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The Effect of Good Corporate Governance on Financial Performance in Conventional and Islamic Banks: An Empirical Studies in Indonesia

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ABSTRACT

This study discusses about good corporate governance implementation which in this study includes managerial ownership, institutional ownership, and audit committee which rated as capable to improve the images on banking which were bad, protect the stakeholder interest, and increasing the obedience to applicable laws and regulation and also general etiquette in banking industry in imaging banking system that is through company financial performance. The population of this study is all conventional and Islamic banking listed in Indonesia Stock Market throughout 2016-2018, sample that is used are 42 companies which have published their financial report from 2016 to 2018 continuously. The study result shows the managerial ownership variable has 0.02 significant effect towards financial performance, institutional ownership variable has 0.049 significant value towards financial performance, audit committee variable has 0.031 significant value towards financial performance. Meanwhile, they are simultaneously having 0.031 significant value towards financial performance.

Keywords: Managerial Ownership, Institutional Ownership, Audit Committee, Financial Performance
JEL Classifications: M4, G38, G2, G3

1. INTRODUCTION

Bank is an industry which in its business activity rely on people trust so that the health level of bank need to be maintained. Bank health maintenance can be done such as keeping the liquidity so that it can fulfill its obligation to all parts that withdraw their deposits anytime. (Saiful, 2019) Banks are financial institutions that play a very important role in stability and development of economic growth. The readiness to fulfill the obligation at any time becomes more important in the meaning of remembering the role of the bank as an institution that functions to expedite payment traffic. The rapid development of banking and high complexity level can increase the risk that will be faced by bank in Indonesia, the ability of managers to keep the secret of customer which trusted to them and also the security of money or other assets which are entrusted to bank.

The importance of keeping the trust of people to bank because the main activity of the bank is raising funds from people then distribute it with the purpose of earning income. Because of that, Bank Indonesia applies the rule about bank health. Bank health can be described as the ability of a bank to do operational banking activity normally and able to fulfill all of the obligations well with the methods which are according to applicable bank regulation. With the rules about bank health, banking is hoped to be in healthy condition so that it will not harm the community which is related to banking. The weakness of corporate governance (`) application becomes the main trigger if financial scandal that happened. Fraud, embezzlement, burglary, and corruption cases which are done by bank person themselves happen a lot in Indonesia. The occurrence of many banking cases in Indonesia makes a lot of parties that are starting to think that CG application becomes a need in the business world as the barometer of accountability of a company.

Good CG application judged to be able to fix banking image which was bad, protect the stakeholder's interest and also increase the obedience to applicable laws and regulations and also general ethics in the banking industry in building the image of a healthy banking system. (Harisa et al., 2019) The different interests and needs of stakeholders for good governance information make the company must disclose information on good governance that can accommodate all interests and needs of stakeholders, so that it will affect the quality of disclosure of a company's good governance. CG is more inclined to series of company behavior pattern which measured by performance, growth, financing structure, treatment towards shareholders and stakeholders so that it can be made as the basic analysis in studying CG within a country by fulfilling transparency and accountability in decision-making which is systematic and can be used as the basis for accurate calculation in terms of company performance and how the correlation between policy of laborers and company performance. Besides that, the application of good CG within the banking hoped to be able to have an impact on banking performance because the CG application can improve the financial performance, reduce the risk caused by managerial which tends to make a profit for themselves. The company that applied good CG will be more efficient and the competitiveness will increase.

In the conventional economic decision, the theorization about CG issue have developed in two generations. The first generation gave pressure in consequence of the separation of ownership from company controlling that needs a mechanism in order to guarantee the management side (agent) to manage the company according to the capital owner's interest (principal). This early though producing a shareholding paradigm in which performs theorize based on stakeholder perspective. The second generation occurred after looking at the CG application in which was really affected by law instruments within a country in giving protection for all parties' interest in which related to the company. From this second generation, a new paradigm was born about CG, which conducted a theorize based on the sides that have interest (stakeholder) whether those who were coming from the outside or inside of the company (stakeholding paradigm). The supporting expert develops a wider CG theory to connect CG practice with factors that have specific context nature.

Different from the previous researcher who widely conducted the CG mechanism test (independent commissioner, managerial ownership, institutional ownership, audit committee and audit quality with KAP proxy). The researcher in this study is only focusing on conducting the CG mechanism test (independent commissioner, managerial ownership, institutional ownership, audit committee) which have an effect on financial report performance.

The clarity of function, structure, system, and responsibility of company organization so that CG materialized effectively is manifested through financial report performance. The exposure of company and transparency are the characteristics of financial report, which is defined as financial report expansion which is stated the entity of a company in the easy way to understand by the financial report user. Because of that, a company must be managed properly, measured, and in accordance with company interest, it is hoped that it will reach a continuous performance.

This research is conducted in order to test the CG (independent commissioner, managerial ownership, institutional ownership, audit committee) which is affecting to financial report performance and also at the same time researches another factor which is yet to be studied by previous researcher, which is independent commissioner and also using previous research variable which are profitability and leverage as controlled variable.

Within the financial report, the role and responsibility of the audit committee is to monitor and also paying attention to financial report audit and also assess the service quality and reasonableness of costs which is proposed by external auditor (KNKG, 2016). In this research, financial report quality means the financial report performance.

1.1. CG

National Governance Policy Committee (KNKG, 2016) defined CG as a process and structure which is used by company organ in order to give extra credit for the company continuously in long term for stakeholder, by keeping the eyes on another stakeholder interest, based on applied statutory regulations and norms. Meanwhile, according to Forum CG In Indonesia (FCGI, 2014), CG is a regulatory tools which is set the connections between stakeholder, management, creditors, government, employee, and also all the internal and external interest holder related to their rights and responsibilities., or, on the other words the system that leads and control the company.

The CG concept has the purpose to increase the company performance through supervision and monitoring of company management performance and in order to guarantee the company accountability towards stakeholders based on rules of framework. CG concept was proposed in order to fulfill the company financial report management which is more transparent for all the financial report users. CG also helps to create a conducive environment in order to materialize an efficient and sustainable growth in the corporate sector.

1.2. Managerial Ownership

According to (Mukhtaruddin, 2014) "Managerial ownership is the amount of stock ownership by management side from all company total capital stock which is managed. Managerial ownership defined as the stock percentage which is owned by managerial side." According to (Jensen and Meckling, 2009) "Managerial ownership is succeeding in becoming a mechanism in order to reduce the agency problem from manager by aligning the manager interests with stakeholder." Whereas manager interest with stakeholder can be unified if the proportion of stake ownership owned by manager and director is expanded, in which stock proportion owned will indicate the decreasing of manipulation tendency by management.

1.3. Institutional Ownership

The agency problem nature directly has a relation with ownership structure. Ownership structure which is spread out will not give any incentive to an owner in order to monitor management. This thing is caused by the owner will have to pay the monitoring cost by themselves so that all owners will enjoy the benefit. Institutional investor has the role in providing a mechanism that can be trusted toward information serving to the investor. This role is caused by institutional investors is the sophisticated investor and have the control power which is better than an individual investor.

Throughout institutional ownership, the effectiveness of company resource management by the management can be found out from the information produced by market reaction based on profit announcement. "A certain stock percentage which is owned by institution can affect the financial report drafting which does not close the possibility of actualization which is according to management interest side" (Boediono, 2015). Institutional ownership is a company's stock ownership by an institution (agency). "The level of high institutional ownership will cause a bigger supervision effort from investor side so that in can block manager opportunistic behavior" (Utami and Rahmawati, 2015)

The board of independent commissioners plays an active role in reviewing the policy and financial report practice so that it can affect the punctuality of financial report within a company. The board of commissioners can also act as the mediator in the dispute that happens between internal manager and supervising management policy and also giving advice to management. The existence of a board of independent commissioner in preparation of financial report making can reduce the time needed for a company in order to publish their financial report to the public.

1.4. Audit Committee

Based on the framework of thinking of law in Indonesia the public companies are required to form the audit committee. The audit committee is formed by the board of commissioners. "Audit committee is a committee which views regarding accounting, financial report and the explanation, internal supervision system and also independent auditor terms" (FCGI, 2014).

In doing their role, the audit committee needs to have the right for unlimited access to the director, internal auditor, external auditor, and all information that are existed within the company. Without the authorization or rights for the access itself, there will be impossible for the audit committee to run their role effectively. In accordance with the direction to run the audit committee function effectively, then the benchmark of success for the audit committee in which related to organization activity is to fulfill the need of the consumers such as service, quality, and expense. Because of that the audit committee has the authority to conduct and authorize investigation towards problems within their responsibility environment in which has the duty to help the board of commissioners.

1.5. Financial Performance

The definition of financial performance according to (Jumingan, 2016) is "Financial performance is the image of company financial condition within a certain period of time whether related to collection or distribution of fund, which usually measured by capital adequacy, liquidity, and profitability indicators." Meanwhile, (Azis, 2015) said that performance has a lot of aspects, but the economists usually only focus on 3 main aspects which are efficiency, technology development, and balance in distribution. (Hertati et al., 2019) The quality of financial reporting has a very important meaning because it is a manifestation of the accountability of each working unit in carrying out its activities for a performance-based 1 year budget. Efficiency itself is grouped into two which are internal efficiency and allocation. So what it means by financial performance is the accomplishment that is achieved by a company in the financial sector within a certain period which represents the level of company health in the sector.

2. RESEARCH METHOD AND RESULTS

The research method in this research is quantitative descriptive in which this research describes the CG effect on financial performance which is the data in form of data that can be calculated, financial data from BEI, in this research the variable used are managerial, institutional ownership, and audit committee.

Population used by the researcher is conventional and sharia banking company that listed in Indonesia Stock Exchange in 2016-2018 period, total number of 45 companies meanwhile the sample in this research are 42 companies which are doing financial report publication continuously. The analysis in this research is using descriptive statistics analysis, data normality test, parametric statistical test paired sample t-test and F-test.

2.1. Descriptive Statistic

Descriptive statistics are presented in Table 1.

1. N managerial ownership variable of 42, minimum of 0. Maximum of 1. Mean or average of 0.74, standard deviation which is the data dissemination measurement from its average is 0.445. Skewness is the data distribution measurement 1.163/1.421 0.8181 the criteria that are used if skewness ration is between −2 up and 2 then the data distribution is normal. In

Table 1: Descriptive statistics

	n	Minimum	Maximum	Mean	Std. deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. error	Statistic	Std. error
X1	42	0	1	0.74	0.445	1.163	1.421	0.697	0.821
X2	42	0	1	0.81	0.402	1.631	1.421	0.702	0.821
X3	42	0	1	0.81	0.402	1.631	1.421	0.702	0.821
Y	42	−5.00	9.00	0.9032	2.49473	0.476	0.421	0.303	0.821
Valid n (listwise)	42								

Source: Data Processing Result SPSS, 2019 this matter, the managerial ownership variable has a normal distribution. Quortosis is used in order to find out whether the data is distributed normally or not. Quortosis of 0.697/0.821 = 1.092. the criteria that are used is, if quortosis ration is between −2 and 2 then the data distribution is normal. In this matter, the managerial ownership variable has a normal distribution.

2. N institutional ownership variable is 42. Minimum is 0. Maximum is 1, mean is 0.81, standard deviation is 0.402, skewness is 1.631/1.421 = 1.147 Skewness ratio has normal distribution. Quortosis of 0.702/0.821 = 0.855 then the data has normal distribution.
3. N audit committee variable is 34. Minimum is 0. Minimum is 0. Maximum is 1, mean is 0.81, standard deviation is 0.402, skewness is 1.631/1.421 = 1.147 skewness ration has normal distribution. Quortosis of 0.702/0.821 = 0.855 then the data has normal distribution.
4. N financial performance variable of 34. Minimum is −5.00. maximum is 9.00, mean is 0.903, standard deviation is 0.249, skewness is 0.476/0421 = 1.130 skewness ration has normal distribution. Quortosis of 0,303/0.821 = 0.369 then the data has normal distribution.

2.2. Auto Correlation Test

It is known that Asymp. Sig. value (2-tailed) is 0.798 >0.05, then it can be concluded that there is no indication or there is no autocorrelation (Table 2).

2.3. Classic Assumption Test

2.3.1. Normality test

Normality test using Smirnov Kolmogorov One Sample Statistic test. Normality test result using Smirnov Kolmogorov One Sample Statistic test can be seen in Table 3.

Testing criteria are as follows: (Sujiyanto and Agus, 2019)

a. If the significance value (Asym sig 2 tailed) >0.05, then the residual data has a normal distribution.
b. If the significance value (Asym sig 2 tailed) ≤0.05, then the residual data does not have normal distribution.

Normality test result is as follows:
From the table above known that the significance value (Asym. sig 2 tailed) of 0.671. P > 0.05 so the residual is normally distributed.

2.3.2. Hypothesis test

Hypothesis testing is conducted by t-statistical test and F test which is by testing the effect of managerial ownership, audit committee variables toward financial performance partially and simultaneously.

2.3.3. T-test (partial)

Partial test (t-test) used in order to show the effect of the independent variable individually towards the dependent variable. T statistical test can be conducted by looking at probability value. Acceptance or rejection of the hypothesis done if the probability value <significance level (Sig. <0.05), then H_a is accepted and H_0 is rejected, independent variable affecting towards dependent variable or probability >significance level (Sig. >0.05), then H_a is rejected and H_o is accepted, independent variable does not affect the dependent variable. t-test result in this research can be seen in the Table 4.

Based on the calculation result of sig t 0.027 <0.05, then H_a is accepted and H_0 is rejected. This means that managerial ownership partially has a significant effect on financial performance. T sig count of 0.049 <0.05 then H_a is accepted and H_0 is rejected. This means that institutional ownership has a significant effect on financial performance. T sig count of 0.031 <0.05 then H_a is accepted and H_0 is rejected. Which means that audit has significant effect towards timeliness of financial report.

2.3.4. F-test (simultaneous test)

F test is a series of multiple linear regression analysis. F test is conducted in order to test whether all variables within a research

Table 2: Autocorrelation test result

Runs test	Unstandardized residual
Test value	0.00560
Cases<Test value	31
Cases≥Test value	31
Total cases	62
Number of runs	31
Z	−0.256
Asymp. sig. (2-tailed)	0.798
a. Median	

Data resource: Processed from attachment

Table 3: Smirnov Kolmogorov one sample statistic test

	Unstandardized residual
n	62
Normal parameters[a,,b]	
Mean±Std. deviation	0.0000000±0.35083886
Most extreme differences	
Absolute	0.092
Positive	0.092
Negative	−0.077
Kolmogorov-Smirnov Z	0.724
Asymp. sig. (2-tailed)	0.671

Data Resource: Processed from attachment

Table 4: t-test results

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. error	Beta		
1					
(Constant)	5.789	9.540		16.078	0.000
X1	0.349	4.830	0.032	0.198	0.027
X2	0.012	0.073	0.054	0.374	0.049
X3	0.605	3.766	0.103	0.294	0.031

a. Dependent variable: Financial performance

Table 5: F test

ANOVA[b]					
Model	Sum of squares	Df	Mean square	F	Sig.
1					
Regression	13.675	2	11.290	0.4519	0.031[a]
Residual	156.780	40	42.351		
Total	132.460	41			

a. Predictors: (Constant), audit committee, managerial committee, institutional ownership. l
b. Dependent variable: Timeliness

Source: SPSS Data processing result, 2019 altogether have a significant effect on the dependent variable. Based on the statistical count result table, F-count value obtained presented in Table 5.

From the analysis result, it is obtained the significant profitability of 0.031, meanwhile with 0.031 <0.05, because of that in this research F test obtain result that managerial ownership variable (X1), Institutional ownership (X2), audit committee (X3) altogether have effect on financial performance (Y).

3. CONCLUSION

Based on this research result, it is presented that managerial ownership, institutional ownership, and audit committee variables. This research presents the 34 samples of banking companies which are listed in BEI in 2016-2018. With the research result, the hypothesis shows that there is a significant effect from all three independent variables toward financial report financial performance whether it is tested with t-test, F test. After conducting a couple of statistical analysis and also classic assumption, which results in the conclusion that average financial performance in manufacture companies which are listed in BEI in 2016-2018. Then there are a few things that can be concluded with the test result as follows:

1. The managerial ownership variable has a significant effect on financial performance. Research result shows that sig t 0.02 <0.05 then H_a is accepted and H_0 is rejected.
2. The institutional ownership variable has a significant effect on financial performance. Research result shows that sig t 0.049 <0.05 then H_a is accepted and H_0 is rejected.
3. The audit committee variable has a significant effect on financial performance. Research result shows that sig t 0.031 <0.05 then H_a is accepted and H_0 is rejected.
4. Managerial ownership variable, institutional ownership, and audit committee altogether affect financial performance. Research result shows that sig f value 0.031 >0.05 then H_a is accepted and H_0 is rejected.

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