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Literature Review: The Effect of Good Corporate Governance on Corporate Financial Performance

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Abstract: This study aims to analyze the effect of Good Corporate Governance (GCG) on the company's financial performance. GCG functions as a system that organizes and manages companies to create added value for all stakeholders. This research uses a qualitative method with a literature review approach, which collects and analyzes various academic sources and related publications. The research findings show that the board of directors has a positive and significant impact on financial performance, while the influence of independent commissioners and managerial ownership shows mixed results. In contrast, the effect of audit committees on financial performance is inconsistent, with some studies showing that there is no significant effect. Overall, the effective implementation of GCG is crucial to improving a company's financial performance and attracting investors' attention.

Keywords: Good Corporate Governance; Financial Performance; Board of Directors; Audit Committee; Independent Commissioner; Institutional Ownership; Managerial Ownership

Introduction

"In assessing financial statements, one way that can be done is to analyze the company's performance as reflected in the income statement. Company performance can be interpreted as a result of a process of company activities that can be seen through several benchmarks in the financial statements. In general, company performance can be measured from the level of profitability of the company, because the level of profitability is a benchmark used by investors to determine the financial condition of a company" (Sulastri and Nurdiansyah 2017).

All stakeholders really want good financial performance results because this shows how good or bad the company is doing. Therefore, companies make various efforts to improve their financial performance" (Gemilang and Wiyono2022). "If financial performance is poor, it will have a negative impact on the company's image and shareholder confidence. But when the financial performance in the company is good, the business value will be high and with this high business value, investors will look at the company to invest their capital in the form of share ownership or bond ownership" (Cahyani 2024). "Therefore, financial performance is one of the important considerations for potential investors in making decisions regarding stock investment" (Faisal, Samben, and Pattisahusiwa 2020).

In today's era of globalization and rapid business growth, *Good Corporate Governance* (GCG) is one of the important components of company management. GCG is a system that organizes and controls the company to create added value for stakeholders. Effective GCG implementation is considered important to improve operational efficiency, reduce risk, and ultimately improve the company's financial performance. "To ensure the sustainability of the company, the implementation of good corporate governance (GCG) is essential, which is based on principles such as transparency, accountability, responsibility, independence, fairness, and equality. Problems in corporate governance often arise because management, as agents of the company, tend to pursue personal gain. And to prevent this kind of governance problem, an effective control mechanism is needed" (Gemilang and Wiyono 2022). "Indicators that can support the *Good Corporate Governance* mechanism, namely the Audit Committee, Institutional ownership, Managerial ownership, Directors, and the Board of Commissioners" (Syafitri, Nuzula, and Nurlaily 2018).

GCG implementation can also help a company improve its financial performance. "The proxy for the GCG mechanism consists of several influences, including the board of commissioners, independent commissioners, institutional ownership and managerial ownership. The number of commissioners, independent commissioners, institutional ownership and managerial ownership influences the policies, strategies and governance of a company. The board of commissioners will oversee and provide input to company managers in every set of activities. If the proportion of independent commissioners is greater, it will minimize management to commit fraud "(Pratiwi and Noegroho 2022).

In addition, "The main reason for establishing an audit committee is to strengthen the role of commissioners in supervision. The audit committee has the responsibility to support commissioners in improving the quality of financial reports and the effectiveness of audits, both internal and external. The process of preparing financial statements carried out by the audit committee starts from the initial stage until the report is audited by an external auditor and is ready to be published" (Cahyani 2024).

"The share ownership structure consisting of institutional ownership and managerial ownership also has a considerable influence on the implementation of good corporate governance" (Cahyani 2024). "The existence of institutional ownership can reduce the opportunistic actions of managers so as to reduce agency costs which are expected to improve financial performance" (Wardhani and Suwarno 2024). The next ownership is managerial ownership, according to (Pramesti and Priyadi 2023) "Managerial ownership is share ownership by management conditions which indicate that management has shares in the company that actively participate in making company decisions".

"Factors that affect financial performance, namely the implementation of good corporate governance and the principles of *good corporate governance*, this needs to be done by every company so that the company can survive and be resilient in the face of increasingly fierce competition, so that companies can consistently apply business ethics to realize a healthy, efficient and transparent corporate climate" (Aprila, Suryandari, and Susandya 2022). The formulation of this research problem, namely whether the board of directors, audit committee, independent commissioners, institutional ownership and managerial ownership affect the company's financial performance. So that the purpose of this study, namely to determine the effect of the board of directors, audit committee, independent commissioners, institutional ownership and managerial ownership on the company's financial performance.

Literature Review

Agency Theory

"Agency theory concerns the relationship referring to the contract between 2 or more parties incorporated between members in the company, in the agency theory the principal gives the task or responsibility on behalf of the principal to provide the principal with information about the condition of his company which is usually unknown to the principal. Agency theory has the assumption that each agent or principal is solely motivated to take useful actions or activities in his own self-interest, the company's management as an agent of the company tends to expand his personal gain so that a conflict of interest occurs." (Gemilang and Wiyono 2022) "Principal refers to shareholders or investors, while the agent is the management responsible for managing the company. The essence of the agency relationship lies in the separation between ownership held by investors and control exercised by management. When ownership and management functions are separated, this can lead to agency conflicts between owners and management" (Sari, Maisyarah, and Purba 2024). "Agency theory encourages the emergence of the concept of *Good Corporate Governance* in business management to overcome agency problems. GCG can provide protection to shareholders as owners of the company to get back their ownership fairly and monitor management performance to work in accordance with the interests of the company" (Margaret and Daljono 2023).

Financial Performance

Performance is a term that refers to the achievement of tasks performed in accordance with an organization's goals, policies, or programs. "Financial performance must be measured subjectively to determine the level of effectiveness of the use of assets in the company's operational activities to increase profits. If the management of the company is carried out properly, financial performance will improve. Good governance plays an important role in improving the company's financial performance through financial reporting and annual reports" (Sulaiman et al. 2021). "Financial performance is the result or achievement that has been achieved by the company's management in managing the company's assets effectively during a certain period" (Sari 2021).

Good Corporate Governance

"*Good corporate governance* is an internal control system within the company that aims primarily to manage significant risks, so as to achieve business objectives by protecting company assets and increasing investment value for shareholders in the long term" (Sari 2021) According to (Sulastri and Nurdiansyah 2017) "Good corporate governance is a company management system that includes a series of rules governing the relationship between shareholders, company management, creditors, government, employees, and stakeholders both internal and external. This system regulates the rights and obligations of each party with the aim of increasing added value for all parties involved ".

The main principles of Good Corporate Governance (Yonita and Aprilyanti 2022):

a. Principle of Transparency (Transparency/Openness of Information)
"The principle of Transparency is openness in carrying out the decision-making process and openness in disclosing relevant information within the company"

b. Principle of Accountability
"The principle of Accountability is the clarity of functions, structures, systems, and accountability of company organs so that the management of the company is carried out effectively".

c. Responsibility Principle
"Responsibility is defined as the company's responsibility as a member of society to comply with applicable laws and regulations and fulfill social needs".

d. Principle of Independency
"The principle of independence is a situation where the company is managed professionally without conflict of interest and the influence of management pressure that is not in accordance with applicable regulations and laws".

e. Principles of Fairness (Equality and Fairness)
"The basic principle of equality and fairness in carrying out its activities, the company must always pay attention to the interests of shareholders and other stakeholders based on the principles of equality and fairness".

Board of Directors

"The board of directors is the plural form of director and is the person appointed by shareholders to lead a company. The board of directors is tasked with representing the interests of shareholders in managing the company. Boards of Directors have a crucial role in making decisions that suit the needs of the company. They reflect values such as transparency, fairness, responsibility and accountability. In order for shareholders to be satisfied with the company's performance, it is crucial for the Board of Directors to perform their duties well, so that the company can improve its financial condition" (Jati and Arif 2024).

Independent Commissioner

"An independent commissioner is defined as someone who is not affiliated in any way with the controlling shareholder, has no affiliation with the board of directors or with the board of commissioners and does not serve as a director of a company related to the owner company"(Fadillah 2017). "The more independent commissioners, the better the financial performance of a company" (Aprila et al. 2022).

Audit Committee

According to (Cahyani 2024) "The audit committee is a committee that works professionally and independently formed by the board of commissioners". Meanwhile, according to (Gemilang and Wiyono 2022) "the audit committee is someone appointed by the board of directors who has the task of carrying out internal control of the company and presenting financial reports and providing an independent opinion".

Institutional Ownership

"Institutional ownership refers to shares owned by institutions from the financial sector, including banks, insurance companies, pension funds, securities companies, and other investment institutions. These entities have professional expertise that can help improve the performance of company management by implementing effective supervision" (Soebagyo and Iskandar 2022). "Institutional ownership has an important meaning in monitoring management because the existence of institutional ownership will encourage an increase in more optimal supervision" (Sembiring 2020).

Managerial Ownership

"Managerial ownership is the number of shares owned by the company's management which is indicated by the percentage of the number owned by the company's management" (Holly and Lukman 2021) while according to (Yusmir and Mulyani 2024) "managerial ownership is the proportion of shareholders from management who actively participate in company decision making, large managerial ownership in the company will be effective for overseeing company activities".

Table 1. Literature Review (Previous Research Results)

No.	Author (Year)	Previous Research Results
1	(Gemilang and Wiyono 2022)	The results of the study are "that Independent Commissioners and company size have a positive influence on Financial Performance, the Audit Committee and capital structure have no effect on Financial Performance, Directors and leverage have a negative effect on Company Financial Performance".
2	(Terzaghi and Ikhsan 2023)	"Financial Performance is not affected by the presence of Independent Commissioners. The Board of Directors has a positive and significant effect on Financial Performance and Managerial Ownership has no significant effect on Financial Performance".
3	(Aprila et al. 2022)	- The Board of Commissioners (DK) has no effect on the company's Financial Performance - The Board of Directors (DD) has a positive effect on the company's Financial Performance - The Audit Committee (KA) has no effect on the company's Financial Performance. - Independent Commissioners have no effect on the company's Financial Performance. - Institutional Ownership has no effect on the company's

No.	Author (Year)	Previous Research Results
		Financial Performance
4	(Titania and Taqwa 2023)	"The Independent Board of Commissioners has a positive effect on the company's Financial Performance, the Audit Committee has a positive effect on the company's Financial Performance. Managerial Ownership has a positive effect on the Company's Financial Performance ".
5	(Pratiwi and Noegroho 2022)	Research results that "The Board of Directors has a positive effect on Financial Performance. The Audit Committee has no effect on Financial Performance. The Independent Board of Commissioners has no effect on the Company's Financial Performance and Institutional Ownership has no effect on Financial Performance "
6	(Pramudityo and Sofie 2023	Research results that "The Board of Directors has a positive effect on Financial Performance. The Audit Committee has no effect on Financial Performance. The Independent Board of Commissioners has no effect on the Company's Financial Performance and Institutional Ownership has no effect on Financial Performance ".
7	(Margaret and Daljono 2023)	The results of this study "only the variables of the Board of Directors and Institutional Ownership affect Financial Performance (ROA), while the variables of the Independent Board of Commissioners, Audit Committee, Managerial Ownership and Institutional Ownership have no effect on Financial Performance (ROA)".
8	(Romadoni and Pradita 2022)	In this study, "the variables of Managerial Ownership, Independent Commissioners, and Constitutional Ownership simultaneously affect the Company's Financial Performance".
9	(Bancin and Harmain 2022)	In this study "The Board of Commissioners has no significant effect on the financial performance of companies listed on the IDX in 2016-2020. The board of directors has a significant effect on the financial performance listed on the IDX in 2016-2020. The audit committee has no significant effect on financial performance in 2016-2020".
10	(Utama et al. 2023)	The results showed "that the Audit Committee has no effect on the company's Financial Performance while the Independent Board of Commissioners has a positive effect on the Company's Financial Performance".

Research Method

The method used in this research is qualitative with a literature study approach that analyzes various academic sources and related publications. The object of research is companies that implement good corporate governance in various industrial sectors. The data used consists of journal articles, and other related publications that discuss corporate governance and financial performance. This research was conducted over a period of 1 month, starting from April to May 2025.

Result and Discussion

The Effect of the Board of Directors on Financial Performance

Research conducted (Terzaghi and Ikhsan 2023) shows that "the board of directors has a positive and significant effect on financial performance". Research conducted (Bancin and Harmain 2022) that "The board of directors has a significant effect on the financial performance listed on the IDX". "The more the number of boards of commissioners, the better the monitoring function of the directors' policies can be carried out, so that the company will avoid financial difficulties" (Aprila et al. 2022).

The Effect of Independent Commissioners on Company Financial Performance

Research results by (Gemilang and Wiyono 2022) show that "independent commissioners and company size have a positive influence on financial performance". Research conducted (Romadoni and Pradita 2022) "independent commissioners, affect the company's financial performance". Meanwhile, research conducted by (Margaret and Daljono 2023) states "independent commissioners, have no effect on financial performance. To maintain the sustainability of the company, the implementation of Good Corporate Governance through indicators such as, independent commissioners" (Gemilang and Wiyono 2022).

The Effect of Audit Committee on Corporate Financial Performance

"The company only complies with the regulations in fulfilling the requirement that every company must form an audit committee. According to agency theory, the function of the audit committee is to perform a supervisory function that is useful for reducing agency conflicts between principals and agents" (Margaret and Daljono 2023). The results of research by (Titania and Taqwa 2023) show "The audit committee has a positive effect on the company's financial performance". But inversely proportional to (Utama et al. 2023) and (Pramudityo and Sofie 2023) which shows "The Audit Committee has no effect on Financial Performance".

The Effect of Institutional Ownership on Corporate Financial Performance

"Institutional ownership provides a positive indication to investors, thus increasing their interest in investing in the company. In addition, this ownership encourages companies to carry out policies and strategies that are beneficial to both internal and external parties of the company" (Holly et al. 2023). Research by (Romadoni and Pradita 2022) reveals "institutional ownership that affects financial performance", inversely proportional to (Margaret and Daljono 2023) and (Aprila et al. 2022) which reveals "Institutional ownership has no effect on the company's financial performance".

The Effect of Managerial Ownership on Corporate Financial Performance

Research by (Pratiwi and Noegroho 2022) and (Titania and Taqwa 2023) states "managerial ownership has a positive and significant effect on financial performance". Meanwhile, (Terzaghi and Ikhsan 2023) stated in their research "Managerial Ownership has no significant effect on financial performance". "With managerial ownership, where managers also own company shares, the possibility of manipulation will be reduced. This ownership creates a more transparent situation and reduces the risk of manipulation in financial statements" (Sitanggang 2021)

Conclusion

The conclusion of this journal shows that Good Corporate Governance (GCG) has an important role in improving the financial performance of companies through the implementation of the principles of transparency, accountability, and responsibility. The Board of Directors is shown to have a positive and significant influence on financial performance, which confirms the importance of their role in strategic decision-making. In addition, Independent Commissioners and Managerial Ownership also show a positive influence, although research results vary. On the other hand, the effect of Audit Committee on financial performance is inconsistent, with some studies showing no significant effect. Institutional Ownership provides a positive indication for investors, but research results show mixed results regarding its influence. Overall, effective GCG implementation is essential to improve the financial performance of companies and attract investors.

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