Research Article

The Effect of GCG on Company Profitability (Studies of Food and Beverage Companies Listed on The Indonesian Stock Market) 2014-2018)

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Abstract: This study aims to determine the effect of good corporate governance on profitability in food and beverage companies listed on the Indonesia Stock Exchange for the period 2014 to 2018. The sample in this study is 14 financial reports. The research method used in this research is descriptive and explanatory methods. The sampling technique used in this study was non-probability sampling with a purposive sampling method. The data analysis used in this study was panel data regression analysis at a significance level of 5%. The program used in analyzing data uses the SPSS v20 program. The results showed that good corporate governance has an effect on profitability.

Keywords: good corporate governance, profitability

1. Introduction

Profitability measures the Organization ability to make a profit relative to its sales, total assets and own capital (Sartono, 2001). Profitability is important in an effort to maintain its survival in the long term, because profitability shows whether the business entity has good prospects in the future. The Financial performance is the most factors that potential investors see to determine the investment in stocks. For a company, financial performance is one of the most important factor that these shares continue to exist and are still in demand by investors. This financial information has a function as a means of information, a tool of management accountability to company owners, a description of the company's success indicators and as a consideration in decision making (Harahap, 2004) in (Alfredo et al., (2012). The capital market often uses this information as a benchmark or guide in buying and selling shares of a organization.

The Business Organization financial performance can be assessed using financial ratio analysis which can be see from the c Organization 's financial statements (Fahmi, 2013: 106). The profitability ratio is a very important indicator because it is used to determine the extent to which the investment to be made in a Oragnization is able to give an appropriate return (Tandelilin,2010). The profitability ratio according to Kasmir (2015) consists of four types, PMS, ROA, ROE and EPS. PMS is one of the ratios used to measure the profit margin on sales, return on assets is a ratio that shows the results (return) on the total assets used in the company, return on equity or capital profitability itself is a ratio to measure net profit after tax with own capital and Earning per share of common stock or the ratio of earnings per share is a ratio to measure the success of management in achieving profits for shareholders.

Two issuers in Indonesia were included in the list of 50 Best Issuers in GCG Practices in ASEAN at the 2015 ASEAN Corporate Governance Awards held by the ASEAN Capital Markets Forum (ACMF) in Manila, Philippines. The two issuers are PT Bank Danamon Tbk and PT Bank CIMB Niaga Tbk. This achievement is certainly still far behind Thailand, which was able to place 23 issuers, the Philippines 11 issuers, Singapore eight issuers and Malaysia six issuers. according to Wimboh Santoso, Chairman of the OJK Board of Commissioners. Good GCG implementation is the main aspect of building solid company fundamentals, the company's financial performance will not be sustainable if it is not based on good governance practices. In addition, an annual report supported by GCG will increase transparency and public accountability, thereby increasing investor confidence. (Safyra Primadhyta, 2017; Mutereko, 2019).

GCG to Syakhroza (2005) are: "Good corporate governance (GCG) is a good system and structure in managing the company by increasing shareholder value to accommodate various parties that have an interest in the company (stakeholders), such as: creditors, suppliers, business associations, consumers, workers, government, and the wider community".

In relation to company performance, good corporate governance becomes the basis or guideline in carrying out the company's internal management, whether or not an internal management of a company will have an impact on the company's performance itself where the performance results will be directly proportional to the level of income which will also have an impact on the price level shares of the company.

2. Literature Review

2.1. GCG

The definition of good corporate governance according to the World Bank quoted in Emirzon (2007) states that: "Good Corporate Governance is a collection of laws, regulations, and rules that must be met which can encourage the performance of company resources to work efficiently, resulting in economic value. long-term sustainability for shareholders as well as for the surrounding community as a whole ".

Meanwhile, according to the Indonesia Stock Exchange: "Good Corporate Governance is a system designed to direct the management of a company in a professional manner based on the principles of transparency, accountability, responsiveness, independence as well as fairness and equality".

The FCGI (Forum for Indonesian Corporate Governance) the goal of GCG is to give added value for all interested parties. GCG is intended to:

a. Regulate the relationships between shareholders, the board of commissioners, and the board of directors.

b. Prevent significant mistakes in corporate strategy. The corporation is a mechanism that is built so that various parties can contribute in the form of capital, expertise, and manpower, for mutual benefit.

c. Ensuring that any errors that occur can be corrected immediately. The capital market industry has developed

2.2. Profitability

according to Fahmi (2013: 135) the profitability ratio is: "The ratio to measure the effectiveness of management as a whole which is indicated by the size of the level of profits obtained in relation to sales or investment". The better the profitability ratio, the better it describes the company's high profitability.

2.3. Framework of Theoretical and Hypotheses

GCG aims can improve the value of the companies. If GCG can run well, it can increase business success and company accountability, then the possibility of company performance will increase so that it can attract other investors to invest in the company. GCG variables are independent variables and company profitability as the dependent variable.

With the implementation of corporate governance, it plays a very important role in the health process of the national economy. The idea of implementing GCG in Indonesia is the starting point for changing the work culture of the company. With GCG, it is hoped that companies and governments can run in accordance with the principles of healthy practices in all fields.

The hypothesis in this study is "Good Corporate Governance has an effect on profitability."

3. Research Method

The dependent is profitability which is proxied by ROI. While The Independent variable is GCG (Decree of the Minister of BUMN Number SK-16 / S.MBU / 2012) which is proxied by the Commitment to the Implementation of Sustainable Governance, Shareholders and General Meeting of Shareholders/Capital Owners, Board of Commissioners./Supervisory Board, Directors, Information Disclosure and Transparency and Other Aspects. Information Disclosure and Transparency and Other Aspects. The analysis used regression analysis. The data source used is the financial statements obtained from 14 companies on the Indonesia Stock Market. The sampling this study was used purposive sampling type.

4. Result and Discussion

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	2,744	,943		2,911	,005			
	GCG	-2,830	1,297	-,256	-2,183	,033	-,256	-,256	-,256

a. Dependent Variable: Profitability

The regression equation model formed based on the research results is as follows:

$$Y = 2,744 - 2,830X$$

From the model above, it can be explained as follows:

a) If the constant value is 2.744, it means that if the independent variable, namely the good corporate governance variable is considered constant (worth 0), then the dependent variable, namely the Profitability variable measured through return on investment (ROI), will be worth 2.744.

b) If the regression coefficient value of the good corporate governance variable shows -2,830, it means that if the good corporate governance variable has increased by (one) unit, then the dependent variable, namely the Profitability variable measured by return on investment (ROI), will decrease by 2.830.

Based on the results of hypothesis testing in the regression model above, the significance value of the good corporate governance variable is 0.03<0.05 (significant level of research significance). It can be concluded that H1 is accepted, meaning that the variable good corporate governance has an effect on profitability as measured by return on investment.

The results show that the average value of return on investment in food and beverage sector companies listed on the Indonesia Stock Exchange for the 2014-2018 period shows a fluctuating value, meaning the ability of food and beverage sector companies listed on the Indonesia Stock Exchange for the 2014-2018 period to obtain profit in one period from the assets owned and used by the company shows that financial performance is not optimal. The high return on investment value illustrates that the company's high ability to earn profits from the assets owned and used by the company. The low return on investment value illustrates that the company's low ability to earn profits from the assets owned and used by the company. The increase in the value of return on investment is due to increased company sales, lower operating expenses, and optimal management of company assets. The decline in the value of return on investment was caused by decreased sales of the company, high operating expenses of the company, and less optimal management of company assets.

5. Conclusion

Based on the research, that:

a) Implementation of GCG in food and beverage companies listed on the IDX from 2014 until 2018 period is very good.

b) GCG affects to profitability of the food and beverage companies listed IDX from 2014 until 2018 period is very good.

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