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Corporate governance literature review there is a financial performance perspective

Yogi Ginanjar[1], Amelia Setiawan[2]

[1,2]Universitas Katolik Parahyangan, Indonesia

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ABSTRACT

The purpose of this research is to identify the factors that influence good corporate governance (GCG). GCG is a representation of the relationship between parties that influence the direction of the company and financial performance. Basically, to understand how much influence GCG has on company performance, we need to apply agency theory. This study will use a literature review methodology to examine and explore documents related to GCG, particularly the impact of GCG on financial performance. The data used in this study is second party data. GCG implementation should have a positive impact on company performance, but in practice, many companies did not implement GCG. Most companies only implement government regulations without studying the role and function of GCG itself. The urgency of this research is to implement GCG on company performance by implementing it and studying the role and function of GCG itself

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Corresponding Author:

Ginanjar Yogi,
Universitas Katolik Parahyangan,
Jalan Ciumbuleuit No. 94, Hegarmanah, Cidadap, Hegarmanah, Cidadap, Kota Bandung, Jawa Barat Indonesia
Email: yogi.ginanjar@unma.ac.id

1. INTRODUCTION

TheGreat Depression in Indonesia in 1997 had a negative impact on the company's performance. The beginning of this crisis was seen from poor GCG implementation and lack of corporate transparency, which ultimately led to weak public oversight and deviation from good GCG by shareholders (Ayu Retno Wahyuni et al., 2020)Facing this crisis, the Indonesian government decided in 1999 to appoint a National GCG Policy Commissioner through the Decree of the Coordinating Minister for Economic Affairs No. KEP/31/M. After the bankruptcy of large companies, economic crises in various countries, and accounting scandals, the importance of implementing GCG in companies has been increasingly emphasized. An example of an accounting scandal is Enron Scandal in June 15, 2002. The case brought Arthur Andersen, one of the top five Registered Accountants (KAP) to the court on May 31, 2005. Even though the lawsuit had been settled, the KAP stopped audit activities and reduced operations (Siswanto et al., 2022) The GCG concept is applied to realize good corporate governance so that companies are more open to all users of financial report. GCG implementation is expected to increase economic growth and corporate transparency that benefits various stakeholders. Companies no longer only focus on the numbers recorded in their financial statements. As sustainable business ideas emerge, so do sustainability reports that balance the profit and people dimensions. This may indicate that organizations in general, and company stakeholders in particular, are starting to realize the importance of factors other than profit when evaluating companies.

The concept of GCG originates from agency theory and describes the relationship between two parties in a company, namely the owner (principal) and manager (agent). In such a situation, the management (agent) knows various things about the actual state of the company. GCG is a factor that increases profitability and performance. In terms of financial performance, financial statements are a benchmark that measures how well a company's performance can be considered. Defining a company's financial performance is an analysis to find out how accurate and correct the company's financial practice rules are. If the referenced report includes not only financial statements, but also the reliability of management reports, then the financial performance must also demonstrate broad reliability. Reliable reports help decision makers, including owners, to run their business (Wirawan et al., 2021)Financial reports also allow investors to verify how effectively and efficiently a company uses its assets with the aim of maximizing profits, which is the goal of implementing GCG (Pande. et al., 2019)

Competition in a highly competitive business world gives companies a performance advantage by running their business well. In addition, entity transparency is also a priority to ensure accurate and timely disclosure of all financial information. Delays in submitting financial reports reduce investor confidence and affect the selling price of shares on the capital market(Ginanjar et al., 2019)Therefore, good GCG implementation will make investors invest in the company because they see the company's good performance.

Good corporate governance (GCG) is one of many issues affecting companies in various countries. One of the issues related to GCG is PT. Garuda Indonesia (Persero). Deputy Minister of SOEs Kartika Wirjoatmodjo said that as a result of the poor GCG, PT. Garuda Indonesia's performance had long since fallen, and PT. Garuda Indonesia (Persero) had a cooperative relationship that was not profitable for the company. Associated with a different case. Cases of bribery, money laundering, and aircraft upgrades involving cooperation that harmed the company in 2011-2012; Indonesia is on the verge of bankruptcy due to poor GCG implementation. With past financial performance exacerbated by the Covid-19 pandemic, PT. Garuda Indonesia (Persero) has been forced to cut flight routes. Therefore, stakeholder involvement is needed to overcome potential bankruptcy. Given the importance of implementing good GCG and the moral values of ministry SOEs, Garuda's management remains focused on restoring financial performance through financial restructuring efforts. One of them is debt restructuring. The source of this fraud is inseparable from the concept of the fraud triangle, pressure in the form of encouraging someone to commit fraud for financial reasons, rationalization in the form of justifying fraudulent acts by perpetrators (Ginanjar & Syamsul, 2020) This is the basic background of writing this study.

2. RESEARCH METHOD

Through a literature review, this study aims to further explore the impact of good corporate governance on financial performance by analyzing the relationship model between good corporate governance and financial performance. This study uses data collection techniques from third party data. Third party data collection is carried out through a literature review by researching and monitoring documents related to GCG, especially those related to the impact of GCG on the company's financial performance. To clarify this disclosure, a literature search analysis was carried out using several previous studies to analyze the results in the form of meta-analysis in the form of research phenomena.

Five steps have been proposed to define a literature review. (a) The first step is to search the literature using keywords that identify the research topic. The keyword used in this research is GCG, literary studies, and financial performance. (b) The second step is to categorize literature categories as entry points by specifying the journals: accounting journals, management journals, and business journals. Choose Indonesia as the research location country and compiles the years from 2014 to 2022. The third step is to determine the inclusion criteria. This will help choose which article or document to use.

The inclusion criteria used in this study were: (a) Themed Good Corporate Governance and Financial Performance; (b) Published in the Journal of Accounting, Business, Economics, and Management; (c) Survey from 2014 to 2022

Based on the selection criteria, 20 out of 21,229 articles were found from the Google Scholar and SINTA databases. (a) The fourth step is to make notes explaining the literature cards. (b) The fifth step is to write a literature review using detailed descriptions, research analysis, research approaches, and writing styles based on topics or subjects. The following is an outline of the literature map for the five stages above.

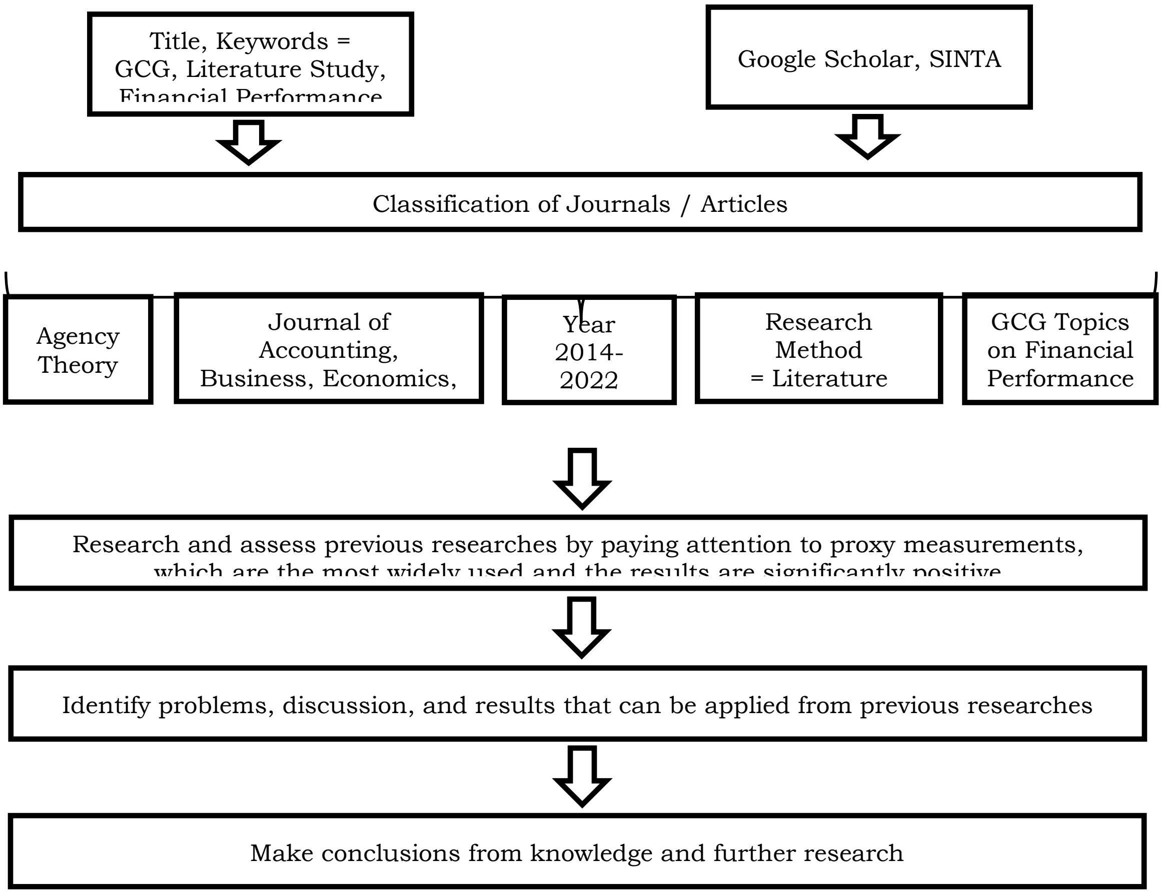

Figure 1. Research Model
Source: Processed Results (2022)

3. RESULTS AND DISCUSSIONS

Based on the first step, namely literature using keywords that identify research topics then got based on search results of GCG and financial performance from Google Scholar and SINTA, most of the research uses various variables that can affect the company's financial performance. Based on previous researches which analyzed the effect of good corporate governance on financial performance, we can interpret that the application of agency theory has a significant influence on financial performance. Limiting the existence of a conflict of representation between owners and management, means that the company's financial performance is good, in line with its corporate governance practices. From 20 research papers to date, agency theory is the theory that is widely used in research on the impact of good governance on financial performance.

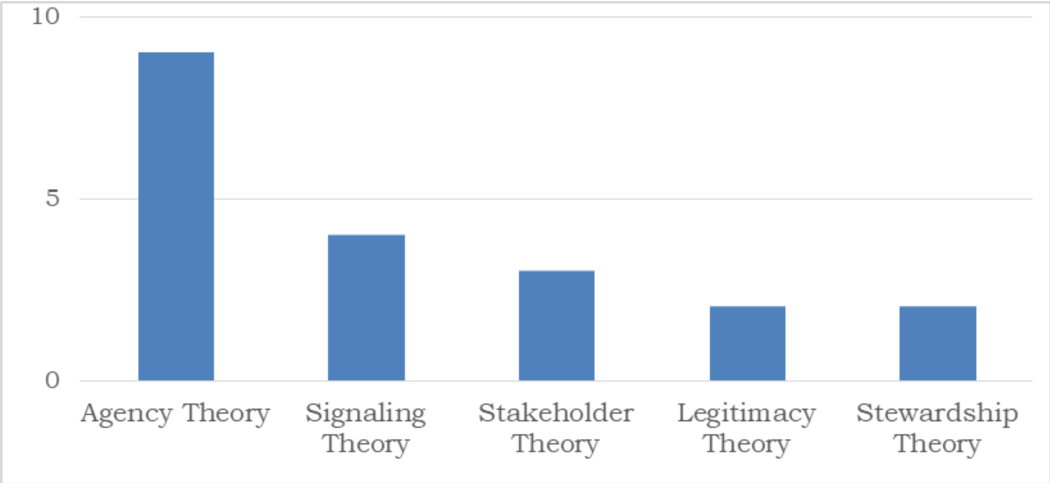

Figure 2. The Theories Used
Source: Processed Results (2022)

The financial performance of a company, reflects the company's financial condition and can be analyzed using financial analysis tools to show how good or bad the company's financial condition is. To ensure that the company operates effectively and efficiently and achieves its goals, reviewing financial performance is one of the most appropriate steps that management can take to uphold the rights of its shareholders. Financial performance is a factor that shows that an organization works efficiently and effectively to achieve the goals that have been set. Achieving optimal results between input and output is effective when management can achieve goals and efficiency adequately. Financial performance allows investors to see how a company optimizes the use of its assets to generate profits. This is in line with the objectives of GCG, namely the effective and optimal use of assets.

Many studies describe the measurement of good corporate governance in terms of financial performance. Evaluation of financial performance is the most important and important basis for investors to make decisions. For companies, evaluation of financial performance can be used to review the company's performance over a certain period of time and to guide the company's strategy in the future. This can be used as a reference for making decisions.

The analysis of 20 previous research papers found four proxies to measure good governance and are widely used in financial performance, namely independent commissioners, managerial ownership, institutional ownership, and audit committees, indicating the existence of a committee. With ROA as a proxy to measure financial performance, these studies include: (Babar & Habib, 2021), (Kovermann & Velte, 2019), (Rusydi et al., 2020), (Oehmichen, 2018), (Michelberger, 2021), (Khan et al., 2018), (Velte, 2017), (Musfiqur Rahman & Musfiqur Rahman Naima Khatun, 2017), (Siswanto et al., 2022), (Hamka et al., 2019), (Diyanty & Yusniar, 2019), (Islamiah, 2020), (Setiawan & Setiadi, 2020), (Wirawan et al., 2021), (Ginanjar et al., 2019), (Ginanjar & Syamsul, 2020), (Ayu Retno Wahyuni et al., 2020), (Bagus Setyo Laksono & Rohmawati Kusumaningtias, 2021), (Fenny Marietza et al., 2020), (Situmorang & Simanjuntak, 2019), (Inka Novitasari et al., 2020), (Pande. et al., 2019), (Faninda & Setiawan, 2022), (Aguilera et al., 2021), & (Habib & Hasan, 2019). The following results are obtained.

Table 1. Previous Variables Research

No	Variable	Total
1	ROA	16
2	ROE	9
3	Institutional Ownership	8
4	CGPI	1
5	DER	1
6	Board of Commissioners	7
7	ROI	1
8	Audit committee	11
9	NPM	1
10	Tobin's Q	1
11	PBV	1
12	EPS	1
13	Managerial ownership	8
14	Accountability	1
15	CA	1
16	Board of Directors	6
17	Independent Board of Commissioners	4
18	Transparency	1
19	Capital Adequacy Ratio (CAR)	1
20	Independent Audit Committee	2
21	Public Ownership	1
22	Foreign Ownership	1
23	Audit Quality	1
24	Sharia Supervisory Board	2
25	Independent Commissioner	8
26	Responsibility	1
27	independence	1
28	Fairness	1
29	Intellectual Capital	1
30	The Presence of the Board of Commissioners	1
31	Asset Composition	1
32	Company Size	1
33	Sales Growth	1

Source: Processed Results (2023)

The research results obtained based on the formulation of the problem in the other introduction are:

Table 2. Results of Previous Studies

No.	Variable	Influential Journal	Uninfluenced Journal
1.	Institutional Ownership	6	2
2.	Managerial ownership	5	2
3.	Audit Committee	4	9
4.	Board of Commissioners	2	6
5.	Independent Board of Commissioners	1	3
6.	Board of Directors	4	4

Source: Processed Results (2023)

Based on the research above, companies must implement a strict ownership structure to maximize their profits. This allows stakeholders to improve management oversight that is more optimal and effective and makes management more committed to delivering financial performance. In addition, the role of large independent commissioners implies that they can exercise their duties and powers to monitor and control the actions of their executive directors, in line with the principles of agency theory. The Audit Committee plays a role in our company by assisting the committee in carrying out its duties and providing overall supervision.

4. CONCLUSION

The initial research used in this research is quantitative research with a total of 20 articles. There are six factors that affect financial performance. 6 results for institutional ownership, 5 results for management ownership, 4 results for audit committee, 2 results for board of commissioners, 3 results for independent board of commissioners, 4 results for board of directors. Whereas those that had no impact included: Institutional Ownership 2 findings, Management Ownership 2 findings, Audit Committee 9 findings, Board of Commissioners 6 findings, Independent commissioner board 1 finding and board of directors 4 findings.

The application of the GCG concept must be implemented in the company so that the management of the company can run well, effectively and efficiently. In addition, the implementation of good corporate governance can direct companies to attract investors to invest their capital. Investors believe that proper use of the invested capital will enable the company to continue and achieve its goals. In addition, the application of agency theory must be applied to companies to avoid agency conflicts. The contribution of this research provides additional insight and treasures in the field of knowledge, especially in the field of accounting GCG. This study hopes to be able to apply GCG to company performance by implementing it and studying the role and function of GCG itself.

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