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ANALYSIS OF THE INFLUENCE OF CORPORATE GOVERNANCE ON INVESTMENT EFFICIENCY OF PUBLIC COMPANIES IN INDONESIA

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Abstract

Good Corporate Governance is a process that regulates and controls a company in improving its business by paying attention to stakeholders to achieve company goals. The application of good corporate governance principles within a company can improve the company's financial performance and make the company free from fraud and can increase the trust of stakeholders and the public. The problem that companies often face is a lack of professionalism in running a company. Implementation of Good Corporate Governance cannot be separated from talking to companies that have valid legal entities in accordance with the provisions of the Law. The higher the investment efficiency, the more efficient the use of cash or company assets in making an investment, so it can be said that the more efficient investment is made, the higher the impact on cash flow. Corporate Governance influences the investment efficiency of public companies in Indonesia as measured by ROA and ROE. The research results which show that there is a positive influence of GCG on financial performance (ROA and ROE) can be interpreted as meaning that the better the implementation of GCG in a company can result in the company's operational activities being more effective and efficient, which in turn will increase financial performance.

Keywords: Corporate Governance, Public Company Investment

INTRODUCTION

Investment efficiency is investment that occurs in accordance with company expectations. Investment efficiency will be created when there is no deviation from the level of investment expected by the company, which means that within a predetermined time, the NPV (net present value) or time value of money that meets the company's target will be achieved (Tandelilin, 2016). However, if the company invests above this target, overinvestment will occur, that is, the company has made a positive deviation. On the other hand, if the company does not carry out all projects that are known to benefit the company, underinvestment will occur (lack of investment), and this means the company has made negative deviations (Sulistiawati, 2017).

In the current era of globalization, economic development in the world is becoming increasingly rapid. This can be an opportunity as well as a challenge for companies to expand and grow. The growth of a company really depends on the policies taken by managers within the company. Thus, a manager is required to know correctly and definitely about information that is useful for the company. However, in the current reality, many company managers misuse this information for their own interests. Managers report company conditions that are not in accordance with the actual state of the company. This is caused by differences in information held between managers and shareholders (Bimo, I. D., et al, 2022). Managers as company administrators know more about the information available to the company than shareholders. This situation is called information asymmetry. This is a situation where managers have access to information about the company's prospects that is not owned by parties outside the company (stakeholders/shareholders).

Several efforts to monitor companies can be realized by implementing good corporate governance practices. Good Corporate Governance is a topic that is often discussed in various studies because corporate governance is an important issue for policy makers in the public sector (Hasani and Yamchi, 2015). Good Corporate Governance (GCG) was first introduced in 1992 by the Cadbury Committee in its report, known as the Cadbury Report. The definition given by Cadbury in Lukviarman's book (2016) is that Corporate Governance focuses on a balance between goals and social, between personal and group goals. The main task is to achieve efficiency in the use of resources and equalize accountability in the use of these resources. The implementation and management of good corporate governance is a concept that focuses on the importance of shareholders' rights to obtain information regarding the company's financial performance correctly, accurately and on time (Lestari and Ika, 2015).

Forum of Corporate Governance for Indonesia-FCGI (2001) stated that Corporate Governance is a set of regulations that regulate relationships or systems that control a company, between shareholders, company managers, government, employees, creditors, and internal and external stakeholders. others relating to their rights and obligations. "Good Corporate Governance is a system that regulates and controls companies that create added value for all stakeholders" Sarafina, S., & Saifi, M (2017).

Good Corporate Governance is a process that regulates and controls a company in improving its business by paying attention to stakeholders to achieve company goals (Rimardhani, et al 2016). The application of good corporate governance principles within a company can improve the company's financial performance and make the company free from fraud and can increase the trust of stakeholders and the public. The problem that companies often face is a lack of professionalism in running a company. So that companies can increase work professionalism, they need to create rules for running the company. These rules and principles are called good corporate governance (Sarbah, A., & Xiao, W, 2015).

By implementing good GCG principles into the company, the company's financial performance will develop better and it will become a clean company that can be trusted by stakeholders. One of the things that often happens is that company owners always want profits and growth for the company, so managers do several things, either in the right or wrong way, to increase the company's performance, as a result the company's financial performance will indeed produce large profits but is vulnerable. of fraud within the company. Besides that, there is the possibility that managers are more concerned with personal gain, which can trigger problems within the company and its management. The risk of non-disclosure of information regarding management and finance will also be higher. One way that can be done to overcome the risk of fraud and bad things happening in a company is to implement good corporate governance (Al'Alam, M. P. A., & Firmansyah, A, 2019). By implementing good GCG principles into the company, the company's financial performance will develop better and it will become a clean company that can be trusted by stakeholders.

RESEARCH METHOD

The study in this research is qualitative with literature. The literature study research method is a research approach that involves the analysis and synthesis of information from various literature sources that are relevant to a particular research topic. Documents taken from literature research are journals, books and references related to the discussion you want to research (Earley, M.A. 2014; Caruth, G.D. 2013).

RESULT AND DISCUSSION

Corporate Governance Theory

A. Definition and Basic Principles of Corporate Governance

According to Fakhruddin (2014), good corporate governance can be defined as "a system of management and supervision of a company (the way a company is directed and controlled)". This understanding implies the broad scope of corporate governance and indirectly raises the issue of the importance of Board commitment and leadership in implementing GCG (Monks, R. A., & Minow, N, 2011).

According to the World Bank (World Bank) in Mallin, C. A (2016), the meaning of good corporate governance (GCG) is a collection of laws, regulations and rules that must be fulfilled, which can encourage the performance of company resources to function efficiently. to produce long-term, sustainable economic value for shareholders and the surrounding community as a whole.

According to the International Chamber of Commerce in Simamarta (Ho, C. K, 2005) defines that: "Corporate governance is a system of relationships between company management, directors, investors, the community and other institutions who invest their money in the company and expect a return for their investment the.

From the explanation above, it can be concluded that good corporate governance is all regulations in a company that can directly improve company performance and improve the welfare of shareholders without forgetting other stakeholders.

As an intermediation institution and trust institution, in carrying out its business activities banks must adhere to the principle of openness (transparency), have performance measures from all levels of the bank based on measures that are consistent with corporate values, business targets and bank strategies as a reflection of bank accountability (accountability), adhering to the principle of prudence (prudential banking practices) and guaranteeing the implementation of applicable provisions as a form of bank responsibility (responsibility), being objective and free from pressure from any party in decision making (independence), and always paying attention to the interests of all stakeholders based on the principle of equality and fairness.

B. Effective Corporate Governance Models and Mechanisms

Good Corporate Governance is important with the aim of monitoring the performance of managers. This mechanism will guarantee that investors will receive a level of return commensurate with the investment they have made. Dennis and McConnell (2010) differentiate Good Corporate Governance mechanisms into two parts, namely internal and external. Internal mechanisms are carried out by the board of directors, board of commissioners, audit committee and ownership structure, while external mechanisms are more about the influence of the market for control over the company and the applicable legal system.

Investment Efficiency

A. Concept and Importance of Investment Efficiency for Companies

Investment efficiency is an investment activity where the investment made is in accordance with the company's expectations. An investment can be said to be efficient if the level of investment expected by the company does not experience any deviations. In the sense that the investment made by the company is neither overinvestment nor underinvestment. An overinvestment condition occurs, if the company makes too much investment or in other words exceeds the predetermined target, while an underinvestment condition or lack of investment occurs if the company does not carry out all projects which are known to provide benefits for the company (Erawati, N. M. A., et al, 2021).

Investment efficiency is related to sales growth and company investment. From the research model in measuring investment efficiency, it shows that an increasing sales growth rate indicates increased investment, and conversely a decreasing sales level will have an impact on decreasing the company's investment level (Afrin, S., & Rahman, M. M, 2023). The higher the investment efficiency, the more efficient the use of cash or company assets in making an investment, so it can be said that the more efficient investment is made, the higher the impact on cash flow.

Myers and Majluf (1984) in Gomariz et al (2014) developed a framework for the role of information asymmetry in investment efficiency through information problems, such as moral hazard and adverse selection. In relation to moral hazard, differences in interests between shareholders and lack of monitoring by managers can cause management to try to maximize its personal interests by making investments that may not be suitable for shareholders. This condition causes overinvestment (Hope and Thomas, 2008). In adverse selection, managers with better information may invest too much if they sell expensive securities and achieve excess funds. To avoid this, capital suppliers may regulate capital or increase costs, which will lead to rejection of some profitable projects because funding constraints will lead to underinvestment.

B. Factors Affecting Investment Efficiency

In order to get efficient results, investments made by companies must consider two factors (Lina, S, 2019). The first factor is when funding investment opportunities in a project in the future. A company should increase its current business capital with the aim of avoiding financial obstacles when investment opportunities arise. The second factor is that when a company plans to increase business capital to invest, the investment made does not guarantee that it will be efficient. This happens because asymmetric information causes differences in perceptions between investors and company managers (Zeng, S., et al, 2018). Managers who know more company information try to choose investments for a project that benefits themselves and ignore the interests of investors (Mohammadi, S. M, 2014) thereby causing investment to be inefficient.

There are several factors that influence investment, including the following: (Lina, S, 2019)

1. Interest rates. Interest rates are a very important factor in attracting investment because most investments are usually financed from bank loans. If loan interest rates fall, it will encourage investors to borrow capital and with this capital loan they will make investments.
2. National income per capita for the state (national) level and GDP per capita for the provincial and district or city levels. National income per capita and GRDP per capita are reflections of the purchasing power of society or the market. The higher the purchasing power of the people of a country or region (which is reflected by national income per capita or GRDP per capita), the more attractive the country or region will be to invest.
3. Condition of facilities and infrastructure. Investment requires supporting facilities and infrastructure. The supporting infrastructure and facilities include transportation, communication, utilities, waste disposal facilities and others. Examples of transportation facilities and infrastructure include: roads, terminals, ports, airports and others. Telecommunications facilities and infrastructure, for example: wired and wireless telephone networks, internet networks, postal infrastructure and facilities. Meanwhile, examples of utilities are the availability of clean water, electricity and so on.
4. Licensing bureaucracy. Licensing bureaucracy is a very important factor in influencing investment because lengthy bureaucracy increases costs for investors. Long bureaucracy will increase costs for entrepreneurs because it will increase the time dealing with authorities. However, for

entrepreneurs, time is money. Another possibility is that the long bureaucracy opens up opportunities for unscrupulous government officials to extract bribes from businessmen in order to shorten the bureaucracy.

5. Quality of human resources. These days, quality people are quite an important investment attraction. The reason is that the technology used by entrepreneurs is becoming more and more modern. Modern technology demands more skills from the workforce.
6. Sixth, labor regulations and laws. These labor law regulations include, among other things, regulations regarding termination of employment (PHK), minimum wages, employment contracts and others.
7. Seventh, political stability and security. Political stability and security are important for investors because they will ensure the long-term sustainability of their investments.
8. Eighth, socio-cultural factors. An example of this socio-cultural factor is people's taste in food. Inland Javanese, for example, prefer sweet-tasting dishes, while coastal Javanese prefer salty-tasting dishes.

Context of Public Companies in Indonesia

A. Characteristics of the Capital Market and Public Companies in Indonesia

The capital market is essentially a network of arrangements that allows long-term money exchange, the addition of financial assets and debt at the same time, allowing investors to change and adjust investment portfolios (through the secondary market). The ongoing function of the capital market (Prasetyo, A. G., et al, 2018), is to increase and link long-term fund flows with "market criteria" efficiently which will support real economic growth as a whole.

The characteristics of the capital market are: (Putra, R., et al, 2017)

1. From the perspective of fund users, there are various parties involved in capital market activities. With funds available to Capital Market parties, investors / investors who have excess funds from companies / government agencies that need additional funds, various instruments bridge between those who need funds and investors (investors).
2. From the perspective of the type of instrument offered through the capital market, namely whether the instrument is medium/long term debt or a company capital instrument (Equity).
3. From the maturity point of view, the instruments traded in the capital market are medium-term funds and long-term funds, while securities

with a maturity of less than one year are traded in the money market. market) or the market for short-term funds (short term market).

4. From the point of view of the level of centralization, the scope of a capital market turns out to cover issues that are quite broad and spread out, a fact that cannot be avoided is that in a country that is geographically quite extensive, there is a regional and local capital market (regional and local market).) is very necessary considering that it spreads the interests of fund owners and fund users.
5. From a transaction perspective, a capital market transaction carried out by investors and users of funds occurs in an open and indirect market.
6. In the capital market mechanism, it is known that there are offers in the primary market and secondary market. This creates a difference between transactions in the primary market and transactions in the secondary market or stock exchange.

B. Corporate Governance Regulations in Indonesia

Implementation of Good Corporate Governance cannot be separated from talking to companies that have valid legal entities in accordance with the provisions of the Law. Meijers states that legal entities include those who support rights and obligations, as is the opinion of Loemann and E. Utrecht (Zulfikar, Z., et al, 2020). What concerns us is that a legal entity has assets (vermogen) that are completely separate from the assets of its members, namely in the case of a legal entity in the form of a corporation. The rights and obligations of a legal entity are completely separate from the rights and obligations of its members.

According to Ridwan Khairandy and Camelia Malik, GCG is definitively "a system that regulates and controls a company to create added value for all stakeholders". The GCG concept in Indonesia can be interpreted as the concept of good company management. Two things are emphasized in the GCG concept. First, the importance of shareholders' rights to obtain information correctly (accurately) and on time. Second, the company's obligation to disclose accurately, timely and transparently all information on company performance, ownership and stakeholders (Khairandy, R. , & Malik, C, 2007).

GCG principles are regulated in Law Number 40 of 2007 concerning Limited Liability Companies, Law Number 8 of 1995 concerning Capital Markets, Law Number 10 of 1998 on Banking, Law Number 19 of 2003 concerning BUMN, Law Number 25 2007 concerning Capital Investment.

However, in this thesis the focus is on GCG in Law Number 40 of 2007 concerning Limited Liability Companies.

GCG principles are regulated in Law Number 40 of 2007 concerning Limited Liability Companies, Law Number 8 of 1995 concerning Capital Markets, Law Number 10 of 1998 on Banking, Law Number 19 of 2003 concerning BUMN, Law Number 25 2007 concerning Capital Investment. However, in this thesis the focus is on Good Corporate Governance in the context of Law Number 40 of 2007 concerning Limited Liability Companies and Law No. 19 of 2004 concerning State-Owned Enterprises.

CONCLUSION

The research results show that GCG influences the investment efficiency of public companies in Indonesia as measured by ROA and ROE. The research results which show that there is a positive influence of GCG on financial performance (ROA and ROE) can be interpreted as meaning that the better the implementation of GCG in a company can result in the company's operational activities being more effective and efficient, which in turn will increase financial performance. Overall, it can be interpreted that by implementing good corporate governance principles in a company, the financial performance of a company will also be better.

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