Good Corporate Governance At Basic Industry and Chemical Company Affecting Profitability in Review from the Aspect of Earning Per Share

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ABSTRACT

The purpose of this study was to determine the effect of institutional ownership to determine the effect of board size partially, to determine the effect of the composition of commissioners partially to the company's profitability as proxied by Earning Per Share and to determine the effect of the number of audit committees partially to profitability as proxied by Earning Per Share. The research method uses a purposive sampling technique with a representative sample of 45 companies engaged in the basic industry and chemical sector listed on the Indonesia Stock Exchange from 2018 to 2021, data processing analysis with descriptive statistical analysis with panel data estimation of engineering models, and presented in qualitative and quantitative forms. Institutional Ownership has a coefficient value of -0.468 and a p-value t-stat of 0.298 which means it has a negative and insignificant effect, the Board of Directors has a coefficient value of -0.044 and a p-value t-stat of 0.904 which means a negative effect and not significant, the Independent Commissioner has a coefficient value of 0.647 and a p-value t-stat of 0.0000 which means a positive and significant effect and the Audit Committee has a coefficient value of -1.0289 and a p-value of t-stat 0.0000 which means negative but significant. The novelty of this study is the existence of a partial audit committee variable from other studies.

INTRODUCTION

The measuring tool that is often used by stakeholders in assessing the performance of a company is to use financial information taken from financial statements (An & Suh, 2020). Profitability or the ability to earn a profit is a measure in percentage used to assess the extent to which the company is able to generate profits at an acceptable level. Profitability figures are stated, among others, in profit figures before or after tax, investment profit, share income, and sales profit (Rahmani & Mauluddi, 2020), this is usually the right step for companies to achieve growth in implementing business management, from the investment invested will produce the expected profitability to achieve future development or expansion (Nasfi, Ganika, et al., 2022).

Company performance is the result of the work of management activities. To increase the profitability obtained by the company is strongly influenced by how management actions are taken by the company (Rahim et al., 2021). Corporate governance is a series and principles of corporate
management related to corporate governance that explain the relationship between the various participants in the company that determines the direction of the company's performance (Sulaiman et al., 2021). Issues regarding corporate governance began to surface, especially in Indonesia in 1998 when Indonesia experienced a prolonged crisis (NA, 2016). Many people say that the repair process in Indonesia will last until August 2022, which is caused by the very weak corporate governance applied in companies in Indonesia. Since then, both the Indonesian government and investors have begun to pay significant attention to the practice of corporate governance (Pratiwi et al., 2016).

How to bring the company to be managed in Good Corporate Governance according to what is expected by stakeholders, of course the stakeholders put their trust in the managers of the company, in accordance with stewardship theory views management as trustworthy to act as well as possible for the public interest and stakeholders (Keay, 2017). Likewise with the expectations of stakeholders that the company's management as "agents" for the shareholders, will act with full awareness for their own interests, not as a wise and prudent and fair party to shareholders in accordance with Agency theory (Martin & Butler, 2017). The development of agency theory in the business world has received a positive response, where the stakeholders view it as more reflective of the existing reality. Various thoughts on corporate governance have developed based on agency theory, where the management of the company must be monitored and controlled to ensure that management is carried out in full compliance with various applicable rules and regulations (Solomon, 2020).

The purpose of good corporate governance is to create added value for all interested parties (stakeholders) (Dicuonzo & Donofrio, 2022). Theoretically, the implementation of good corporate governance can increase the value of companies, by increasing their financial performance, reducing the risks that may be carried out by the board of commissioners with decisions that benefit themselves and generally good corporate governance can increase investor confidence (Ludwig & Sassen, 2022). According to Kartini (2022), the purpose of good corporate governance, stating the purpose of good corporate governance is to increase the value company in the long term, so that in its activities the company implementing the concept of good corporate governance will always maintain trust from parties related to investor companies, creditors and all stakeholders by implementing healthy practices" (Kartini, 2022).

The value of the company plays an important role for the company's operations. Height the value of the company reflects the welfare of shareholders, where the value of the company is the price that prospective buyers are willing to pay when the company is sold (Ramanathan et al., 2021). Where stakeholders use one of the most frequently used measuring tools is Earning Per Share (EPS) (Bustani et al., 2021). The value of Earning Per Share is often published regarding the performance of companies that sell their shares to the public (go public), because investors and potential investors are of the view that EPS contains important information to predict the amount of dividends per share and stock returns in the future. EPS is also relevant for assessing the effectiveness of management and dividend distribution policies (Iwayan & Anom, 2020). "That what is meant by Earning Per Share (EPS) is a ratio that shows how much profit (return) is obtained by investors or shareholders per share". Estimated earnings per share (EPS) of analysts and EPS goals along with annual bonuses calculated by the company's CEO. EPS is an important measure of company performance with significant implications for the CEO and company owners or interested parties (Armstrong et al., 2022).

In this study, the authors observed from the Indonesia Stock Exchange data that there were 121 companies listed on the Indonesia Stock Exchange (IDX), where the companies listed on the IDX consisted of the first, 41 Commercial Banks, the second, 21 Participating Banks, and the third, 59 the remaining companies are used as the population of the study, and the sample is 45 companies in the basic industrial and chemical sector with data from 2018 to the end of 2021, where these companies consist of several sectors including the ceramic, porcelain, glass, metal and other types of industrial sectors, chemical, plastic and packaging industries as well as animal feed, wood industries engaged in the basic industry and chemical sectors listed on the Indonesia Stock Exchange from 2018 to 2021.
The samples used in this study were selected randomly using purposive sampling technique to obtain a representative sample with the following criteria: first, manufacturing companies engaged in the basic industry and chemical sector whose shares are actively traded on the Indonesia Stock Exchange from January 1, 2018 to December 31, 2021. Second, the selected companies are companies that publish their financial statements to the public. Third, the selected company is a company that provides Earning Per Share (EPS) data in its financial statements from 2018 to 2021 in IDR and has no negative value. And fourth, the selected companies are not suspended (discontinued from trading their shares) from 2018 to 2021.

LITERATURE REVIEW

In this study, an operational definition will be presented in this paper, Mahrani and Soewarno (2018), Corporate governance is defined as the arrangement of rules that determine the relationship between shareholders, managers, creditors, government, employees and other internal and external stakeholders in accordance with their rights and responsibilities (Mahrani & Soewarno, 2018). Corporate governance is defined as "the rule of law of" the activities of voluntary associations of individuals and legal entities of a company, as well as the obligation for managers in operating the company to bring economic value to stakeholders (Lebedeva et al., 2016).

Institutional Ownership Santi T. Pertiwi (2017) explains that institutional ownership is the proportion of shares companies owned by institutions or institutions such as banks, insurance companies, investment companies and other institutions. Institutional ownership has a percentage of ownership larger so that it more intensively affects management. (Pertiwi & Hermanto, 2017). Another only X Cheng (2022), defines institutional ownership as general ownership with a share ownership of at least 5% in a company (Cheng et al., 2022).

Profitability is a measure of the performance of a company, where the profitability of a company shows the results of a company's ability to earn profits during a certain period at a certain level of sales, assets and share capital (Nasfi, Ganika, et al., 2022). Nasfi in the book international financial management (2022), said that company managers to achieve the maximum of their profitability (financial managers) must maximize planning, organizing, controlling company finances, where decisions taken correctly will increase company value and profitability both in terms of return on assets. as well as earnings per share (Nasfi, Asniwati, et al., 2022).

This study examines the effect of institutional ownership on agency costs, where institutional ownership can also reduce agency costs, because effective monitoring by institutional parties causes the use of debt to decrease (Nugraha, 2021). This is because the role of debt as a monitoring tool has been taken over by institutional ownership. Thus, institutional ownership can reduce the agency cost of debt.

H₃ : There is a partial effect of institutional ownership on company profitability proxied by Earning Per Share (EPS).

The board of directors in a company will determine the policies to be taken or the company's strategy in the short and long term. The Board of Directors and the Board of Commissioners are important and how important is it needed ?, Does having more boards mean the company can minimize agency problems between shareholders and directors ? (Kilincarslan, 2021).

H₂ : There is a partial effect of the size of the board of directors on the company's profitability proxied by Earning Per Share (EPS).

The existence of an Independent Commissioner is important, because in practice it is often found that transactions containing conflicts of interest ignore the interests of public shareholders (minority shareholders) and other stakeholders (Anwar et al., 2022). The effectiveness of the board of commissioners in balancing the power of the CEO is strongly influenced by the level of independence of the board of commissioners.

H₁ : There is a partial effect of institutional ownership on company profitability proxied by Earning Per Share (EPS).
The audit committee that is responsible for overseeing financial statements, supervising external audits, and observing internal control systems (including internal audits) can reduce the opportunistic nature of management who performs earnings management by overseeing financial statements and supervising external audits (Weickgenannt et al., 2021).

H₄: There is a partial effect of the number of audit committees on company profitability proxied by Earning Per Share (EPS)

Good corporate governance is about systems, processes, and a set of rules that regulate the relationship between various interested parties (stakeholders), especially in the narrow sense of the relationship between shareholders, the board of commissioners, and the board of directors in order to achieve company goals (ANIK et al., 2021). The linkage of the organs of the Board of Directors shows that the related material is very important or involves strategic matters. This related issue is manifested in the form of a joint commitment from the company's organs which includes the vision, mission, long-term goals and objectives, strategies and measures of performance appraisal.

H₅: There is a simultaneous effect of Good Corporate Governance (GCG) on company profitability proxied by Earning Per Share (EPS).

METHOD

The research method uses a purposive sampling technique, 121 companies (population) listed on the Indonesia Stock Exchange until the end of 2021, which are used as a representative sample of 45 companies engaged in basic and chemical industries listed on the Indonesia Stock Exchange from 2018 to 2021, analysis of data processing with descriptive statistical analysis with engineering model panel data estimation, and presented in qualitative and quantitative forms. The sample used in this study was selected randomly using purposive sampling technique to obtain a representative sample with the criteria described in the introduction above.

Operational definition

Institutional Ownership (INST) is calculated by comparing the percentage ownership of the company’s shares owned by the institution to the overall capital, Yuyun Jiang (2021) in his research said, The average percent of institutional ownership INST ership is 15.84%, which is significantly different than 60% ratio in overseas research which exists literature (Jiang et al., 2021). Institutional Ownership abbreviated as INST is measured using the formula:

\[ INST = \frac{\sum \text{Institutional Stock}}{\sum \text{Outstanding Stock}} \]

The Board of Directors is abbreviated as DIR, measured by the number of members of the Board of Directors in the company. Measured by the formula;

\[ DIR = \sum \text{DIR} \]

Independent Board of Commissioners, abbreviated as INDEP, is measured by using the indicator of the percentage of members of the board of commissioners who come from outside the company from all sizes of members of the company's board of commissioners. An independent commissioner who has at least 30% (thirty percent) of the total members of the board of commissioners, means that he has complied with good corporate governance guidelines in order to maintain independence, make effective, precise, and fast decisions (Ibrahim, 2019). Independent Board of Commissioners is measured by the formula;

\[ \text{INDEP} = \frac{\sum \text{Independent Commissioner}}{\sum \text{Member of Commissioner}} \]

The Audit Committee, which is abbreviated as AUD, is calculated with a value on a scale of 1 (one) to 3 (three) with the following provisions: first, which has more than 2 committee members, the score is 3. Second, those who have committee members equal to 2 people value 2. Third, those who have less than 2 committee members have a score of 1.

Profitability Earning Per Share (EPS) is measured by the company's fundamental data, namely data derived from financial statements. The company's profitability in this study is measured using
Earning Per Share (EPS), which is the amount of company net profit that is ready to be distributed to all company shareholders (Ibrahim, 2019). Earning Per Share is calculated by the formula:

\[ \text{EPS} = \frac{\text{Net Income Available to Common Stockholder}}{\text{Weighted Average Outstanding Common Stock}} \]

RESULT AND DISCUSSION

Statistical Descriptive Analysis

The statistical description and the average research variables of Institutional Ownership, Board of Directors, Board of Independent Commissioners and Audit Committee, which are estimated to affect Earning Per Share, are presented in the following table;

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Variable Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Y__EPS__?</td>
</tr>
<tr>
<td>Mean</td>
<td>1.626542</td>
</tr>
<tr>
<td>Median</td>
<td>1.547176</td>
</tr>
<tr>
<td>Maximum</td>
<td>3.146542</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.000000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.668054</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.076586</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>3.280787</td>
</tr>
<tr>
<td>Jarque-Bera Probability</td>
<td>0.424463</td>
</tr>
<tr>
<td>Sum</td>
<td>161.7682</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>44.04786</td>
</tr>
<tr>
<td>Observations</td>
<td>100</td>
</tr>
<tr>
<td>Cross sections</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: EViews 12 SV output from this research data

Institutional Ownership (INST) has a minimum value of 0.477 and a maximum value of 0.952 with an average of 0.678 and a standard deviation of 0.152. INST variations of each research object company are relatively diverse. The standard deviation value which is lower than the mean indicates that the INST data is normally distributed.

The Board of Directors (DIR) has a minimum value of 0.296 and a maximum value of 0.946 with an average of 0.577 and a standard deviation of 0.147. Variations in DIR of each company are relatively diverse. The standard deviation value which is lower than the average indicates that the DIR data is normally distributed.

The Independent Commissioner (INDEP) has a minimum score of -0.592 and a maximum value of -0.169 with an average of -0.417 and a standard deviation of 0.098. INDEP variations of each company's object of research are relatively diverse. The standard deviation value which is higher than the mean indicates that the INDEP data is not normally distributed.

The Audit Committee (AUD) has a minimum value of 0.311 and a maximum value of 0.479 with an average of 0.474 and a standard deviation of 0.024. The variation in the AUD of each company's object of research is relatively not diverse. A standard deviation value that is lower than the mean indicates that the AUD data is normally distributed.

Earning Per Share (EPS) has a minimum value of 0.00 and a maximum value of 3.146 with an average of 1.626 and a standard deviation of 0.668. The variation in EPS of each company's object of research is relatively diverse. The standard deviation value which is lower than the mean indicates that the Net Interest Margin data is normally distributed.
The selection of the panel data estimation technique model was determined by performing the Chow test, Hausman Test and LM Breusch Pegant. The results of panel data regression testing of the three methods can be seen from the following table 2:

<table>
<thead>
<tr>
<th>No.</th>
<th>Test Method</th>
<th>Compare</th>
<th>Selected Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Chow Test</td>
<td>Common Effect vs Fixed Effect</td>
<td>Model FE</td>
</tr>
<tr>
<td>2.</td>
<td>Hausman Test</td>
<td>Fixed Effect vs Random Effect</td>
<td>Model REM</td>
</tr>
<tr>
<td>3.</td>
<td>LM Breusch Pegant</td>
<td>Random Effect vs Common Effect</td>
<td>Model REM</td>
</tr>
</tbody>
</table>

*Source: Processed Results EViews 12 SV*

This study used the Random Effect Panel Regression Model, regression testing using EViews 12 SV software, panel data recreation model Random effect (REM) model is healthy with white cross so that the results are shown in table 3 below:

**Table 3**

Panel data regression with Random Effect method

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1__INST_?</td>
<td>-0.467696</td>
<td>0.371665</td>
<td>-1.042374</td>
<td>0.2980</td>
</tr>
<tr>
<td>X2__DIR_?</td>
<td>-0.043728</td>
<td>0.357079</td>
<td>-0.116383</td>
<td>0.9036</td>
</tr>
<tr>
<td>X3__INDEP_?</td>
<td>0.647372</td>
<td>0.128316</td>
<td>4.775724</td>
<td>0.0000</td>
</tr>
<tr>
<td>X4__AUD_?</td>
<td>-1.028938</td>
<td>0.237226</td>
<td>-4.246937</td>
<td>0.0000</td>
</tr>
<tr>
<td>C</td>
<td>2.736350</td>
<td>0.326030</td>
<td>8.049391</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Random Effects (Cross)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTP--C</td>
<td>1.212742</td>
<td>PICO--C</td>
<td>-0.071563</td>
<td></td>
</tr>
<tr>
<td>AMFG--C</td>
<td>1.176783</td>
<td>DPNS--C</td>
<td>-0.091164</td>
<td></td>
</tr>
<tr>
<td>SMGR--C</td>
<td>1.139189</td>
<td>TOTO--C</td>
<td>-0.116107</td>
<td></td>
</tr>
<tr>
<td>CPIN--C</td>
<td>0.390341</td>
<td>ALDO--C</td>
<td>-0.179555</td>
<td></td>
</tr>
<tr>
<td>KDSI--C</td>
<td>0.294526</td>
<td>SMBR--C</td>
<td>-0.289477</td>
<td></td>
</tr>
<tr>
<td>EKAD--C</td>
<td>0.259827</td>
<td>ARNA--C</td>
<td>-0.468246</td>
<td></td>
</tr>
<tr>
<td>INAI--C</td>
<td>0.216767</td>
<td>SPMA--C</td>
<td>-0.511160</td>
<td></td>
</tr>
<tr>
<td>INCI--C</td>
<td>0.209046</td>
<td>ISSP--C</td>
<td>-0.517411</td>
<td></td>
</tr>
<tr>
<td>LION--C</td>
<td>0.169368</td>
<td>TRST--C</td>
<td>-0.676671</td>
<td></td>
</tr>
<tr>
<td>JPFA--C</td>
<td>0.166416</td>
<td>APLI--C</td>
<td>-0.747880</td>
<td></td>
</tr>
<tr>
<td>LMSH--C</td>
<td>0.146988</td>
<td>BUDI--C</td>
<td>-0.789778</td>
<td></td>
</tr>
<tr>
<td>IGAR--C</td>
<td>0.124997</td>
<td>SRSN--C</td>
<td>-1.147341</td>
<td></td>
</tr>
</tbody>
</table>
From the results of the table above, the following equations are obtained from the study:

$$\text{EPS} = 2,736,350 - 0.467,696 \text{INST} - 0.043,728 \text{DIR} + 0.647,373 \text{INDEP} - 1.028,938 \text{AUD} + e$$

The coefficient of Institutional Ownership (INST) is -0.468, which means that INST has a negative effect on Earning Per Share (EPS). The coefficient value of the Board of Directors (DIR) is -0.044, meaning that changes in DIR have a negative effect on EPS. The value of the Independent Commissioner (INDEP) is 0.647, meaning that changes in INDEP have a positive effect on EPS. The value of the Audit Committee (AUD) is -1.029, meaning that changes in AUD have a negative effect on EPS.

The results of the analysis of the relationship between each independent variable and the dependent variable show that:

First, Institutional Ownership (INST) has a coefficient value of -0.468 and a p-value t-stat of 0.2980 which means it has a negative and insignificant effect. Second, the Board of Directors (DIR) has a coefficient value of -0.044 and a p-value t-stat of 0.904 which means it has a negative and insignificant effect. Third, Independent Commissioner (INDEP) has a coefficient value of 0.647 and a p-value t-stat 0.0000 which means positive and significant effect. Fourth, Audit Committee (AUD) has a coefficient value of -1.029 and p-value t-stat 0.0000 which means negative but significant effect. Meanwhile, simultaneously, the $R^2$ value is 0.018, which means that the independent variable cannot explain the Earning Per Share (EPS) variable as the dependent variable with an effect of only 1.80%. So as much as 97.43% is influenced by other variables that are not discussed in this study.

CONCLUSION

The first hypothesis ($H_1$), which states that institutional ownership has a significant effect on Earning Per Share is unacceptable. The second hypothesis ($H_2$), which states that the number of the Board of Directors has a significant effect on Earning Per Share is also not acceptable. The third hypothesis ($H_3$) and the fourth hypothesis ($H_4$), stating that the Independent Commissioner and the Audit Committee significantly affect Earning Per Share are acceptable. As well as the fifth hypothesis ($H_5$),
stating that there is a simultaneous influence of Good Corporate Governance on company profitability proxied by Earning Per Share is unacceptable.

REFERENCES


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