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Good Corporate Governance Analysis to the Profitability of PT. Telekomunikasi Indonesia Tbk.

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ABSTRACT

This study aims to examine the effect of liquidity and good corporate governance on profitability in the company. as well as to find out how the effect of *Good Corporate Governance* (GCG) on company profitability, measured by *Return on Equity* (ROE), *Return on Assets* (ROA), and *return on capital and self-employed* (ROCE). This research was conducted at PT. Telkom Telekomunikasi Indonesia Tbk. listed on the Indonesia Stock Exchange (IDX) in 2017-2019. This sample selection is done by the data analysis method. The results of this study indicate *that Good Corporate Governance* (GCG) has a significant effect on firm value. *Good Corporate Governance* (GCG) has no significant effect on profitability with the proxy of *Return on Assets* (ROA). and with this method can find out the liquidity of financial statements in the company PT. Indonesian communication.

Keywords: Liquidity, GCG, profitability

Introduction

Financial statement analysis is always a reference for measuring the ability of a company to progress. Through the analysis of financial statements, it can be seen that the profit has been achieved by the company, especially regarding liquidity and the company's ability to earn profits. In obtaining profits, of course, the company can come from internal sources of funds and external funds. For example, from creditors and investors, one of the goals of the company is to improve welfare in maximizing shareholder wealth through increasing company value.

Increasing the welfare of stockholders can be realized by maximizing company value. The higher the company value, the more prosperous the owner of the company is. Firm value is the investor's perception of the company, which is closely related to stock prices. A high stock price indicates a high company value. So that maximizing the value of the company is so important because it can prosper the shareholders so that the company's goals can be achieved as expected. Many experts define *good corporate governance*, but in essence, *good corporate governance* is a system that regulates the

relationship between corporate stakeholders, which is related to rights and obligations, or in other words good corporate governance is a system that directs and controls the company. The implementation of GCG in the company is expected to have a positive impact on the company so that *Good Corporate Governance* can be defined as the governance of a company or a process and structure used by company organs *(shareholders, commissioners, and directors)* to increase the success of the business and corporate accountability for realizing shareholder value in the term while still paying attention to the interests of other stakeholders, based on laws and regulations and ethical values. The value of a company can be said to be good if the company's governance can carry out well, to get good management, the company must implement *Good Corporate Governance* (GCG). The company's financial performance is determined by the extent to which the company is

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serious about implementing *good corporate governance*, the more serious the company is in implementing GCG, the company's financial performance will increase (Aziz, 2016). By implementing good GCG will increase profits and will reduce the risk of losses in the future to a company. In the beginning, GCG was motivated by financial problems that occurred in companies in various countries, especially in developed countries.

Good Corporate Governance in this study is measured using the *Good Corporate Perception Index* (CGPI), the *Good Corporate Perception Index* (CGPI) is a research program and a ranking of the implementation of *Good Corporate Governance* (GCG) in companies in Indonesia through research design that encourages companies to improve the quality of the implementation of the concept of corporate governance (CG) in evaluating and benchmarking as an effort for continuous improvement (continuous improvement). By implementing good corporate governance, it is hoped that it can make the company better so that it will increase company value and can also raise the company's share price. Along with the increase in profitability, it can be said that the company value will also increase. An increase in company value is an achievement from the results of the company's excellent financial performance, with the increase in company value, the welfare of stakeholders will increase. The level of financial performance is usually reflected in the level of company profitability (Fatoni & Sulhan, 2020). Profitability is a measure that shows the overall performance of the company. Most investors use the profitability ratio for consideration in determining decision-making. In this study, the company's capabilities in generating profits with all the capital owned by the company are measured by *Return on Assets* (ROA). Also, ROA provides a better measure of company profitability because it shows the effectiveness of management in using assets to generate income. The following is the development of the income pocketed by PT. Indonesian telecommunications in the last few years.

Table 1. Calculated in billion rupiah

Account	2015	2016	2017	2018	2019
Asset	520,859, 50	605.908,00	690.956,50	776.005,00	861.053,50
Liability	232.319,00	270.541,80	308.764,60	346.987,40	385.210,20
Equaty	288.540,00	335.366,20	382.191,90	429.017,60	475.843,30
Income	379.946,70	442.324,20	504.701,70	567.079,20	629.456,70
Net Profit	82.676,60	96.188,40	109.700,20	123.212,00	136.723,80

Based on the graph of the development of assets, liabilities, equity, income, and net income in the company. We can see that Indonesian telecommunications have increased from year to year. This increase shows that the implementation of GGC in the company is doing well, then the company must continue to be required to implement *Good Corporate Governance* better. Moreover, business competition in the future is getting tougher. The demands for the realization of GCG in every sector are now getting more intense. Demands like this are very reasonable because we can remember that many studies have shown that the crisis in this country has many causes because of the poor implementation of GCG in most economic actors in this country The liquidity ratio has a significant effect on the profitability of *Return on assets* (ROA), *Return on equity* (ROE), and *Return on capital employed* (ROCE). In a study conducted by Zainudin (2006), it was stated that there was a significant positive effect between liquidity and company profitability. Based on the background described above, the main problem of this study is

to examine the effect of liquidity and Good Corporate Governance on profitability in PT. Telecommunications Indonesia as measured by Return on Equity (ROE), Return on Assets (ROA), and return on capital and self-employed (ROCE). What has a significant or no effect on the profitability of a company?

Literature Review

Effect of good corporate governance on profitability

Ratna (2017) states that the implementation of GCG can maximize profits for the company is handing over the management of the company to experts/professionals (agents) who understand better in running daily business and shareholders are tasked with supervising and monitoring the running of the company and ensuring that they work in the interests of the company (theory agency).

Meanwhile, Pitoyo (2017) is a ratio that shows the results (return) on the total assets used in the company. Also, ROA provides a better measure of the company's profitability because it shows the effectiveness of management in using assets to generate revenue.

Profitability

Profitability is the ability of a company to generate profits for a certain period at a certain level of sales, assets, and share capital. The profitability of a company can be assessed in various ways depending on the profit and assets or capital that will be compared with one another. Profitability is the ability of a company's business organization that aims to make a profit. This shows how efficiently management can manage all available resources to generate profits (Surmadewi, 2019). Therefore, the low-profit margin implies ineffective management and investors will hesitate to invest in the company (Niresh, 2012).

Liquidity

Liquidity is the company's ability to meet its obligations to pay short-term debts that must be paid immediately using current assets such as trade payables, dividend payable, tax payable, and others. In addition to important profitability for the business, liquidity management is also indispensable for all small, medium, and large businesses to be able to pay the short-term debt without any difficulty in paying because by collecting money from customers on time (Fawaid, 2017). As long, whereas if the company does not care about liquidity, it will experience inability or bankruptcy.

Material and Methods

This research was conducted using the verification analysis method or hypothesis testing, which was developed from theoretical studies or published literature (journals, test books, tex databases) or unpublished literature (theses, dissertations, papers, conferences)

The population in this study is the company PT. Indonesian telecommunication is listed on the Indonesia Stock Exchange (BEI) 2017-2019. And the sampling technique in this study using ratio analysis.

The independent variable in this study is Good Corporate Governance as a proxy for the *Corporate Governance Perception Index* (CGPI). GCG is measured using an instrument developed by the *Indonesian Institute for Corporate Governance* (IICG) in the form of the *Corporate Governance Perception Index* (CGPI) published in SWA Magazine.

Brigham (2011) Company Value is a value that shows a reflection of the company's equity and book value, both in the form of equity market value, book value of total debt, and a book value of total equity. Company value can be identified by looking at the closing price of the company's shares on the market or stock exchange. Firm value can be measured using a ratio.

$$PBV = \frac{price\ per\ share}{book\ value}$$

The mediation variable used in this study is financial performance as measured by the profitability ratio (ROA). According to Kasmir (2010), the formula used to calculate

$$ROA = \frac{Net\ Profit\ \ 100\%}{Total\ aktiva}$$

Results and Discussion

The data used in this study are the annual financial statements of PT. Telecommunications Indonesia which is listed on the *Indonesia Stock Exchange* (IDX) in 2017-2019

Variables and measurements

Dependent Variable The dependent variable is a variable that is influenced by the presence of an independent variable. The dependent variable in this study is profitability, the calculation of this profitability uses the following three models and there is a way to find out the company's liquidity ratio using this method.

1. *Return on assets (ROA)*

$$Return\ on\ assets\ (ROA) = \frac{Net\ Income}{Total\ Assets}$$

Sumber : Rahemanet *al* (2015)

2. *Return on equity (ROE)*

$$Return\ on\ equity\ (ROE) = \frac{Net\ Income}{Total\ Equity}$$

Sumber : Rahemanet *al* (2015)

3. *Return on capital employed (ROCE)*

$$Return\ on\ capital\ employed\ (ROCE) = \frac{Earnings\ Before\ Interest\ and\ Tax\ (EBIT)}{Capital\ Employed}$$

Capital employed = Total Assets – Current Liabilities

Sumber : Madhavilatha (2016)

The formula for calculating Liquidity

Current Ratio

This current ratio is used to determine the extent to which the company's current assets can cover its short-term debt. If the resulting value shows a high value, the higher the company's ability to cover its short-term debt.

CR = Total Current Assets / Total Current Liabilities x 100%

Current assets used in this ratio include cash and cash equivalents, inventories of goods, trade accounts receivable, and other receivables such as salaries. You can use this type of ratio for calculating debt whose repayment period is less than one year, such as tax debt.

Cash ratio

The cash ratio, commonly known as the cash ratio, is usually used to measure the amount of cash available to pay off the company's short-term debt. This ratio is recommended to have a comparable figure, between cash and deb.

Cash Ratio = Cash & Cash Equivalent / Total Current Liabilities x 100**%**

Quick ratio

known as a quick ratio that takes into account inventory as part of current assets to pay off short-term liabilities. This is because the inventory is considered to take longer to be disbursed.

QR = (Current Assets – Inventories)/Current Liabilities x 100%

Based on the results of data processing with a program using data analysis methods, descriptive statistical data is obtained which provides information about the value of Return on Assets (ROA), Return on Equity (ROE), return on capital, and self-employed (ROCE). The descriptive statistical results are presented in Table 2.

Tabel 2. Descriptive research results

	ROA	ROE	ROCE
2017	0,123	0,291	0,214
2018	0,155	0,273	0,228
2019	0,155	0,217	0,223

Based on the results of descriptive statistics shown in Table 2, we can see that we can find out the data found at PT. Telkom Telekomunikasi Indonesia Tbk in the 2017-2019 period. In 2017, Return on Asset (ROA) with a standard deviation of 0.123, Return on Equity (ROE) of 0.291, while return on capital and self-employed (ROCE) of 0.214, we see in the financial statements of PT. Telecommunications for the 2017 period that has been registered on the IDX and we calculate it based on the formula. Return on Asset (ROA), Return on Equity (ROE), and return on capital and self-employed (ROCE) from year to year fluctuate. in 2018 the Return on Assets (ROA) was 0.155, while in 2019 it did not change. while Return on Equity (ROE) in 2018 was 0.273, decreased in 2019 by 0.271, last ROCE in 2018 was 0.228, decreased in 2019 by 0.233. The lowest value of Return on Assets (ROA) was in 2017, the lowest Return on Equity (ROE) was in 2019 and the last returned on capital and self-employed (ROCE) in 2017.

Tabel 3. Liquidity Formula

	Current Ratio	Quick Ratio	Cash Ratio
2017	1,045%	3%	0,554%
2018	0,715%	0,705%	0,313%
2019	0,935%	0,919%	0,377%

The highest nominal is in 2017 and the smallest is in 2018 while the quick ratio is almost the same as the nominal current ratio, the nominal is inconsistent, the highest nominal is in 2017 and the smallest is in 2018, the last cash ratio is the most-big is in 2017 and smallest is in 2018.

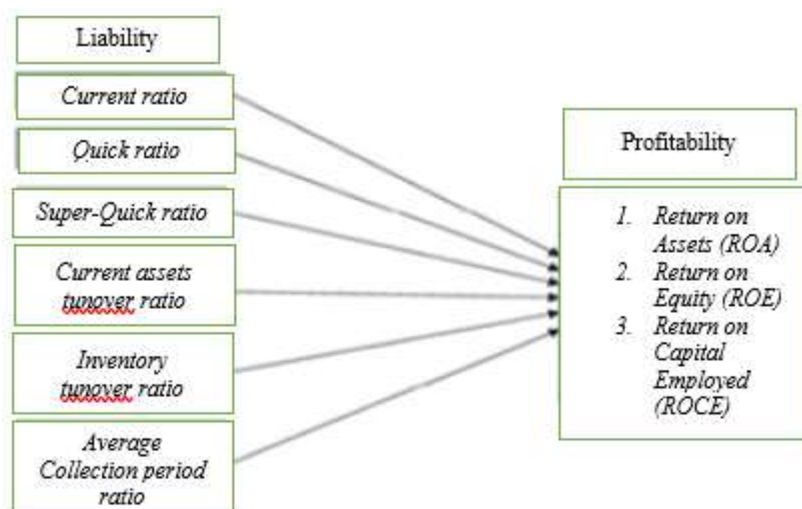

Figure 1. The formula for calculating Liquidity

Research result

According to Fawaid (2017) state that there is a significant positive relationship between the current ratio to the profitability of return on assets (ROA), the profitability of return on equity (ROE), and the profitability of return on capital employed (ROCE). The results of the quick ratio study are significantly positive. on the profitability of return on assets (ROA) and profitability of return on equity (ROE). Meanwhile, the super-quick ratio/cash ratio has a significant positive effect on the profitability of return on assets (ROA) and the profitability of return on equity (ROE).

The study of eight listed trading companies in Sri Lanka, the five-year study period from 2008-2012 revealed that there was a significant positive relationship between the current ratio and ROA and ROE. Meanwhile, they stated that the current ratio has a strong influence on the effect of liquidity on company profitability. In the research results, the quick ratio is significantly positively related to return on assets. The revealed that the Quick ratio has a significant positive relationship to ROA. The quick ratio has a significantly weak positive relationship to ROE. There is a significant negative relationship between the quick ratio and return on capital employed.

The effect of the current ratio on profitability

The state that there is a significant positive relationship between the quick ratio and profitability (ROA). Nandi (2012) shows that there is a significant negative relationship between the quick ratio (ROCE). They stated that the quick ratio has a significant positive relationship to profitability (ROA). The quick ratio is significantly positively related to ROE profitability.

The effect of the quick ratio on profitability

The super-quick ratio/cash ratio has a significant positive relationship with (ROA). The cash ratio is negatively related to ROE. There is a significant relationship between the superquick ratio/cash ratio and the profitability of ROCE. The super-quick ratio is significantly positively related to the profitability of return on assets (ROA). Also, the superquick ratio has a significant relationship with the profitability of return on equity (ROE).

The effect of the super-quick ratio on profitability

There is a significant negative relationship between current assets to sales ratio / current assets turnover ratio to (ROA). There is a significant positive relationship to (ROE). The current assets turnover ratio has a significant positive effect on profitability return on assets (ROA). Current assets turnover ratio is also significantly positively related to return on profitability

Conclusion

Based on the results of research and discussion of liquidity analysis and *Good Corporate Governance* (GCG) on company value with profitability to PT. Telkom Telekomunikasi Indonesia which has been listed on the Indonesia Stock Exchange in 2017-2019 can be concluded as follows: that *Good Corporate Governance* (GCG) has a significant effect on company profitability. This shows that *Good Corporate Governance* (GCG) can be a factor that can affect the value or profitability of a company because if *Good Corporate Governance* (GCG) is good, it can affect the stock price which results in better company value. second*, Good Corporate Governance* (GCG) has no significant effect on profitability with the proxy for Return on Assets. This is because *Return on Assets* (ROA) shows inconsistent results, the two current ratios do not have a significant effect on the profitability of *return on assets* (ROA*), return on equity* (ROE), and *return on capital employed* (ROCE).

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