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Analysis of the Influence of the Implementation of Good Corporate Governance on the Financial Performance of the Company

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ABSTRACT

Good Corporate Governance is a series of processes that can affect the direction, management and control of a company or corporation. The purpose of this study is to determine the extent to which the effect of the implementation of Good Corporate Governance on financial performance in companies, Bankruptcy measurement of a company can be measured through financial reports in the company, financial reports are a source of information that can concurrently provide information about corporate value. The impact of Good Corporate Governance can regulate the company's internal processes and can improve company performance, and make it easier to obtain cheaper financing funds which will ultimately increase corporate value. , This article was prepared based on data and references obtained from scientific journals related to the discussion. This study uses literature which has been used as a reference source for this article, in the literature review using primary sources and secondary sources. corporate governance has a positive effect on return on equity, and there is no positive relationship between good corporate governance and Tobin's Q. In this case, it shows that the implementation of good corporate governance influences operational performance and profit achievement. companies but the market response to the implementation of good corporate governance is still lacking.

Keywords: Implementation, Good Corporate Governance, Financial performance

INTRODUCTION

Good Corporate Governance (GCG) means running the company in a good and fair way. It becomes very important for companies to do this because it helps them to be successful and make money in the long run, especially when they have to compete with other companies from around the world. In 1999, several countries in East Asia experienced a similar problem because they did not have good corporate governance, which caused a major crisis. Indonesia is the slowest country to emerge from the financial crisis. This understanding shows that our company has not been managed properly. In other words, our company is not a government. According to an East Asia survey conducted by Booz-Allen in 1998, Indonesia had the lowest corporate governance index (8.93), followed by Malaysia (7.72) and Thailand (4.89). The GCG quality of companies in Indonesia is considered as a result of corporate decline.

Many companies in Indonesia have implemented Good Corporate Governance (GCG) in the globalization era. Something that regulates and oversees all company activities to create added value for all stakeholders is known as Good Corporate Governance (GCG). This concept emphasizes two things. First, it is important for shareholders to obtain precise and accurate information. Second, it is important for the company to share all the information about how well it is doing, who owns it, and what is the current situation. They have to do this in an honest and clear way. CGC means rules and guidelines that tell company owners, directors and managers how they should act. It also explains what their responsibilities and authorities are, and how they

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should respond to people who have invested money in the company. The Indonesian Institute of Corporate Governance says that corporate governance is like a set of tools that help companies run smoothly by considering the needs of the various people involved in the company. In implementation, every party in the company has a mutual interest in implementation. Issues regarding corporate governance will continue to emerge as the company progresses and there is a separation of interests between owners and executors.

When a company goes bankrupt, it means they don't have enough money to pay their bills and stay in business. We can find out if a company is bankrupt by looking at its financial statements, which are like a report card to find out how well the company is performing. This report provides us with important information to help us make good decisions. One way to measure how well a company is performing is to use something called ratio analysis, which helps us make sense of the information in financial statements. By using ratio analysis, we can find out how well a company is performing compared to before. Profitability ratios help us see how well a company is making money at any given time. This ratio measures a company's financial performance and includes things like how much money they make compared to what they have on hand, how much money their owners make, and how much money they make on their investments. It also looks at how much profit they are making compared to their costs.

corporate governance Good corporate governance is like having rules and systems to ensure the company runs well. This involves the people in charge of the company, such as managers and those who make important decisions, following the rules and looking out for the best interests of the company. This helps the company use its resources properly and keeps it growing. Corporate governance is like a set of rules and ways of doing things that help a company run smoothly. This involves how the company is managed and controlled, and how the people involved, such as owners, managers, and directors, work together. There are also other important groups, such as employees, customers and the community, who also have a say in running the company.

Corporate governance mechanisms cover various aspects such as the number of board members, institutional ownership, board size, managerial ownership and the existence of an audit committee. This mechanism is put in place to monitor and supervise company managers, with the aim of improving company performance. So, when a company implements good corporate governance practices, it is expected that its performance will increase. This can lead to an increase in the company's share price, which is a measure of its value. The implementation of good corporate governance can also have a significant impact on a company's return on equity, net profit margin, and Tobin's Q, which are performance indicators . The writing of this article was carried out with the intention of knowing the Impact Analysis of the Implementation of good Corporate Governance on the financial performance of the company.

METHODS

To write this article, the author uses information from the library. They see books and articles that talk about ideas, habits, and behavior in different social situations. The author also uses a learning method that focuses on understanding rather than numbers or statistics. This method involves the researcher as part of the research and paying attention to what something means. The author writes in a way that helps us understand something better. They use words that paint pictures in our minds. They also study things to learn more about them and explain what they find.

In the literature study research that has been used as a reference source for this article in the literature review using primary sources and can also use secondary sources. The type of data collection was obtained using the documentation method. Documentation is a way to gather information for a study. This involves using books and other written sources that have information on the topic. Using documentation can help make the information we find stronger and more reliable.

RESULTS AND DISCUSSION

When people own a company, they want to know how well it is doing financially. One way to find out is to look at a company's performance, meaning how well it is doing financially. To understand this, people use special tools to analyze the financial situation of companies. It is also important for companies to use their resources wisely to deal with any changes in the world around them. If companies want to be successful and compete in the global market in the long term, implementing good corporate governance in their performance is very important. Previously, there were many problems in Indonesia due to the weak implementation of corporate governance in company performance.

According to the Corporate Governance Forum in Indonesia (FCGI) there are several benefits from implementing good corporate governance, Improving company performance, Facilitating obtaining cheaper financing funds which will ultimately increase corporate value, Returning investor confidence to re-invest their capital in Indonesia, and Shareholders will be satisfied with the company's performance because at the same time it will increase dividends According to the Bassel Committee on.

GCG is like a set of rules that ensure everyone involved in the company is treated fairly. This includes the people who own the company, the people who run it, the people who lend it money, the government, workers, and anyone with an interest in the company. GCG helps ensure the company runs well and everyone benefits from it.

The goal of GCG is to make everyone involved in a company happy. This can be done by making the company more valuable, making better decisions to avoid problems, and making investors feel more confident. GCG must be applied to every part of the company to make it better. The main idea of GCG is to make the company run well.

In general, the concrete application of GCG principles has goals for GGC target companies to facilitate access to domestic and foreign investment, obtain cheaper cost of capital, provide better decisions in improving the company's economic performance, increase the confidence and trust of stakeholders in the company and protect directors and commissioners from lawsuits.

The main objective to be achieved is to balance the interests of all authorities based on their respective roles and functions within a company. According to the Organization for Economic Cooperation and Development (OECD), the principles of GCG are as follows: Transparency, Accountability, Responsibility, Independentness, and Fairness.

To be transparent, companies must provide sufficient, accurate and timely information to all parties with an interest in the company, both in the decision-making process and when disclosing material and relevant information. Every company is expected to disclose financial information transparently.

Accountability is the clarity of functions, structures, systems, and who is responsible for what is done by the organization so that the management of the company is carried out effectively.

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Accountability emphasizes the importance of creating an effective oversight system based on the division of powers between commissioners, directors and shareholders which includes monitoring, evaluating and controlling management to ensure that management acts in accordance with the interests of shareholders and other interested parties. Companies must be able to account for their performance in a transparent and fair manner. For this reason, the company must be managed properly, measurably and in accordance with the interests of the company while taking into account the interests of shareholders and other stakeholders. Accountability is a prerequisite needed to achieve sustainable performance.

Corporate responsibility means following rules and laws while running a company. It also means understanding that with power and authority comes the responsibility to do the right thing and make good choices. Being responsible also means treating other people fairly, honestly, and ensuring business runs properly and fairly. Companies are expected to understand that in their operations, they often produce externalities, namely adverse impacts that occur outside of company activities. It is hoped that this principle of responsibility will also assist the government's role in reducing income disparities and employment opportunities. Dependency, also known as independence, is when a business is managed in a professional manner without any involvement, influence or pressure from any party. This is against the applicable laws and regulations and sound business principles. Independence is very important in the decision-making process.

The Effect of Applying GCC to the ROA Ratio

The Return on Assets (ROA) ratio is the percentage of profit before tax compared to the average return on assets that produce results. The ability of bank management to generate profits from all assets owned is called the return on assets ratio (ROA). ROA also shows asset turnover, which is calculated from the number of sales. The level of profit achieved and the position of using company assets is positively correlated with the level of ROA (Rivai and Arifin, 2010: 866).

Basically, company management is the business wheel that moves the company to generate profits. Creating effective and efficient performance to improve capabilities and maintain a stable company financial condition is the most important management task. This success can be achieved if GCG principles are implemented thoroughly (Surya and Yustiavandana, 2008: 97).

As shown by Riandi and Siregar (2011: 128) say that the main purpose of implementing the GCG mechanism is to provide progress in the performance of a company, one of which is its profitability. Thus, the success of the performance achieved through the application of GCG principles can increase the company's profitability.

The Effect of Implementing GCG on the ROE Ratio

The Return on Equity (ROE) ratio is the ratio of net profit after tax to equity. This is a very important indicator for shareholders and potential investors to find out the company's ability to earn net profit associated with dividend payments. A higher ratio indicates the ability of paid-up capital to generate shareholder profits (Zamani and Moeljadi, 2012: 6). The interests of the shareholders are closely related to the ROE ratio. The main philosophy held by shareholders when investing in a company is to get the maximum overall profit. Because shareholders do not have full control over how to manage the company, business management must adhere to the principle of transparency in reporting everything the company does. This is one way to get the maximum profit. Therefore, the application of GCG is very important as a recommendation to measure company performance (Surya and Yustiavandana, 2008: 70). In theory, GCG implementation reduces disagreements between company managers and shareholders. Because there is supervision that monitors company managers to look after their own interests.

Thus, it can improve business performance and increase the trust of bank owners (Dewayanto, 2010: 107). Santoso (2008) and Sulistiyowati et al. (2010) mentions that good business governance protects investors from dividend payout ratios. The implementation of GCG also has an impact on improvement. There is a strong correlation between the interests of the shareholders to obtain maximum profit. Based on this description, the fifth hypothesis proposed is that the profits or dividends generated by the company will increase so that the dividends given to shareholders will increase.

The Influence of Good Corporate Governance on Tobin's Q

Tobin's q is an indicator for measuring company performance, especially regarding company value, which indicates a management proforma in managing company assets. Tobin's q value describes a condition of investment opportunities owned by the company (Lang, et al 1989) or the company's growth potential (Tobin & Brainard, 1968; Tobin, 1969). The Tobin'q value is generated from the sum of the market value of all outstanding stock and the market value of all debt compared to the value of all capital placed in production assets (replacement value of all production capacity), so Tobin's q can be used to measure company performance, namely in terms of the potential market value of a company.

The results of Tobin's Q have no impact on Good Corporate Governance (GCG). This may be because the Indonesian market has not paid attention to the implementation of GCG in companies, so that shareholders and investors are not actively involved in empowering themselves. This causes its bargaining power to be weak when faced with management. Investors cannot use the results of the GCG score as an additional tool to assess their business performance.

CONCLUSION

Stakeholders in the company have power, which influences the implementation of corporate governance mechanisms. The company's financial statements provide information about the company's financial position, performance and changes. This is very helpful in making decisions. In the process of making economic decisions, financial data must be transformed into useful information. The purpose of Good Corporate Governance (GCG) is basically to improve the performance of a company through regulations that can regulate the relationship between interested parties in the company. The impact of implementing Good Corporate Governance on financial performance. Good corporate governance has a positive effect on return on assets. and good corporate governance has a positive effect on return on equity, and there is no positive relationship between good corporate governance and Tobin's Q. company profits but the market response to the implementation of good corporate governance is still lacking.

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