

ANALYSIS OF CORPORATE GOVERNANCE IN PREDICTING THE PERFORMANCE OF LQ45 COMPANIES

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ABSTRACT

The aim of the research is to analyze the predictive ability of corporate governance on company performance. The research uses a sample of companies listed on the Indonesia Stock Exchange and listed consistently in the LQ 45 index from 2019 to 2021. Five hypotheses are tested using multiple regression analysis. The results of this research show that the greater the number of members of the board of directors, the higher the level of profitability as measured using the company's return on equity. Second, the greater the proportion of independent commissioners on the board of commissioners, the worse the company's performance as measured using return on equity. The results of this research show that a large number of directors has a positive impact on increasing the profitability of LQ45 Company. On the other hand, it was found that the greater number of independent commissioners on the board of commissioners had a negative impact on the company's level of profitability. These results can be of concern to the board of commissioners to pay attention to their role as commissioners. For regulators, determining the number of independent commissioners must be reconsidered if they cannot make a positive contribution to improving the company's performance.

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1. INTRODUCTION

The governance of a company includes structure and has an impact on company performance. Management and shareholders are important components in a corporate governance system, but the board of directors plays a major role in the structure. Corporate governance also includes the policies and practices used by shareholders, executive managers, and the board of directors to manage the company and fulfill responsibilities towards investors and other stakeholders (Kumar, 2016; Indonesia National Committee for Governance Policy, 2021).

Previous research found that if corporate governance is implemented properly, it can result in improved company performance. Companies with good governance tend to achieve sustainably higher financial performance (Trahan, 2008). Mcgee's (2009) findings show that poor corporate governance has an impact on suboptimal company performance, and this raises concerns on the part of stakeholders. Lipton and Lorsch (1992) found that if the board increases in size and responsibility, it can have an impact on coordination, communication, and effectiveness issues, which in turn negatively affect firm performance. Therefore, as suggested by Dalton and Dalton (2011); McGuire et al. (2012) where corporate governance and firm performance are complex so in this case, a comprehensive understanding is needed in order to optimize sustainable firm performance.

This study aims to analyze the predictive ability of governance on the performance of companies listed on the LQ45 index. The selection of companies in the LQ45 index is motivated by the expectation that the companies listed on this index have good governance, and have strong company fundamentals because they are in the category of issuers with the best stocks on the Indonesia Stock Exchange (IDX) assessed by liquidity and market capitalization. However, as mentioned by Nurlisdiana (2020), the IDX evaluates the company's performance every six months so that those with declining performance can be excluded from the LQ45 index. That is why the list of issuers in the LQ45 index is not consistent every year with a very strict selection process. This phenomenon makes researchers increasingly interested in examining the governance and performance of companies included in this index. Various industrial sectors with diverse operating scales are in the LQ45 index so it is hoped that the findings obtained from the research can provide comprehensive insights into the corporate governance and performance of companies listed on the IDX. Furthermore, this article discusses literature review and hypothesis

development, followed by research methodology, then results and discussion. The final part of this study presents conclusions and suggestions.

2. METHOD

Multiple linear regression was used to analyze the predictive ability of the independent variable on the dependent variable, with a sample of companies listed on the Indonesia Stock Exchange LQ 45 Index from 2019 - 2021. The sample was selected based on the following two criteria:

1. Companies that are consistently included in the LQ45 index list from 2019 to 2021.
2. Companies that have positive return on assets and return on equity results.

Using these criteria, out of 45 companies, 33 companies were found that met the requirements as samples. Meanwhile, PT Perusahaan Gas Negara Tbk and PT Jasa Marga (Persero) Tbk had negative return on assets and return on equity results, while as many as 10 companies were found to be inconsistently listed in the LQ45 Index from 2019 to 2021.

Statistical Analysis

The multiple regression model in this research uses the following formula:

$$ROA = \beta_0 + \beta_1UDK + \beta_2UDD + \beta_3UKA + \beta_4PIKDK + \beta_5PIKKA + \epsilon \quad (\text{model 1})$$

$$ROE = \beta_0 + \beta_1UDK + \beta_2UDD + \beta_3UKA + \beta_4PIKDK + \beta_5PIKKA + \epsilon \quad (\text{model 2})$$

Where:

ROA = Return on Assets

ROE = Return on Equity

UDK = Size of the Board of Commissioners

UDD = Size of the Board of Directors

UKA = Audit Committee Size

PIKDK = Proportion of Independent Commissioners on the Board of Commissioners

PIKKA = Proportion of Independent Commissioners in the Audit Committee

β_0 = Intercept Coefficient

$\beta_1, \beta_2, \beta_3$

β_4, β_5 = coefficient for each independent variable

ϵ = Interference error (Standard Error)

Systematically, this research is shown in the figure below

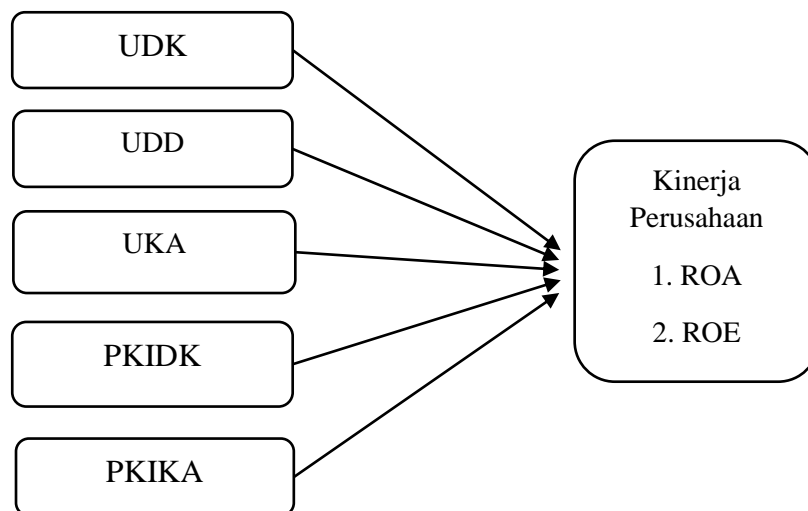


Figure 1. Systematic Research

UDK = Size of the board of commissioners, UDD = Size of the board of directors, UKA = Size of the audit committee, PKIDK = Proportion of independent commissioners in the board of commissioners, PKIKA = Proportion of independent commissioners in the audit committee.

Classic assumption test

According to Ghozali (2011), the normality test is to determine the normality of the distribution in the regression model. The multicollinearity test, on the other hand, functions to determine whether there is a correlation between the independent variables in the regression model. To determine the presence of multicollinearity, researchers used tolerance values and variance inflation factor (VIF). If the tolerance value is ≤ 0.10 and the VIF value is ≥ 10 , it can be concluded that there is multicollinearity. Heteroscedasticity testing, on the other hand, is used to determine whether there is non-uniformity of residual variance between one observation and another in the regression model.

Based on the analysis carried out, the normal probability plot shows that the data used has a normal distribution. The plot shows a straight line indicating the normality of the data. To check for multicollinearity between independent variables, VIF is used. The results of the test show that there is no multicollinearity problem in this analysis, because the VIF value is below the recommended limit, namely 10. In addition, the return on assets and return on equity plots do not show a consistent pattern, thus it can be stated that there is no heteroscedasticity. caused by these variables. This is in line with research conducted by (Ghozali, 2011).

3. RESULTS AND DISCUSSION

Table 1 in this study shows the results of descriptive statistics regarding the mean, minimum, maximum and standard deviation values of the variables in this study. variable size of the board of commissioners, size of the board of directors, audit committee, proportion of independent commissioners in the board of commissioners, proportion of independent commissioners in the audit committee, and return on assets with a standard deviation smaller than the average value, namely 0.02128, 0.02266, 0.01483, 0.10176, 0.15528, 0.07242 and the average is 0.0623, 0.0762, 0.0377, 0.3953, 0.3480, 0.0728, which shows a small distribution of data. In contrast to the return on equity variable, the standard deviation value of 0.23195 is greater than the average value, namely 0.1572, which indicates a large data spread.

Table 2 presents the results of multiple regression analysis. The first regression model (model 1) in this research is return on assets as the dependent variable. The calculated F-statistic value is 1.683 greater than the table value and the p-value is 0.146 greater than 0.05 which indicates that simultaneously the size of the board of commissioners, the size of the board of directors, the size of the audit committee, the proportion of independent commissioners in the board of commissioners and the proportion of independent commissioners in The audit committee cannot simultaneously predict return on assets, so it can be concluded that Ha1, Ha2, Ha3, Ha4, and Ha5 with return on assets as the dependent variable are rejected.

The second regression model (model 2) in this research is return on equity as the dependent variable. The regression results show that the calculated F-statistic value is 2.712 and the p-value is $0.025 < 0.05$ which states that simultaneously the size of the board of commissioners, the size of the board of directors, the size of the audit committee, the proportion of independent commissioners in the board of commissioners and the proportion of independent commissioners in the audit committee are Simultaneously can predict return on equity. However, partially the size of the board of commissioners, the size of the audit committee, and the proportion of independent commissioners on the audit committee cannot predict return on equity with a p-value > 0.05 . Thus, Ha1, Ha3, and Ha5 are rejected.

Ha2 predicts that the size of the board of directors partially has a significant effect on return on equity, where the results show that the size of the board of directors partially has a significant positive effect on return on equity (β value = 3.977, $p = 0.001$). This result is in line with what is stated in the Indonesian National Committee for Governance Policy (2021) , that the level of business complexity in considering the effectiveness of decision making must be accompanied by an adequate size of the board of directors. As stated by Kumar (2016) , the governance of a company includes structure and has an impact on company performance, and the board of directors plays a major role in this structure.

Ha4 predicts that the proportion of independent commissioners in the board of commissioners partially has a significant effect on return on equity, where the results of this study show that the size of the board of directors partially has a significant negative effect on return on equity ($\beta = -0.538$, $p = 0.031$). These results are not in accordance with Abidin et al. (2009) , who found that the greater the proportion of independent commissioners, the greater the company's performance.

Table 1 Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Size of the Board of Commissioners	99	0.03	0.10	0.0623	0.02128
Size of the Board of Directors	99	0.03	0.12	0.0762	0.02266
Audit Committee	99	0.02	0.09	0.0377	0.01483
Proportion of Independent Commissioners on the Board of Commissioners	99	0.13	0.67	0.3953	0.10176
Proportion of Independent Commissioners in the Audit Committee	99	0.08	0.75	0.3480	0.15528
ROA	99	0.00	0.36	0.0728	0.07242
ROE	99	0.01	1.45	0.1572	0.23195
Valid N (listwise)	99				

Table 2 Results of Multiple Regression Analysis for Each Performance Measurement

Variables	Return on Assets Unstandardized β (p-value*)	Return on Equity Unstandardized β (p-value*)
Constant	0.138 (0.000)	0.213 (0.067)
Ha 1: Size of the Board of Commissioners	-0.629 (0.150)	-2,261 (0.098)
Ha 2: Size of the Board of Directors	0.637 (0.103)	3,977 (0.001)
Ha 3: Size of the Audit Committee	-0.102 (0.867)	0.018 (0.992)
Ha 4: Proportion of Independent Commissioners in the Board of Commissioners	-0.146 (0.068)	-0.538 (0.031)
Ha 5: Proportion of Independent Commissioners in the Audit Committee	-0.039 (0.437)	-0.017 (0.912)
$R^2 =$	0.083	0.127
Adjusted $R^2 =$	0.034	0.080
F - Value =	1,683	2,712
Prob . (F) =	0.146	0.025
Number of Companies/observations	99	99

* Significance Level at 0.05

4. CONCLUSION

The main contribution of this research is to find the predictive ability of corporate governance on company performance. The implications of this research can be useful for regulators, boards of commissioners and boards of directors. The results of this research show that the larger the size of the board of directors at Company LQ45 has a positive impact on the company's profitability, where the greater the number of members of the board of directors in the research period, the greater the company's performance which can be measured using return on equity. These results are useful for the board of commissioners in evaluating the performance of the board of directors and in determining the size of the board of directors and the role required for the company. This explains that the role of the board of directors contributes to increasing the profitability of companies included in the LQ45 index in the 2019-2021 observation year. On the other hand, it was found that the greater the proportion of independent commissioners in the board of commissioners' membership had a negative impact on profitability as measured by return on equity. These results indicate that in the Indonesian context, independent commissioners do not make a positive contribution but instead have a negative impact in increasing profits for investors. This can be input for the board of commissioners in evaluating the role of independent commissioners in the Company to improve performance so that it can contribute to increasing profitability for investors. This information can be input for regulators and the board of commissioners in determining the number of independent commissioners in the company.

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