THE INTERNATIONAL JOURNAL OF
HUMANITIES & SOCIAL STUDIES

Effect of Proportion of Independent Board of Commissioners, Audit Committee, and Managerial Ownership on Financial Performance of Banking Companies Listed on Indonesia Stock Exchange

Romasi Lumban Gaol
Lecturer, Faculty of Economic, Department of Accounting,
Catholic University of Santo Thomas Sumatera Utara Medan, North Sumatra, Indonesia

Abstract:
The purpose of this study is to find empirical evidence of the influence of the proportion of independent board of commissioners, audit committee, and managerial ownership on the financial performance of banking companies listed on the Indonesia Stock Exchange. The population used in this study is all banks listed on the Indonesia Stock Exchange in the period 2012-2015 consisting of 42 banks. The sample that meets the criteria there are 29 banks. The observation period is 4 years and the number of observations made is 116 (4 years x 29 banks).Based on the determination coefficient test it appears that 24.9% of financial performance is explained by the proportion of independent board of commissioners, audit committee, and managerial ownership, while the remaining 75.1% is influenced by other factors outside the model. The statistical results with the F-test yielded a value of F-counted of 12.386 with a significance level of 0.000. Thus, the regression model can be used to predict the company's financial performance. The t-test results show that the variables of the proportion of independent board of commissioners, audit committee, and managerial ownership have a positive and significant effect on the financial performance of banking companies listed on the Indonesia Stock Exchange.

Keywords: *proportion of independent board of commissioners, audit committee, managerial ownership, financial performance*

1. Background

The main target of the company is to maximize shareholder wealth (Brigham and Houston, 2006: 68). Shareholder wealth can be enhanced through improved corporate performance. One alternative that can be used to measure company performance is by combining book value and market value of equity, which is through Tobin's Q ratio. Tobin's Q is introduced by James Tobin (Tobin, 1969, 1978 in Bambang and Elen, 2010).The greater the value of Tobin's Q means the better the growth prospects of the company are concerned. The high value of Tobin's Q of a company generally illustrates that the company has a very strong brand image. While companies with low value of Tobin's Q generally reside in highly competitive industries or industries that begin to shrink (Sukamulja, 2004).

The process of maximizing company performance often leads to a conflict of interest between the manager (agent) and the shareholder (principal). This difference of interest between agent and principal is commonly referred to as agency conflict. This can be achieved through the fraud of profit-oriented accounting practices so that certain performance more favorable to agents is achieved (Siallagan and Machfoeds, 2006).Agency conflicts can be minimized by the existence of a supervision or monitoring mechanism, i.e. through the implementation of good corporate governance. Implementation of corporate governance is expected to create a more transparent, accountable, responsible, and reasonable organizational performance so as to increase the value of the company.

Implementation of good corporate governance can be done through monitoring mechanism of internal control covering Proportion of Independent Board of Commissioner, monitoring mechanism of disclosure conducted by Audit Committee, and mechanism of monitoring of ownership through Managerial Ownership.

The large proportion of independent board of commissioners leads to better management monitoring. This is because large numbers of the board benefit the company in terms of surveillance. The audit committee is responsible for assisting the board of commissioners in carrying out its duties. When the audit committee performs its duties properly then the task of supervision becomes better so that the company's performance increases.

The large managerial ownership will reduce the reliability of financial statements and also impact on the decline in the performance of the company. This is because humans generally have a self-interest nature so that managers want to display the best reports in front of stakeholders so that the company's performance looks better than the actual conditions.

The results of research conducted Arbaina (2012) proves that the implementation of good corporate governance in banking in Indonesia runs less than the maximum. There are several factors that encourage good corporate governance is not applied maximally to the banking in Indonesia. For example, the implementation of transparency, accountability, responsibility, fairness, and independence are not fully applied to banks in Indonesia. In contrast to the results of research conducted by Amyulianthy (2012) which proves that corporate governance with managerial ownership as its proxy, the size of independent commissioners, and the size of the board of directors have a significant positive effect on the performance of companies using Tobin's Q proxy.

Meanwhile, Sayidah (2007) found evidence that the quality of corporate governance has no significant effect on banking performance. The same thing was revealed by Puspitasari and Ernawati (2010) which proves that corporate governance consisting of managerial ownership, board size, independent commissioner, and ownership concentration, has no significant effect on ROA, ROE, PER and Tobin's Q.

This study was conducted to re-examine the effects of the mechanism of good corporate governance on the financial performance of banks in Indonesia. In this research the concept of indicators used in the mechanism of corporate governance consists of Internal Control Monitoring Mechanism which includes the Proportion of Independent Board of Commissioners, Disclosure Monitoring Mechanisms that include disclosures made by the Audit Committee, and Ownership Monitoring Mechanisms that include Managerial Ownership, on financial performance achieved by the banking industry in Indonesia.

2. Literature Review

2.1. Agency Theory

The agency theory is a theory that explains the relationship between the principal (owner of capital) with the agent (management). Jensen and Meckling (1976) define agency relationships as contracts whereby one or more persons (principals) hire another person (agent) to perform some services for their benefit, through the delegation of some decision-making authority to the agent. This theory is related to good corporate governance (GCG) because it highlights the direct relationship between principal and agent.

Agent conflicts arise when in carrying out their duties the agent is focused on prospering his personal interests rather than prospering the interests of the principal. Agency conflicts are generally divided into two types. The agency conflict of type 1 generally occurs in the company with the largest share ownership structure, i.e. the shares of the company are owned by the general public. La Porta et al. (1999) argues that generally the largest shareholdings occur in countries that adopt common law, such as the United States, Japan and the United Kingdom.

The agency conflict of type 2 generally occurs in companies with concentrated ownership structures. La Porta et al. (1999) found that public companies in Southeast Asia, including Indonesia, were generally controlled by shareholders or owned by the family.

2.2. Legitimacy Theory

The theory of legitimacy states that organizations continually try to ensure that their operational activities conform to community boundaries and norms, so they try to ensure that their activities are accepted by outsiders (Deegan and Unerman, 2006).It follows that the existence of the organization will be sustainable if the system of values used to carry out its operations in accordance with the system of values owned by the community.

The failure of the organization to fulfill the social contract will be a threat to the sustainability of the business of that organization. Such threats could be a product boycott, resource constraints (electricity, raw materials, financial capital), even to the revocation of permits for business. If the organization is able to fulfill the social contract, then the existence of the organization will be responded positively by the community. The presence of positive image in the minds of the public is expected to increase the profit organization, so as to increase the financial performance of the company.

2.3. Proportion of Independent Board of Commissioners

An independent commissioner is a member of the board of commissioners who is not affiliated with the management, other commissioners and controlling shareholder, as well as free from any business relationship or other relationship that may affect his ability to act independently or act solely for the benefit of the company (Machmud and Djakman, 2008).

The existence of independent commissioners is regulated by the Jakarta Stock Exchange (JSE) through the JSE Rules of 1 July 2000. It is stipulated that listed companies must have an independent commissioner that is professionally equal to the number of shares held by minority shareholders (not controlling shareholders).Under this rule, the minimum requirement for an independent commissioner is 30% of all members of the board of commissioners.

An independent board of commissioners is a mechanism to monitor and to provide guidance and direction to corporate managers. Given that the management is responsible for improving the efficiency and competitiveness of the

company, while the board of commissioners is responsible for controlling management, the board of commissioners is the center of endurance and success of the company.

2.4. Audit Committee

The Indonesian Audit Committee (IACA) association defines the audit committee as a professional and independent working committee established by the board of commissioners. Thus, the task is to assist and strengthen the functioning of the board of commissioners in exercising oversight functions over the financial reporting process, risk management, audit implementation, and implementation of corporate governance in companies. Supervisory Board of Capital Market and Financial Institution [SBCMFI (Bapepam)] through Circular Letter no. 03 / PM / 2000 addressed to each of the directors of issuers and public companies require the establishment of an audit committee.

The provisions on the number of audit committees for issuers and public companies are stipulated in the Regulation of SBCMFI LK No. IX.I.5 concerning the Establishment of Implementation Guidelines for the Audit Committee. The regulation stipulates that issuers and public companies are required to establish an audit committee of at least three people in which one of them is an independent commissioner of the company and acts as chair of the audit committee.

2.5. Managerial Ownership

Managerial ownership is the proportion of shareholders by the management who actively participate in decision making in the company, namely directors and commissioners (Pujiati and Widanar, 2009).According to Jensen and Meckling (1976), ownership by managers may align the interests of managers and shareholders because by owning the company's shares, managers will feel the immediate benefits of every decision it makes. Similarly, if there is a mistake then the manager will also bear the loss as a consequence of stock ownership. This is an incentive for managers to improve company performance.

2.6. Financial Performance

According to Wahdikorin (2010) financial performance is a measure of the company's ability to create added value for the survival of the company in the future. To know the financial performance that has been achieved by the company then the measurement of the financial performance itself must be done. One source of information that is considered relevant by investors in assessing the financial performance of a company is the financial statements. A financial report is stated to contain information when the publication of it causes a market reaction.

One alternative to measuring the financial performance of a company that can be used is to combine the book value and market value of equity, i.e. through Tobin's Q ratio. Tobin's Q was introduced by James Tobin (Tobin, 1969 in Bambang and Elen, 2010). Simply put, Tobin's Q is a performance measurement by comparing two assessments of the same asset. According to Tobin's idea, the incentive to create new investment capital is high when future securities (shares) that provide benefits in the future can be sold at prices higher than their investment costs (Fiakas 2005 in Bambang and Elen, 2010).

Tobin's Q Ratio in this study is used as an indicator of the financial performance of the company. Tobin's Q is an indicator because it can assess the market as reflected in stock prices. Market conditions could potentially affect the increase and decrease in the value of Tobin's Q as a measure of corporate value, as good market conditions would potentially increase the market price of the stock. One version of Tobin's Q modified and simplified by Smithers and Wright (2007) is as follows:

$$\text{Tobin's Q} = (EMV + D) / (EBV + D)$$

Where:

- Tobin's Q = company performance
- EMV = market value of equity
- D (Debt) = book value of total debt
- EBV = book value of total assets

If the market value merely reflects the assets recorded for a firm then Tobin's Q will be equal to 1. If Tobin's Q is greater than 1, then the market value is greater than the listed value of the company's assets. This indicates that the stock is overvalued. If Tobin's Q is less than 1, then its market value is less than the listed value of the company's assets. This indicates that the undervalued stock can also be interpreted as potential investment growth.

2.7. Proportion of Independent Board of Commissioners and Financial Performance

Fama and Jansen (1983) argue that non-executive directors (independent commissioners) may act as mediators in disputes between internal managers and oversee management policies and advise management.

The higher the proportion of independent board of commissioners, the more tightly monitoring activities will be conducted. Therefore, issues of conflict of interest between internal managers such as misuse of company assets and the manipulation of corporate transactions are effectively monitored. Thus, the cost of agency companies will be smaller so that the company will be more efficient which in turn also able to improve the company's financial performance.

Several previous studies have shown that the presence of an independent board of commissioners has a positive effect on performance, as indicated by research conducted by Maryanah and Amilin (2011).Also, research conducted by Ulya

(2014) found evidence of a positive relationship between the proportion of independent board of commissioners and the financial performance of the firm.

In contrast to the results of research conducted by Wulandari (2014), and Romano et al. (2012) stating that the proportion of independent board of commissioners has no effect on the financial performance of the company. Based on the above-mentioned description, the hypothesis can be made as follows:

- H1: The proportion of independent board of commissioners has an effect on the financial performance of the company

2.8. Audit Committee and Financial Performance

The relationship of the audit committee and the financial performance of the company are contained in the statement of Forum for Corporate Governance in Indonesia (FCGI, 2008), i.e. the responsibility of the audit committee is for the supervision of the company (Corporate Control).The responsibility is to understand the issues and potential risks, and the internal control system and monitor the controlling process performed by internal auditors. Given the audit committee's understanding of the company's internal control system, it is hoped that various fraud and opportunistic behaviors of management that can harm the company, especially in financial terms, can be detected and prevented.

The audit committee in this study was measured using the number of audit committees. The greater the number of audit committees held by a company will result in better protection and control of the accounting and financial processes and, ultimately, will have a positive effect on the financial performance of the firm (Anderson et al., 2004).

Previous studies that found a positive relationship of the audit committee and the value of the firm were the studies of Linda (2012) and Manik (2011). This is in accordance with the results of research of Gil and Obradovich (2012) which states that there is a positive relationship between the number of audit committees and financial performance. In contrast to the results of research of Romano et al. (2012) found that there is a negative relationship between the number of audit committees and the financial performance of the firm. According to Romano et al. (2012) with fewer audit committees, better internal controls, vigilance over board activities and decisions will increase which, in turn, will improve the company's profitability. Based on the description, the following hypotheses are defined:

- H2: The size of the audit committee has an effect on the value of the firm.

2.9. Managerial Ownership and Financial Performance

Managerial ownership is the proportion of shareholders by management who actively participate in decision making of the company, namely directors and commissioners (Pujiati and Widanar, 2009).Ownership of shares by managers is considered important because it can align the interests of shareholders and managers. Higher managerial ownership levels can be utilized to reduce agency problems (Bathala et al., 1994).

With the increase in shares owned by the manager it will reduce the tendency of managers to take excessive consumption so that will unify the interests of managers and shareholders. This is in accordance with research conducted by Gil and Obradovich (2012) which indicates that managerial ownership has a positive effect on the financial performance of the firm.

While the results of research by Maryanah and Amilin (2011) show that the managerial ownership has a negative effect on the financial performance of the company. These results indicate that both the board of directors and the board of commissioners have an incentive to maximize their welfare and the conflicts that occur in agency theory cannot be reduced.

Theoretically, when managerial ownership is low, incentives for the possibility of opportunistic behavior also increase. Different motivations between management and shareholders will affect management's earnings.The ownership of shares by management will influence the policy of decision making about the accounting method applied in the managed company (Boediono, 2005). From the above description, the following hypotheses can be formulated:

- H3: Managerial ownership has a positive effect on financial performance

3. Research Method

3.1. Population, Sample and Sampling Technique

The population used in this study is all banks listed on the Indonesia Stock Exchange in the period 2012-2015 which amounted to 42 banks. Based on sampling criteria, the number of samples meeting the criteria amounted to 29 banks with a 4-year observation period, so the number of observations was 116 (4 years x 29 banks).

3.2. Operationalization and Measurement of Variables

a. Financial Performance

Financial performance is the company's ability to manage its financial position and control its resources (Hastuti, 2005). Financial performance is a concept to reflect future corporate profits by current profit as measured by Tobin's Q model.

Tobin's Q can be calculated using the following formula:

$$\text{Tobin's Q} = \frac{EMV+D}{BVE+D}$$

Where:
Tobin's Q = financial performance
EMV = market value of equity (closing price x number of shares)
BE = book value of total assets
D = book value of total debts

b. Proportion of Independent Board of Commissioners

An independent commissioner is a member of the board of commissioners who is not affiliated with the management, other commissioners and controlling shareholder, as well as free from any business relationship or other relationship that may affect his ability to act independently or act solely for the benefit of the company (National Committee for Policy on Governance, 2006). Independent commissioners are measured using indicators of the proportion of the number of independent board of commissioners to the total board of commissioners present in the composition of the board of commissioners of the sample companies (Machmud and Djakman, 2008).

$$PIBC = \frac{\textit{the number of members of the board of commissioners from outside the company}}{\textit{the total number of members of the board of commissioners of the company}}$$

Where:
PIBC = Proportion of Independent Board of Commissioners

c. Audit Committee

The audit committee is a professional and independent working committee appointed by the board of commissioners, and thus the task is to assist and strengthen the functioning of the board of commissioners in carrying out the oversight function. The audit committee consists of at least one independent commissioner and at least 2 other members from outside the company. The audit commission in this study was measured using a ratio scale through the percentage of audit committee members who came from outside the audit committee to all audit committee members (Isnanta, 2008).

$$AC = \frac{\textit{the number of audit committee members from outside the company}}{\textit{the total number of members of the audit committee}}$$

Where:
AC = audit committee

d. Managerial Ownership

Managerial Ownership is the amount of share ownership by the management of the entire share capital of the managed company. Managerial ownership is measured by using a ratio of scale through percentage of total shares owned by management to all outstanding shares (Susiana and Herawaty, 2007).

$$MO = \frac{\textit{the number of shares owned by management}}{\textit{total shares outstanding}}$$

Where:
MO = Managerial Ownership

3.3. Data Analysis Technique

In this study, the techniques used to analyze data, among others, are descriptive statistics, classical assumption test and hypothesis testing. Testing is done with SPSS software. The full description is as follows:

4. Results and Discussion

4.1. Descriptive Statistics

Descriptive statistics in this study are presented to provide information on the characteristics of research variables, especially mean and standard deviation. Mean calculation is the most commonly used way to measure the central value of a data distribution. The standard deviation is the difference between the value of the data studied and the average value. In Table 1 below the descriptive statistical results of the tests on the effects of Proportion of Independent Board of Commissioners, Audit Committee, and Managerial Ownership on Financial Performance are presented.

Variable	N	Minimum	Maximum	Mean	Std. Deviation
FP	116	0.4486	0.6057	0.483428	0.0233937
PIBC	116	0.25	1.50	0.5788	0.13524
AC	116	0.25	1.00	0.8972	0.17840
MO	116	0.3715	0.9794	0.752083	0.1637405
Valid N (listwise)	116				

Table 1: Descriptive Statistics of Research Variables
Source: Primary Data processed 2017

From Table 1 above it appears that the sample used in this study amounts to 116. For Company Performance variables it is known that the mean value is 0.4834 and the standard deviation is 0.0233, the highest value is 0.6057, and the lowest value is 0.4486.For variable Independent Proportion of the Board of Commissioners, the mean value is 0.5788 and the standard deviation is 0.1352, the highest value is 1.50, and the lowest value is 0.25.For variable Audit Committee, the mean value is 0.8972 and the standard deviation is 0.1784, the highest value is 1.00, and the lowest value is 0.25.While for variable Managerial Ownership, the mean value is 0.7520 and the standard deviation is 0.1637, the highest value is 0.9794, and the lowest value is 0.3715.

4.2. Classic Assumption Test

4.2.1. Normality Test

Normality test is used to test whether or not the data is normally distributed. To test whether or not the variable is normally distributed, the test is performed as follows:

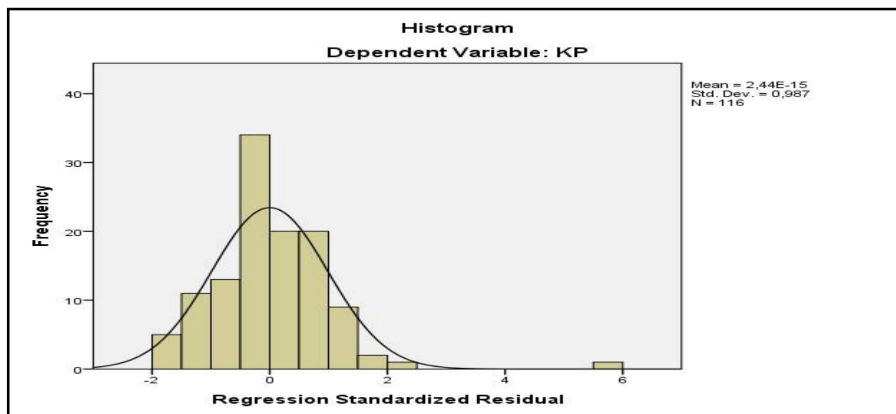

Figure 1: Normality Test
Source: Primary Data processed 2017

Based on Figure 1 it appears that the shape of the curve is not tilted to the left or right so that it means that the residual is normally distributed.

4.2.2. Multicollinearity Test

Multicollinearity test aims to test whether in the regression model there is a correlation between the independent variables. Multicollinearity testing is done by observing the variance inflation factor (VIF) between the independent variables. The following is the result of multicollinearity test:

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	,561	,015		36,730	,000		
	PDKI	,010	,014	,060	,711	,009	,957	1,045
	KA	,027	,011	,206	2,483	,014	,973	1,028
	KM	,063	,012	,438	5,254	,000	,963	1,038
a. Dependent Variable: KP								

Table 2: Multicollinearity Test
Source: Primary Data processed 2017

Table 2 shows that the amount of tolerance obtained for the proportion of the independent board of commissioners is 0.957, the audit committee of 0.973, and the managerial ownership of 0.963.The values of VIF obtained for the proportion of independent board of commissioners are 1.045, audit committee of 1.028, and managerial ownership of 1.038.Since the tolerance value obtained for each variable is greater than 0.10 and the VIF value obtained for each variable is less than 10, it means that the data on the independent proportion of the board of commissioners, audit committee, and managerial ownership are free from the symptoms of multicollinearity.

4.2.3. Autocorrelation Test

Autocorrelation test is used to test whether in a linear regression model there is a correlation between the confounding errors in period t with the confounding error in period t-1 (previously).The following is the result of autocorrelation testing using Durbin-Watson (DW) test.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,499[a]	,249	,229	,0205411	2,218
a. Predictors: (Constant), KM, KA, PDKI					
b. Dependent Variable: KK					

Table 3: Autocorrelation Test
Source: Primary Data processed 2017

Table 3 shows that the value of DW obtained is 2.218. The values of dl and du obtained by K (number of independent variables) = 3 and N (number of sample members) = 116 are 1.5942 and 1.6928.Since the value of DW obtained is greater than the value of du and smaller than the value dl (4 - du = 4 - 1.6928 = 2.3303), which is 1.6928 <2.218 <2.3072 which means there is no autocorrelation.

4.2.4. Heteroscedasticity Test

Heteroscedasticity test is done by testing the glejser. A good regression model is homoscedasticity or heteroscedasticity does not occur.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,025E-17	,015		,000	1,000
	PDKI	,000	,014	,000	,000	1,000
	KA	,000	,011	,000	,000	1,000
	KM	,000	,012	,000	,000	1,000
a. Dependent Variable: AbsUt						

Table 4: Heteroscedasticity
Source: Primary Data processed 2017

Table 4 shows that in the regression model there are no symptoms of heteroscedasticity because the value of significance obtained for the proportion of independent board of commissioners is 1,000> 0.05, while for the audit committee is 1,000> 0.05, and for managerial ownership is 1,000> 0.05.

4.3. Results of Data Analysis

Data processing and hypothesis testing in this research is done by using statistical tool that is SPSS software program.

4.3.1. Multiple Linear Regression Analysis

The results of linear regression analysis can be seen in Table 5 below:

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,561	,015		36,730	,000
	PDKI	,010	,014	,060	,711	,009
	KA	,027	,011	,206	2,483	,014
	KM	,063	,012	,438	5,254	,000
a. Dependent Variable: KK						

Table 5: Multiple Linear Regression Analysis
Source: Primary Data processed 2017

Based on Table 5 above, the regression formula is obtained as follows:

$Y = 0.561 + 0.010X_1 + 0.027X_2 + 0.063X_3 + \varepsilon$

The interpretation results of the regression are as follows:

1. The value of a is 0.561 which means if the variables of the proportion of independent board of commissioners (X1), audit committee (X2), and managerial ownership (X3) are considered constant, the financial performance of the banking industry listed on the Indonesia Stock Exchange is 0.561.
2. The value of the coefficient of the proportion of independent board of commissioners (X1) is 0.010. This shows that each increase in the proportion of independent board of commissioners by one time then the financial performance (Y) will increase by 0.010.
3. The value of the audit committee coefficient (X2) is 0.027. This shows that each audit committee increase by one time then the financial performance (Y) will increase by 0.027.
4. The value of the managerial ownership coefficient (X3) is 0.063. This shows that every increase in managerial ownership by one time then financial performance (Y) will increase by 0.063.

4.3.2. Coefficient of Determination (R^2)

The coefficient of determination (R^2) is a number indicating the degree or ability of the independent variable distribution (X) in explaining and explaining the dependent variable (Y). The magnitude of the coefficient of determination is between zero and one ($0 < R^2 < 1$).The following is the value of the coefficient of determination (R^2) in this study:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,499[a]	,249	,229	,0205411
a. Predictors: (Constant), KM, KA, PDKI				
b. Dependent Variable: KK				

Table 6: Coefficient of Determination (R^2)
Source: Primary Data processed 2017

Table 6 shows the results of the regression as a whole. The value of R is 0.499 indicating that the correlation or closeness of the relationship between the proportion of independent board of commissioner, audit committee and managerial ownership with financial performance is low at 49.9%.The value of adjusted R-square (Adj R^2) or coefficient of determination (R^2) is 0.249 indicating that the proportion of independent board of commissioner, audit committee and managerial ownership explain the variance of financial performance only 24.9%, while the remaining 75.1% is explained by other factors outside the variables studied.

4.3.3. Simultaneous Hypothesis Testing (F-test)

The F-test is used to test whether independent variables simultaneously affect the dependent variable. The following is the result of simultaneous hypothesis testing:

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,016	3	,005	12,386	,000[b]
	Residual	,047	112	,000		
	Total	,063	115			
a. Dependent Variable: KK						
b. Predictors: (Constant), KM, KA, PDKI						

Table 7: Simultaneous Hypothesis Testing (F-test)
Source: Primary Data processed 2017

Table 7 shows that by F-test the value of F-counted of 12.386 is obtained with a significance level of 0,000, while the value of F-table is 3.13.This indicates that F-counted> F-table and, therefore, H0 is rejected and Ha is accepted. This means that the proportion of independent board of commissioners, audit committees and managerial ownership simultaneously has a significant effect on the financial performance of banking companies listed on the Indonesia Stock Exchange.

4.3.4. Partially Hypothesis Testing (t-test)

The t-test is used to determine the effect of partially independent variables on the dependent variable. Test results by t-test are as follows:

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,561	,015		36,730	,000
	PDKI	,010	,014	,060	2,711	,009
	KA	,027	,011	,206	2,483	,014
	KM	,063	,012	,438	5,254	,000
a. Dependent Variable: KK						

Table 8: Partially Hypothesis Testing (t-test)
Source: Primary Data processed 2017

Results of statistical tests partially are as follows:

1. For the proportion of independent board of commissioners, the value of t-counted of 2.711 is obtained with a significance level of 0.009 and the value of t-table is 1.986. Since 2.711> 1.986 and the value of significance 0.008 <0.05 then H0 is rejected. Thus, it can be concluded that the proportion of independent board of commissioners partially influences the financial performance.
2. For the audit committee the value of t-counted of 2.483 is obtained with a significance level of 0.014 and the value of t-table is 1.6585. Since 2.483 > 1.6585 and the value of significance 0.014<0.05 then H0 is rejected. Thus, it can be concluded that the audit committee partially influences the financial performance.
3. For the managerial ownership the value of t-counted of 5.253 is obtained and when compared with the value of t-table of 1.9394 with a significance level of 0.05, then the value of t-counted is greater than the value of t-table (5.253> 1.9394).A probability value of significance of 0,000 indicates that this value is less than the predetermined significance level of 0.05 (0,000 <0.05). Then it can be concluded that audit committee influence partially on financial performance.

4.4. Discussion of Research Results

4.4.1. Effect of Proportion of Independent Board of Commissioners on Financial Performance of the Company

The results of this study indicate that the variable proportion of independent board of commissioners has a positive effect on financial performance of banking. This happens because the value of t-statistic > t-table. Hence, hypothesis 1 (H1) is accepted. The results of this study are in line with agency theory which states that monitoring activities undertaken by independent commissioners in addressing conflict of interest issues between internal managers, such as misuse of corporate assets and manipulation of corporate transactions, can work effectively. In addition, in carrying out its duties and responsibilities, the board of independent commissioners is considered capable of maintaining its independence, which is not limited to majority shareholders but also represents all shareholders, both minorities and foreigners.

The result of this analysis is supported by the opinion of Sutedi (2011) that although the structure of the board of commissioners in each country is different, the independent board of commissioners is still expected to stick to the interests of the company as a whole and pay attention to the interests of all stakeholders.

The results of this study are also in line with research conducted by Santoso Ahmad Minan (2015) stating that the existence of independent commissioners will increase the existing oversight because the Independent Board of Commissioners comes from outside the company. Increased supervision is intended so that the company can conduct a healthy business activities and deviant management behavior will be reduced. Independent Board of Commissioners is an independent party that oversees the performance of the board of directors in implementing the strategies and policies of the company. The board of commissioners also has a fundamental responsibility to encourage the implementation of the principles of good corporate governance.

4.4.2. Effects of the Audit Committee on the Financial Performance of the Company

The results of this study indicate that the variables of the Audit Committee have a significant positive effect on the financial performance of banks. For the value of t-statistic >value of t-table, then the second hypothesis (H2) which states "Audit Committee has a positive effect on the Financial Performance of Banking" is accepted.

The results of this study in accordance with the theory of the agency because the audit committee's activities in monitoring the management and provide input to the board of commissioners can be a guarantee to improve the financial performance of the company. In addition, the size / number of audit committees is one of the decisive factors to improve the effectiveness of audit committee functions, particularly those relating to conflicts of interest, adverse action to the company, and fraud. The effectiveness of the audit committee can be realized if the audit committee is independent, transparent, has high accountability, fairness, and has a charter of audit committees.

This study is in line with research conducted by Santoso Ahmad Minan (2015) which states that the Audit Committee has a significant positive effect on Financial Performance. According to him, the existence of the audit committee has been proven able to improve financial performance. The existence of the Audit Committee is able to reduce unhealthy behavior of management. The Committee plays a role in overseeing the audit process as well as in the ongoing internal control system.The existence of the Audit Committee is able to improve financial performance due to reduced unhealthy behavior of management and increased investor confidence in banking.

The audit committee in this study is measured by the number of audit committees. The greater the number of audit committees held by a company will provide better protection and control of the accounting and financial processes and, ultimately, will have a positive effect on the financial performance of the firm (Anderson et al., 2004).This is in accordance with the results of studies conducted by Hapsoro (2008) and Gil and Obradovich (2012) which states there is a positive relationship between the number of audit committees and financial performance.

4.4.3. Effect of Managerial Ownership on the Financial Performance of the Company

The results of this study indicate that the variable Managerial Ownership has a significant positive effect on the Financial Performance of Banking. This can be seen from the value of t-statistic> value of t-table. Thus, the third hypothesis (H3) which states "Managerial Ownership has a positive effect on the Financial Performance of Banking" is accepted.

This study is in line with research conducted by Bathala et al. (1994) who concluded that higher levels of managerial ownership can be used to reduce agency problems. It is based on the logic that an increase in the proportion of the manager's shares will reduce the manager's tendency to take action of excessive consumption, and thus will unify the interests of the manager and the interests of shareholders. This is in accordance with research conducted by Gil and Obradovich (2012) which states that managerial ownership has a positive effect on the financial performance of the company. The results of this study are also in line with the results of research by MG Kentris Indarti and Lusi Extaliyus (2013) which indicate that managerial ownership has a significant positive effect on financial performance.

Based on the results of this study it appears that managerial ownership which is the proportion of shareholders by management that actively participate in decision making of company, that is directors and commissioner, proven can align the interests of manager and shareholder. Managers will feel the immediate benefits of every decision they make, so if there is a mistake, then the manager will bear the loss as a consequence of stock ownership. Thus, managers will not take decisions that can be detrimental to the company, where in this case it will have an impact on the financial performance of the company.

5. Conclusions, Limitations, and Suggestions

5.1. Conclusions

Based on the results of the analysis that has been done, it can be drawn some conclusions as follows:

1. The proportion of independent board of commissioners has a significant positive effect on the financial performance of banking companies listed on the Indonesia Stock Exchange, with the value of t-counted is 2.711, the value of t-table is 1.986, with a significance level of 0.009, and therefore 2,711> 1,986 and significance level of 0.009 <0.05.
2. The audit committee has a significant positive effect on the financial performance of banking companies listed on the Indonesia Stock Exchange, with the value of t-counted is 2.483, the value of t-table is 1.6585, with a significance level of 0.014, and therefore 2,483> 1,6585 and significance level of 0.014<0.05.
3. The managerial ownership has a significant positive effect on the financial performance of banking companies listed on the Indonesia Stock Exchange, with the value of t-counted is 5.253, the value of t-table is 1.9394, with a significance level of 0.05, and therefore 5.253 > 1,9394. The probability value of significance is 0.000 which is smaller than the value at a predetermined level of significance of 0.05 (0,000 <0.05).
4. The proportion of independent board of commissioners, audit committees, and managerial ownership affects simultaneously on financial performance.

5.2. Limitations of Study

1. This study is limited to banking companies. Therefore, the results may be different for different samples, for example, manufacturing companies.
2. It is possible that there are other variables that affect the financial performance of the firm such as: the proportion of stock ownership, institutional ownership, the expertise of independent board of commissioners, the size of the company, and others.

5.3. Suggestions

Based on the results of the research that has been described previously, the author submits the following suggestions:

1. The Company should increase the proportion of independent board of commissioner, audit committee, and managerial ownership in order to improve the financial performance of the company. As the higher the proportion of independent board of commissioner, audit committee, and managerial ownership, the supervision on the management performance will also be higher so that it will be more able to control the manager not to do actions that are not in line with the interests of shareholders.
2. Further research is suggested to use other measures as proxies of GCG, such as the proportion of share ownership, institutional ownership, and the expertise of independent board of commissioners, firm size, number of audit committee meetings and others, as well as extending the study period.
3. Banking should be able to maintain and improve its performance. This performance improvement can be achieved by applying Good Corporate Governance properly and appropriately.
4. Investors should be wise in deciding to invest in a company. Investors should consider various aspects when investing, especially in the implementation and application of *Good Corporate Governance* to banking because with the implementation of GCG, investor rights will be protected.

6. References

i. Amyulianthy, Rafriny. 2012. "Pengaruh Struktur Corporate Governance Terhadap Kinerja Perusahaan Publik Indonesia". Dalam *Jurnal Liquidity,* Volume 1. No. 2, Juli-Desember 2012, Hal. 91-98*:* Fakultas Ekonomi Universitas Pancasila

ii. Anderson, Ronald C. *et al*. 2004. Board Characteristics, Accounting Report Integrity, And The Cost Of Debt. *Journal Of Accounting And Economics*, Vol. 37, No.3, pp. 315-342.

iii. Arbaina, Endang Siti. 2012. "Penerapan Good Corporate Governance pada Perbankan di Indonesia". Dalam *Jurnal Akuntansi Unesa,* Volume 1, No 1. Surabaya: Universitas Negeri Surabaya.

iv. Bambang Sudiyatno, &Elen Puspitasari, 2010. *Tobin,s Q* dan *Altman Z-Score* sebagai indiator pengukuran kinerja perusahaan *(Tobin's Q and Altman Z-Score as Indicators of Performance Measurement Company)*, Kajian Akuntansi, Pebruari 2010, Hal. 9 – 21 Vol. 2. No. 1

v. Bathala, Chenchuramaiah, T. *et al*. 1994. Managerial Ownership, Debt Policy, And The Impact of Institutional Holdings: An Agency Perspective. *Financial Management (Online)*, Vol. 23, No. 3.

vi. Boediono, G. 2005. Kualitas Laba: Studi Pengaruh Mekanisme Corporate Governance dan Dampak Manajemen Laba dengan Menggunakan Analisis Jalur. Simposium Nasional Akuntansi (SNA) VIII. Solo.

vii. Deegan, & Unerman. (2006). *Financial Accounting Theory.* New York: McGraw-Hill Education.

viii. Fama, E., & Jensen, M. (1983). Agency problem and residual claims. *Journal of Law and Economic*, 26 (2), 301-325.

ix. Gil, Amarjit dan Obradovich, John. 2012. The Impact of Corporate Governance and Financial Leverage on the Value of American Firms. *International Research Journal of Finance and Economics,* Issue 91 (2012), 46-56.

x. Hapsoro, Dody. 2008. Pengaruh Mekanisme *Corporate Governance* Terhadap Kinerja Perusahaan: Studi Empiris di Pasar Modal Indonesia. Jurnal Akuntansi dan Manajemen, Vol. 19, No. 3, Desember 2008.

xi. Hastuti, D. T. 2005. Hubungan antara *good corporate governance* dan struktur kepemilikan dengan kinerja keuangan. *Simposium Nasional Akuntansi VIII,*Solo. 475-490*.*

xii. Isnanta, Rudi. (2008), Pengaruh *Corporate Governance* dan Struktur Kepemilikan terhadap Manajemen Laba dan Kinerja Keuangan. Skripsi jurusan Akuntansi pada Fakultas Ekonomi Universitas IslamIndonesia.

xiii. Jensen, Michael C. and William H. Meckling. 1976. "Theory of The Firm: Managerial Behavior, Agency Costs And Ownership Structure". *Journal of Financial Economics* 3 (1976) 305-360. Q North-Holland Publishing Company

xiv. La Porta, R., Lopez-de-Silanes., & Shleifer, A. 1999. Corporate ownership around the world. *Journal of Finance*, 55, 1-33.

xv. Linda. 2012. Mekanisme corporate governance dan biaya agensi. *Simposium Nasional Akuntansi XV*, 1-25. Banjarmasin.

xvi. Manik, T. 2011. Analisis pengaruh kepemilikan manajemen, komisaris independen, komite audit, umur perusahaan terhadap kinerja keuangan. *JEMI* , 2 (2), 25-36.

xvii. Maryanah dan Amilin, 2011. Pengaruh Corporate Governance dan Kepemilikan Manajerial Terhadap Kinerja Perusahaan (Studi Pada Perusahaan yang Terdaftar di Bursa Efek Jakarta). *Jurnal Akuntabilitas (Online),*

xviii. Machmud dan Djakman. 2008. Pengaruh Struktur Kepemilikan terhadap Luas Pengungkapan Tanggung Jawab Sosial (*CSR Disclosure*) pada Laporan Tahunan Perusahaan : Study Empiris pada Perusahaan Publik yang Tercatat di Bursa Efek Indonesia 2006. *Simposium Nasional Akuntansi 11.*

xix. MG. Kentris Indarti, dan Lusi Extaliyus. 2013. Pengaruh *Corporate Gorvernance Preception Index* (*CGPI*), Struktur Kepemilikan, dan Ukuran Perusahaan Terhadap Kinerja Keuangan Jurnal Bisnis dan Ekonomi (JBE), September 2013, Hal. 171–183 Vol. 20, No. 2

xx. Puspitasari, Filia dan Endang Ernawati. 2010. "Pengaruh Mekanisme Corporate Governance Terhadap Kinerja Keuangan Badan Usaha". Dalam *Jurnal Manajemen Teori dan Terapan, Tahun 3, No. 2, Agustus 2010.* Universitas Surabaya

xxi. Pujiati, Diyah dan Widanar, Erman. 2009. Pengaruh Struktur Kepemilikan Terhadap Nilai Perusahaan: Keputusan Keuangan Sebagai Variabel Intervening. *Jurnal Ekonomi Bisnis dan Akuntansi Ventura*, Vol. 12, No. 1, hal: 71-86.

xxii. Romano, Giulia. *et al*. 2012. Corporate Governance and Performance in Italian Banking Groups. *Paper to be Presented at the International Conference "Corporate Governance and Regulation: Outlining New Horizons for Theory and Practice".* Pisa, Italy, Sept 19, 2012

xxiii. Santoso, Ahmad Minan. 2015. Pengaruh *Good Corporate Governance*, *Capital Adequancy Ratio* dan *Net Interest Margin* Terhadap Kinerja Keuangan Pebankan Yang Terdaftar di BEI Tahun 2010-2013. Skripsi. Fakultas Akuntansi . Universitas Negeri Yogyakarta.

xxiv. Sayidah, Nur. 2007. "Pengaruh Kualitas *Corporate Governance* terhadap Kinerja Perusahaan Publik (Studi Kasus Peringkat 10 Besar CGPI Tahun 2003, 2004, 2005)". *JAAI* Volume 11, No. 1, Juni 2007: 1 – 19. Surabaya: Fakultas Ekonomi Universitas Dr. Soetomo.

xxv. Susiana, dan A. Herawaty. 2007. Analisis Pengaruh Independensi, Mekanisme Corporate Governance, dan Kualitas Audit Terhadap Intergrasi Laporan Keuangan . Simposium Nasional Akuntansi X, Makassar, 26-28 Juli,2007

xxvi. Sutedi, Adrian (2011). *Good Corporate Governance.* Sinar Grafika, Jakarta.

xxvii. Tobin's, James, 1969. "A General Equilibrium Approach to Monetary Theory", *Journal of Money, Credit and Banking* (February), 12-29.

xxviii. Ulya, M. A. (2014). Pengaruh *corporate governance* terhap kinerja ekonomi perusahaan dengan kinerja lingkungan sebagai variabel *intervening. Jurnal Akuntansi Diponegoro*, 3 (3), 1-14.

xxix. Wulandari N. P. Yani & Budiartha I Ketut, 2014. Pengaruh struktur kepemilikan, komite audit, komisaris independen dan dewan direksi terhadap integritas laporan keuangan. E-Jurnal Akuntansi Universitas Udayana 7.3 : 574-586

xxx. Wahdikorin, Ayu, 2010. "Analisis Pengaruh Modal Intelektual Terhadap Kinerja Keuangan Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia (BEI) Tahun 2007-2009". Skripsi. Semarang: Fakultas Ekonomi Universitas Diponegoro.