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THE EFFECT OF GOOD CORPORATE GOVERNANCE TOWARDS COMPANY FINANCIAL PERFORMANCE

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Abstract

The aims of this study were to describe and analyze the effect of good corporate governance on company financial performance. The population in this study was companies listed as a participant of the corporate governance perception index during the period 2010-2016. The sample in this research was 105 observations, which consisted of 15 companies and observation through a purposive sampling method, which was based on certain criteria. Analysis technique which was used in this research was a simple linear regression analysis with eviews 9 programs. The results of this research indicated that good corporate governance had an insignificant positive effect on company financial performance. The adjusted R Square value was 0.252689 showed the ability of good corporate governance variable to explain company financial performance that was 25.27% while the rest was 74.73% could be explained by other variables. 74.73% (100% -25.27%). The conclusion of this research is GCG variable has no significant effect on company financial performance. Suggestion for company management should maintain its rate on CGPI. For the investors before investing, investors should choose companies that have good CGPI ratings. For the next researcher should replace or add other research variables, such as capital structure and financial statements quality

INTRODUCTION

Potential investors should consider important thing before making an investment that is making sure whether that investment is able to provide a return that matches their expectations. Investors' assessment that the higher the company financial performance, the better the return obtained by the investors if they invest in the company (Candradewi & Sedana, 2016). The high share price will attract investors to invest because investors consider that the company will provide high share returns (Jannah & Khoiruddin, 2017).

Investors who want to invest their funds in the company should pay attention to macroeconomic factors and financial performance of the company to obtain expected share return (Agustina & Ardiansari, 2015). Macroeconomic indicator often associated with capital market is interest rate fluctuation, inflation, rupiah exchange rate, and GDP growth (Kewal, 2012). Company in running their business can use debt as a funding source to take advantage of profitability (Yanto & Muzzammil, 2016)

Company financial performance is work achievement, which has been achieved by the company in a certain period and embodied in the financial statement of the company (Rahmawati & Khoiruddin, 2017). Company financial performance describes the financial condition of the company which is analyzed by financial analysis tools so that can know the sound financial condition of the company which reflects work achievement of the company in a certain period (Safitri & Yulianto, 2015).

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Financial performance evaluation can be done by using financial statement analysis, where the primary data as input in this analysis is balance sheet and income statement. Financial statement analysis can be done using financial ratios. Financial ratio analysis allows the financial manager and interested parties to evaluate financial condition quickly because the presentation of financial ratios will indicate a healthy condition of the company. Ratio analysis relates plan elements and profit and loss calculation so that can assess the effectiveness and efficiency of the company (Ornianti, 2009)

Assessment that used financial ratios can be done to assess company financial performance such as Debt Equity Ratio (DER), Current Assets (CA), Quick Acid Ratio (CAR), Price Book Value (PBV), Return on Investment (ROI), Return on Equity (ROE), Return on Assets (ROA), Net Profit Margin (NPM), and so on. Those ratios are calculated based on quantitative information obtained from historical financial statements (Mulyadi, 2016)

To measure company financial performance can use Return on Equity (ROE). ROE can be seen from the company's net income compared to the total equity of the company. High ROE indicates the company's ability to generate high returns for shareholders and show the growth of the company in the future. So, with high ROE also indicates good company financial performance, which causes investors are interested in investing capital on the company. Conversely, if low ROE indicates bad company financial performance, then investors are less likely to invest in the company (Susanti & Niken., 2010).

The measurement of company financial performance is done to determine whether the results achieved have been matched with company planning. If the company financial performance has increased, it means that the company can achieve the goals of establishing a company. Company financial performance can be measured by Return on Equity (ROE) (Lukman, 2010). High ROE indicates good company financial performance, which causes the investors are interested in investing their capital. Conversely, if low ROE indicates that the condition of company financial performance is not good (Wati, 2012).

The separation between management and ownership in the modern economy has an aim that the owner of the company gets maximum profit possible by spending cost as efficiently as possible with the management of the company is made by professional workers. ShareholderS (investor) maximizes their wealth by handing over the company management to the professionals (managers). However, with the separation between ownership and management of the company than the two parties have different interests. This causes a potential conflict of interest between the parties (principals and agents) within the company (Wulandari, 2006).

The expense for agency fees will add the company's cost then reduce the company's profits and decrease dividend that will be received. Shareholders want that cost is financed by debt, but the manager does not agree with the reason that debt contains high risk. Those different interest cause conflict, which is commonly called as agency conflict (Maftukhah, 2013).

The manager only prioritizes his personal interests. Conversely, the shareholder does not like the manager's personal interests because that expense will increase the company's cost, which causes a decline in company profits and decline the dividend that will be received. Agency theory explains that Management's interest and shareholder's interest may be contradictory (Pratiwi & Yulianto, 2016).

In reality, the change of manager prosperity is minimal compared to the change of shareholder wealth, so managers tend to look for their own advantage (moral hazard) at the expense of other's interest. It can happen because the manager has information about the company, which is not owned by the owner of the company (Amyulianthy, 2012). Managerial opportunistic behavior on financing decision of company creates conflict between management, shareholders, and creditors (Yulianto, 2013).

Agency theory is emphasized to solve two problems which can occur in agency relationships. First is agency problem which arises when (a) the interest or purpose of capital owner and the agent is opposite and (b) it is difficult or expensive for the capital owner to verify what has been done actually by the agent. The problem is that the principal cannot verify whether the agent has done something appropriately. Second, is the problem of dividing risk, which arises when principals and agents have different attitudes toward the risk (Eisenhardt, 1989).

The capital owner has the right to access the private information of the company and has absolute authority in making a decision such as strategic, long-term, and global decisions. This can cause the capital owner to act arbitrarily because he feels like the most powerful and decision-makers with unlimited authority. Then there will be an increasingly sharp disagreement between the owner and the manager that will cause prolonged conflict and ultimately harm all parties (Arifin, 2005).

There are two ways to reduce the chances of managers to take actions which can harm the investors, namely (1) outside investors doing monitoring and (2) manager itself restrict his actions (bonding). On the one hand, both activities will reduce the chance of deviation by the manager so that company value will increase while on the other hand, both will bring cost so that it will reduce company value. A potential investor will anticipate the existence of both costs plus the losses which still arise even though there are monitoring and bonding, which is called residual loss. The anticipation of the three costs defined as agency costs appears at a discounted share price when the company sells its shares (Jensen & Meckling, 1976).

The company, which is still 100% owned by the owner of the company, will not cause agency problems. However, when managerial ownership is less than 100% may potentially cause agency problems (Yulianto et al., 2015). Control mechanism to align different interest between management and principals that is good corporate governance (GCG) (Dewi & Khoiruddin, 2016). Corporate governance literature, board diversity often called can enhance the effectiveness of board and monitoring, and it will improve company performance (Wicaksana, 2010).

Fraudulent financial statements begin with manipulating financial statements for personal gain. Weak corporate governance often called as one of the causes of the financial crisis in Asian countries.

The main characteristic of weak corporate governance is selfishness and ignoring shareholders' interest. This causes falling expectations of investors about return on their investments, so that share price and capital market are not growing (Nuswandari, 2009).

Good corporate governance is a system, process, and set of rules which manage the relationship between various stakeholders, especially in the narrow sense is the relationship between shareholders, the board of commissioners and board of directors in order to achieve the goals of the company (Nofiani & Nurmayanti, 2010). Good corporate governance is a system in an organization which has a goal to achieve optimal organizational performance as much as possible with the ways that do not harm stakeholders (Pratolo, 2007)

The study of good corporate governance is increasing rapidly along with the opening of large-scale financial scandals (for examples like Enron, Tyco, Worldcom, and Global Crossing) which involved accountants that is an essential element of good corporate governance. While in Indonesia, the case of Kimia Farma and Lippo originated from the detection of manipulation in financial statements (Abdurrahman & Septyanto, 2008). The presence of GCG in crisis recovery is absolutely necessary because GCG requires proper company management. The measurement of corporate governance in this study used corporate governance perception index (CGPI) (Nuswandari, 2009).

Corporate governance arises because of the separation between ownership and corporate control, or often known as an agency problem. Agency problem in the relationship between capital owner and the manager is how difficult the owner in ensuring that the funds invested are not taken over or invested in unprofitable projects so that not bring a return (Veno & Syamsudin, 2017). The existence of one GCG mechanism is expected that monitoring the company's managers can be more active so that it can improve company financial performance and company value. By increasing company financial performance is also expected to increase the share price of a company as an indicator of company value.

Efforts to fulfill obligations toward the rights of stakeholders make corporate governance play an essential role in minimizing the occurrence of fraudulent financial statements. Some fraud which is done by management in abusing corporate governance can lead to irregularities in company performance and also harm to other parties such as shareholders, creditors, employees, and other related parties. The fall of the world's economy in 1998 because of the weakness of the corporate governance system, so it is necessary to improve and reform corporate governance at the international level. Since then, the implementation of corporate governance becomes an essential aspect which has to be applied in order to increase company value in any industry in Indonesia. (Pradana & Rikumahu, 2014)

The Indonesian Institute for Corporate Governance (IICG), established on 2nd June 2000, is an independent institution which conducts dissemination and development of good corporate governance in Indonesia. The main activity of IICG is conducting research on the implementation of GCG, which the result in the form of Corporate Governance Perception Index (CGPI). CGPI is research and rating of GCG implementation in public company listed on IDX (Indonesia Stock Exchange) (Indarti & Extaliyus, 2013).

Assessment methodology for each CGPI research and ranking activity was developed by senior researchers with various references from Indonesian and International related to GCG based on stakeholder perspective as measuring tool and adapted to central theme applied. The assessment of GCG implementation is limited to commitment aspect and corporate organ rules, while the implementation of good corporate governance extensively covers the commitment aspect and the relationship between company and stakeholders. This perspective will broaden the orientation and scope of GCG implementation, which has consequences on the time and effort required in the process of realizing the best practice (CGPI Report, 2016).

Corporate governance mechanism covers many things such as the number of boards of commissioners, the independence of the board of commissioners, the size of the board of directors, and the existence of audit committee. With the existence of this GCG mechanism, it is expected that monitoring towards company manager more effectively so that it can improve company financial performance and company value. So, if the company implements GCG system, it is expected that the performance will improve and becomes better. The Increase of company financial performance also expected to increase the company's share price as an indicator of company value so that company value will be achieved (Wardoyo & Veronica, 2013).

The Average variable of company financial performance, which is proxied by Return on Equity (ROE) and Good Corporate Governance proxied by Corporate Governance Perception Index (CGPI) presented in table 1 as follows:

Table 1. The Average of ROE and CGPI on Companies Listed as Participants of Corporate Governance Perception Index Period 2010-2016

Variable	2010	2011	2012	2013	2014	2015	2016
ROE	21.43%	19.30%	18.42%	14.44%	14.07%	12.03%	10.68%
CGPI	82.93	82.90	83.13	82.85	83.24	82.92	83.43

Based on table 1, the average financial performance (ROE) in 2010-2016 showed continuous decline while the average of CGPI had been in fluctuating condition. The average of CGPI in Table 1 has increased from 2015, that is 82.92 to 83.43 in 2016, but the average of ROE for that year decreased from 12.03% to 10.68%. Whereas in agency theory, companies with good governance will have more efficient operational performance (Jensen & Meckling, 1976).

Corporate governance perception index variable positively affects company financial performance. Good corporate governance is useful to push down agency costs and make the efficiency of the company's operational, so that improve company financial performance (Nuswandari, 2009). Corporate governance perception index negatively affects company financial performance. This is because the implementation of good corporate governance is viewed from the long term period while financial ratio such as ROE is only aimed at the short term period so it will be difficult to measure in only one accounting period (Meythi & Lusiyana, 2011).

Based on the background of the problems, the gap phenomenon, and research gap, the writer is interested in conducting research entitled "The Effect of Corporate Governance Perception Index on Company Financial Performance on Companies Listed as Participants of Corporate Governance Perception Index in the Year 2010-2016". The aim of this study is to examine the positive effect of corporate governance perception index on company financial performance.

HYPOTHESES DEVELOPMENT

The effect between corporate governance and company financial performance is not something acceptable universally, although, no there is widespread recognition that the establishment of corporate governance substantially can affect shareholders (Sayidah, 2007). Theoretically, good corporate governance practices can improve company financial performance, reduce possible risks by the board, and increase investor confidence to invest his capital, which impacts its performance (Darwis, 2009). Corporate governance perception index variable positively and significantly affect company operating performance (Nuswandari, 2009).

So, the hypothesis proposed by the writer are:

Ha: GCG positively affects company financial performance.

Ho: GCG does not affect company financial performance. Therefore, the thinking framework in this study is:

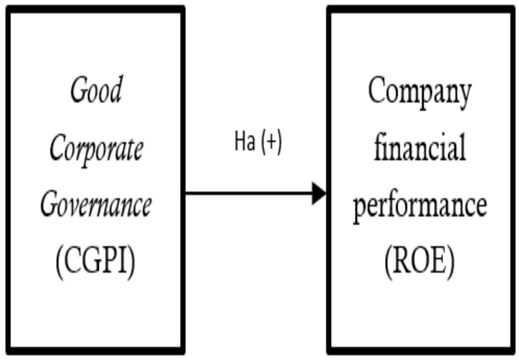

Figure 1. Thinking Framework

METHOD

This research is quantitative research. Quantitative research method can be interpreted as a research method based on positivism philosophy (valid science) which is used to examine population or particular sample, and sampling techniques are generally done randomly, data collection uses research instruments with quantitative data analysis with the aim to test the predefined hypothesis (Sugiyono, 2016)

The research design used in this research is casual research design. Casual research design as a research design which is structured to examine the possibility of causality among variables. This design, the causal relationship has been predicted by the researcher, so the researcher can declare the classification of independent, intermediate, and dependent variables (Sanusi, 2011).

The population is generalization area, which consists of objects / subjects that have certain qualities and characteristics set by the researcher to be studied and then drawn the conclusions (Sugiyono, 2016). The population used in this study are all companies in Indonesia and registered as a participant of the Corporate Governance Perception Index (CGPI) during 2010 - 2016.

The sample is part of a collection of elements that exhibit certain traits which can reflect all the characteristics (Sanusi, 2011). Sampling technique is the researcher's way to take a representative sample or sample of the available population. The sampling technique used in this research as non-random sampling that was purposive sampling technique, wherein this technique based on specific characteristics which are estimated have a relation with the characteristics of the population which have been known previously (Narbuko & Achmadi, 2013)

The sample used in this research was companies registered as a participant of the Corporate Governance Perception Index (CGPI) during 2010-2016 with the following criteria:

Companies registered as Participant of Corporate Governance Perception Index (CGPI) for the period 2010-2016.

Companies which consistently become Participant of Corporate Governance Perception Index for the period of 2010-2016.

Companies listed on Indonesia Stock Exchange and had complete financial data which relate to research variables during the period 2010-2016.

The total population in this study was 225 companies that joined in Corporate Governance Perception Index (CGPI) in 2010-2016, from all companies had been selected as many as 15 companies as a sample which meet the criteria mentioned above. The period of this research was seven years so that the total of unit analysis used in this study was 105 company financial statements. The names of companies involved in the sample of this research can be presented in the table as follows:

Table 2. Sample Company

No	Company Code	Company
1	ANTM	PT Aneka Tambang (Persero) Tbk
2	BMRI	PT Bank Mandiri (Persero) Tbk
3	BBNI	PT Bank Negara Indonesia (Persero) Tbk
4	JSMR	PT Jasa Marga (Persero)
5	KRAS	PT Krakatau Steel (Persero) Tbk
6	TINS	PT Timah (Persero) Tbk
7	TLKM	PT Telekomunikasi (Persero) Tbk
8	ELTY	PT Bakrieland Development Tbk
9	PTBA	PT Bukit Asam (Persero) Tbk
10	WEHA	PT Panorama Transportasi Tbk
11	BNGA	PT Bank Cimb Niaga Tbk
12	UNTR	PT United Tractor Tbk
13	ADHI	PT Adhi Karya (Persero)
14	AUTO	PT Astra Otoparts Tbk
15	GIAA	PT Garuda Indonesia (Persero) Tbk

Research variables

Dependent Variable

The dependent variable is condition or characteristic that changes or appears when the research introduces, modifies, or replaces the independent variable. According to its function, this variable is affected by other variables, therefore also often called as affected variables (Narbuko & Achmadi, 2013).

The dependent variable in this research is company financial performance. Company financial performance describes the financial condition of a company which is analyzed with tools of financial analysis so can know about both good and bad financial condition of the company which reflects work performance in a certain period. Financial performance is measured by using Return on Equity (ROE). Return on equity measures how much net profit can be generated from shareholder's investments in the company. Low ratio can be interpreted that management is less efficient, while a high ratio indicates that management is very efficient (Safitri & Yulianto, 2015).

To measure the percentage of *Return on Equity* (ROE) can use the following formula (Puniayasa & Triaryati, 2016):

$$\text{ROE} = \frac{\text{Net Profit afeter Tax}}{\text{Total own capital}}\ x\ 100\%$$

Corporate Governance Perception Index (CGPI)

Independent variable is a variable that affects or causes the change dependent variable (bound) (Sugiyono, 2016). The independent variable used in this research was the Corporate Governance Perception Index (CGPI).

CGPI is research and ranking of GCG implementation in public companies listed on BEI. Corporate governance perception index is a research conducted by The Indonesian Institute for Corporate Governance (IICG) in cooperation with SWA magazine to measure the level of corporate governance applied in companies in Indonesia. The results of research by IICG are corporate governance indexes ranked by rank. The measurement of CGPI variables is based on the final value of each assessment stage, in the form of a percentage (Indarti & Extaliyus, 2013). According to the Indonesian Institute for Corporate Governance (IICG), to improve the quality of the application of GCG principles by companies in Indonesia, IICG through CGPI program helps companies review the implementation of corporate governance which has done and compare it with other companies.

The measurement of CGPI variables is based on the final value of each assessment stage, in the form of a percentage. Category ranking can be seen in table 3 as follows:

Table 3.Category Ranking of CGPI

No	Score	Trusted Level
1	55,00-69,99	Enough Trusted
2	70,00 – 84,99	Trusted
3	85,00-100	Very Trusted

The definition of each variable can be seen in table 4 as follows:

Table 4. Definition of Variables

Variable	Definition of Variable	Reference
Company financial performance	The amount of net income that can be generated from a shareholder's investment in the company	Puniyasa and Triaryati (2016)
Corporate Governance Perception Index	Scoring rank which is used to measure the level of corporate governance applied in companies in Indonesia	Indarti and Extaliyus (2013)

RESULTS AND DISCUSSION

Analyses which had been done in this research such as descriptive statistics analysis, classical assumption test, the goodness of fit test of the regression model, multiple regression test, and hypothesis test.

Descriptive Analysis

Descriptive statistics is statistic used to analyze data by describing or portraying collected data as they are without intending to make a conclusion, which is generally acceptable or generalization (Sanusi, 2011). Descriptive statistics provide descriptions of data which are viewed from the mean, standard deviation, maximum, and minimum values (Ghozali, 2011).

In this study, descriptive statistics test used to describe data which are seen from the mean, standard deviation, maximum, and minimum. The result of Descriptive statistics test are as follows:

Table 5. The Result of Descriptive Statistics Test

	ROE	CGPI
Mean	0.157960	83.14343
Median	0.145000	85.19000
Maximum	0.378000	93.30000
Minimum	0.003500	67.40000
Std. Dev.	0.092679	6.696031
Skewness	0.166588	-0.832066
Kurtosis	2.110158	2.922714
Jarque-Bera	3.949862	12.14197
Probability	0.138771	0.002309
Sum	16.58580	8730.060
Sm.Sq. Dev.	0.893302	4663.031
Observations	105	105

Company financial performance variable, which is measured by Return on Equity (ROE) shows the value of standard deviation is 9,27%, which is smaller than its mean value. It means that the mean value of 15.80% is higher than the standard deviation value, thus indicates a good result. So with small standard deviation value, then the data distribution shows unbiased and normal results. The minimum ROE value is 0.035% in ANTM issuer means that company financial performance of ANTM is 0.0035 or 0.035%. The maximum value of ROE is 37.80%, which is in PTBA issuer means that company financial performance of PTBA is 0.3780 or 37.80%.

Corporate Governance Perception Index (CGPI) variable is good corporate governance rating with CGPI mean is 83.14; it is good enough because the value has been entered into the trusted category. The standard deviation value is 6.70 is smaller than its mean value. It means that the mean value is higher than its standard deviation value, thus indicates good results. Therefore, the standard deviation is a reflection of the high deviation. The standard deviation value is small; then the data distribution shows the unbiased and normal result.

The minimum value of CGPI is 67.40, which is in ELTY issuer means that the implementation of good corporate governance, which is measured by CGPI done by ELTY company is 67.40.

The maximum value of CGPI is 93.30 in BMRI issuer means that the implementation of good corporate governance, which is measured by CGPI done by the BMRI company is 93.30.

Classic assumption test

Normality test

The aim of the normality test is to test whether, in the regression model, the intruder or residual variable has a normal distribution (Ghozali & Ratmono, 2013). As it is well known that t-test and F test assume that residual value follows the normal distribution. If this assumption is not met, then the result of the statistical test becomes invalid, especially for small sample size. Normality test is done through Histogram-Normality Test, to detect whether residual has normal distribution or not, which can be seen from its probability. When the probability value is more than a (0.05), then the data is normally distributed and vice versa if the probability is less than a (0.05) then the data is not normally distributed. The test result of the normality test is as follows:

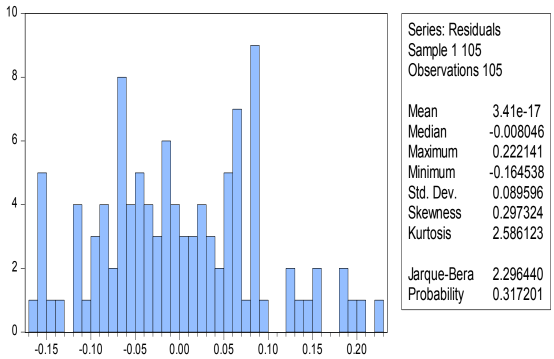

Figure 2. The Result of Normality Test

Based on the result of the normality test in figure 2 shows Jarque-Bera value is 2,29644, and the probability value is 0,317201. Jarque-Bera probability value higher than the significance value (0.317201> 0.05), so it can be concluded that the residual is normally distributed.

Heteroscedasticity Test

One of the assumptions which have to be met in order that the measurement of the parameter in the regression model is Best Linear Unbiased Estimator (BLUE) which is having residual value or homoscedasticity error or have the same variance. Heteroscedasticity in regression model causes inefficient and BLUE estimators, and standard error from the regression model becomes biased so that the value of t statistics and f statistics are biased (Ghozali & Ratmono, 2013).

There are several statistical tests which can be used to detect the presence or the absence of heteroskedasticity such as (1) Glejser, (2) White, (3) Breuch-Food-Godfrey, (4) Harvey, (5)Park. This study used Glejser statistical test to detect the presence or the absence of heteroskedasticity by looking at the result of probability value with 5% significance. If the significance of probability value is Obs * R-squared> 0.05, then the model does not contain heteroscedasticity, and if the significance of probability value is Obs * R-squared <0.05 then the model contains heteroskedasticity (Ghozali & Ratmono, 2013). The result of heteroscedasticity is as follow:

Table 5. The Result of Heteroscedasticity

F-statistic	0.946754
Obs*R-squared	0.956347
Scaled explained ss	0.821959
Prob. F(1,103)	0.3328
Prob. Chi-Square(1)	0.3281
Prob. Chi-Square(1)	0.3646

Based on table 5 above, heteroscedasticity test shows that the probability of Obs * R-squared = 0.3281 or greater than 0.05. So it can be concluded data in this research variable there is no heteroscedasticity on this research model.

Autocorrelation Test

Autocorrelation test is used to determine whether there is a relationship between members from the series of observations arranged in data time series. A good regression model is a regression model that is free from autocorrelation. To determine the existence of autocorrelation then is done test of Durbin Watson (DW) value that will be compared to dw table value with significance 5% with the provision if (Du <DW <4-Du) then there is no autocorrelation in the regression model (Ghozali and Ratmono, 2013). Here are the results of the Durbin Watson autocorrelation test using Eviews 9, which can be seen in the table below:

Table 6. The Result of Autocorrelation Test.

Durbin-Watson stat	1.044093

Based on table 6 above, it can be seen that the Durbin Watson value is 1.044093. the basis for making a decision whether or not there is autocorrelation by looking at Durbin Watson table that is Du <DW <4-Du. This study k = 1 and n = 105 obtained dL value is 1.6627; it can be concluded that 0 <DW <dL, so there is positive autocorrelation in this study because DW value is lower than the lower limit (dL). How to treat autocorrelation problems is by using the Cochrane-Orcutt two-step Procedure method to estimate the Rho value using residual estimate μ value (Ghozali & Ratmono, 2013). The results of the autocorrelation treatment test are as follow:

Table 7. The Result of Autocorrelation Treatment Test

Durbin –Watson stat	1.939724

Based on Table 7, the autocorrelation problem had been treated with the Cochrane-Orcutt two-step Procedure method then obtained DW value 1.939724. Thus DW value 1.939724 greater than the upper limit (dU) that is 1.7011 and less than 4-1.7011 = 2.2989 (4-dU) it can be concluded that dU = 1.7011 <DW = 1.939724 <4 - dU = 2.2989 so there is no problem autocorrelation in this study.

Assessing Goodness of Fit of Regression Model

The accuracy of the function of sample regression in estimating the actual value can be measured from the goodness of fit. Statistically can be measured from the value of determination coefficient and statistics F value (Ghozali & Ratmono, 2013).

Determination Coefficient Test (R^2)

Determination coefficient essentially measures the extent to which the ability of the model in explaining the variation of the dependent variable. The value of determination coefficient is between zero and one. A small R^2 value means the ability of independent variables to explain the variation of the dependent variable is limited. A value close to one means that independent variables give almost all the information needed to predict the variation of the dependent variable.

The fundamental weakness of the use of determination coefficient is bias against the number of independent variables entered into the model. Each additional one independent variable, then undoubtedly value increased, no matter whether the variable affects the dependent variable significantly. Therefore, many researchers recommend using adjusted R^2 value when evaluating which model is the best (Ghozali & Ratmono, 2013).

Table 8. The Result of Determination Coefficient Test

R-Square	0.274246
Adjusted R-square	0.252689

Based on table 8, the result of determination coefficient test, the R^2 value is 0.274246 while adjusted R2 value is 0.252689. Adjusted R^2 value explains that 25.27% variation of the dependent variable of company financial performance (ROE) can be explained by independent variable Corporate Governance Perception Index (CGPI). The remaining value is 74.73% (100% -5.64%) explained by other factors outside the independent variable in this study.

Statistical F Test

According to Ghozali and Ratmono (2013), Statistical F test basically shows whether all independent variables included in the model together affect the dependent variable. To test this used statistical F with the following criteria:

If the significance value in the F test below 0.05, then Ho is rejected and Ha is accepted, which means that there is an effect of independent variables on the dependent variable. Whereas if the significance value in the F test above 0.05, then Ho is accepted and Ha is rejected, which means that there is no effect of independent variables on the dependent variable.

Table 9. The Result of Statistical F test

Prob-statistic	12.72186
Prob (F-statistic)	0.000000

The result of statistical F test in table 9, the value of F-Statistic is 12.72186 and prob value (F-Statistic) is 0,000000. Prob value (F-Statistic) is smaller than the significance level 5% or 0.05; then it can be concluded that independent variables affect the dependent variable.

Simple Linear Regression Test

Simple regression is based on the functional or causal relationship of one independent variable with one dependent variable. (Sugiyono, 2016) The regression model is generally declared in the following equation:

$Y = \beta 0 + \beta 1CGPI + e$

Description:

Y : ROE as a measure of the company's financial performance

β0 : Constants

β1 : Coefficient of regression corporate governance perception index

CGPI : Corporate governance perception index

The result of simple linear regression test can be seen in table 10:

Table 10 The Result of Simple Linear Regression Test

Variable	Coefficient
C	-0.05890
CGPI	0.002595

Based on table 10, the regression equation in this research can be written as follows:

Y = -0.058903 + 0.002595 CGPI + e

From the result of the regression equation, the influence of each variable towards company financial performance can be interpreted that the constants are equal to -0.058903 indicate that if corporate governance perception index (CGPI) constant, then the mean value of financial performance is -0.058903. Corporate governance perception index (CGPI) variable has a positive coefficient that is 0.002595. The positive coefficient value indicates that CGPI has a positive effect on company financial performance. This illustrates that if the CGPI variable increased by one unit with the assumption that another variable is fixed, then it will increase the average of company financial performance that is 0.002595 (0.2595%).

Hypothesis testing

Hypothesis testing used in this study was statistical t-test. Statistical t-test basically indicates how far the effect of one independent variable on the dependent variable with the assumption that another independent variable is constant (Ghozali & Ratmono, 2013). If the decision-making of the significance level is 5% or the confidence level is 95% then has the following criteria:

If the significant value in t-test below 0.05, then H0 is rejected and Ha is accepted, which means that there is an effect of the independent variable on the dependent variable. If the significance value on t-test above 0.05, then H0 is accepted and Ha is rejected, which means that there is no effect of the independent variable on the dependent variable. The result of t-test with dependent variable Return on Equity (ROE) can be seen in table 11:

Table 11. The Result of Hypothesis Testing

Variable	Coefficient	Prob.
C	-0.058903	0.5864
CGPI	0.002595	0.0520

Based on table 11, the result of hypothesis testing with t-test for CGPI variable shows positive regression coefficient that is 0.002595 with probability significance value is 0.0520> 0.05; then it can be concluded that CGPI has an insignificant positive effect on company financial performance.

When CGPI increased, the company financial performance also increased by 0.002595 and vice versa if CGPI decreased, the company financial performance also decreased by 0.002595 units. Based on the results of this research, so the hypothesis **Ha,** which says Good Corporate Governance (GCG) has a positive effect on company financial performance is **rejected** because it is not significant.

Table 12. Summary of The Result of Hypothesis Testing

Hypothesis	Statement	Result
Ha	*Good Corporate Governance* (GCG) has a positive effect on company financial performance	Rejected
Ho	*Good Corporate Governance* (GCG) has no effect on company financial performance	Accepted

Discussion

The relationship between corporate governance and company financial performance is not something that is generally acceptable, although now there is widespread recognition that the establishment of corporate governance can substantially affect shareholders. Companies listed on the Indonesia Stock Exchange and followed the survey, which was conducted by IICG if the companies applied good corporate governance correctly, then the company performance would increase (Sayidah, 2007).

The effect of Corporate Governance Perception Index (CGPI) variable on company financial performance is positive and insignificant. This can be seen from the value of CGPI coefficient that is 0.002595 with significance probability value is 0.0520> 0.05. The results of this study are not in line with the predefined hypothesis in this research, which says GCG has a positive effect on company financial performance. So it can be concluded that GCG does not have an effect on company financial performance.

GCG has a positive effect on company financial performance shows that the higher the implementation of corporate governance, which is measured by corporate governance perception index, the higher the obedience level of company and produce excellent corporate performance. Theoretically, good corporate governance practices can improve company financial performance, reduce the risks that may be made by the board with favorable decisions for the board itself and generally good corporate governance can increase investor confidence to invest capital that impact on its performance (Darwis, 2009).

Insignificant results of GCG effect on company financial performance is because of indirectly market response to the implementation of corporate governance so that it will take time. The effect of corporate governance on market performance tends to be seen only in the long term because it is related to trust level of investors (Darmawati et al., 2005) from the results of this study, it can be concluded that there is no effect of GCG on company financial performance. The results of this study are supported by the research conducted Meythi and Devita (2011), which found that CGPI did not have an effect on company financial performance.

CONCLUSIONS AND SUGGESTIONS

Based on the results of this research and discussion about good corporate governance which is proxied by CGPI towards company financial performance, it can be concluded that corporate governance perception index has no significant positive effect on company financial performance in companies registered as participants of corporate governance perception index (CGPI) in 2010-2016.

For the company, management should be able to maintain and improve the implementation of good corporate governance. Because the results of this study proved that good corporate governance, which is proxied by the corporate governance perception index has an insignificant positive effect on company financial performance (ROE). Thus, by entering as a registered company in CGPI, investors will trust to invest in the company. Suggestion for the investors before investing should consider the implementation of good corporate governance when deciding investment in a company. Because the results of this research show that CGPI does not have an effect on company financial performance. Investors will invest in companies that implement Good Corporate Governance (GCG), the financial performance of those company is not always right, although with the implementation of GCG, then the investor rights will be protected. For the next researcher, the result of this research indicates that good corporate governance has no effect on company financial performance, so right corporate governance variable describes the effect on company financial performance is small. Because the results show that the value of the coefficient is still low Researchers then can add other variables that affect company financial performance such as capital structure and financial statements quality.

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