

**THE EFFECT OF *GOOD CORPORATE GOVERNANCE* AND CAPITAL
STRUCTURE ON FINANCIAL PERFORMANCE EMPIRIS STUDY ON
CONSUMPTION INDUSTRIAL COMPANY
YEAR PERIOD (2015-2017)**

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***Abstract :** This study aims to examine and analyze the effect of good corporate governance as measured by institutional ownership, audit committees, and capital structure on financial performance. This research is quantitative descriptive. The samples used in this study were 23 manufacturing companies in the consumer goods industry sector that had been listed on the Indonesia Stock Exchange (IDX) in 2015-2017. The data analysis technique used is the classical assumption test, and multiple linear regression analysis. The results of the analysis show that partially institutional ownership and capital structure influence financial performance . While the audit committee has no effect on financial performance. Simultaneously institutional ownership, audit committee and capital structure influence financial performance.*

***Keywords :** GCG, capital structure and financial performance*

PRELIMINARY

Development of a Corporate Perspective Governance starts from the existence of a Model Agency or Teory Agency. Agency theory identifies potential conflicts of interest between parties (principals and agents) in companies that influence company behavior in a variety of different ways (Prapti Menik, 2003).

Furthermore in its development, the term Good Corporate Governance (GCG) is increasingly popular and placed in a respectable position. That is because the first reason is that Good Corporate Governance (GCG) is one of the keys to the company's success in growing and profitable in the long run while winning global business competition, especially for companies that have been able to develop and become open. The second reason is that the 1997 economic crisis that hit Indonesia and countries in Southeast Asia has raised a discourse related to the problems of Good Corporate Governance Good Corporate Governance (GCG).

The crisis that hit Asia prompted the Indonesian government to seriously solve the problem of corporate governance in Indonesia. For this reason, the

National Committee on Corporate Governance (KNKCG) was formed in 1999 through the decision of the Coordinating Minister for Economics, Finance and Industry, involving thirty representatives from the public and private sectors to recommend the principles of National Good Corporate Governance (GCG). In 2004, the KNKCG was changed to the National Committee on Governance Policy (KNKG) with consideration to expand the scope of Public Sector Governance. KNKG has issued the first National Guidelines for Good Corporate Governance (GCG Guidelines) in 1999, which were later from refessions in 2001 and 2006.

In Indonesia, there are a lot of companies that have not implemented about Good Corporate Governance (GCG) even though it should have become a necessity for their company. However, on the other hand, there are also many companies in Indonesia that have not implemented Good Corporate Governance (GCG) and finally in their companies because they realize that the importance of Good Corporate Governance (GCG) is for their companies. With the existence of Good Corporate Governance in corporate governance can improve management in order to be able to make effective, intermediate decisions on the occurrence of decision making that is not in accordance with the objectives of the company. And reduce information asymmetry between the executive and stakeholder parties of Hermansyah (2013).

Good Corporate Governance (GCG) is a concept proposed to overcome agency problems. The function of Good Corporate Governance (GCG) to foster investor confidence in the Emirzon company (2007) with the implementation of Good Corporate Governance (GCG) in the company, it is expected that it can overcome agency problems between management and shareholders.

Good Corporate Governance (GCG) is a concept that emphasizes the importance of the right for shareholders to obtain information with true, accurate, and timely addition an obligation also for the express company (disclosure) all information on the financial performance of accurate, timely and transparent. Therefore, both public and closed companies must view Good Corporate Governance (GCG) not as a mere accessory, but as an effort to improve the performance and corporate value of Rahayu (2004).

In a company with this, Good Corporate Governance (GCG) must be applied to a company, of course, which can give confidence in the trust of investors to invest in a company that implements Good Corporate Governance (GCG), this will certainly add to the company. and adding profit results is the main goal in evaluating the company's financial performance. It is this that proves that Good Corporate Governance (GCG) can affect the performance of a company, one of which is financial performance. Financial performance is the determination of certain measures that can measure the success of a company in generating profits Sucipto (2003).

Based on the explanation above, the authors are interested in conducting research with the title "**The Influence of Good Corporate Governance and Capital Structure on Financial Performance Empirical Study on the Industry of Consumer Goods Industry for the Year Period (2015-2017)**".

LITERATURE REVIEW

1. Agency theory

Agency theory (Agency Theory) Agency theory assumes that all individuals act in their own interests. Agency theory refers to agents as management who manage companies while principals are shareholders. Agents are assumed not only interested in financial compensation but also everything involved in the relationship of an agency, such as leisure time which has many attractive working conditions and flexible work. Principals are assumed to be only interested in financial returns obtained from what they invest in the company, Anthony (2005). The existence of an agent's personal interests makes the principal dislike him because the expenditure will reduce the company's boarding which causes a decrease in company profits and a decrease in dividends to be received.

Agency relations is a contract where one or more people (principals) involve other people (agents) to do some work on their behalf. The principal will delegate some decision-making authority to the agent (Meckling, 1976).

The agency relationship perspective is the basis used to understand the relationship between managers and shareholders. The agency relationship

sometimes creates problems between managers and shareholders. Conflicts that occur because humans are economic beings who have the basic nature of selfish interests. Shareholders and managers have different goals and each wants their goals fulfilled. As a result what happens is the emergence of profit conflicts. Shareholders want a return that is greater and faster than the investment they invest, while managers want their interests in accommodation by providing compensation or incentives of the size of their performance in running the company.

Agency problem occurs when management does not have a majority stake in the company. Shareholders want managers to work with the aim of maximizing shareholder prosperity. Agents can act not to maximize the prosperity of shareholders but for their own prosperity. If this condition occurs, agency conflict arises. To ensure that managers work with the aim of the prosperity of shareholders, the shareholders must pay a fee called the agency cost which includes expenditure to oversee manager activities, expenditures to create an organizational structure that minimizes the actions of unwanted managers, and opportunity costs arising from conditions where managers cannot immediately make decisions without the approval of shareholders Anthony (2005).

2. Good Corporate Governance (GCG)

According to Tangkilisan (2003) Good Corporate Governance (GCG) is a system and structure for managing a company with the aim of increasing company value and allocating it in various interested parties such as creditors, suppliers of business associations, consumers, workers, the government and the wider community.

It is also expressed by Sutedi (2012) Good Corporate Governance (GCG) is a system that measures and controls companies to create added value for all stake holders. Mentioning two things is emphasized in this concept, first, the importance of the right of shareholders to obtain information correctly (accurately) and on time and secondly, the obligation of the company to accurately disclose and disclose all performance information company, ownership and stakeholders. Briefly the importance of prudential and transparent management of banks as part of the principle of prudence, each

bank has an awareness to develop business sustainability through implementation.

The implementation of Good Corporate Governance (GCG) can be interpreted as a rule that controls and regulates the relationship between company managers, shareholders, employees and other external and internal stakeholders with the aim of encouraging increased performance in all fields and the trust and confidence of the stakeholders. Good Corporate Governance (GCG) can only be created if there is a balance between the interests of all parties and the interests of the company to achieve the company's goals Khairandy (2007) .

RESEARCH METHODS

This research is classified as quantitative research. In this study, the data used is a collection of numbers from the independent variables (institutional ownership, audit committee, capital structure) and the dependent variable (financial performance) is a tool used to prove analysis using the SPSS 19 application. Data collection techniques carried out by the author to obtain secondary data in this study are *library research* . The data used is secondary data, where the annual financial statements obtained through the official website of Indonesia Stock Exchange (BEI), which is www.idx.co.id.

The population used in this study is the consumer goods industry sector companies listed on the IDX. Determination of sample using purposive sampling method with criteria as follows:

- a. Consumer goods industry sector companies that issue annual reports for the period 2015-2017 respectively.
- b. Consumer goods industry sector companies that have not suffered losses in the period 2015-2017.
- c. Consumer goods industry sector companies that have complete data in publishing annual reports .
- d. The consumer goods industry company that uses Rupiah (Rp) as the reporting currency.

The instrument used in this study is the financial statements of the consumer goods industry sector companies listed on the Stock Exchange during the period 2015-2017. The method used in this study uses multiple linear regression models.

RESULTS AND DISCUSSION

Tabel 4.1
Sampel Penelitian Tahun 2015-2017

Criteria	Total
Consumer goods industry sector companies that publish annual reports for the period 2015-2017 respectively	43
Consumer goods industry sector companies that suffered losses in the period 2015-2017	(7)
Consumer goods industry sector companies whose data is incomplete in publishing annual reports	(8)
Consumer goods industry sector companies that use foreign currencies in their reporting	(5)
Sample	23
Number of observations	69
<i>Outlier</i> data	(11)
Number of observations	58

Source: www.idx.co.id.

A. Classic Assumption Test

Table 2
Normality Test Results

	<i>Unstandardized Residual</i>	Information
N	58	Normal Distributed
Asymp. Sig. (2-tailed)	0.476	Data

Source: Appendix

Based on the results of the normality test, the significance level of the K-S Test is 0.476. This number is higher than the significant level of 5% (0.05), it can be stated that the research data has met the normal distribution.

Table 3
Multicollinearity Test Results

Variable	<i>Tolerance</i>	VIF	Information
Institutional Ownership	0,980	1,020	Multicollinearity Free
Audit Committee	0,975	1,025	
Capital Structure	0,986	1,014	

Source: Appendix

Based on the results of the multicollinearity test, there is no independent variable that has a tolerance value <0.10 . This means that it can be concluded that there is no multicollinearity between variables.

Table 4
Autocorrelation Test Results

Du	Durbin-Watson	4-Du	Information
1,7259	1,894	2,2741	Autocorrelation Free

Source: Appendix 3

The autocorrelation test results in this study show dU (1.7259) <DW (1,894) <4 - dU (2,2741), so it can be concluded that there was no autocorrelation in this study.

Table 5
Heteroscedasticity Test Results

Variable	<i>p-value</i>	Sig.	Information
Institutional Ownership	0,990	> 0.05	Heteroscedasticity Free
Audit Committee	0,746	> 0.05	
Capital Structure	0,372	> 0.05	

Source: Appendix 3

Based on the results of calculations with a regression model shows the results of the significance value of variable institutional ownership, audit committee and capital structure is *p-value* > 0.05. It can be concluded that there is no heteroscedasticity in the research regression model so that the regression model is feasible to consider its materiality.

B. Test Multiple Linear Regression

1. Regression Model

Table 6
Analysis of Multiple Linear Regression

Variable	β	t	Sig.
Constant	-12,550	-	-
Institutional Ownership	5,498	1,210	0,232
Audit Committee	24,446	0,936	0,354
Capital Structure	-6,357	-3,273	0,002

Source: Appendix 4

$$Y = -12,550 + 5,498KI + 24,446KA - 6,357SM$$

The results of the regression equation can be interpreted as follows:

- a. The constant value of -12,550 with negative parameters indicates that if the institutional ownership, audit committee, and capital structure variables are assumed to be constant or equal to zero, the financial performance that is proxied by ROA will decrease.

- b. Institutional ownership regression coefficient of 5.498 with positive parameters. This can be interpreted as increasing the value of institutional ownership, it will improve financial performance which is proxied by ROA.
 - c. Audit committee regression coefficient is 24,446 with positive parameters. This can be interpreted as increasing the value of the audit committee, it will improve financial performance which is proxied by ROA.
 - d. Modular structure regression coefficient is -6.357 with negative parameters. This can be interpreted as every increase in the value of the capital structure, it will reduce financial performance which is proxied by ROA.
2. Feasibility Test Model (F Test)

Table 7
Model Feasibility Test Results

Model	F _{count}	F _{table}	Sig .
<i>Regression</i>	4,334	>2,78	0,008

Source: Appendix 4

The results of simultaneous hypothesis testing obtained Fcount value of 4.334 > from the Ftable value of 2.78 with a significant value of 0.008 < $\alpha = 0.05$. This means that the research model is fit or in other words there is a significant joint effect between institutional ownership, audit committee and capital structure on financial performance which is proxied by ROA. This can also be interpreted that the regression model used is in accordance with the data.

3. Hypothesis Test (t test)

Table 8
Statistical Test Results t

Variable	t _{count}	t _{table}	Sig.	Information
Institutional Ownership	1,210	2,00488	0,232	Rejected
Audit Committee	0,936	2,00488	0,354	Rejected
Capital Structure	3,273	2,00488	0,002	Be accepted

Source: Appendix

- a. The results of the t test for institutional ownership variables are obtained tcount of 1,210 < ttable of 2.00488 with a significant level of p-value of 0.232 greater than the significant level of the value of α of 0.05, the hypothesis is rejected. This means that institutional ownership has no effect on financial performance that is proxied by ROA. Thus the first

hypothesis which states institutional ownership influences financial performance that is proxied by ROA is not proven.

- b. The results of the t test for the audit committee variable are obtained by tcount of 0.936 < t table of 2.00488 with a significant level of p-value of 0.354 greater than the significant level of the value of α of 0.05, the hypothesis is rejected. This means that the auditing committee has no effect on financial performance that is proxied by ROA. Thus the second hypothesis which states the audit committee influences the financial performance that is proxied by ROA is not proven.
 - c. The results of the t-test for the capital structure variable are obtained by t - 3.273 > t table of 2.00488 with a significant level of p-value of 0.002 smaller than the significant level of the value of α of 0.05, then the hypothesis is accepted. This means that the capital structure has an effect on financial performance that is proxied by ROA. Thus the fourth hypothesis which states the capital structure influences financial performance which is proxied by ROA is proven.
4. Coefficient of Determination (R^2)

Table 9
Determination Coefficient Test Results

R	R Square	Adjusted R Square	Std. Error of the Estimate
0,441	0,194	0,149	6,39585

Source: Appendix

Testing with the coefficient of determination that has been done obtained the value of Adjusted R Square of 0.149. This means that 14.9% of the variation in financial performance that is proxied by ROA can be explained by the variables of institutional ownership, audit committee and capital structure. While the remaining 85.1% of financial performance proxied by ROA can be explained by other variables not included in this research model.

CONCLUSION

The purpose of this study is to examine and analyze the effect of Good Corporate Governance as measured by institutional ownership, audit committee, and capital structure and average financial performance that is proxied by ROA. This

study uses a sample of 23 manufacturing companies in the consumer goods industry sector that have been listed on the Indonesia Stock Exchange (BEI) in 2015-2017.

Based on the results of testing, hypothesis 1 states that Good Corporate Governance as measured by institutional ownership influences financial performance that is proxied by ROA is not supported by empirical evidence. Hypothesis 2 states that Good Corporate Governance as measured by audit committee influences financial performance that is proxied by ROA not supported by empirical evidence. Hypothesis 3 which states Good Corporate Governance as measured by the capital structure influences the company's financial performance which is proxied by ROA supported by empirical evidence.

The results of this study indicate that (1) institutional ownership does not affect the performance of the company because the majority owner of the institution participates in controlling the company so that it tends to act in their own interests even at the expense of the interests of minority owners, (2) the high or low number of audit committees in a company does not affect the company's financial performance. The number of audit committees cannot guarantee the effectiveness of the audit committee's performance in supervising the company's financial performance, (3) Companies whose capital structure uses more debt in high amounts will tend to have high financial performance.

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