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Internal GCG Factor and Performance in Indonesian State-Owned Enterprises

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ABSTRACT

Company management based on the principles of Good Corporate Governance (GCG) is an effort to make GCG the basis for company management guidelines in order to manage company management. The application of GCG principles is currently very much needed so that companies can survive and be resilient in facing increasingly tight competition, and to be able to apply business ethics consistently in order to create a healthy, efficient, and transparent business climate. This study aims to examine the effect of institutional ownership, managerial ownership, board of commissioners, audit committee on the financial performance of state-owned companies listed on the IDX for the period 2019 - 2024. Based on the purposive sampling method, a sample of 27 companies was generated with data sources derived from financial reports. The data analysis technique used multiple linear regression analysis with the SPSS 26 program tool. The results of this study indicate that: institutional ownership has a negative effect, managerial ownership and audit committee have a positive effect.

Keywords: Institutional Ownership, Managerial Ownership, Board of Commissioners, Audit Committee

INTRODUCTION

Company performance reflects financial conditions that can be analyzed through financial statements, including balance sheets and income statements. The application of Good Corporate Governance (GCG) principles is important for the sustainability of companies amid competition, preventing corrupt practices, and improving management efficiency(Inrawan et al., 2022; Megasyara & Imawan, 2023). Without GCG, companies risk losing investor confidence and facing operational problems. This study focuses on internal factors such as audit committees, institutional ownership, and independent commissioners on financial performance. Several cases that have caused conflict due to financial performance errors include the case of PT Garuda Indonesia in 2021, which had debts of US$ 13 billion, while its total assets were US$ 9.4 billion and its negative equity was US$ 3.6 billion. Furthermore, a subsidiary of PT Garuda Indonesia also experienced the same thing with a total debt of IDR 10.6 trillion, while its total assets were IDR 7 trillion, and its negative equity value was IDR 3.6 trillion(Munawarah et al., 2025). Furthermore, the case of PT Waskita Karya Tbk in 2022 recorded a capital deficiency of IDR 3.06 trillion. This value increased from IDR 2.78 trillion in the fourth quarter of 2021. WSBP also defaulted on its 2019 Continuous Bonds worth IDR 2 trillion. This shows the negative impact of debt that existed before the Covid-19 pandemic, with negative equity detected in financial reports up

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to the third quarter of 2021 and a large number of creditors involved in debt problems(Degryse & Huylebroek, 2023).

Research on internal factors of Good Corporate Governance (GCG) and financial performance in State-Owned Enterprises (SOEs) in Indonesia shows a variety of relationships. However, in general, the relationship between the two has a positive influence. A number of studies explain that strong GCG practices, such as an effective board of directors structure, good internal audit functions, and transparent management, have a positive influence on financial performance and company value, particularly through increased accountability, reduced fraud, and support for digital transformation through big data analysis (Arifah et al., 2023; Engkus et al., 2024; Handayani et al., 2020; Hermanto et al., 2021). Internal GCG mechanisms such as managerial ownership, institutional ownership, independent commissioners, and audit committees have been proven to have a significant effect on financial performance and can also act as mediating variables between GCG and company value (Handayani et al., 2020).

In addition, several studies highlight that the impact of GCG also has negative or limited effects, especially when board members have political affiliations, or when GCG is implemented superficially due to external pressure rather than sincere commitment. These conditions can weaken company performance and investor confidence (Jahja et al., 2024; Markonah & Riwayati, 2024). The effectiveness of GCG is also reinforced by high-quality internal audits and risk management that help prevent fraudulent financial reporting and improve the quality of financial disclosure (Fernandez et al., 2025; Novatiani et al., 2022).

In the context of SOEs, GCG has been shown to have a positive impact on performance, while related-party transactions such as tunneling or propping have no significant impact on performance results (Arifah et al., 2023). Overall, although strong internal GCG factors generally support improved financial performance of SOEs in Indonesia, the quality of implementation and the existence of political or institutional challenges can weaken this effect (Arifah et al., 2023; Engkus et al., 2024; Fernandez et al., 2025; Handayani et al., 2020; Hermanto et al., 2021; Jahja et al., 2024; Novatiani et al., 2022).

This study examines the variables that influence corporate financial performance, particularly those related to good corporate governance (GCG), which includes institutional ownership, managerial ownership, the board of commissioners, and the audit committee. Previous studies have shown mixed results: some have found a positive impact from boards of commissioners and audit committees, while others have found no significant effect. In particular, institutional ownership has shown inconsistent results in its impact on financial performance. This study also highlights the inconsistency in previous studies, which has led to the addition of company size as a moderating variable. The title of this study is "The Influence of Internal GCG Factors on Company Financial Performance (A Study of State-Owned Companies Listed on the Indonesia Stock Exchange from 2019 to 2024)".

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency theory

Jensen & Meckling (1976) introduced a theory, namely agency theory. Agency theory is defined as an agreement between one or more parties (principals) who authorize

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another party (agents) to act on behalf of the principals by granting them the authority to make decisions in running the business. According to agency theory, differences between agents and principals can cause conflicts, which can have an impact on company finances. Therefore, a control mechanism is needed to balance the interests of both parties.

Kinerja Keuangan

Financial performance is an evaluation conducted to assess the extent to which a company has complied with financial regulations. Financial performance reflects the results of various aspects of the company within a specified period, such as sources of financing, fund allocation, capital adequacy, liquidity, and profitability. Periodically, financial reports provide an overview of the company's financial situation. Various stakeholders such as investors, lenders, managers, prospective lenders, employees, the government, and the general public use the data in financial reports for various purposes (Bolarinwa et al., 2021). Therefore, to evaluate a company's performance, we need certain measurements called ratios. A ratio is a number that describes the relationship between two pieces of financial data within a company. Commonly used ratios include financial ratios (growth ratios, liquidity ratios, solvency ratios, profitability ratios, and activity ratios), return on assets (ROA), and return on equity (ROE)(Safitri et al., 2023; Sapitri & Arza, 2024).

Good Coorporate Governance

Good corporate governance is a process and framework used by elements within a company, such as shareholders, supervisory boards, and management, with the aim of improving business success and corporate obligations in achieving long-term value, while also considering the interests of other stakeholders. It is based on legal regulations and ethical principles (Napitupulu, 2023). Agency theory is the basis of the management mechanism known as corporate governance. There are two groups of GCG mechanisms, namely internal factors and external factors. Internal factors are ways to control using internal structures and processes such as general meetings of shareholders (GMS), the composition of the board of directors, the composition of the board of commissioners, audit committees, and ownership structures. Meanwhile, external factors are ways to influence the company other than using internal factors, so they are more related to the influence of the market on the control of the company and the applicable legal system. Four internal factors that are often used as indicators in various studies and aim to reduce agency conflicts are institutional ownership, managerial ownership, the board of commissioners, and the audit committee.

Kepemilikan Institusional

Ownership structure is defined as the ratio of shares held by internal parties and investors. Ownership structure refers to how many shares are held by internal parties of the company compared to the total shares held by investors (Deva & Birchall, 2020). Institutional leadership reduces agency conflicts between managers and shareholders. It is believed that institutional owners have the professional ability to supervise companies or institutions and make the right decisions for the company. Institutional ownership is a factor that affects company performance due to its monitoring function. Institutional ownership is a factor that affects company performance through this monitoring function (da Silva et al.,

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2019; Darlis et al., 2024). Huang et al., (2023) studied manufacturing companies and found that institutional ownership affects company financial performance. Research by Naveed et al., (2022) reinforces this finding. Based on the previous explanation, the hypothesis developed is: **H1: Institutional ownership affects financial performance**

Kepemilikan Manajerial

Managerial ownership refers to shareholders from the management side (board of directors and board of commissioners) who actively participate in decision-making. Through this policy, managers are expected to produce optimal performance. According to Darlis et al., (2024), managerial share ownership can help align the interests of shareholders and managers. The higher the proportion of managerial share ownership, the better the company's performance. In companies with managerial ownership, managers who are also shareholders will certainly align their interests as managers with their interests as shareholders.

Agency theory explains that managers have the potential to use their resources for their own interests. This issue is exacerbated by the separation of ownership and control of the company. Through share ownership, managers can be cautious because they are also responsible for the decisions made. In line with this statement,Naveed et al., (2022) prove that managerial ownership affects financial performance and that one way to reduce agency problems is through increased managerial ownership. Based on the previous explanation, the hypothesis developed is: **H2: Managerial ownership affects financial performance.**

Dewan Komisaris

The board of commissioners is a control group within a company that has collective responsibility for exercising control and providing advice to the board of directors (Darlis et al., 2024). Their main task is to ensure the implementation of good corporate governance (Khoirunisa, 2018; Megasyara & Imawan, 2023). The purpose of their role is to ensure that the company operates in accordance with the objectives and principles set out in the company's articles of association. The performance of the board of commissioners can be measured by observing the number of members who are part of the board of commissioners in a company (Darlis et al., 2024). The board of commissioners plays an important role in a company, especially when implementing good corporate governance. The board of commissioners also carries out supervisory activities in a company, including supervising management in running the business and overseeing the company's accountability(Madhakomala et al., 2022).

Agency theory states that companies must implement good corporate governance to reduce problems. The board of commissioners is intended to reduce the possibility of agency conflicts between management and shareholders due to their role in supervising the company. The supervision of the board of commissioners will affect the company's performance. The board of commissioners can represent the entire internal process, including supervising upper management. Putri, (2023) study looked at property, housing, and construction companies and found that the board of commissioners influences the company's financial performance. The hypothesis developed based on the above description is: **H3: The Board of Commissioners influences Financial Performance.**

Komite Audit

The audit committee is an institution formed by the Board of Commissioners and is under its responsibility (Apriliyanti, 2018). The audit committee plays a very important role in maintaining the credibility of the financial reporting process, ensuring that there is an adequate monitoring system within the company, and supporting the implementation of Good Corporate Governance principles. The audit committee is chaired by an Independent Commissioner and must consist of at least 3 to 7 members, comprising Independent Commissioners and individuals from outside the public company. The term of office of Audit Committee members may not exceed the term of office of the independent board of commissioners, as stipulated in the articles of association, and they can only be re-elected for one additional term (Apriliyanti, 2018).

The audit committee, which operates with a high level of professionalism and independence, has the responsibility to support the board of commissioners in supervising financial reports and implementing good corporate governance(Muwahhidin & Ansar, 2025). Thus, with many members in the audit committee, the supervision carried out is expected to be more effective, and it is also intended that management will have fewer opportunities to manipulate relevant data(Eugster et al., 2024). The results of research conducted by Sari et al. (2020) show that the audit committee has an influence on company financial performance. Based on this explanation, the proposed hypothesis is as follows: **H4: The Audit Committee influences Financial Performance.**

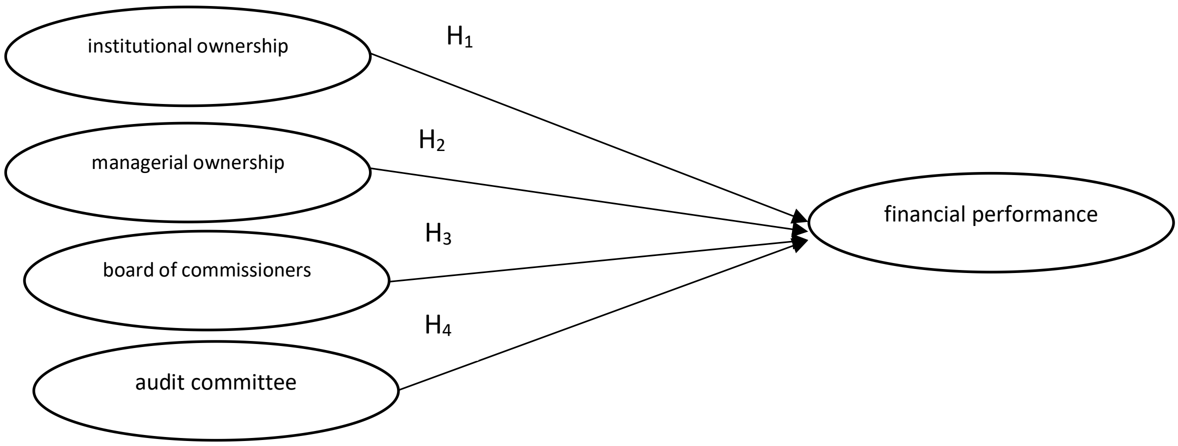

Figure 1. Model analysis

METHODS

This quantitative study uses secondary data in the form of financial reports fromstate-owned enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) for the period 2019-2024, accessed through the official website www.idx.co.id. The research population consisted of 115 companies, with a research sample of 27 companies selected through purposive sampling. Data analysiswas performed using Statistical Product and Service Solution (SPSS) version 24, using classical assumption testing. The data used must first pass the Classical Assumption Test, which includes the Normality Test, Heteroscedasticity Test,

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Autocorrelation Test, and Multicollinearity Test. Hypothesis testing, determinant coefficient testing, and multiple linear regression testing were performed using the following formula:
Model $Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + e$
Y = financial performance; α = constant; β1 – β4 = regression coefficients; X_1 = institutional ownership; X_2 = managerial ownership; X_3 = board of commissioners; X_4 = audit committee; e = error term.

RESULTS

Normality testing is conducted to ensure that the residual level of data is normally distributed. This is done using the One-Sample Kolmogorov-Smirnov Test.

Tabel 1. Results of Normality Test with Kolmogorov-Smirnov (before outliers)

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		135
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.09445267
Most Extreme Differences	Absolute	.205
	Positive	.205
	Negative	-.132
Test Statistic		.205
Asymp. Sig. (2-tailed)		.000[c]

Source : Output SPSS 24

Table 1 shows a significance level of 0.000. Normality will be achieved if the p-value is >0.05. Therefore, the results are said to be abnormal because the p-value is <0.05, namely 0.000<0.05. Because the data is still abnormal, the researcher then performed outlier and data transformation. According to (Nasution, 2020), outlier data is data with unique characteristics and extreme values. This study was conducted by making a boxplot, where numbers that appear outside the boxplot will be removed.

Tabel 2. Results of Normality Test with Kolmogorov-Smirnov (after outliers)

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		117
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.03143222
Most Extreme Differences	Absolute	.197
	Positive	.197
	Negative	-.132
Test Statistic		.197
Asymp. Sig. (2-tailed)		.000[c]

Source : Output SPSS 24

From the first outlier, a significance value of 0.000 was obtained, which is less than 0.05, indicating that the data is still not normal. Based on these results, the researcher transformed the data using SQRT (Square Root) with the following results:

Tabel 3. Result of Normalitas Test with *Kolmogorov-Smirnov*
(After *outlier* and transformasi data)

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		108
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.83120179
Most Extreme Differences	Absolute	.087
	Positive	.062
	Negative	-.087
Test Statistic		.087
Asymp. Sig. (2-tailed)		.174[c]

Source: Output SPSS 24

Table 3 shows the results after transforming the data and outliers with SQRT (square root), with the initial sample size of 135 becoming 108. From the normality test results using Kolmogorov-Smirnov (K-S), it can be seen that the significance level is 0.174. The data is said to be normal if the significance level is 0.05 or the p-value >0.05. The test results in Table 4.3 show 0.174 > 0.05 from the normality test using Kolmogorov-Smirnov (K-S), indicating a significance level of 0.174.

Tabel 4. Result of Multikolinieritas Test

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Institusional Ownership	.889	1.125
Managerial Ownership	.898	1.113
Board of Commissioners	.575	1.740
Audit Committee	.552	1.812

Source: Output SPSS 24

Table 4 shows that the tolerance values of the four variables are > 0.1 and the VIF values are < 10. Therefore, it can be concluded that the tolerance values of the five variables are > 0.1 and the VIF values are < 10. Thus, it can be concluded that the regression model has passed the multicollinearity test.

Tabel 5. Result of Autokorelasi Test
Model Summary[b]

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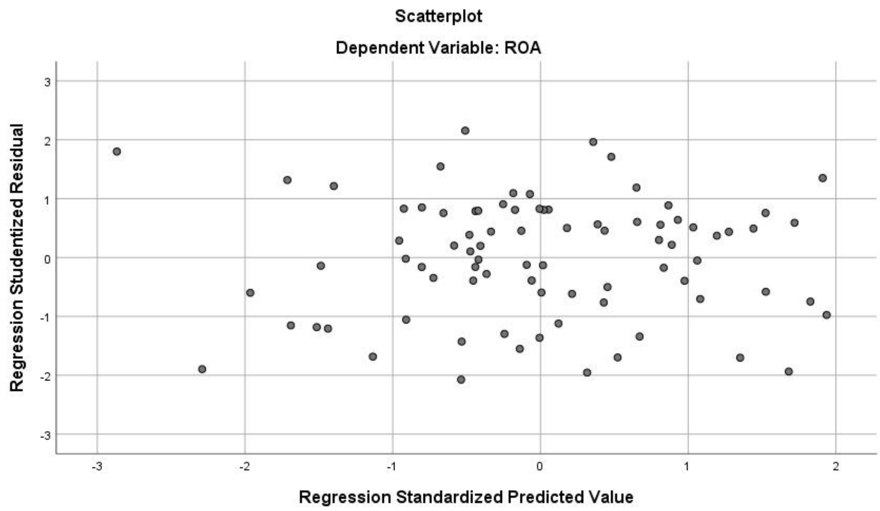
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.264[a]	.070	-.004	.86339	2.073

Source: Output SPSS 24

The DW value of 2.073 from Table 5 shows that this value is compared with the table value using a confidence level of 5% with a sample size of 108 (N) and a number of independent variables of 4 (k=4), resulting in a value of (dl) 1.56928 and a value of (du) of 1.71874. From these results, it can be concluded that dw>dL and dU, which means that the dw value (2.073) is greater than the dl value (1.56928) and du (1.71874), so it can be concluded that the data does not show signs of autocorrelation.

Figure 2. Result Heterokedastisitas Test



Source: Output SPSS 24

The results of Figure 2 scatterplot test above show that the points are scattered above and below the number 0. The points above are also scattered irregularly and do not show a regular pattern. From these results, it can be concluded that there is no heteroscedasticity.

Tabel 6. Result of Koefisien Determinasi (R2)
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.462[a]	.213	.182	4.65779

Source: Output SPSS 24

Nilai R Square pada persamaan pertama sebesar 0,213 sehingga dapat dikatakan bahwa variabel X1, X2, X3, dan X4 memiliki pengaruh sebesar 21,3 % terhadap Kinerja Keuangan Perusahaan (ROA).

Tabel 7. Result of Regresi Pertama Uji t
Coefficients[a]

		B	T	Sig	Hasil
1	(Constant)	7.004	2.400	.018	
	Institutional Ownership	-10.815	-2.943	.004	H1 accepted
	Managerial Ownership	6.074	2.108	.038	H2 accepted
	Board of Commissioners	.234	.715	.476	H3 rejected
	Audit Committee	.930	2.194	.031	H4 accepted

Sumber : data diolah, 2024

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$
$Y = 7{,}004 - 10{,}815\ X1 + 6{,}074\ X2 - 0{,}234\ X3 + 0{,}930\ X4 + e$
Thus, the data can be interpreted as follows:

1. The constant value of financial performance measured by ROA (Y) is 7.004, which means that if the independent variables of institutional ownership, managerial ownership, board of commissioners, and audit committee are assumed to be zero, then financial performance is 7.004.
2. The coefficient value of the Institutional Ownership variable (X1) is -10.815, which means that if Institutional Ownership increases by 1 unit, it will cause a decrease in the ROA (Y) value by 10.815.
3. The coefficient value of the Managerial Ownership variable (X2) is 6.074, which means that if Managerial Ownership increases by 1 unit, the ROA (Y) value increases by 6.074, assuming that other variables remain constant.
4. The Board of Commissioners (X3) has a direct effect of -0.234 on ROA (Y), which means that for every 1-unit increase in the board of commissioners, assuming other variables remain constant, ROA may decrease by 0.234.
5. The coefficient value of the Audit Committee (X4) variable is 0.930, which means that if the Audit Committee increases by 1 unit, the ROA (Y) value increases by 6.074, assuming other variables remain constant.

DISCUSSION

The results of this study reveal the influence of institutional ownership, managerial ownership, the board of commissioners, and the audit committee on financial performance. The results of the hypothesis testing can be described as follows:

Hypothesis 1: The Effect of Institutional Ownership on Financial Performance

The first hypothesis states that institutional ownership affects financial performance. The t-test results show a regression coefficient value of -10.815 with a significance level of 0.004, which is smaller than α = 0.05. This indicates that the first hypothesis (H1) in this study is accepted, meaning that institutional ownership has a negative effect on financial performance. The results of this study are in line with (Handayani et al., 2020; Haurissa & Dewi, 2021; Ramadhan & Adhim, 2021) which show that institutional ownership affects financial performance. However, the results of this study are not in line with (Khoirunisa, 2018; Sukmadilaga et al., 2022), who state that institutional ownership does not affect financial performance.

When institutional ownership increases, a company's financial performance tends to decline. This may be due to certain factors related to the structure or policy of institutional ownership that can affect aspects of a company's financial performance. This is in line with agency theory, which states that institutional ownership can reduce agency costs by creating more optimal oversight of management performance to minimize fraud committed by management, and can align the interests of management and stakeholders.

Hypothesis 2: The Effect of Managerial Ownership on Financial Performance

The second hypothesis states that managerial ownership affects financial performance. The t-test results show a regression coefficient value of 6.074 with a significance level of 0.038, which is smaller than α = 0.05. This indicates that the second hypothesis (H2) in this study is accepted, meaning that managerial ownership has a positive effect on financial performance. The results of this study are in line with (Paramita et al., 2021; Sapitri & Arza, 2024), which show that managerial ownership affects financial performance. This is in contrast to the studies by (Darlis et al., 2024), which show that managerial ownership does not affect financial performance.

Managerial ownership is in line with agency theory, which states that managerial ownership can reduce conflicts of interest between agents and principals. Managerial ownership will encourage managers to act cautiously in decision-making, because managers will share the consequences of the decisions they make. Therefore, it can be concluded that the greater the managerial ownership in a company, the higher the managers' interest will be. This results in managers taking a more serious approach to controlling the company in order to generate profits for stakeholders, as managers face high risks if the company suffers losses. Therefore, the researcher concludes that the higher the proportion of managerial ownership, the more cautious managers will be in making decisions and the more motivated they will be to perform their duties well because managers will bear the risk of loss as a consequence of wrong decisions.

Hypothesis 3: The Influence of the Board of Commissioners on Financial Performance

The third hypothesis states that the board of commissioners influences financial performance. The t-test results show a regression coefficient value of 0.234 with a significance level of 0.476, which is greater than α = 0.05. This indicates that the third hypothesis (H3) in this study is rejected, meaning that the board of commissioners does not have a significant effect on financial performance. The results of this study are in line with the studies by Khoirunisa, (2018); Megasyara & Imawan, (2023), which show that the board of commissioners does not have a significant effect on financial performance. This is in contrast to the studies by (Darlis et al., 2024; Shanti et al., 2024) which show that the board of commissioners has a significant effect on financial performance.

The board of commissioners has no influence on company performance. This is possible because the board of commissioners cannot coordinate, communicate, and make decisions in carrying out better control functions to improve company performance. According to agency theory, the role of the board of commissioners in a company is more focused on monitoring the implementation of management policies. This role of commissioners is expected to minimize agency problems that arise between the board of directors and shareholders. Therefore, the board of commissioners should be able to oversee the performance of the board of directors so that the performance produced is in line with the interests of shareholders.

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Hypothesis 4: The Effect of Audit Committees on Financial Performance

The fourth hypothesis states that the audit committee has an effect on financial performance. The t-test results show a regression coefficient value of 0.930 with a significance level of 0.031, which is smaller than α = 0.05. This indicates that the fourth hypothesis (H4) in this study is accepted, meaning that the audit committee has a positive effect on financial performance. The results of this study are in line with studies conducted by (Eugster et al., 2024; Widyastuti et al., 2025), which show that audit committees have an effect on financial performance. Meanwhile, (Apriliyanti, 2018; Festus et al., 2015) state that audit committees do not affect financial performance.

The agency problem actually arises when the principal finds it difficult to ensure that the agent acts to maximize the principal's welfare. According to agency theory, one mechanism that is widely used and expected to align the objectives of principals and agents is through financial reporting mechanisms. The existence of an audit committee plays a very important and strategic role in maintaining the credibility of the financial reporting process, as well as ensuring the creation of an adequate corporate oversight system and the implementation of good corporate governance. With the effective functioning of the audit committee, control over the company will be better, so that agency conflicts arising from management's desire to increase its own welfare can be minimized. Thus, the existence of an audit committee makes the supervisory function more effective in controlling the company.

CONCLUSION

This study provides empirical evidence on the effect of corporate governance mechanisms on financial performance. The test results show that institutional ownership has a negative effect on financial performance, indicating that an increase in institutional ownership is not always followed by an increase in company financial performance. This can be attributed to the supervisory structure or specific interests of institutional investors that are not aligned with the creation of company value. Conversely, managerial ownership has been proven to have a positive effect on financial performance. Management share ownership can encourage alignment of interests between agents and principals, so that management is more cautious in making decisions and motivated to improve company performance. Meanwhile, the existence of a board of commissioners does not show a significant effect on financial performance. This condition shows that the monitoring function has not been optimal in supporting the improvement of company performance, both in terms of coordination, communication, and supervisory effectiveness.

The audit committee has been proven to have a positive effect on financial performance. This confirms that the audit committee plays an important role in improving the quality of corporate governance, especially in supervising financial reporting and strengthening control systems, thereby minimizing agency conflicts and supporting the improvement of company performance. Overall, the results of this study emphasize the importance of good corporate governance mechanisms, particularly those directly related to management incentives and the effectiveness of supervisory functions, in promoting better financial performance.

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