ABSTRACT

This study aims to analyse the influence of Good Corporate Governance (GCG), consists of institutional ownership, managerial ownership, the size of the board of commissioners, the proportion of independent commissioners, the audit committee, and audit quality on company financial performance as measured by return on assets (ROA), return on equity (ROE), earnings per share (EPS), and Tobin's Q through earnings management as a mediating variable in banking sector companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2021 period. Based on agency theory, GCG implementation is used to prevent company management from taking unethical actions, such as earnings management.

The sample used in this study consists of 44 banking sector companies listed on the Indonesia Stock Exchange (IDX) for 2020–2021 which were selected by using the purposive sampling method. The analytical method used to obtain test results is Structural Equation Modeling-Partial Least Square (SEM-PLS) and is carried out with the help of SmartPLS 3.0 software. This software does not assume data with a certain scale, possible to use small samples, and flexibly to have either normal or non-normal distribution data.

The results of the study show a positive and significant direct effect of GCG on financial performance. This study also found a positive effect of GCG on earnings management. The direct effect of earnings management on financial performance has a significant negative correlation. Lastly, this study also reveals the indirect effect that earnings management is not able to mediate the relationship between GCG and financial performance.

Keywords: Good Corporate Governance, financial performance, earnings management, banking