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THE EFFECT OF SUSTAINABLE GOVERNANCE TO PROFITABILITY

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ABSTRACT: The purpose of this study was to study the effect of the board of commissioners, board of directors, and audit committee on the profitability of property, real estate and building construction companies listed on the Indonesian stock exchange. This study uses a quantitative method. The population is Property, Real Estate and Building Construction companies listed on the Indonesia Stock Exchange. Based on the sample selection criteria, a sample of 25 (twenty five) companies was obtained. In this study, the dependent variable used is profitability, and the independent variable consists of the Board of Commissioners, the Board of Directors, and the audit commitee.The results of this study indicate that the board of commissioners has a positive effect on company profitability, the board of directors has no effect on profitability, and the audit committee has a negative effect on profitability.
Keywords: Profitability, board of commissioners, board of directors, audit committee.

I. PRELIMINARY

Profit is the main goal of a company. To measure its achievement, the profitability ratio is used. According to Kasmir (2016) profitability is the ratio used to assess the company's ability to seek profit and also provides a measure of the level of management effectiveness of a company in a period. Profit can be maximized if a company's financial manager knows the factors affecting profitability. The factors that affect profitability include capital structure, company size, liquidity, and working capital turnover. In this study, the profitability ratio used is Return On Assets (ROA). According to Kasmir (2016:201), ROA is used to measure the company's ability to generate profits based on the number of assets used. ROA is obtained by comparing net income after tax to total assets.

Property companies are one of the companies that contribute significantly to Indonesia's economic growth. According to Haryanto (2020) in Alexander (2020) in 2019 in the city of Jakarta, the property sector has contributed around 17.61 percent of economic growth. Business people continue to adjust the concept of housing and develop appropriate marketing strategies. Property companies have a great opportunity to survive, because the profits generated are relatively increasing every year. One of them is PT. WaskitaKarya (Persero), this company continues to experience a significant increase in net profit every year. According to Waskita's 2018 Sustainability Report, contains that the increase in profit each year is due to PT. Waskita, who continues to improve the quality of human resources, tries to bring customers' trust in working together to complete various projects. Picture 1 shows the net profit trends of PT Waskita.

Picture 1

Net Profit Trends of PT. Waskita

Source: idx.co.id

However, although the net profit continued to increase until 2018, but in 2019, the net profit at PT. Waskita decreased significantly. This is believed to be due to the implementation of ineffective governance that was different from the previous year. In addition, there are also several property companies that have experienced a decline, even losses due to financial problems. One of them is PT. Bakrieland Development Tbk, this company experienced a net loss in 2019 due to a decrease in operating income of 714.45 billion. This is probably due to the implementation of less effective governance.

The Board of Directors is a company organ that represents the company, which has full authority and responsibility for the management of the company for the interests of the company. For a company, the board of directors is a trustee as well as an agent.

In addition to the board of directors, the board of commissioners also has an important role in a company. According to EgonZehnder International (2000) in FCGI (2002), the Board of Commissioners has the task of ensuring the implementation of strategy by the company, supervising the directors in carrying out their duties as company managers, and ensuring the implementation of corporate accountability. Thus, the commissioners have a supervisory function and provide instructions or directions to company managers.

This study will discuss the remuneration given to the board of directors and the board of commissioners. Giving remuneration to the board of directors is believed to increase firm's performance. Employees who are influenced by the right composition of remuneration balanced with motivation and commitment, then their actions will be in accordance with company goals. Likewise with the provision of remuneration to the board of commissioners, the board of commissioners will work harder as expected by the company in carrying out their supervisory duties on company management. In addition to improving firm performance, remuneration is also applied to reduce conflicts between shareholders and managers, so that the interests of both run in harmony. The remuneration system in a company is made by the remuneration committee by taking into account the provisions of Law Number 40 of 2007 concerning Limited Liability Companies, Financial Services Authority Regulation No.33/POJK.04/2014 concerning Directors and Board of Commissioners of Issuers or Public Companies, Service Authority Regulations Finance No.34/POJK.04/2014 concerning the nomination and remuneration committee of issuers or public companies, the articles of association of the company, and other related policies.

From the various descriptions above, this study will measure the effect of remuneration for the board of commissioners and remuneration for the board of directors on profitability as measured by the ROA ratio. According to Muslih (2019) remuneration of commissioners has no significant effect on firm performance. On the other handArie (2017) concluded that remuneration of the board of commissioners has a positive effect to firm performance.Based on the results of research conducted by Amadea, Selly, and Rathria (2019) on public companies in Indonesia, it is explained that the remuneration of directors has a significant positive effect on company performance as proxied on ROA and ROE.

In addition to the board of commissioners and the board of directors, the role of the audit committee is also very important in the creation of good governance. The audit committee is a committee formed by the board of commissioners and is responsible to the board of commissioners in its supervisory role. The existence of an audit committee is legally required to be owned by a company in improving firm performance. In the Regulation of the Financial Services Authority Number 55/Pjok.04/2015, it is stated that the number of audit committee meetings is held at least four times in one year of office. According to FCGI (2011) in Pertiwi (2019) recommends holding between three and four meetings a year to carry out their responsibilities. Based on the results of research conducted by Nidhi Bansal and Anil in (2016) explained that the frequency of audit committee meetings has a significant positive effect on company performance. In the results of research conducted by Muslih at a state-owned banking company (2019), explained that the frequency of audit committee meetings has no significant positive effect on company performance.

Based on the description above, the formulation of the problem in this study is whether the board of commissioners has an effect on the company's profitability, whether the board of directors has an effect on the company's profitability, and whether the audit committee has an effect on the company's profitability.

II. LITERATURE REVIEW

This study uses agency theory as a grand theory. Jensen and Meckling (1976) define agency theory as a contract between one or more shareholders, involving managers (agents) to carry out company activities on behalf of the principal. The principle is the owner of the company who is in charge of providing the funds and facilities needed by the company, while the agent is the person who has the authority to manage and maximize the company's wealth, which has previously been selected and contracted by the principal. By delegating authority to agents, investors have the hope that they will get maximum satisfaction by increasing company profits and prosperity for investors. Therefore, the relationship between the two parties must be regulated, so that the manager can do his job well.

Hidayat (2017) argues that agents have sufficient information about the work environment, self-capacity and opportunities in the company as a whole compared to principals who do not have enough information about the condition and performance of their company. This causes an imbalance of information between the principal and the agent which results in information asymmetry. Information asymmetry can cause a problem between the principal and the agent.

Board of Commissioners

The board of commissioners is the core of Corporate Governance. The Board of Commissioners is the center of a company's resilience and success. in charge of ensuring the implementation of corporate strategy, performing supervisory functions, and providing advice to the board of directors. The board of commissioners in the company is more focused on the function of monitoring the implementation of the board of directors' policies. According to Muslih (2021) the Board of Commissioners is a professional who has competence, reputation, expertise and also a good understanding of the company. This professional supervision is expected to encourage company management in the presentation of financial statements and increase the effectiveness of corporate governance, such as reducing agency problems that arise between directors and principals. In addition, the supervision of the board of directors is expected to have a good impact, namely the board of directors can produce performance that is in accordance with the interests of shareholders.

Based on the Financial Services Authority Regulation Number 33/POJK.04/2014 concerning the board of directors and the board of commissioners of issuers or public companies in article 20, it states that the board of commissioners consists of a minimum of 2 (two) members, 1 (one) of whom is an independent commissioner, or a minimum of 30% (thirty percent) of the total members of the board of commissioners, and 1 (one) of these members is appointed as the main commissioner. The Board of Commissioners is responsible for the General Meeting of Shareholders (GMS). The GMS appoints the board of commissioners for a certain period and dismisses the members of the board of commissioners. If the board of commissioners has passed a certain period but it is possible, they can be reappointed by the GMS for 1 (one) term of office. The term of office for the Board of Commissioners is 5 (five) years from the date of appointment as determined by the GMS.

Board of Directors

The board of directors is a group of individuals or a person appointed to lead the company. Based on the articles of association, the Board of Directors consists of a minimum of 2 (two) individuals, and 1 (one) of the members of the board of directors is appointed as the president director. The board of directors is appointed by the GMS which has the authority to nominate directors, and is also dismissed by the GMS which is then reported to the Minister of Law and Human Rights to be recorded in the company's mandatory list of director changes within a maximum period of 30 (thirty) days from the date of the GMS decision. The term of office of the board of directors is 5 (five) years which will end at the closing of the fifth annual GMS after the date of appointment.

Remuneration is a form of reward received by an employee or employee for their contribution to the company. The rewards can be in the form of salaries, bonuses, stock options, and others. The form of rewards given to them can be financial or non-financial.

Based on the regulation of the Financial Services Authority Number 45/POJK.03/2015, remuneration is a reward given to the board of directors, board of commissioners, permanent and non-permanent employees, both in cash and non-cash, which is adjusted to the duties and authorities of each respectively.

Audit Committee

The audit committee is the supporting organ of the board of commissioners. Based on the OJK circular letter No. 16/SEOJK.05/2014 states that the audit committee is a committee formed by the board of commissioners and is responsible to the board of commissioners in assisting the commissioner's role as a supervisor to ensure the effectiveness of the internal control system in the company's operations to protect shareholders. The existence of an audit committee is legally required to be owned by a company in improving firm performance.

Firm Size

According to PutuAyu and Gerianta (2018), firm size is a scale that classifies the size of the company as measured by total assets, total sales, share value, and so on. The total assets, total sales and capital of a company if the larger it is, the bigger the size of the company will be. By looking at the number of assets owned by the company, we can find out the size of a company. Company size is one of the factors that can affect profit. Because with increasing assets, generally the company will be stronger in responding to various business problems, so that various obstacles are easier to overcome. This is due to the support of the total assets owned.

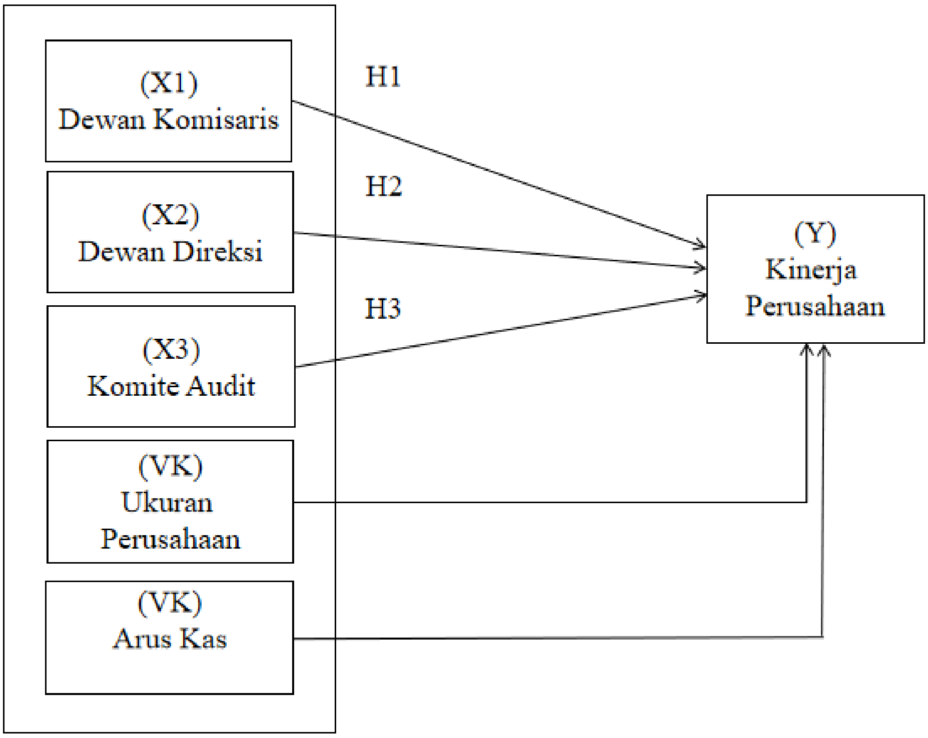
Cash Flow

According to Kieso and Weygandt (2009) in Sasongko and Apriani (2016) a cash flow report is a report that reports cash receipts, cash payments, and net changes in cash originating from operating, investing, and financing activities of a company for a period in a format which reconciles the beginning cash balances and the end-of-period cash balances. According to Cardilla, Muslih, and Rahadi (2019), a cash flow statement is a report that provides useful information about a company's ability to generate cash from operating activities, maintain and expand its operating capacity, meet its financial obligations, and pay dividends.

Research Framework

The following is the theoretical framework of this research:

Picture 2 Research Framework



Source : Processed Data

Hypothesis Development

The influence of the Board of Commissioners on profitability.

The remuneration of the Commissioners is one of the factors driving the company's maximum performance in considering the strategy. Remuneration is a very important component in human resource management, which greatly affects the performance of the company in obtaining a good level of profitability due to its motivating nature because employees can take advantage of remuneration facilities properly. The board of commissioners as the supervisory body for the management carried out by the company's management, will be more active in their duties if the remuneration is sufficient or increased.

The results of research in similar journals, previously conducted research on the effect of the remuneration of the board of commissioners on profitability. In a study conducted by Dahlia Banjarnahor and Mochamad Muslih (2020) concluded that the remuneration of the board of commissioners has a significant positive effect on company performance as a proxy for ROA. In research conducted by Mochamad Muslih (2018), it is stated that the remuneration or compensation of commissioners has no significant positive effect on company performance. And research conducted by Arie (2017) states that the remuneration of the board of commissioners is influential significant positive on company performance. Based on the description above, the hypothesis can be formulated as follows:

H1: The board of commissioners has a positive effect on profitability.

The influence of the Board of Directors on profitability.

It is the same with remuneration given to the board of commissioners. The board of directors will carry out the function of monitoring corporate governance and setting the company's strategic objectives properly if provided with sufficient remuneration. According to Palmon and Wald (2005) in Muslih (2021), high remuneration will improve company performance if it is balanced with good governance.

Previous researchers have conducted research on the effect of the remuneration of the board of directors on profitability. In research conducted by Muslih (2019), it is stated that audit committee meetings have no negative effect on company performance. According to Amadea Paulina, SellyAgustia, RathrriaArrina (2019) stated that the remuneration of the board of directors has a significant positive effect on ROA and ROE.

And the research conducted by Demi NastitiWidiasih (2017) concluded that the remuneration of the board of directors has a positive effect on financial performance as proxied by ROA. Based on the description above, the hypothesis can be formulated as follows:

H2: The board of directors has a positive effect on profitability.

The influence of the audit committee on profitability

The holding of meetings on the audit committee is one of the things that affect the company's performance mechanism. The frequency of audit committee meetings determines the company's performance. Cooperation between members is easier to do when a meeting is held. Although in today's era, communication media has been widely used, but it will be more effective if a meeting is held. Based on the Decree of the Chairman of the Capital Market and Financial Institution Supervisory Agency Number KEP-643/NL/2012, the audit committee holds regular meetings at least 1 (one) time in 3 (three) months. This audit committee meeting can only be held if the number of members present reaches more than half of the total number of members.

Based on research conducted by Rizqy Ade Katutar& Etna NurAfriYuyetta (2019), it is stated that the frequency of audit committee meetings has a significant positive effect on profitability. Based on research conducted by Mulyati and Muslih (2020) stated that the frequency of audit committee meetings has a positive and insignificant effect on profitability. And based on research conducted by Satriadi et al (2017) stated that the number of audit committee meetings had a significant negative effect on company profitability.

H3: The audit committee has a positive effect on profitability.

Research Methods

This study uses 6 (six) variables, consisting of 1 (one) dependent variable, 3 (three) independent variables, and 2 (two) control variables. The dependent variable is profitability, while the independent variables are the board of commissioners (X1), the board of directors (X2), and the audit committee (X3).

The Board of Commissioners and the Board of Directors are measured by remuneration. Remuneration is a form of compensation received by the directors and commissioners. Remuneration can be in the form of salaries, bonuses, stock options, and others. The measurement of the remuneration of the commissioners and directors in this study was carried out by taking the remuneration costs and facilities received by the commissioners and directors in a period of 1 (one) year. The remuneration data taken comes from the annual financial statements of Property Companies listed on the Indonesia Stock Exchange (IDX). The audit committee is the supporting organ of the board of commissioners. In this study, the audit committee was measured by the number of audit committee meetings. Company size is a scale that classifies how big the company is based on total assets, share value, number of sales owned, and so on. In this study, the company size proxy used is total assets.

The population in this study were 25 (twenty five) real estate and building construction property companies listed on the Indonesia Stock Exchange for the period 2015 to 2019.

The sample selection technique used is purposive sampling. The criteria for selecting the sample are property, real estate, and building construction sector companies listed on the Indonesia stock exchange for the period 2015 to 2019, companies in the property, real estate and building construction sector that publish financial reports in an accounting period ending December 31 during 2015 to 2019, and the company has complete data on the board of commissioners, board of directors, audit committee, profitability of company size, and cash flow according to the variables used in the study.

This study uses quantitative research method. The data used is secondary data, which is available on the Indonesia Stock Exchange website.

The data analysis technique used is the classical assumption test, goodness of fit test, individual test, and simultaneous test. The model of this research is as follows:

$$Y = \alpha + \beta 1RDK + \beta 2\ RDD + \beta 3PKA + e$$

Description:

Y = Profitability

α = Constant

β1-4 = Coefficient

RDK = Board of Commissioners Remuneration

RDD = Board of Directors Remuneration

PKA = Audit Committee Meeting

e = Residual Variable

III. RESEARCH RESULTS AND DISCUSSION

Research result

Table 1shows descriptive statistics of this research.

Table 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
KP	103	-7.00	12.30	4.0046	3.64228
RDK	103	1590000000	31821502380	9054199983.00	6264266383.00
RDD	103	3710000000	65350676710	21010522490.00	12038816770.00
PKA	103	6	156	24.42	19.428
UP	103	1336200000000	124391582000000	19549870140000.00	21338765260000.00
AK	103	60671000000	13973766000000	2174068270000.00	3004307213000.00
Valid N (listwise)	103				

Source: Output SPSS v.24, Processed data (2021).

Classic Assumption Test Results

Tabel 2

Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		103
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	3.31649374
Most Extreme Differences	Absolute	.068
	Positive	.068
	Negative	-.042
Test Statistic		.068
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Source: Output SPSS v.24, Processed data (2021).

In the table above, it is known that the resulting significance value (Asymp.Sig = 0.200), which is greater than the alpha value (α = 0.05), so it can be concluded that the distribution is normal.

The research data also passed the multicollinearity test, heteroscedasticity test, and serial correlation test. The results of the regression test can be seen in Table 3.

Table 3
Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.827	.783		4.884	.000
	RDK	2.533E-10	.000	.436	2.129	.036
	RDD	-2.909E-11	.000	-.096	-.444	.658
	PKA	-.049	.022	-.264	-2.244	.027
	UP	-8.369E-14	.000	-.490	-2.785	.006
	AK	6.154E-13	.000	.508	2.876	.005

a. Dependent Variable: KP

Source: Output SPSS v.24, Processed data (2021).

The results of the coefficient of determination test are presented in the table 4.

Table 4
Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.413[a]	.171	.128	3.40090	1.820

a. Predictors: (Constant), AK, RDK, KA, UP, RDD

b. Dependent Variable: KP

Source: Output SPSS v.24, Processed data (2021)

Based on the results of the research above, it was found that the coefficient of determination was 0.128. This shows that the effect of the board of commissioners, board of directors and audit committee on profitability is 12.8%, and 87.2%is explained by other variables outside this research model.

The results of the F test are shown in the table 5.

Table 5

F Test

Source :Processed data (2021).

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	231.240	5	46.248	3.999	.002[b]
	Residual	1121.911	97	11.566		
	Total	1353.152	102			

a. Dependent Variable: KP

b. Predictors: (Constant), AK, RDK, PKA, UP, RDD

Based on the results of the t test in table 3 above, the t value of the RDK (Remuneration for the Board of Commissioners) is obtained with a positive coefficient and a significance level of 0.036 <0.05. Significant. RDK has an effect on company performance. Thus hypothesis 1 is proven.

Based on the results of the t test in table 3 above, the t value of the RDD (Remuneration of the Board of Directors) is obtained with a negative direction and a significance level of 0.658> 0.05. Not significant. RDD has no effect on KP (Company Performance). Thus hypothesis 2 is not proven.

Based on the results of the t test in table 3 above, the value of t PKA (Audit Committee Meeting) is obtained with a negative direction of -2.244 and a significance level of 0.027 <0.05. Significant. PKA has a negative effect on KP (Company Performance). Thus hypothesis 3 is not proven.

IV. Discussion

Influence of the Board of Commissioners on Profitability

The first hypothesis shows that the board of commissioners has a significant effect on the profitability of the property, real estate &building construction sector companies. If the remuneration of the board of commissioners increases, the ROA also increases. Likewise, if the remuneration of the board of commissioners decreases, the ROA also decreases. Increasing remuneration will motivate the commissioners as the company's operational supervisors to work better. If the board of commissioners works well, then this professional supervision can encourage company management in the presentation of financial statements and increase the effectiveness of the company's corporate governance, so that it will have an impact to profitability.

The results of this study are in accordance with the agency theory proposed by Jensen and Meckling (1976) which states that executive compensation is a form of solution to the control of company owners (principals) over company executives (agents) to align the interests of the two parties or often called agency problems which will increase company performance.

This research result is also in line with research conducted by Suryana and Nuzula (2018) and also Mulyati and Muslih (2020) which state that the remuneration of the board of commissioners has a positive and significant effect on firm's performance, which shows that the higher the remuneration of the commissioners, the company's performance also increasing.

Influence of the Board of Directors on Profitability

The second hypothesis shows that the board of directors has no effect on the profitability of the property, real estate and building construction sector companies. This is indicated by the table of t-test results, with a t-value of -0.444 and a significance value of 0.658>0.05. Not significant. This means that the increase in the remuneration of the board of directors will not affect ROA. The increase in the remuneration of the board of directors does not make the board of directors carry out their authority and responsibilities better to achieve company goals. The provision of increased remuneration does not affect the efficiency and effectiveness of the performance of the board of directors. Thus there is no effect on the company's performance. According to Sitompul and Muslih (2020) increasing the remuneration of directors may not necessarily improve the company's performance because there are many things that must be considered, such as the level of knowledge and expertise. If remuneration for the board of directors is not accompanied by good governance, expertise and independence of the board of directors in achieving the interests of the company, then the remuneration will be ineffective, and will have no effect on increasing profitability.

The results of this study are in line with research result by Suryana and Firdausi (2018), Sitompul and Muslih (2020), and Muslih (2019).

The influence of the Audit Committee on profitability

The third hypothesis shows that the audit committee has a significant effect on the profitability of the property, real estate and building construction sector companies from 2015 to 2019, This is indicated by the t-test results table, with a t-value of -2.244 and a significance value of -0.027<0.05. Significant. The audit committee has a significant negative effect on profitability. Thus, hypothesis 3 is not proven.

The results of this study indicate that the more the number of audit committee meetings, the lower the ROA value. Audit committee meetings or meetings serve to improve the quality and quantity of the audit committee's duties. However, if the number of audit committee meetings is unstructured and not supported by an adequate quality audit committee, it will result in each meeting being held ineffective. According to Vafeas (1999) in Satriadi et al (2017) audit committees with a large number of members can worsen the company's profitability because it will result in the effectiveness of the supervisory function and audit committee performance being reduced. In addition, the more members of the audit committee, the more resources needed.

Satriadi et al (2017) also stated that based on the results of their research, audit committee meetings have a significant negative effect on company profitability. The results of this study also support the research of Bagais and Aljaaidi (2020) which states that audit committee meetings have a significant negative effect on company performance.

V. CONCLUSIONS AND SUGGESTIONS

Conclusion

This study aims to study the effect of the board of commissioners, board of directors, and audit committee on company performance.

The following are the conclusions of the results of this study:

1. The Board of Commissioners has a positive effect on the company's performance. Hypothesis 1 is proven.
2. The Board of Directors has no effect on the company's performance. Hypothesis 2 is not proven.
3. The Audit Committee has a negative effect on the company's performance. Hypothesis 3 is not proven.

Suggestion

Based on the conclusions above, the suggestions that can be given are as follows:

1. Companies in the property, real estate, and building construction sectors are expected to be able to make and determine the scale of remuneration for commissioners and remuneration for directors based on the achievement of performance targets.
2. Property, real estate, and building construction sector companies are expected to make regulations and evaluations regarding audit committee meetings on an ongoing basis so that each meeting produces outputs that can boost company performance.
3. Companies in the property, real estate, and building construction sectors should improve their governance first before increasing the remuneration of directors.

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