

Effect of Good Corporate Governance, Free Cash Flow, and Profitability against Company Financial Performance (Empirical Study at Company Manufacturing Listed on the Indonesia Stock Exchange Period 2018-2020)

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Abstract: Research this aim for test good corporate governance, free cash flow, and profitability to performance finance company. Object research it's in the company manufacturers listed on the Indonesia Stock Exchange. Research type This is quantitative, results from study This discuss about analysis descriptive, assumption test classic, method data analysis , and testing hypothesis . Deep sample study This obtained use purposive sampling technique based on criteria that have specified , data is collected from report finance with a sample of 51 companies from 2018-2020 years . Data analysis method used in study This is analysis multiple linear regression with using SPSS version 25. Research results this can concluded that variable free cash flow effect to performance finance company. Whereas GCG indicators viz commissioner independent, audit committee, size company No influential to performance finance company, variable profitability No influential to performance finance company.

Keywords: Good corporate governance, free cash flow, profitability, performance finance company

1. Introduction

In the current era of globalization, the need for a financial report is increasing. Financial reports are increasingly needed, because in financial reports there are sources of information about company activities that can be used for decision making. Financial statements are the end result of the accounting process and reflect a condition in the company. The financial statements contain useful information for parties who have an interest in the company's financial statements. The financial report is an output from management and it reflects accountability for the results of the performance of managers who have implemented it. In other words, financial reports are a measuring tool for measuring management performance (Azlina, 2010). All companies are required to have good corporate performance. The company's performance itself is a result that can be measured and describes the empirical condition of a company from various agreed sizes (Zarkasyi, 2008). While the purpose of performance is to motivate personnel to achieve organizational goals and comply with predetermined standards of behavior, in order to produce the actions and results desired by the organization (Chairany and Lestari, 2011).

This research is a replication of Budi Setyawan's research (2019). The difference between this study and previous research is the use of years of observation which only becomes three years of observation and variable measurements using different measurements. Based on the background that has been described, the authors conducted a study entitled "The Influence of *Good Corporate Governance, Free Cash Flow* and Profitability on Company Financial Performance (Empirical Study of Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2018-2020 Period).

In every company's operations, the main goal of its business is to seek profit or profitability. The greater the company's profits, the greater the retained earnings that can be used in its operations (Nugrahani and Sampurno, 2012). Retained earnings will used as choice main in financing company so that in use capital structure debt will the more low along with increasing profitability company.

2. Review and Hypothesis

Agency theory

According to Jensen and Meckling (1976) agency relationship is a contract between the manager (*agent*) and the investor (*principal*) . Investors are parties that employ managers to perform tasks for the interests of investors, while managers are parties who carry out the interests of investors. The main principle of agency theory states that there is a working relationship between parties who receive authority, namely managers. Based on Eisenhardt (in Agustia, 2013) *agency theory* is explained by three assumptions about human nature, namely: (1) Humans are generally self-interested (2) Humans have limited thinking power regarding future perceptions (*bounded rationality*) (3) Humans always avoid risk (*risk adverse*) Based on Misser (in Endrianto, 2010) the

existence of an agency relationship raises several problems.

Good Corporate Governance

Sulistiyono, (2008) argued that *good corporate governance* or good corporate governance can be defined as a system that regulates and controls companies to create added value for each stakeholder. There are stocks or investors to obtain correct and timely information and secondly, the company's obligation to make accurate, timely and transparent disclosures of all information on company performance, ownership and stakeholders.

Board of Commissioners Independent

The board of commissioners independently proves the existence of an independent shareholder representative. According to Bank Indonesia Regulation Number 8/4/PBI/2006 article 4 regarding Independent Commissioners: "Independent Commissioners are members of the board of commissioners who have no financial, management, share ownership and/or family relationships with other members of the board of commissioners, directors and/or controlling shareholders or other relationships that may affect their ability to act independently.

Audit Committee

The audit committee is a party formed by the board of commissioners to help carry out the duties of the commissioners in relation to improving the quality of financial reports and increasing the effectiveness of internal and external audits (Sulistiyanto, 2008: 155). The audit committee is one of the components in *good corporate governance* which was formed with the aim of assisting the commissioners in monitoring .

Company Size

Size is a symbol of the size of the company. This factor explains that a large company has easier access to the capital market so as to improve company performance. With the convenience of accessing the capital market, it means that companies have the flexibility of easy access to the capital market, meaning that companies have great flexibility tend to distribute dividends to avoid agency conflicts between managers and owners (Megginson, 1997 in Pusptasari, 2010).

Free Cash Flow

Free Cash Flow or free cash flow describes the level of financial flexibility of the company. Jensen (1986) defines free cash flow as the portion of cash flow remaining after all projects that generate a positive net present value are discounted at the relevant cost of capital rate. Meanwhile, according to Ross et al. (2008), free cash flow is company cash that can be distributed to creditors or shareholders used for working capital or investment in fixed assets.

Profitability

According to Prihadi, (2010: 138) profitability is the ability to generate profits. The definition of ordinary profit varies, depending on the needs of the measurement of the profit. From the profitability ratios it can be seen how the level of company profitability. Every company wants a high level of profitability. To be able to survive, the company must be in a profitable condition (*profitable*). If the company is in a bad situation, it will be difficult to receive loans from lenders or investments from other countries.

Influence of the Board of Commissioners against the Company's Financial Performance

With the existence of an independent commissioner, the interests of shareholders, both majority and minority, are not ignored because independent commissioners are more neutral towards decisions made by management. The results of Putra's research (2015) show that independent commissioners have a significant positive influence on company performance by measuring ROA. From the description above, the hypothesis can be formulated as follows:

H1: Board of Commissioners influential to performance finance company.

Influence Audit Committee on Company Financial Performance

With the functioning of the audit committee effectively, control over the company will be better, so that agency conflicts that occur due to management's desire to improve their own welfare can be minimized. Effendi (2009) concluded that the existence of an audit committee is very important in order to improve company performance, especially from the control aspect. This is because the larger the size of the audit committee, the role of the audit committee in controlling and monitoring top management will be more effective so that management will try to improve company performance. From the description above, the hypothesis can be

formulated as follows:

H2: Size influential audit committee to performance finance

Influence Company Size against Company Financial Performance

Company size reflects how much the total assets owned by the company. The total assets owned by the company describe the capital, as well as the rights and obligations it has. The larger the size of the company, it can be ascertained that the greater the funds managed and the more complex the management. The theory above is supported by research conducted by Deby, et al (2014) which states that company size has a significant effect on company performance.

H3: Firm size matters to performance financial company.

The Effect of Free Cash Flow on the Company's Financial Performance

There is a possibility that free cash flow is used in the capital structure or otherwise, causing the company's financial performance to increase because the addition of capital to the capital structure results in new innovations in the products it sells. This research is in line with research that was conducted by Syamsudin (Syamsudin, Afifudin, & Junaidi, 2019).

H4: Free Cash Flow has an effect to performance finance company.

Influence Profitability against the Company's Financial Performance

Companies that have a high level of profitability, it can be said that the profits generated are large which can later provide prosperity for shareholders. So the higher the level of profitability, the better the company's financial performance. According to Asniwati (2020), Putry and Erawati (2013), and Pranata et al., (2014) say that profitability has a positive effect on the company's financial performance. Based on the theoretical study and description above, the hypotheses in this research are:

H5: Profitability influential to performance financial company.

3. Methodology

Research this use approach quantitative. Quantitative method is based research _ philosophy positivism yes used For observe population or samples , data documentation using research instruments . Population in study This is company manufacturers listed on the Indonesia Stock Exchange . Criteria ga, bill sample determined as following:

1. Manufacturing companies listed on the IDX during the 2018-2020 period.
2. Companies that publish *annual reports* for the 2018-2020 period.
3. Companies that publish financial reports in rupiah currency units successively.
4. Companies that have consistently experienced profits during the 2018-2020 period.
5. Companies that publish financial reports in *the annual report* .
6. Companies that contain the available variables.
7. Companies experiencing free cash flow.

Data used in study this is secondary data in the form of report annual reports and reports finance company manufacturing. Data collection method used in research is documentation. Other data were obtained from journals, books and other literary sources which provided the information needed in this study.

Data Analysis Techniques

Data analysis method used in study this is multiple linear regression. Analysis regression This aim for get description connection between variable dependent with independent variable separately Partial nor simultaneous . Multiple linear analysis used for test influence of two or more independent variable on something variable dependent (Diah Yuliana, Marhamah , 2017). The research model equation that will be used in data analysis is as following :

$$ROA = a + b_1 (KIND) + b_2 (KAD) + b_3 (SIZE) + b_4 (FCF) + b_5 (PROFIT) + e$$

4. Results and Discussion

Descriptive Statistics Analysis

Table 1 Statistical Test Results Descriptive

	N	Minimum	Maximum	Means	std. Deviation
Company Financial Performance	145	,00	,29	,0782	,05911
Independent Commissioner	145	,25	1.00	,4194	,10554
Audit Committee	145	2.00	6.00	3.0552	,42130
Company Size	145	25.96	33.49	28.9527	1.69808
Free Cash Flow	145	,01	,52	,1832	,10543
Profitability	145	,00	1.98	,0949	,16798

Source: SPSS data processed , 2023

The company's financial performance has a minimum value of 0.00 located at PT. Buana Artha AnugerahTbk (STAR) in 20 18 and a maximum value of 0.29 lies with PT. Hanjaya Mandala Sampoerna Tbk (HMSP) in 20 18. The average value (mean) resulting from 145 samples over a period of three years was 0.0782 and the standard deviation was 0.05911 .Independent commissioners have a minimum value of 0.25 located at PT. Indo Acidatama Tbk (SRSN) in 2019 and a maximum value of 1.00 lies with PT. Fajar Surya Wisesa Tbk (FASW) year 20 19.

The average value (mean) resulting from 145 samples over a period of three years is 0.4194 and the standard deviation is 0.10554 .The audit committee has a minimum value of 2.00 located at PT. Mulia Industrindo Tbk (MLIA) in 20 18 and a maximum value of 6.00 lies with PT. Multi Bintang Indonesia Tbk (MLBI) in 20 20. The average value (mean) resulting from 145 samples over a period of three years was 3.0552 and a standard deviation of 0.42130 .The size of the company has a minimum value of 25.96 located at PT. Pyridam Farma Tbk (PYFA)in 20 18 and the maximum value of 33.49 lies with PT. Astra International Tbk (MLBI) in 20 19.

The average value (mean) resulting from 145 samples over a period of three years was 28.9527 and a standard deviation of 1.69808 .Free cash flow has a minimum value of 0.01 located at PT. Budi Starch & Sweetener Tbk (BUDI) in 20 18 and a maximum value of 0.52 lies with PT. Sariguna Primatirta Tbk (MLBI) in 20 19. The average value (mean) resulting from 145 samples over a period of three years was 0.1832 and a standard deviation of 0.10543 .Profitability has a minimum value of 0.00 located at PT. Cahayaputra Asa Keramik Tbk (CAKK) in 20 20 and a maximum value of 1.98 lies with PT. Buana Artha Anugerah Tbk (MLBI) in 20 20. The average value (mean) resulting from 145 samples over a period of three years was 0.0949 and the standard deviation was 0.16798.

Discussion

In research This use analysis multiple linear regression for test influence independent variable on variable dependent. Following is results analysis multiple linear regression :

Table 2 Results from multiple Linear Regression Analysis

Variable	t	Sig.	Information
1 (Constant)	-1,201	,232	
Commissioner Independent	,636	,526	Not significant
Audit Committee	,739	,461	Not significant
Company Size	1.105	,271	Not significant
Free Cash Flow	7,871	,000	Not significant
Profitability	1.373	,127	Not significant

Source : SPSS data processed , 2023

Based on table IV. 8 views from results analysis regression is as following : The results of the t test in the table above show that independent commissioner (KI) has a significance value of $0.526 > 0.05$. This means that H1 is rejected or independent commissioner (KI) partially have not has a significant influence on company value in manufacturing companies listed on the Indonesia Stock Exchange in 2018 8-2020 .

Analysis results statistics For variable the audit committee has a significance value of $0.461 > 0.05$. This means that H2 is rejected or audit committee (KA) partially have not has a significant influence on company value in manufacturing companies listed on the Indonesia Stock Exchange in 2018 8-2020 .

Analysis results statistics For variable size company own mark significance $0.271 > 0.05$. This means that H3 is rejected or size company (SIZE) partially have not has a significant influence on company value in manufacturing companies listed on the Indonesia Stock Exchange in 2018 8-2020 .

Analysis results statistics For the free cash flow variable has a significance value of $0.000 < 0.05$. This means that H4 is received or free *cash flow* (FCF) partially has a significant influence on company value in manufacturing companies listed on the Indonesia Stock Exchange in 2018 8-2020 .

Results of statistical analysis for variable profitability has a significance value of $0.172 > 0.05$. This means that H5 is rejected or profitability (NPM) partially have not has a significant influence on company value in manufacturing companies listed on the Indonesia Stock Exchange in 2018 8-2020 .

5. Conclusion

This study aims to determine the influence of the commissioner independent, audit committee, size company, free cash flow and profitability to performance finance company on company manufacturers listed on the IDX. Based on results data analysis and discussion in CHAPTER IV can concluded as following: Commissioner independent No influential to performance finance company, so that H1 is rejected. the audit committee is not influential to performance finance company , so that H2 is rejected. Size company No influential to performance financial company, so H3 is rejected. Free cash flow effect to performance finance firm , so that H4 is accepted . Profitability No influential to performance finance company, so H5 is rejected.

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