

The Effect of Good Corporate Governance (GCG) on Profitability in Banking Listed in Indonesia Stock Exchange in year 2012 – 2016

Siti Marisa Noviani*, Tertiaro Wahyudi, Mohamad Adam

Sriwijaya University of Accounting Department, Palembang, Indonesia

***Corresponding author**

Siti Marisa Noviani

Article History

Received: 27.11.2018

Accepted: 05.12.2018

Published: 30.12.2018



Abstract: This research aims to determine the effect of Good Corporate Governance (GCG) which proxied by the General Meeting of Shareholders (RUPS), Number of Commissioners (JDK), Number of Board Directors (JDD), Institutional Ownership (KI), and Audit Committee (KA) on profitability as measured by Operating Income Operating Costs (BOPO). The Sampling Technique used by this research is Purposive Sampling Technique which is using as many as 30 bank's Yearly Financial Reports that are listed in the Indonesian Securities Market on 2012-2016. Panel Data Regression used by this research as Data Analysis Method. This Research results show that the RUPS has a positive effect on BOPO as much as 6,546831 with a probability value of $0.0001 < 0.05$. Means that RUPS had a significant effect on BOPO. The effect of JDK on BOPO is -1.808941 with a probability value of $0.0725 > 0.05$, so the JDK has no significant effect on BOPO. The effect of JDD on BOPO shows the amount of -2.440531 with a probability value of $0.0159 < 0.05$, so it can be concluded that JDD has a significant effect on BOPO. The KI effects on BOPO is 2.576708 with a probability value is $0.0110 < 0.05$, so KI has a significant effect on BOPO. The KA effects on BOPO is 0.747203 with a probability value of $0.4562 > 0.05$, so it can be concluded that KA has no significant effect on BOPO. This means that every change of committee assuming other variables remain (Ceteris Paribus), then BOPO does not experience changes.

Keyword: Good Corporate Governance, the General Meeting of Shareholders, Institutional Ownership, the Audit Committee, and Profitabilitas.

INTRODUCTION

Banks as financial institutions are part of the monetary system that has a strategic position to support economic development. Bank management is required to always maintain a balance between maintaining adequate levels of liquidity and high bank profitability and meeting capital requirements. Health and stability of the banking system will greatly influence the ups and downs of an economy. to maintain the stability and soundness of the bank in controlling the performance, an assessment or measurement of the performance carried out by the company is needed in implementing the strategy that has been determined. Then good corporate governance (GCG) is needed, which is one of the key elements in increasing economic efficiency.

Economic problems that hit every Asian country are the beginning of the emergence of good corporate governance problems in Indonesia. With Bank Case in 2008 disclosure apart from losing the clearing, it was alleged that Bank members were from management and owners who were falsifying and embezzling customer funds [1]. In addition, in 2002, Lippo Bank published three different types of financial statements and published them through mass media, reported to the JSX and reports submitted by public accountants to company managers (www.news.com). In addition, Risk-Based Bank Ratings (RBBR) greatly affect stability or bond ratings [2]. This proves that the lack of good corporate governance systems, known as Good Corporate Governance. In this case, the Corporate activities in the company clearly do not work well, the process of which results in the misuse of some who harm the banks stakeholders and shareholders. Many cases that are motivated by the failure of the corporate governance system, the National Committee on Governance (KNKG) issued a guideline for the implementation of Good Corporate Governance (GCG) in 2006 to encourage companies to create healthy corporate governance systems. The implementation of Good Corporate Governance (GCG) is expected to provide benefits to the company's operational capabilities, and to further improve services to stakeholders and with better decision-making processes and are expected to improve performance and corporate value by obtaining cheaper funding.

The Indonesian Institute for Corporate Governance (IICG) states that Good Corporate Governance (GCG) has a goal to improve the company's image in the eyes of the public, attracting investors. Good Corporate Governance and company performance affect the value of the company [3]. As a demand in global competition, it can also minimize the risk of abuse within the company, and minimize the risks that arise due to poor corporate governance. The corporate governance structure, which has the authority and responsibility for compliance with functions and functions as mandated in the articles of association and regulation (fiduciary responsibility). However, both have the responsibility to maintain the company's business continuity in the long term. In order to support the implementation of duties and responsibilities, the board of commissioners must establish the Committee of at least the Audit Committee, risk monitor and remuneration committee.

The role of *Good Corporate Governance* (GCG) is important in increasing the welfare of the owners and maximizing shareholder wealth through increasing the value of the company, at least through maximum profit increases or by streamlining operational costs. One ratio that can see the health level of a company is the Profitability Ratio where this ratio reflects the end result of all financial policies and operational decisions [4]. GCG in this case independent commissioners influences the market reaction through financial performance, meaning that the company received market response because investors who will buy shares tend to be more interested in companies that have high profitability [5]. Profitability is the main ratio in all financial statements, because the company's main goal is the result of operations / profits. Profit is the end result of policies and decisions taken by management. The profit ratio will be used to measure the effectiveness of the company's operations so as to generate profits for the company. The profitability ratio is very important for all users of the annual report, especially equity investors and creditors.

Based on several previous studies, many of which link *Good Corporate Governance* with company performance in this case measured by profitability. Research [21] shows that there is an influence between third party funds, *Capital Adequacy Ratio* (CAR) and *Non Performing Loans* (NPL) on bank profitability. *Corporate Governance* variables in this study do not show an influence on bank profitability. Narwal and Jindal [5] and [7] reveal a relationship to profitability, and a negative or insignificant relationship between the Audit Committee, the board of directors, the board of directors and non-executive directors of profitability. El-chaarani [8] and [9] reveal the positive impact of the implementation of *Corporate Governance* on financial performance, and find a significant relationship and insignificant relationship from the CEO of bank quality and performance. The results of research conducted by Aulia [10] regarding the effect of *Good Corporate Governance* (GCG) on bank financial performance in Indonesia have no significant effect between *Good Corporate Governance* (GCG) and banking financial performance which is proxied by *Return On Assets* (ROA), *Cost Operational Operational Income* (BOPO), *Capital Adequacy Ratio* (CAR) and *Non Performing Loans* (NPL) because the implementation of *Good Corporate Governance* (GCG) is still ineffective in Indonesian financial institutions. While in the research [11] liquidity measured by the LDR and LAR ratios there was no significant effect on profitability. While in the research [12], the results of the analysis show that NPL (*Non Performing Loans*) and BOPO have a negative and significant effect on the financial performance of banking companies. Where in this study the author will see the effect of *Good Corporate Governance* (GCG) using proxy General Meeting of Shareholders (GMS), Board of Commissioners, Board of Directors, Institutional Ownership and Audit Committee, on profitability as measured by Operating Costs on Operating Income (BOPO). According to [13] Profitability in banks is widely used to measure the success and performance of banks, this can increase demands for the role of banks in economic activities. There are still many differences in the results of previous studies raising the question whether *Good Corporate Governance* (GCG) has an effect on profitability in banks. Even though it is known that *Good Corporate Governance* (GCG) is one of the long-term strategies for the company to *survive*.

Meanwhile, according Akpan and Riman [14] on the impact of good corporate governance Goterhadap profitability concluded that between corporate governance and performance of banks in Nigeria a significant relationship, which is proxied by changes in the size of the board of directors of the bank and the size of the shareholders (*Corporate Governance*) increase Return on Assets (ROA) and Return on Equity (ROE), this study also shows that the quality of assets, the amount of equity and managers really affects the performance of banks in Nigeria. The difference in the results of these studies makes the need for Good Corporate Governance (GCG) variables to profitability interesting to study. Good Corporate Governance (GCG) can reduce the risk that might be carried out by the board of directors and commissioners with various decisions that emphasize personal interests. GCG has a significant and positive influence on financial performance, and only financial and non-financial transparency has the best convergent validity [15]. The relationship between Good Corporate Governance (GCG) and profitability is through better corporate performance that will reflect a good impression on investors. So that the company will increase its ability to get high profits.

This study uses a sample of some banks listed on the Indonesia Stock Exchange in 2012-2016. The purpose of this study is to empirically examine the effect of *Good Corporate Governance* (GCG) proxied by the General Meeting of Shareholders (GMS), Number of Board of Commissioners (JDK), Number of Board of Directors (JDD), Institutional

Ownership (KI) and Audit Committee (KA) for profitability measured by Operational Costs on Operational Revenues (BOPO) in banks listed on the Indonesia Stock Exchange.

RESEARCH METHODS

The type of data in this study is quantitative data sourced from the Indonesia Stock Exchange in 2012 to 2016. The data sources used in this study are secular data. With the method of data collection in the documentation of the annual publication of the report contained k euangan mechanism of *Good Corporate Governance* (GCG) of all banks listed on the Indonesia Stock Exchange (BEI).

The population in this study are all banks listed on the Indonesia Stock Exchange (IDX). According to data obtained by researchers there are 43 banks that have been listed on the Indonesia Stock Exchange and become the population of this study. The sampling technique in this study uses *purposive sampling technique*, the sample used in this study is banks that have certain criteria. in order to get a representative sample according to the criteria determined by the researcher. Based on these criteria, the samples in this study were 30 banks.

The analytical method used by this research is regression analysis berganda. Pengujian this hypothesis will be tested with a coefficient of determination (R^2), Test F and Test Statistics Statistics t. Before testing the hypothesis the test must meet the requirements of: Test descriptive data, test panel data regression models, data normality tests and classical assumption tests.

The Regression Equation Model in this study are:

$$BOPO_{i,t} = a + b_1 RUPS_{i,t} + b_2 JDK_{i,t} + b_3 JDD_{i,t} + b_4 KI_{i,t} + b_5 JKA_{i,t} + e$$

Description

Y = Profitability (BOPO),

a = constants of the regression equation,

$b_1 \dots b_n$, = regression coefficients of variables X_1, X_2, X_3, X_4 and X_5 ,

i = i-entity,

t = period-t,

X_1 = General Meeting of Shareholders (GMS),

X_2 = Total Board of Commissioners (JDK),

X_3 = Total Board of Directors (JDD),

X_4 = Institutional Ownership (KI),

X_5 = Number of Audit Committees (JKA),

e = *error tern*, (the error rate of the estimator in the study).

This study attempts to examine the effect of *Good Corporate Governance* (GCG) using proxies, namely the General Meeting of Shareholders (GMS), Number of Board of Commissioners, Number of Board of Directors, Institutional Ownership and Number of Audit Committees, with the ratio of Operational Expenses to Operational Income (BOPO) in banks which is listed on the Indonesia Stock Exchange. Based on the formulation of the problem described previously, the framework of the study can be described as follows:

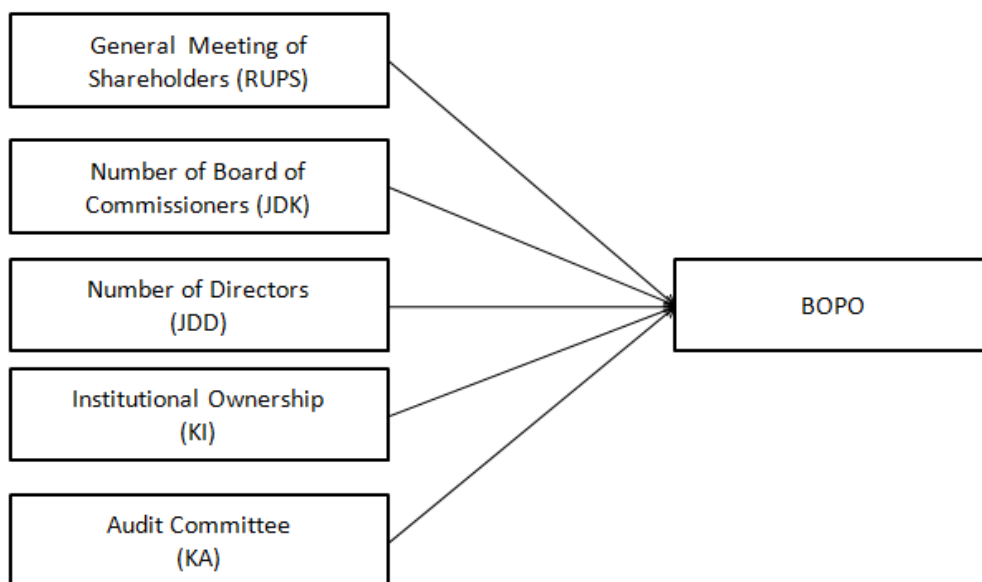


Fig-1: Mindset

In accordance with Figure 1, in this study the independent variables *Good Corporate Governance* (GCG) are proxied by the General Meeting of Shareholders (GMS), Number of Board of Commissioners (JDK), Number of Board of Directors (JDD), Institutional Ownership (KI), and Committee Audit (KA) will be tested for its effect on the dependent variable, namely profitability which will be measured by Operational Costs on Operating Income (BOPO). *Good Corporate Governance* (GCG) is hypothesized to influence profitability.

Based on the theoretical foundation, previous research, and the framework outlined previously, the hypothesis of this study is the influence of *Good Corporate Governance* (GCG) that is proxied by the General Meeting of Shareholders (GMS), Number of Board of Commissioners, Number of Board of Directors, Institutional Ownership and Number of Audit Committees on Operational Costs at Operational Income (BOPO) for banks listed on the Indonesia Stock Exchange for the period 2012-2016.

RESULTS

Selection of Panel Data Regression Model

To estimate the model parameters with panel data, there are three approaches (models) which consist of Ordinary Least Square / Common Effect Model (CEM), Fixed Effect Model (FE), and Random Effect Model (RE). To choose from the three models, several tests must be done first, namely as follows:

Chow Test (CEM dan FE Approach)

Table-1: Table Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.614852	(29,115)	0.0000
Cross-section Chi-square	115.776091	29	0.0000

Source: Results of data processing using eviews 9.0

Chow test statistics use a cross section f with a probability of $0.0001 < \alpha = 0.05$ then H_0 is rejected, meaning the effect in the panel regression estimation model used is the fixed effect model.

Hausman Test (FE dan RE Approach)

Table-2: Table Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.124144	5	0.0331

Source: Results of data processing using eviews 9.0

Testing the chi square test statistics with a probability of $0.00331 < \alpha = 0.05$ then H_0 is rejected, meaning the effect in the panel regression estimation model used in this study is the Fixed effect model. Thus the panel regression estimation model used is the fixed effect model.

Normalitas Test

Table-3: Normalitas Test

Jarque Bera	Probabilitas
328,2008	0,000000

Source: Results of data processing using eviews 9.0

Testing the assumption of normality is done to find out whether the variables in the study are normally distributed so that the research model can be accepted. It can be seen that the Jarque Bera value is 3.28.2008 with p-value of $0.000001 < \alpha = 0.05$ so it can be said that the research data is normally distributed.

Classic assumption test

There are three classic assumption tests which are multicollinearity test, autocorrelation test and heteroscedasticity test

Multikolinieritas Test

Table-4: Result of Multikolinieritas Test

Variable	Coefficient	Uncentered	Centered
	Variance	VIF	VIF
C	32.39675	23.37114	NA
RUPS	2.171362	6.015087	1.089121
JDK	0.908314	20.31747	2.279757
JDD	0.413768	18.26584	2.067236
KI	0.002114	5.420197	1.148517
KA	1.435859	17.99589	1.422545

Centered VIF Value variable General Meeting of Shareholders (GMS) of 1.089121, Number of Board of Commissioners (JDK) of 2.279757, Total Board of Directors (JDD) of 2.067236, Institutional Ownership (KI) of 1.148517, and Audit Committee (KA) of 1.422545. Each variable produces a value smaller than 10. Thus the regression analysis in this study does not contain the symptoms of multicollinearity, which means there is no close relationship between independent variables.

Autokorelasi Test

Table-5: Autokorelasi Test Result

Durbin-Watsonstat
1.29484

Testing the autocorrelation assumption is intended to determine whether the observation / series residuals are correlated with each other or not. The autocorrelation test results show the Durbin Watson (DW) model value of 1.29484, where the value is in the criteria $dU - (4 - dU)$. Thus the residuals produced from the regression equations that have been estimated are stated to have no autocorrelation.

Heteroskedastisitas Test

Table-6: Heteroskedastisitas Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.341073	3.898656	-0.600482	0.5491
RUPS	3.961990	1.009323	3.925393	0.0641
JDK	-0.355480	0.652803	-0.544544	0.5869
JDD	0.134559	0.440598	0.305401	0.7605
KI	0.082617	0.031494	2.623236	0.0796
KA	0.333078	0.820767	0.405813	0.6855

Testing for heteroscedasticity assumptions is used to determine whether the residuals have a homogeneous variety or not. Heteroscedasticity testing, shows that the probability value of each model $> \alpha = 0.05$. The probability value shown by the GMS is 0.0641, JDK is 0.5869, JDD is 0.7605, KI is 0.0796 and KA is 0.6855 $> \alpha = 0.05$. This means that the residuals are stated to have a homogeneous variety. Thus the homocedasticity assumption is fulfilled or not occurs heterokedacity.

Data Panel Regression Result

Based on the results of the chow test and the hausman test the right model used in this study is Fixed Effects Model.

Table-7: Fixed Effects Model Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	80.49005	5.691814	14.14137	0.0000
RUPS	9.647109	1.473554	6.546831	0.0000
JDK	-1.724020	0.953055	-1.808941	0.0725
JDD	-1.569867	0.643248	-2.440531	0.0159
KI	0.118476	0.045980	2.576708	0.0110
KA	0.895353	1.198273	0.747203	0.4562
R-squared	0.393547	F-statistic		18.68926
Adjusted R-squared	0.372490	Prob(F-statistic)		0.000000

The regression equation in this study is:

$$BOPO_{i,t} = 80.49005 + 9.647109 (RUPS_{i,t}) - 1.724020 (JDK_{i,t}) - 1.569867 (JDD_{i,t}) + 0.118476 (KI_{i,t}) + 0.895353 (KA_{i,t}) + e$$

The results of the regression equation indicate that in the load variable 80.49005, it means that if there are no variable General Meeting of Shareholders (GMS), Number of Board of Commissioners (JKD), Number of Board of Directors (JDD), Institutional Ownership (KI) and Audit Committee (KA) then the value Operational Costs at Operational Income (BOPO) is equal to constant values.

The coefficient of the General Meeting of Shareholders (GMS) is 9.647109, Institutional Ownership (KI) is 0.118476, and the Audit Committee (KA) of 0.895353 has a positive coefficient value indicating that if there is a 1% increase, the BOPO value will increase by the coefficient of each variable. The Coefficient of the Board of Commissioners (JDK) amounted to -1.724020 and the Board of Directors (JDD) was -1.569867 with a negative sign indicating that if an increase of 1%, the BOPO value would decrease the Operational Income (BOPO) value by the coefficient of each variable.

HYPOTHESIS TESTING

Testing the hypothesis in the study, to test the significance of the influence of the independent variable (X) on the dependent variable (Y) both partially and jointly carried out with the Determination Coefficient (R2), simultaneous test (F test) and partial test (t test).

Koefisien Determinasi Test (R²)

The amount of contribution influences the implementation of Good Corporate Governance (GCG) proxied by the General Meeting of Shareholders (GMS), Number of Board of Commissioners (JDK), Number of Board of Directors (JDD), Institutional Ownership (KI), and Audit Committee (KA) on profitability which is proxied by Operational Costs on Operational Income can be known through its determination coefficient (R2).

Table-8: Koefisien Determinasi Test Result (R²)

Variabel	R-Square
BOPO	0.393547

Viewed from Table 8, the BOPO R-Square value is 0.393547. Thus it can be concluded that the variables of the General Meeting of Shareholders, Number of Board of Commissioners, Number of Board of Directors, Institutional Ownership and Audit Committee are able to explain the diversity of Operational Costs at Operational Income (BOPO) variables of 39.35%, while the remaining 60.65% is contributed by variables others not examined in this study.

Significant Simultan Test (Uji F)**Table-9: F – Statistic Test Result**

	Nilai
F-statistic	18.68926
Prob(F-statistic)	0.000000

Simultaneous significant testing aims to show whether all the independent variables included in the model have a joint effect on the dependent variable. From Table 9 it can be seen that the probability value is $0.00001 < \alpha = 0.05$, thus it can be concluded that the variables of the General Meeting of Shareholders (GMS), Number of Board of Commissioners (JDK), Board of Directors (JDD), Institutional Ownership (KI) and Audit Committee (KA) has a simultaneous influence on Operational Costs on Operating Income (BOPO).

Significant Parsial Test (Uji t)**Table-10: t- Statistic Test Result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RUPS	9.647109	1.473554	6.546831	0.0000
JDK	-1.724020	0.953055	-1.808941	0.0725
JDD	-1.569867	0.643248	-2.440531	0.0159
KI	0.118476	0.045980	2.576708	0.0110
KA	0.895353	1.198273	0.747203	0.4562

Based on Table 10. Test Results GMS variables have a probability value of $0.00001 < \alpha = 0.05$, meaning that the GMS has a significant effect on BOPO. The JDK probability value is $0.0725 > \alpha = 0.05$, meaning that JDK has no significant effect on BOPO. In the JDD variable the probability value is 0.0159 , where the probability value $< \alpha = 0.05$ can be concluded that JDD has a significant effect on BOPO. Variable KI with a probability value is 0.0110 , in which the probability value $< \alpha = 0.05$ then it can be concluded that a significant effect on BOPO. Variable KA variable probability value of 0.4562 , in which the probability value $> \alpha = 0.05$ then it can be concluded that KA does not have a significant effect on BOPO.

HYPOTESHIS**H1 = Effect of general meeting of shareholders (GMS) on operational costs on operating income (BOPO)**

The influence of the General Meeting of Shareholders (AGM) has a positive effect on operating costs in operating income (ROA) listed on the Indonesia Stock Exchange shows the period 2012-2016 t value of 6.546831 with a probability value is 0.00001 , because it has a probability value $< \alpha = 0.05$, it can be concluded that the General Meeting of Shareholders has a significant effect on BOPO. This means that the intensity of the General Meeting of Shareholders (GMS) with the assumptions of other variables remains (*Ceteris Paribus*), influencing the size of the Operational Costs on Operating Income (BOPO). This means that by increasing the intensity of the GMS, the BOPO value will increase. The General Meeting of Shareholders (GMS) which has a positive effect on Operational Costs on Operational Income (BOPO) can discuss the condition of the company for short and long term so that the company can take a policy in facing the conditions of the company now and in the future.

H2 = Effect of the number of board of commissioners (JDK) on operational costs on operating income (BOPO)

Effect of Number of Board of Commissioners on profitability in the banking proksikan with BOPO listed in Indonesia Stock Exchange 2012-2016 period shows t value obtained with use values are -1.808941 probability Number of BOC that is equal to 0.0725 , because it has value probability $> \alpha = 0.05$, it can be concluded that the number of Board of Commissioners has no significant effect on BOPO. This means that for each size of the Board of Commissioners assuming other variables remain (*Ceteris Paribus*), then the value of Operational Costs on Operational Income (BOPO) will change with different directions. Number of Board of Commissioners (JDK) that does not affect Operational Costs on Operational Income (BOPO) because it is difficult for each company to determine how much commissioner membership is needed in order to optimize company activities, this agrees with the research conducted by Rimardhani *et al.* [16] Which states that a corporate governance structure which is proxied by the Amount of Board of Commissioners does not affect the performance of funds in the company? Meanwhile in the research conducted by Fanta *et al.* [17] Concluded that there was a partial influence between the numbers of the Board of Commissioners on financial performance.

H3 = Effect of the number of board of directors (JDD) on operating costs on operating income (BOPO)

The effect of the number of board of directors and operating costs on operating income (BOPO) shows that the calculated t value is -2.440531 with a probability value of 0.0159, where the probability value is $< \alpha = 0.05$, it can be concluded that the Board of Directors influences BOPO. This means that every change in the Amount of the Board of Directors with the assumption of other variables is fixed (*Ceteris Paribus*), then the BOPO will change in the same direction. The number of Board of Directors (JDD) that influences Operational Costs on Operational Income (BOPO) agrees with research conducted by Sulistyowati & Fidiana[18] and Akpan & Riman[14] which concluded that there was a significant influence between the number of the Board of Directors on financial performance. Board of directors had an important role in the operationalization of the company because the board of directors had the task as decision makers for the short and long term. But the results of this study are different from Rimardhani *et al.* [16] *Which states* the variable of the Board of Directors has a negative and significant effect on financial performance? The effectiveness and efficiency of the company depends on the management mechanism of the company's management which is the duty of the directors. Good or bad performance will depend on the ability of the board of directors as a company *resource* better. The large number of councils benefits the company from the perspective of *resource dependence*. In accordance with the perspective of *resources* dependence, the company will depend on the board of directors to better manage its resources[19].

H4 = Effect of institutional ownership (KI) on operational costs on operating income (BOPO)

The effect of Institutional Ownership (KI) on profitability proxied with BOPO shows that the t value is 2.576708 with a probability value of 0.0110, where the probability value $< \alpha = 0.05$ can be concluded that institutional ownership has a significant effect on BOPO. This means that every change in Institutional Ownership with the assumption of other variables remains (*Ceteris Paribus*), then BOPO will experience a change in the same direction. Institutional ownership (KI) that influences the Operational Cost of Operational Income (BOPO) agrees with the research conducted by Rimardhani *et al.*, [16] and El-charani [8] *which state that* Institutional Ownership variables have a positive and significant effect on performance. Institutional ownership is the ownership of shares by this institution will increase staffing of the company entity, because the institution has a big interest in its investment. Thus there will be an increase in control of management policies which can later improve the company's performance. Meanwhile the results of this study disagree with the research conducted by Sulistyowati & Fidiana[18] which concluded that there is no partial influence between Institutional Ownership variables and financial performance. Institutional ownership will make managers feel bound to meet the profit targets of investors, so it is suspected they will still tend to be involved in controlling earnings. The percentage of certain shares owned by the institution can affect the process of preparing financial statements that do not rule out the possibility of accrualization according to the interests of the management [20,18].

H5 = Effect of audit committee (KA) on operational costs on operating income (BOPO)

The influence of Committee Audit with profitability proxied with BOPO shows that the value of t count is 0.747203 with a probability value of 0.4562, where the probability value $> \alpha = 0.05$ can be concluded that the Audit Committee has no significant effect on BOPO. This means that every change in the committee with the assumption that the other variables remain (*Ceteris Paribus*), then the BOPO does not change. The high or low number of the Audit Committee in a company does not affect the company's profitability. The number of Audit Committees cannot guarantee the effectiveness of the Audit Committee's performance in overseeing the company's profitability. The formation of the Audit Committee in a company is only on the basis of compliance with regulations that require companies to form an Audit Committee. The Audit Committee (BOPO) does not affect this Operational Cost (BOPO) in accordance with research conducted by Sulistyowati & Fidiana [18], Rimardhani *et al.*[16] *Which states* the variety of Committee Audits has no significant effect on financial performance? The absence of the effect of a number of Audit Committees in a business is because the Audit Committee guidelines are less than optimal in carrying out supervisory functions and control of enterprise management. In addition, the selection of Audit Committee members is still based on friendship so that monitors monitor and be minimized.

MANAGERIAL IMPLEMENTATION

The mechanism of *Good Corporate Governance* (GCG) will be able to overcome agency problems in companies that arise in various forms, one of which occurs between managers and shareholders because the ownership of the company in general and spread to investors whose stock ownership is relatively small, will result in lack of control or supervision on managers directly, even if the control or supervision is carried out this will result in controlling costs not balanced with the benefits obtained, in other words will lead to higher costs. The results of this study indicate that the application of *Good Corporate Governance* (GCG) or *good corporate governance* can increase the value of the company by improving the company's financial performance, reducing risks that may be carried out by the board with self-favorable decisions, and generally *corporate governance* can increase investor confidence and help create a conducive relationship and can be accounted for between elements in the company (Board of Commissioners, Board of Directors, and shareholders) in order to improve company performance. This research is also expected to be an input for

regulators in regulating the implementation of the *Good Corporate Governance* system (GCG) in various companies, especially in the banking sector. Good corporate governance will create a good company condition, ultimately it will create company efficiency.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The General Meeting of Shareholders (GMS) has a positive effect on operating costs on operating income (BOPO) this occurs because the intensity of the general meeting of shareholders will cause the costs incurred to increase. Meaning that the possibility of rising costs will lead to high BOPO values. (JDK) has no effect on operating costs on operating income (BOPO), the influence of the number of board of commissioners on the reduction in operating costs on operating income shows that the implementation of a good corporate governance system for banks listed on the Indonesian stock exchange has not been implemented optimally and the selection of the board of commissioners as well as the determination of the number of board of commissioners is only as a mere fulfillment of regulations. The number of board of directors (JDD) influences operational costs on operating income (BOPO) but When viewed from the relationship pattern, the effect is negative. This means that the more the number of boards of directors will increase operational costs on operating income. Although the board of directors has an important role in the operationalization of the company because the board of directors has the task as a decision maker for the short term and long term this will continue to increase operational costs. Institutional ownership (KI) has an effect on operational costs on operating income (BOPO), institutional ownership will make managers feel bound to meet profit targets from investors, so it is suspected they will still tend to be involved in controlling profits from any aspect, namely in terms of company operational costs so that the amount of share ownership by the institution can reflect power, so that it has the ability to intervene in the course of the company's system. The audit committee (KA) does not affect operational costs on operating income (BOPO). Not existence influence from total internal audit committee something company because of role from audit committee is lacking optimal in run function supervision and control onmanagement company. Besides the p emilihan member audit committee still based on kinship so that monitoring to board of directors less maximum.

Suggestion

For company sebaiknya a to implementing *Good Corporate Governance* (GCG) to encourage the achievement of sustainability of the company through a management system based on the principles of transparency, accountability, responsibility, independence and fairness and encourage the empowerment of function and independence of each company. For researcher then, it is recommended for expand sample so that the results research could generalized. Add variables independent other such as company size, remuneration committee and others.

REFERENCES

1. Damayanti, T. (2015). Analysis of the Effect of Governance Structure, Governance Process and Governance Outcome on the BOPO Ratio. *Pros. Manaj.* 2, 56–63.
2. Pramana, A.P, Yunita, I. (2015). Effect of Risk-Based Bank Rating (RBBR) on Bond Ranking (Empirical Study: Banking Bonds Registered on the Indonesia Stock Exchange 2009-2013). *J. Manaj. Indonesia.* 15, 65–84.
3. Nofitasari, N. (2015). Pengaruh good corporate governance dan kinerja perusahaan terhadap nilai perusahaan (Studi Pada Badan Usaha Milik Negara Yang Terdaftar Di Bursa Efek Indonesia Tahun 2010-2013). *Jurnal Administrasi Bisnis*, 25(1).
4. Hamdani, (2016). *Good Corporate Governance: Overview of Ethics in Business Practices*. Mitra Wacana Media, Jakarta.
5. Arsani, S.H., Asyik, N.F. (2015). Effect of Good Corporate Governance on Market Reactions: Financial Performance as a Moderating Variable. *J. Science Ris. Account.* 4, 1–20.
6. Narwal, K. P., & Jindal, S. (2015). The impact of corporate governance on the profitability: An empirical study of Indian textile industry. *International Journal of Research in Management, Science & Technology*, 3(2), 81-85.
7. Desiana, L., Mawardi, Gustiana, S., (2016). The Effect of Good Corporate Governance on Profitability (Roe) on Sharia Commercial Banks in Indonesia Period 2010-2015. *I-Finance* 2, 1–20.
8. El-Chaarani, H. (2014). The impact of corporate governance on the performance of Lebanese banks.
9. Ihsan, D. nur'aini. (2016). Quality of Implementation of Good Corporate Governance in Islamic Commercial Banks in Indonesia and Its Impact on Financial Performance. *J. Ekon. Islam.* 7, 77–106.
10. Aulia, R.B, (2013). The Effect of Good Corporate Governance Practices on Bank Financial Performances. *Sch. Econ. Manager. See Univ. Tilburg University*.
11. Afriyeni. (2017). Profitability of Rural Banks in the City of Padang Reviewed from the Liquidity Ratio. *J. Benefita* 2, 22–32.
12. Hanafi, M. M., & Santi, F. (2013). The impact of ownership concentration, commissioners on bank risk and profitability: evidence from Indonesia. *Eurasian Economic Review*, 3(2), 183-202.
13. [19] Widokartiko, B., Achسانی, N.A, Beik, I.S. (2016). Impact of Internal Performance and Macroeconomic Conditions on Profitability in Banking. *J. Apps. Business and Management.* 2, 161–171.

14. Akpan, E. S., & Riman, H. B. (2012). Does corporate governance affect bank profitability? Evidence from Nigeria. *American International Journal of Contemporary Research*, 2(7), 135-145.
15. Haryati, S., & Kristijadi, E. (2014). The effect of GCG implementation and risk profile on financial performance at go-public national commercial banks. *Journal of Indonesian Economy and Business: JIEB.*, 29(3), 237.
16. Rimardhani, H., Hidayat, R.R, Dwiatmanto. (2016). Effects of Good Corporate Governance and Leverage on Financial Performance in Banking Listed on the Indonesia Stock Exchange (IDX) in 2004 - 2007. *J. Adm. Business*. 31, 167–175.
17. Fanta, A. B., Kemal, K. S., & Waka, Y. K. (2013). Corporate governance and impact on bank performance. *Journal of Finance and Accounting*, 1(1), 19-26.
18. Sulistyowati, Fidiana. (2017). Effect of Good Corporate Governance on Performance. *J. Science and Ris. Account*. 6, 121–137.
19. Sam'ani. (2008). Effect of Good Corporate Governance and Leverage on Financial Performance in Banking Listed on the Indonesia Stock Exchange (IDX) in 2004 - 2007. In: Diponogoro University.
20. Boediono, G. S. (2005). Kualitas laba: Studi pengaruh mekanisme corporate governance dan dampak manajemen laba dengan menggunakan analisis jalur. *Simposium Nasional Akuntansi VIII*, 9, 175-194.
21. Wantera, N. L. K. P. S. M., & Mertha, I. M. (2015). Pengaruh Penerapan Corporate Governance, DPK, CAR Dan NPL Terhadap Profitabilitas Bank. *E-Jurnal Akuntansi Universitas Udayana*, 12(2), 154-171.