THE INFLUENCE OF GOOD CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF FOOD AND BEVERAGE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE IN 2021-2023

THESIS

In Order to Fulfill the Requirements to Obtain a Bachelor of Accounting

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PREFACE

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Pontianak, 2 December 2024

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PENGARUH *GOOD CORPORATE GOVERNANCE* TERHADAP KINERJA KEUANGAN PERUSAHAAN *FOOD AND BEVERAGES* YANG TERDAFTAR DI BURSA EFEK INDONESIA TAHUN 2021-2023

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ABSTRAK

Penelitian ini bertujuan untuk mengevaluasi dampak Good Corporate Governance (GCG) terhadap kinerja finansial perusahaan food and beverages yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2021-2023. Penelitian ini menggunakan metode kuantitatif dengan tipe penelitian explanatory. Data yang dianalisis berasal dari laporan tahunan dan keuangan perusahaan, yang dipilih menggunakan teknik purposive sampling, menghasilkan sampel sebanyak 33 perusahaan. Analisis data dilakukan dengan regresi linier berganda menggunakan software SPSS. Temuan penelitian mengungkapkan bahwa kepemilikan institusional berpengaruh positif signifikan terhadap kinerja finansial yang diukur dengan Return on Assets (ROA), sementara dewan komisaris independen menunjukkan pengaruh negatif signifikan, dan komite audit tidak berpengaruh signifikan. Secara keseluruhan, variabel GCG berpengaruh signifikan terhadap kinerja finansial perusahaan, dengan kepemilikan institusional memainkan peran penting dalam memperkuat pengawasan manajemen.

Kata kunci: Good corporate governance, kinerja keuangan, return on assets.

THE INFLUENCE OF GOOD CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF FOOD AND BEVERAGE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE IN 2021-2023

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ABSTRACT

This study aims to evaluate the impact of Good Corporate Governance (GCG) on the financial performance of food and beverage companies listed on the Indonesia Stock Exchange (IDX) for the period 2021-2023. The research employs a quantitative method with an explanatory research type. Data were collected from annual reports and financial statements of companies using purposive sampling technique, resulting in a sample of 33 companies. Data analysis was conducted using SPSS software through several stages of testing. The findings indicated that institutional ownership has a significant positive impact on the financial performance of companies, as assessed through Return on Assets (ROA), while the independent board of commissioners has a significant negative impact and the audit committee showed no significant impact. Overall, GCG variables have a significant influence on the financial performance of companies, with institutional ownership playing a crucial role in enhancing management oversight.

Keywords: Good corporate governance, financial performance, return on assets.

SUMMARY

The Influence of Good Corporate Governance on the Financial Performance of Food and Beverage Companies Listed on the Indonesia Stock Exchange in 2021-2023

In competitive business environment, the ability of a company to maintain financial stability and achieve long-term growth is highly dependent on the effectiveness of its corporate governance practices. This study examines the influence of good corporate governance (GCG) on the financial performance of food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the period from 2021 to 2023. Given the significant role of the food and beverage sector in Indonesia's economy, understanding how governance structures impact financial outcomes is essential for both investors and corporate decision-makers.

To conduct this research, a quantitative approach was used, focusing on explanatory research to analyze relationships between governance variables and financial performance. The study selected a sample of 33 companies based on a purposive sampling method, ensuring that only companies with complete financial reports for the specified period were included. The data was obtained from annual financial reports and analyzed using SPSS 26, with return on assets (ROA) serving as the primary measure of financial performance. The study specifically looked at three key governance mechanisms: the audit committee, the independent board of commissioners, and institutional ownership, to determine their effects on financial outcomes. The findings indicate that institutional ownership has a significant positive impact on financial performance. This suggests that when companies have strong institutional investors, there is a higher level of oversight and accountability, leading to improved management efficiency and profitability. Institutional investors tend to have a long-term perspective and possess the resources and expertise to actively monitor corporate activities, ensuring that management decisions align with shareholder interests. Their presence can reduce agency problems, where conflicts arise between management and shareholders, thus contributing to better financial results. On the other hand, the study reveals that the independent board of

commissioners has a significant negative effect on financial performance. This finding may be attributed to challenges in the effectiveness of independent oversight. While independent commissioners are intended to provide objective supervision of management, their ability to do so effectively may be hindered by factors such as a lack of industry expertise, limited engagement in day-to-day operations, or even token appointments that fulfill regulatory requirements without genuinely enhancing governance quality. In some cases, an excessive number of independent commissioners may lead to decision-making delays or conflicts within the board, ultimately impacting company performance negatively. Meanwhile, the audit committee does not show a significant impact on financial performance. This suggests that, despite its role in monitoring financial reporting and internal controls, the presence of an audit committee alone is not enough to drive better financial outcomes. The effectiveness of an audit committee depends on factors such as the expertise of its members, their independence from management, and their ability to enforce corporate governance principles. If an audit committee is not functioning optimally, its role in improving financial performance may be limited.

These results highlight the importance of strengthening corporate governance frameworks to enhance financial performance in the food and beverage sector. Companies should focus on optimizing the role of institutional investors by fostering a governance environment that encourages active and responsible ownership. Additionally, the composition and function of independent boards of commissioners should be carefully assessed to ensure that they provide effective oversight rather than becoming a hindrance to decision-making. Overall, this study underscores the critical role of good corporate governance in shaping financial outcomes. While certain governance mechanisms, such as institutional ownership, contribute positively to financial performance, others, like independent commissioners, may require further improvements to function effectively. By implementing stronger governance practices, companies in the food and beverage industry can enhance investor confidence, improve financial efficiency, and achieve long-term business sustainability in an increasingly competitive market.

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CHAPTER I
INTRODUCTION

1.1 Background

Rapid technological advancements in the era of globalization intensify competition in the business world. This forces companies to maintain and improve their performance effectively in the market. Companies that cannot keep up with this fierce competition are at risk of facing financial problems and even bankruptcy. Intense competition occurs because many companies are competing to gain market share, customers, and profits. If a company is unable to maintain its competitive advantage in a situation of fierce competition, it will face a decline in market share, revenue, and liquidity, highlighting the need for reliable information to support decision-making, particularly regarding the company's financial performance (Mahmudi, 2019). Financial performance plays a crucial role in addressing competition in the corporate sector. Financial performance is used to assess the extent to which a company complies with applicable guidelines and regulations. (Fahmi, 2018). To understand the financial performance of a business, a review of financial statements is needed. The purpose of this analysis is to enhance the value of financial statements and make them understandable to various parties. This analysis will reveal information about the company's strengths and weaknesses. This information is very important for a business to maintain operational continuity and encourage growth, especially in the face of intense business competition. Through the identification of strengths and weaknesses, management performance during the previous period can be seen. (Kasmir, 2016). Thus, financial performance becomes a standard for investors in determining whether they will allocate investment or invest their funds in the company.

Nowadays, many companies are experiencing serious problems in their financial statements due to non-compliance with the principles of Good Corporate Governance (GCG), which results in a decline in financial performance. According to the World Bank, compliance with GCG is needed to improve the performance of company resources and enable them to function efficiently and provide long-term economic value for investors and society. (Hamdani, 2016). One of the corporate scandals that has occurred in Indonesia is the case of Garuda Indonesia which was suspected of manipulating its 2018 financial statements by recording income of USD 239 million from a work contract with PT Mahata Aero Teknologi. The agreement should have been recorded as incremental income according to accounting standards, but Garuda recorded all of the income in the same year, resulting in the financial statements showing a net profit of USD 809.85 thousand after experiencing a loss in the previous year. Revenue recognition that did not in accordance with international accounting standards (IFRS) makes Garuda's financial statements inaccurate in describing the actual financial condition. (Ministry of Finance, 2019).

In order for companies to achieve positive financial performance and remain competitive in the present and future, the implementation of the right concept of Good Corporate Governance (GCG) in internal and external mechanisms is essential. To implement GCG, the independent board of commissioners plays a crucial role in overseeing business activities, providing advice to management, and ensuring effective corporate governance. In addition, the role of the audit committee and constitutional ownership is also very important. Matters concerning internal control and its systems are supervised by the audit committee, while constitutional ownership serves to improve supervision of management performance. Besides governance-related incidents, various obstacles hinder the process of implementing good corporate governance . These obstacles can be grouped into three categories. Internal obstacles include low engagement from management and workers, limited interpretation from management and workers regarding the principles of good corporate governance, weak internal control systems in the company, and the lack of a culture that supports the principles of good corporate governance. External obstacles include regulations and law enforcement, as well as obstacles related to the composition of ownership which is categorized into dispersed and concentrated ownership. Therefore, the steps that can be taken to eradicate this agency problem are by implementing good corporate governance, so that stakeholder rights can be protected effectively, while also supervising managers in carrying out the company's operational activities.

Since the food and beverage industry in Indonesia is one of the sectors experiencing rapid growth, manufacturing companies in this sub-sector were selected as the object of research in this study. According to data from the Central Statistics Agency (BPS), this sector continues to show a significant contribution to the national Gross Domestic Product (GDP). In the third quarter of 2023, this sector grew by 7.94% compared to the previous year, indicating that this sector has interesting business dynamics to study in the context of good corporate governance. This sector not only contributes significantly to the GDP but also serves as a major driver of the manufacturing industry. Data from the Ministry of Industry shows that this sub-sector contributed around 36.4% to the total GDP of the non-oil and gas industry in 2022. This high contribution underscores the sub-sector's importance to the Indonesian economy, making it a relevant subject for research on improving GCG practices. In this study, the profitability ratio assessed by return on assets (ROA) was used as an evaluation tool. Its function is to assess the effectiveness of the company in making profits from the assets it owns. In addition, this ratio illustrates of a business's ability to convert assets into profits.

In a study conducted by (Anugrah & Zulfiati, 2020) it was shown that the board of commissioners did not influence the company's financial performance, as did independent commissioners. The board of directors has a positive impact on financial performance. In addition, institutional ownership also has a good impact on financial performance, while managerial ownership has no influence, and the audit committee has a positive influence on financial performance. Meanwhile, research by (Kamayuli & Artini, 2022) showed that the results of the board of commissioners did not affect the company's financial performance, the board of directors had a good influence on the company's financial performance, the audit committee did not affect the company's financial performance, independent commissioners also had no influence, and institutional ownership did not affect the company's financial performance.

Based on the differing findings of these previous studies, the author was motivated to conduct this research. Furthermore, this study is distinct from previous ones in its focus on the object of analysis. Therefore, this research is titled "The

Influence of Good Corporate Governance on the Financial Performance of Food and Beverages Companies Listed on the Indonesia Stock Exchange."

1.2 Research Problems

Based on the background presented, it can be identified that in the globalization era, characterized by technological advancements and increasingly intense business competition, companies in Indonesia and worldwide face challenges in maintaining and improving their performance effectively. Intense business competition can lead to financial risks and even bankruptcy for companies unable to adapt. Financial performance becomes a critical factor in addressing this competition. Information regarding financial performance is vital for decision-makers, especially investors, to evaluate the strengths and weaknesses of a company. Financial statement analysis serves as the primary tool for understanding the extent to which a company adheres to financial practices in line with applicable guidelines and regulations.

However, serious issues arise when companies fail to comply with the principles of Good Corporate Governance (GCG). Non-compliance with GCG can result in a decline in financial performance, as evidenced by several corporate scandals in Indonesia, such as PT. Timah Tbk and PT. Hanson International Tbk. To address these issues, implementing the concept of GCG becomes crucial. Good Corporate Governance involves the implementation of internal and external mechanisms, including the independent board of commissioners, audit committees, and institutional ownership. Therefore, this study aims to examine the influence of Good Corporate Governance on the financial performance of food and beverage companies.

Based on the problem statement provided, the research questions can be formulated as follows:

1. Does the independent board of commissioners affect the financial performance of food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period?
2. Does the audit committee affect the financial performance of food and beverage companies listed on the IDX during the 2021–2023 period?

3. Does institutional ownership affect the financial performance of food and beverage companies listed on the IDX during the 2021–2023 period?

1.3 Research Objectives

Based on the problem formulation, the objectives of this research are:

1. To analyze the effect of the independent board of commissioners on the financial performance of food and beverage companies listed on the IDX during the 2021–2023 period.
2. To analyze the effect of the audit committee on the financial performance of food and beverage companies listed on the IDX during the 2021–2023 period.
3. To analyze the effect of institutional ownership on the financial performance of food and beverage companies listed on the IDX during the 2021–2023 period.

1.4 Research Contributions

1.4.1 Theoretical Contribution

The findings of this research are expected to provide deeper knowledge and understanding of the influence of Good Corporate Governance on corporate financial performance. Additionally, the research aims to enrich the body of scientific studies concerning the impact of Good Corporate Governance on financial performance and serve as a reference for academics and researchers interested in further investigating this topic. The findings and analysis of this study can serve as a theoretical foundation useful for developing an understanding of corporate governance from a financial perspective.

1.4.2 Practical Contribution

1. For the researcher, this study is expected to expand knowledge and understanding of how Good Corporate Governance affects a company's financial performance.
2. For companies, particularly in the food and beverage sector, this research is expected to provide additional information on the impact of Good Corporate Governance on financial performance. It can aid in formulating policies for

the coming years aimed at improving operational efficiency and overall business performance.

3. For investors, the findings of this study are expected to serve as a valuable reference when deciding to invest in stocks or funds within companies, especially in the food and beverage sector.

1.5 Contextual Overview of the Research

The contextual scope of this research focuses on food and beverage companies listed on the IDX during the 2021–2023 period. The data used in this study were obtained from the IDX and the official websites of the respective companies regarding their financial reports. These data were chosen because they are well-structured, comprehensive, and easily understood by the researcher.