Factors That Affect Good Corporate Governance

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Abstract.
Research aims to determine the influence of leverage, profitability, company size, and company characteristics on good corporate governance. Research population of banking sub-sector companies listed on the Indonesia Stock Exchange in 2019-2020 with purposive sampling techniques. A sample of 31 companies. Types of quantitative research data and secondary data sources. Descriptive statistical data analysis techniques, classical assumption tests, multiple regression analysis, coefficients of determination and hypothesis tests. The results of leverage and profitability research affect good corporate governance, while the size of the company and the characteristics of the company have no effect on good corporate governance.

Keywords: *leverage, profitability, company size, company characteristics, good corporate governance*

I. INTRODUCTION

With the development of an increasingly modern era where the business people are very developed especially in Indonesia itself. Every company always wants to look dynamic with the progress of the market based on the wishes of consumers. Strict company regulations make competitors want to get praise but with increasingly strict competitor regulations it is expected that every company to pay attention to their company to always be good and superior. According to [1] the implementation of Good Corporate Governance (GCG) is a major aspect to build solid corporate fundamentals. GCG practices will create sustainable corporate financial performance. Issues related to GCG have been a subject since the monetary crisis in 1998-2000 in Indonesia, where many banks were closed due to the lack of implementation of GCG. In addition, in 2015 there was a decline in the corporate governance system (GCG) in banking, this decrease can be marked by the number of fund break-ins and fraud practices that occur in banking. The Indonesian banking industry needs to improve the quality of the principles of GCG. Indonesia's GCG still needs to be improved because it still lags behind other countries, even from neighboring countries [2].

The development of GCG in the banking sector is characterized by the occurrence of cases of PT Bank West Java and Banten (BJB) Syariah is still involved in cases of alleged fictitious credit that harms the company worth Rp548 billion. Based on the 2018 GCG report published by the company, there were 4 cases of internal fraud that affected the bank's operational activities and financial condition significantly last year. The impact of irregularities or losses caused by internal fraud is each worth more than Rp100 million. Until the report is released, the four cases are still in the process of settlement in BJB Syariah. In addition to the four cases, BJB Syariah also still leaves one fraud case that has not been resolved. This case took place in 2017. The entire internal fraud case involves the company's permanent employees. In addition to internal fraud, in 2018 BJB Syariah also experienced conditions of the maximum limit of disbursion of funds (BMPD). Thus, the company must report the GCG improvement action plan in accordance with Bank Indonesia Regulation No. 13/5/PBI/2011 on The Maximum Limit of Distribution of Islamic People's Financing Bank Funds.

This case took place in 2017. The entire internal fraud case involves the company's permanent employees. In addition to internal fraud, in 2018 BJB Syariah also experienced conditions of the maximum limit of disbursion of funds (BMPD). Thus, the company must report the GCG improvement action plan in accordance with Bank Indonesia Regulation No. 13/5/PBI/2011 on The Maximum Limit of Distribution of Islamic People's Financing Bank Funds [3]. Leverage to indicate the amount of assets financed by a debt fund. The greater the leverage number, the more stakeholders are involved in the company's operational activities. Based on research [4] and found leverage to have a positive and significant effect on the application of GCG. Research [5] and [6] found that leverage had no significant effect on GCG.

Profitability is the ratio to assess a company's ability to make a profit. This ratio also provides a measure of the effectiveness of a company's management. Based on research [7] found profitability affects GCG. Research [8] and [9] found profitability had no significant effect on GCG. The size of a company is the scale of determination of the size of a company seen through the size of total assets, the number of sales and the value of the stock market. If the company has a large total assets then the company's prospects are good and said to be a large company so that it is able to generate profits it will be able to attract investors to invest in the company. The size of the company according to [7]is the symbol seen from the total assets. According to research [10] it was found that the size of the company had a positive effect on GCG. Research [9] found that the size of the company had no effect on GCG. Corporate characteristics are characteristics or traits inherent in a business entity [1]. The characteristics of the company can be seen in various aspects, including the type of business or industry, the level of liquidity, profitability of the company, financial leverage and share ownership, the size of the company. According to research [1] found company characteristics to have a simultaneous effect on GCG.

Teori Sinyal (*Signaling Theory*)

Signalling theory explains why companies have the urge to provide financial statement information to external parties [11]. The company's drive to provide information is because there is an information asymmetry between the company and outsiders because the company knows more about the company and its prospects to come than outsiders (investors and creditors). This signal is in the form of information that describes what has been done by management to realize the wishes of the owner.

Information issued by the bank is important because it will have an impact on investment decisions of parties outside the bank.

Good Corporate Governance

In Indonesia, the Forum for Corporate Governance in Indonesia (FCGI) defines Corporate Governance as a set of regulations that establish the relationship between stakeholders, administrators, creditors, governments, employees, and other internal and external stakeholders. GCG translates as good corporate governance [12]. Corporate governance is a set of rules run by interested parties to ensure that the company's activities and objectives are to meet the interests and prosper stakeholders, not only achieve the company's own goals [13]. Corporate governance based on agency theory is expected to give investors confidence that they will receive a return [14].

Leverage

Leverage is a ratio that indicates an entity's ability to meet any obligations both short-term and long-term at the time the entity is liquidated [11]. To run its operations the company has various needs, especially related to funds so that the company can run as it should. Funds are always needed to cover all or part of the necessary funds in both short-term and long-term funds. The use of funds has advantages and disadvantages so it needs to be investigated in order to support each other.

Profitabilitas

Profitability ratio is the ratio to assess a company's ability to make a profit. This ratio also provides a measure of the effectiveness of a company's management. This is indicated by the profit generated from sales and investment income. The use of profitability ratios can be done using comparisons between various components in financial statements, especially balance sheet statements and income statements. Measurements can be made for several operating periods [7].

Company Size

The size of the company is a scale that can be calculated with the level of total assets and sales that can indicate the condition of the company where the larger company will have an advantage in the source of funds obtained to finance its investment in obtaining profits [15]. The size of the company can be used to represent the financial characteristics of the company. Large companies that have been well estabilished will be easier to obtain capital in the capital market compared to small companies.

Rusteristic Company

Corporate characteristics are characteristics or traits inherent in a business entity [1]. The characteristics of the company can be seen in various aspects, including the type of business or industry, the level of liquidity, the profitability of the company, financial leverage, and share ownership, the size of the company.

Hypothesis

The Effect of Leverage on Good Corporate Governance

Corporate debt is one of the mechanisms to unite the interests of managers with shareholders, debt gives a signal regarding the status of the company's financial condition to meet its obligations. The high debt of the company will result in the principal putting pressure on management to improve the company's performance so that the company's debt is reduced. Pressure on the part of the principal will force management to apply the GCG concept better. The results of the study [16] and [4] show leverage affects GCG. The high leverage ratio affects the GCG score rating because if the laverage ratio is getting higher it illustrates the lack of quality of the company's performance in managing the company's debt. Conversely, if the laverage ratio is getting lower, it illustrates the quality of the company's performance that is good in managing the company's debt. The lower the leverage ratio, the better the company's GCG score rating. Based on this thought, the first hypothesis was formulated:

H1: Leverage affects good corporate governance

The Effect of Profitability on Good Corporate Governance

The higher the profitability of the company, the higher the GCG score rating obtained by the company. Research [17] ROA is an excellent gauge in calculating the rate of return for shareholders. If the company has no debt, then the return on assets and the return on equity will be the same. ROA measures how a company's profit rate relates to total assets. ROA provides an idea of how efficient management uses its assets to generate profits. Based on this thought, the second hypothesis is formulated:

H2: Profitability affects good corporate governance

Effect of Corporate Characteristics on Good Corporate Governace

The company's characteristics are measured by net profit margin (NPM) and current ratio (CR). The greater the NPM, the more productive the company's performance will increase investor confidence to invest in the company. This ratio shows what percentage of net income is earned from each sale. The greater this ratio, the better the company's ability to earn high profits. The relationship between net income after tax and net sales demonstrates management's ability to drive the company successfully enough to leave a certain margin as reasonable compensation for owners who have provided their capital for a risk. The current ratio indicates the ability to pay its short-term due liabilities. Research [8], [18], [19] and [20] Explained that the characteristics of the company affect the GCG score rating. Based on this thought, the third hypothesis is formulated.

H4: Characteristics of the company affect good corporate governance

II. METHODS

Population is the total number of observation targets to be tested [21]. Research population of banking companies 2019-2020 listed on the Indonesia Stock

Exchange. Purposive sampling by sample selection: 1) banking companies registered with IDX for the period 2019-2020, 2) present financial statements consistently for the period 2019-2020, 3) present financial statements with Rupiah currency for the period 2019-2020, 4) experiencing profit during the period 2019-2020, and 5) presenting the full information needed. The operational definition of research variables is:

1. Good Corporate Governance is projected by the Board of Commissioners. The application of the Board of Commissioners describes the performance of companies or governments that are considered to represent best practices and there is almost no shortage in any field assessed. Board of Commissioners = Internal Commissioner + Commissioner
2. Leverage is projected debt to total asset ratio (DAR). DAR comparison of total debt and total assets [22]. Main financial statements and as a link between two balance sheets in consecutive periods. Refers [22] DAR formula:

$$DAR = \frac{\text{Total Utang}}{\text{Total Aset}} \text{ X } 100\%$$

3. Profitability is projected with ROA. ROA is net income divided by total assets. Referring to [10] the ROA formula is:

$$ROA = \frac{\text{Laba bersih}}{\text{Total aset}} \text{ X } 100\%$$

4. The size of the company is projected with Ln total assets which is the total amount of assets held in a period of [15].

   The company's characteristics are projected current ratio (CR). The ratio indicates the percentage of net income earned from each sale. The greater this ratio, the better the company's ability to earn high profits.

$$Current\ ratio = \frac{\text{Asetlancar}}{\text{Utang Lancar}} \text{ X } 100\%$$

III. RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistical analysis is a procedure for compiling and presenting data collected in a study with the aim of getting an overview or describing a set of observational data so that it is easy to understand, read, and use as information.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Leverage	62	.159	.919	.79983	.127854
Profitabilitas	62	.000	.091	.01176	.014009
Size of the company	62	15.00	32.00	20.3226	4.40110
Characteristic	62	.11	248.17	15.6650	35.78597
GCG	62	6.00	25.00	12.1613	5.31683

Based on the table above it can be described that the amount of data processed (N) is 62. Minimum value, maximum value, average and standard deviation of each research data. Good Corporate Governance is measured using the Board of Commissioners has a minimum value of 6 at PT Bank Maspion Indonesia Tbk in 2019; maximum value of 25 PT Bank Rakyat Indonesia in 2020; average 12.1613; and the standard deviation of 5.31683. The average value can be interpreted that the measure that explains the good corporate governance produced is 12.1613. Leverage has a minimum value of 0.159 at PT Bank BTPN Syariah Tbk in 2019; maximum value of 0.919 at PT Bank Capital Indonesia Tbk in 2020; The average is 0.79983 and the standard deviation is 0.127854.

The average value means that the leverage level is 0.127854. Profitability has a minimum value of 0.000 at PT Bank Sinarmas Tbk in 2019; maximum value of 0.91 at PT Bank BTPN Sayriah Tbk in 2019; average of 0.01176; and the standard deviation of 0.014009. The average value concluded that net income divided by total assets was 0.01176. The size of the company has a minimum value of 15 at PT Bank Ghanesa Tbk in 2019; maximum value of 32 at PT Bank Mega Tbk in 2020; The average is 20.3226 and the default deviation is 4.40110. The average value of the total number of assets held in a period is 20.3226. The characteristics of the company have a minimum value of 11 in PT Bank Amar Indonesia Tbk in 2020; maximum value of 248.17 at PT Bank BTPN Tbk in 2021; The average is 15.6650 and the default deviation is 35.78597. The average value can be interpreted that the net profit from each sale is 15.6650

Normality Test Data

Data normality testing uses the Kolmogorov-Smirnov one Sample test. Data is said to be normally distributed if its significance value is more than 0.05 (Sig 0.05). The result of a Kolmogorov-Smirnov value or statistical test of 0.119 with a significance value of 0.322. Significance values 0.322 > 0.05 means residual data is normal distribution and meets the assumption of normality [21].

Multicollinearity Test

The multicollinearity test aims to test a regression model whether it has symptoms of multicollinearity and can be seen at VIF values. Regression model is said to be good and does not occur multicollinearity if the VIF value < 10. The results of the multicollinearity coefficient test showed a leverage variable VIF value of 2.525, profitability of 2,513, company size of 1,046, and company characteristics of 1,079. The four variables < 10 so that there is no multicollinearity between independent variables.

Autocorrelation Test

Auto correlation is a correlation between members of observations arranged by time and place. A good regression model is one that is free of autocorrelation. To find out the symptoms of autocorrelation can be used Durbin-Watson test (DW) with the results of the Durbin-Watson (DW) value of 1,896 so that the regression model there is no autocorrelation because the DW value is between -2 and +2.

Heteroscedasticity Test

Heteroskedasticity is a residual variance that is not the same for all observations in the model. Good regression does not occur heteroskedasticity. Heteroskedasticity test uses correlation methods. Testing uses a significance level of more than 0.05 so that heteroskedasticity is not reported. Glejser correlation results show that Sig. (2-tailed) leverage variables 0.086, profitability 0.077, company size 0.054 and company characteristics 0.875. The four variables are Sig values. (2-tailed) > 0.05 so that there are no symptoms of heteroskedasticity.

Multiple Regression Analysis

Multiple regression analysis is connecting two or more independent variables with the dependent variable to measure the intensity of the relationship between two or more variables. Multiple regression analysis results:

Table 2. Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-9.449	7.050		-1.340	.185
	Leverage	28.080	7.669	.675	3.662	.001
	Profitability	272.379	69.823	.718	3.901	.000
	Company size	-.189	.144	-.157	-1.317	.193
	Characteristics	-.013	.018	-.090	-.743	.461

Coefficient of Determination (R^2)

Coefficient of Determination (R2) to measure the model's ability to explain the variation of the independent variable to the dependent variable. The results in table 3 (R2) are 0.179 or 17%. This shows that the variable has an influence on firm value by 17%, while the remaining 83% is influenced by other variables that are not included in this model.

Table 3. **Coefficient of Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.482[a]	.232	.179	4.81878

The Effect of Leverage on Good Corporate Governance

The leverage significance value of 0.001 < 0.05 (0.001 < 0.05) means H1 has an effect on good corporate governance. The condition of leverage affects good corporate governance, because in reality companies that are not charged by debt mean having good financial performance. The results of the study support the research [4] and [23] variable leverage affects good corporate governance and is not in line with research. [8] and [6] Variable leverage has no effect on good corporate governance.

The Effect of Profitability on Good Corporate Governance

The value of profitability significance of 0.000 < 0.05 (0.000 < 0.05) means that H2 is accepted that profitability affects good corporate governance. This condition is because in reality a company that has an advantage over its business does not mean having good company management. The results of this study support [7] Variable profitability affects good corporate governance and is not in line with research. [8] dan [9] *It states that variable profitability has no effect on good corporate governance.*

The Effect of Corporate Size on Good Corporate Governance

The significance value of the company's size of 0.193 > 0.05 (0.193 > 0.05) means H3 is denied that the size of the company has no effect on good corporate governance. It can be said that the condition of the size of the company has no effect on good corporate governance, because in improving the company's corporate governance the size of the company as measured by its total assets also needs to control the use of debt to finance the company's operations so that the company's wealth is maintained. The results of this study support [9] and [3] Variable corporate size has no effect on good corporate governance and is not in line with research [10] which states that the size of the company affects good corporate governance.

The Effect of Company Characteristics on Good Corporate Governance

The value of the company's characteristic significance of 0.461 > 0.05 (0.461 > 0.05) the company's characteristics had no effect on good corporate governance so H4 was rejected. It can be said that the condition of the company's characteristics has no effect on good corporate governance, because in improving the quality of a company the characteristics of the company as measured by the board of commissioners also need to control the management system to make a company better. The results of this study are contrary to [8] *stating that the characteristics of the company affect simultaneously on good corporate governance.*

IV. CONCLUSION

Leverage and profitability have a significant effect on good corporate governance while the size of the company and characteristics have no effect on good corporate governance. Low leverage indicates that financing by debt means little financial performance. Profitability measured by high net income means the company's financial performance is good.

The size of the company is measured because in improving good corporate governance the size of the company as measured by its total assets also needs to control the use of debt to finance the company's operations so that the company's wealth is maintained. Characteristics of the company because if in improving the quality of a company the characteristics of the company as measured by the board of commissioners also need to control the management system to make a company better. The results of the study could not be generalized so the researchers further developed all the.

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