

# The Influence of Good Corporate Governance on the Financial Performance of Insurance Companies Listed on the Indonesia Stock Exchange for the Period 2020-2023

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## Abstract

This study aims to analyze the effect of the board of directors and audit committee on the financial performance of insurance companies listed on the IDX in 2020-2023. The sampling technique that will be applied in this study is purposive sampling so as to obtain 16 companies with a total of 64 data which are then averaged into 16 data on insurance companies listed on the IDX in 2020-2023 which match the research criteria. The conclusion obtained from this research is that the board of directors affects financial performance and the audit committee affects financial performance.

*Keywords:* Good Corporate Governance, Board of Directors, Audit Committee, ROE.

## A. INTRODUCTION

The community continues to live their lives without certainty about the future. Therefore, it is essential to anticipate potential future events and the associated risks. To mitigate some of these risks, insurance becomes a necessary solution. Insurance is an agreement between two parties the insurance company and the policyholder (customer) to manage the customer's financial losses caused by unforeseen events in the future.

According to the ASEAN Insurance Surveillance Report 2022, as cited by the Financial Services Authority (OJK) in 2023, insurance penetration in Indonesia remains at a low level of 1.4% compared to neighboring ASEAN countries. Not only is penetration low, but insurance density in Indonesia is also at a level of IDR 1,882,640. Moreover, there were numerous complaints regarding insurance in Indonesia, with 1,291 grievances reported in 2022 (OJK, 2023). Considering these issues within the Indonesian insurance sector, it is crucial to further enhance the implementation of Good Corporate Governance within insurance companies.

Good Corporate Governance (GCG) is a framework for corporate management that serves as a guideline for operational activities within a company. GCG plays a critical role for businesses, as it is a key determinant of their success and ability to remain competitive in the global market. However, many still perceive GCG as trivial, leading numerous companies to overlook its importance.

The state of Good Corporate Governance in Indonesia remains relatively poor, primarily due to GCG reforms that are misaligned with government priorities,

resulting in negligible impact. According to the Asian Corporate Governance Association (ACGA) report, Indonesia ranks low, occupying the 12th position. Inadequate implementation of GCG in corporate management can disrupt the company's balance, notably affecting its financial performance.

GCG has a significant influence on the sustainability of insurance companies. Proper implementation ensures healthy operations and builds customer trust, thereby guaranteeing the continuity of their insurance coverage. Moreover, robust GCG practices are essential to attract investors to invest in insurance companies, enabling them to allocate funds for operational facilities, including essential assets. These activities often require substantial capital, and financial performance outcomes, reflected in assets, are crucial. Return on Assets (ROA) becomes a vital metric in evaluating financial performance, facilitating the prediction of profit stability in insurance companies. Based on the discussion above, the researcher is interested in exploring the impact of Good Corporate Governance on the financial performance of insurance companies listed on the Indonesia Stock Exchange.

## **B. LITERATURE REVIEW**

### **1. Definition of Insurance**

Every individual aspires to lead a smooth and trouble-free life, both physically and mentally, without any obstacles or problems. However, the future is unpredictable, and no one can guarantee whether life will proceed without issues or if unexpected events will occur. Therefore, society must anticipate future uncertainties by utilizing insurance services.

The Financial Services Authority (OJK, 2016) defines insurance as a mechanism for transferring risk from the insured party to the insurer. Under this arrangement, the insured party pays a premium as agreed in the policy, and in return, the insurer compensates for any unforeseen and detrimental events experienced by the insured party.

### **2. Agency Theory**

Sochib (2016) explains that agency theory involves a group of individuals who influence the economy in financial terms. It establishes that a company operates under a contractual relationship between investors and managers (agents) to manage the resources utilized by the company. Agency theory fundamentally emphasizes that managers should possess extensive information and share any negative information that may impact stakeholders' ability to monitor managerial activities in the interest of the stakeholders.

### **3. Definition of Good Corporate Governance**

The emergence of Corporate governance stems from the need for companies to reassure investors that their investments are being managed appropriately and efficiently. Corporate governance also ensures long-term profitability and competitiveness in the global market.

Good Corporate Governance (GCG) refers to a set of principles that define the relationships among company management, investors, and other internal or external stakeholders. Each party has specific duties and authorities to guide and control the company effectively and healthily. By adhering to these principles, companies can prevent the misuse of corporate resources, foster sustainable growth, enhance corporate value, and ensure business continuity.

#### **4. Board of Directors**

The board of directors is a stakeholder responsible for supervising company activities and managing the company in accordance with the principles of Good Corporate Governance (GCG). Hamdani (2016:88) outlines the integrity requirements for members of the board of directors as follows:

- a. Members of the board of directors must not exploit the company for personal interests related to the individual directors.
- b. Members of the board of directors are required to study and comply with the statutes outlined in laws and regulations relevant to their responsibilities.
- c. Members of the board of directors are obligated to understand and perform corporate activities based on the company's Good Corporate Governance guidelines.

#### **5. Audit Committee**

The audit committee plays a crucial role in implementing Good Corporate Governance (GCG) and serves as a measure of independence in applying GCG principles beyond audit competence and activities. This role helps prevent fraud in financial reporting by enhancing oversight of management, thereby reducing the likelihood of financial report manipulation.

#### **6. Financial Performance**

Sochib (2016:39) suggests that financial performance can be evaluated using two types of information: financial performance and non-financial performance. Financial performance information includes financial metrics, such as management accounting and financial accounting data, such as pre-tax profits and other financial outcomes. Non-financial performance involves information that explains aspects beyond monetary units.

#### **7. Return on Asset (ROA)**

Return on Asset (ROA) is a calculation used to determine long-term economic profitability by utilizing metrics that reflect the company's ability to generate profits from all its asset-related activities.

ROA is performed to assess the company's ability to generate profits from investment activities involving its assets. The efficiency in asset utilization is directly related to the profits generated, which is reflected in the return on assets ratio (Budi

Rustandi et al., 2024). The formula for calculating Return on Assets (ROA) is:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

Source: Gozali et al., 2022

### C. METHOD

#### 1. Population and Sample

The population in this study includes all insurance companies in Indonesia listed on the Indonesia Stock Exchange (IDX) based on financial reports and other relevant information required by the researcher for the period 2020–2023. The sample selection will be conducted using a purposive sampling technique, with the following criteria for selecting insurance companies listed on the Indonesia Stock Exchange:

**Table 1 Sample Criteria of the Study**

No	Sample Criteria	Total	
		Suitable	Not Suitable
1	Insurance companies listed on IDX during 2020-2023	17	(0)
2	Insurance companies providing complete financial reports for 2020-2023	16	(1)
3	Insurance companies including data and information required for the study	16	(0)
<b>Total sample x years of observation</b>		<b>(16 x 4) = 64</b>	

Source: Processed Data, 2024

#### 2. Types and Sources of Data

The data source for this research consists of secondary data. The secondary data used in this research includes insurance companies listed on the Indonesia Stock Exchange (IDX), obtained from the official IDX website at [www.idx.co.id](http://www.idx.co.id) and the official websites of the insurance companies listed on the IDX that meet the research criteria to gather additional information. The data obtained from these official websites consists of financial reports for the period 2020–2023.

#### 3. Identification of Variables

Research variables are characteristics or attributes of objects such as individuals, activities, and entities that can be tested in their forms, which are selected by researchers to be understood in order to obtain findings and then produce conclusions (Sugiyono, 2021). The variables in this research are the independent variables (X) consisting of the board of directors (X1) and the audit committee (X2), as well as the dependent variable, which is financial performance measured by ROA (Y).

#### 4. Analysis Technique

The analysis technique used in this study includes descriptive statistical analysis, classical assumption tests (normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test), multiple linear regression analysis, and hypothesis testing (F-test, t-test, and R<sup>2</sup> test).

### D. RESULTS AND DISCUSSION

#### 1. Descriptive Statistical Analysis

Descriptive analysis is a fundamental test consisting of mean, minimum, maximum, and standard deviation. The following are the results of the analysis conducted on 16 insurance companies with annual reports that meet the criteria:

**Table 2. Descriptive Statistical Analysis Results**

	N	Min	Max	Mean	Std. Deviation
Board of Directors	16	2,000	6,250	4,29688	1,235647
Audit Committee	16	3,000	3,750	3,09375	,256174
ROE	16	-,091	,130	,2969	,034439
Valid N (listwise)	16				

Source: Processed SPSS Data, 2024

The results of the descriptive statistical analysis in Table 2 indicate that ROE (Y) has a mean of 0.2969 with a standard deviation of 0.034439, representing the standard value of ROE. The board of directors (X1) has a mean of 4.29688 and a standard deviation of 1.235647. The audit committee (X2) has a mean of 3.09375 with a standard deviation of 0.256174.

#### 2. Normality Test

The normality test in this study employs the One-Sample Kolmogorov-Smirnov method to determine whether the data follows a normal distribution. The criterion is that if the significance value is > 0.05, the data is considered normal. Below are the SPSS 25 output results:

**Table 3. Normality Test Results  
One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		16
Normal Parameters <sup>a,b</sup>	Mean	,0000000
	Std. Deviation	,01880296
Most Extreme Differences	Absolute	,134
	Positive	,007
	Negative	-,134
Kolmogorov-Smirnov Z		,134
Asymp. Sig. (2-tailed)		,200

a. Test distribution is Normal

b. Calculated from data.

Source: Processed SPSS Data, 2024

Based on the results of the normality test in Table 2, the Sig. value is 0.200. This value is greater than 0.05, which is the criterion for the normality test. Thus, it can be concluded that the data used in this study is normally distributed.

### 3. Multicollinearity Test

The purpose of the multicollinearity test is to examine whether there is any correlation among independent variables in the regression model. If independent variables are highly correlated, it may negatively impact the model. The criteria for the multicollinearity test are as follows, Tolerance > 0.01 Variance Inflation Factor (VIF) < 10.

**Table 4. Multicollinearity Test Results Coefficients<sup>a</sup>**

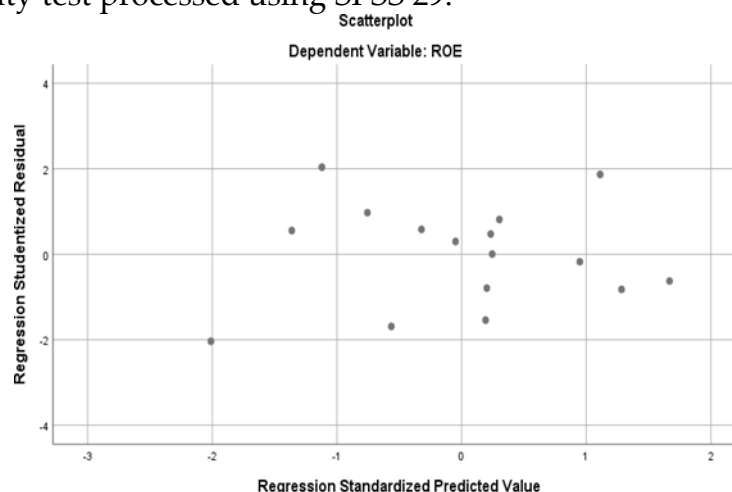
Model	Collinearity Statistics	
	Tolerance	VIF
1. Dewan Direksi	,927	1,079
Komite Audit	,939	1,065

a. Dependent Variable: ROE Source: Processed SPSS Data, 2024

Based on the multicollinearity test in Table 4, it is described that the tolerance values exceed 0.01 and the VIF values are less than 10. Therefore, the independent variables in this test do not experience multicollinearity.

### 4. Heteroscedasticity Test

The heteroscedasticity test is used to examine whether there are unequal variances in the residuals. This study applies the Glejser method, which performs regression between the dependent variable and the absolute residuals. The Glejser test is useful for accurately detecting heteroscedasticity. Below are the results of the heteroscedasticity test processed using SPSS 29:



**Figure 1 Heteroscedasticity Test Results (Scatterplot)**

Source: Processed SPSS Data, 2024

Based on the results of the heteroscedasticity test in Figure 1, the criteria for this test have been met. The criterion is fulfilled if the scatterplot shows that the sample points are spread out and do not form a specific pattern or cluster closely together.

### 5. Autocorrelation Test

The results of the autocorrelation test can be observed in the Model Summary table under the last column (*Durbin-Watson value*). The criterion for the Durbin-Watson value is that it should not fall within the DW region calculation range, determined by the condition  $(Du < D < 4-Du)$  (Putra & Rachma, 2021). Below are the results of the autocorrelation test processed using SPSS 25:

**Table 5. Autocorrelation Test Results Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,838 <sup>a</sup>	,702	,594	,021957	2,000

a. Predictors: (Constant), Audit Committee, Board of Directors

b. Dependent Variable: ROE

Source: Processed Data, 2024

Based on the output results of the autocorrelation test, the Durbin-Watson value is 2.000. Referring to the Durbin-Watson table, the DL value is 0.7340, DU is 1.9351, and 4-Du is 2,0649, It can be concluded that the value meets the criteria for the autocorrelation test ( $1,9351 < 2,000 < 2,0649$ ) this indicates that the test satisfies the requirements, allowing the regression analysis to proceed.

### 6. Multiple Linear Regression Analysis

Multiple linear regression analysis is a statistical method used to examine the influence of more than one independent variable on a single dependent variable (Zahriyah et al., 2021:62). Below are the output results of the multiple linear regression analysis:

**Table 6. Results of Multiple Linear Regression Analysis Coefficients<sup>a</sup>**

Model		Unstandard Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.141	.086		1.641	.129
	Board of Directors	.019	.005	.684	4.003	.002
	Audit Committee	-.071	.023	-.529	-3.113	.010

a. Dependent Variable: ROE

Source: Processed SPSS Data, 2024

Based on the results of the multiple linear regression analysis in Table 6, the regression equation is obtained as follows:  $Y = 0.566 + 0.074DD - 0.314KA$ . The constant value represents the financial performance, specifically ROE (Y), which shows an increase of 0.141 when considering the variables (X) of the board of directors, independent commissioners, audit committee, and institutional ownership. The regression value ( $\beta_{DD}$ ) indicates a positive value of 0.019, which demonstrates that the relationship between the board of directors (X1) and financial performance, specifically ROE (Y), is highly aligned. This means that if the value of the board of directors (X1) increases, the financial performance (Y) will increase by 1.9%, assuming the other independent variables remain constant.

The regression value ( $\beta_{KA}$ ) indicates a negative value of -0.071, which demonstrates that the relationship between the audit committee (X3) and financial performance, specifically ROE (Y), is not aligned. This means that if the value of the audit committee (X3) increases, the financial performance (Y) will decrease by 7.1%, assuming the other independent variables remain constant.

**7. F-Test**

The F-Test is conducted simultaneously to examine the relationship between the independent variables and the dependent variable. Below are the results of the F-Test using SPSS 29:

**Table 7. F-Test Results ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.012	2	.003	6.475	.006 <sup>b</sup>
	Residual	.005	13	.000		
	Total	.018	15			

a. Dependent Variable: ROE

b. Predoctors: (Constant), Audit Committee, Board of Directors

Source: Processed SPSS Data, 2024

Based on the F-Test results in Table 7, the calculated F-value is 6.475 with a significance level of 0.006, which is less than 0.05. This indicates that the board of directors, independent commissioners, audit committee, and institutional ownership collectively have a significant influence on financial performance.

**8. t-Test**

**Table 8. t-Test Results Coefficients<sup>a</sup>**

Model		Constandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std.Error	Beta		
1.	(Constant)	,141	,086		1,641	,129
	DD	,019	,005	,684	4,003	,002
	KA	-,071	,023	-,529	-3,113	,010

a. Dependent Variable: ROE

Source: Processed SPSS Data, 2024

Based on the t-test results in Table 8, the  $t_{table}$  value is 1.79588. It can be concluded that the  $t_{count}$  value for the board of directors (X1) is 4.003, resulting in a significance level of 0.002, which is less than 0.05. This indicates that the board of directors has an influence on financial performance. The audit committee (X2) variable has a  $t_{count}$  value of -3.113, resulting in a significance level of 0.010, which is also less than 0.05, indicating that the audit committee has an influence on the company's financial performance.

**9. Coefficient of Determination**

The  $R^2$  test, also known as the coefficient of determination test, is conducted to determine the extent of the influence or relationship of the independent variables on

the dependent variable in detail. If the value of the coefficient of determination approaches 1 or 100%, it can be concluded that the independent variables have a strong ability to explain the dependent variable, and vice versa.

**Table 9. R<sup>2</sup> Test Results Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.838	.702	.594	.021957

a. Predictors: (Constant), Audit Committee, Board of Directors.

b. Dependent Variable: ROE

Source: Processed SPSS Data, 2024

Based on the R<sup>2</sup> test results, the R Square value is 0.702, which indicates that the influence of the independent variables on the dependent variable is 0.702 or 70%. The remaining 30% is attributed to other variables not included in the regression model.

## E. CONCLUSION

The board of directors has an influence on the financial performance of insurance companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2023. The audit committee has an influence on the financial performance of insurance companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2023.

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