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The Impact of Good Corporate Governance Implementation on Financial Performance

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Abstract

This study aims to examine the impact of good corporate governance implementation on financial performance. The research focuses on healthcare sector companies listed on the Indonesia Stock Exchange from 2018 to 2021. A purposive sampling method was used, resulting in a sample size of 33. Data analysis was conducted using multiple regression analysis. The findings indicate that institutional ownership influences the financial performance of healthcare sector companies. However, the board of directors, board of commissioners, independent commissioners, audit committee, managerial ownership, and company size were found to have no significant effect on the financial performance of companies in this sector. These results can serve as a reference for companies seeking to improve their financial performance. Furthermore, the findings imply a need to enhance the roles of the board of directors, board of commissioners, independent commissioners, and the audit committee to boost corporate performance.

Keywords: Board of directors, Board of commissioners, Independent commissioners, Audit committee, Institutional ownership, Financial performance.

Introduction

1.1. Background

The implementation of corporate governance is crucial for companies. Adopting corporate governance practices can yield long-term benefits that enhance corporate performance. A company's objective is not merely to maximize financial returns for shareholders but also to create value for all stakeholders such as employees, customers, the local community, and other resources (Naeem & Çankaya, 2022). Companies pursue specific goals, one of which is maximizing profit to increase corporate value. According to Jannah & Sartika (2022), in an ever-evolving landscape, many companies continuously innovate to improve their performance year after year. Financial performance is a key factor to consider when making investment decisions, as it reveals the company's profitability; high profit figures indicate that the company's operations are running effectively.

Every year, companies are required to present annual financial statements in accordance with prevailing regulations. Regulation 20/POJK.04/2021 stipulates that the preparation of financial statements must adhere to the rules set by the OJK (Financial Services Authority). Financial statements prepared by a company serve as a basis for evaluation and decision-making (Supardianto et al., 2019). The information contained in these statements is intended to meet the needs of both external and internal parties. Financial statements characterized by accurate, honest, relevant, reliable, comparable, and understandable information are considered high-quality statements (Supardianto et al., 2019).

Financial statements provide a source of information that can be used to assess a company's financial performance and financial position. Assessing a company's financial performance involves analyzing its financial statements (Setyawan, 2019). According to Erawati & Wahyuni (2019), financial performance represents a company's success or the results achieved through its activities. Improved financial performance attracts potential investors to the company. Furthermore, superior financial performance ensures the company maintains a competitive edge (Erawati & Wahyuni, 2019).

The implementation of Good Corporate Governance is a strategic determinant for a company, serving as a key internal control mechanism. It enables the management of substantial risks, thereby fostering a corporate management style characterized by integrity and transparency (Setyawan, 2019). Consequently, Good Corporate Governance safeguards stakeholders against unethical and non-transparent management practices. Adopting Corporate Governance principles is essential for companies to remain resilient and reliable amidst increasingly intense competition (Erawati & Wahyuni, 2019). Furthermore, the application of Corporate Governance ensures transparency in corporate management for financial statement users (Situmorang & Simanjuntak, 2019). Effective implementation of this concept boosts investor confidence and enhances benefits for various parties.

This study is a replication of the research conducted by Permono & Puspaningsih (2022). The updates lie in the following aspects: 1). The method of measuring financial performance. Permono & Puspaningsih (2022) measured financial performance using ROA, this study employs Tobin’s Q. 2). The research subject; the sample for this study is drawn from companies in the healthcare sector. The healthcare sector is a focal point of interest. Since the onset of the COVID-19 pandemic, many healthcare companies have experienced an increase in investment. According to an article on liputan6.com by Nurmutia (2022), companies in the healthcare sector have continued to grow. Furthermore, healthcare companies play a crucial role in meeting public needs, as consumer demand for medicines and multivitamins has become essential since the COVID-19 pandemic began.

1.2. Literature Review

1.2.1. Agency Theory

Issues often arise in the management of a company. Such issues can emerge when the company's owners and its managers lack alignment in their objectives. Fundamentally, owners possess full authority over the management of their company; however, managers possess greater insight into the company's day to day operations than the owners do. This dynamic can have adverse effects on the company, as managers might exploit their authority for personal gain, resulting in financial losses for the firm.

According to Lukviarman (2016), the relationship between the principal (business owner) and the agent (business manager) involves distinct roles, leading to differing perspectives between the two parties. Managers will make various efforts to ensure their performance creates a favorable impression (Kumalasari & Puspaningsih, 2024). This is particularly likely to occur when the individuals involved in the process are opportunists driven primarily by self-interest (Jusoh et al., 2022). It is precisely this divergence that establishes Agency Theory as the foundation for the implementation of corporate governance.

Agency theory can be defined as an agency relationship structured as an agreement in which a business owner hires a manager to oversee the company's operations. This theory addresses issues arising from such relationships, particularly information asymmetry caused by differing perspectives between the principal and the agent. Applying agency theory helps mitigate this information asymmetry. Furthermore, the implementation of corporate governance is expected to reduce the agent's inclination to manipulate data, thereby ensuring that reported performance accurately reflects the actual situation.

1.2.2. Good Corporate Governance

Good Corporate Governance constitutes the structure and processes that provide direction and control within a company. Its implementation can enhance both the company's value and its financial performance (Setiawan & Yulius, 2017). Adopting good corporate governance is essential for companies engaged in business operations (Suryaningtyas & Rohman, 2019). The presence of corporate governance within a company helps minimize management behaviors that could disadvantage the principal, as described in agency theory.

In 2006, the National Committee on Governance Policy formulated the following principles to be implemented by companies: 1) Accountability, 2) Transparency, 3) Fairness, 4) Responsibility, and 5) Independence. Implementing corporate governance requires specific mechanisms, which include the board of directors, the board of commissioners, independent commissioners, the audit committee, managerial ownership, and institutional ownership.

1.2.3. Financial Performance

Financial performance is a key factor to consider when making investment decisions (Jannah & Sartika, 2022). It represents a company's financial condition, analyzed using financial tools to identify shortcomings and the performance achieved over a specific period (Esomar & Christianty, 2021). For a company, financial performance serves as a metric to assess success and informs future decision-making and planning (Reschiwati et al., 2021). A company's primary objective is to maximize profits, particularly for shareholders; achieving this goal stands as a testament to management's performance.

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A company's financial performance can be gauged through financial ratios; for instance, high profitability ratios indicate that operations are running effectively. According to Faisal et al. (2017), several ratios serve as tools for analyzing financial performance: liquidity ratios, leverage (or solvency) ratios, activity ratios, and profitability ratios. Another measure of financial performance is Tobin's Q. This ratio measures a company's value in terms of both tangible and intangible assets. According to Dzahabiyya et al. (2020), the Tobin's Q ratio reveals how effectively and efficiently a company utilizes its asset resources.

1.3. Hypothesis Development

The role of the board of directors within a company is crucial. The presence of a board of directors provides direction to the company through the policies and strategies they select. Research by Hendratni et al. (2018) indicates that the board of directors can enhance company performance, specifically noting its influence on financial performance. The hypothesis for this study is formulated as follows:

H1: Board of Directors has a positive effect on financial performance.

OJK Regulation No. 33/POJK.04/2014 (Article 28) stipulates that the Board of Commissioners is responsible for supervising management policies and operations whether concerning the issuer or public company itself or its business activities and for advising the Board of Directors. The function of the Board of Commissioners is to ensure that management carries out its duties in the best interests of the company. Effective management performance benefits the company, leading to greater value creation. When the Board of Commissioners operates effectively and efficiently, it positively influences the quality of the company's earnings (Setiawan, 2018). Consequently, investor interest in the company increases. Thus, the Board of Commissioners plays a vital role in overseeing management performance, thereby impacting the company's overall performance. Studies by Maharani (2018) and Permono & Puspaningsih (2022) explain that the presence of a Board of Commissioners influences financial performance. The hypothesis for this study is formulated as follows:

H2: Board of Commissioners has a positive effect on financial performance.

The role of the independent commissioner is to carry out the supervisory functions of the Board of Commissioners. Effective supervision by independent commissioners aims to minimize earnings management practices by management (Setiawan, 2018). According to Prasetyo & Pramuka (2018), the presence of an Independent Board of Commissioners is expected to create a balance between management and company owners. The role of the independent commissioner influences decision-making, thereby minimizing earnings management and manipulation (Cahyawati & Setiana, 2018). Research by Indriati (2018) indicates that independent commissioners have a significant positive effect on company performance. The hypothesis for this study is formulated as follows:

H3: Independent Commissioners have a positive effect on financial performance.

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BAPEPAM Regulation No. Kep-29/PM/2004 states that the Audit Committee functions to support the execution of the duties and functions of the Board of Commissioners. Consequently, the Audit Committee's task is to provide input to the Board of Commissioners regarding reports submitted by the Board of Directors. Research by Indriati (2018) & Maharani (2018) indicates that audit committee size has a positive effect on financial performance. Based on the above explanation, the hypothesis for this study is formulated as follows:

H4: Audit Committee has a positive effect on financial performance.

According to Surjandari & Minanari (2021), agency theory posits that managerial share ownership serves as a strategy to address agency problems. When managers hold shares in the company they manage, they are unlikely to generate negative corporate performance, as doing so would directly harm their own interests. Research by Indriati (2018), Merryana et al. (2019), and Permono & Puspaningsih (2022) indicates that managerial ownership has a positive effect on financial performance. Thus, the research hypothesis can be formulated as follows:

H5: Managerial ownership has a positive effect on financial performance.

Ichsani et al. (2021) argue that institutional ownership within a company can enhance management performance. This is because institutional ownership facilitates more optimal oversight, thereby ensuring stricter monitoring of the company's management performance. Studies by Makara & Nurfauziah (2019) and Permono & Puspaningsih (2022) state that institutional ownership influences financial performance. Institutional owners typically act as controlling shareholders. Research by Puspaningsih & Dayinta (2022) found that controlling shareholders have a positive influence on a company's stock profitability. Stock profitability can serve as a benchmark for financial performance. The hypothesis for this study can be formulated as follows:

H6: Institutional ownership has a positive effect on financial performance.

According to Reschiwati et al. (2021), firm size is determined by a company's total assets, as reflected in its revenue and asset holdings. A larger firm size increases the likelihood of securing funding sources for operational activities. Furthermore, a larger firm size can indicate healthy growth. Research by Maharani (2018) and Permono & Puspaningsih (2022) suggests that firm size influences financial performance. The hypothesis for this study is formulated as follows:

H7: Firm size has a positive effect on financial performance.

2. Research Methods

2.1. Population and Sample

This study utilizes a population consisting of companies in the healthcare sector listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. The sample was selected based on criteria

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aligned with the research problem and objectives specifically, purposive sampling using the following criteria:

1. Healthcare sector companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2021.
2. Healthcare sector companies that issued financial statements for the period ending on December 31 throughout the 2018–2021 period.
3. Companies possessing the complete data required for the study.

2.2. Variable Measurement

The independent variables in this study are good corporate governance and firm size. In this study, good corporate governance is proxied by the optimization of the size of the board of commissioners, the size of the board of directors, independent commissioners, the size of the audit committee, managerial ownership, and institutional ownership.

According to Ichsani et al. (2021), power within a company is held by the board of directors. The board of directors ensures that management and subordinate parties carry out their duties in accordance with the company's objectives and planning. The board of directors can be measured by:

$$\sum \textit{Board of Director}$$

The Board of Commissioners is responsible for providing oversight and direction to company management. The Board of Commissioners can be measured by:

$$\sum \textit{Board of Commissioner}$$

An Independent Commissioner is a member of the Board of Commissioners who has no affiliation with the Board of Directors, the Board of Commissioners, or shareholders, and does not serve as a director of a related company. The measure for an Independent Commissioner can be calculated as follows:

$$\textit{Independent Commissioner} = \frac{\textit{Amount of Independent Commissioner}}{\textit{Amount of Board Commissioner}}$$

A company's audit committee is responsible for reviewing the company's accounting policies (Ichsani et al., 2021). The audit committee can be measured as follows:

$$\sum \textit{Audit Committee}$$

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Managerial ownership refers to company shares held by the company's managers. The greater the extent of managerial share ownership in a company, the greater the responsibility for corporate decision-making. Managerial ownership can be measured as follows:

$$Managerial\ Ownership = \frac{Number\ of\ shares\ held\ by\ management}{Number\ of\ outstanding\ shares}$$

Institutional ownership in a company can assist managers in decision-making. Within the company, institutional ownership enhances management performance by optimizing oversight. Institutional ownership can be measured as follows:

$$Institutional\ Ownership = \frac{Number\ of\ shares\ held\ by\ institutions}{Number\ of\ outstanding\ shares}$$

A company's size can be determined by the assets it holds. Company size can be measured by:

$$Company\ Size = Log\ N\ \ (Total\ Assests)$$

The dependent variable in this study is financial performance, measured using the Tobin's Q ratio. According to Sulung et al. (2018), the Tobin's Q ratio is used to assess a company's financial performance based on market valuation or firm value. This ratio reflects the company's ability to utilize its asset resources effectively and efficiently.

$$Tobin's\ Q = \frac{MVE + DEBT}{TA}$$

Informations:

MVE: Year-end stock closing price x Number of outstanding shares

DEBT: Liability

TA : Total Assets

3. Results and Discussion

3.1. Research Sample

This study utilizes companies in the healthcare sector listed on the Indonesia Stock Exchange (IDX) during the 2018–2021 period. Purposive sampling was employed for sample selection. The criteria for sample selection are as follows:

Table 1. Research Sample

Criteria	Amount
Healthcare sector companies listed on the IDX from 2018 to 2021	15
Healthcare sector companies that did not publish financial reports during the 2018–2021 period	(0)
Healthcare sector companies with incomplete research data	(0)
Research Sample	15
Total Research Sample	60
Outlier Data	(27)
Total sample used in the study	33

In this study, preliminary classical assumption testing was conducted using a sample of 60 data points. The initial results failed to satisfy the classical assumption tests; consequently, 27 outlier data points were removed. Following the removal of these outliers, the remaining sample of 33 data points successfully passed the classical assumption tests.

3.2. Descriptive Statistics

The following are the results of the descriptive statistical analysis presented in Table 2:

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Performance	33	1.04	4.77	2.0373	0.95093
Board of Director	33	3.00	9.00	5.1515	1.92226
Board of Commissioner	33	2.00	8.00	5.1212	1.98049
Independent Commissioner	33	0.33	0.50	0.4388	0.07088
Audit Committee	33	2.00	4.00	3.0303	0.30464
Managerial Ownership	33	0.00	0.63	0.0333	0.11246
Institutional Ownership	33	0.24	0.93	0.7603	0.15830
Company Size	33	26.26	30.88	28.5536	1.07591
Valid N (listwise)	33				

3.3. Classical Assumption Testing

The normality test was conducted using the Kolmogorov-Smirnov test. The results indicate a significance value of 0.200. Since this value exceeds 0.05, it can be concluded that the residuals are normally distributed.

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The results of the multicollinearity test show that the Tolerance value is greater than 0.1 and the VIF value is less than 10. Based on these findings, it can be concluded that there is no multicollinearity issue.

A heteroscedasticity test was conducted to determine whether the variance of the residual values is constant across all observations in the regression model. The Glejser test method was employed for this purpose. The results indicate that the variables board of directors, board of commissioners, managerial ownership, institutional ownership, independent commissioners, audit committee, and firm size all yielded significance values greater than 0.05, thereby demonstrating the absence of heteroscedasticity.

An autocorrelation test was performed to examine whether there is a correlation between the disturbance terms in period t and those in period t_{-1} (the preceding period) within the regression model. The Runs Test was used for this analysis. The results show a significance value of 0.078, leading to the conclusion that there is no evidence of autocorrelation.

3.4. Multiple Linear Regression Analysis

Multiple linear regression analysis is conducted to determine whether independent variables influence the dependent variable. The regression analysis in this study employs, the F-test, the coefficient of determination test and the t-test.
The F-test is performed to assess the goodness-of-fit of the research model. The results of the F-test are presented in Table 3.

Table 3. The Results of F test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.714	7	1.816	2.799	0.027[b]
	Residual	16.223	25	.649		
	Total	28.937	32			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Company Size, Institutional Ownership, Audit Committee, Independent Commissioner, Board of Director, Managerial Ownership, Board of Commissioner

The results in Table 3 above show a significance. value of 0.027; since this value is less than 0.05, it can be concluded that the regression model is suitable for use in the study.

The results of the coefficient of determination test are presented in Table 4 below.

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Table 4. The Result of Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.663[a]	0.439	0.282	0.80555

a. Predictors: (Constant), Company Size, Institutional Ownership, Audit Committee, Independent Commissioner, Board of Director, Managerial Ownership, Board of Commissioner

The results in the table above indicate an Adjusted R^2 value of 0.282. This means that the variables board of directors size, board of commissioners size, independent commissioners, audit committee size, managerial ownership, institutional ownership, and firm size account for 28.2% of the variation in the regression model, while 71.8% is influenced by variables outside the scope of this study.

A t-test was conducted to evaluate the proposed hypotheses and determine the extent of the partial influence exerted by the independent variables (X) on the dependent variable (Y). The results of the hypothesis testing are presented below:

Table 5: The Results of Hypothesis Test

No	Hypothesis	Sig.	β	Information
1	Board of Directors has a positive effect on financial performance	0.760	0.73	Not Supported
2	Board of Commissioner has a positive effect on financial performance	0.376	-0.253	Not Supported
3	Independent Commissioner has a positive effect on financial performance	0.500	-0.378	Not Supported
4	Audit Committee has a positive effect on financial performance	0.167	-0.278	Not Supported
5	Managerial Ownership has a positive effect on financial performance	0.719	-0.102	Not Supported
6	Institutional Ownership has a positive effect on financial performance	0.037	0.544	Supported
7	Company Size has a positive effect on financial performance	0.495	0.185	Not Supported

3.5. Discussion

3.5.1. The Influence of Board of Directors on Financial Performance

The research results demonstrate that the size of the Board of Directors does not affect financial performance. The research data in the health sector have an average of five board members, with a maximum of nine. This suggests that the boards in this sector tend to be large, which can hinder the exchange of ideas and brainstorming necessary for decision-making. A larger number of board members introduces diverse viewpoints that can lead to internal debates; consequently, decision-making becomes less effective and efficient, and overall company performance fails to reach its optimal level (Shaharudin & Puspaningsih, 2022). Such obstacles can delay the decision-making process, thereby reducing the effectiveness of the board's management performance.

These results align with previous studies (Maharani, 2018; Permono & Puspaningsih, 2022; Situmorang & Simanjuntak, 2019), which also found that the size of the Board of Directors has no impact on financial performance.

3.5.2. The Influence of Board of Commissioners on Financial Performance

The research findings demonstrate that the board of commissioners does not influence financial performance. Neither an increase nor a decrease in the number of board members affects the company's financial performance.

The results indicate that healthcare sector companies tend to have relatively large boards of commissioners. This leads to communication issues that can result in declining company performance. A large board size presents obstacles, such as delays in decision-making (Setiawan, 2018). With a large number of members, the board must deliberate extensively to reach decisions, resulting in time-consuming processes that hinder the board from performing its functions effectively. Statistical analysis reveals that healthcare sector companies have up to eight board members; this large size compromises the board's operational effectiveness, as the decision-making process becomes prolonged and inefficient. The findings of this study are consistent with the research conducted by Fadillah (2017), which concluded that the board of commissioners has no impact on a company's financial performance.

3.5.3. The Influence of Independent Commissioners on Financial Performance

The research findings demonstrate that independent commissioners do not influence financial performance. The presence of independent commissioners in the healthcare companies studied complied with POJK Regulation Number 57/POJK.04/2017, which mandates that independent commissioners constitute at least 30% of the total Board of Commissioners members. However, the results indicate that independent commissioners in these healthcare companies have not yet been able to provide effective oversight or exert appropriate influence on company management. Consequently, they have not been able to perform their duties to the fullest extent or with maximum effectiveness.

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The study confirms that independent commissioners have no impact on the companies' financial performance. This highlights that the independent commissioners have not yet managed to make a significant impact through their oversight of company managers or their influence on decision-making processes. As a result, business stakeholders do not yet fully trust the performance of the independent commissioners' duties within the companies.

Although the oversight provided by independent commissioners has not fully succeeded in minimizing risks that could harm the company, the costs associated with maintaining these commissioners continue to be incurred. Consequently, profits decline, and the presence of independent commissioners may ultimately undermine the company's financial performance. The results of this study align with findings from previous research (Fadillah, 2017; Merryana et al., 2019), which also concluded that independent commissioners do not influence a company's financial performance.

3.5.4. The Influence of Audit Committee on Financial Performance

The results of the study demonstrate that audit committee does not influence financial performance; the number of members on the audit committee does not affect the company's financial performance. Audit committees play a crucial role in the preparation of financial statements, specifically by ensuring the credibility of the company's financial reporting.

The findings indicate that audit committee has no impact on the company's financial performance. This may be attributed to the fact that, for some companies, the audit committee exists merely to satisfy mandatory requirements. Consequently, the committee's duties and functions are not effectively carried out, preventing the achievement of high-quality corporate performance. The results of this study align with research by Adnyani et al. (2020), Merryana et al. (2019), and Permono & Puspaningsih (2022), which found that audit committee size has a negative effect on a company's financial performance.

3.5.5. The Effect of Managerial Ownership on Financial Performance

The research results demonstrate that managerial ownership does not affect financial performance. The presence of managerial share ownership within a company does not influence the company's financial performance. Managerial ownership levels in the healthcare sector were found to be very low, which is a contributing factor to the lack of influence managerial ownership has on the companies' financial performance.

The study reveals that the majority of companies in the healthcare sector show no managerial ownership figures. Consequently, the primary reason for the lack of influence of managerial ownership on financial performance is the low level of such ownership. Statistical data indicates an average managerial ownership of 0.033 in the healthcare sector, with a maximum value of 0.63. This demonstrates that managerial ownership in healthcare companies is very low, which may hinder managers from effectively performing their roles to improve the company's financial performance.

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These findings align with previous studies (Indriati, 2018; Makara & Nurfauziah, 2019), which also concluded that managerial ownership does not affect a company's financial performance.

3.5.6. The Influence of Institutional Ownership on Financial Performance

The research findings demonstrate that institutional ownership has a positive effect on a company's financial performance. The presence of an institutional ownership structure within a company can influence its financial performance.

Institutional owners are responsible for monitoring management as it carries out its duties. This oversight aims to enhance management's performance and ensure that the monitoring process operates optimally. Thus, institutional ownership exerts an influence on the company. This impacts the company's financial performance, indicating that the firm is able to maintain a good level of financial performance. The results of this study differ from those of previous research (Erawati & Wahyuni, 2019; Adnyani et al., 2020; Merryana et al., 2019), which concluded that institutional ownership has no effect on a company's financial performance.

3.5.7. The Effect of Firm Size on Financial Performance

The results of this study demonstrate that firm size does not affect a company's financial performance. The magnitude of a company's size whether large or small has no impact on its financial performance.

Firm size is a matter that attracts particular attention regarding a company's operations and is a focal point for the general public. Furthermore, firm size reflects the scale of the company based on its total assets or holdings. This study proves that firm size cannot serve as a benchmark for financial performance. Both large and small companies tend to prepare financial statements with greater care and transparency, resulting in clear and accurate reports (Shaharudin & Puspaningsih, 2022). Although investors generally consider company size, they do not rely solely on that factor. Investors also evaluate various other aspects, such as reputation and performance indicators found in financial statements. Consequently, firm size cannot be used as a definitive indicator that a large company necessarily exhibits good performance. The findings of this study align with the research conducted by Erawati and Wahyuni (2019), which concluded that firm size does not influence a company's financial performance.

4. Conclusion

Based on the research conducted, the following conclusions can be drawn: 1).The institutional ownership variable influences the financial performance of companies in the healthcare sector. 2). The variables of the board of directors, board of commissioners, independent commissioners, audit committee, managerial ownership, and company size do not influence the financial performance of companies in the healthcare sector.

The implications of the research are as follows:

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The findings are expected to enhance knowledge regarding factors that influence corporate financial performance. Additionally, the results are expected to serve as a consideration for companies seeking to improve their financial performance.

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