thus improving the company's performance, which in turn maximize the value of the company. Therefore, the purpose of corporate governance is not only implementing good corporate governance practices but also improving the company’s performance. Darmawati et al. (2004) found that statistically, GCG significantly affects the company's operating performance that is proxied by ROE. This may be due to the market response towards the implementation of corporate governance which takes time. Samples taken as many as 53 companies listed on the Jakarta Stock Exchange in 2001 and 2002, included in the ranking of GCG implementation done by IICG. This study provides