

Analysis of the Influence of Good Corporate Governance on the Quality of Financial Reports

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ABSTRACT

This study aims to analyze the impact of Good Corporate Governance (GCG) on the quality of financial reports in companies. GCG plays a crucial role in ensuring transparency, accountability, and reliability in financial reporting, which is essential for investors, regulators, and stakeholders. The research employs a quantitative approach using financial data from publicly listed companies. Key GCG indicators, including board independence, audit committee effectiveness, managerial ownership, and institutional ownership, are examined to determine their influence on financial report quality. The study applies multiple regression analysis to evaluate the relationship between GCG practices and financial report quality, measured using earnings management indicators and financial disclosure levels. The results indicate that strong corporate governance mechanisms significantly enhance financial report quality by reducing earnings management practices and increasing financial transparency. Specifically, independent boards and effective audit committees contribute to higher-quality financial reporting. Managerial ownership has a moderate impact, while institutional ownership influences financial disclosure positively.

Keywords : *Good Corporate Governance, and Financial Report Quality.*

INTRODUCTION

The increasingly rapid economic competition today has resulted in companies having to pay more direct attention to their company's performance. This is done so that the company's goals are achieved, namely maximizing profits and prospering stakeholders. In achieving good financial performance, Companies need to maximize their operational activities such as maximizing sales and reducing expenses. The management will publish the performance achievement in the financial report. The financial report will later be used by investors in making investment decisions, creditors in providing credit loans, prospective investors in analyzing stocks and determining the company's prospects in the future.

Company performance assessment is expected to help management see employee performance according to their position compared to the standards set by the company. Good performance control in management can increase company profitability and increase public trust in the company. But in reality, many companies' performance does not run according to standards and concepts. This is due to poor internal control, resulting in deviations and financial scandals that have a negative impact on the company in the long term long. So that this does not happen in the company, there needs to be good and correct corporate governance (Good Corporate Governance). Corporate governance or Good Corporate Governance itself is a system that regulates, manages and supervises the company's control process that creates added value for all stakeholders and also as a tool for monitoring company performance.

The company's performance is influenced by several factors, one of which is the corporate governance mechanism. According to, The Indonesia Institute for Corporate

Governance (IICG) states that: "Corporate governance is a series of mechanisms that direct and control a company so that the company's operations run according to the expectations of stakeholders." The application of the principles of Good Corporate Governance is one of the company's efforts to improve the quality of the company. Ahmad Emye (2006) stated, in his article entitled "Good Governance vs Performance", that some economic practitioners argue that company performance is determined by the core process of organizational activities where the revenue stream is obtained as high as possible, while the cost stream is suppressed as low as possible. However, some other economic practitioners believe that company performance may be the result of continuous good corporate governance practices. In other words, the implementation of Good Corporate Governance is expected to provide good results, but the certainty of the success of this implementation cannot be guaranteed 100%.

Research on good corporate governance that affects company performance has been widely conducted by researchers in Indonesia and outside Indonesia, with varying results. Research conducted by Haat, et al (2008), examined the relationship between corporate governance, disclosure, timeliness of financial report submission and company performance in companies in Malaysia. The results of the study found no significant relationship between good corporate governance and financial report disclosure or timeliness of financial report submission. However, good corporate governance has a significant influence on company performance. The results of the study also showed that disclosure and timeliness of financial report submission did not have a significant relationship with financial performance.

In accordance with the Decree of the Board of Directors of the Jakarta Stock Exchange No. Kep/BEJ/07-2001 point C concerning board governance consisting of independent commissioners, audit committees, and corporate secretaries that in order to achieve good corporate governance, the number of independent commissioners that must exist in the company is at least 30% of all members of the board of commissioners. The independent board of commissioners is a member of the board of commissioners who comes from outside the company and the formation of an independent board of commissioners aims to provide protection for minority shareholders in a company. The independent board of commissioners is tasked with ensuring Good Corporate Governance by providing input and supervision to the board of directors for the benefit of the company.

In addition to the board of commissioners, the establishment of an audit committee in a company is also one aspect of good corporate governance. One of the objectives of establishing an audit committee is to create a disciplined climate and strengthen control that can reduce the opportunity for deviations. An independent audit committee in a company is one of the characteristics of an audit committee. The existence of an audit committee in a company will make the company's performance good, if the company is able to control the behavior of the company's top executives in protecting the interests of its shareholders. According to Sujono and Soebiantoro (2007) in Sabrinna (2010) stated that managerial ownership is the ownership of shares by the company's management as measured by the percentage of the number of shares owned by management. Good Corporate Governance can be created by increasing managerial ownership in a company. If managerial ownership in the company is increased, the company's management will tend to try to improve performance for the benefit of shareholders and themselves, so as to minimize agency problems.

Titi Purwantini (2012) conducted a study on the influence of good corporate governance

mechanisms on company value and company financial performance with indicators of board of commissioner independence, institutional ownership, and concentrated ownership. Empirically, it states that the implementation of good corporate governance has a significant effect on company value and company financial performance. This study took the population annual financial reports of companies listed on the IDX for the period 2005 to 2007. This study is a replication of Rahmawati's (2013) study. Where the variables used previously were independent board of commissioners, audit committee, and managerial ownership. From the results of her research, it was found that simultaneously independent board of commissioners, audit committee, and managerial ownership influenced company performance. While partially independent board of commissioners, audit committee, and managerial ownership did not influence company performance. The percentage data of return on assets (ROA) in textile and garment sub-sector companies listed on the Stock Exchange.

LITERATURE REVIEW

Agency Theory

According to Gudono (2012), explains that agency theory is a contract between principal and agent. The principal in this case is the owner or shareholder, while the agent is the person who is given responsibility by the principal, namely the management that manages the company. The principal provides the company's resources needed for the company's operational activities while the agent functions to manage the company's resources to prosper the company and stakeholders. The concept of agency theory according to RA Supriyono (2018:63) is a contractual relationship between the principal and the agent. This relationship is carried out for a service where the principal gives authority to the agent regarding the best decision making for the principal by prioritizing interests in optimizing company profits so as to minimize burdens, including tax burdens by avoiding taxes. Agency theory is the granting of authority by the company owner (shareholder) to the company management to carry out company operations in accordance with the agreed contract, if both parties have the same interest in increasing the value of the company, then management will act in accordance with the interests of the company owner.

Good Corporate Governance

According to the Turnbull Report in England in Arif Efendi (2016: 2) "corporate governance is a company's system of internal control has as its principal aim the management of risks that are significant to the fulfillment of its business objectives, *with a view to safely guarding the company's assets and enhancing over time the value of the shareholders' investment*" It can be interpreted that corporate governance is a company's internal control system which has the main objective of managing significant risks in order to meet its business objectives by securing company assets and increasing the investment value of shareholders in the long term. According to the Forum for Corporate Governance on Indonesia (FCGI) in Arif Efendi (2016: 3), corporate governance is a set of regulations that govern the relationship between shareholders, company management, creditors, government, employees, and other internal and external stakeholders related to their rights and obligations or in other words a system that controls the company. The term corporate governance emerged because of the agency theory, where the management of a company is separate from ownership.

Benefits and Objectives of Good Corporate Governance

According to the Forum for Corporate Governance in Indonesia (FCGI), there are several benefits that we can take from implementing good corporate governance, including:

1. Improving company performance by creating better decision-making processes, increasing company operational efficiency and improving services to stakeholders.
2. Facilitate the acquisition of cheaper financing funds which will ultimately increase corporate value.
3. Restore investor confidence to reinvest their capital in Indonesia.
4. Shareholders will be satisfied with the company's performance because it will simultaneously increase shareholders' value and dividends.
5. The implementation of good corporate governance is an important step in building market confidence and encouraging more stable and long-term international investment flows. According to IICG (2000), the benefits that can be taken by a company if it implements the concept of good corporate governance are:
 - a. Minimizing agency costs
 - b. Reducing the cost of capital
 - c. Maximizing the value of company shares
 - d. Encourage the Board of Commissioners, members of the Board of Directors, and shareholders to make decisions and carry out actions based on high morals and compliance with applicable laws.
 - e. Maintaining the company's Going Concern.

Principles of Good Corporate Governance

Every company must ensure that the principles of good corporate governance (GCG) are applied to every aspect of the business and at all levels of the company. According to the National Committee on Governance Policy (2006:5), there are five basic principles that can be applied to every aspect of the business and at all levels of the company in good corporate governance. The five principles are as follows:

- a. **Transparency**
To maintain objectivity in conducting business, companies must provide material and relevant information in a way that is easily accessible and understandable by stakeholders. Companies must take the initiative to disclose not only issues required by laws and regulations, but also matters that are important for decision-making by shareholders, creditors and other stakeholders.
- b. **Accountability**
The company must be able to account for its performance in a transparent and fair manner. Therefore, the company must be managed properly, measurably and in accordance with the interests of the company while still taking into account the interests of the stakeholders. shareholders and other stakeholders. Accountability is a necessary prerequisite for achieving sustainable performance..
- c. **Responsibility**
Companies must comply with laws and regulations and carry out their responsibilities towards society and the environment so that they can maintain long-term business

- continuity and receive recognition as good corporate citizens.
- d. Independence
- e. To facilitate the implementation of GCG principles, the company must be managed independently so that each company organ does not dominate each other and cannot be intervened by other parties.
- f. Fairness
In carrying out its activities, the company must always pay attention to the interests of shareholders and other stakeholders based on the principles of fairness and equality.

METHODS

This research is a causality research, which is a research that aims to determine the relationship and influence between two or more variables. Causality research (associative causality) is a research that is intended to reveal problems that are causal relationships between two or more variables (Sugiyono, 2009: 11). This research discusses the Influence of Good Corporate Governance on the Performance of Textile and Garment Sub-Sector Companies on the Indonesia Stock Exchange for the period 2016-2019. The research was conducted on manufacturing companies in the textile and garment sub-sector in 2016-2019 by collecting data on the website. www.idx.com. The research period was conducted from January 2021 to June 2021.

RESULTS AND DISCUSSION

Results

The Jakarta Stock Exchange first opened on December 14, 1912, with the help of the Dutch colonial government, was established in Batavia, the center of the Dutch colonial government that we now know as Jakarta. The Jakarta Stock Exchange was formerly called Call-Efek. The trading system is like an auction, where each effect is successively called by the leader "Call", then the brokers each submit a purchase request or sell offer until a price match is found, then the transaction occurs. At that time it consisted of 13 securities brokers. The stock exchange at that time was demand-following, because investors and stockbrokers felt the need for a stock exchange in Jakarta. The stock exchange was born because the demand for its services was urgent. The Dutch people who worked in Indonesia at that time had known about investing in securities for more than three hundred years, and their income and connections allowed them to invest their money in various securities. Both securities from companies in Indonesia and securities from abroad. Around 30 certificates (now called depository receipts) of American companies, Canadian companies, Dutch companies, French companies and Belgian companies. The Jakarta Stock Exchange was closed during the First World War, then reopened in 1925. In addition to the Jakarta Stock Exchange, the colonial government also operated parallel exchanges in Surabaya and Semarang. However, these exchange activities were stopped again when the Japanese army occupied Batavia.

The activity on this exchange was stopped from 1940 to 1951 due to World War II which was then followed by the war of independence. It was only reopened in 1952, by trading stocks and bonds issued by Dutch companies nationalized in 1958. Although the previous market was not dead because until 1975 the official exchange rate managed by Bank Indonesia was still

found.

The Jakarta Stock Exchange was reopened on August 10, 1977 and was managed by the Capital Market Executive Agency (BAPEPAM), a new institution under the Ministry of Finance. Trading activities and stock market capitalization began to increase along with the development of the financial market and the private sector, which peaked in 1990. In 1991, the stock exchange was privatized into PT. Jakarta Stock Exchange and became one of the dynamic stock exchanges in Asia. The privatization of the stock exchange into PT. Jakarta Stock Exchange resulted in the shifting of BAPEPAM's function to the Capital Market Supervisory Agency.

Previously, the stock exchange was demand-following, but after 1977 it was supply-leading, meaning that the exchange was opened when the public's understanding of the exchange was very minimal, so that BAPEPAM had to play an active role directly in introducing the exchange.

. However, until 1988 not a single new company sold its shares through the Jakarta Stock Exchange.

In July 2000, the Jakarta Stock Exchange implemented scripless trading with the aim of increasing market liquidity and avoiding incidents of lost shares and stock forgery, as well as to speed up the transaction settlement process. In 2001, the Jakarta Stock Exchange began implementing remote trading, as an effort to increase market access, market efficiency, speed and frequency of trading. The year 2007 was a pivotal point in the history of the development of the Indonesian Capital Market. With the approval of the shareholders of both exchanges, BES was merged into BEJ which later became the Indonesia Stock Exchange (BEI) with the aim of increasing the role of the capital market in the Indonesian economy. In 2008, the Indonesian Capital Market was affected by the global financial crisis causing a temporary suspension of trading on the Indonesia Stock Exchange from 8-10 October 2008. The JCI, which had touched its highest point of 2,830.26 on 9 January 2008, plunged to 1,111.39 on 28 October 2008 before closing at 1,355.41 at the end of 2008.

The decline was recovered with growth of 86.98% in 2009 and 46.13% in 2010. On March 2, 2009, the Indonesia Stock Exchange launched a new trading system, namely the Jakarta Automated Trading System Next Generation (JATS Next-G), which is a replacement for the JATS system that has been operating since May 1995. Systems such as JATS Next-G have been implemented at several exchanges. foreign countries, such as Singapore, Hong Kong, Switzerland, Colombia and England. JATS Next-G has four engines, namely: main engine, main engine back up, disaster recovery center (DRC), and back up DRC. JATS Next-G has a capacity of almost three times that of the old generation JATS. In order to support the strategy in carrying out its role as a facilitator and regulator of the capital market, BEI always develops itself and is ready to compete with other world exchanges, by paying attention to controlled risk levels, complete trading instruments, reliable systems and high liquidity levels. This is reflected in BEI's success for the second time in receiving the award as "The Best Stock Exchange of the Year 2010 in Southeast Asia. Currently, BEI has seven types of stock indexes:

- 1) IHSG, uses all listed stocks as components of the Index calculation.
- 2) Sectoral Index, using all stocks included in each sector.
- 3) The LQ45 index uses 45 selected stocks after going through several selection stages.
- 4) Individual Index, which is an Index for each stock based on the base price.
- 5) Jakarta Islamic Index is a sharia stock trading index.

- 6) Main Board and Development Board Index, an index based on the group of stocks listed on the IDX, namely the Main Board and Development Board groups.

Descriptive Statistics

After the data used is collected, the next step is to analyze and evaluate the data. Before being analyzed and evaluated, the data is first processed using the SPSS (Statistic Product and Service Solution) program, which will then be evaluated to determine the variables of managerial ownership, independent commissioners, audit committees and company performance.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Managerial Ownership	36	.00	86.89	14.9249	23.77927
Independent Commissioner	36	20.00	66.67	37.0369	9.33598
Audit Committee	36	.00	3.00	2.7500	.84092
Company performance	36	-540.10	7.70	-17.5394	89.87062
Valid N (listwise)	36				

In table 2 above, it is known that the average value of the managerial ownership variable with a minimum value of 0.00 is found at PT Polychem Indonesia Tbk. and PT Asia Pacific Investama Tbk in 2016-2019, the maximum value of 86.89 was found in PT Ever Shine Tex Tbk in 2018 and 2019, the mean value was 14.9249 and the standard deviation was 23.77927. The independent commissioner variable with a minimum value of 20.00 was found in PT Argo Pantes Tbk in 2016, the maximum value of 66.67 was found in PT Ever Shine Tex Tbk in 2016, the mean value was 37.0369 and the standard deviation was 9.33598. The audit committee variable has a minimum value of 0.00 in PT Sunson Textile Manufacturer Tbk in 2017-2019, a maximum value of 3.00 in PT Polychem Indonesia Tbk, PT Argo Pantes Tbk, PT Eratex Djaya Tbk, PT Indorama Synthetics Tbk, PT Asia Pacific Investama Tbk, PT Asia Pacific Fibers Tbk, PT Sri Rejeki Isman Tbk, and PT Ever Shine Tex Tbk, the mean value is 2.7500 and the standard deviation is 0.84092. The company performance variable has a minimum value of -540.10 in PT Polychem Indonesia Tbk, a maximum value of 7.70 in PT Indorama Synthetics Tbk, a mean of -17.5394 and a standard deviation of 89.87062, with a total of 36 data.

Testing Classical Assumptions

Data Normality Test Normality tests are carried out to test whether the distribution of data is normal. follows or approaches a normal distribution.

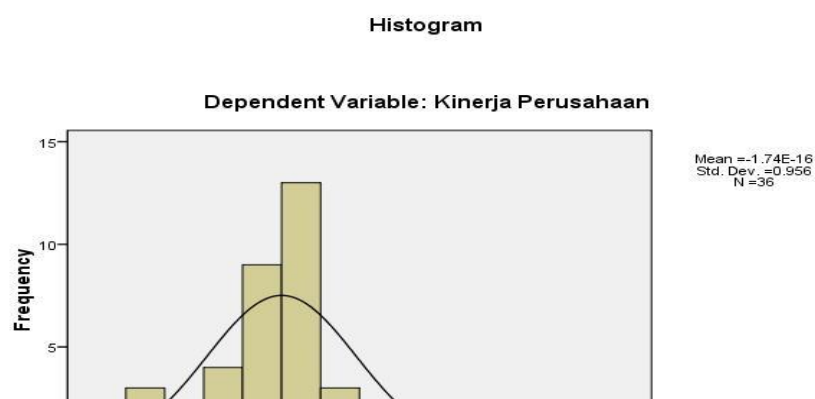


Figure 1. Histogram of Normality Test

Based on Figure 1 above, by looking at the histogram display of the normality test above, it can be concluded that the histogram shows a normal distribution pattern.

Normal P-P Plot of Regression Standardized Residual

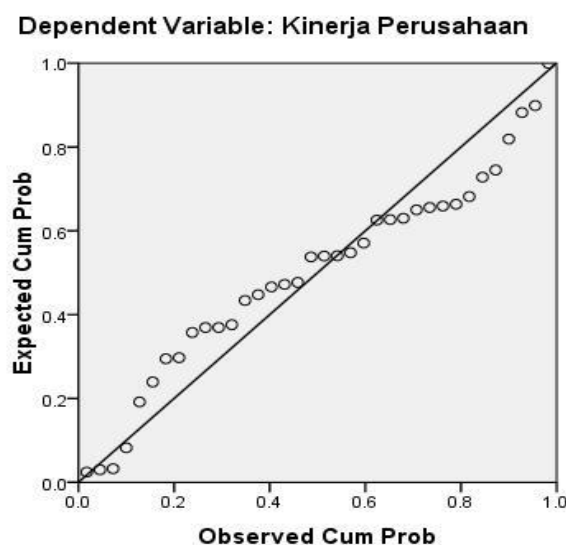


Figure 2. PP Plot Normality Test

Based on figure 2 above, then for the results of the data normality test using the PP Plot image, it can be seen that the data points are spread around the diagonal line so that the data has been distributed normally. To further ensure whether the data along the diagonal line is normally distributed or not, the Kolmogorov Smirnov test (1 Sample KS) is carried out by looking at the residual data whether the distribution is normal or not. If the Asym.sig value (2-tailed) > real level ($\alpha = 0.05$) then the residual data is normally distributed.

‘Table 3. One Sample Kolmogorov Smirnov Test Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		36
Normal Parameters ^a	Mean	.0000000
	Std. Deviation	1.43692317
Most Extreme Differences	Absolute	.144
	Positive	.144
	Negative	-.129
Kolmogorov-Smirnov Z		.863
Asymp. Sig. (2-tailed)		.445

a. Test distribution is Normal.

In table 3 above, it can be seen that the results of the data processing, the large Kolmogorov Smirnov significance value is 0.445, so it can be concluded that the data is normally distributed, where the significance value is greater than 0.05 ($p = 0.445 > 0.05$). Thus, overall it can be concluded that the data observation values have been distributed normally and can be continued with other classical assumption tests. Based on the data analysis and hypothesis testing that has been carried out in this study, it can be seen that the F value can be seen that the F valuecount is $4.092 > F_{table} 2.90$, with a significance of $0.044 < 0.05$. This shows that all independent variables, namely managerial ownership, independent commissioners and audit committees simultaneously have a significant effect on company performance in the textile and garment sub-sector Manufacturing Companies listed on the Stock Exchange.

The results of this study contradict the research conducted by Firdausya et al. (2013), Widyaningsih (2018) which concluded that managerial ownership, independent commissioners and audit committees do not affect company performance. However, the results of this study are in accordance with the research of Melia (2015), Andri (2015) and Indriati (2018), where managerial ownership, independent commissioners and audit committees have an effect significant to the company's performance. The proportion of shares owned by commissioners, directors, and directors is believed to be able to improve the company's performance which will later improve the company's financial performance. Thus, the greater the company's shares owned by the managerial party, the better the company's financial performance. The greater the number of independent commissioners in the company, the more the company's management cannot commit fraud so that the company's performance is good and healthy. The supervision carried out will be better and is expected to minimize management efforts to manipulate data related to finance and accounting procedures, so that the company's financial performance will also increase.

CONCLUSION

Based on the analysis conducted, it can be concluded that Good Corporate Governance (GCG) plays a significant role in ensuring the quality of financial reports. The key components of GCG, including transparency, accountability, responsibility, independence, and fairness, contribute to the accuracy, reliability, and credibility of financial reporting. The findings suggest that companies with strong corporate governance structures tend to produce financial reports that are more transparent and in compliance with financial reporting standards. Effective governance mechanisms help minimize earnings manipulation, fraud, and financial misstatements, ultimately increasing stakeholder confidence. Furthermore, the presence of independent boards, audit committees, and internal control systems strengthens financial reporting integrity. Companies that prioritize ethical leadership and regulatory compliance are more likely to adhere to financial disclosure requirements, reducing information asymmetry between management and stakeholders. In conclusion, implementing robust Good Corporate Governance practices is essential for improving financial report quality, enhancing investor trust, and ensuring sustainable business performance. Future research could explore the role of digital transformation and regulatory changes in strengthening GCG effectiveness in financial reporting.

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