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Corporate Governance and Its Influence on Financial Performance of State-Owned Enterprises (Soes) In Indonesia

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ABSTRACT: *This study aims to examine the influence of Corporate Governance (CG) index, and CG mechanism on financial performance of SOEs in Indonesia. The sample used in this research is BUMN which included government program program called "nawacita" which is hunting and fishery sector, food sector, mining sector, manufacturing industry sector, and construction/tourism sector. The sample comprises 25 companies for the period 2014-2016, with a total of 50 observations. The dependent variable in this study is the company's financial performance as measured by Net Profit Margin (NPM) and independent variables are CG index, and CG mechanism (Board of Commissioners, Audit Committee, Ownership Structure, and CG Committee). The results show that from the five independent variables, there are three variables that affect on financial performance, namely: CG Index, Board of Commissioners, and CG Committee, while Audit Committee and Ownership Structure have no effect on financial performance of SOEs. It can be implied that the better the CG score will have an impact on the financial performance of SOEs.*

KEYWORD -*Financial Performance, Corporate Governace Index, Board of Commissioners, Audit Committee, Ownership Structure, and CG Committee.*

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I. Introduction

State-Owned Enterprises (SOEs) have a very important role in supporting the economy in various countries. The role of SOEs is among others: the provision of infrastructure, employment, contributing to the Gross Domestic Product (GDP) and the economic growth of a country (Harjanto, Nur 2016). The important role of BUMNs in Indonesia has been proven with the support of data from Bank Indonesia (BI) showing the contribution of SOEs in the Indonesian economy by 18.8% of GDP in 2015 (kompasiana.com). This number has decreased to 16.59% by 2016. (bisnis.com). In 2016 there are 118 SOEs in Indonesia with total assets reaching Rp 1664 trillion, total revenue 807.4 trillion, and operating profit of 64.2 trillion. SOEs are not all of them can make profits, because of the 118 state-owned enterprises only 96 SOEs capable of making profits, while 24 state-owned enterprises suffered losses. The performance of SOEs is in the spotlight of many parties because it is one of the economic supporters in Indonesia, so it is expected that SOEs can perform optimally with good corporate governance. This explanation gives an idea that SOEs have an important role in the Indonesian economy.The important role of SOEs makes the government strive to maintain the growth and sustainability of the company's country. One of the government's efforts in developing SOEs is in the current government program known as "nawacita".

"Nawacita" is the government's economic priority agenda to goto a politically sovereign Indonesia, economic self-reliance, and cultural personality. In the part of government's program, the government has priority economic focus in five sectors: agriculture, hunting & forestry sector, fishery sector, mining and quarrying sector, construction sector, and industrial and processing sectors. The government wants to make the five priority sectors of the government's economy to become an independent company by securing matirtim resources, and reflecting the personality of Indonesia as an archipelagic country. Economic self-reliance is defined not to depend primarily on basic needs to producers or other countries, since priority sectors are a great strength and potential.

The first sector is food to meet our basic needs of our own production. Potential of Indonesia in agriculture for food self-sufficiency is enormous. The second sector is fishery and marine, with its vast waters, Indonesia is expected to become one of the fish producers in ASEAN. The third sector is energy. This sector is closely related to the lack of electricity supply, therefore, with many alternative sources of energy options, the government plans to develop a power plan in the energy barn to increase Indonesia's electricity production. The fourth sector is industry. The profit margin of 7% in the industrial sector is of concern to the government, therefore the government plans to make structural changes. How to make Indonesia economy based on economy which contains science, technology, processing. In the next sector, tourism becomes the key to short-term economic development, since all previous steps require at least two years to see the results. This is a rich country, but only able to attract 8.2 million tourists, 33% of which Malaysia and half of them is successfully attracted by Singapore. (www.kompas.com).

The priority sectors of the government's economy are sectors that have great potential to be more explored and improve financial performance in order to contribute to the greater Indonesia's GDP to achieve community welfare. The performance of SOEs in the government's economic sector is in the spotlight in support of the "nawacita" program aimed at improving self-reliance. State-owned enterprises through the nawacita program are expected to accelerate development and achieve good performance. The data show that the performance of SOEs during the current two years of government in a program known as "nawacita" has decreased. Various factors influence the performance of SOEs, so it is important to examine the current government's performance of "nawacita" regarding the Indonesian government's priority economy.

To support the improvement of company performance must be supported by the implementation of good corporate governance (GCG) so as to increase transparency. (Arani, Desna 2010). Previous research on Corporate Governance (CG) on financial performance has been undertaken by several researchers (Dittmar et al., 2003; Nam and Nam, 2004; Rashid and Islam, 2013) suggest that CG has an important role in influencing the firm's performance in financial markets. In addition, the main purpose of establishing a company is to improve the welfare of the company owners or stakeholders or maximize the stakeholder property by increasing the value of the company (Brigham and Houston, 2006). The goal of a company is to optimize the value of stakeholders that can be achieved through the implementation of financial management functions. Financial decisions may affect other financial decisions and lead to an increase in corporate value (Fama and French, 1998). The CG framework recommends maximizing stakeholder values as a result of the CG mechanism (Mutairi et al., 2012). CG is concerned with relationships of managers, boards of directors, employees, controllers, minorities and other stakeholders. Abor (2007) explains that CG refers to how companies should be run, managed and controlled. According to Kaihatu (2006), CG essence improves company performance by overseeing or monitoring management performance and other stakeholder accountability, based on applicable regulatory and regulatory framework. CG can generate goodwill and investor’s trust. The findings of Gompers et al. (2003) explains that GCG can improve the valuation and support of investors. Based on some previous research results that show varied results.

The implementation of good corporate governance in Indonesia embraces five principles, namely, transparency, accountability, responsibility, independency, and fairness (TARIF), reinforced through Minister of State-Owned Enterprises Regulation No. PER-01 / MBU / 2011. Public attention and research on CG has been increasingly important in recent years in various countries. CG has become a famous academic research topic, and the mechanism of CG varies worldwide (Mutairi et al., 2012). GCG helps sustainable economic development by improving company performance (GRI, 2006). Previous research (Hassan and Halbouni, 2013; Sheikh et al., 2013; Mollah et al., 2012; Reddy et al., 2010) uses CG mechanisms such as board structures, outside directors, board committees and ownership structures. Prior researches related to the application of CG in different countries use different and varied measurements. The study of Sayidah (2007) on the effect of the quality of corporate governance implementation proxied with Corporate Governance Perception Index (CGPI) score on non banking performance. The results of this study indicate that the application of CG measured using the index does not affect the performance of the company.

The application of CG is required in the modern business and economic management structures supported by the presence of capital markets and money markets (Witherell, 2000, Oman, 2001). It is based on the argument that a GCG implementation is able to improve th trust of public to the company (Brayshaw, 2002). The optimal application of CG is expected to improve efficiency as an effort to reduce transaction costs (Oman, 2001; Klapper and Love, 2002). This confirms that CG has an important role for the organization to direct and control various elements of the organization to achieve the goals set. The application of CG that is not optimal can have an impact on the company's financial performance degradation.

This study examines the effect of CG on the performance of SOEs in Indonesia. The issue in this research is interesting because it is connected with the government's program of one of them in the economic field by making the five sectors of the government's economic priority to realize the independence of the SOEs. Fluctuations in the performance of SOEs in the “nawacita” program have shown a declining performance trend for the last two years, it is interesting to investigate whether CG's role is affecting the financial performance of BUMNs. CG in this study was measured by the CG index. The CG index is important because it contains a comprehensive assessment of the principles of CG in SOEs that will affect financial performance. The CG index is used with the consideration that by mid-2012, the ministry of SOE issues regulation No. SK-16 / S.MBU / 2012 on Indicators of Evaluation and Evaluation of the Implementation of Good Corporate Governance in State-Owned Enterprises. CG index compiled internally by the Ministry of SOEs so it needs to be criticized to obtain better results. This study uses CG index for SOEs compiled by Nur Harjanto 2016 which has been tested by a number of practitioners and academics who are experts in their field so it is feasible to apply to SOEs.

II. Literatur Review

2.1*Agency Theory*

The agency theory governs the relationship between the owner (principal) and the agent (agent), where the principal delegates the work to the agent. The agency theory explains the relationship of contract mechanisms between principle and agent (Jensen and Meckling, 1976). Principal provides funding and other resources to meet the operational needs of the company, while the agent becomes the corporate manager who is obliged to manage the company mandated by the principle. Instead, the agent can receive a salary, bonus, and some other compensation. The problem of agency theory is that the principle may not verify that the agent has undertaken and takes the policy in accordance with the principle's interests. Agency theory is very concerned to solve problems where the principle and agent can choose different actions because of different risk preferences, this can lead to conflicts called agency conflicts.

According to Jensen and Meckling (1976), a company that separates managerial functions and ownership may lead to agency conflict. Agency issues can be minimized through monitoring mechanisms to align interests and lead to agency costs. The problem of Good Corporate Governance (GCG) arises from the dependence on the capital and equity used to finance the activities, investments and growth of the company (FCGI, 2011). GCG emerges as a result of agency problems that there are behaviors that generate personal benefits primarily from the agent to the exclusion of the interests of the principle (Wahyudin, 2012). This can happen because of the separation of interests between principle and agent.

2.2Good Corporate Governance Index

Statement 44 of Regulation of Minister of SOE Number: PER-01 MBU / 2011 requires the measurement of GCG implementation. Implementation of GCG SOEs since 2012 by using indicators or parameters established by the Secretary of the Ministry of SOEs through the decision of the Secretary of the Ministry of SOEs No. SK-16 / S.MBU / 2012 on Indicators of Evaluation and Evaluation of the Implementation of Good Coupoprate Governance on State-Owned Enterprises, but the regulation needs to be scrutinized for better results. This study uses CG index for SOEs compiled by Nur Harjanto 2016 (NH Index) which has been tested by a number of practitioners and academics who are experts in their field so it is feasible to apply to SOEs.

2.2.1The Influence of Corporate Governance on Corporate Financial Performance

The agency problem in the relationship between the agent and the owner may arise in the form of a moral hazard, eg managers or agents not performing their duties according to contractual employment agreements (Jensen and Meckling, 1976). In addition, the implementation of GCG has an important and strategic role in maintaining the credibility of the company's business processes and oversight. Thus, by performing functional operations of GCG and corporate advisers, financial performance can be improved. The application of corporate GCGs can create systems to efficiently and effectively operation, control and oversee all resources. GCG is assumed to maintain various interests in the balance that can provide benefits for the company.

Companies with higher NH Index scores mean the company has been managed with transparency, accountability, responsibility, independence and fairness. Therefore, it will have an impact on the output of good company performance, such as Net Profit Margin/NPM. Research conducted by Gompers et al. (2003), using the same governance index, found that firms with stronger stakeholder rights tend to have higher returns. Sheikh et al. (2013) also found a positive relationship between board size and firm performance. This result is congruent with previous research conducted by Jackling and Johl (2009), Ehikioya (2009) and Abor and Biekpe (2007). While in New Zealand, a study conducted by Reddy et al. (2010) found that compliance with New Zealand Securities Commission (NZSC) requirements has improved the company's financial performance.

Hypothesis 1: CG Index has a positive effect on financial performance

2.2.2 *Board of Commisioners Affects Financial Performance*

Improved financial performance after the crisis can be encouraged by consistent and sustainable CG strategies (Tjondro and Wilopo, 2011). Prior research on the characteristics of the board of commissioners on the performance of which are: Dalton, Daily Johnson, and Ellstrand (1999) and Beinerr et al (2004) concluded that the characteristics of the board of commissioners and financial performance showed a strong relationship. The study also mentioned that the growing size of the board of commissioners will have a positive impact on financial performance.

This study examines the effect of the characteristics of the board of commissioners in the items contained in the NH2016 index with items among others the number of boards of commissioners, the proportion of independent commissioners, the average age of the commissioners of the proportion of women in the board of commissioners, the education level of the commissioners, the average experience of the board of commissioners, commissioners, work experience of commissioners, and the term of membership of the commissioners. Each item contained on the characteristics of the board of commissioners will be weighted respectively. The role of the board of commissioners ensures, among other things, that CG has done well in the company, and oversees the management policy in accordance with the prevailing rules. This is expected to improve the company's financial performance.

Hypothesis 2: The Board of Commissioners has a positive effect on Financial Performance

2.2.3*Audit Committee Affects Financial Performance*

In performing its duties, the Board of Commissioners is assisted by an audit committee of at least 3 persons in a company based on the Minister of State-Owned Enterprises Regulation (No. Per-05 / MBU / 2006 on the Audit Committee for BUMN). Audit committees have a role in assisting recording transactions, identifying potential misleading financial reporting. The audit committee is expected to perform its duties effectively in assisting the oversight tasks undertaken by the commissioners. Anggraini and Utama research (2013) shows there is a positive influence of the audit committee with financial performance. This study examines the effect of the audit committee contained in items on the NH index by assigning weight to each item inside. The existence of an audit committee within the company with the function of improving the quality of financial statements and affecting the financial performance of the company.

Hypothesis 3: The Audit Committee has a positive effect on the Company's Financial Performance

2.2.4*Company Ownership Affects Financial Performance*

One characteristic of the modern economy is its ownership is separated, this is in accordance with agency theory where the owner hands over the management of the company to agent in order to get maximum profit and efficient cost. The successful implementation of corporate governance is inseparable from the company's ownership structure (Berhelot, 2010). The agency problem that arises within the company one of them can be overcome with the ownership structure, because the good ownership structure then manifested a decent performance. Based on the above, the fourth hypothesis is:

Hypothesis 4: The Company's ownership positively affects the Company's Financial Performance

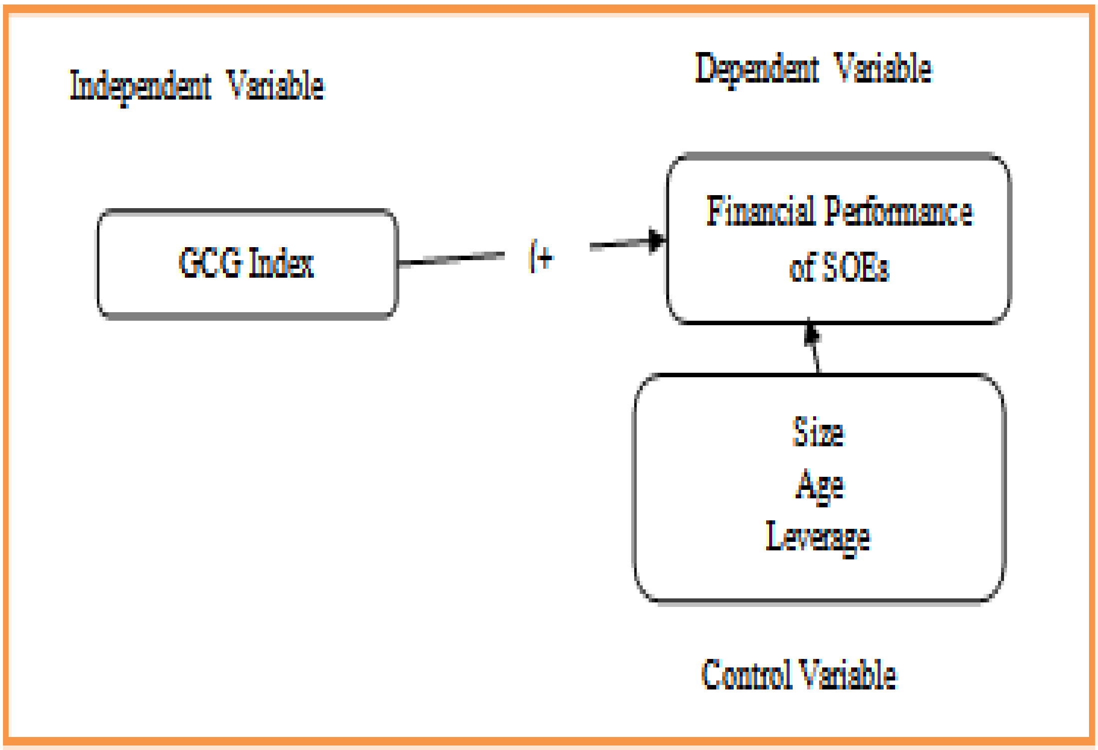
2.4.5*The GCG and Risk Monitoring Committee Affect Financial Performance*

The Board of Commissioners sets up committees as part of the implementation of GCG among others: the nomination & remuneration committee and the risk policy committee in order to assist the duties and responsibilities of the board of commissioners to be effective. Previous research by Hutami (2014) found that the risk-monitoring committee had a significant effect on financial performance. Puteri (2013) states that the nomination & remuneration committee conducts an objective assessment of the prospective stakeholders so as to reflect the contribution to the company and affect the performance of the company. Based on this, the fifth hypothesis is:

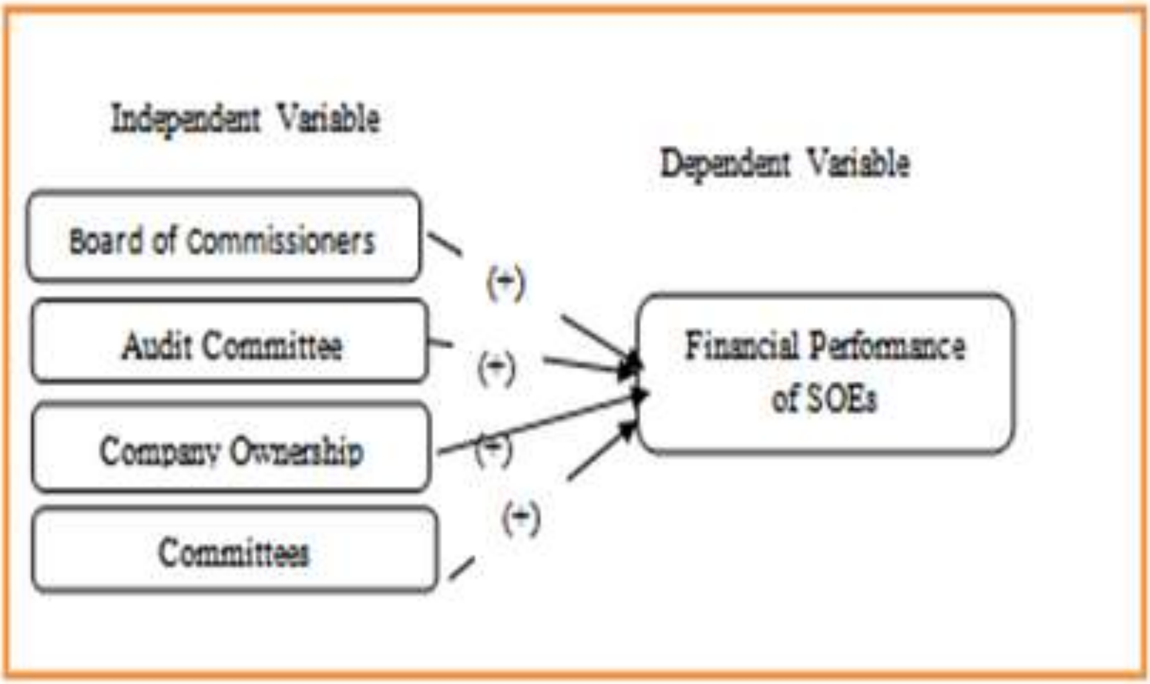
Hypothesis 5: The GCG Committee Committee and Risk Monitoring have a positive effect on the Company's Financial Performance

3.1 Conceptual Framework

Model 1



Mode2



III. Research Method

3.2 Research Design

This study analyzes the SOEs that are the government's economic priorities, namely food, fishery and marine, energy, industry, tourism sector, including in the "nawacita" program. The study sample consisted of 25 SOEs including government economic sectors with observation year during 2015-2016, with a final sample sample of 50 observations. The data used in this research is secondary data in the form of annual reports of SOEs that will be analyzed with the NH2016 index for SOEs.

3.3 Variables

3.3.1 Dependent Variable

Dependent variable used in this research is financial performance measured by Net Profit Margin (NPM), with the formula NPM = Net Income / Sales.

3.3.2 Independent Variable

Variable used in this research is the assessment of GCG implementation, while the indicators used in this study is the NH 2016 Index for SOEs which is a research program Nur Harjanto 2016 in the assessment of SOEs that have been tested and criticized by academics and practitioners so it is suitable to apply to SOEs.

3.3.3 Control Variable

Control variables are used in this design in the hope of obtaining better research and analysis models. This research uses the control variables of size, age, and leverage in accordance with the research (Hassan and Halobouni, 2013, Seikh et al 2013).

3.4 Data Analysis Technique

The collected data will be described using descriptive statistics including the mean, median, standard deviation, maximum, minimum presented in the table. Furthermore, to test the quality of data is done classical assumption test include normality, autocorrelation, multicollinearity, and heteroscesdasticity. The hypothesis test will be performed by regression of panel data with e-views software using common effect model, fixed effect, and random effect. Next to choose the best model used Hausman test and Chow test. This research will use two models:

$$\text{Model 1: } NPM = \beta o + \beta 1NHI + \beta 2SIZE + \beta 3AGE + \beta 4LEV + \varepsilon$$

$$\text{Model 2: } NPM = \beta o + \beta 1BC + \beta 2AC + \beta 3OWN + \beta 4COM + \varepsilon$$

IV. Result

4.1 Descriptive Statistics

	DK	KA	OWNERSHIP	KOMITE	INDEKS	NPM	SIZE	AGE	LEV
Mean	0.184451	0.182112	0.034818	0.301290	0.784111	0.041884	24.13925	47.32000	0.521922
Median	0.192764	0.195000	0.050200	0.288700	0.785723	0.041076	24.26262	47.00000	0.556064
Maximum	0.209486	0.213200	0.102400	0.375400	0.920904	0.173528	31.74884	67.00000	0.844364
Minimum	0.137428	0.084600	0.000000	0.201700	0.591268	-0.247018	13.94119	14.00000	0.000826
Std. Dev.	0.016035	0.029194	0.030733	0.053326	0.087701	0.079376	5.915652	12.32128	0.221672
Skewness	-0.691791	-1.386409	0.324169	-0.049599	-0.205848	-1.094001	-0.386802	-0.662443	-0.810272
Kurtosis	3.156385	4.975211	2.315565	1.939120	2.240568	5.749612	1.679451	3.380406	2.907502
Jarque-Bera	4.039068	24.14578	1.851654	2.365225	1.554646	25.72442	4.879821	3.958398	5.489003
Probability	0.132717	0.000006	0.396204	0.306477	0.459635	0.000003	0.087169	0.138180	0.064280
Sum	9.222562	9.105600	1.740900	15.06450	39.20556	2.094220	1206.963	2366.000	26.09612
Sum Sq. Dev.	0.012600	0.041762	0.046280	0.139340	0.376885	0.308726	1714.752	7438.880	2.407784
Observations	50	50	50	50	50	50	50	50	50

Table 1: Statistic Descriptive

Descriptive statistics show the mean, median, maximum, minimum, standard deviation presented in table I. The weight of the Board of Commissioners 'assessment shows an average value of 18.4% which means that the Board of Commissioners' assessment is good because the maximum weight of the index is 22.7%. The Audit Committee showed an average value of 18.2% which indicates a good weight rating because the index's maximum weight is 21.3%. Ownership shows an average value of 3.4% of the maximum weight of the index of 10.3%, which means that public ownership in SOEs is small. The index score shows the average value of 78.4 which is categorized as "good" implementation of corporate governance in SOEs. The average performance of SOEs shows 4.1% which means most of them are performing positively.

To test the quality of data then tested the classical assumption test that includes the test of normality, autocorrelation test, multicollinearity test, and heteroscesdasticity test. The results show that the data is not normally distributed, and for the autocorrelation test, multicollinearity test, heteroskesdatisity test has passed. Data quality is still considered feasible because it has passed some classic assumptions, although the data is not normally distributed. This can be overcome by robust least square method to overcome data that is not normally distributed or outlier or extreme data.4.3 Classic assumption test

The data has passed the classical assumption test such as the normality test, multicollinearity, heteroscedasticity, and autocorrelation. Normality test showed 0.7 meaning if> 0,05 then data is normal distribution. Multicollinearity test shows independent variables <0.8 means no relationship between independent variables. The autocorrelation test seen from the Durbin Watson (DW) figure shows 1,473 and compared to the DW table does not show autocorrelation. Heteroscedasticity test shows the number> 0.05 means no heteroscedasticity occurs so that the data show the pattern of the terraced. The data shows that it has passed regression requirements so that the research model can be continued with panel data regression (Least Square Panel).

4.2Hypothesis Testing

4.2.1 Model 1

Dependent Variable: NPM
Method: Robust Least Squares
Sample: 2015 2016
Included observations: 50
Method: S-estimation

Variable	Coefficient	Std. Error	z-Statistic	Prob.
INDEKS	0.112588	0.051076	2.204301	0.0275**
SIZE	0.002064	0.000768	2.687844	0.0072***
AGE	0.000459	0.000341	1.345886	0.1783
LEV	-0.063868	0.019244	-3.318903	0.0009***
C	-0.078920	0.044496	-1.773653	0.0761

Robust Statistics

R-squared	0.216548	Adjusted R-squared	0.146907
Scale	0.038276	Deviance	0.001465
Rn-squared statistic	22.15631	Prob(Rn-squared stat.)	0.000187

Non-robust Statistics

Mean dependent var	0.041884	S.D. dependent var	0.079376
S.E. of regression	0.080328	Sum squared resid	0.290367

Tabel 2: Pengujian Model 1

4.2.2 Model 2

Dependent Variable: NPM
Method: Robust Least Squares
Sample: 2015 2016
Included observations: 50
Method: S-estimation

Variable	Coefficient	Std. Error	z-Statistic	Prob.
Board of Commisioner	1.187429	0.393776	3.015491	0.0026***
Audit Commitee	0.349128	0.229649	1.520267	0.1284
Ownwership	0.163137	0.190709	0.855424	0.3923
Commitees	0.262856	0.109268	2.405609	0.0161**
C	-0.315183	0.083352	-3.781357	0.0002

Robust Statistics

R-squared	0.050101	Adjusted R-squared	0.052590
Scale	0.051192	Deviance	0.002621
Rn-squared statistic	26.78917	Prob(Rn-squared stat.)	0.000022

Non-robust Statistics

Mean dependent var	0.054595	S.D. dependent var	0.067296
S.E. of regression	0.077427	Sum squared resid	0.221812

4.3 Discussion

Models 1 and 2 in Table 2 and Table 3 show the panel data regression analysis using robust least squares estimation s method used to overcome non-distributed data. Model 1, adjusted value of R^2 shows 14.7%, it shows that variable of CG Index, Size, Age, and Leverage explain 14,7% dependent variable that is financial performance measured with NPM, the rest 86,3% explained other variable outside this research model. The F value can be seen from the value of Prob (Rn-suared stat) significant at the 0.01 level indicating that the goodness of fit research model.

Financial performance as measured by the size of NPM's profitability is in line with Endah Evi's research, Noer (2013). The results show that the CG index affects financial performance positively and significantly so that the first hypothesis is accepted. This result is in accordance with Wahyudin and Solikhah (2017) who found that CG influenced the company's performance. Wahyudin and Solikhah's (2017) study measures CG with the Corporate Governance Perception Index (CGPI) issued by the Indonesian Institute of Corporate Governance (IICG). Another study, Febriani (2016) found that GCG implementation measured by CG principles, namely: transparency, accountability, responsbility, independency, and fairness have a positive effect on the performance of Pos Indonesia company. The findings of previous research also support our research findings such as Jackiling and Johl (2009), Reddy et al (2010), Siagian et al (2013), Suhadak et al (2016).

This shows that SOEs with high CG index scores will have a positive impact on financial performance. These findings are reinforced by Jensen and Meckling's statement that companies with good governance may have efficient operating performance that will have an impact on financial performance. The results of the research can be taken into consideration by the regulator to make the assessment of governance of SOEs so that SOEs with low scoring scores with enough or not good category will be given a warning to improve the governance of the company because it impacts on financial performance.

Model 2 shows the adjusted value of R^2 of 5.6%, this means the board of commisioner, audit committee, ownership, and commitee variables explain the 5.6% dependent variable that is the financial performance measured by NPM, the rest of 94.4% is described other variables outside the research model . The F value can be seen from the value of Prob (Rn-suared stat) significant at the 0.01 level indicating that the goodness of fit research model. The results show that the second hypothesis is accepted that the board of commissioners have a positive and significant effect on financial performance. The results of this study support the research of Zabri et al (2015) and Abubakar (2016) indicating that the Board of Commissioners as measured by the characteristics of the Board of Commissioners has a positive and significant impact on financial performance. Amran and Ahmad (2011), Tachiwou (2016) through CG mechanism, board of commissioner have a significant effect on company's financial performance. This is not independent of the function of the Board of Commissioners who oversees and advises the Directors in relation to the company's operations so that evaluation can be undertaken for performance improvement.

The third hypothesis is not accepted that the audit committee has no effect on the financial performance shown by the significance value of 0.12 exceeds the significance value of 0.1. This finding is in accordance with research Aanu et al (2014) and Nuhu et al (2017) which states that the characteristics of the audit committee have no effect on financial performance. This is because the task and function of the audit committee focuses on compliance with financial reporting standards applicable, and not necessarily run a role that can improve the financial performance of the company.

The fourth hypothesis is not accepted because the value is not significant, so the ownership structure has no effect on financial performance. This finding is in line with Lee, Sanghoon (2008) public ownership of this project because of public ownership of small SOEs so that minority investors can not influence decisions that may be related to company performance.

The fifth hypothesis is accepted significantly at the 5% level this means the risk management committee and the nomination & remuneration committee have a positive and significant effect on the financial performance. This result is supported by Jensen and Meckiling's (1976) statement that companies with good governance may improve efficiency, thus minimizing risk and minimizing capital costs and impacting financial performance. The results are in accordance with Kartika's (2014) and Surya Bahadur (2016) studies indicating that the remuneration committee influences financial performance positively and significantly. The duties and functions of the nomination and remuneration committees are to assess and the performance of the board of commissioners and directors according to the established indicators which will affect the amount of compensation to be received, of course, high compensation will spur to improve the financial performance of the company. The risk management committee has the duty and function to identify the risks that may occur, so that steps can be taken to minimize such risks and minimize the possibility of losses that have a positive impact on the company's financial performance. The existence of the nomination & remuneration committee and the risk management committee shall not only assist the supervisory duties of the board of commissioners in order to support the effectiveness of supervisory activities on management within a company.

V. Conclusion

This study examines the effect of CG index, and CG mechanism on financial performance of SOEs. The results of the research indicate that those affecting the financial performance of SOEs are the CG index variables, the Board of Commissioners, and the Nomination & Remunesation Committee, and the Risk Management Committee, while the Audit Committee and Owner Structure variables do not affect the financial performance of SOEs. These results can be used as input for the relevant regulator in this case the Ministry of SOEs to appoint the appraisal agency of GCG implementation on SOEs. This is because the application of GCG has an effect on the financial performance of SOEs, SOEs should be assessed in terms of GCG implementation, if the score of GCG implementation in the category of "enough" or even "not good" government can give warning to immediately improve SOEs governance. SOEs are expected to implement GCG not only to comply with the prevailing regulations but also the importance of implementing GCG for performance improvement. Furthermore, SOEs can make GCG as part of corporate work culture.

This study has a limitation that the small number of samples causes less to generalize the results. The SOE sample only focuses on the SOEs that include the government's program of study and the limitations of the index used in this study. Future research can add samples for example by using all existing state-owned enterprises in Indonesia with the latest index from the Ministry of SOEs to make the results more powerful and interesting..

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