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Corporate Governance on Profitability of State-Owned Companies

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Abstract
Profitability is always interesting to use as a basis for determining decisions related to financial policies to be taken. Deeply rooted profitability can be used as a sensor for the achievement of company performance, especially in financial performance. This study aims to prove whether corporate governance in state-owned companies can affect profitability. The corporate governance used is detailed with the proxies used in this study using the board of directors, independent board of commissioners, and audit committee. The study took data on BUMN companies listed on the Indonesia Stock Exchange with coverage from 2016 to 2022 which included an initial number of 34 BUMN companies, but companies that met the criteria were 19 BUMN with a total of 133 data but there were 19 outlier data to obtain data that met the test requirements, so that the data processed in this study was 144 data. The results showed that the audit committee proved to have a significant effect on profitability. However, it is surprising that the results of this study failed in proving the influence of the board of directors and the independent board of commissioners on profitability.

Introduction

Profitability is an important indicator for investors in assessing the performance of a company because it shows the company's ability to earn profits and the level of return that will be received by investors. Profitability illustrates whether a business entity has good opportunities or prospects in the future. The higher the profitability of a business entity, the more secure the company's ability to maintain its survival (Hermuningsih, 2013). Profitability is the ability of a company to earn profit (profit) in a certain period. According to Husnan (2001), profitability is the ability of a company to generate profits at the level of sales, assets, and certain share capital. Profitability also has an important meaning in maintaining its long-term survival.

One of the ways to increase company profitability can be achieved through the creation of good governance within the company. According to Daniri (2006) the management of the company in an effort to achieve profit and sustainability in a balanced manner, can be achieved through the implementation of corporate governance. Good Corporate Governance (GCG) is not a new phenomenon or rule for companies, GCG has long developed and has become increasingly prominent since the 1997 economic crisis experienced by Indonesia. The collapse of various companies at that time, one of which was suspected by poor corporate governance (bad governance). Currently, the implementation of GCG has begun to be handled seriously, including in SOEs. This can be seen through the issuance of laws and regulations related to GCG, namely Per-01 / MBU / 2011 concerning the implementation of Good Corporate Governance practices in State-Owned Enterprises (BUMN).

Corporate Governance is a system to control, supervise companies in carrying out various activities, achieving goals and creating added value for stakeholders. The economic crisis that occurred in Indonesia in 1997 was caused by the absence of good corporate governance. Therefore, every company must implement corporate governance properly to maintain long-term survival. Corporate governance is related to the ways in which all parties take action / adopt mechanisms that protect the interests of stakeholders. Corporate governance relates to the relationship

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between management, the board of directors, controlling shareholders, monitoring shareholders and other stakeholders.

Performance is not optimal, Commission VI urges the implementation of Good Corporate Governance in SOEs. BUMN performance obtained a net profit of 126 trillion. Member of Commission VI of the House of Representatives, Amin AK, appreciated the achievement of profits amidst the conditions in 2021 that Indonesia has not yet escaped from the Covid 19 Pandemic. However, the contribution of State-Owned Enterprises (BUMN) to state revenue to date is considered not optimal. This can be seen from the return on assets (ROA) value in 2021 of only 1.36%, calculated from the total net profit compared to total assets of IDR 9,295 trillion. if referring to the deposit interest rate of 4%, BUMN profits should reach above IDR 372 trillion a year. The suboptimal performance of SOEs is since the principles of good corporate governance have not been fully implemented. SOEs must be managed more professionally, free from political interests and political interests, including reciprocity. The appointment of human resources, both directors and commissioners, must prioritize professional considerations.

The board of directors has the right to represent the company in matters outside and inside the company. This indicates that if there is only one board of directors, then that person is the one who represents the company both outside and inside affairs. It will be different if the number of directors is more than one person. The number of board of directors will affect the speed of company decision making. The more members of the board of directors, the clearer the division of duties of each member which of course has a positive impact on stakeholders. Research conducted by Nugroho (2014) states that the number of boards of directors has a positive and significant effect on company profitability.

The important role of the board of commissioners in overseeing company management is expected to increase through the existence of an independent board of commissioners, considering that the independent board of commissioners is not part of the board of directors, board of commissioners or shareholders (KNKG, 2006). Dechow et all (1996), Peasnell, Pope et all (2001), Chtourou et al (2001), Klein (2002), Suranta and Midiastuti (2003), Xie et all (2003) concluded that company performance can be influenced by the proportion of outsider board members, because independent board members can improve supervisory actions. Different results were found by Winnie (2009) independent commissioners have no effect on the performance of public companies in Indonesia.

The audit committee has an important role, namely maintaining the integrity of the process of preparing financial statements, as well as maintaining the realization of adequate control so that company control will increase, to minimize management conflicts (Sam'ani, 2008). The results of research by Sulestyo and Ghozali (2012) state the results that the audit committee has a significant positive effect on the level of company profitability, in contrast to the results found by Herdianto (2013) the size of the audit committee board has no effect on the level of profitability. The results of previous research that still show inconsistencies in research on the company's financial performance are the basis for the need to conduct this research. In addition, this research is also important to be carried out not only for the subjective justification of the researcher but also based on the phenomena that occur and previous research.

Agency theory is the relationship that occurs between the owner (principal) and the manager (agent) Jensen and Meckling (1976). An agency relationship arises when one or more individuals (employer) pays another individual (agent or employee) to act on his behalf, delegating the power to make decisions to the agent or employee. The relationship arises between shareholders and managers, as well as shareholders and creditors (bondholders). In an agency relationship there is a contract between the principal and the agent to perform a service on behalf of the principal and authorize the agent to make the best decision for the principal (Haryanto, 2014).

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According to Bukhori (2012) agency theory comes into effect when there is a contractual relationship between the owner of capital (principal) and the agent. Principals who are unable to manage their own companies hand over the responsibility of operating their companies to agents in accordance with the employment contract. The management as an agent is morally and professionally responsible for running the company as well as possible to optimize the company's operations and profits. In return, the manager as an agent will receive compensation in accordance with the existing contract. Meanwhile, the principal controls the performance of the agent to ensure that the capital that has been invested develops optimally. According to Setia Atmaja (2008) shareholders want managers to work with the aim of maximizing shareholder prosperity, otherwise company managers may act not to maximize shareholder prosperity, but to maximize their own prosperity.

Agency problems arise because of the relationship between the agent and the principle when a conflict arises between the expectations and goals of the principle of the directors (Haryanto, 2014). Management often acts not as expected by shareholders because it also has its own interests, namely increasing management's own prosperity. In this theory, the relationship between principals and agents is essentially difficult to create because of conflicting interests (Conflict of Interest). The conflict and attraction of interests between principals and agents can lead to problems known as Asymmetric Information (AI), which is unbalanced information due to the unequal distribution of information between principals and agents (Sulistyowati & Fidiana, 2017). The dependence of external parties on accounting numbers, the tendency of managers to seek their own benefits and the high level of AI, causes a great desire for managers to manipulate reported work for their own interests. With this, financial reporting practices often cause non-transparency which can lead to conflicts between principals and agents. As a result of management behavior that is not transparent in presenting this information, it will become a barrier to GCG practices in the company (Sulistyowati & Fidiana, 2017).

The board of directors has a very vital role in a company. The board of directors has the task of determining the policy direction and strategy of the resources owned by the company, both for the short and long term. In the Limited Liability Company Law, it is explained that the board of directors has the right to represent the company in matters outside and inside the company. This indicates that if there is only one board of directors, then that person is the one who represents the company both outside and inside affairs. It will be different if the number of directors is more than one person. The number of board of directors will affect the speed of company decision making. The more members of the board of directors, the clearer the division of duties of each member which of course has a positive impact on stakeholders. In addition, the more members of the board of directors, the better the network with parties outside the company will be. The ideal board size depends on the characteristics of each company (Nugroho & Rahardjo, 2014). Research conducted by Nugroho (2014) states that the number of boards of directors has a positive and significant effect on company profitability. The more the number of boards of directors, the higher the profitability. And vice versa, the less the number of boards of directors, the less profitability. The more members of the board of directors, the more experts there are in the company who have operational capabilities in various fields and divisions. So that the company's vision, mission and strategy can run according to plan.

H_1: The board of directors has a positive effect on company profitability.

The independent board of commissioners can improve the supervisory function of the company. The independent board of commissioners is a commissioner who has no family or business relationship with the board of directors or shareholders (Candradewi et al., 2016). The existence of an independent board of commissioners in the company can reduce agency problems and prevent opportunistic behavior. Jensen and Meckling (1976) state that, the greater the number of monitors, the lower the likelihood of conflict and ultimately will reduce agency costs. An independent board of commissioners can help the company avoid external threats, so that the company can maintain company resources to get more profit which in turn can increase profitability. Research conducted by Widiawati (2014) shows

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that there is a positive and significant influence between the independent board of commissioners on company profitability as measured by ROE. The independent board of commissioners determines the success of the company in achieving its goals and improving company performance.

H_2: The independent board of commissioners has a positive effect on company profitability.

The existence of an audit committee has the role of assisting the board of commissioners in supervising management to achieve the interests of stakeholders. With the increasing number of audit committee members, the supervision carried out will be better and is expected to minimize management's efforts to manipulate data issues as well as those related to finance and accounting procedures, so that company performance will also increase. The number of audit committee members must be adjusted to the complexity of the company while still paying attention to effectiveness in decision making. According to the KNKG (National Committee on Governance Policy) (2006) to build an effective audit committee, the number of members required is 3-5 people. Research conducted by Yasser et al. (2011) shows that there is a positive and significant influence between the audit committee on company profitability. The number of audit committees also ensures the effectiveness of the audit committee's performance in carrying out the supervisory function.

H_3: The audit committee has a positive effect on company profitability.

The relationship between the independent variable and the dependent variable in this study can be explained by the following model:

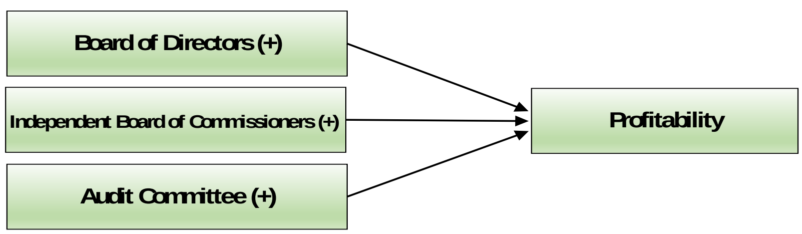

Figure 1. Research Framework

Methodology

The population in this study were BUMN companies listed on the Indonesia Stock Exchange for the 2016-2022 time. The sampling technique in this study uses Purposive Sampling with criteria: The BUMN company did not experience delisting in 2016-2022, issued and published complete and audited financial reports during 2016-2022, and earned profits during 2016-2022. There are 34 BUMN companies listed on the IDX, but there are 19 companies that meet the specified criteria. With the research year from 2016-2022 (7 years), the amount of data used is 133. To obtain good data results, in this study there were 19 outlier data, so that the data processed was 114. Variable descriptions and measurements can be explained in the table as follows:

Table 1. Operational Definition and Variable Measurement

Variable	Definition	Indicator
Profitability (Dependen)	The net result of several company policies and decisions (Mufidah and Purnamasari, 2018).	$Return\ On\ Asset = \frac{Net\ Income}{Total\ Assets}\ x100\%$
Board of Directors (Independen)	Parties in a corporate entity as executors of the company's operations and management.	Number of all members of the board of directors in the company that is the object of research.

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Variable	Definition	Indicator
Independent Board of Commissioners (Independen)	The highest internal control mechanism that is collectively responsible for supervising and providing input to the board of directors and ensuring that the company implements Good Corporate Governance.	Number of members of the Board of Commissioners.
Audit Committee (Independen)	Committee formed by and responsible to the Board of Commissioners in order to help carry out the duties and functions of the Board of Commissioners.	Number of Audit Committee Members.

Result And Discussion

Results

Descriptive statistics (table 3) show that the number of samples is 114. Profitability has a minimum value of 1.00 and a maximum value of 2189.00 while the average value is 317.3193 with a standard deviation of 382.77537, this means that the mean value is smaller than the standard deviation, so the distribution of profitability variable data is unevenly distributed. Furthermore, the board of directors has a minimum value of 4.00 and a maximum of 13.00 while the average value is 7.5702 with a standard deviation of 2.36108, this means that the mean value is greater than the standard deviation, so the distribution of the board of directors' variable data is evenly distributed. The board of commissioners has a minimum value of 3.00 and a maximum of 11.00 while the average value is 6.4737 with a standard deviation of 1.55837, this means that the mean value is greater than the standard deviation, so the distribution of the board of commissioner's variable data is evenly distributed. The audit committee has a minimum value of 3.00 and a maximum of 8.00 while the average value is 4.4614 with a standard deviation of 1.21957, this means that the mean value is greater than the standard deviation, so the distribution of the audit committee variable data is evenly distributed.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std.Deviation
Profitability	114	1,00	2189,00	317,3193	382,77537
Board of Directors	114	4,00	13,00	7,5702	2,36108
Independent Board of Commissioners	114	3,00	11,00	6,4737	1,55837
Audit Committee	114	3,00	8,00	4,5614	1,21957

Source: Data Processed

The classic assumption test results show that the data is normally distributed with testing using the One-Sample Kolmogorov-Smirnov Test resulting in a significance value of 0,572 (>0,05). In addition, the results of data analysis also show that the data is free from multicollinearity, heteroscedasticity, and autocorrelation.

Table 3. Multiple Linear Regression Analysis Results

Hypothesis	B	t	Sig.	Result
Board of Directors	-0,132	-1,503	0,136	Not Significant
Independent Board of Commissioners	-0,163	-1,343	0,182	Not Significant
Audit Committee	0,341	2,629	0,010	Significant

Source: Data Processed

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Based on the table above, the data is determined by a multiple linear regression model which is expressed in the form of the following equation: Y = 5,538 - 0,132 X1 - 0,163 X2 + 0,341 X3 + e

The next test results are to determine the Adjusted R Square value and Anova test with the following results:

Table 4. Adjusted R Square Value and Anova Test

No.	Description	Score	Sig.
1	Adjusted R Square	0.047	
2	Anova	F= 10.665	0,000

Source: Data Processed

Discussion

The test results show that the board of directors' variable has a t-statistic value of -0.411 and a significance level of 0.682. This indicates that the board of directors has no significant effect on company profitability, as the significance value is greater than 0.05 (>0.05). As a result, the proposed hypothesis (H1) is rejected. Although the board of directors has an important role in ensuring the sustainability of the company through strategic oversight, decision-making and resource management, the results of this study indicate that this role does not directly affect profitability. One possible reason is that the greater the number of board members, the higher the potential for differences of opinion that can slow down the decision-making process. This coordination ineffectiveness may reduce the board's ability to formulate and implement policies that support increased profitability.

In addition, this result may also be influenced by a board structure that may not be optimal, such as a lack of industry-specific expertise, weak independent roles, or reliance on certain executive decisions. These conditions may cause the control and supervisory functions of the board of directors to not run effectively. This study is consistent with the findings of Dian (2018), which also states that the board of directors has no effect on profitability. These findings provide implications for companies to evaluate the effectiveness of the structure and work dynamics of the board of directors, especially in the context of coordination, division of tasks, and development of board member competencies relevant to the company's strategic goals. For future research, it is recommended to explore moderating or mediating variables, such as organizational culture or leadership effectiveness, which may affect the relationship between the board of directors and profitability.

The board of commissioners has no effect on profitability. The results of this study support previous research conducted by Mutmainah (2018), which concluded that the proportion of the board of commissioners has no significant effect on profitability. This absence of significant influence can be caused by several factors, one of which is the role of the board of commissioners which is more supervisory and not executive. As such, their involvement in strategic decisions that directly impact profitability may be limited. In addition, the effectiveness of the board of commissioners can be affected by various aspects, such as the level of independence, experience, frequency of meetings, and the quality of communication between the board of commissioners and management. In some cases, the board of commissioners may only play a symbolic role without having a real contribution to the strategic decision-making process aimed at improving the company's financial performance.

Other factors that may influence this finding are the complexity of the organizational structure and the internal dynamics of the company. In companies with complex structures, the role of the board of commissioners tends to be more formal and limited to fulfilling regulations, making their influence on profitability insignificant. This study also highlights the importance of evaluating the quality and effectiveness of board functions to ensure that they can provide real added value to the company. The findings imply that companies need to improve the quality of governance through strengthening the role of the board of commissioners, such as providing relevant training,

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increasing transparency, and encouraging more active communication with management to support the improvement of the company's financial performance.

The test results show that the audit committee variable affects profitability, with a significance value of 0.002, which is smaller than the 0.05 significance limit. This means that the hypothesis (H3) is accepted. These results indicate a negative relationship, that is, the more members of the audit committee, the profitability tends to decrease. Conversely, a decrease in the number of audit committee members can have an impact on increasing profitability. The decrease in profitability when the number of audit committees increases may be due to the additional operational expenses incurred, such as meeting costs, training, or other incentives. Such expenses, while important to improve oversight, may reduce operating cost efficiency, especially if the roles and responsibilities of the audit committee are not effectively optimized.

However, it is important to note that the audit committee has a crucial role in helping the board of commissioners oversee the company's activities, particularly in the oversight of internal control systems, risk management, and ensuring transparency of financial reporting. The audit committee also acts as a liaison between the internal and external auditors, thus contributing to the integrity of the financial statements. The audit committee's close supervision of the company's internal controls can increase stakeholder confidence and reduce potential financial or operational risks. The findings of this study are in line with the research of Putra et al. (2017), which also found a negative relationship between the number of audit committee members and profitability. This indicates that the effectiveness of the audit committee is not always determined by the quantity of its members, but rather the quality, competence, independence, and active contribution of each member in carrying out the supervisory function.

The practical implication of these results is that companies need to evaluate the ideal number of audit committee members, considering the balance between the need for effective supervision and operational cost efficiency. In addition, companies can also allocate resources to improve the competence of audit committee members so that they are able to make a greater contribution to achieving company goals.

Conclusions

This study examines the effect of corporate governance proxied by the board of directors, board of commissioners, and audit committee on profitability. Based on the data analysis that has been carried out, the results show that the board of directors and the board of commissioners are not proven to have a significant influence on profitability. This indicates that the strategic role of the board of directors and board of commissioners in decision making does not always directly correlate with the company's financial results. In contrast, the audit committee shows a positive and significant influence on profitability. This finding confirms the importance of an effective audit committee in ensuring compliance, transparency, and quality of financial reporting, which in turn contributes to increased corporate profitability.

Limitations

This study uses corporate governance mechanisms contracted with company profitability, but there are still limitations experienced and can be several factors that will be of greater concern to future researchers. Some of the limitations in the study, among others: this research only focuses on BUMN companies, for future researchers can examine other companies outside BUMN companies. The adjusted R square value which shows a value tends to be still small, namely 0.047 or 4.7%. This indicates that there are still many other factors that can affect profitability that have not been examined in this study, for future research it is expected to explore more deeply other factors that can affect profitability.

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Research Contribution

This research is expected to add insight and knowledge about the factors that affect the profitability of BUMN companies on the Indonesia Stock Exchange, this research is expected to be a reference in the financial sector so that it can be useful for further research on company profitability, Good Corporate Governance (GCG) in the future. For companies to be able to pay attention to financial performance which is a benchmark in assessing the level of company performance, because by seeing a good level of company performance, investors will be more interested and trust in the company, as well as providing an overview of GCG in BUMN companies and knowing the supporting and inhibiting factors of GCG. For investors as a consideration for investors in making business decisions, do not only focus on earnings information but also consider non-financial information, such as the existence of internal company mechanisms. For the government, it can take policies regarding BUMN in managing BUMN companies more optimally and with quality, especially about corporate governance in BUMN companies.

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