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THE INFLUENCE OF GOOD CORPORATE GOVERNANCE AND SUSTAINABILITY REPORTING TOWARD CORPORATE'S FINANCIAL PERFORMANCE (EMPIRICAL STUDY ON CORPORATES THAT CONSECUTIVELY REGISTERED IN CORPORATE GOVERNANCE PERCEPTION INDEX (CGPI) AND LISTED ON INDONESIA STOCK EXCHANGE (IDX) FOR THE PERIOD OF 2014-2018)

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Fitri Sukmawati, Sifa Silviana, Yati Mulyati. The Influence Of Good Corporate Governance And Sustainability Reporting Toward Corporate's Financial Performance (Empirical Study On Corporates That Consecutively Registered In Corporate Governance Perception Index (Cgpi) And Listed On Indonesia Stock Exchange (Idx) For The Period Of 2014-2018)-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(10), 2999-3008. ISSN 1567-214x

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ABSTRACT

The research aims to determine empirical proof about the influence of Good Corporate Governance and Sustainability Reporting toward company's financial performance. The research consists of 2 independent variables; Good Corporate Governance and Sustainability Reporting, and company's financial performance as dependent variable. The scoring of CGPI is used as the proxy of Good Corporate Governance, GRI-G4 is used as the proxy for corporate sustainability report disclosure, and returns on assets (ROA) is used as the proxy of company's financial performance. The sample that was used in this research are eight corporates which was listed on Indonesia Stock Exchange (IDX) over the five years' period of 2014-2018 with eight company so the overall samples are 40 corporations. The source is based on purposive sampling method. The data is processed by using multiple regression models. The results of this research shows that Good Corporate Governance and the disclosure of Sustainability Report affect both partially and simultaneously.

INTRODUCTION

The Corona Virus Disease (Covid-19) pandemic, which is currently endemic in almost all countries in the world, including Indonesia, not only has an impact on global health, but also disrupts the world's economic chain. The rupiah exchange rate and the stock index plummeted, as did domestic and industrial consumption which drastically declined due to appeal for physical and social distancing, work, study and pray at home, and the prohibition of activities that caused crowds certainly made the rotation of the economy slow down and almost stopped. Some companies are confused because the ability of human resources in running WFH is not yet common in this country.

In addition, another global economic crisis also occurred at the end of 2008, which resulted the collapse of the stability of the world economy. This crisis occurred when one of the largest US bank which is Lehman Brothers went bankrupt. The global economic crisis that occurred in 2008 actually started in the United States which then spread to other countries around the world, including Indonesia.

In Indonesia, companies affected by the global crisis are companies that engaged in the real sector and depending on export such as manufacturing, agriculture and mining. These industries are threatened by the global crisis that stems from a decline in the purchasing ability of the US people towards the purchase of clothing. With a decrease in the purchasing ability of the people in the export destination countries, the demand for textile products will decrease, and this will result in a low level of company profitability.

One of the causes of the economic crisis is bad governance. In the process of economy recovery, the Indonesian government and international institutions such as the International Monetary Fund (IMF) introduced the concept of Good Corporate Governance (GCG). If the company does not apply the concept of Good Corporate Governance (GCG) properly, it is not impossible that Indonesia will experience another economic crisis.

Apart from the economic crisis that occurred in Indonesia, the environment and social crisis must also be considered. The company is obliged to pay attention to the impact of making any profit. If the company does not pay attention to the surrounding environment, then this behavior is categorized as bad business ethics. One of the biggest cases in Indonesia due to bad business ethics is the case of environmental damage committed by PT Freeport Indonesia (PTFI). The Ministry of Forestry and Environment (KLHK) stated that there were 48 environmental violations due to PT Freeport Indonesia's mining activities, including water pollution, air pollution and failure to carry out environmental monitoring and management efforts.

LITERATURE REVIEW

Good Corporate Governance

According to the Cadburry Committee (1992), Good Corporate Governance is the principle that directs and controls the company in order to achieve a balance between the strength and authority of the company in providing its responsibilities to shareholders in particular and stakeholders in general. Of course, this is meant to regulate the authority of directors, managers, shareholders, and other parties related to the development of the company in a certain environment.

Sustainability Report

Sustainability Report is a report that contains not only financial work information but also non-financial information consisting of information on social and environmental activities that enable the company to grow sustainably (susceptible performance) (Elkington, 1997). Sustainability Report is a media for disclosing information on the course of Sustainability Development, which is a development effort covering economic, environmental and social aspects.

In disclosing Sustainability Report, the company refers to the six main principles of Sustainability Reporting, namely balance, comparability, accuracy, timeliness, clarity, and reliability.

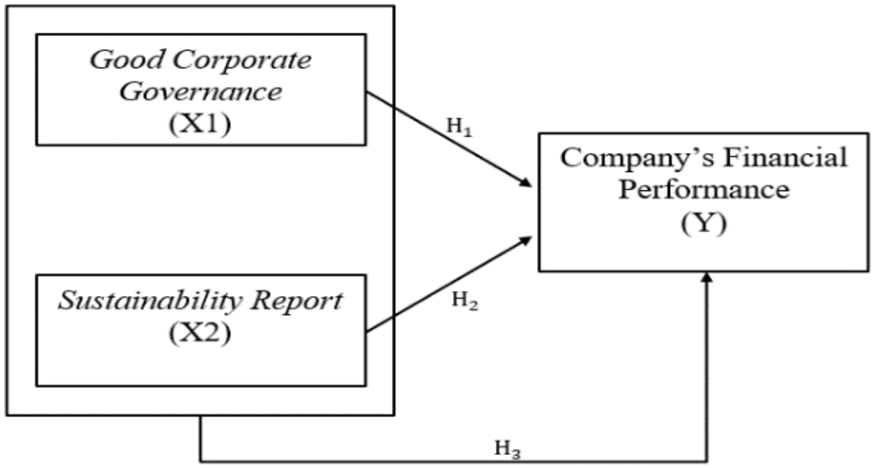
Financial Performance

Company performance is often associated with the company's financial condition. Financial performance is the result or achievement that has been achieved by company management in carrying out its function of managing company assets effectively during a certain period (Rudianto, 2013).

The financial performance of a company can be measured by financial ratios. Financial ratios are the most frequently used financial analysis tool because they can connect various estimates contained in financial reports so that the financial condition and results of a company's operations can be interpreted. There are many types of financial ratios that can be used to analyze financial performance, one of the ratios is the return on assets (ROA) ratio.

The return on asset ratio or ROA is a ratio that is often used to analyze financial statements because it is able to assess the company's financial performance in generating net income from the use and utilization of its assets. Brigham and Houston (2001) explain that the return on total assets (ROA) is calculated by comparing net income available to common stockholders with total assets.

Frame Work



RESEARCH HYPOTHESIS

H1: Good Corporate Governance affects the financial performance of companies listed on CGPI and the Indonesia Stock Exchange for the period 2014-2018.

H2: Sustainability Report disclosure has an effect on the financial performance of companies listed on CGPI and the Indonesia Stock Exchange for the 2014-2018 period.

H3: Good Corporate Governance and the disclosure of the Sustainability Report concurrently have an effect on the financial performance of companies listed on CGPI and the Indonesia Stock Exchange for the period 2014-2018.

RESEARCH OBJECTIVES AND BENEFITS

Research Objective

To determine the influence of Good Corporate Governance (GCG) and Sustainability Reporting partially or simultaneously on company's financial performance.

RESEARCH BENEFITS

Company

This research is expected to be used as an evaluation material for companies in the implementation of good corporate governance and as information material in the preparation of sustainability reports related to accountability for the company's economic, social and environmental aspects.

Investors and Potential Investors

For investors, this research is expected to provide additional knowledge to a company in assessing the relevance of financial statements or evaluating company performance. For potential investors, research can be used as a consideration in determining investment decisions.

Academics and further researchers

This research is expected to be a source of reference and comparative literature for future researchers in conducting research with similar topics.

Government

This research is expected to be a reference and provide information to form regulations and policies regarding the implementation of good corporate governance and disclosure of sustainability reports.

Author

This research can provide a deeper understanding of the implementation of good corporate governance and disclosure of sustainability reports and their impact on company financial performance and increase knowledge and insight.

Descriptive Statistical Analysis

Descriptive statistics are statistics that are used to analyze data by describing the collected data as it is without intending to make generalized conclusions. The form of the regression equation is as follows:

Y = a + b1X1 + b2X2 **+ e**

Explanation:
Y = Company's Financial Performance
X1 = GCG
X2 = SR
A = Constanta number
b1,2 = Regression coefficient

HYPOTHESIS TEST

Individual or Partial Testing (ttest)

To find out that the independent variables (GCG and SR) partially affect the dependent variable (Company's Financial Performance).

Complete or Simultaneous Testing (Test F)

To find out that the independent variables (GCG and SR) simultaneously affect the dependent variable (Company's Financial Performance).

RESULTS AND DISCUSSION

Classic Assumption Test Normality Test

Based on the result of the normality test that has been carried out, it shows that the probability value is 0.706172 which is greater than the error level of 0.05, then H0 is accepted, which means that the residual data is normally distributed.

Multiple Linear Regression Test Result

The regression model formed based on the research results is as follows:

Y=8.976381+1.626737X1+1.431813X2+ e

The equation above can be interpreted as follows:

a) α = 8.976381 shows that if GCG (X1), SR (X2) is zero (0), then the company's financial performance (Y) will be 8.976381 units.

b) b1 = 1.626737 shows that if the GCG (X1) increases by one unit and the other variables are constant, then company's financial performance (Y) will increase by 1.626737 units.

c) b2 = 1.431813 shows that if SR (X2) increases by one unit and the other variables are constant, then the company's financial performance (Y) will increase by 1.431813 units.

Hypothesis Test Partial Test (t test)

The results of testing the hypothesis tcount compared with ttable with an error level of 5%, the test criteria for partial test decision making are as follows:

- HO is rejected, Ha is accepted, if tcount > ttable means that there is influence.
- HO is accepted, Ha is rejected, if tcount < ttable means there is no influence.

The t-table value is obtained from the t distribution table with an error tolerance level of 5%, and a degree of freedom (df) is:

df = n – k df = 39 – 3
df = 36

For the two-way test, the t-table value is 2.02809.

The following is an explanation of the results of the t-test on the variables that affect the Company's financial performance:

- Based on the data, it is obtained that the tcount of good corporate governance is 2.361513 by taking the α significance level of 5%, then the ttable value is 2.02809, and the significance level of 0.0098 is less than 0.05, so HO is rejected and Ha is accepted or in conclusion, good corporate governance affects the financial performance of companies listed on the Indonesia Stock Exchange in 2014-2018.
- Based on the data, tcount of sustainability reports is 2.969631 by taking the α significance level of 5%, then the ttable value is 2.02809, and the significance level of 0.0064 is less than 0.05, then HO is rejected and Ha is accepted or conclusion, sustainability reports affect the financial performance of companies listed on the Indonesia Stock Exchange in 2014-2018

Simultaneous Test (F test)

Hypothesis III

- H03: $\beta 1 = \beta 2 = 0$ So there is no simultaneous influence of good corporate governance and sustainability report on financial performance.
- Ha3: $\beta 1 \neq \beta 2 \neq 0$ So there is a simultaneous influence of good corporate governance and sustainability report on financial performance.

The results of testing the hypothesis Fcount compared with Ftable with an error level of 5%, the test criteria for simultaneous test decision making are as follows:

- HO is rejected, Ha is accepted, if Fcount > Ftable means that there is influence.
- HO is accepted, Ha is rejected, if Fcount < Ftable means there is no influence.

The Ftable value is obtained from the F distribution table with an error tolerance level of 5%, and a degree of freedom (df) is:

df = n – k df = 39 – 3
df = 36

For the two-way test, the t-table value is 3.26

Based on the data obtained, the Fcount value is 4.061635 by taking the α significance level of 5%, then the Ftable value is 3.26, and the significance level is 0.007498 less than 0.05, so HO is rejected and Ha is accepted or in other words there is a simultaneous influence of good corporate governance and sustainability report toward company's financial performance.

Analysis of the coefficient of determination

R^2 value is known to be 0.184104, so the coefficient of determination 18,41%

This shows that GCG (X1) and SR (X2) have a simultaneous effect of 18.41% on company's financial performance (Y). Meanwhile, the remaining 81.59% was influenced by other factors not observed in this research.

The Influence of Good Corporate Governance Toward Financial Performance of Companies Listed in CGPI and BEI 2014-2018

The condition of several companies that are listed on an ongoing basis in the Corporate Governance Perception Index (CGPI) and listed on the IDX for the 2014-2018 period in Indonesia, including at PT. Bank Mandiri (Persero) Tbk. which always increases the value of GCG every year when compared to PT. Aneka Tambang (Persero) Tbk. which experienced a decrease in the value of GCG for two consecutive years in 2016 and 2017. Companies that implement GCG such as PT. Bank Mandiri (Persero) Tbk. has a good financial performance, this is because the company has implemented GCG principles, namely transparency, accountability, fairness and responsibility properly. These principles make shareholders feel a positive impact so that they create a sense of trust in the company. The trust that arises is due to the feeling of optimism of the shareholders towards the company so that the goals expected by shareholders will occur. Good management makes management work optimally so that optimal financial performance is achieved.

The results of this study are in line with the research of Sarafina and Saifi (2017) which states that GCG has a significant positive effect on company financial performance.

The Influence of Sustainability Report Toward Financial Performance of Companies Listed in CGPI and BEI 2014-2018

Sustainability Report is the responsibility of the company for all decisions made on the social environment around the company. This is indicated by the condition of several companies that are listed on an ongoing basis in the Corporate Governance Perception Index (CGPI) and listed on the IDX for the 2014-2018 period in Indonesia, including at PT. Aneka Tambang (Persero) Tbk. which was able to maintain the GRI index throughout the research year even though it had decreased in 2016 when compared to PT. Bank Tabungan Negara (Persero) Tbk. Which experienced a decline in the value of the GRI index for three years, namely in 2016, 2017 and 2018. Sustainability Report is important because it can maintain and increase the value and name of the company, by increasing the value and name of the company, the financial performance is also will increase. Sustainability Report is also a process that helps organizations understand the relationship between business sustainability issues and organizational plans and strategies, goal setting, performance measurement and management changes towards a sustainable global economy that combines profitability with social responsibility and environmental care. Increased stakeholder trust and consumer loyalty due to the sustainability report disclosure will have an impact on the high intensity of ongoing operations so that the company's financial performance will increase.

The results of this study are in line with research conducted by Suhardiyah (2018) which states that the disclosure of sustainability reports which simultaneously has economic, environmental and social aspects has a positive effect on the company's financial performance.

The Influence of Good Corporate Governance and Sustainability Report Toward Financial Performance of Companies Listed in CGPI and BEI 2014-2018

Based on the results of testing the third hypothesis, it shows that simultaneous Good Corporate Governance and Sustainability Report disclosure have a significant effect on the company's financial performance.

This result contradicts the results of previous research conducted by Melawati (2016) which states that simultaneously GCG and CSR have no effect on the company's financial performance.

CONCLUSION

From the calculation and analysis of the research entitled "The Influence of Good Corporate Governance and Sustainability Report Disclosures on Company Financial Performance", it can be concluded:

1. Good Corporate Governance affects the financial performance of companies listed on CGPI and IDX in 2014-2018.
2. Sustainability Report disclosure affects the financial performance of companies listed on CGPI and BEI in 2014- 2018.
3. Good Corporate Governance and the disclosure of Sustainability Report together have an effect on the financial performance of companies listed on CGPI and BEI in 2014- 2018.

SUGGESTIONS

Based on the discussion and conclusions previously described, the researcher proposes suggestions which are expected to be useful input for further researchers, namely:

1. Further research can use other measuring instruments beyond the CGPI score to measure the implementation of good corporate governance which is better able to demonstrate the need for GCG implementation in a company.
2. Future research is expected to use other proxies to calculate other variables that can affect the company's financial performance.
3. Further research can be carried out with a longer time span in order to really see how the company's financial performance is from year to year and increase the number of sample companies.
4. Companies that have published their Sustainability Report are advised to

increase the number of indicator items disclosed according to the applicable GRI standards.

5. Investors and potential investors are expected to make GCG implementation in a company and disclosure of sustainability reports as a reference for decision making, especially in investing in a company.

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