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THE EFFECT OF GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE AND ITS IMPACT ON COMPETITIVE ADVANTAGE

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Abstract:
This study aims to determine the relationship between Good Corporate Governance on competitive advantage mediated by financial performance. Good Corporate Governance is proxied by independent commissioners, audit committees, and institutional ownership. Return measures financial performance on Assets (ROA). The population in this study is the property and real estate sub-sector companies listed on the Indonesia Stock Exchange in 2017-2020. The data collection method used is purposive sampling. The number of final samples that are eligible to be used as research samples is 68 samples. The analysis technique used is path analysis. The results of this study indicate that independent commissioners do not affect ROA, while audit committees and institutional ownership affect ROA. Independent commissioners and audit committees affect competitive advantage, while institutional ownership does not affect competitive advantage. After conducting path analysis, ROA cannot mediate the effect of independent commissioners and audit committees on competitive advantage. In contrast, ROA can mediate the effect of institutional ownership on competitive advantage.

Keywords: Financial Performance, Competitive Advantage, Audit Committees, independent commissioners, and Institutional Ownership.
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INTRODUCTION

Facing changes in an increasingly competitive business environment, an information system is needed that can provide an overview of company performance. The company's financial performance can be used as a benchmark that shows the condition of the company, whether it is in excellent or imperfect condition. Regarding performance, financial reports are usually placed as the basis for evaluating company performance (Ujiyantho & Pramuka, 2007).

To build a strong and sustainable company, sound corporate governance is needed in a global competitive situation like this (Setiyawati, 2014). Implementing Good Corporate Governance in companies is expected to affect company performance and reduce risks due to management actions that tend to benefit one party. According to (Hendriyani et al., 2019), company performance is not only determined by its financial performance. However, it is also influenced by the level of seriousness of a company in building and implementing Good Corporate Governance.

Previous research (Astri & Mahardika, 2020) stated that independent commissioners and audit committees do not affect financial performance. However, several studies have shown different results, as was done by (Setiawan & Setiadi, 2020), stating that independent

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commissioners and institutional ownership have a significant positive effect on financial performance.

Financial performance also plays a role in building a Competitive Advantage. Research on the relationship between financial performance and Competitive Advantage has been conducted (Sonya & Wulandari, 2016). The results of this study indicate that financial performance has a positive influence on Competitive Advantage.

Agency theory is a contract between the manager (agent) and the owner (principal). In the agency theory, the separation between ownership and management of a company can lead to agency problems (Jensen & Meckling, 1976).

Stakeholder Theory. is a theory that assumes that all individuals or groups can influence or be affected by the achievement of organizational goals (Freeman, 1984).

Good Corporate Governance is a system that directs and controls the company to balance the company's power and authority in providing accountability to shareholders (Cadbury Committee, 1993).

Financial performance is the effort made by the company to determine the size that can measure a company's success in generating profits.

Hypothesis

1. The Influence of Independent Commissioners on Financial Performance. An independent board of commissioners acts as a counterweight in decision-making. With an increasing number of independent commissioners, the monitoring function of directors' policies can be improved even better so that the company will avoid financial difficulties (Wardhani, 2007).
2. The Influence of the Audit Committee on Financial Performance. Research conducted by (Sekaredi, 2011) shows that the audit committee affects financial performance.
3. The Influence of Institutional Ownership on Financial Performance. Institutional ownership is share ownership owned by institutions. Institutional investors have a significant role in effectively monitoring every manager's decision.
4. Influence of Independent Commissioners on Competitive Advantage. Independent commissioners act as independent and neutral parties within the company and are expected to be able to bridge the information asymmetry that occurs between shareholders and company managers.
5. The Influence of Financial Performance on Competitive Advantage. Research conducted by (Asmarani, 2006) revealed that competitive advantage would be created if the company's performance is good. The better the company's performance, the higher the company's competitive advantage. Research conducted (by Libyanita & Wahidahwati, 2016) concluded that competitive advantage variables influence company performance.
6. Influence of Independent Commissioners on Competitive Advantage Through Financial Performance. The more independent commissioners increase, the more decisions are in line with the interests of shareholders (Hermalin & Weisbach, 1998). so that financial performance can increase and impact achieving competitive advantage.
7. The Influence of the Audit Committee on Competitive Advantage Through Financial Performance. The audit committee also plays a role in supervising and bridging the relationship between internal and external auditors so that the company's financial reporting can comply with applicable regulations. With the existence of an audit committee, it is hoped that it will be able to create financial reports that are relevant and free from manipulation by any party so that they can be used as evaluation material for management.

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8. The influence of Institutional Ownership on Competitive Advantage Through Financial Performance. (Bushee, 1998) states that institutional ownership carries out its monitoring role, which encourages managers not to take actions that are detrimental in the long run and will undoubtedly have an impact on society's assessment of the company's financial performance, which will, in turn, have an impact on increasing competitive advantage.

METHODS

Types of research. We are using descriptive research and explanatory causal methods to determine the effect of the independent variables on the dependent variable.. Population and Sample. The population used in this research is the Property and Real Estate sub-sector companies listed on the IDX for the 2017-2020 period. Sampling in this study used a purposive sampling method, which is a sampling method that is carried out by setting criteria or unique characteristics that follow the research objectives.

Variable Definitions and Operations. The dependent variable in this study is financial performance and competitive advantage.

Financial performance

In this case, the dependent variable uses a ratio data scale to measure financial performance, namely, Return on Assets (ROA). The following is the formula for calculating the company's financial performance: $ROA = \frac{\text{Net profit}}{total\ Assets} \text{ X } 100\%$

The audit committee in this study is measured by counting the total number of audit committee meetings in one year. The calculation formula is as follows:

KA=number of audit committee meetings

Institutional ownership is the percentage of share ownership by institutions that can be used to control the performance of management within the company and to act as a party monitoring the company. The following is the institutional ownership formula:

$$INST = \frac{\text{Number of shares owned by institution}}{\text{number of outstanding shares}} \text{X} 100\%$$

Independent commissioners are company organs that carry out supervisory duties and advise the board of directors. The following is the formula for calculating independent commissioners:

$$KI = \frac{\text{Number of independent Commissioner}}{\text{Number of Commissioners}}$$

Competitive advantage. Asset Utilization Efficiency is an indicator that describes the value of the competitive advantage. Asset Utilization Efficiency indicates the importance of efficiency in company operations, so it tends to be a low-cost strategy. The following is the Asset Utilization Efficiency formula according to (Singh & Agarwal, 2002):

$$AUE = \frac{\text{Total Revenue}}{\text{Total Assets}}$$

RESULT AND DISCUSSION

Table 1. Descriptive Statistics Test

Variable	*Min.*	*Max.*	*Mean*	*std. deviation*
KI	0,2	0,67	0,391	0,0992
KA	2	17	6,26	3,749
INST	0,022	0,885	0,487	0,0464

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ROA	0,004	0,199	0,633	0,046
CA	0,0059	0,3986	0,2054	0,0794

1. The analysis results show that the minimum score for an independent commissioner (X1) is 0.20 for PT Intiland Development Tbk (DILD) in 2017. Meanwhile, the maximum score for an independent commissioner is 0.67 for PT PP Properti Tbk (PPRO) in 2020. In addition, independent commissioners have an average value (mean) of 0.3918, which shows that property and real estate companies need an independent commissioner to make decisions.
2. The analysis results show that the minimum audit committee score (X2) is two at PT Roda Vivatex Tbk (RDTX) in 2018-2020. Meanwhile, the maximum audit committee score of 17 occurred at PT PP Properti Tbk (PPRO) in 2019 and 2020. The audit committee has an average (mean) value of 6.28. This shows that the audit committee's role greatly determines the financial performance of Property and Real Estate companies.
3. The analysis results show that the minimum value of institutional ownership (X3) was 0.0229 at PT Bumi Citra Permai Tbk (BCIP) in 2019. Meanwhile, the maximum value of institutional ownership was 0.8856 at PT Duta Pertiwi Tbk (DUTI) in 2017 and 2018. This shows that more institutions own Property and Real Estate company shares, then institutional ownership has an average value (mean) of 0.487248.
4. The results of the analysis show that the minimum value of ROA (Y) is 0.004 at PT Agung Podomoro Land Tbk (APLN) in 2020 and PT Kawasan Industri Jababeka Tbk (KIJA) in 2019. At the same time, the maximum value of ROA was 0.1997 at PT Purdelta Lestari Tbk (DMAS) in 2020. ROA has an average value (mean) of 0.063187. This shows that property and real estate companies still have a small ROA, 0.4%, at PT Agung Podomoro Land (APLN).
5. The analysis results show that the minimum competitive advantage (Z) value of 0.0059 occurred at PT Jaya Real Property Tbk (JRPT) in 2018. Meanwhile, the maximum competitive advantage value of 0.3986 occurred at PT Metropolitan Land Tbk (MTLA) in 2020. competitive advantage has an average value (mean) of 0.205467.

Table 2. Normality test

Description	*Unstandardizedresidual*	Conclusion
Asymp. Sig. (2-tailed)	0,200	Distributed normal

The Kolomogorov-Smirnov test results above show that a significance value of 0.200 means that the value is more significant than 0.05, so it can be concluded that the residual values are typically distributed or meet the normality test requirements.

Table 3. Multicollinearity Test Equation Table 1

Variable	*Collinearity statistic*		Conclusion
	Tolerance	VIF	
KI	0,842	1,188	There is no multicollinearity
KA	0,871	1,148	There is no multicollinearity
INST	0,964	1,038	There is no multicollinearity

a. Dependent variable: ROA

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Based on the equation, table 3 shows that each variable has a VIF value below ten and a tolerance value above 0.10, so it can be concluded that this regression model does not have multicollinearity.

Table 4. Multicollinearity Test **Equation Table 2**

Variable	*Collinearity statistic*		Conclusion
	Tolerance	VIF	
KI	0,84	1,190	There is no multicollinearity
KA	0,797	1,254	There is no multicollinearity
INST	0,943	1,061	There is no multicollinearity
ROA	0,872	1,147	There is no multicollinearity

a. Dependent variable: CA

Table 4 shows that each variable has a VIF value below ten and a tolerance value above 0.10, so it can be concluded that this regression model does not have multicollinearity.

Table 5. Heteroscedasticity Test Equation Table 1

Variable	*Sig.*	Conclusion
KI	0,305	There is no heteroscedasticity
KA	0,202	There is no heteroscedasticity
INST	0,221	There is no heteroscedasticity

a. Dependent variable: ROA

Based on the equation table 5 above, the regression results between the independent and absolute variables based on the table above show that the autocorrelation test results for the Durbin-Watson (DW) value are 2.152. They then obtained dL = 1.5164 and dU = 1.7001 in the Durbin-Watson table. So there is no autocorrelation in the regression model of this study.

Table 5. Heteroscedasticity Test **Equation Table 2**

dU	Durbin-Watson	4-dU	Conclusion
1,7335	2,129	2,2665	There is no autocorrelation

Based on the above, it can be seen the results of the autocorrelation test for the Durbin Watson (DW) value of 2.129. So that means there is no autocorrelation in the regression model of this study because the Durbin-Watson value lies between the dU and the residual, indicating that the coefficient of each independent variable has a significance value of > 0.05. Thus it can be concluded that there are no symptoms of heteroscedasticity in this regression model.

Table 5. Heteroscedasticity Test **Equation Table 3**

Variable	*Sig.*	Conclusion
KI	0,884	There is no heteroscedasticity
KA	0,188	There is no heteroscedasticity
INS	0,507	There is no heteroscedasticity
ROA	0,486	There is no heteroscedasticity

a. Dependent variable: CA

Based on equation table 6 above, the regression results between the independent variables and their absolute residuals show that the coefficient of each independent variable has a significance

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value of > 0.05. Thus it can be concluded that there are no symptoms of heteroscedasticity in this regression model.

Table 6. Autocorrelation Test Equation Table 1

dU	Durbin-Watson	4-dU	Conclusion
1,70 01	2,152	2,2999	There is no autocorrelation

a. Dependent variable: ROA

Based on the table above, the value of R Square or R2 is 0.341. This states that 34.1% of the dependent variable in this study, namely ROA, can be explained by independent variables.

Table 7. Autocorrelation Test **Equation Table 2**

Model	R	R Square	*Adjusted R Square*	*Std. Error the estimate*
1	0,843	0,711	0,692	0,02499

a. Dependent Variable: CA

Based on the table above, the value of R Square or R2 is 0.692. This states that 69.2% of the dependent variable in this study, namely CA, can be explained by independent variables.

Hypothesis testing

Table 8. Determination Coefficient Test (R2) Equation Table 1

Model	R	R Square	AdjustedR Square	*Std. Error theestimate*
1	0,609	0,371	0,341	0,019592

a. Dependent Variable: ROA

Based on the table above, the value of R Square or R2 is 0.341. This states that 34.1% of the dependent variable in this study, namely ROA, can be explained by independent variables.

Table 9. Determination Coefficient Test (R2) **Equation Table 2**

Model	R	RSquare	*Adjusted R Square*	*Std. Error the estimate*
1	0,843	0,711	0,692	0,02499

Table 10. Statistical Test F Equation Table 1

Model	F	*Sig.*	Conclusion
Regression	12,565	0,000	Significant

a. Dependent Variable: ROA F calculated probability value (sig.)

The table above shows a value of 0.000. This indicates that the value is smaller than the significance level of 0.05, so it can be concluded that the estimated linear regression model is feasible to use.

Table 10. Statistical Test F **Equation Table 2**

Model	F	Sig.	Conclusion

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Regression	38,674	0,000	Significant

a. Dependent Variable: CA

The calculated F probability value (sig.) in the table above shows a value of 0.000. This indicates that the value is smaller than the significance level of 0.05, so it can be concluded that the estimated linear regression model is feasible to use

Table 11. Statistical Test t Equation Table 1

Variable	*Unstandardized coefficient*		*Standardized coefficients*	t	*Sig.*
	B	std. Error	Beta		
KI	-0,014	0,026	-0,538	-0,538	0,592
KA	-0,003	0,001	-0,537	-5,052	0,000
INST	0,017	0,008	0,208	2,062	0,043

a. Dependent Variable: ROA

The test results on the independent commissioner variable show a t-value of -0.538 when compared to the t-table value of 1.99773 (α=5%; n=68) and a significant value of 0.592, which is more than 0.05. So it can be concluded that the independent commissioner variable does not affect financial performance. The results of this study prove that the number of independent commissioners is not linear with the company's performance achievement determined by the function of independent commissioners in terms of supervision, management, and corporate decision-making. The results of this study are in line with previous research conducted by (Irma, research conducted by (Yulianita & Raharjo 2018) and (Nurmayanti & Lovita, 2020).

The test results on the audit committee variable show a t-value of -5.052 and a significant value. Compared with the t table value, which is 1.99773 (α=5%; n=68) and a significant value of 0.000, which is less than 0.05. So it can be concluded that the audit committee variable significantly negatively affects financial performance. Nevertheless, the audit committee has an essential role in improving company performance through the number of meetings held to determine decisions related to company performance. The results of hypothesis testing for the audit committee variable align with research (Prasetio & Rinova, 2021) and (Satriadi et al., 2018), which reveals that audit committees affect financial performance. However, contrary to research results (Badawi, 2018) and (Hartati, 2020), the audit committee does not affect financial performance.

The test results on the institutional ownership variable show a t-value of 2.062. Compared with the t table value, which is 1.99773 (α=5%; n=68) and a significant value of 0.043, which is less than 0.05. So it can be concluded that the institutional ownership variable significantly positively affects financial performance. This shows that institutional ownership requires companies to always pay attention to their financial performance by achieving a satisfactory ROA as a form of company attention to shareholders. The results of hypothesis testing for the institutional ownership variable align with research (Prasetio & Rinova, 2021) and (Nurmayanti & Lovita, 2020), which reveal that institutional ownership affects financial performance. However, contrary to the results of research conducted by (Prastiningrum, 2019) and (Pura et al., 2018).

Table 12. Statistical Test t quation Table 2

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Variable	*Unstandardized Coefficient*		*Standardized Coefficients*	t	*Sig.*
	B	**std.Error**	**Beta**		
KI	0,093	0,034	0,206	2,782	0,00
KA	0,003	0,001	0,257	2,989	0,00
INST	-0,012	0,011	-0,082	-1,153	0,25
ROA	1,865	0,159	0,999	11,697	0,00

a. Dependent Variable: CA

The test results on the independent commissioner variable show a calculated t-value of 2.782. Compared with the t table value, which is worth 1.99834 (α = 5%; n = 68) and a significant value of 0.007, which is less than 0.05. So it can be concluded that the independent commissioner variable significantly positively affects competitive advantage. Independent commissioners can improve company performance and achieve competitive advantage by supervising the transparency and disclosure of company financial reports. The number of independent commissioners can act as a control tool for achieving company performance. However, the results of this study contradict the results of research conducted by (Saputro & Syafruddin, 2012), which state that independent commissioners do not affect competitive advantage.

The test results on the audit committee variable show a t-value of 2.782. Compared with the t table value, which is worth 1.99834 (α = 5%; n = 68) and a significant value of 0.007, which is less than 0.05. So it can be concluded that the audit committee variable significantly positively affects competitive advantage. Furthermore, the audit committee has an essential role in improving company performance through the number of meetings held to determine decisions related to company performance. The audit committee's function is shown to improve the quality of financial reports by supervising financial reports and increasing public confidence in the feasibility and objectivity of financial reports. The results of hypothesis testing for the audit committee variable align with research (Prasetio & Rinova, 2021) and (Satriadi et al., 2018), which reveals that audit committees affect financial performance. However, contrary to the results of research conducted by (Badawi, 2018) and (Hartati, 2020).

The test results on the institutional ownership variable show a t-value of -1.153 when compared to a t-table value of 1.99834 (α=5%; n=68) and a significant value of 0.253, which is more than 0.05. So it can be concluded that the institutional ownership variable does not affect competitive advantage. This shows that company shares owned by institutions do not require companies to achieve good financial performance through increased ROA and have an impact on company excellence. This study's results align with studies conducted by (Ulfa, 2016) and (Putri Dwi, 2017), which state that institutional ownership does not affect competitive advantage. However, contrary to research (Bram & Herlina, 2011).

The test results on the ROA variable show a t-count value of 11.697. When compared with the t table value, which is worth 1.99834 (α = 5%; n = 68) and a significant value of 0.000, which is less than 0.05, it can be concluded that the financial performance variable has a significant positive effect on competitive advantage. The results of this study prove that improving company performance through achieving ROA, which increases every year, will undoubtedly impact the company's competitive advantage. Thus, this study's results align with research conducted (by Libyanita &

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Wahidahwati, 2016) and (Wahidawati, 2020), revealing that financial performance influences competitive advantage. The higher the company's performance will increase its competitive advantage (Asmarani, 2006).

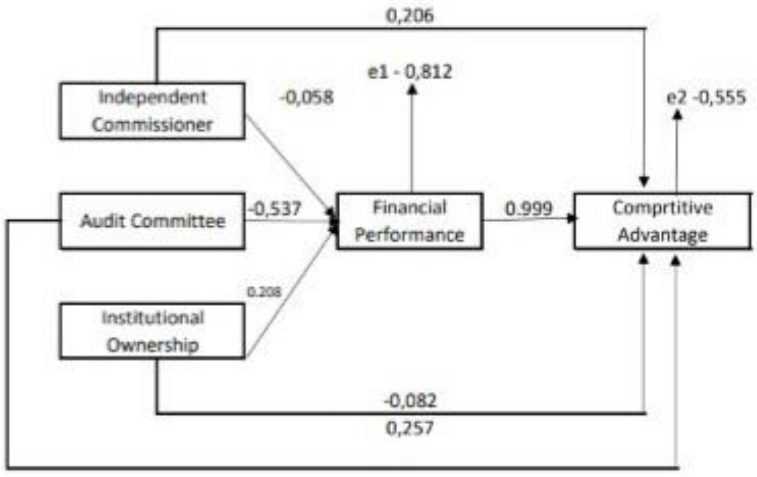

Figure 1. Path Analysis Results Based on the calculation results above.

It is known that the direct effect value of the independent commissioner is 0.206, and the indirect effect is -0.057, which means that the direct effect value is greater than the indirect effect value, so ROA cannot mediate the independent commissioner's influence on Competitive Advantage. A large proportion of independent commissioners must contribute more actively to financial performance. The proportion of independent commissioners does not guarantee the accuracy of the company's supervisory, management and decision-making functions, affecting financial performance and impacting competitive advantage. Meanwhile, the results of this study do not support research (Rifqoh et al., 2020) which states that financial performance can mediate an independent commissioner's competitive advantage.

The direct influence value of the audit committee is 0.257, and the indirect effect is -0.536, which means that the direct influence value is greater than the indirect influence value. Then ROA cannot mediate the influence of the audit committee on Competitive Advantage. Through several meetings held by the audit committee, the audit committee has yet to guarantee the effectiveness of implementing monitoring of company management which results in less than optimal results in each meeting discussion, affecting financial performance. The results of this study do not support previous research (Tobing et al., 2013), which stated that financial performance could mediate the influence of independent commissioners on competitive advantage.

The direct effect value of institutional ownership is -0.082, and the indirect effect is 0.207, which means that the direct effect value is greater than the indirect effect value. Then ROA can mediate the effect of institutional ownership on Competitive Advantage. Institutional ownership can control management through an effective monitoring process. This will undoubtedly lead the company to achieve a competitive advantage. This study's results align with previous research (Sonya & Wulandari, 2016), which states that financial performance can mediate institutional ownership for competitive advantage.

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CONCLUSION

The following conclusions can be drawn based on the analysis and testing carried out in this study: (1) Independent commissioners do not affect financial performance. This shows that the number of independent commissioners does not directly increase the company's performance. (2) The audit committee has a negative and significant influence; this shows that the more meetings the committee hold, not necessarily result in decisions or policies affect the company's financial performance. (3) Institutional Ownership positively and significantly affects financial criteria. This shows that more and more institutional ownership encourages an increase in optimal supervision to help create excellent financial performance. (4) Independent commissioners have a positive and significant effect on competitive advantage; the greater the number of independent commissioners can improve the quality of company performance monitoring activities which has an impact on achieving competitive advantage. (5) The audit committee positively and significantly affects competitive advantage. The more the number of meetings held by the board of directors and the board of commissioners can produce decisions to improve company performance and achieve competitive advantage. (6) Institutional ownership does not affect competitive advantage. Institutional ownership has no direct effect on competitive advantage. (7) Financial performance positively and significantly affects competitive advantage. The higher financial performance through achieving ROA will impact competitive advantage. (8) Financial performance cannot mediate the effect of independent commissioners on competitive advantage. The proportion of independent commissioners does not guarantee accurate monitoring, management, and decision-making functions within a company, affecting financial performance and impacting panda's advantage. (9) Financial performance cannot mediate the influence of audit committees on competitive advantage. The more significant the number the audit committee meeting does not guarantee the implementation of effective monitoring, so every discussion in the meeting could be more optimal, affecting financial performance and impacting competitive advantage. (10) Financial performance can mediate the influence of institutional ownership on competitive advantage. Institutional ownership can control management through an effective monitoring process so that it pays more attention to company performance, which impacts competitive advantage.

Based on the limitations that are owned by the results of the analysis of this study, the suggestions that can be given are: (1) For companies, it can increase profits through optimizing the functions of independent commissioners, audit committees, and institutional ownership in decision making. Implementing good and comprehensive Good Corporate Governance in all company lines can become a value-added for the company and solve agency problems. Managerial parties are expected to pay more attention to the company's financial performance by achieving a satisfactory ROA as a form of company attention to investors in considering and making investments. (2) For investors, it is hoped that they can seek information in advance regarding the financial performance of the related companies, one of which is through financial ratio analysis. Investors can use Return on Assets (ROA) as a reference in investing to see the company's ability to generate profits. However, investors should also analyze other indicators for consideration. (3) Further researchers can use more significant corporate governance indicators that can influence financial performance and add other related variables such as the board of directors, managerial ownership, the number of independent commissioners' meetings, etc. Moreover, it is also recommended to use other financial performance proxies so that financial performance can be explained better, which can expand the results of previous researchers.

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