Implications of Good Corporate Governance (GCG) on Financial Statement Integrity
Kezia Julia Putri
University of Lampung
Corresponding Author: Kezia Julia Putri juliaaptiora@gmail.com

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ABSTRACT

The development of a strategy by the government as a public organization to deal with the implementation of good corporate governance, which is now a requirement for each company in order to win global business competition and also overtake the problem of the economic crisis, is required by the rapid and massive advances in information technology that have occurred during the industrial revolution 4.0 era. The Agency theory was utilized to support this research since it fosters the formation of the notion of Good Corporate Governance in managing the company's business to reduce agency conflicts. Companies are required to be able to provide good financial reports. A solid financial report is one that maintains the integrity of the information it contains. The extent to which financial reports reflect financial facts fairly, honestly, and not more or less is referred to as their integrity. The goal of this study is to identify the implicit influence of good corporate governance (GCG) on the financial statements of different Indonesian enterprises. Research data is collected through financial reports and company annual reports. The SPSS statistical software was used to analyze the research data. The study's findings indicate that institutional share ownership and management support as part of Good Corporate Governance have a significant impact on the financial statements of Indonesian enterprises.

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INTRODUCTION
As one of the developing countries, the people of Indonesia are trying to build the Republic of Indonesia in various sectors, especially the economic sector. The growth of Indonesian businesses are influenced by the advancement of information and communication technology. When companies not implementing GCG it can lead to conflicts of interest, unhealthy business practices, which can cause the company's performance to decline and then also have an impact on the company's share price. Therefore, companies need to pay attention to the implementation of GCG. With the implementation of GCG in an independent company, it will be assessed as a very fundamental best practice for increasing company value (Irma, et al., 2022).

This proves that the quality of financial reports as material for presenting information for the users of the financial statements is not good. However, the company's deployment of corporate governance will eliminate managerial irregularities, allowing for the presentation of accurate and truthful information in the financial reports because they are prepared with high integrity. The company governance system is a set of rules, procedures, and relationships between the decision-maker and the party who will oversee the choice. The company must be able to show quality financial reports using the services of third parties to gain confidence that the financial reports presented by the company can be trusted as a basis for decision making which is known as auditing (Evana, 2020).

The goal of this study is to contribute an overview of the concept of implication of Good Corporate Governance which produces some insights and conclusions in evaluating the company’s financial statements.

LITERATURE REVIEW
Agency Theory
Basically in economic information, agency theory develops into two parts, namely positivist and principal-agent. This section shares the same unit of analysis, the contract between principal and agent. Both have the same unit of analysis, the contract between principal and agent. Both have the same assumptions about members, organizations, and information Kurniawansyah (2018). Agency theory describes the separation of corporate ownership and decision-making responsibilities. Agency relationship always creates problems between owners and agents, because they have different ideas and interests. Kurniawansyah (2018) explains the role of information on the board of directors in managing business behavior. In a more formal way, if someone has information to investigate the agent's behavior, it is likely that the agent is acting in the agent's best interests.

Financial Report Integrity
Consistent financial information can be trusted because it is an honest expression that can be utilized by users of the information. Conservatism is used in this study to assess the quality of financial reporting. Accounting conservatism is a key feature of financial reporting that has long been included into accounting theory and practice. Conservatism is a key tool in financial reporting...
that allows for the precise recognition and measurement of income and assets (Kootanaee et al., 2013). Conservatism can be a tool for more efficient contracts and for limiting the tendency for opportunistic behavior of protected managers from outside users. In addition, conservatism can protect companies and independent auditors against lawsuits. Financial statements are measured using the market to book value (MBV) ratio. The higher the market ratio to book value (MBV), the higher the company's investor valuation, indicating that financial reports tend to be more conservative and complete. The formula for finding the MBV value is as follows:

\[
\text{Market Price} \div \text{Book Value}
\]

**Corporate Governance**

Corporate governance is a procedure or a system that governs and controls the connection between management and all stakeholders in a corporation, or sometimes referred to as stakeholders. In the principles of corporate governance, (OECD, 2019) defines it as "A system that regulates how various company stakeholders interact to set the company's direction and policies." The fundamental of good corporate governance (GCG) are primarily concerned with improving a company's success. The implementation of good corporate governance principles has proven to be an impediment to performance engineering activities that prevent financial reports from representing the company's core values and can enhance financial reporting quality. The method will consider institutional ownership, managerial ownership, and independent commissioners.

**Institutional Ownership**

A collection of several individual investors constitutes institutional ownership. As a result, institutional investors closely watch all activities taken by corporate management. Individual investors do not want their funds to lose money. According to data from the Indonesia Stock Exchange (IDX), institutional investors account for 73.14% of stock trading on the IDX (Madyan & Arianto, 2019). The formula used is:

\[
\frac{\text{Total Institutional shares}}{\text{Total outstanding stock}} \times 100\%
\]

**Managerial Ownership**

According to Arianti and Mega's (2018) research, managerial ownership has an impact on company value. Insider ownership is the percentage of shares owned by management. To find the data, the calculation is used:

\[
\frac{\text{Total management shares}}{\text{Total outstanding stock}} \times 100\%
\]
Independent Commissioner

To provide good corporate governance, the company must have a number of independent commissioners, at least 30% of the total are all members of the commissioner's position, according to the Decree of the Directors of Jakarta Stock Exchange No. Kep339./BEJ/07 2001, Letter C concerning Regulatory Body consisting of Independent Commissioners, Audit Committee, and Corporate Secretary, so to find the amount of influence of independent commissioners, the following calculations are needed:

<table>
<thead>
<tr>
<th>Good Corporate Governance</th>
<th>Total Boards of Independent Commissioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kepemilikan Institusional</td>
<td>Total Boards of Commissioner</td>
</tr>
<tr>
<td>- Saham milik institusional</td>
<td></td>
</tr>
<tr>
<td>- Total saham beredar</td>
<td></td>
</tr>
<tr>
<td>Kepemilikan Manajerial</td>
<td></td>
</tr>
<tr>
<td>- Saham milik manajemen</td>
<td></td>
</tr>
<tr>
<td>- Total saham beredar</td>
<td></td>
</tr>
<tr>
<td>Komisaris Independen</td>
<td></td>
</tr>
<tr>
<td>- Dewan komisaris independent</td>
<td></td>
</tr>
<tr>
<td>- Dewan komisaris</td>
<td></td>
</tr>
</tbody>
</table>

Laporan Keuangan
- MBV
- Nilai buku saham
- Harga pasar saham

Picture 1. Conceptual Framework

METHODOLOGY

This study employs a quantitative technique to assess and analyze the impact of good corporate governance systems on the company's income statement. The author employed descriptive research as a research design. At the same time, the study's data came from secondary sources, including financial statements of publicly traded corporations and disclosed annual reports. This study is implementing a study design based on analytical procedures that apply data processing with the SPSS application. The secondary data source is annual reports of non-financial service corporations retrieved from the IDX (Indonesian Stock Exchange) website for the year 2016-2020 (www.idx.co.id), also from the official website of the companies which provide annual reports that conclude proper financial statements completely. In terms of collecting data, what is used in this study is the documentation method which is obtained from literature studies and also various literature, for example, looking for references from various books, journals, and so on. The data for this study were obtained from the IDX, ICMD, and other sources. Data acquisition from the Indonesian Stock Ex-
change (IDX) official website (www.idx.co.id), academic journals and the web makes authors to find data that match their research easily and more accurate. Study samples use targeted sampling methods that meet criteria such as manufacturing corporations in 2016-2020. The corporation released an annual report along with financial reports as audited by independent auditors in the 2016-2020 period and have data related to managerial ownership, institutional ownership, and independent commissioners.

RESULT
Statistic Descriptive

Table 1. Results of Descriptive Statistical Analysis of Manufacturing Companies

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Ownership</td>
<td>155</td>
<td>0.000</td>
<td>1.380</td>
<td>0.656</td>
<td>0.424</td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>155</td>
<td>0.000</td>
<td>41.640</td>
<td>1.317</td>
<td>5.817</td>
</tr>
<tr>
<td>Independent Commissioner</td>
<td>155</td>
<td>0.200</td>
<td>0.600</td>
<td>0.390</td>
<td>0.087</td>
</tr>
<tr>
<td>Financial Report Integrity</td>
<td>155</td>
<td>0.130</td>
<td>35.690</td>
<td>3.799</td>
<td>5.583</td>
</tr>
</tbody>
</table>

The first independent variable, institutional ownership, was attained by PT. Wijaya Karya Tbk. in 2017 with a minimum MBV value of 0.000 and PT. Kaltim Prima Coal Tbk with a maximum value of 1,380 in 2018. This dependent variable has an average value of 0.656 and a standard deviation of 0.424. The dependent variable's standard deviation value also demonstrates that the observed data are similar, as the standard deviation value is less than the average value.

The second independent variable is managerial ownership, which has a minimum value of 0.000 for PT. Semen Baturaja, Tbk. in 2016 and a maximum value of 41,640 for PT. Merdeka Copper Gold, Tbk. in 2016. The average value of this independent variable of managerial ownership is 0.39, with a standard deviation of 0.087. Furthermore, the third independent variable, which is the independent commissioner, received a score of 0.200 and the highest score of 0.600. According to table 1, the lowest independent commissioner in our case sample received a score of 0 from PT. Bukit Asam Tbk. Meanwhile, PT. Sido Muncul, Tbk. received the highest score from the independent commissioner. This independent commissioner variable has an average value of 0.390 and a standard deviation value of 0.087.

Lastly, the financial statements are measured using the MVB value, which has a minimum value of 0.130 owned by PT. Sido Muncul, Tbk. in 2016 and a maximum value of 35,690 held by PT. Merdeka Copper Gold, Tbk. in
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2018. In financial statements, the dependent variable has an average of 3,799 and a standard deviation of 5,583.

**Classic Assumption Test**

The findings of the Kolmogrov Smirnov statistical test in table 2 demonstrate that the manufacturing company data used in this study has a sig value of 0.200 > 0.05. It is possible to conclude that these data are regularly distributed.

<table>
<thead>
<tr>
<th>Data of Manufacture Company</th>
<th>N</th>
<th>Mean</th>
<th>Sig. 2 tailed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>155</td>
<td>0,000</td>
<td>0,200*</td>
</tr>
</tbody>
</table>

The purpose of this multicollinearity test is to see if the correlation model is present in the regression model between independent variables (Ghozali, 2011). In a reliable regression model, there should be no correlation between the independent variables. The Variance Inflation Factor (VIF) is used to test multicollinearity. If VIF < 10, the study data is declared free of multicollinearity.

<table>
<thead>
<tr>
<th>VIF</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Ownership</td>
<td>1.347</td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>1.274</td>
</tr>
<tr>
<td>Independent Commissioner</td>
<td>1.090</td>
</tr>
<tr>
<td>No Symptoms</td>
<td></td>
</tr>
</tbody>
</table>

It may be stated that KI, KM, and Kom. Indp ≤ 10 do not exhibit multicollinearity symptoms.

The residual variance that is not the same for all observations in the regression model is referred to as the heteroscedasticity test. Heteroscedasticity should not arise in a good regression (Ghozali, 2011).

<table>
<thead>
<tr>
<th>Sig.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Ownership</td>
<td>0.092</td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>0.060</td>
</tr>
<tr>
<td>Independent Commissioner</td>
<td>0.055</td>
</tr>
<tr>
<td>No Symptoms</td>
<td></td>
</tr>
</tbody>
</table>

The values of KI, KM, and Kom are shown in table 4, which is based on the SPSS output results. Indp has a value of sig greater than 0.05. It is possible
to conclude that there is no heteroscedasticity in this study's regression model. The following are the results of calculations using the SPSS calculating tool with the multiple linear regression analysis and the t Test Results formula:

Table 5. Multiple Linear Regression Analysis and t Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>t</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>0.508</td>
<td>1.964</td>
<td>0.259</td>
</tr>
<tr>
<td></td>
<td>KI</td>
<td>-1.482</td>
<td>1.212</td>
<td>-0.112</td>
</tr>
<tr>
<td></td>
<td>KM</td>
<td>0.146</td>
<td>0.074</td>
<td>0.176</td>
</tr>
</tbody>
</table>

The SPSS output results above give a beta value of KI (X1) of -1.482, KM (X2) of 0.146, KOM.INDP (X3) of 10.677. With the regression equation formula as follows:

$Y_1 = 0.508 - 1.482X_1 + 0.146X_2 + 10.677X_3$

The F test is a synchronous trial of the regression coefficients. This test was led to decide the impact of the relative multitude of autonomous factors in the model at the same time on the reliant variable.

Table 6. F Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>250.413</td>
<td>3</td>
<td>83.471</td>
<td>2.751</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>4581.785</td>
<td>151</td>
<td>30.343</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4832.198</td>
<td>154</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

According to table 6, it had a sig. 0.000 before the pandemic, where both values are 0.05. As a result, institutional ownership, managerial ownership, and independent commissioners all have an effect on financial statement variables at the same time. The sig score indicates that institutional ownership has no significant effect based on the findings of the linear regression test above. On the KI variable of 0.223 > 0.05 and has a beta value of -1.482.
DISCUSSION

Effect of Institutional Ownership on the Performance of Financial Statements

According to the test results, institutional ownership has no effect on the performance of manufacturing companies’ financial statements as measured using the MVB. This is demonstrated by the regression test findings in table 5, which have a beta value of -1.482 and a sig. of 0.223 > 0.05, indicating that H1 is rejected. That is, there is a partial lack of significance between the effect of institutional ownership owned by the company and the quality of financial statements.

This is because the institutional shareholder is only one of the supervisors of management in a global corporation, in this case the party that makes a decision, namely the board of directors and management in the related corporation. The existence of this party will be able to show the corporate governance mechanism of a strong determination and can be used for monitoring corporate management.

Institutional investors’ determination in company management will be crucial and can be utilized to create harmony between the interests of stakeholders and management. This finding is due to the fact that the majority of institutional investors have a propensity to make concessions regarding management and to disregard the needs of minority shareholders so therefore when institutional ownership increases this will decrease performance. It should be that this institutional ownership will have implications for increasing work professionalism because generally if the owner of this corporation will put more pressure on management to improve the quality of his work. So that if these results show negative impact findings, It indicates they don't play a substantial role in the company’s advancement, and the company’s performance would eventually decrease along with the large number of institutional ownership.

The findings of this study contradict the findings of Brigitta Clarabella Petta and Josua Tarigan (2017), they stated in their study on the effect of institutional ownership on financial performance through capital structure as an intervening variable in manufacturing companies listed on the Indonesian Stock Exchange (IDX) that institutional ownership has a significant positive effect on financial statement performance. However, this research backs up the findings of Sembing’s (2020) study, which found that institutional ownership has no effect on a company’s financial performance, as well as Hartono’s (2014) study, which found that institutional ownership has no effect on a company’s financial performance.

The findings of a hypothesis test to see if the Institutional Ownership variable has a positive and significant effect on the performance of supported financial statements. This strengthens the findings of the test, which rejects the hypothesis that the Institutional Ownership variable has a positive and substantial effect on financial statement performance.
The Effect of Managerial Ownership on the Performance of Financial Statements

In light of the experimental outcomes, it shows that managerial corporate ownership has no effect on the performance of financial statements of manufacturing companies as measured using the MVB, this is shown from the test results in table 5 which has a beta value of 0.051 and a sig. of 0.051 > 0.05 so that H2 is rejected. The discoveries of this study inconsistent with the hypothesis which expresses that a company's financial performance is largely determined by company managers.

This is an implication of corporate managerial ownership in Indonesia which has a very low tendency, and if one pays attention to it, the average percentage of existing corporate managerial ownership is only around 2-3% annually. When share ownership by management is in a low condition, there is a tendency for an opportunistic attitude which can be an actor for the decline in the value of a corporation. In addition, referring to the APB principle which also provides a statement that shareholders have a percentage of ownership of stock or corporate shares below 20%, in this case it will be seen as not having a significant influence on a cooperative. This low share as owned by management is the result of management feeling that they have no ownership in the company so that they cannot own all of this profit so that they are compelled to maximize their utility compared to what is in the interests of stock stakeholders. Not only that problem but also the low share ownership owned by management creates conditions for management performance to have a low tendency and this will lead to a decline in company performance.

But if you pay attention to the results of the statistical analysis that there is no determination, it can be interpreted that this is due to the low productivity of management who owns shares. This means that their position still has an unfavorable impact on the performance of existing corporations. So that with the increasing number of management proportions that have shares, it will make performance decrease. For this reason, for the mission of increasing company performance, it is necessary to optimize potential from other angles. The findings of this study provide a statement that managerial ownership has no substantial effect on the financial performance of the related corporations. This may be due to the increasing number of shareholders in management so that it will be the cause of more and more interests, which ultimately has implications for various conflicts and worsens the financial condition of a corporation.

The findings of this study are consistent with those of a study conducted by Gurdyanto et al., (2019) which found that managerial ownership had no meaningful effect on a company's financial performance. This finding, however, contradicts the findings of Darwis' study (2009), which states that managerial ownership has a major impact on financial performance. This is also consistent with the findings of Martsila and Wahyu (2013).

The findings of this study demonstrate that the hypothesis testing of the Managerial Ownership variable has a positive and significant effect on the performance of financial statements is rejected.
Influence of Independent Commissioners on the Performance of Financial Statements

The test results in table 5, which have a beta value of 10.667 and a sig. of 0.047 <0.05 demonstrate that the independent commissioner has a positive influence on the performance of manufacturing companies' financial statements as measured by the MVB, which means that H3 is accepted. This is in accordance with agency theory, according to which the independent commissioner plays a role in mitigating agency difficulties that exist between the board of directors and individuals owning shares. This is actually an indication that there are independent commissioners within the corporation who are considered to have the ability to make a good impact, especially in their efforts to monitor and perform supervisory functions on existing corporate managers so that in the end the shareholders have full confidence in the performance of the corporation's independent commissioners.

It is for this reason that the existing supervision should be carried out properly by an independent commissioner and has been operationalized to the fullest, especially in terms of prevention of work that is detrimental to a corporation. Meanwhile, the costs incurred to finance independent commissioners will continue to be implemented. As a result, profits will increase and ultimately make more and more of these proportions so that the existing financial performance also increases.

The findings of this study back up the findings of Ararat et al. (2018), who found that the independent commissioner had an impact on the company's financial success as evaluated by Tobin's Q. According to Allan's (2019) research, which also reveals that this independent commissioner has an influence on performance existing corporate finance. However, this is actually contrary to a study carried out by Sylvia and Sidhartha (2005) which argued that independent commissioners have no effect on corporate financial performance.

The hypothesis is supported by the fact that this leads to the conclusion that the variable Managerial Ownership has a positive and notable result on the performance of financial statements.
CONCLUSION AND RECOMMENDATION

It is possible to draw the conclusion that institutional share ownership has no effect on the performance of the company's financial statements on the basis of the findings of the research and discussion that were carried out on the topic of "Implications of Good Corporate Governance (GCG) on Company Financial Statements." This is because a corporation has significant institutional ownership in a corporation which in this case creates an intervention in management performance that becomes even greater, which ultimately makes management feel attached and the space for movement of existing managers becomes limited or limited.

Managerial share ownership has no bearing on the performance of the company's financial statements. This is probably due to the increasing number of ownership shares that are within the scope of management which ultimately has implications for more and more existing interests, and ultimately creates a lot of conflict and ultimately makes the company's finances worse.

Independent commissioners enhance the performance of the company's financial statements. This is because the independent commissioner himself has a crucial role in terms of providing strategic direction and also supervising the running of the corporation and providing assurance that the manager in this case is serious about increasing the company's financial performance as part of achieving the goals to be achieved by a business entity or corporation.

SUGGESTION

The findings of this study indicate that independent commissioners have an impact on the performance of financial statements, whereas institutional ownership and managerial ownership have no good effect on the performance of the company's financial statements. So it is recommended for further research to increase the number of years tested and change the measurement of these variables, and for manufacturing companies to pay more attention to the activities of executing Good Corporate Governance so that company goals are met as they should be.
REFERENCES


