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The effect of good corporate governance on financial performance and net working capital turnover as a mediation variable: evidence from Indonesia Stock Exchange (IDX)

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Keywords

Corporate Governance, financial performance, Institutional Share Ownership, Net Working Capital Turnover, Return on Equity, Indonesia Stock Exchange

Abstract

The purpose of this study is to test empirically and analyze the relationship of good corporate governance principles in proxies with total institutional shareholdings (INSTITUSI), number of commissioners (KOMISARIS), number of joint meetings of board of commissioners (RAPAT), and number of company committees (KOMITE) against Return on equity (ROE) and analyze the role of mediating the concept of net working capital turnover (NWCT). This research was conducted in Indonesia Stock Exchange period (2010-2014) at manufacturing companies. The calculation of total samples obtained is 185 samples of company data (for 5 years) in the manufacturing period (2010-2014). After evaluating the outlier data, there are seventeen (17) outlier data issued based on outlier evaluation, the number of samples from 185 to 168 data.

In general, there are three main results of the study. First, the results show that INSTITUSI, RAPAT, and KOMITE have a significant positive effect on NWCT; only KOMISARIS variable is not proven. Second, based on the result of research, INSTITUSI, KOMITE and NWCT variables have a significant positive effect on ROE, while RAPAT and KOMISARIS are not proven. Thirdly, based on the result of mediation test by using Sobel test result, only NWCT is proven to mediate RAPAT relation to ROE, while in the other variables, mediations are not proven.

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1. Introduction

Financial performance is an analysis conducted to see the extent to which a company has implemented and use the rules of financial implementation properly and correctly. Financial performance can be analyzed with financial ratios. Horne and Wachowicz (2012) stated that the financial ratios and financial performance of companies have interrelated relationships, where to assess the condition and financial performance of the company can be used ratio which is the ratio of the numbers contained in the accounts of financial statements.

Implementation of good corporate governance in Indonesia is still relatively weak, it can be seen from the results of a survey on the implementation of good corporate governance in the Asian region conducted by institutions such as the ACGA (Asian Corporate Governance Association) and CLSA (Credit Lyonnais Securities Asia). Asian Corporate Governance Association (ACGA) is a non-profit, independent membership organization dedicated to working with investors, corporations and regulators in implementing effective corporate governance practices throughout Asia. Survey results from 2010 to 2014 can be seen in Table 1. below:

Tabel 1

Scores Implementation of Corporate Governance in Asian Countries Period of 2010-2014

| No | Country | Year | | |
|----|-----------|------|------|------|
| | | 2010 | 2012 | 2014 |
| 1 | Singapura | 67 | 69 | 64 |
| 10 | Hongkong | 65 | 66 | 65 |
| 3 | Jepang | 57 | 55 | 60 |
| 4 | Thailand | 55 | 58 | 58 |
| 5 | Malaysia | 52 | 55 | 58 |
| 6 | Taiwan | 55 | 53 | 56 |
| 7 | India | 48 | 51 | 54 |
| 8 | Korea | 45 | 49 | 49 |
| 9 | China | 49 | 45 | 45 |
| 10 | Filipina | 37 | 41 | 40 |
| 11 | Indonesia | 40 | 37 | 39 |

Based on the results of CLSA and ACGA surveys, it can be concluded that Indonesia has the lowest corporate governance score compared to other Asian countries. The company's financial performance cannot be separated from the implementation of good corporate governance. In this era of global competition, where the boundaries of the country no longer become a barrier to compete, only companies that implement good corporate governance (GCG) are able to win the competition. Good corporate governance is a supervisory activity monitoring conducted by the company from the aspect legal, operational, cultural, financial and others. Going Concern aims at the company (Zarkasyi, 2008). Implementation of working capital is very important in the company. The availability of working capital immediately applicable to operations, depending on the type or nature of current assets, such as cash, accounts receivable and inventories. Working capital must be sufficient in number, in the sense, to be able to finance the expenses or operations of the company every day. Because, with sufficient working capital will benefit the company operating economically and efficiently, and not experiencing financial difficulties (Brigham and Houston, 2006).

In relation to the implementation of working capital management, the company's leaders must also maintain that the amount of working capital is appropriate, not too large and not too small. Working capital that is too large or too small will have a negative impact for the company. To that end, the company as a profit-oriented organization requires the efficiency of working capital to be able to improve the company's financial performance (Sartono, 2010). The success of the concept of good corporate governance is not only based on external and internal factors. The most strategic aspect of supporting GCG implementation effectively is the quality, skill, credibility, and integrity of the various parties that drive the company. Implementation of the principles and aspects of good corporate governance should not be ignored, because indirectly it can be a strength and strategy in running the company in accordance with company goals.

The design of this study has differences in the development of a working capital management research model, as measured in the perspective of net working capital turnover, in which the ratio of turnover between net working capital to the operating cash flow of the company. This research model is developed from the previous research model which is examined by Afrifa (2016). The result of his research shows that decision making in company liquidity is not only seen from the side of working capital, but it must also be seen from the side of cash flow, in particular, cash flow from company's operational activities, viewed from the ability to generate cash from the company's operational activities. Instead, when the company decides to raise capital through corporate debt, the two components must be considered first.

In the previous studies, almost all of the working capital management variables are represented by a cash conversion cycle or using net working capital. In contrast to previous research, this study design uses a net working capital turnover, where the net working capital turnover is a comparative relation between net working capital to the company's operating cash flow. It is expected that the use of net working capital turnover can be one of the benchmarks in corporate decision making, in particular, about the company's liquidity. Net working capital turnover in this research design is as a mediation variable between the implementation of good corporate governance to the financial performance of the company.

2. Literature Review and Hypotheses Development

2.1. Institutional Share Ownership (INSTITUSI) relationship with NWCT

An organization is inseparable from the interests of the owner of the company. In a public company there is a structure of company ownership, the ownership structure is a proportion of ownership of shares owned by the manager of the company (managerial ownership), the institution (institutional ownership), the individual (individual ownership), the public or society (public ownership), and the government (government ownership). One that has an important role in the company is institutional ownership. Institutional ownership is the proportion of shares held by the institution at the end of the year as measured in percentage (Listyani, 2003).

Research conducted by Aghajari et al. (2015) also examined the impact of good corporate governance represented by the tenure of CEO, CEO double positions, and institutional ownership, which have an influence on working capital management, which is represented by a cash conversion cycle. The results show that institutional ownership has a positive effect on the cash conversion cycle. Supervision by institutional firms can result in effective working capital policies (Jamalinesari and Soheil, 2015). Based on previous research, the first hypothesis is as follows:

H1: Institutional shareholdings (INSTITUSI) have a positive effect on net working capital turnover (NWCT)

2.2. Number of Commissioners (KOMISARIS) relationship with NWCT

The management of a limited liability company in Indonesia, there are two subsidiaries (two-board system), namely board of commissioners and board of directors who have clear authority and responsibility in accordance with their respective functions as mandated in the articles of association and fiduciary responsibility. Board of commissioners is basically a party who perform full supervision in the management of the company in order to achieve company goals (Sutedi, 2012). The essence of systematic good corporate governance is the creation of an effective check and balance mechanism within the company.

Research conducted by Kajanathan and Achchuthan (2013) on the application of corporate governance to management of working capital management showed that there was a positive influence between corporate governance in proxy with the number of boards of commissioners, share ownership structure owned by commissioners, number of board of commissioners meeting to cash conversion cycle. Based on previous research, the second hypothesis is formulated as follows:

H2: The number of influential corporate commissioners (KOMISARIS) is positive against net working capital turnover (NWCT).

2.3. Number of Joint Meetings of Board of Commissioners (RAPAT) relationship with NWCT

Meeting activities conducted by the board of commissioners are very important for the company. Board of Commissioners' meetings are not merely seen as meeting the resolution of the policies of the board of directors, but it is really a decision-making meeting for the interests of the company. The joint meetings conducted by the board of commissioners are coordination activities, as well as accessing information about the company (Daniri, 2014). Good communication can support the implementation of good corporate governance. The implementation of good governance is reflected in the frequent meetings of joint companies in discussing the strategic policy of the company (Hanggraeni, 2015).

Previous research conducted by Torea et al. (2016) showed that the effectiveness of the board of commissioners of the company through the size of the board of commissioners, the activities of the audit committee, board of commissioner meeting activities will produce optimal policies, especially about the company's operations so as to improve the company's performance. Based on the results of previous research, the third hypothesis is formulated as follows:

H3: The number of joint meetings of the board of commissioners (RAPAT) has a positive effect on net working capital turnover (NWCT).

2.4. Number of Company Committees (KOMITE) relationship with NWCT

Board of commissioners in performing their duties is assisted by committees within the company. At glance, the company committee is like creating multiple organs within the company. However, in the

view of investors and creditors, the existence of the committee actually has the potential to make corporate governance more effective. Company committees are required to support the work of the board of commissioners. Therefore, it is not surprising that the Indonesia Stock Exchange requires that listed companies have at least an audit committee, and in accordance with the needs of the company (Daniri, 2014).

The Kamau and Basweti's (2013) study aims to examine the relationships of corporate governance and the efficiency of working capital management. Their research proves that there is no statistically significant relationship to corporate governance (number of board meetings, number of board size, number of audit committee members, CEO's term, number of remuneration committee members) to the cash conversion cycle. Gill et al. (2015) undertook research to analyze the impact of independent commissioners, the number of boards of commissioners, multiple CEOs, CEO tenure, number of audit committees to the cash conversion cycle. The result states that the number of boards of commissioners, the term of CEO, the number of audit committee members influence the cash conversion cycle. Based on previous research, the fourth hypothesis is formulated as follows:

H4: The number of corporate committees (KOMITE) has a positive effect on net working capital turnover.

2.5. Institutional Share Ownership (INSTITUSI) relationship with ROE

The emergence of issues regarding the weakness of corporate governance is also caused by the separation between ownership and control of the company. One of the most important and controversial issues regarding corporate governance is the share ownership structure associated with improving corporate performance. The likelihood that a company is in a position of financial pressure is also heavily influenced by its ownership structure. The ownership structure explains the commitment of the owner to save the company (Wardhani, 2006). The agency relationship occurs when one or more individuals referred to as a principal hire another individual or organization, called an agent, to perform a number of services and delegate authority to make decisions on the agent (Brigham and Houston, 2006).

Research conducted by Navissi and Naiker (2006) showed that institutional ownership positively affects firm value. Shleifer and Vishny (1986) examined the institutional ownership structure that is divided into several types, namely: small, medium, and large investors to the value of the company. The result is that institutional ownership of large investors will have a positive effect on market value, which represents the market to book value of the firm because it has strong oversight and good reputation. Based on previous research, the fifth hypothesis is formulated as follows:

H5: The number of institutional shares (INSTITUSI) has a positive effect on return on equity

2.6. Number of Commissioners (KOMISARIS) relationship with ROE

Board of commissioners is an organ that has duty to conduct supervision in general and in particular, in accordance with the articles of association, and give advice to the directors. The Board of Commissioners oversees the board of directors in conducting the company's activities and provides suggestion and advice to the directors in the policies issued by the directors (Zarkasyi, 2008). The implementation of good corporate governance is reflected in the company's financial statements, where all the policies and decisions of financial companies will be reflected in the financial statements. Based on the concept of finance, the financial statements are needed to measure the results of business and development from time to time and to know the extent to which the company achieved the goal. Analysis of financial performance so far should be done when the company will take a very important and coordinated decision in all involved and responsible in the company (Hery, 2015).

Hassan and Halbouni (2013) examined the role of good corporate governance. The results showed that corporate governance disclosures, multiple CEOs, the number of boards of commissioners had a positive effect on ROE. Coordination of direction directed by board of commissioner proved being able to improve financial performance (Belkhir, 2009). Abor and Biekpe (2007) conducted research on good corporate governance. The result of their research is that the number of commissioners, commissioner composition, management ability, CEO managerial position, managerial ownership, family ownership and foreign ownership has positive effect on return on assets, while commissioner ability negatively affects return on assets. Based on the previous research, the sixth hypothesis is formulated as follows:

H6: The number of boards of commissioners (KOMISARIS) has a positive effect on return on equity.

2.7. Number of Joint Meetings of Board of Commissioners (RAPAT) relationship with ROE

A company according to Hanggraeni (2015) may be described as two separate parts of its duties, first, a board of directors and a management team consisting of managers and employees, and the second shareholder consisting of a general meeting of shareholders and board of commissioners tasked with overseeing the performance of the board of directors. The two parts essentially assign value to the company. The creation of effective value in the company, one of them, lies in good communication between the two parts, the manager of the company and the owner of the company. Effective communication will be reflected in the results of policies and decisions that result in the company.

Research conducted by Arora and Sharma (2016) examined the role of good corporate governance in India. The results show that the number of board meetings has a positive effect on ROA, and the number of board of commissioners has a positive effect on Tobin's Q, while other variables have a negative effect. Implementation of good corporate in India is less proven to improve the company's financial performance. Brick and Chidambaran (2010) examined the role of board of commissioners' meetings and the role of committees within the company on financial performance. The results of the board of commissioners meeting represented by meetings of commissioners, shareholders meetings, joint meetings between commissioners and shareholders proved to affect the financial performance of companies represented by Tobin's Q. Based on the previous research, the seventh hypothesis formulated as follows:

H7: The number of joint meetings of the board of commissioners (RAPAT) has a positive effect on return on equity.

2.8. Number of Company Committees (KOMITE) relationship with ROE

Given the many duties of the board of commissioners in conducting supervisory duties within the company, the board of commissioners is assisted by the board of committees. In general, the company committee board is responsible for assisting and providing input to the board of commissioners in formulating company policy. Principle in performing its duties, the board of commissioners may form a committee. The proposals of the committee are submitted to the board of commissioners for consideration in decision-making. For a company whose shares are listed on the stock exchange must have at least a committee, at least an audit committee. In general, there are a number of committees owned by companies such as audit committee, nomination and remuneration committee, risk policy committee, corporate governance policy committee, basically company committee formed according to company requirement (Zarkasyi, 2008).

Research conducted by Akbar et al. (2016) examined the relationship between corporate governance and corporate performance. In the UK, the result is the role of the board of commissioners' indices and the role of the committee board influence the financial performance as measured by Tobin's Q and return on assets. Gupta and Sharma (2014) conducted research by comparing good corporate governance in India and Korea. The result is the board of commissioner structure, the role of corporate committee, and information disclosure have a positive effect on return on assets and return on equity in India and in South Korea. Based on previous research, the eighth hypothesis is formulated as follows:

H8: The number of corporate committees (KOMITE) has a positive effect on return on equity.

2.9. Net working capital turnover (NWCT) relationship with ROE

Working capital management activities have an interest in investment decisions on current assets and current liabilities, especially regarding their use in risk analysis. Working capital is required by the company to finance the company's operational activities. There are two terms of working capital, the first of which is gross working capital, which is the total of current assets, while the notion of net working capital is the surplus of current assets over current liabilities. Effective working capital management becomes crucial for long-term corporate growth (Sartono, 2010).

Effectiveness in working capital management within the company is expected to impact on improving the company's financial performance. Vahid et al. (2012) examined the working capital management relationship represented by the average collection period, inventory turnover in days, the

average payment period, the cash conversion cycle, and the net trade cycle on the profitability of the firm represented by net operating profitability. As a result, only the cash conversion cycle has a positive effect on net operating profitability, while other variables negatively affect net operating profitability. Research conducted by Yazdanfar and Ohman (2014) examined the relationship of working capital management to the profitability of firms in the SME industry in Sweden. The results provide empirical evidence that the cash conversion cycle (CCC) significantly affects the profitability represented by return on assets. Based on previous research, the ninth hypothesis is formulated as follows:

H9: Net working capital turnover (NWCT) has a positive effect on return on equity

3. Research Design

3.1. Population and Sample

The population in this study is all manufacturing companies listed in the Indonesia Stock Exchange period 2010-2014. The sampling technique used in this study is purposive sampling, i.e. the ways of sampling using criteria that have been established in accordance with the purpose of research (Sekaran, 2006). The criteria of purposive sampling in this research are as follows: (1) Companies that are positive on the company's cash flow especially cash flow operations during the years 2010-2014 in a row; (2) Company data information taken is a company that has positive value, related to research data about current assets, current liabilities, net working capital, operating cash flow, return on equity. The calculation of total samples obtained is 185 samples of company data (for 5 years) in the manufacturing period 2010-2014, where there are 37 companies each year in accordance with the study criteria. Technique in analyzing data in this study uses Analysis of Moment Structure (AMOS) version 21.

3.2. Operational Variables

Based on the operational definition of the variable, in this study consists of several variables: independent variable, dependent variable and mediation variable. The operational definition of the variables is presented in Table 2 below

Table 2: Definitions of Operational Variables

| Variables | Measuring Tools |
|-----------------------|--|
| Independent Variables | Institutional Share Ownership (INSTITUSI) variables The measurement of institutional stock (INSTITUSI) $\text{INSTITUSI} = \frac{\text{Number of institutional shares}}{\text{Total shares of the company}} \times 100\%$ |
| | Number of Commissioners (KOMISARIS) variables Measured by the large number of members of the board of commissioners owned by the company in managing the company. |
| | Number of Joint Meetings of Board of Commissioners (RAPAT) variables The joint meeting is measured by the number of joint meetings of the board of commissioners and the board of directors in managing the company conducted within one year. |
| | Number of Company Committees (KOMITE) variables Company committees are measured by the large number of committee councils owned by the company. |
| Mediation Variables | Net Working Capital Turnover (NWCT) variables The formula in Net Working Capital Turnover (NWCT) $\text{NWCT} = \frac{\text{Net Working Capital}}{\text{Cash Flows From Operating Activities}}$ Net working capital turnover is measured in units of time Net working capital = Current assets - Current liabilities Where : Current assets = The amount of assets owned by the company can be changed in cash within a short period of time. Current Liabilities = Liabilities of the Company to be repaid in full Operating cash flow (operational cash flow) Cash Flow Operational = Number Cash Flows From Operating Activities within one year |
| | Return On Equity (ROE) variables |

| | |
|---------------------|--|
| Dependent Variables | <p>The formula used to calculate return on equity (ROE) is:</p> $ROE = \frac{EAT}{Equity} \times 100\%$ <p>Return on equity (ROE) measured by the percentage unit where :</p> <p>ROE= The ability of companies to generate profits with their own capital</p> <p>EAT = Earnings after tax</p> <p>Equity = Own capital owned by the company</p> |
|---------------------|--|

4. Data Analysis

4.1. Normality Test Results

After evaluating the outlier data, there are seventeen (17) outlier data issued based on outlier evaluation. The data issued as many as seventeen (17) are the p1 and p2 values in the observation farthest from the centroid (Mahalanobis distance) <0.05. The data can be concluded to have a normal distribution if the critical ratio (CR) value of skewness value is below absolute value 2.58, and if there is abnormal data, the data can be disposed by using outlier evaluation (Ghozali, 2013). The number of samples from 185 to 168. The result of normality test after outlier is discarded as Table 3 below.

Table 3: Normality test after Revision

| Variable | min | max | skew | c.r. | kurtosis | c.r. |
|--------------|--------|--------|-------|-------|----------|--------|
| Komite | 1,000 | 5,000 | 1,741 | 9,215 | 2,113 | 5,590 |
| Rapat | 1,000 | 6,000 | 0,227 | 1,203 | -1,018 | -2,693 |
| Komisaris | 2,000 | 12,000 | 0,793 | 4,195 | 0,216 | 0,570 |
| Institusi | 32,220 | 99,000 | 0,235 | 1,242 | -1,018 | -2,692 |
| NWCT | 0,140 | 5,650 | 0,399 | 2,111 | 0,157 | 0,414 |
| ROE | 0,650 | 49,530 | 0,551 | 2,918 | 0,080 | 0,212 |
| Multivariate | | | | | 0,935 | 0,618 |

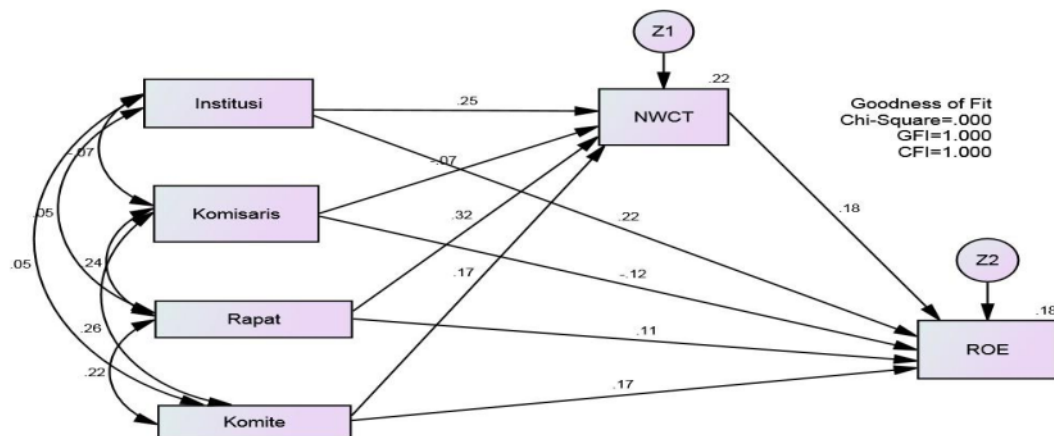
Normality test results from Table 3 above shows the critical ratio level of 0.618 which can be interpreted that the overall normal distribution occurs.

4.2. Test Result Model estimation

Estimates can be made using the AMOS program available with the default model used is maximum likelihood. The results of AMOS processing can be seen in Figure 1 below:

Figure 1 Estimation

Goodness-of-Fit



In general, based on Figure 1 above, it can be concluded that the role of good corporate governance, represented by the number of institutional shareholdings, the number of members of the board of commissioners, the number of joint meetings of the board of commissioners, the number of corporate committees have influence on net working capital turnover of 22%, while 78% is influenced by

other variables. In addition, the variable number of institutional share ownership, the number of members of the board of commissioners, the number of joint meetings of the board of commissioners, the number of corporate committees, and net working capital turnover influence return on equity of 18%, while 82% is influenced by other variables.

4.3. Analysis of path coefficients (path coefficients)

The analysis of path coefficients was analyzed by the significance of regression weight of the model as presented in Table 4. Below

Table 4: Analysis of the Path Coefficients

| Hypothesis | Causality Relationship | | | Koef. β Unstand | Koef. β | S.E. | C.R. | P | Remark |
|------------|------------------------|------|-----------|--------------------------|---------------|-------|--------|-------|-------------|
| H1 | NWCT | <--- | Institusi | 0,016 | 0,252 | 0,004 | 3,670 | 0,000 | H1 accepted |
| H2 | NWCT | <--- | Komisaris | -0,035 | -0,071 | 0,036 | -0,976 | 0,329 | H2 rejected |
| H3 | NWCT | <--- | Rapat | 0,277 | 0,320 | 0,062 | 4,492 | 0,000 | H3 accepted |
| H4 | NWCT | <--- | Komite | 0,168 | 0,174 | 0,069 | 2,428 | 0,015 | H4 accepted |
| H5 | ROE | <--- | Institusi | 0,129 | 0,216 | 0,044 | 2,944 | 0,003 | H5 accepted |
| H6 | ROE | <--- | Komisaris | -0,571 | -0,123 | 0,347 | -1,646 | 0,100 | H6 rejected |
| H7 | ROE | <--- | Rapat | 0,848 | 0,105 | 0,625 | 1,358 | 0,175 | H7 rejected |
| H8 | ROE | <--- | Komite | 1,533 | 0,171 | 0,671 | 2,283 | 0,022 | H8 accepted |
| H9 | ROE | <--- | NWCT | 1,657 | 0,178 | 0,740 | 2,240 | 0,025 | H9 accepted |

Hypothesis test used is the test of individual significance (t-test) to test the significance of independent variables contained in the regression equation individually which affects the value of the dependent variable (Ghozali, 2014). The criteria used are: If the number CR count > t table (1.96) and significant <= 0.05 then the hypothesis is accepted and if the number CR count < t table (1.96) and significant > 0.05 then the hypothesis is rejected. The design of this study uses alpha level of 5% or P-value 0.005 with the direction of the hypothesis is one tailed. Referring to the results of the above research, it can be seen that there are six paths of hypothesis accepted and three rejected hypotheses.

4.4. Mediation Test Results

The results of the calculations online at <http://www.danielsoper.com> are presented in Table 5 below:

Table 5: Calculation Result Online

| Causality Relationship | | | Estimate | S.E. | Sobel Result | Test | Remark |
|------------------------|------|-----------|------------|-------------|-----------------|------|--------------|
| NWCT | <--- | Institusi | (a) 0,016 | (SEa) 0,004 | 1,953 | | No Mediation |
| NWCT | <--- | Komisaris | (a) -0,035 | (SEa) 0,036 | -0,891 | | No Mediation |
| NWCT | <--- | Rapat | (a) 0,277 | (SEa) 0,062 | 2,001 | | Mediation |
| NWCT | <--- | Komite | (a) 0,168 | (SEa) 0,069 | 1,648 | | No Mediation |
| ROE | <--- | NWCT | (b) 1,657 | (SEb) 0,740 | | | |

This study uses a Sobel test where the calculation is online at <http://www.danielsoper.com>. A mediation variable can be said to have full mediation if the value of the significance of the independent variable to the dependent variable through the mediating variable must have Sobel test value of ≥ 1.96 compared with the direct influence of the independent variable to the dependent variable, it can be concluded that the mediation effect occurs (Ghozali, 2013). Based on the results of Table 5 above, it is proven that net working capital turnover is a mediation variable of the relationship between the joint meetings of the board of commissioners again return on equity, while net working capital turnover is not proven to mediate the relationship of institutional share ownership, the number of board of commissioners and the committee of the company to return on equity.

5. Discussion and Conclusion

Overall, this study has three main research outcomes. First, the result of research on corporate governance relationship measured by number of institutional share ownership, number of joint meetings of the board of commissioners, the number of corporate committees had a significant positive effect on NWCT, only the number of corporate commissioner's variable had a negative effect on NWCT. This study supports research conducted by Aghajari et al. (2015) who examined the relationship between

good corporate governance represented by the variable of tenure of the company's CEO, multiple CEO and institutional share ownership of the working capital management represented by net working capital turnover. The result shows that institutional share ownership positively affects the net working capital turnover. It is consistent with research conducted by Jamalinesari and Soheil (2015) that institutional share ownership positively affects the effectiveness of working capital management.

The results of this study are in accordance with research conducted by Gill and Biger (2013) that corporate governance can improve the efficiency of working capital management company. This study essentially states that the principle of good corporate governance through the implementation of joint meetings of board of commissioners with board of directors is expected to impact on the effective management of the concept of net working capital turnover that cannot be separated from the analysis of operating cash flow of the company. It is contrast with research conducted by K²anathan and Achchuthan (2013) on the application of corporate governance to the management of working capital management. The results showed that there is a significant influence of the number of boards of commissioners to the management of working capital which is represented by net working capital turnover. The results of this study indicate that the implementation of good corporate governance through the large number of board of commissioners in the company does not affect the effective management of working capital; it is inseparable from the many interests of the parties within the company. In general, the results of this study can be concluded that the monitoring and direction activities conducted by institutional shareholders, joint meeting activities, as well as input from the company committee to the board of commissioners proved to produce net working capital turnover policy in accordance with the needs of the company

Second, the result of research on good corporate governance relationship measured by number of institutional share ownership, the number of company committees and net working capital turnover variables have a significant positive effect on ROE, while the variable the number of board of commissioners has a negative influence on ROE, but on the other hand the number of joint meetings of the board of commissioners variable has no significant positive effect on ROE. Consistent with the results of previous research conducted by Navissi and Naiker (2006), Shleifer and Vishny (1986), the result is that the company's institutional ownership has a positive effect on the financial performance of the firm because it has strong oversight and good reputation.

In contrast to previous research conducted by Hassan and Halbouni (2013), the results of his research that the number of boards of commissioners have a positive effect on return on equity. The company is expected to procure more tightened board of commissioner selection, so the company can have a reliable board of commissioners. It is consistent with results of research conducted by Akbar et al. (2016) that the index role of the committee has a positive effect on financial performance, which is represented by Tobin's Q and return on assets. It is also similar to research conducted by Gupta and Sharma (2014) and Lam and Lee (2012) which indicate that the role of company-owned committees positive effects return on assets.

The results of this study are consistent with the results of research conducted by Ukaegbu (2014), Yazdanfar and Ohman (2014) and Pais and Gama (2015) in general that the working capital management policy has a positive effect on financial performance. Overall, the results of this study indicate that supervisory activities conducted by the institutional, the performance of the committee owned by the company, and the management of net working capital turnover can tie the financial performance, especially the performance of return on equity of the company.

Third, the result of net working capital turnover variable test in mediating the relationship of number of institutional share ownership, number of corporate commissioners, number of joint meetings of the board of commissioners, the number of corporate committees to ROE by using Sobel test online at <http://www.danielsoper.com> proved net working capital turnover mediates, number of joint meetings of the board of commissioners relationship to ROE, while in other variables, mediation is not proven to occur. Based on the result of the research, it can be concluded that the joint meeting activity conducted by the board of commissioners with directors conducted intensively directly can result in the virtue of managing net working capital turnover in accordance with the needs of the company and can improve financial performance especially return on equity.

6. Research Limitations

- a) Researchers only used the data within the time span of 5 years. Measurement of good corporate governance only relations¹⁸ of number of institutional share ownership, number of corporate commissioners, number of joint meetings of the board of commissioners, the number of corporate committees.
- b) The researchers have limitation in taking the research variables. good corporate governance⁷ relationship measured by the number of institutional shareholdings, the number of members of the board of commissioners, the number of joint meetings of the board of commissioners, the number of corporate committees have influence on net working capital turnover of 22%, while 78% is influenced by other variables.⁷ In addition, the variable number of institutional share ownership, the number of members of the board of commissioners, the number of joint meetings of the board of commissioners, the number of corporate committees, and net working capital turnover influence return on equity of 18%, while 82% is influenced by other variables

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