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Implementation of Good Corporate Governance on Financial Performance Coal Companies Moderated by Capital Structure

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ABSTRACT

Coal mining companies is built to serve and maintain the stability of domestic coal supply, especially at PLTU so that large economics of scale can be achieved, in order for this to happen, it is necessary to have good corporate governance in order to create economic value added for the growth and development of the company. This study aims to determine how much capital structure could moderated relationship between good corporate governance and economic value added of the coal companies. The research method used is a quantitative descriptive. This study samples are coal mining company listed at Indonesian exchange stock between 2015 and 2019. Moderated regression analysis was used in this study to analyze the data. The result showed that with capital structure as moderate variable, board size committee audit that has a positive significant effect on economic value added and managerial ownership has a negative significant effect. While, size board of director hasn't significant effect

Keywords: capital structure, financial performance, good corporate governance

INTRODUCTION

Coal companies are one of the industries that support economic growth, especially in the field of energy in the country that plays a role in the supplier of fuel generation, but to achieve the growth of investment feasibility of coal companies required good corporate governance by management because good corporate governance aims to build trustness against internal and external shareholders. However, this is still not noticed by the management of coal companies because there are some cases of coal company management that do not show transparency in the information needed for investors by distorting information on financial statements, so that it will cause an agency problem between principals and agents against company. According to Purwani (2010), Good corporate governance is a good governance system that has arrangements to regulate relationships with interested and control added value. GCG principle is very influential on financial performance where the better the implementation of governance in the company will be increasingly rising at the company's financial performance, most companies ignore corporate governance so much that the company's performance decreases because it complains of poor governance. According to Kusmayadi (2015), a company that wants to benefit from the capital market and get long-term capital then it is necessary to implement good corporate governance tends to move in a positive direction consistently and effectively but if the company does not need foreign capital resources and loans then the only way is to use the application of good corporate governance in a praktik so as to convince domestic investors to place their funds in the company. The basic purpose of good corporate governance is to ensure that

the company runs effectively and is responsible for providing added value to all stakeholders, especially for shareholders, employees and the community as a whole where the company operates therefore, dihar apksan all members of the company fully supervise the image of the company related to the attitude, behavior and performance of the company.

But it is worth considering again, looking at the side of the company's equity structure because the capital structure is the result of funding decisions in using equity or debt, in order to fund the investment and operations of the company optimally, If the company has a high potential risk of loss, then using more loan debt is the optimal capital funding method for the company, if the company has a large risk every year, then the company will potentially default or roll out (Sutomo et al., 2020). As in empirical research by Hafsah and Sri Sutra Sari (2015) suggests that companies that have a capital structure using a high proportion of debt, the company will be more likely to produce high financial performance because companies that have high debts will increase sales growth, so it will show the ability of the company in paying a larger cost of debt, in addition to companies that have large debts will get cheap interest costs that can increase economic added value (EVA).

The method of measuring financial performance in each company's financial statements uses financial ratios, but the method is still conventional because the method does not attach importance to capital costs so it is difficult to calculate the added value in the company. There are 4 advantages of EVA method compared to financial ratio method is the first, according to Prusty (2013) EVA measurement is based on net operating profit that aims to reduce capital costs so that it can be adapted in the philosophy of increasing investment productivity and flowing to unite the vision and mission of all management and employees of the company. Second, EVA method focuses on minimizing capital costs because capital costs are one of the investment risks that need to be avoided by investors while the method financial ratio cannot measure a company's capital costs. Third, according to Hanike (2010), EVA method plays more roles in the function of the company, especially the investment feasibility and decision-making on the sustainability of the company. Fourth, based on the results of research by Tutut (2020) concluded that economic added value can be created from the decrease in the value of profit every year unless the value is negative. From these advantages can be proven that investors make EVA as a guideline to invest in the company because the greater the value of EVA, the higher the rate of return, to measure the movement of financial performance as a whole need to use the EVA method because it can describe real profit and investment, especially in coalmining companies. Analysis of financial performance can be influenced by the realization and target side of the company in benchmarking a managerial period.

A previous research study conducted by Lusiana (2017) stated that good corporate governance has a significant influence on financial performance. The same is stated by Pulungan. (2019) that the influence of good corporate governance can practically improve financial performance and can apply good risk management to self-beneficial board decisions. Pattisina et al. (2015) in applying GCG to financial performance using an economic value added approach as a measure of financial performance. Prusty research (2013) states the framework of EVA methods is reflected in the better value and profitability to withstand the challenges of increasingly efficient capital markets and owners, so that today's industry wants to shift products centered in the past into the future era.

So far, coal mining companies in Indonesia have relied solely on financial ratio methods to measure the company's performance in financial statements. Therefore, the company must utilize EVA method to provide value-added information

to shareholders every year and operational decision making for the company's management. Based on the background and problems above, this study aims to formulate managerial implications in the implementation of GCG that has been moderated by the capital structure to improve the company's financial performance.

METHODS

The research was conducted for three months from the end of January 2021 to March 2021. The study used secondary data derived from the annual financial statements of Indonesia's stock exchange-listed coal mining companies in 2015-2019. The coal mining company's financial statements were obtained from the Indonesia stock exchange website.

The population in this study was 20 companies. The sampling technique used is purposive sampling. The sample criteria taken are companies that have GCG data such as the size of the board of directors, the size of the board of commissioners, the size of the audit committee, managerial ownership and capital structure of companies that have been listed on the Indonesia stock exchange before 2015 and the company's financial statements have been audited by the public accounting firm. The validity of the data used is a classic assumption test consisting of normality test, multicollinearity test, autocorrelation test and heteroskedasticity test. As for the data processing test, it consists of a coefficient of determination test and a moderation regression test. The models of moderation regression in this study are as follows:

$$EVA = \beta0 + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X1*Z + \beta5X2*Z + \beta6X3*Z + e$$

where X1 is the size of the board of directors, X2 is the size of the audit committee, X3 is managerial ownership and Z is the capital structure, $\beta0$ is a constant, $\beta1$-6 is the coefficient of regression and e is the error term.

Economic value added (EVA) is an operational variable that represents financial performance as a dependent variable. While independent variables consist of 4 operational variables GCG namely the size of the board of directors, the size of the board of commissioners, the size of the audit committee and managerial ownership. EVA variables are chosen based on previous research that makes EVA as an operational variable of financial performance such as Huang et al (2015) and Hidayati et al (2012).

According to Zainal research (2015) which is the main focus in GCG, namely economic efficiency aimed at optimizing the company's financial management followed by the GCG principle of accountability by achieving the company's long-term sustainability. Empirical research conducted by Situmorang and Simajuntak (2019) suggests that the implementation of GCG provides positive things to support in achieving the company's objectives based on the decision-making to provide returns to the interested.

The capital structure plays a role in the company's funding activities, especially in funding decision making because the capital structure has its own side of the capital structure and the loan structure that has the potential to be the company's financial risk, therefore the company needs to identify the composition of the appropriate capital structure in order to be a great opportunity in operational activities and also increase profitability. Based on empirical research conducted by Adesina et al (2015) suggests that the proportion of debt and equity has a significant influence on financial performance because if the proportion of loans from banks is getting larger than the cost of capital will be reduced so that the profit from taxes will increase and it will increase the company's financial performance, if the proportion of equity is getting larger than the revenue of the company will increase.

The hypotheses in this study are:

H1 = The size of the board of directors has a significant impact on financial performance
H2 = The capital structure can moderate the influence of the board size on financial performance
H3 = The size of the audit committee has a significant impact on financial performance
H4 = Capital structure can moderate the influence of audit committee size on financial performance
H5 = Managerial ownership has a significant impact on financial performance
H6 = Capital structure can moderate the influence of managerial ownership on financial performance

RESULTS

Classic Assumption Test

The classic assumption test aims to get the best estimator value, linear estimator and unbiased estimator. The regression model made must meet the requirements of BLUE (Best Linear Unbiased Estimator) which means that there are no symptoms of bias, heteroskedastisitas, multikolinearitas and autocorrelation.

However, after stimulating the regression model with the klasik assumption test, it can be seen that the resulting output is not eligible in normality tests and heteroskedasticity tests. Therefore, data transformation method is required to use SQRT transform on independent variables because all independent variable histogram graphs are moderated negative skewness which means that the data distribution mountain mencong to the right of the median so that the tail of the mountain is pointing to the left (positive) while on dependent variables use transform LG10 because the histogram graph on the dependent variable is substantial positive skewness means the data distribution mountain leans to the left of the median so that the tail of the data distribution mountain leads to zero and cannot qualify the classic assumption.

Table 1. Classic Assumption Test Before and After Transformation

Parameters	Before Transformation	After Transformation
Normality Test (Kolgomorov Smirnov)	bias 0.0001<0.05	Usual 0.075>0.005
Multicolinearity Test	No Multicolinearity VIF < 10 Tolerance > 0.10	No Multicolinearity VIF < 10 Tolerance > 0.10
Heteroskedastisitas Test (Breusch Pagan Godfrey)	Heteroskedastisitas Chi Square Calculate > Chi Square Table 161,487,585,020 > 7.814728	Not Heteroskedastisitas Chi Square Calculate < Chi Square Table 6,4865 < 7.8147
Autocorrelation Test (Durbin Watson)	No Autocorrelation DU<DW<4-DU 1,7355<2,126<2,2645	No Autocorrelation DU<DW<4-DU 1.7129<2,089<2.2871

Coefficient of Determination Test

A determinant coefficient test is a test that measures how much the percentage rate of accuracy of all variables is independent of linear multiple regression models against dependent variables. The greater the influence of the coefficient of determination, the greater the influence of independent variables on dependent variables. This study used Adjusted R as a measuring parameter because free variables are used in more than one study. Table 2 shows the coefficient of determination lies in Adjusted R Square, because the resulting independent variable exceeds 2 variables so that the resulting coefficient of 0.123 which means that GCG's influence is only 12.3% on financial performance and the remaining 87.7% is described in other variables outside the regression model.

Table 2 Determination Coefficient

Model Summary[b]				
type	R.	R Square	Adjusted R Square	Std. Error of the Estimate
1	.411[a]	.169	.123	1.24153
a. Predictors: (Constant), SQRTKM, SQRTKA, SQRTDK, SQRTDD				
b. Dependent Variable: LOG10KK				

Moderated Regression Analysis

Moderation variable is a variable that is able to strengthen or weaken the relationship of independent variables to dependent variables, so that in the concept of correlation, moderation variable is the third variable that affects the correlation of 2 variables (Suliyanto, 2011). The results of mra analysis can be seen in Table 3 below.

Based on Table 3 below explains that the best equation model is in model 5, because of the 4 models tested classical assumptions show the existence of biased data distribution, autocorrelation and heteroskedastisitas, so model 5 is more suitable to be used as an equation for moderation regression analysis.

Table 3 Analysis of Moderation Regression Equations

variable	Model 5	
	b	Prob
X1	-1,307*	0,084
X2	-5,713**	0,025
X3	4,061**	0,001
Z.	-8,740**	0,012
X1*Z	0,520	0,274
X2*Z	4,567**	0,036
X3*Z	-2,148**	0,026

Capital Structure in Moderating The Relationship size of the Board of Directors and Financial Performance

Based on Table 3 above shows that the capital structure has a significant effect on financial performance due to the variable probability value of the capital structure of 0.012, so that the value is smaller than the significant level of 0.05 as an estimate of 1 while in the interaction variable 1 that is between the size of the board of directors and the capital structure has no effect on financial performance because the probability value of interaction variables is 0.274, then the value is greater than the significant tariff of 0.05 as an estimate of 2 so it can be concluded that the estimate on the capital structure moderation variable has a significant effect and interaction variable 1 does not show any significant influence on financial performance so that the capital structure variable in the moderation of variable relationships the size of the board of directors and financial performance so called predictor moderation which means that the capital structure variable only acts as an independent variable financial performance. The results showed that the capital structure was not able to moderate the influence of the size of the board of directors on the performance of the board of directors but rather the capital structure became an independent variable on financial performance, so that on the size of the board of directors showed no significant influence on financial performance. The results of the capital structure research moderate the size of the board of directors to the above financial performance supported by Lusiana (2017) because the capital structure cannot moderate the relationship of the size of the board of directors and the financial performance measured by ROA. Size board of directors has an important role to play in financial performance. The result was not supported by Gil and Obradovich (2012) who stated that the size of the board of directors had a significant negative impact on financial performance. A small number of directors will improve financial performance based on the effectiveness of communication between directors and create transparency in solving company problems. As well as research by Hermalin and Weisbach (2003) which stated that the size of the board of directors has a positive influence on financial performance, because the larger the number of directors size, the more operationally coordinated the company so that financial performance will be increased.

Capital Structure in Moderating The Size of audit committee and financial performance

Based on Table 3 above shows that the capital structure variable has a significant effect on financial performance because the probability value of the capital structure variable is 0.012, then the value is smaller than the significant level of 0.05 as an estimate of 1 while in interaction variable 2 that is between the size of the audit committee and the capital structure to the

financial performance has a significant effect because the probability value of interaction variables is 0.036, then the value is smaller than the significant level of 0.05 as an estimate of 2. So it can be concluded that the estimation 1 and estimate 2 on the same significant impact on financial performance, the variables of the capital structure including quasi moderation which means that the variables of the capital structure can moderate the relationship between the size of the board of commissioners to financial performance as well as can be independent variables to financial performance but the moderation is strengthening the relationship between the variable size of the audit committee to financial performance.

The results of the research on moderation variables show that the capital structure can strengthen the influence of the size of the audit committee on financial performance but the capital structure can be an independent variable to the equation model, so that the size of the audit committee shows a significant positive influence on financial performance. Hal this means that the more use of debt obtained from the company, the tighter supervision of the company from the audit committee so that it requires greater capital costs and more number of audit committees for the company's internal audit specifically, it will not create conduciveness and transparency in the responsibilities given by the board of commissioners especially in the process of preparing financial statements that will result in an operating profit after tax will decrease. The result of this research is not in line with Pulungan (2019) that the capital structure can not moderate the influence of the size of the audit committee on financial performance.

The audit committee is a position established by the board of commissioners responsible in guiding the principles of GCG principles, especially transparency or openly applied consistently and become a guide for key management (Tjager et al,2003). The audit committee is one way to overcome the agency problem, because the function of the audit committee is to review the internal control of the company, which aims to provide quality financial reports and improve the effectiveness of the audit function (Kusmayadi et al,2015). The results of the audit committee's influence on financial performance are supported by research by Makhrus (2013) and Handayani (2013) that the audit committee does not prove a significant relationship to financial performance because of the growing number of audit committees just to meet regulations but not effectively on the management of good corporate governance in corporate management. This is not supported by the research of Bouaziz (2012) and Anderson et al (2004) that the larger the size of the audit committee, the easier the accounting and financial process will be controlled and also protected so that it can uphold one of GCG principles of transparency in shareholders and will also have a positive impact on financial performance (measured by ROA).

Capital Structure in Moderating Managerial Ownership and Financial Performance

Based on Table 3 above shows that the variable capital structure has a significant effect on financial performance because the probability value of the capital structure variable is 0.012, then the value is smaller than the significant level of 0.05 as estimasi 1 while in the interaction variable between managerial ownership and the capital structure has a significant effect on financial performance because the probability value of interaction variable is 0.026, then the value is smaller than the significant level of 0.05 so it can be concluded that the estimation 1 and estimate 2 in Table 3 indicate that there is a significant influence on financial performance, the capital structure variable is quasi moderation which means that the capital structure variable can moderate the relationship managerial ownership variables to financial performance can also be

independent of financial performance but moderation is a weak link between managerial ownership and financial performance.

The results of the study on moderation variables show that the capital structure can weaken the influence of managerial ownership on financial performance but the capital structure can be an independent variable in the equation model, but hasil research on managerial ownership still shows a positive influence signifies on financial performance. This means that the higher the use of debt to the company, the retained profit will decrease and indirectly the percentage of the company's dividend distribution will be reduced, so that the key management will attract more and more of its shares in the company. This is not in line with Pulungan's research (2019) that the capital structure cannot moderate the influence of managerial ownership on financial performance.

Managerial ownership is part of the ownership of the company held by the manager, the ownership is not intended to increase equity alone but also increase incentives to managers in the interests of the organization so that managerial ownership can be measured logarithmically from the equity held by the manager as a shareholder in a company (Lawal et al,2018). The agency theory approach assumes that managerial ownership can be used as an instrument to minimize agency conflicts, managerial ownership always requires managers to manage the company by making decisions carefully so that it will have an impact on the company in the future (Candradewi, 2016). The results of the influence of managerial ownership on financial performance supported by Amran (2013) show that there is a significant positive influence between managerial ownership and financial performance (measured by ROE).

Managerial Implications

The results of this study have managerial implications. The implications are expected to be beneficial to coal mining companies in developing better corporate governance, GCG variables that contribute practically to this research namely the size of the audit committee is a variable that has a significant negative impact on financial performance moderated by the capital structure means that legally ceteris paribus is the larger the size of the audit committee in a company, the greater the financial performance will decrease, in which case the audit committee tends to prohibit the addition of debt because the greater the use of debt, the ability to pay the company will be reduced while increasing financial risk, so that it does not happen then shareholders need to reduce the size of the audit committee. The maximum number of audit committees is 2 competent people, especially in the financial and operational fields, and it is recommended that the audit committee consists of external companies to avoid the company's core management activities so that the implementation is more effective in assisting the board of commissioners on the supervision of financial statements and company operations. This will refer to the accountability of financial statements in internal audits that are detailed so that transparency will be created in solving the company's problems, so that it will be information for managerial to adjust the RKAP target to the next year in order to perform better than the previous year.

Managerial ownership is one of the variables that have a significant positive effect on the financial performance moderated by the capital structure, meaning that legally ceteris paribus is the greater the percentage of shares outstanding in the company, the financial performance will be increased, in that case so that the use of debt is limited then the number of managerial ownership by management needs to be enlarged because the more management of the company invests its funds for the company then the optimization of the use of funds becomes more effective and the management of the company will be

intensely careful in making decisions for the company so that the dividend distribution generated by the company is greater. The large amount of managerial ownership will give the spirit of work to the management and employees of the company so as to create one of the principles of GCG, namely independency, the freedom to allocate funds in the company as additional compensation and not intervened by other parties.

CONCLUSIONS

Based on the results of moderating tests showed that the capital structure only partially moderates the influence of audit committees and managerial ownership on financial performance because capital structure variables include moderation quasi criteria which means moderation variables can moderate the influence of independent variables while on variable sizes the board of directors cannot be moderated because interaction variables (X1*Z) have no significant effect on financial performance and only appear as independent variables thus including moderating predictor criteria. The advice for further research is to add independent variables such as intellectual capital, corporate dividend policy as well as internal supervision of financial performance. The addition is to find out how much the variable affects the performance of coal mining companies. For the management of the company is expected to be an evaluation material for the development of the company's prospects in the future and provide a new corporate governance policy in order to create investment feasibility by investors. The limitation of this research is the determination of research objects using only coal sub-division mining companies listed on the Indonesia Stock Exchange during the period 2015-2019 as many as 20 companies so that it can not be combined in general in the field of mining.

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