REPOSITORY

THE EFFECT OF BOARD OF COMMISSIONERS AND AUDIT COMMITTEE IN THE CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF THE NON-FINANCIAL COMPANIES WHICH INCLUDED IN THE LQ45 IN INDONESIA

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ABSTRACT: *Corporate governance is one of the important indicators that is believed to influence the financial performance of the Company in Indonesia. Previous studies have produced different kinds of conclusions, where in one study stated that there was a significant positive effect of the number of board of commissioners, the proportion of board of commissioners and audit committee on the company's financial performance but the other studies stated otherwise. The purpose of this study is to bridge the results of different studies by adding several control variables such as company age, company size and leverage and financial performance measures in the form of ROA and ROE included together to strengthen the results of testing analysis. Samples were taken from 21 non-financial public companies that were included in LQ45 for 5 consecutive years in Indonesia, considering that companies included in LQ45 are generally companies that have good financial performance and are considered to have good liquidity and market capitalization. The results of this study indicate that the size of the board of commissioners has a positive significant effect on company performance as measured by ROA and ROE, because of the resource dependency theory, while the proportion of independent commissioners does not indicate a significant influence on ROA and ROE due to its compliance with regulations only for the formality, while the number of audit committees has a significant positive effect on the company's financial performance because the directors and management feel that there are supervisors who pay attention to their performance so that in carrying out the business of the company they make careful decisions and report the results of their performance honestly and transparently. Size or company size has a significant negative effect on company performance as measured by ROA and ROE because total assets cannot be maximized by the meangement to increase the Company's profits. The age of the company has a significant positive effect on ROA and ROE because the company increasingly understands business risks and can find appropriate ways to raise up the Company's profits. Leverage has a*

significant positive effect where the Company keeps trying his best to maintain good performance in the presence of creditors and use its debt efficiently and effectively in generating Company profits.

Key words: Corporate governance, Board of Commissioners, Audit Committee, ROA, ROE, size, age, and leverage.

1. Introduction

Global economic growth has slowed since 2015, especially in China, affecting the economies of other countries, including Indonesia as a commodity exporter, which has decreased the volume of commodity demand and prices. To encourage economic growth, a mix of monetary, fiscal and structural reforms has been taken. This is not inseparable that developing countries, including Indonesia, China and India, have learned from the experience of developed countries that rely too heavily on monetary policy to increase their economic growth in a slowing global economic situation.

In particular, Indonesia's economic growth in 2018 was recorded at 5.17% by the Central Statistics Agency (BPS) (Detikfinance, 2019). This figure missed the original target set by the 2018 State Budget (APBN) of 5.4%. This is inseparable from external factors such as the slowing down of global economic growth as mentioned above, coupled with the uncertainty of US economic policies after Donald Trump's election as president plus a trade war between the United States and China and Britain's exit from the post-referendum European Union. Nevertheless, the implementation of the monetary, fiscal and structural reform mix is expected to increase Indonesia's economic growth and specifically lift the performance of Indonesia's industrial sector.

The ongoing slowdown in the world economy can lead to the global financial crisis. When the global financial crisis occurs it will result in the economic pace of companies becoming weak and this is where corporate governance has an important role. Companies that have implemented good governance can still survive in the midst of the world economic storm, but companies that do not implement good governance will immediately be destroyed by the big waves of the financial crisis. Weak corporate governance is suspected to be the cause of the collapse of the world economy (Solomon, 2013). Excessive remuneration of executives, improper incentive structures, failure to manage risks and internal control systems, weak supervision, lack of independence of directors and commissioners and lack of ethics in business, are the causes of the collapse of the world's leading banks and companies.

The same crisis also hit the Asian continent in 1997 and was suspected as a result of weak corporate governance. Indonesia represents a system of corporate governance with developing capital markets (Solomon, 2013). Most companies are family companies and are controlled by families. Those cause in the expropriation of minority shareholders by the management of the company. There are many more similar cases that occur due to weak corporate governance. In September 2004 the Asia Asset Management Event emphasized the need for Indonesia to make improvements in the field of corporate governance. The underlying motivation is to attract foreign investors to invest in Indonesia.

Sample of financial public companies were deliberately excluded from this study because financial companies are so tightly regulated by the Financial Services Authority (OJK) and Bank Indonesia (BI) through various regulations issued by those institutions and mostly the corporate govenanceof those companies are good. It is expected that through this study, it can be seen the impact of corporate governance (which is proxied by the number of board of commissioners, the proportion of independent commissioners and number of audit committees) on the performance of non financialcompanies in the LQ45 list by adding control variables: company size, company age and leverage. The addition of control variables is to provide a more accurate analysis because the financial performance factors of a company are not solely influenced by corporate governance but also many other factors such as company size, company age, and leverage. The value of the company incorporated in LQ45 is reflected in the movement of the value of its shares on the stock exchange, the higher the stock price the higher the value of the company, and vice versa. In addition, financial performance is an important factor for creating corporate value where good financial performance will increase the value of the company as well. Adegbile (2015) conducted an analysis of factors that affect company value in addition to financial performance, where corporate governance plays a role in increasing the value of the Company. When the company has implemented good governance, the deviation / utilization of company assets for the benefit of the directors / management can be minimized or it is unlikely that expropriation by the majority shareholders will occur towards minority shareholders, which in turn will hopefully increase the company's value.

2. RESEARCH METHOD

This research is a hypothesis testing. This study examines the influence of the Board of Commissioners and the Audit Committee in corporate governance on financial performance which is proxied by the ratio of ROA and ROE.The population of this study were 21 non-financial public companies which for 5 consecutive years entered LQ45 on the Indonesia Stock Exchange as of February 2012 to February 2016. The selection of this LQ45 non-financial public company was based on the value of liquidity and market capitalization of the company responded well. The purpose of the LQ 45 index is to complement the JSPI (Joint Stock Price Index) and in particular to provide objective and reliable means for financial analysis, investment managers, investors and other capital market observers in monitoring price movements of actively traded stocks.

This study uses a sample of LQ45 non-financial public companies in Indonesia where the liquidity and market capitalization of the issuers are considered good and able to provide benefits to their owners so that it could attract investors to have them (finance.detik, 2017). The company data which included in the LQ45 is reliable, complete and relevant because it is monitored by the Indonesia Stock Exchange (IDX) every six (6) months, February and August and the companies in it have a good profit and growth so that the data analysis of the company is more accurate.

The technique used is purposive sampling technique. Samples are taken based on certain criteria according to the research objectives.

The method of data collection in this study uses secondary data taken from the annual reports of public companies in the period 2012-2016. The annual audit report is chosen because it has high credibility as audited by an independent auditor and free from material misstatement. The secondary data is obtained from the official website of the Indonesia Stock Exchange, www.idx.co.id.

3. EMPIRICAL RESULTS AND DISCUSSION

3.1 Regression Results:

ROA = -97.693+ 1,189 JDK + 2,221 PDK + 22,491 JKA - 5,103 SIZE + 0.000 AGE + 3,425 LEV + e

ROE = -271.704 + 2.713 JDK + 7,048 PDK + 49,704 JKA– 9.836 SIZE + 0.001 AGE + 20,500 LEV + e

3.2 Adjusted R square (R^2)

The AdjustedR of squarevalue shows 29,3% which means the variable of JDK, PDK, JKA, SIZE, AGE, and LEV are able to explain the variable of ROA while the remaining 70,7% is explained by the other variables besides the variables proposed in this study.

The Adjusted R of square value shows 45% which means the variable of JDK, PDK, JKA, SIZE, AGE, and LEV are able to explain the variable of ROE while the remaining 55% is explained by the other variables besides the variables proposed in this study.

3.3 F Test (ANOVA Test) – ROA and ROE

From this test, F value showed 7,160 with the probability 0.000 for ROA and 13,148 with the probability 0.000 for ROE. Since the probabilityis less than 0,05, those regression models could be used to predict ROA and ROE or in other words that JDK, PDK, JKA, SIZE, AGE, dan LEV together affect the ROA and ROE.

3.4 T Test – ROA and ROE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-97.693	71.583		-1.365	.175
	JDK	1.189	.594	.215	2.003	.048
	PDK	2.221	6.278	.037	.354	.724
	JKA	22.491	7.716	1.768	2.915	.004
	SIZE	-5.103	1.361	-.439	-3.750	.000
	AGE	.000	.000	.404	3.644	.000

LEV	3.425	1.683	.191	2.035	.045

a. *Dependent variable*: ROA

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-271.704	157.427		-1.726	.088
	JDK	2.713	1.306	.196	2.077	.040
	PDK	7.048	13.806	.048	.510	.611
	JKA	49.704	16.970	1.567	2.929	.004
	SIZE	-9.836	2.993	-.339	-3.286	.001
	AGE	.001	.000	.431	4.403	.000
	LEV	20.500	3.702	.458	5.538	.000

a. Dependent Variable: ROE

3.5 DISCUSSION

The discussion on the testing results is as follows:

H1a: the number of board of commissioners has a positive effect on the Company's financial performance.

From the results of the above test, the Variable Number of Board of Commissioners (JDK) has a value of 1,189 Unstandardized Coefficients, a tvalue of 2,003 and a significance level of 0.048 smaller than 0.05 (5%). This means that the JDK variable has a significant positive effect on ROA.

As for testing the dependent variable ROE, it was found that the same variable Number of Board of Commissioners (JDK) has Unstandardized Coefficients 2.713, t value of 2.077 with a significance level of 0.048 smaller than 0.05 (5%). This means that the JDK variable has a significant positive effect on ROE.

Thus the hypothesis that the size of the board of commissioners has a positive effect on the company's financial performance is accepted. This is in line with the results of the research of Al-Amameh (2014), Jacking & Johl (2009) which examines Good Corporate Governance (GCG), ownership structure and company performance. GCG that is proxied by the size of the board of commissioners has a positive influence on company performance as measured by ROA and ROE, the greater the size of the board of commissioners will improve the company's financial performance due to resource dependency theory, the large number of board of commissioners will increase access to various resources to the environment external. The large number of board of commissioners will be more diverse in providing a mix of expertise, knowledge and skills.

In addition, research by Ibrahim and Samad (2011) also stated the same thing that the board size of the board of commissioners significantly affected the company's financial performance.

H1b: The proportion of the board of commissioners has a positive effect on the financial performance of the Company.

The variable proportion of the Board of Commissioners (PDK) has Unstandardized Coefficients 2,221, the value of t is 0.354 with a significance level of 0.724 greater than 0.05 (5%). This means that the PDK variable does not affect ROA.Whereas for testing the dependent variable ROE, it was found that the same proportion of the Board of Commissioners (PDK) variable had a Unstandardized Coefficients 7.048, a t value of 0.510 with a significance level of 0.611 greater than 0.05 (5%). This means that the PDK variable has no effect on

ROE. Thus the hypothesis which states the proportion of board of commissioners has a positive effect on the company's financial performance is rejected.

Research conducted by Laksana (2015) and Zabri et al (2015) also found no significant effect between the proportion of independent commissioners on ROA. Independent commissioners in a company do not guarantee that the company carries out the principles of good corporate governance which will have a positive impact on ROA and ROE. Meanwhile the results of the study by Ponnu and Karthigeya (2010) also found the same thing, the absence of a significant effect between the proportion of independent commissioners on ROE. Wehdawati et al. (2015) said that the members of independent commissioners were formed merely to fulfill the provisions of company formalities as a requirement in carrying out GCG, while the majority shareholders still play an important role so that the performance of the board of commissioners does not improve, besides the supervisory activities carried out by independent commissioners have not been able to reduce agency costs in the company.

The membership of an independent board of commissioners may be merely the fulfillment of the provisions of company formalities as required by OJK No. 33 / POJK.04 / 2014 concerning Directors and Board of Commissioners of Issuers or Public Companies, Independent Commissioners where the composition of independent commissioners is at least 30% of the board of commissioners. In addition, there is a possibility that the majority shareholders still play an important role so that the performance of independent commissioners does not improve or supervisory activities carried out by independent commissioners have not been able to reduce agency problems in the company as revealed in Firdausya (2013) and Adi (2011) studies which concluded that the size of the proportion of independent commissioners does not guarantee the good management of the company.

H2a: The number of audit committees has a positive effect on the Company's financial performance.

The variable number of the Audit Committee (JKA) has an Unstandardized Coefficients of 22,491, a t value of 2,915 with a significance level of 0.004 less than 0.05 (5%). This means that the JKA variable has a positive effect on ROA. Thus the hypothesis which states that JKA has a positive effect on the company's financial performance is accepted. This is in line with the results of Mollah, Farooque, and Karim (2012) research where audit committees have a positive influence on the performance of 19 companies listed on the Bostwana Stock Market in 2000-2007. As the function of the Audit Committee is to carry out supervision or to monitor activities and implementation and assist the Board of Commissioners in carrying out the supervisory function of the Company's management.

Oversight carried out by the audit committee includes also overseeing the accounting carried out by management so that the reports produced are reliable.
The variable number of the Audit Committee (JKA) has 49,704 Unstandardized Coefficients, t value is 2,929 with a significance level of 0.004 smaller than 0.05 (5%). This means that the JKA variable has a positive effect on ROE. Thus the hypothesis which states that JKA has a positive effect on the company's financial performance is accepted.

Aggarwal (2013) states that an effective audit committee is very necessary in ensuring the reliability of its financial statements. With the existence of an audit committee that is in charge of overseeing the process of preparing financial reports and auditing the financial statements can minimize fraud and ultimately improve the quality of financial statements and the overall performance of the Company.

SIZE or company’s size has a significant negative effect on company performance. This shows that the size of the company is not a guarantee that the company has a good performance. The larger the size of the company actually makes the company's financial performance negative because the total assets owned cannot be maximized to generate profits. Management is not able to operate assets or equity that are owned optimally so that the Company's efficiency is low. This is in line with the research by Bhandari, Lamba, and Seth (2015): "Large amounts of assets are contributing towards a significant reduction of performance. The similar trend was prevalent for the Auto and FMCG sectors. The reason could be an opening up of the financial sector where even a small company after a few conditions meeting too can raise finance easily through capital market and debt markets ".

Company’s age has a significant positive effect on the Company's financial performance. The age of the company is measured by the establishment of the company and with the increasing age of the company, showing the company still exists and is able to compete. Companies better understand risk in the business world and can finally take steps to generate better profits in order to maintain the continuity of their business and thus profitability or financial performance can increase. This is in line with the research of Suryamis and Oetomo (2014).

Leverage has a significant positive effect on the Company's financial performance. The greater the company's leverage, the company will try to maintain good performance in the presence of creditors. This is related to the debt covenant that is owned so that the company tries to improve financial performance. The company will use the debt obtained as effectively and efficiently as possible to expand market share or increase sales. With good financial performance, the market is expected to be responded well by the market. Good financial performance will make creditors continue to have confidence in the company, because if there is a risk of long-term liquidity difficulties will burden and worsen the company's performance. This is in line with the research of Obradovich and Gill (2013) and Wulandari (2006).

4. CONCLUSION AND FUTURE RESEARCH

Based on the results of the research that has been done, it can be concluded as follows:

1. From the results of the above research, the variable number of board of commissioners has a positive significant effect on ROA and ROE. The size of the board of commissioners has a positive influence on company performance as measured by ROA and ROE, because of the resource dependency theory, the large number of board of commissioners will increase access to various resources to the external environment. The large number of board of commissioners will be more diverse in providing a mix of expertise, knowledge and skills. However, it does not mean that the Company's financial performance will be better if it has a large number of board of commissioners because prudence is needed in determining the amount of the board of commissioners in order to create better company's performance. Many factors can influence the amount of the board of commissioners such as the business nature of the company, the size of the company, the market share of the company, industrial competition, and others.
2. Membership of independent commissioners has no influence on the Company's financial performance as measured by ROA and ROE. Maybe their existence is merely fulfillment of company formalities as required by OJK No. 33 / POJK.04 / 2014 concerning Directors and Board of Commissioners of Issuers or Public Companies, Independent Commissioners where the composition of independent commissioners is at least 30% of the board of commissioners. In addition, there is a possibility that the majority shareholders still play an important role so that the performance of the independent board of commissioners does not improve or the supervisory activities carried out by independent commissioners have not been able to reduce agency problems in the company.
3. The number of Audit Committees has a positive effect on the Company's financial performance as measured by ROA and ROE. The function of the Audit Committee is to assist the board of commissioners in carrying out oversight / monitoring activities of management related to the company's internal control system, the quality of financial reports, and the effectiveness of the internal audit function. The task of the audit committee is also closely

related to reviewing the risks faced by the company, as well as compliance with regulations. It is expected that the performance of directors will be more effective and efficient in carrying out the mandate given by shareholders. The directors or management of the Company are not arbitrary in making decisions because they are also supervised by the audit committee and this will increase their caution in making decisions.

4. SIZE or company's size has a significant negative effect on company performance as measured by ROA and ROE. This shows that the size of the company is not a guarantee that the company will have a good performance. This is because the total assets owned cannot be maximized to generate profits. Management is unable to operate assets optimally so that the Company's profit cannot be achieved because of its low asset utilization.
5. Company's age has a significant positive effect on the Company's financial performance. The age of the company is measured by the establishment of the company and with the increasing age of the company, showing the company still exists and is able to compete. Companies better understand risk in the business world and finally may take steps to generate better profits in order to maintain the continuity of their business and thus profitability or financial performance may increase.
6. Leverage has a significant positive effect on the company's financial performance as measured by ROA and ROE. The greater the company's leverage, the company will try to maintain good performance in the presence of creditors. This is related to the debt covenant that is owned so that the company tries to improve financial performance. The company will use the debt obtained as effectively and efficiently as possible to expand market share or increase sales. With good financial performance, the market is expected to respond in the same way. A good financial performance will make creditors continue to have confidence in the company, because if there is a risk of long-term liquidity will burden and worsen the company's performance.

Suggestions for future research are as follows:

1. The proxies used more broadly include:

a. Compensation from the board of directors and commissioners. With the addition of this variable, it is expected to be able to explain further how the board of directors and commissioners compensation can affect the Company's financial performance in addition to the number of board of commissioners and audit committees included in this study whether the compensation reduces the risk of misuse of the authority by management and increase the motivation to run the company better or vice versa.

b. Quality of a Public Accountant Office that conducts financial statement audits of companies. It is expected that the competence of the public accounting firm that conducts an audit produces reports that are useful in decision making and may help the management to be more transparent and be fair to all of the Company's shareholders and reduce agency risks.

2. The absence of similar industry groupings has resulted in limitations in the data used in this study, so the suggestion for future research is to group these companies in the same industry in order to clarify the influence of the Board of Commissioners and the Audit Committee in corporate governance on the company's financial performance.

3. By adding another control variable such as competition in the business world, market share, and other financial performance, to determine the further impact of the Board of Commissioners and the Audit Committee on corporate governance on the company's financial performance. Market share can be an appropriate alternative to add because this study includes companies incorporated in LQ45 where these companies are strongly influenced by their market price.

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