The Impact of CGPI Award towards Financial Performance of LQ45 Firms

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Abstract: Corporate governance is highly recommended by the government for large companies in Indonesia. Very few companies that have IPOs in Indonesia apply corporate governance, so there is still little research that addresses the impact of corporate governance on corporate performance. The researcher tried to analyze the impact of corporate governance on the financial performance of companies listed on LQ45. Analysis uses company samples taken from 2015-2017. From previous research, it can be indicated that the implementation of corporate governance has a positive and significant influence on company performance. However, from this analysis, the results show that the Corporate Governance Perception Index (CGPI) Award has no effect on ROA, this is different from other variables such as the percentage of independent commissioners and the size of the board that have a positive effect on ROA of companies registered with LQ45.

1 INTRODUCTION

Basically, the issue of corporate governance is motivated by the agency theory which states agency problems arise when the management of a company is separate from its ownership. Owner as company capital suppliers delegates their authority to the management of the company to professionals managers. As a result, the authority to use the resources owned by the company is entirely in executive hand. This raises the possibility of a moral hazard where management does not act the best for the interests of the owner because of a conflict of interest. Manager with the information they have can act only to benefit themselves at the expense owner's interests because the manager has company information that the owner does not have (asymmetry information). This will affect the company's performance and eliminate investor confidence in return on the investment they have invested in the company. Examples of deep cases the banking industry like the case of Bank Bali Indonesia in 1997 where bank managers transferred investment funds existing to fund certain political parties.

Research on the relationship of good corporate governance and company performance has been carried out, both studies that use corporate governance assessment indexes and corporate structures (mechanisms) governance. Darmawati et al. (2005) examined the relationship between corporate governance and company performance.

According to Iskandar & Chamlao (2000) in Lastanti (2004), mechanisms in corporate supervision Governance is divided into two groups, namely internal and external mechanisms. The internal mechanism is a way to control the company by using internal structures and processes such as the general meeting of holders shares, the composition of the board of directors, composition of the board of commissioners and meeting with the board of directors. While the external mechanism is a way to influence companies other than by using internal mechanisms, such as company control and the market mechanism.

In the study Zulkafli and Samad, 2007 (cited by Praptiningsih, 2009) examined about corporate governance mechanism in measuring the performance of banking companies through the Monitoring Mechanism Ownership, Internal Control Monitoring Mechanisms, Regulatory Monitoring Mechanisms, and Disclosure Monitoring Mechanism. In this study more in-depth study of the mechanism corporate governance conducted by Zulkifli and Samad (2007) in his research. Variable that will be studied including the Ownership Monitoring Mechanism including Controlling Shareholder Ownership, Government Ownership, and Foreign Ownership. The Internal Control Monitoring

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Mechanism includes Size Board of Directors, Board of Commissioners, size of Independent Commissioners.

According to the Corporate Governance on Indonesia (FCGI) forum, corporate governance is a set of rules that govern the relationship between shareholders, management (manager) of the company, creditors, government, employees and stakeholders other internal and external matters relating to their rights and obligations or in other words a system that controls the company where the term corporate This governance arises because of the agency theory, where the management of a company separate from ownership. This separation allows a conflict of interest between a company owner with company management (management or directors). In this case it is possible to have a different attitude between company owners and internal directors company management includes different attitudes in the face of risk. Conflict these interests can be minimized by the mechanism of good governance (corporate governance). Corporate governance will be a bridge between interests management with the interests of shareholders in the management of a company and provide a mechanism for controlling, managing and conducting business management including risk management.

In addition to the above, corporate governance also provides a structure facilitate the determination of the goals of a company, and as a means for determine performance monitoring techniques (Darmawati et al., 2004). Also presented by Newel and Wilson (in Sabrina, 2010) in an article entitled A Premium for Good Governance which states that theoretically good corporate governance practices can improve financial performance, reduce the risks that arise due to managerial actions that tend benefit yourself.

The results of a study conducted by Bozz-Allen & Hamilton in 1998 showed that the index of Good Corporate Governance (GCG) in Indonesia is the lowest in other East Asian countries. Survey of International Transparency 2005 about the Corruption Perception Index placing Indonesia at number 140 out of 159 countries surveyed with a value of 2.2. This shows that the international community's perception of corruption in Indonesia is still high. CLSA Asia Survey Markets Markets 2005, the Asian CG Association placed Indonesia at the bottom (ranked 37th out of ranked 40 in 2004) among 10 other Asian countries under Malaysia, Thailand and the Philippines (Hidayah, 2008).

Research conducted previously both in developed countries and in developing countries uses corporate implementation measurement different governance. For example research conducted in European countries, variables used to measure corporate governance is Deminor's Corporate Governance Rating which consists of 300 criteria grouped into 4 parts, namely Rights and Obligations of Shareholders, Range Defense Takeover, Disclosure Corporate Governance and Structure and Board Function (Bauer et al., 2003). Wulandari (2005) uses one characteristic of corporate governance namely internal corporate governance mechanism (number of board directors, the proportion of the board independent commissioner) and mechanism external corporate governance (institutional ownership) in measuring corporate governance variables. Measurement level of corporate governance implementation in this study using size developed by Indonesian Institute of Corporate Governance / IICG).

The measurement is called Corporate The Governance Perception Index (CGPI) in the form of a score. CGPI is an assessment the implementation of corporate governance based on 7 dimensions of GCG, namely: commitment to corporate governance, governance of the board of commissioners, committees functional, board of directors, treatment towards shareholders, treatment towards other stakeholders and transparency, integrity and independence.

2 LITERATURE REVIEW

Good Corporate Governance (GCG) is a set of systems regulate and control the company to create added value for stakeholders. GCG spurs the formation of professional management patterns, transparent, clean and sustainable. General Corporate Good Guidelines Indonesia's governance in 2006 compiled by KNKG mention five principles GCG, namely transparency, accountability, responsibility, independence and fairness, and equality. There are two principles main in GCG. First, clarity of rights shareholders to obtain correct (accurate) information time. Second, the company's intention to disclosure accurately, timely and transparently to all performance information company, ownership, and stakeholders.

Corporate governance is guidelines for managers to manage company best practice. Manager will make financial decisions can benefit all parties (stakeholders). Managers work effectively and efficient so that it can reduce capital costs and able to minimize risk. The effort is expected to produce high profitability. Investors will earn income (return) in line with expectations. Profit per shares increase so shares the company is much in demand by investors. This will result in a value company increases.

Agency relations perspective is the basis used to understand corporate governance. Concept Corporate governance arises as an effort to control or overcome management behavior that matters yourself especially those related to rights residual control right. GCG implementation within the company expected to be able to avoid it disgraceful practices carried out by directors and other parties who have relationship or interest in the company. Corporate governance is a series of mechanisms that can protect minority parties (investor outsider or minority shareholders) from the expropriation carried out by managers and holders controlling share with emphasis on the legal mechanism (Shleifer and Vishny, 1997 in Darmawati, et al., 2005).

In the book (Brigham and Erhardt, 2005), corporate governance is defined as a set of rules and procedures that guarantee managers to apply value-based management principles. Bass The Committee on Banking Supervision-Federal Reserve stipulates that the bank is a critical component economy. They provide commercial company financing, basic financial services for a broad segment and access to payment systems (Brigham and Erhardt, 2005). The importance of national economic banks is underlined by the fact that universal banking is an industry regulator and banks have access to safety nets government. This is very important. Therefore banks must have strong corporate governance.

Internal control is very important for companies due to the existence of internal controls then it can direct, supervise, and measure the resources of a company to make it better. Internal control can prevent loss or waste of processing of company resources. other than that can also provide information about how to assess company performance and company management as well as provide information that will be used as a guideline in planning.

2.1 Benefits of Corporate Governance

Corporate governance as a control mechanism (disciplinary forces) which effectively harmonizes interests shareholders with interests management. Every management decision was taken based on interests existing shareholders and resources used solely for the sake of interest growth and increase in value company. Managers work effectively and efficient so that it can reduce capital costs and able to minimize risk. This action will result in high profitability. Therefore the application of good corporate governance in the company affects positively company operational performance.

Investors will get a high return if profitability generated by the company high. High profitability will have an impact on the earnings per share increase so that the company shares attracted many investors. Therefore the application of good corporate governance good will make investors give a positive response to performance company and increase market value company.

Good corporate implementation governance is a necessity for every company. Company reason implementing good corporate governance not because of a small or large company (company size), not because the company has a composition of assets heterogeneous or not because of companies have the opportunity to grow high in general need external funds to expand thus encouraging the company to make improvements in implementation corporate governance.

2.2 CG on Financial Performance

Financial Performance is a display the whole condition of the company during certain period of time which is results or achievements that are influenced by company operational activities within utilizing the resources that are owned (Helfert, 1996). Company performance reviewed from a financial perspective typical associated with profitability. Corporate strategy in perspective long-term finance will affect shareholder value.

Companies tend to depend on capital from external parties to finance their operational activities. Companies must be able to convince them the capital owner that investment is they plant it has been placed precise and efficient and ensure that management acts the best for company interests

Benefits for companies that are implementing good corporate governance as stated by Achmad Daniri quoted by Djatmiko (2002) is that the essence of good corporate This governance will be economical maintain business continuity, fine profitability, and growth. Corporate governance is a guideline for managers to manage the company best practice. The manager will make financial decisions that can benefit all parties (stakeholders). Managers work effectively and efficiently so that they can reduce the cost of capital and able to minimize risk. Business it is expected to produce high profitability. Investors will get income (return) accordingly with expectations. Impact of implementing good corporate governance besides being able to eliminate KKN and create and accelerate the working climate more healthy also increases trust investors and creditors. Here is the link between applying good corporate governance with company performance. Implementation of good corporate governance will make investors respond which is positive for company performance and increase the market value of the company.

2.3 Corporate Governance Perception Index (CGPI)

The Indonesian Institute of Corporate Governance (IICG) is an independent institution that conducts corporate dissemination and development governance in Indonesia. CGPI is research and application ranking program good corporate governance at Indonesia in public companies that are organized by IICG. This program implemented since 2001 based on the thought of the importance of knowing so far where public companies have applied the principles of good corporate governance. The participation of this program voluntary.

Definition of corporate governance used to compile the framework methodology of CGPI for companies whose shares are listed on the JSX. The aim of the CGPI program is to stimulate the company to race to implement good corporate governance in the interest of the term company length. Next to that too awarded company so that the company is motivated implementing corporate governance and to map specific problems faced by companies in Indonesia in applying the good concept of corporate governance (SWA, 2001). Index this perception is obtained through three approach namely: share ownership minority, interview with representatives company and public information analyst includes financial reports, corporate sites, and mass media news.

CGPI ranking research is conducted by using the survey method through a questionnaire filled with self-assessment by issuers. Preparation of questionnaires based on corporate principles governance applied by the agency namely the OECD and the KNKG covering Accountability, Responsibility, Fairness and Transparency. Description these principles into question items are carried out in accordance with the Act No. 1 of 1995 concerning PT, Law No. 8 1998 concerning the Capital Market, guide GCG implementation, OECD principles, good business practices (best practices) and rating criteria has been carried out in various countries like Australia, Germany and the Philippines. Question items are formulated can be classified in several groups called criteria implementation of GCG or implementation dimensions GCG is a commitment to governance company, the board of commissioners governance, functional committees, the board of directors, treatment of shareholders, treatment of other stakeholders as well transparency, integrity and independence.

So far, things have been the different implementation of CGPI from year to year is the development of methodologies and tools measure in assessing the application of GCG. This matter done to minimize limitations happened in previous years and fight for the index presented CGPI is truly credible. Results CGPI Outputs and Ratings in the form of research and rating reports CGPI, the publication of research results and CGPI Award and Publishing ranking Best Practices Book by IICG.

3 METHODOLOGY

This study seeks to find the effect of corporate governance on financial performance. The sampling technique in this study used the purposive sampling sample chosen was the companies listed as companies included in the LQ45 list and classified based on CGPI awards.

1. The company has the largest capitalization in the last 12 months
2. has the highest transaction value for the past year
3. the company is on the stock exchange for 3 months
4. The company has good financial aspects
5. From 60 companies, 45 companies were selected with the largest capitalization and the best performance
6. shares listed on the joint stock price index

The researcher determines the criteria of the company which will be used as the research sample as follows:

1. Must have an annual report
2. Publish annual report at IDX website
3. Listed in LQ45

This study uses secondary data as data to measure variables and look for influence. This study will also collect other additional data which are normal logs of total assets as a proxy for company size.

This study will use regression analysis to examine the relationship between LQ45 corporate governance and company performance. The use of regression analysis is to ensure that there are independent variables and control variables that are used to test teir influence on the dependent variable.

The equation below will be used to test the hypothesis:

FPi,t= a + IC1i,t + BSi,t + CGPI + Sizei,t (1)

Where:
FPi,t : Financial performance (ROA)
IC1i,t : Independent Commissioner (percentage)
BSi,t : Board Size (Number of Director)
CGPI : Awardee (dummy variable)
SIZEi,t: Total Asset

4 RESULT

This chapter will analyze the relationship and the effect of independent variables to the dependent variable.

Table 2: ROA Mean of CGPI and non-CGPI.

Sub-sample	N	ROA Mean
CGPI	25	4.44
Non-CGPI	110	8.47
Means		-4.30 (0.006)

We can observe the results above the LQ45 index that gets ROA for those who get the 4.4% CGPI award. and those who do not get 8.4% ROA, which is higher than the recipient. These results indicate that ROA is lower for companies that get awards, and the average difference test shows a significant difference at □ = 0.01. Explanation of facts will be presented in the discussion of regression results.This section will discuss about the regression analysis of this research. The researcher has formulated the regression equation, as follows,

FPi,t= a + IC1i,t + BSi,t + CGPI + Sizei,t (2)

Table 4: Regression Coefficient.

Variable	Coefficient	T-stat (Sig.)
Constant	27.6	3.9 (.000)
CGPI	-1.05	-.47 (.638)
BS	.87	1.9 (0.050)
IC	.07	1.234 (.219)
Size	-6.478	-3.724 (.000)
R-square	.107	
F-stat (Sig.)	5.025 (.001)	

1. CGPI has Sig. value of 0.638. Sig. the probability value of 0.05, or 0.6> 0.05, then H1 is rejected and Ho is accepted
2. Board Size has Sig. value of 0.050. Sig. the probability value of 0.05, or 0.50 = 0.05, which means H1 is accepted and Ho is rejected.
3. the Independent Commissioner has a Sig. value of 0.2. Sig. the probability value of 0.05, or 0.2> 0.05, then H1 is rejected, and Ho is accepted.
4. Company Size has Sig. value of 0,000. Sig. the probability value of 0.05, or 0,000 <0.05, then H1 is accepted, and Ho is rejected.
5. The Adjusted R-square this shows that 10.7% of the variation in ROA is explained by all independent variables and controls in the model
6. F-test results in Sig. value of 0.001 (less than □ = 0.01), it can be concluded that this model is valid for use in predicting ROA.

From the result in the table above, we can make the regression formula equation as follows:

FPi,t= (27.664)+ 0.874 BS2 – 6.478 Size

Conclusions from the regression results:

CGPI on ROA negative this is consistent with previous research conducted by Cahyaningtyas & Hadiprajitno (2015), and Prasinta (2012), who claim that the implementation of good corporate governance certainly has an effect on operational performance, however, GCG implementation still does not affect the improvement of financial performance and market response.

Board size is positively related to ROA. This is consistent with previous research conducted by Ozcan & Riza (2016), Belkhir (2009), and Coles (2008). the results show that it is significant. Therefore it can be concluded that the size of the board contributes to financial performance because it has a significant positive effect on ROA.

5 CONCLUSION

This study shows that CGPI awards and companies that implement corporate governance do not have a direct effect on profits. we can see that companies that are registered in the LQ45 index have a smaller percentage of profits when the company gets the CGPI award, because the application of corporate governance is not something easy and cheap, so the impact of corporate governance is to sustain the company in the long term not profit in the short term, because the value of a company is more important than a profit.

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