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Research Article

The Effect of GCG and Leverage on Financial Performance: Evidence from Construction Firms

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Abstract
This study aims to investigate the impact of GCG (Governance Code Guidelines) and leverage on the financial performance of construction and building firms listed on the Indonesia Stock Exchange between 2018 and 2021. The research involved 22 firms in the building construction sector, and data collection utilized a purposive sampling method to examine eight selected firms. The analysis method employed was Multiple Linear Regression. The findings indicate that the Independent Board of Commissioners has no significant effect on financial performance, whereas GCG (Board of Directors) negatively influences Financial Performance. Additionally, Leverage (DER and DAR) impacts Financial Performance. Firm management can use GCG and leverage as strategic tools to enhance financial performance and communicate this information to the market. Firms implementing good corporate governance and showcasing concern for the environment can receive incentives or reputation benefits from the community, which can further improve their financial performance.

Keywords: GCG, Leverage, Financial Performance, Commissioner, Construction Sector

JEL Classification: G23, G30, G34

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1. Introduction
Financial performance is a description or picture of financial position and condition that can be translated using financial analysis tools. In this way, the firm's management can see how good or bad the firm's financial condition is in a certain period (Aiman & Rahayu, 2017). The measure of management's success in carrying out firm activities is a result of financial performance. An indicator that investors in firms usually pay attention to is their financial performance because this is management's achievement regarding shareholders' wealth and reflects financial performance over a certain period (Santosa, 2020).

Construction and building firms are one of the industrial sectors that are still developing, namely a business entity that works in infrastructure, buildings, facilities, and infrastructure for the community's common good, with plans and statutory regulations that have been determined and ratified.

Figure 1. Average Financial Performance (ROA)

The average financial performance from the information table above shows that the construction and building industry in 2018-2021 presented fluctuations in financial performance, increased or decreases in its financial performance. This condition indicates that the firm's financial performance is experiencing an increase or decrease. That way, the financial performance carried out before could have been better because good financial performance can be shown by fluctuations in significant increases and no decreases (Setiawan, 2020; Lutfi & Sunardi, 2019). Other perspectives influencing financial performance include good industrial governance and leverage (Santosa et al., 2022).

The phenomenon that occurred was a corruption case at one of the state-owned construction firms, namely PT Waskita Karya. Quoted from Jakarta, CNBC Indonesia is a corruption case committed by the Director of PT Waskita Karya. The head of the legal information center Ketut Sumedana, the corruption crime was committed by the Director of Operations II of PT Waskita Karya from 2018 until now. The role of the suspect with the initials BR was to unlawfully approve the disbursement of Supply Chain Financing (SCF) funds with fake supporting documents; where to cover up his actions, the funds from the SCF disbursement seemed to be used to cover vendor debts which were recently found to be fictitious, resulting in losses to state finances.

Furthermore, the issue or phenomenon that occurred was that the road and bridge construction project in North Sumatra province, of which only 5% had been carried out, was threatened with failure due to PT Waskita Karya as the contractor admitting that there were no funds. This project was carried out to improve the infrastructure condition in the province of North Sumatra.

This research aims to find GCG and leverage's effect on financial performance. , DD, DER, and DAR are the variables used in this study and are influencing factors. The reason for using this factor as an independent variable is that the results from previous studies are still different; this variable is consistent with the phenomenon of construction industry firms.

2. Literature Review and Hypothesis

Agency theory

Agency theory explains the separation or transfer of functions from the firm's owner (principal) to the manager (agent). According to Jansen and Macking (1976), corporate management or agents are parties entrusted by the owner (principal) to control the corporation. The firm will become a meeting place between the owner and the manager, which can lead to conflict because the manager does a job that does not match what the owner expects (Chee Yoong et al., 2015).

Financial performance

Financial performance is an evaluation of the work done, comparing the results of the work against the standards set together. Every work carried out needs to be evaluated or measured periodically, and financial performance is an understanding of the extent to which a firm performs against standards set through the firm's financial recording activities. (Anastasia, & Hidayati, 2019). Financial performance can analyze how far the firm has practiced and enforced good and correct financial policies. Analyze financial performance by reassessing past performance, then estimating future opportunities for the industry and, after that, taking into account what has happened in the past to improve financial performance for the firm's future. Financial performance metrics measure return on assets (Sari, 2020).

Return on Assets (ROA)

ROA measures a business unit's profit on several firm-owned assets. The firm uses this ratio to see management's ability to generate a profit. ROA is also used to measure how far the firm can return the investment that has been given. Therefore, if the value of ROA increases, the greater the benefits obtained from the amount. Significant ROA values indicate better financial performance (Ningsih & Utami, 2020). According to the OECD, good firm management involves good relations between management and other interested parties. Practically generating value for all parties is managing the firm as best as possible in a scheme by being able to organize and control it. In implementing the firm's management system so well, two things must be considered: First, shareholders must be provided with accurate and available information at the right time (Forte & Tavares, 2019). Both firms must provide all information about their performance accurately, effectively, and transparently to all groups, ownership, and stakeholders. The use of good firm management is seen as being able to advance firm performance, especially in terms of improving the quality of financial reporting and reducing managers' efforts to manipulate these reports. (Tadjudin, Anwar, & Hadijah, 2016).

Hypothesis development

An independent board of commissioners is an element of good firm management that prevents managers from acting selfishly (Sibuea & Setiawati, 2021). The board of commissioners and the firm are distinct entities, typically comprising both the board of commissioners and independent commissioners. The relationship between the independent board of commissioners and agency theory suggests that the position of the independent board is intended to mitigate conflicts within the firm. These conflicts may arise from differences of opinion between shareholders and management when making decisions concerning the firm's financial performance and overall management. The independent board's role is to act as an intermediary to reduce such conflicts and ensure effective decision-making within the firm. According to (Harisyara, 2021), the presence of the board of commissioners is expected to improve firm operations and reduce fraud. (Intia & Azizah, 2021) DKI influences financial performance. Leatemia et al. (2019) show that independent commissioners negatively influence financial performance. From the description above, the hypothesis formulation is as follows:

H1: Independent board of commissioners influences the firm's financial performance

The Board of Directors is said to be a member of the corporate body responsible for running the business (KNKG, 2017). Each board member fulfills their duties and makes decisions based on delegating authority and responsibilities. However, the obligations of each individual are shared responsibilities. The directors, including the President Director, have equal authority and standing on the Board of Directors. Directors can improve performance by properly supervising business management following their interests and objectives. According to (Nurhidayah, 2020), With a board of directors, the firm can monitor management's efforts to operate the business by considering the interests of shareholders. Active board member interaction will also facilitate management oversight, impacting the firm's financial results. Research findings by (Pura et al., 2018) emphasize that the board of directors influences financial performance (ROA). Meanwhile,

Hermawan et al. (2022) proved that the board of directors negatively influences financial performance (ROA). Based on the description above, the hypothesis formulation is as follows:

H2: Board of Directors influences the firm's financial performance

Leverage illustrates how far the firm utilizes sources of funds by using debt for its operational activities. According to (Hantono, 2021), by implementing a debt strategy, firms can receive higher profits than their assets and funding sources, thereby increasing profits for investors. In this study, leverage is calculated using DER and DAR. DER According to Aziz & Hartono (2017), if the number of DER increases, the firm can gain great trust from the outside to obtain funding sources to improve its financial performance. The relationship between DER and agency theory is that the more DER a firm has, the better the prosperity of creditors to shareholders. Hence, the proportion of debt is greater in their capital, which causes higher agency costs. According to Aziz & Hartono (2017), if the DER value is higher, the firm will gain great trust from outsiders to obtain funding, thereby enabling the firm's financial performance to increase. Rode & Dewi (2019) shows that leverage calculated using DER positively affects financial performance (ROA). Meanwhile, research findings show that leverage calculated using DER negatively affects financial performance (Albart et al., 2020; Anandamaya & Hermanto, 2019). Based on the description, the formulation of the hypothesis

H3: Leverage (DAR) influences the firm's financial performance

DAR is also known as the number of assets funded by debt, which is a comparison to assess total assets, which creditors then finance. According to (Agustina, 2019). The firm's profitability tends to be lower if the DAR value is large. The firm's financial performance can decrease because it has to pay interest on loans. High debt and capital values can provide high net profit, boosting firm performance (ROA). According to research findings, leverage calculated using DAR has a sizable negative effect on financial performance. Recent research shows that DAR positively affects financial performance (Santos et al., 2022; Ritonga et al., 2021). Based on this description, the hypothesis is formulated.

H4: Leverage (DER) influences the firm's financial performance

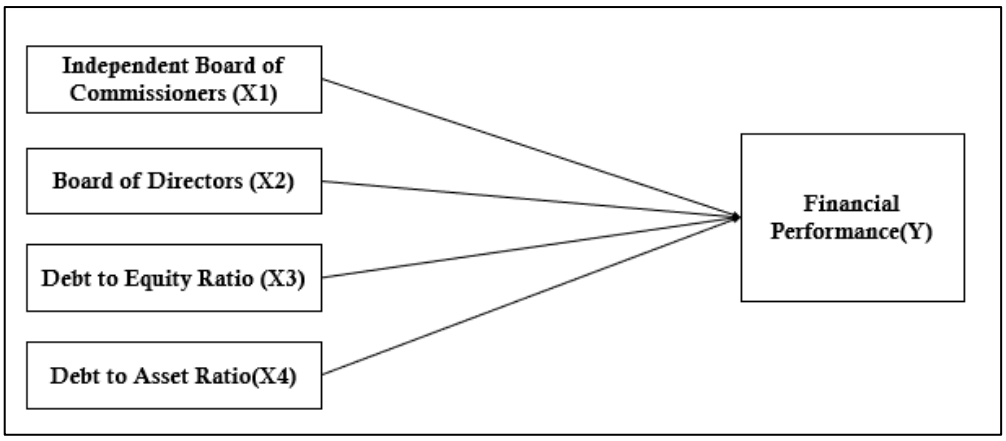

Figure 2. Research Conceptual Framework

3. Data and Method

This research adopts a quantitative approach, specifically a causal approach, to investigate the relationship between independent variables (independent commissioner board, directors, DER, DAR) and their impact on the financial performance of the dependent variable. The study focuses on industry or infrastructure firms listed on the Indonesia Stock Exchange, with information and data obtained from IDX's reliable website, www.idx.co.id. The research location was selected at the IDX due to the convenience of data collection. A purposive sampling method was employed, which involves selecting samples based on specific considerations and research direction. The criteria for determining the research sample were as follows:

Table 1. Sample Criteria 2018 – 2021

No	Criteria	Amount
1	Construction sub-sector firm and has been listed on the IDX	18
2	Construction firms have not been continuously listed on the IDX	(8)
3	Construction sector firms that do not display complete financial reports	(2)
4	The firm has not yet earned a profit for the 2018 - 2021 period	(5)
5	Incomplete firms related to research data conducted	(2)
6	Research sample	8
	The number of samples for four periods	32

Source: Data Processed (2023)

This research utilizes the document technique method for data collection. The data was obtained from the financial statements of construction sub-sector firms for 2018-2021, which were publicly available on the trusted web address of IDX, www.idx.co.id. The research employs various statistical tests, including descriptive statistical tests, classical assumption tests, and multiple linear regression analyses. The analysis equation takes the form of the following:

$$FP_{it} = \beta_0 + \beta_1 DKI_{it} + \beta_2 DD_{it} + \beta_3 DER_{it} + \beta_4 DAR_{it} + \varepsilon_{it} \quad (1)$$

where
FP = financial performance; DKI= independent commissioners board; DD= board of directors; DER=debt to equity ratio; DAR=debt to asset ratio

Operationalisation Variables

Table 2. Summary of Operational Definitions

No	Variables	Definitions	Measurement
1	Independent Board of Commissioners (DKI)	The committee members are independent commissioners, not affiliated with the business. The existence of an independent board of commissioners to assess the equality of stakeholder interests in line with the decision-making standards of an independent board of commissioners	$DKI = \frac{\text{Number of Independent Commissioners}}{\text{Number of all commissioners}} X100\%$ (Santosa et al., 2021; Aiman & Rahayu, 2017)
2	Dewan Direksi (DD)	The Board of Directors is an organizational body within the firm that is jointly responsible for running the business in proportion to the duties and functions assigned to each member.	Board of Directors = Total Members of the Board of Directors (Aiman & Rahayu, 2019)
3	*Debt Equity Ratio* (DER)	The ratio of debt to equity is the ratio that shows the total amount of debt used to fund equity as a whole.	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$ (Anandamaya, & Hermanto, 2021)
4	*Debt Asset Ratio* (DAR)	The ratio of debt to assets is the ratio that shows total assets with current and long-term liabilities.	$DAR = \frac{\text{Total Debt}}{\text{Total Asset}}$ (Santosa et al., 2022; Hantono, 2021)

5	*Return On Asset* (ROA)	Return on Assets (ROA) is a metric that assesses a firm's capacity to generate profits from its investments.	$\text{ROA} = \frac{Earning\ After\ Interest\ and\ Tax}{Total\ Aset}$ (Aiman & Rahayu, 2017)

4. Results

Descriptive Statistical Analysis

Table 3. Descriptive Statistical Test

Variable	Min	Max	Rata-rata	Std Deviasi
DKI	0.20	0.67	0.3525	0.08987
DD	4	7	5.72	0.991
DER	0.12	6.05	1.9213	1.49900
DAR	0.18	1.10	0.6019	0.20510
Financial performance	0.00	0.25	0.478	0.04770

Source: Data Processed (2023)

Four research variables exist based on the data presented in Table 3 for the descriptive statistical test. The Independent Board of Commissioners variable averages 0.3525, ranging from a minimum of 0.20 to a maximum of 0.67, indicating a substantial variation in information for variable X1. Similarly, the DER variable shows a mean of 0.572, with values ranging from 4 to 7, suggesting a significant variation in information for variable X2. The Debt to Equity Ratio variable averages 1.9213, with values ranging from 0.12 to 6.05, indicating a notable variation in variable X3. Similarly, the Debt to Asset Ratio variable has a mean of 0.6019, ranging from 0.18 to 1.10, showing significant variation in variable X4. Lastly, the financial performance variable averages 0.478, with values ranging from 0.00 to 0.25, indicating substantial variation in variable Y.

Normality test

Table 4. Kolmogorov Smirnov results

		Unstandardized Res
Most Extrem Diferences	Absolute	0.106
	Positif	0.96
	Negatives	-0.106
Test Statistic		0.106
Asym Sig (2- tailed)		0.200[c]

Source: Data Processed (2023)

Based on the results presented in Table 4, the residual data exhibits a normal distribution, as evidenced by the Kolmogorov-Smirnov statistical test with a value of 0.106 and a significant Asymp (2-tailed) value of 0.200, which exceeds the significance level of 0.05. This conclusion indicates that the residual data is suitable for the regression test.

Multicorrelineality Test

Table 5. Multicollinearity results

Variable	VIF	Tolerance	Information
DKI	1.171	0.854	There is no evidence of multicollinearity
DD	1.557	0.642	There is no evidence of multicollinearity
DER	1.853	0.540	There is no evidence of multicollinearity
DAR	2.238	0.447	There is no evidence of multicollinearity.

Source: Data Processed (2023)

Based on the test table, all the variables have a tolerance value of ≥ 0.10, and none of the VIF (Variance Inflation Factor) values exceed 10.0. This finding indicates that the independent variables do not exhibit any signs of multicollinearity, making the data appropriate and suitable for conducting the testing.

Heteroscedasticity Test

Table 6. Superman Rank Test

			DKI	DD	DER	DAR
DKI	correlation coefficient	1,000	-,221	-,168	-,182	,014
	Sig. (2-tailed)	.	,225	,358	,320	,939
	N	32	32	32	32	32
DD	Coefficient correlation	-,221	1,000	,644**	,557**	,015
	Sig. (2-tailed)	,225	.	,000	,001	,935
	N	32	32	32	32	32
DER	Coefficient correlation	-,168	,644**	1,000	,817**	-,170
	Sig. (2-tailed)	,358	,000	.	,000	,351
	N	32	32	32	32	32
DAR	Coefficient correlation	-,182	,557**	,817**	1,000	-,022
	Sig. (2-tailed)	,320	,001	,000	.	,905
	N	32	32	32	32	32
Unstd Res	coefficient correlation	,014	,015	-,170	-,022	1,000
	Sig. (2-tailed)	,939	,935	,351	,905	.
	N	32	32	32	32	32

Source: Data Processed (2023)

Based on the results presented in Table 6, the Sig (2-tailed) values for the Independent Board of Commissioners variable (X1) and the Board of Directors variable (X2) are 0.939 and 0.935, respectively. For the Debt to Equity Ratio variable (X3), the Sig (2-tailed) value is 0.351, and for the Debt to Asset Ratio variable (X4), the value is above 0.905. The Heteroskedasticity test for the independent variables also shows values greater than 0.05, indicating the absence of heteroscedasticity symptoms. Consequently, the data is appropriate for the research, as there are no indications of heteroscedasticity in the independent variables.

Autocorrelation Test

Table 7. Autocorrelation Testing

	Asymp Sig. (2-tailed)	Information
Unstandardized Residual	0.106	There are no symptoms of autocorrelation

Source: Data Processed (2023)

The results of the equation autocorrelation test on Sig. (2-tailed) reveals a probability value of 0.106 ≥ 0.05 that there is no autocorrelation between residual values, which allows the data to be used for testing.

Multiple Linear Regressions

Table 8. Multiple Linear Regression Testing

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	,099	,044		2,244	,033
	DKI	,004	,061	,007	,058	,955
	DD	-,020	,006	-,421	-3,157	,004
	DER	-,030	,005	-,936	-6,428	,000
	DAR	,201	,037	,865	5,407	,000

Source: Data Processed (2023)

Testing t (Partial)

Table 9. Partial Testing

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	,099	,044		2,244	,033
	DKI	,004	,061	,007	,058	,955
	DD	-,020	,006	-,421	-3,157	,004
	DER	-,030	,005	-,936	-6,428	,000
	DAR	,201	,037	,865	5,407	,000

Source: Data Processed (2023)

Based on the test results, the H1 hypothesis is rejected for the DKI variable, as its significant t-value is 0.955, exceeding the alpha level of 0.05. However, for the DD variable, the test shows a small value of 0.004, less than the alpha limit of 0.05, indicating that H2 is accepted. Similarly, for the DER variable, the significant t-value is 0.000, less than the significance limit of 0.05, leading to the acceptance of H3. Lastly, the DAR variable also supports H4, with a significant value of 0.000, less than's alpha limit of 0.05.

5. Discussion

The Effect of GCG on Financial Performance

Based on the results of the multiple linear analysis equations, the significance value of 0.955 is greater than the significance level of 0.05, leading to the rejection of hypothesis one (H1). Consequently, DKI does not have a significant impact on financial performance. These findings contradict previous research (Intia & Azizah, 2021), which suggested a positive influence of the board of commissioners on financial performance. Similarly, another study by Leatemia et al. (2019) found a negative influence of the board of independent commissioners on financial performance. According to the present study, the proportion of independent commissioners in construction subsector firms is relatively insignificant in the growth of Return On Assets. However, more commissioners can aid in monitoring management and improving the firm's financial performance. These findings align with a previous study (Monica & Dewi, 2019) that also reported no effect of DKI on financial performance.

Effect of GCG on Financial Performance

According to the multiple linear regression equation, the coefficient on the DD variable is significant with a t-value of 0.004, which is less than or equal to 0.05. As a result, the second hypothesis (H2) is accepted. Based on these findings, it can be inferred that the board of directors variable negatively affects the return on assets. These results contradict a previous study by Pura et al. (2018) that reported a positive influence of the board of directors on financial performance. However, these findings align with another research (Hermawan et al., 2022), which also suggested

a negative influence of the board of directors on financial performance. According to the study, adding a few board members to construction industry businesses can enhance a firm's financial performance. However, if the size of the board of directors increases, there might be instances of neglect in supervising management. Therefore, having fewer board members can facilitate coordination and support effective decision-making processes.

Effect of Leverage on Financial Performance

Based on the multiple linear regression equation, the DER variable's coefficient is significant with a t-value of 0.000, indicating that the third hypothesis (H3) is accepted, suggesting that DER has no significant effect on financial performance. These findings contradict a previous study (Rode & Dewi, 2019), which claimed that leverage calculated using DER positively influences financial performance. However, these results align with another research (Anandamaya & Hermanto, 2021), which demonstrated a negative impact of leverage calculated using DER on financial performance. The study reveals that firms in the construction and building sub-sector may face considerable capital costs if their Debt to Equity Ratio (DER) is too high. Such high DER may lead to increased reliance on debt and reduced own capital, elevating the risks of bankruptcy and agency costs if the debt level exceeds the optimal threshold. Financial challenges may arise, hindering firms from meeting their payments on time and increasing the risk of bankruptcy. The adverse outcomes are driven by agency and bankruptcy costs, outweighing the tax advantages of debt. Substantial debt will also result in significant interest costs, reducing profitability for the business unit. Consequently, a heavy debt burden can negatively impact financial performance.

Effect of Leverage on Financial Performance

Based on the multiple linear regression equation, the significant value of t is $0.000 \leq 0.05$, meaning hypothesis four (H4) is accepted. The results show (DAR) the influence given to financial performance. This research disagrees with the results of research (Ade Irma, 2019), suggesting that leverage, as measured by DAR, has a significant negative impact on financial performance. This study's findings align with the research (Hantono, 2021). Leverage which is calculated with DAR, has a significant impact on a firm's financial performance. According to the findings of this study, firms in the construction subsector will have higher asset values if they have (DAR) high. This result will help businesses in paying the costs necessary to carry out operating activities. That way, the firm's profitability will increase, and with the large source of funds obtained, the firm will likely get a bigger profit as well. High capital value and debt levels will generate a large net profit. Consequently, this can help improve the firm's financial performance.

6. Conclusion

GCG (Independent Board of Commissioners) does not significantly affect financial performance, indicating that the proportion of independent commissioners in construction sub-sector firms does not significantly increase financial performance. However, having a larger board of commissioners may lead to more extensive monitoring by firm management to improve financial performance. On the other hand, the board of directors negatively influences Financial Performance, suggesting that an increase in the board of directors members might lead to negligence in their management supervision. Therefore, having fewer board members could enhance coordination and facilitate better decision-making. Leverage (DER) influences Financial Performance, and a high DER can reduce the firm's total capital due to excessive debt financing, posing significant risks that may impact the firm's financial performance. Additionally, Leverage (DAR) affects Financial Performance as a high DAR can increase the firm's asset value and help cover operational costs, improving profitability and enhancing financial performance.

Recommendation

It is hoped that future analysis and research will incorporate more factors, such as financial structure and firm size. It is hoped that various subjects will be used in future studies to examine the construction sub-sector, firm sector, and other sub-sectors.

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