

The Effect Of Corporate Governance And Company Size On The Financial Performance Of Manufacturing Companies Listed On The Indonesian Stock Exchange

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ABSTRACT: *This study aims to examine the effect of corporate governance and company size on the financial performance as measured by return on asset (ROA). The population of this study is a basic industrial and chemical manufacturing company listed on the Indonesian stock exchange the period 2012 – 2017. Sample selection technique with purposive sampling, obtained 34 companies. Total observation data as much as 204 data. Data analysis method using Multiple Linear Regression. The result showed: 1) Institutional ownership had no effect on financial performance. 2) Board of commissioners had no effect on financial performance. 3) Independent commissioner had no effect on financial performance. 4) Board of Directors have a positive effect on financial performance. 5) Audit committee had no effect on financial performance. 6) Company size had no effect on financial performance.*

KEY WORD: *Corporate Governance, Company size, Financial Performance.*

Date of Submission: 05-07-2019

Date of acceptance: 21-07-2019

I. INTRODUCTION

1.1 Research Background

The financial statements are the final results of an accounting process or preparation of financial statements that are in accordance with applicable accounting rules and standards. For companies, financial statements are a very important tool for managers to communicate with outside investors. This can be explained in principal and agent relations. Rahardjo (2018: 73) agency theory applies when there is a separation between owners (shareholders) and company management. Nengzih (2016) "Agency Theory explained that a company has two parties interact. These parties are the owners of the company (stockholders) and the management". Shareholders delegate their duties and authority to management to manage the companies they own. Agency conflict allows managers as parties who understand the company's business to be opportunistic so that they have information for their personal interests and do not provide extensive information to shareholders.

Financial reporting fraud is also caused by poor corporate governance. To reduce the occurrence of financial report manipulation, corporate governance is needed within the company. Nengzih (2016) "Corporate governance is a set of system where business operations is directed and controlled. The corporate governance structure specify the distribution of rights and responsibilities. Among different participant in the corporation, such as the board, the managers, stockholders and other stockholders, and establish the rules and procedures on the act of decision making for corporate affairs". The implementation of the principles of good corporate governance in the management of the company is indicated to reflect that the company has been well managed and transparent. Masitoh dan Hidayah (2018) concluded that the application of good corporate governance can improve company performance especially financial performance and reduce the risk that may be carried out by the board of directors to make decisions that benefit themselves, and generally corporate governance can increase investor confidence.

Rahardjo (2018: 228) "There are five basic principles contained in good corporate governance, namely transparency, accountability, responsibility, independency, and fairness". The implementation of good corporate governance has an impact on the financial statements produced, management will find it difficult to carry out financial manipulation because there is supervision so that the financial statements produced are in accordance with the actual conditions. Corporate governance in this research is measured by institutional ownership, board of commissioners, independent commissioners, board of directors, and audit committee. The percentage of certain shares owned by institutions can affect the process of preparing financial statements that do not rule out the possibility of accrualization in accordance with the interests of management. Sugiarto (2009: 55) "The size of the share ownership structure can be influenced by policies and company decision making". Rahardjo (2018: 234) "The supervisory function carried out by the board of commissioners is very strategic". In agency theory, this function is intended to create a monitoring system for the management of directors. Rahardjo

(2018: 287) "Independent Commissioners are parties that are not affiliated with the main shareholders, members of the board of directors and / or other board members". Independent Commissioners are one of the corporate governance mechanisms. Rahardjo (2018: 278) "The Board of Directors is the organ of the issuer or public company that has the authority and is fully responsible for the management of public companies in accordance with its objectives". The presence of the audit committee also complements the presence of the board of commissioners. Subramanyam (2017: 78) Audit committees are often given credence with broad powers and responsibilities relating to various aspects of the reporting process including supervision accounting methods, internal control procedures, and internal audits. Many parties believe that an independent and strong audit committee is a feature of important corporate governance that contributes greatly to the quality of financial statements. In addition to the existence of corporate governance in the company, company size can also influence information in financial statements.

There are various tools that are usually used to represent the size of the company, namely the number of employees, total assets, number of sales, and market capitalization. Large companies basically have greater financial strength in supporting their performance, but on the other hand, companies are faced with greater agency problems. The size of the company in this study is measured by seeing how much assets a company has. A good financial performance will encourage investors to invest in the company. There are many tools that can be used as measuring instruments to measure a company's financial performance. In this study, the authors only use return on assets (ROA) to measure the company's financial performance.

A public company is a company whose portion is owned by the public through the stock exchange. One type of public company is a manufacturing company. A manufacturing company is a company that in its production process utilizes machinery, equipment and labor in a series of production processes. Based on the research background described above, the authors are interested in conducting research with the title "**The effect of corporate governance and company size on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange**".

1.2 Problem Formulation

- 1) Does the Institutional Ownership affect the company's financial performance?
- 2) Does the Board of Commissioners affect the company's financial performance?
- 3) Does the Independent Commissioner affect the company's financial performance?
- 4) Does the Board of Directors affect the company's financial performance?
- 5) Does the Audit Committee affect the company's financial performance?
- 6) Does the Company's Size affect the company's financial performance?

1.3 Objective And Contribution

The purpose of the author in this study is to obtain concrete evidence about the effect of corporate governance and company size on the company's financial performance measured by Return on Assets. This research is expected to contribute to explain the theory of the problem under study, for businesses to obtain information about corporate governance, and for governments or regulators in issuing policies relating to corporate governance.

II. REVIEW OF LITERATURE

2.1 Financial Performance

In a company, financial performance is an important factor and even becomes a benchmark in making decisions for the continuity of the company. Sutrisno (2009: 53) "The company's financial performance is a work achievement achieved by the company in a certain period that reflects the level of health of the company". Information about company performance is needed by parties with an interest in the company, such as shareholders, creditors, government and society. For investors, information about the company's financial performance can be used to see whether they will maintain their investment in the company or look for other alternatives.

Hamdani (2016: 132) suggests that there are several performance measures commonly used in financial performance analysis, one of which is Return on Assets (ROA). Riadi (2017) Return on Asset is one of the profitability ratios that can measure a company's ability to generate profits from assets used. This ratio is important for management to evaluate the effectiveness and efficiency of company management in managing all company assets. The greater return on assets means more efficient use of company assets.

To obtain ROA, a formula can be used:

$$\text{Return on Asset} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$$

Negative return on assets is caused by the company's profit in a negative or loss condition. This shows the ability of capital invested as a whole has not been able to generate profits. One of the most efficient ways in order to reduce the occurrence of conflicts of interest and ensure the achievement of corporate objectives, is the need for the existence of regulations and control mechanisms that effectively direct the company's operations and the ability to identify parties that have different interests.

2.2 Corporate Governance

Rahardjo (2018: 245) Definition of corporate governance can be formulated into various aspects, namely, (1) contains principles that are used as guidelines in the preparation of corporate governance systems, (2) building systems or ways of organizing, (3) based on balance strength and authority, (4) creating a system of accountability for the company, (5) achieving the goal of increasing shareholder value added, protecting the interests of other shareholders, and decreasing agency costs. Agency theory was first introduced by Jensen and Meckling in 1976. A conflict of interest between the owner and agent occurs because the possibility of an agent does not always act in accordance with the interests of the principal, thus triggering agency costs.

Agency problems in the relationship between capital owners and managers is how difficult the owners are in ensuring that invested capital is not taken over or invested in projects that are not profitable so that it does not bring returns. Corporate governance as a set of rules that establish relationships between shareholders, managers, creditors, government, employees and other internal and external stakeholders in relation to their rights and obligations, or in other words a system that directs and controls the company. Qualified corporate governance companies will be able to carry out their duties and authorities properly and ensure the existence of corporate strategic guidelines, effective monitoring of management by the board of commissioners, and accountability of the board of commissioners to the company and shareholders so that it can help minimize the agency conflict that ultimately will have an impact on the company's performance. The Organization for Economic and Development (OECD) in Rahardjo (2018: 240), revealed several principles for implementing international good corporate governance, namely transparency, accountability, responsibility, independence, and fairness and equality.

Transparency contains elements of disclosure and the provision of information in a timely, adequate, clear, accurate, and comparable and easily accessible to stakeholders and the public. The basic principle of Accountability for companies must be able to account for their performance transparently and fairly. For this reason, companies must be managed correctly, measurably, and in accordance with the interests of the company while taking into account the interests of shareholders and other stakeholders. Responsibility is defined as the responsibility of the company as a member of the community to comply with applicable regulations and fulfillment of social needs. It is expected that the basic principle of Independence in the implementation of Corporate governance for companies can be carried out independently so that each company organ does not dominate each other and cannot be intervened by other parties. The basic principle of Fairness and equality in carrying out its activities, companies must always pay attention to the interests of shareholders and other stakeholders based on the principle of fairness and equality.

2.3 Mechanism Of Corporate Governance

Rahardjo (2018: 237) the corporate governance mechanism explains how the institutions or institutions covered by the governance structure interact in an integrated manner in carrying out their respective functions. The corporate governance mechanism is regulated by regulators (authorities), standards by professional organizations, or policies and procedures issued by internal companies. Rahardjo (2018: 238) "if it is simplified the regulator is the Financial Services Authority (OJK), profession (accountant, public accountant, legal consultant, appraisal, actuarial, business valuer), and internal company itself (Shareholders, board of commissioners, other directors, and company leaders)".

Institutional Ownership

Institutional ownership structure is the percentage of shares owned by the company compared to the number of shares owned by external parties. The size of the share ownership structure can be influenced by policy and company decision making. Sugiarto (2009: 55) "The size of the share ownership structure can be influenced by policies and company decision making". Jensen and Mackling (1997) in Hamdani (2016: 135) suggest that company performance is influenced by the distribution of share ownership. Share ownership by management will reduce agency conflict. The act of corporate supervision by institutional investors can encourage managers to focus more on the company's performance so that it will reduce opportunistic or selfish behavior. The percentage of certain shares owned by the institution can affect the process of preparing financial statements that do not rule out the possibility of accrualization in accordance with the interests of the

management. Institutional ownership is measured by the percentage of shares held by an institution divided by the number of shares outstanding.

Board of Commissioners

The board of commissioners is the core of Corporate governance that is tasked with ensuring the implementation of the company's strategy, overseeing management in managing the company and requiring accountability. Hamdani (2016: 82) Board of Commissioners as the highest internal control mechanism that is collectively responsible for supervising and giving input to directors and ensuring that the company implements good corporate governance. According to the Limited Liability Company (PT) law Number 40 of 2007 article 97, it is explained that the commissioners are in charge of overseeing the policies of the Board of Directors in running the company and providing advice to the Directors. Furthermore, it was stated that the commissioners must be in good faith and fully responsible for carrying out their duties in the interests of the company. Still in the Limited Liability Company law article 108 paragraph 5 states that for companies in the form of limited liability companies, it must have at least two members of the board of directors. The Board of Commissioners is measured by calculating the board of commissioners owned by the company, consisting of the chief commissioner, independent commissioner, and commissioner.

Independent Commissioner

Rahardjo (2018: 287) Independent commissioners are parties that are not affiliated with the main shareholders, members of the board of directors and or other board members. An independent commissioner is a commissioner who does not originate from an affiliated party, while a non-independent commissioner is an affiliated commissioner. The purpose of affiliation is a party that has a business relationship and kinship with the controlling shareholder, members of the board of directors and other board of commissioners, and with the company itself. Regulation of the Financial Services Authority number 33 of 2014 article 20 paragraph 1-4 requires that the board of commissioners consists of only two people, and one of them is an independent commissioner. If the board of commissioners consists of more than two people, the number of independent commissioners must be at least 30 percent of the total members of the board of commissioners. Independent commissioners are measured by the proportion between the number of independent commissioners and the total members of the board of commissioners of the company

Board of Directors

Rahardjo (2018: 278) Financial Services Authority Regulation number 33 / POJK.04 / 2014 defines directors as issuers or public companies that are authorized and fully responsible for managing issuers or public companies for the benefit of issuers or public companies in accordance with their aims and objectives issuer or public company. Hamdani (2016: 86) The Board of Directors as a corporate organ has a collegial duty and responsibility in managing the company. Each member of the Board of Directors can carry out duties and make decisions in accordance with the division of duties and authority. However, the implementation of duties by each member of the Board of Directors remains a shared responsibility. The board of directors is a party in a corporate entity tasked with carrying out operations and management of the company. Furthermore, Hamdani (2016: 87) argues that the number of board of directors must be adjusted to the complexity of the company while taking into account the effectiveness and decision making. The board of directors is measured by the number of directors in a company.

Audit Committee

Rahardjo (2018: 307) Audit committee is a committee that is formed and is responsible to the board of commissioners to assist the implementation of their duties and functions. The audit committee acts independently in carrying out its duties and responsibilities. Indonesian Audit Committee Association (2004), explain the definition of the audit committee as follows: A professional and independent working committee formed by the board of commissioners and thus the task is to assist and strengthen the function of the board of commissioners (or supervisory board) in carrying out supervisory functions (oversight) over the financial reporting process, risk management, audit implementation and implementation of Corporate governance in companies. The audit committee is expected to be able to guarantee the existence of a check and balance mechanism so that the supervision and management process takes place effectively with a clear separation between various functions and roles both in terms of accountability and accountability aimed at providing protection to shareholders. The audit committee is measured by the number of audit committee in a company.

Company Size

Company size is important in the financial reporting process. Sugiarto (2009: 121) company size

describes the size of a company as indicated by assets, total sales, average total sales and average total assets. Company size is seen from the total assets owned by the company which can be used for company operations. The size of the company according to Sujoko and Soebiantoro (2007) is a reflection of the size of the company that appears in the total value of the company's assets in the balance sheet at the end of the year. With the larger size of the company, the total assets are even greater, so that in this case the company's cash flow is positive and is considered to have good prospects for a relatively long period of time. Sugiarto (2009: 121) states that the size of the company which is a proxy for asymmetry information between companies and markets raises a signal that the larger the company, the more complex the organization, the higher the cost of assurance information, making it more difficult for companies to obtain external funding. Companies can be classified as large or small companies based on indicators that influence them. Sudarmadji (2007) an indicator of company size is "Total assets, sales and market capitalization. The greater the total assets, sales, and market capitalization, the greater the size of the company. From several indicators that influence classification in company size, the indicators in this study are limited so that they are more focused and the results achieved are in accordance with the expected assumptions. One indicator chosen for use in this study is total assets. The size of the company in this study is measured by seeing how much assets a company has. Total assets are chosen as the variable size of the company because total assets are more stable and representative in showing the size of the company compared to market capitalization and sales which are strongly influenced by demand and supply in the market. Murhadi (2013) Firm Size is measured by transforming the company's total assets in the form of natural logarithms. The size of the company is proxied by using the Natural totalasset Log with the aim of reducing excess data fluctuations. By using natural logs, the number of assets with a value of hundreds of billions or even trillions will be simplified, without changing the proportion of the actual number of assets. The formulas that can be used to measure company size are as follows:

$$\text{FirmSize} = \text{LNTotalAssets}$$

2.4 Previous Research

Hidayat (2015) in his research concluded that institutional ownership has a positive influence on financial performance, the Board of Commissioners and Independent Commissioners do not have a significant influence on financial performance, the Board of Directors has a significant positive influence on financial performance, and the size of the company has no influence significant to financial performance.

Veno (2015) in his research concluded that simultaneously the number of Directors, Independent Commissioners and Audit Committees had a significant influence on company performance.

Nurcahya, Wahyuni, and Setyawan (2014) in their research concluded that simultaneously, Independent Commissioners, Board of Directors, Audit Committee, Company Size had a positive and significant influence on financial performance.

Kusdiyanto and Kusumaningrum (2015) in their study concluded that the Board of Directors does not have a significant influence on financial performance, Independent Directors have a negative influence on financial performance, the Audit Committee has a positive effect on financial performance.

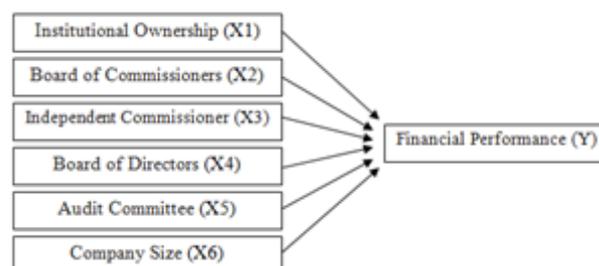
Abdul-Qadir and Kwanbo (2012) in their study concluded that the size of the board of directors did not have a significant effect on the company's financial performance.

Beiner, Drobotz, Schmid, and Zimmermann (2003) in their study concluded that there was no significant relationship between the board of directors on company performance.

Soliman, Ragab, Eldin (2014) in their study concluded that audit committees and audit quality had a significant relationship to the company's financial performance measured by ROA and ROE. Then independent commissioners, institutional ownership does not have a significant relationship to the company's financial performance.

2.5 Thinking Framework

Based on the study of the theory above, the framework of thought in this study can be described as follows:



Based on the description of the frame of mind above, it is assumed that there are influences between variables:

1. Institutional Ownership (X1) influences financial performance (Y)
2. Board of Commissioners (X2) influences financial performance (Y)
3. Independent Commissioner (X3) influences financial performance (Y)
4. Board of Directors (X4) influences financial performance (Y)
5. Audit Committee (X5) influences financial performance (Y)
6. Company Size (X6) influences financial performance (Y)

2.6 Hypothesis

Based on the background, problem formulation, literature review, and the framework stated above, the authors compose the following hypothesis:

1. Hypothesis1: Institutional ownership influences financial performance
2. Hypothesis2: The Board of Commissioners influences financial performance
3. Hypothesis3: Independent Commissioners influence financial performance
4. Hypothesis4: The Board of Directors influences financial performance
5. Hypothesis5: The Audit Committee influences financial performance
6. Hypothesis6: Firm size influences financial performance

2.7 Development Of Hypotheses

Effect of Institutional Ownership on financial performance

According to Jensen and Meckling (1976) managerial ownership and institutional ownership are the two main Corporate governance mechanisms that help control agency problems. Institutional ownership is the percentage of voting rights held by an institution. The presence of institutional ownership by other institutions will encourage an increase in more optimal supervision of the company's management performance. The high percentage of institutional ownership can cause companies to monitor the performance of the company more effectively so that managers and shareholders do not take action that is concerned with each party. In this study the formulation of the hypothesis proposed is:

Hypothesis1 (H1): Institutional ownership affects financial performance.

Effect of Board of Commissioners on financial performance

The board of commissioners in a company emphasizes the function of monitoring and implementing the board of directors' policies. The role of the board of commissioners is expected to be able to minimize agency problems that arise. The board of commissioners plays an important role in directing the strategy and overseeing the running of the company and ensuring that managers really improve company performance as part of achieving company goals. The Board of Commissioners is at the core of Corporate governance which is tasked with ensuring the implementation of the company's strategy, overseeing management in managing the company, and requiring the implementation of accountability and monitoring the quality of information contained in financial statements. In this study the formulation of the hypothesis proposed is:

Hypothesis 2 (H2): The board of commissioners influences financial performance

Effect of Independent Commissioners on financial performance

Independent Commissioners are members of the board of commissioners who are not affiliated with management, other members of the board of commissioners, and controlling shareholders, and are free of business relationships or other relationships that can affect their ability to act independently or act solely in the interests of the company. Independent commissioner is one of the Corporate governance mechanisms, the board of commissioners plays a role in carrying out the supervisory function, the composition of the board can influence management in preparing financial statements so that a quality earnings report can be obtained. In this study the hypothesis formulation is proposed as follows:

Hypothesis3 (H3): Independent commissioners influence financial performance

Effect of Board of Directors on financial performance.

The board of directors is an important Corporate governance mechanism, because the board of directors can ensure that managers follow the interests of the board so that it can reduce agency conflicts that occur between managers and shareholders. The board of directors has the responsibility to establish policies, strategies and internal control procedures, implement strategic policies that have been approved by the board of commissioners, maintain an organizational structure, ensure that delegation of authority runs effectively supported by the application of consistent accountability and monitor the adequacy and effectiveness of the system internal control. In this study the hypothesis formulation is proposed as follows:

Hypothesis 4 (H4): The board of directors influences financial performance

The influence of the audit committee on financial performance

The audit committee enhances the integrity and credibility of financial reporting through (1) supervision of the reporting process including the internal control system and the use of generally accepted accounting principles, (2) evaluating the overall audit process. The results indicate that the existence of an audit committee has consequences for financial reporting, namely: (1) a reduction in improper accounting measurements, (2) a reduction in improper accounting disclosures and (3) reduced management fraud and illegal actions. From this explanation it can be concluded that the audit committee can reduce earnings management activities which will further affect the quality of financial reporting. The audit committee which is responsible for overseeing financial reports, overseeing external audits, and observing internal control systems including internal audits can reduce the opportunistic nature of management that performs earnings management by monitoring financial reports and conducting external audit supervision. In this study the hypothesis formulation is proposed as follows:

Hypothesis5 (H5): Audit committee influences financial performance

Effect of Company Size on financial performance

Company size is a reflection of how large the scale of operations carried out by a company is reflected in the value of the total assets of the company. In general, companies that have relatively large total assets can operate with a higher level of efficiency compared to companies with lower total assets. Therefore, companies with larger total assets will be better able to produce a greater level of profit. In general, companies that have relatively large total assets can operate with a higher level of efficiency compared to companies with lower total assets. Therefore, companies with larger total assets will be better able to produce a greater level of profit. Large companies basically have greater financial strength in supporting their performance, but on the other hand, companies are faced with greater agency problems. In this study the hypothesis formulation is proposed as follows:

Hypothesis 6 (H6): The size of the company influences financial performance

III. RESEARCH METHODS

This study belongs to comparative causal research. Comparative causal research is a type of research with the characteristics of a problem in the form of a causal relationship between two or more variables. In this study, the independent variable is Corporate Governance which measured by InstitutionalOwnership, Board of Commissioners, IndependentCommissioner, Board of Directors, AuditCommittee, and Company Size while the dependent variable in this study is Financial Performance which measured with return on assets. The sample used in this study is a manufacturing company that has certain criteria. The sampling technique of this study was carried out by purposive random sampling with the aim of obtaining representative samples according to the specified criteria. The data used in this research is secondary data used in the form of annual financial statements of basic industrial and chemical manufacturing companies during the observation period of 2012 until 2017 which can be seen on the website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id and the website of each company with techniques documentation. The tool used in this study is multiple linear regression analysis (Multiple Regression Analysis) with the SPSS version 16 program.

3.1 Classic Assumption Test

Normality Test

Nomination test is done by using the Kolmogorov-Smirnov test by comparing the probability value (p-value) obtained with the predetermined significance level of 0.05. Basic decision making in the normality test (Santoso:2000) is:

1. If the significance value (Sig.) is greater than 0.05 then the data is normally distributed.
2. If the significance value (Sig.) is smaller than 0.05 then the data is not normally distributed.

Autocorrelation Test

To detect the presence or absence of symptoms of autocorrelation can be done by using the Durbin-Watson statistical test. The basis of decision making in the autocorrelation test (Santoso: 2000) is:

1. If the Durbin-Watson number is below -2, then there is positive autocorrelation.
2. If the Durbin-Watson number is between -2 to +2, then there is no autocorrelation.

Heteroscedasticity Test

Detecting the presence or absence of these symptoms can be done by seeing the presence or absence of certain patterns on the scatterplot chart. The basis of decision making in the analysis of heterokedasticity (Santoso: 2000) is:

1. If there are certain patterns, such as the existing dots form a certain pattern that is regular (wavy, widened, narrowed, then widened again), then it has shown the occurrence of symptoms of heteroscedasticity.
2. If there is no clear pattern, and the point spreads above and below the number 0 on the Y axis, heteroscedasticity does not occur.

Multicollinearity Test

Multicollinearity test is done by regressing the analysis model and conducting a correlation test between independent variables by using tolerance values and Variance Inflating Factor (VIF). The basis of decision making in the analysis of multicollinearity (Santoso: 2000) is:

Based on the Tolerance value:

1. If the Tolerance value is greater than 0.10, it means that there is no multicollinearity in the regression model.
2. If the Tolerance value is smaller than 0.10, it means that there is multicollinearity in the regression model.

Based on the value of Variance Inflation Factor (VIF):

1. If the VIF value is smaller 10.00 then it means that there is no multicollinearity in the regression model.
2. If the VIF value is greater than 10.00, then it means that there is multicollinearity in the regression model.

3.2 Hypothesis Testing

Multiple linear regression equation model

This analysis is used to determine the effect of independent variables on dependent variables. The formulas used are: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon$

Information:

Y	= Financial Performance (ROA)	X3	= Independent Commissioner (Indep_Comm)
α	= Konstansta	X4	= Board of Directors (Board_Direc)
$\beta_1 - \beta_6$	= Regression Coefficient	X5	= Audit Committee (Aud_Comm)
X1	= Institution Ownership (Inst_Own)	X6	= Company Size (Comp_Size)
X2	= Board of Commissioners (Board_Comm)	ϵ	= Other variables that cannot be explained

Test t

The t test is used to test the significance of the effect of corporate governance (as measured by Institutional Ownership, Board of Commissioners, Independent Commissioners, Board of Directors, and Audit Committees) and company size to the company's financial performance partially (individually). Tests are carried out using a significance level of 0.05 ($\alpha = 5\%$). The criteria for acceptance or rejection of the hypothesis are as follows:

1. If the significance value is less than 0.05 then H_a is accepted, meaning that the independent variables partially have an influence on the dependent variable.
2. If the significance value is greater than 0.05 then H_a is rejected, meaning that the independent variables partially do not have an influence on the dependent variable.

Test F

The F test is used to test the significance of the effect of corporate governance (measured by institutional ownership, board of commissioners, independent commissioners, board of directors, and audit committees) and company size on financial performance company simultaneously (together). Testing is done by comparing between F_{values} with F_{table} with a significant level of 5% using the formula $F_{\text{table}} = (k; n-k)$. The criteria for acceptance or rejection of the hypothesis are as follows:

Based on the significance value (Sig.) Of the Anova output:

1. If the value of significance (Sig.) < 0.05 , then the hypothesis is accepted. This means that the independent variables simultaneously influence the dependent variable.
2. If the value of significance (Sig.) > 0.05 , then the hypothesis is rejected. This means that the independent variables simultaneously have no effect on the dependent variable.

Based on the comparison of the calculated F_{values} with F_{table} :

1. If the value of $F_{\text{values}} > F_{\text{table}}$, then the hypothesis is accepted. This means that the independent variables simultaneously influence the dependent variable
2. If the value of $F_{\text{values}} < F_{\text{table}}$, then the hypothesis is rejected. This means that the independent variables simultaneously have no effect on the dependent variable.

Determination Coefficient Test (R²)

The coefficient of determination (R²) is used to measure how far the ability of the independent variable to explain the dependent variable is. A small R² value means the ability of independent variables to explain the dependent variables is very limited (Ghozali: 2005). The Coefficient of Determination value is expressed as a percentage (Ghozali: 2009).

IV. RESULT AND DISCUSSION

4.1 Description of the Research Object

A manufacturing company is a business entity that operates machinery, equipment, and labor in a process to convert raw materials into semi-finished goods or finished goods that have a sale value. In this study, the population used is a basic industrial sector and chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX) observation period of 2012 - 2017. The process of selecting the number of companies that become research objects can be described in table 4.1 below:

Table 4.1 Selection of Research Object Companies

No	Information	Total
1	Basic Industrial and Chemical Industry Manufacturing Companies Listed on the Indonesian Stock Exchange during observation Period 2012 – 2017	57
2	Basic Industrial and Chemical Industry Manufacturing Companies that do not publish Financial Statements in full during observation Period 2012 – 2017	(10)
3	Basic Industrial and Chemical Industry Manufacturing Companies using Foreign Currency during observation Period 2012 – 2017	(13)
Total of Research Object Companies		34

After selecting a company that is the object of research using Purposive Random Sampling, 34 companies were incorporated in the Indonesia Stock Exchange that were in accordance with predetermined criteria, so that the number of samples used in this study over a period of 6 years became 204 samples.

Test Results of Descriptive Statistics

Table 4.3 Test Result of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Inst_Own	204	1,96	96,21	63,556225	22,26608
Board_Comm	204	2	8	3,995098	1,51348
Indep_Comm	204	25	66,67	40,522598	10,00842
Board_Direc	204	2	11	4,8284314	2,27970
Aud_Comm	204	2	7	3,1568627	0,55700
Comp_Size	204	25,58	31,52	27,927304	1,51925
Y	204	-16,82	32,11	5,3194608	7,60030
Valid N (listwise)	204				

Source: Secondary Data Processed by Author (2019)

Based on table 4.3 above shows that the descriptive statistics of the variables used in this study with the number of data for each variable are 204 samples.

Institutional Ownership (Inst_Own)

From the Institutional Ownership data it can be seen that the mean value is 63.5562 with a standard deviation of 22.26608. Thus it can be seen that the standard deviation value is smaller than the average value. This shows that the Institutional Ownership variables used in this study do not vary. The average value of Institutional Ownership of 63.5562 is closer to the maximum, so that the average value of Institutional Ownership in this study sample is quite high. The average value of Institutional Ownership shows that the average company stock sample in this study is owned by outside parties in the form of institutional ownership of 63.55%. High institutional ownership has an impact on the company's managerial decision making so that it can affect the company's financial performance. This is in accordance with Jensen's and Mackling's theory which suggests that institutional share ownership can reduce agency conflicts within the company. Institutional Ownership has a maximum value of 96.21%, this indicates that Institutional Ownership in manufacturing companies that are sampled is very high. Institutional Ownership has a minimum value of 1.96%, this indicates that Institutional Ownership in the manufacturing company which is the lowest sample is 1.96%.

Board of Commissioners (Board_Comm)

From the data of the Board of Commissioners, it can be seen that the average or mean value is 4.9951 with a standard deviation of 1.51348. Thus it can be seen that the standard deviation value is smaller than the average value. This shows that the Board of Commissioners variables used in this study do not vary. The Board of Commissioners has an average value of 3.9951, which means that the sample companies in this study have an average of 3-4 Board of Commissioners. This is in accordance with the Limited Liability Company law number 40 of 2007 article 108 paragraph 5 which explains that the company must have at least 2 members of the Board of Commissioners. The existence of the Board of Commissioners in the company is expected to be able to supervise and provide advice to the directors and can ensure that the company implements corporate governance in accordance with the rules. The Board of Commissioners has a maximum value of 8,00 which indicates that the Board of Commissioners in the sample manufacturing companies has 8 Board of Commissioners. While the minimum value of 2.00 indicates that the Board of Commissioners in the sample manufacturing companies has 2 Board of Commissioners.

Independent Commissioner (Indep_Comm)

From the data of the Independent Commissioner it can be seen that the average or mean value is 40.5226 with a standard deviation of 10.00842. Thus it can be seen that the standard deviation value is smaller than the average value. This shows that the Independent Commissioner variables used in this study do not vary. The Independent Commissioner has an average value of 40,5226, which means that the existence of an Independent Commissioner in the sample company averages 40.5226%. This is in accordance with the JSX regulation which states that the percentage of Independent Commissioners in a company is at least 30% of the total Board of Commissioners. The Independent Commissioner has a maximum value of 66.67, which indicates that the presence of Independent Commissioners in manufacturing companies is 66.67%. While the minimum value of 25.00 indicates that the presence of Independent Commissioners in manufacturing companies is a sample of 25%.

Board of Directors (Board_Direc)

From the data from the Board of Directors, it can be seen that the mean or mean is 4,8284 with a standard deviation of 2,27970. Thus it can be seen that the standard deviation value is smaller than the average value. This shows that the Board of Directors variable used in this study does not vary. The Board of Directors has an average value of 4.8284 which means that the sample companies in this study have an average of 4-5 Board of Directors, this number is quite a lot. The existence of a number of members of the Board of Directors is adjusted to the complexity of the company's business activities, so that they can carry out their duties and responsibilities properly and transparently towards managing the company. The Board of Directors has a maximum value of 11.00 which indicates that the Board of Directors in the sample manufacturing companies has 11 Board of Directors. While the minimum value of 2.00 indicates that the Board of Directors in the sample manufacturing companies have 2 Board of Directors.

Audit Committee (Aud_Comm)

From the Audit Committee data it can be seen that the mean or mean is 3.1569 with a standard deviation of 0.55700. Thus it can be seen that the standard deviation value is smaller than the average value. This shows that the Audit Committee variables used in this study did not vary. The Audit Committee has an average value of 3.1569 meaning that the sample companies in this study have an average of 3-4 Audit Committee members who are skilled and knowledgeable in the financial field. This shows that all companies sampled have complied with the JSX regulations stating that within the Audit Committee there must be at least one member with an educational background and expertise in accounting or finance so that it will strengthen the supervisory function of the financial reporting process. The Audit Committee has a maximum value of 7.00, this indicates that the Audit Committee in the sample manufacturing companies has 7 Board of Directors. Whereas the minimum value of 2.00 indicates that the Audit Committee in the sample manufacturing companies has 2 Audit Committees.

Company Size (Comp_Size)

From the Company Size data it can be seen that the mean or mean value is 27.9273 with a standard deviation of 1.51925. Thus it can be seen that the standard deviation value is smaller than the average value. This shows that the Company Size variables used in this study do not vary. Company size has an average or mean value of 27.9273, which means that the average sample company has a natural logarithm value (ln) for the total tactiva which is quite large. Large companies usually have strong funding capabilities, can determine the bargaining laughter in financial contracts, and have high access to funding issues. In addition, companies with large total assets will tend to be paid more attention by many investors to invest with these companies, so as to increase the value of the company. The size of the company has a maximum value of 31.52, this indicates that

the size of the company in the manufacturing company that is the sample is very large. While the minimum value of 25.58 indicates that the size of the company in manufacturing companies that are samples is very small.

Return on Assets (Y)

From the data return on assets it can be seen that the average or mean value is 5.3195 with a standard deviation of 7.60030. Thus it can be seen that the standard deviation value is greater than the average value. This shows that the variable return on assets used in this study varies. Return on assets has an average or mean value of 5.3195 meaning that the average of the sample companies has a fairly high return on asset value. This indicates that company management is quite effective and efficient in managing company assets to generate profits. Return on assets has a maximum value of 32.11 which indicates that return on assets in manufacturing companies that are sampled is very high in generating profits for the company. While the minimum value of -16.8 indicates that the return on assets in manufacturing companies that are sampled is very low, this is caused by the company experiencing a loss.

4.2 Classical Assumption Test Results

Normality Test

Table 4.4 Result of Normality Test
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		204
Normal Parameters ^a	Mean	0,0000000
	Std. Deviation	7,21064865
Most Extreme Differences	Absolute	0,094
	Positive	0,094
	Negative	(0,073)
Kolmogorov-Smirnov Z		1,337
Asymp. Sig. (2-tailed)		0,056

a. Test distribution is Normal.

Source: Secondary Data Processed by Author (2019)

Based on the tabel 4.4 above, it is known that the significance value of Asymp. Sig. (2-tailed) is 0.056 greater than 0.05. So according to the basis of decision making in the Kolmogorov-Smirnov normality test, it can be concluded that the data are normally distributed.

Autocorrelation Test

Table 4.5 Result of Autocorrelation Test
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.316 ^a	.100	.072	7,31963	.986

a. Predictors: (Constant), Comp_Sizw, Indep_Comm, Inst_Own, Aud_Comm,

Board_Comm, Board_Direc

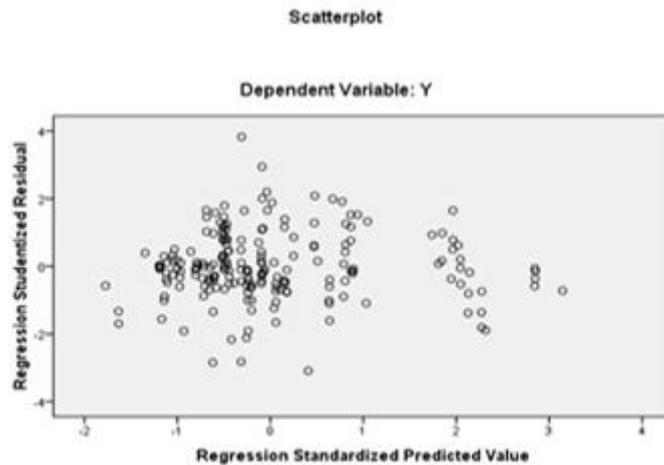
b. Dependent Variable:

Y

Source: Secondary Data Processed by Author (2019)

Based on the tabel 4.5 above, it is known that the results of the Durbin-Watson value autocorrelation test of 0.986 are located between -2 to +2. So according to the basis of decision making on the autocorrelation test with Durbin-Watson statistics above it can be concluded that there are no symptoms of autocorrelation between the independent variables. Thus, multiple linear regression analysis for hypothesis testing of this study can be continued.

Heteroscedasticity test



Picture 4.1
Result of Heteroscedasticity Test

Source: Secondary Data Processed by Author (2019)

Based on the scatterplot Picture 4.1 from the SPSS output above, it is known that the results of heteroscedasticity tests with scatterplots can be seen dots spread randomly above and below the number 0 on the Y axis, and do not gather in one place or form a pattern. So according to the basis of decision making in heteroscedasticity tests with scatterplot it can be concluded that there is no problem of heteroscedasticity in the regression model.

Multicollinearity Test

Table 4.6 Result of Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Inst_Own	0,904	1,106
	Board_Comm	0,492	2,032
	Indep_Comm	0,988	1,012
	Board_Direc	0,444	2,250
	Aud_Comm	0,777	1,287
	Comp_Size	0,511	1,957

a. Dependent Variable: Y

Source: Secondary Data Processed by Author (2019)

Based on table 4.6above, it is known that the results of the multicollinearity test with collinearity statistics show that the tolerance value for each independent variable is greater than 0.10. Meanwhile, the VIF value for each independent variable is smaller than 10.00. So according to the basis of decision making in the multicollinearity test with collinearity statistics it can be concluded that there is no multicollinearity problem in the regression model.

**4.3 Model Feasibility Test Result
Multiple Linear Regression**

Table 4.7 Result of Multiple Linear Regression Test
Coefficients

Model	Unstandardized Coefficients	
	B	Std. Error
1 (Constant)	0,898	12,199
Inst_Own	-0,016	0,024
Board_Comm	-0,631	0,484
Indep_Comm	-0,016	0,052
Board_Direc	1,021	0,338
Aud_Comm	1,697	1,046
Comp_Size	-0,060	0,473

a. Dependent Variable: Y

Source:

Secondary Data Processed by Author (2019)

Based on the coefficients table 4.7 above obtained multiple linear regression equations as follows:

$$Y = 0,898 - 0,016Kep_Inst - 0,631Dew_Kom - 0,016Kom_Indep + 1,021Dew_Dir + 1,697Kom_Aud - 0,060Ukur_Per + \epsilon$$

From the regression results it can be concluded that:

1. Constant (α) of 0.898 means that if the independent variables namely Institutional Ownership, Board of Commissioners, Independent Commissioner, Board of Directors, Audit Committee, and Company Size are considered constant or worth zero, then the dependent variable return on assets has a value of 0.898.
2. Regression coefficient of Institutional Ownership (Inst_Own) is negative 0.016, this means that if the percentage of Institutional Ownership increases by 1 percent assuming that other variables remain, then return on assets will decrease by 0.016 percent, and otherwise if Institutional Ownership decreases by 1 percent then return on assets will increase by 0.016 percent.
3. Regression Coefficient of Board of Commissioners (Board_Comm) value negative 0.631 this means that if the number of the Board of Commissioners increases by 1 person assuming other variables remain, then return on assets will decrease by 0.631 percent, and otherwise if the number of Board of Commissioners decreases by 1 person then return on assets will increase by 0.631 percent.
4. Regression coefficient of Independent Commissioner (Indep_Comm) is negative 0.016, this means that if the percentage of Independent Commissioners increases by 1 percent assuming other variables remain, then return on assets will decrease by 0.016 percent, and otherwise if the percentage of Independent Commissioners decreases by 1 percent return on assets will increase by 0.016 percent.
5. Regression coefficient of the Board of Directors (Board_Direc) is positive 1.021 this means that if the number of Board of Directors increases by 1 person assuming other variables remain, then return on assets will increase by 1.021 percent, and otherwise if the number of Board of Directors decreases by 1 person on assets will decline by 1.021 percent.
6. Regression coefficient of Audit Committee (Aud_Comm) is positive 1.697 this means that if the number of Audit Committees increases by 1 person assuming other variables remain, then return on assets will increase by 1.697 percent, and otherwise if the number of Audit Committee decreases by 1 person then return on assets will decrease by 1.697 percent.
7. Regression coefficient Company Size (Comp_Size) is negative 0.060 this means that if the total assets of the company increase by Rp. 1 assuming other variables remain, then return on assets will decrease by

0.060 percent, and otherwise if the total assets of the company decrease by Rp. 1 then return on assets increases by 0.060 percent.

Test tStatistics

Table 4.8 Result of Statistics t Test
Coefficients

Model	t	Sig.
1 (Constant)	0,074	0,941
Inst_Own	-0,668	0,505
Board_Comm	-1,303	0,194
Indep_Comm	-0,307	0,759
Board_Direc	3,020	0,003
Aud_Comm	1,621	0,107
Comp_Size	-0,127	0,899

a. Dependent Variable: Y

Source: Secondary Data Processed by Author (2019)

Based on the tabel 4.8 above, it can be concluded that the results of the statistical test t are as follows:

1. Institutional Ownership (X1) has a value of t_{value} (t) of -0.668 with a significance value (Sig.) 0.505 greater than 0.05. So according to the basis of decision making on the t test above it can be concluded that H_a is rejected, meaning that Institutional Ownership variables partially do not have a significant effect on financial performance.
2. The Board of Commissioners (X2) has a value of t_{value} (t) of -1.303 with a significance value of 0.194 greater than 0.05. So according to the basis of decision making in the t test above it can be concluded that H_a is rejected, meaning that the Board of Commissioners variable partially does not have a significant effect on financial performance.
3. Independent Commissioner (X3) has a value of t_{value} (t) of -0.307 with a significance value of 0.759 greater than 0.05. So according to the basis of decision making in the t test above it can be concluded that H_a is rejected, meaning that the Independent Commissioner variable partially does not have a significant effect on financial performance.
4. The Board of Directors (X4) has a value of t_{value} (t) of 3,020 with a significance value of 0.003 smaller than 0.05. So according to the basis of decision making in the t test above it can be concluded that H_a is accepted, meaning that the Board of Directors variable partially has a significant influence on financial performance.
5. Audit Committee (X5) has a value of t_{value} (t) of 1,621 with a significance value of 0.107 greater than 0.05. So according to the basis of decision making in the t test above it can be concluded that H_a is rejected, meaning that the Audit Committee variable partially does not have a significant effect on financial performance.
6. Company Size (X6) has a value of t_{value} (t) of -0.127 with a significance value of 0.899 greater than 0.05. So according to the basis of decision making on the t test above it can be concluded that H_a is rejected, meaning that the Company Size variable partially does not have a significant effect on financial performance.

Test F Statistics

Table 4.9 Result of Statistics F Test
ANOVA^b

Model	Sum Squares	Df	Mean Square	F	Sig.
1 Regression	1171,523	6	195,254	3,644	.002a
Residual	10554,671	197	53,577		

Total	11726,194	203		
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a. Predictors: (Constant), Comp_Size, Indep_Comm, Inst_Own, Aud_Comm, Board_Comm, Board_Direc
 b. Dependent Variable:Y
 Source: Secondary Data Processed by Author (2019)

Based on the Anovatable 4.9 above, it can be concluded that the results of the F statistic test are as follows:

1. Significance value (Sig.) $0.002 < 0.05$, meaning the hypothesis is accepted. So according to the basis of decision making on the F statistical test above, it can be concluded that the independent variables, namely Institutional Ownership, Board of Commissioners Independent Commissioners, Board of Directors, Audit Committee, and Company Size simultaneously influence Financial Performance.
2. To determine the value of F_{table} , the formula $(k; n-k)$ is used, then a number $(6; 204-6) = (6; 198)$ is produced. This number then becomes a reference to see the F_{table} value on the distribution of F_{table} statistics, then the F_{table} value is 2,140. Thus, it can be seen that $F_{value} (3.644) > F_{table} (2,140)$, meaning the hypothesis is accepted. So according to the basis of decision making on the F statistical test, it can be concluded that the independent variables, namely Institutional Ownership, Board of Commissioners, Independent Commissioners, Board of Directors, Audit Committee, and Company Size simultaneously have significant effect on Financial Performance.

Determination Coefficient Test

Table 4.10 Result of 4. Determination Coefficient Test

Model Summaryb			
Model	R	R Square	Adjusted R Square
1	.316a	.100	.072

a. Predictors: (Constant), Comp_Sizw, Indep_Comm, Inst_Own, Aud_Comm, Board_Comm, Board_Direc
 b. Dependent Variable: Y
 Source: Secondary Data Processed by Author (2019)

From the table 4.10 above, it can be seen that the R Square value is 0.100 or 10%. This value shows that InstitutionalOwnership, Board of Commissioners, Independent Commissioners, Board of Directors, Audit Committee, and Company Size can explain variations in financial performance that are proxied by Return on Assets (ROA) manufacturing companies that go public on the Indonesia Stock Exchange during the observation period 2012 -2017 is 10%, while the remaining 90% (100% - 10%) is influenced by other variables outside of this study.

4.4 Discussion of Research Results

Effect of Institutional Ownership on financial performance (H1)

Based on the results of analysis of calculations using the SPSS program as shown in table 4.8 shows that the significance value of Institutional Ownership of 0.505 is greater than 0.05. Then it can be concluded that hypothesis 1 (H1) "Institutional Ownership influences financial performance" which is proxied by Return on Assets (ROA) is not supported or rejected. The results of this study also show that institutional ownership has no influence on financial performance. This confirms that the size of share ownership by institutions does not affect financial performance which is proxied by Return on Assets (ROA).

The influence of the Board of Commissioners on financial performance (H2)

Based on the results of analysis of calculations using the SPSS program as shown in table 4.8 shows that the Board of Commissioners significance value of 0.194 is greater than 0.05. It can be concluded that hypothesis (H2) "Board of Commissioners has an effect on financial performance" which is proxied by Return on Assets (ROA) is not supported or rejected. The results of this study indicate that the number of board of commissioners has no influence on financial performance. This means that the size of the number of board of commissioners does not affect financial performance which is proxied by Return on Assets (ROA).

Effect of Independent Commissioners on financial performance (H3)

Based on the results of the analysis of calculations using the SPSS program as shown in table 4.8 shows that the Independent Commissioner's significance value is 0.759 greater than 0.05. Then it can be concluded that hypothesis 3 (H3) "Independent Commissioner influences financial performance" which is

proxied by Return on Assets (ROA) is not supported or rejected. The results of this study indicate that the number of Independent Commissioners does not affect financial performance. This means that the size of the number of Independent Commissioners has no effect on financial performance which is proxied by Return on Assets (ROA).

Effect of the Board of Directors on Financial Performance (H4)

Based on the results of analysis of calculations using the SPSS program as shown in table 4.8 shows that the significance value of the Board of Directors is 0.003 smaller than 0.05. Then it can be concluded that hypothesis 4 (H4) "Board of Directors influences financial performance" which is proxied by Return on Assets (ROA) is supported or accepted. The results of this study indicate that the number of the Board of Directors influences financial performance. This means that the size of the Board of Directors influences financial performance which is proxied by Return on Assets (ROA).

Effect of the Audit Committee on financial performance (H5)

Based on the results of analysis of calculations using the SPSS program as shown in table 4.8 shows that the Audit Committee significance value of 0.107 is greater than 0.05. Then it can be concluded that hypothesis 5 (H5) "Audit Committee influences financial performance" which is proxied by Return on Assets (ROA) is not supported or rejected. The results of this study indicate that the number of Audit Committees has no effect on financial performance. This means that the size of the Audit Committee has no effect on financial performance which is proxied by Return on Assets (ROA).

Effect of company size on financial performance (H6)

Based on the results of the analysis of calculations using the SPSS program as shown in table 4.8 shows that the significance value of the Company Size is 0.899 smaller than 0.05. Then it can be concluded that hypothesis 6 (H6) "Company Size influences financial performance" which is proxied by Return on Assets (ROA) is not supported or rejected. The results of this study indicate that Company Size does not affect financial performance. This means that the size of the Company Size has no effect on financial performance which is proxied by Return on Assets (ROA).

V. CONCLUSION

1. Corporate governance (Institutional Ownership, Board of Commissioners, Independent Commissioners, Board of Directors, Audit Committee) and the Size Company together have effect on financial performance as measured by return on assets.
2. Institutional ownership has no influence on financial performance as measured by Return on Assets.
3. The Board of Commissioners has no influence on financial performance as measured by Return on Assets.
4. The Independent Commissioner has no influence on financial performance as measured by Return on Assets.
5. The Board of Directors has an influence on financial performance as measured by Return on Assets.
6. The Audit Committee has no influence on financial performance as measured by Return on Assets.
7. The size of the company has no influence on financial performance as measured by Return on Assets.

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