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The Influence of Good Corporate Governance on Financial Performance of Companies in Indonesia Using a Whistleblowing System

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Abstract

Managers always strive to produce increased profitability by building systems in the company to be efficient and effective. Good corporate governance is formed in companies by increasing the role of supervise independent commission. This research aims to analyze the influence of good corporate governance on financial performance by using the whistleblowing system as a moderating variable. This research uses research samples from companies included in the LQ45. The research results state that good corporate governance with independent commissions positively affects financial performance. This condition can be seen from the increasing role and function of supervisors not affiliated with the company. Second, good corporate governance with an independent commission supported by the whistleblowing system can strengthen the impact of good corporate governance on financial performance. Third, the whistleblowing system established in companies has not been able to play a direct role in improving financial performance because there is still no system established in companies, and there are no government regulations to protect employees who disclose violations. Research provides practical contributions for governments and company managers to form adequate independent commissions because it can produce increased financial performance.

Keywords: *Agency theory, Good Corporate Governance, Financial Performance, Whistleblowing System.*

Introduction

The public can trust business activity if the business has good corporate values, implements business sustainability, and has an internal control system with good governance (Tejedo-Romero & Araujo, 2022). However, in practice, employees in business organizations often try to fulfill their interests, so they tend to ignore attitudes, ethics, and morals (May-Amy et al., 2020). Thus, many companies commit fraud and do not implement business sustainability (Triantoro et al., 2019; Lee & Xiao, 2018). On the other hand, profit measures a company's success in carrying out its business activities. Financial performance becomes an evaluation guide to reflect business success (Sekhon & Kathuria, 2019). Measuring financial performance becomes a picture of management paying attention to competitiveness compared to similar companies and even contribution to the region, so managers can use various existing financial ratios (Jabbouri & Almustafa, 2021).

Profitability ratios are often used to measure how a company can profit from its business activities. If the figures on the profitability ratio show high numbers, then the company can be declared to have good financial performance (Nirino et al., 2019). The profitability ratio shows how the company can generate profits within a certain period of time. Therefore, the company's financial performance is evaluated to determine how much it can increase its profitability. A company's ability to generate profits can be measured using profitability ratios. Financial performance can be influenced by several other factors, such as good corporate governance (Hermanto et al., 2021; Kurniati, 2019; Kyere & Ausloos, 2021; Markonah & Prasetyo, 2022; Suhadak et al., 2019; Usman & Yakubu, 2019), corporate social responsibility (Chakroun et al., 2019; Nirino et al., 2019; Oeyono et al., 2011; Rodriguez-Fernandez, 2016; Sang et al., 2019); financial crisis, current ratio, sales growth, and leverage (Hegde et al., 2023).

These factors can influence financial performance. However, this research focuses on good corporate governance (Kasbar et al., 2023). Good corporate governance provisions with board meetings and skills can influence financial performance because good corporate governance plays a role in managing all parties in the company and optimizing the supervisory function (Abang'a et al., 2022). Apart from that, good corporate governance is also used to determine the health level of a business (Markonah & Prasetyo, 2022). Thus, businesses that implement good corporate governance will have better financial performance because

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the decisions of the board of commissioners make a very important contribution to governance (Hatane et al., 2019; Ahmed & Tahir, 2024).

The system known as good corporate governance aims to direct the professional management of multinational companies based on the five principles of good corporate governance, including transparency, accountability, responsibility, independence, and justice (Hermanto et al., 2021). Good corporate governance ensures that companies are responsible to shareholders and stakeholders in their duties (Barros et al., 2021). Good corporate governance also aims to prevent major mistakes in company strategy and ensure that mistakes can be corrected immediately, both in terms of administrative corruption and improving firm performance (Dammak et al., 2024).

Several research results explain the influence of the relationship between good corporate governance and financial performance. Several studies have found that good corporate governance has a positive effect on financial performance (Hermanto et al., 2021; Kyere & Ausloos, 2021; Marbonah & Prasetyo, 2022; Usman & Yakubu, 2019; Puni & Anlesinya, 2019). Meanwhile, research also finds that good corporate governance does not affect financial performance (Kurniati, 2019; Suhadak et al., 2019). Based on previous research, it can be said that the research results are mixed. Kurniati (2019) said that good corporate governance is one of the keys to a company's success in growing and developing in the long term and winning business competition worldwide. However, in reality, companies in Indonesia are still imperfect in implementing good corporate governance principles (Wijayanti et al., 2024). This is because not all companies in Indonesia implement good corporate governance.

The principles of good corporate governance refer to the ethical standards implemented by the company (Barros et al., 2021). Good corporate is an important reference for company owners and investors (Jabbouri & Almustafa, 2021). Good corporate governance can maintain the company's cash holdings, thereby increasing financial performance (Ahmed & Tahir, 2024). Corporate governance refers to a corporate discipline consisting of a board of directors and senior management that can control operational risk, contributing to financial performance (Altaf et al., 2022). In this case, there are no clear regulations regarding the rights and obligations of the parties involved in the company's performance, resulting in a lack of control over the company's performance, which results in the company violating the principles of good corporate governance (Abang'a et al., 2022).

Corporate governance has an important role in ensuring the quality of financial reporting and preventing fraud (Rostami & Rezaei, 2022). Corporate governance mechanisms significantly impact financial performance by increasing bank efficiency and sustained asset quality (Aslam et al., 2024). Understanding the principles of good corporate governance and ethical standards is important, including implementing a whistleblowing system (Ciasullo et al., 2017). The system makes companies more transparent because they can follow applicable rules, correct procedures, and established guidelines according to regulations (Nurhidayat & Kusumasari, 2018). The whistleblowing system formed in the company becomes a means of controlling the value created and anticipating fraud (Lee & Xiao, 2018). Whistleblowing has been accommodated by the state of Uganda as an environment for many people to reveal unethical practices or improper conduct in the public or private sector (Mbago et al., 2018). Whistleblowing can occur in sports, where reports that receive and handle reports sometimes occur in manipulating sports competitions (Verschuuren, 2021). Whistleblowing systems in organizations can overcome damage caused by violations and can be used as monitoring to overcome problems or obstacles (Friedrich & Quick, 2024).

Whistleblowing systems can monitor companies' financial performance and allow accountants and auditors to report violations if they witness accounting-related errors (Lee & Xiao, 2018). The whistleblowing system is part of a company's internal control, which is used to reveal non-compliance with regulations (Triantoro et al., 2019; Smaili & Arroyo, 2021). With a whistleblowing system, any form of the intention of a person to commit fraud in a company can determine their behavior, so ethical conduct needs to be established (May-Amy et al., 2020; Manesh et al., 2024). In the context of auditing in companies, it was found that individual characteristics of auditors related to attitudes, perceptions, and commitment tend not to intend to make whistleblowing reports. However, there is a strong tendency among groups of auditors to prevent this from happening (Alleyne et al., 2019). The board director has an important role for the company in implementing the whistleblowing system by establishing an audit committee responsible for implementing it (Smaili & Arroyo, 2021).

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An effective whistleblowing system will encourage the involvement of company employees and the community to be more willing to act to prevent fraud and illegal, immoral, and illegitimate practices by reporting them to parties who can take action. (Spikes, 2021). The whistleblowing system has an impact on employees when there is an intention to report so that it has a negative impact with unfair treatment, termination of employment, demotion, or other consequences (Teichmann & Falker, 2021; Dammak et al., 2024). Whistleblowing systems can overcome company losses that may occur quickly to comply with regulations and maximize organizational potential (Friedrich & Quick, 2024). Therefore, the whistleblowing system effectively reduces fraud or fraud (Wijayanti et al., 2024).

In this research, financial performance moderated by the whistleblowing system is interesting because no previous research has examined the impact of the whistleblowing system on companies. Previous research tends to ignore aspects of the whistleblowing system in companies. This research predicts that good corporate governance positively affects financial performance, and the whistleblowing system can strengthen the positive relationship between good corporate governance and financial performance. Financial and annual reports containing information on good corporate governance, whistleblowing systems, and financial performance are important points in this research. Good corporate governance is estimated to positively influence a company's financial performance. With the existence of a whistleblowing system, researchers estimate that the whistleblowing system also plays a role in strengthening the positive relationship between good corporate governance and financial performance.

Literature Review

Agency Theory

Agency theory says that in a company, there is a conflict between managers and company owners, for this reason, there is a need for supervision of company management so that it works in the interests of the company owner (Kurniati, 2019). Agency theory is based on the idea that the principal employs agents to carry out tasks for the company where the principal works, such as managing the company or investing funds (Hatane et al., 2019). In this case, the agent is expected to act in the principal's best interests, but personal interests sometimes conflict with the principal's (Barros et al., 2021). These differences in interests can bring about a problem, which is also called an agency problem (Kasbar et al., 2023).

The concept of the relationship between the principal and the agent is the background for the emergence of agency theory (Barros et al., 2021). The principal is the company owner, whose job is to provide work, while the agent is given the authority to do the work (Huang et al., 2015). In this case, an agent is required to work hard so that the company can obtain maximum profits (Ahmed & Tahir, 2024). In return, the agent will receive compensation after completing the contract given by the principal. Agency theory perspective if corporate governance is efficient with a board of directors, audit committee, and auditors who can prevent and detect accounting irregularities (Smaili & Arroyo, 2021).

Agency problems tend to arise if there is information asymmetry between the agent and the principal (Usman & Yakubu, 2019). This refers to a situation where one party has more information than another. In the relationship between the principal and the agent, the agent has more information regarding the company than the principal (Barros et al., 2021). Thus, the agent can act to fulfill his interests rather than carrying out the principal's interests (Huang et al., 2015).

This research uses agency theory to explain the relationship between the whistleblowing system, good corporate governance, and financial performance. In some cases, agents tend to have a lot of information regarding the company and are lazy about working, preferring to fulfill their interests. Meanwhile, the principal has limitations in supervising the agent. Thus, a whistleblowing system and good corporate governance are needed to promote corporate ethical standards.

Financial performance

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Financial performance is an effort made by a company to determine its performance by evaluating how effective and efficient its activities are over a certain period (Abang'a et al., 2022). Using various financial metrics, financial performance shows a company's financial condition, which uses return on assets, equity, and investment (Nirino et al., 2019). Financial performance represents a return on assets, equity, and Tobin's Q, the market value (Rodriguez-Fernandez, 2016; Sang et al., 2019).

Financial performance analysis aims to determine how good or bad a company's financial condition is and to assess the company's achievements over a certain period (Sekhon & Kathuria, 2019). In this case, financial performance is assessed by profitability ratios (Oeyono et al., 2011). This is because profitability ratios can assess a business's ability to generate profits and show how well the business has developed (Dimes et al., 2023).

Financial performance is influenced by several company operational factors, such as efficiency and sales (Sang et al., 2019). Factors influencing financial performance include internal management control and good corporate governance in controlling activities, information, and communications (Oppong et al., 2024). In this case, companies with good leadership, good management practices, and efficient operations can improve financial performance (Sekhon & Kathuria, 2019). What is no less important is the company's financial structure. Companies with high levels of debt relative to their equity may be at greater risk of experiencing financial difficulties. In contrast, companies with a good financial position and sufficient cash reserves can face difficult times and invest in company opportunities (Ahmed & Tahir, 2024).

Good Corporate Governance

Good corporate governance is a system and rules that regulate relationships between various interested parties to increase accountability, assist in decision-making making, and encourage positive results for the organization (Verschuuren, 2021; Puni & Anlesinya, 2019; Jabbouri & Almustafa, 2021). Good corporate governance established in the company is a decisive role of the board of directors and its audit committee in monitoring (Smaili & Arroyo, 2021). Corporate governance can run well if there is supervision from top management by adjusting the interests of managers and shareholders (Tejedo-Romero & Araujo, 2022). In this case, good corporate governance must establish clear lines of authority and responsibility within the company (Kasbar et al., 2023). Corporate governance can form an effective risk management system, a strong corporate culture, and the establishment of effective communication and engagement with stakeholders (Puni & Anlesinya, 2019; Dimes et al., 2023). Good corporate governance is very important because it can determine a company's long-term success (Makpotche et al., 2024). The five important principles include transparency, accountability, responsibility, independence, and fairness (Hermanto et al., 2021). Good corporate governance has three important components in maintaining fraud financial reports: internal audit, internal control, and independent auditor (Rostami & Rezaei, 2022). Good corporate governance is a process that drives an organization toward success by involving, gathering, and creating a governance structure that is valuable in increasing company efficiency (Aslam et al., 2024).

Good corporate governance has an important role in a company's long-term success and bringing other positive impacts (Hatane et al., 2019). Good corporate governance allows organizations to reduce administrative corruption and enhance corporate performance (Ebaid, 2023; Dammak et al., 2024). The impacts arising from the implementation of good corporate governance include increasing investor confidence, improving risk management, improving financial performance, improving relationships with stakeholders, as well as increasing ethical behavior and social responsibility within the company (Dimes et al., 2023; Altaf et al., 2022). By implementing good corporate governance, a company can ensure that it is managed well, has an excellent position to achieve its goals, and maintains the trust and confidence of other stakeholders (Oppong et al., 2024).

Whistleblowing System

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The whistleblowing system is part of a company's internal control, which is used to reveal violations (Ciasullo et al., 2017; Triantoro et al., 2019). In this case, the organization implements a whistleblowing system, allowing employees to report illegal, unethical, and immoral activities without fear of retaliation

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(Mbago et al., 2018; Ebaid, 2023). A whistleblowing system can also promote a culture of transparency and accountability in organizations (Verschuuren, 2021). By implementing an effective whistleblowing system, organizations can prevent harm to the public, protect their reputation, and foster a culture of ethical behavior (May-Amy et al., 2020). Actions in the whistleblowing system rely on the values of integrity, transparency, and protection of public interests, so there is an increase in the rejection of behavioral deviations and applicable codes of ethics and regulations (Nurhidayat & Kusumasari, 2018). Whistleblowing ensures that companies follow existing regulations and can prevent illegal, immoral, and illegitimate practices (Smaili, 2021; Wijayanti et al., 2024; Manesh et al., 2024).

Friedrich and Quick (2024) stated that a whistleblowing system can help organizations operate efficiently and use appropriate technology. Whistleblowing systems positively impact the company by providing a safe and confidential mechanism for employees to report concerns about violations to the company (Alleyne et al., 2019). Employees who report fraud to the company face various risks, such as being ostracized by colleagues, demotion from their position, and even termination of employment (Teichmann & Falker, 2021). The impacts that arise from a whistleblowing system include improving governance, increasing transparency, increasing ethics, protection for whistleblowers, increasing reputation, increasing trust, and preventing danger and loss (Ebaid, 2023). By having an effective internal whistleblowing system, the organization can create a more positive organizational culture and contribute to the sustainability of its business. If the internal whistleblowing system is ineffective, the organization can use an external whistleblowing system (Karpacheva & Hock, 2024).

Relationships between research concepts

The Relationship of Good Corporate Governance to Financial Performance

Agency theory tells the relationship between the principal and the agent (Kasbar et al., 2023). In this theory, as the company's owner, the principal tries to maximize the business carried out to achieve the set profit target (Huang et al., 2015). Therefore, the principal hires agents or management to increase the company's efficiency and effectiveness to achieve its goals (Ahmed & Tahir, 2024). Agents who operate in conditions of excessive investment can indirectly create more liberal use of funds and can result in losses for the company (Huang et al., 2015). Agents sometimes act lazy when carrying out their work. Thus, companies must implement good corporate governance to prevent agent actions detrimental to the company (Barros et al., 2021).

Good corporate governance is a set of systems, mechanisms, and organizational structures that can guide the management and operations of an accountable company (Puni & Anlesinya, 2019). Good corporate governance ensures that companies operate with good governance and produce efficiency values (Aslam et al., 2024). Good corporate governance can also help protect stakeholders' interests (Ebaid, 2023). The principles of good corporate governance regulate relationships between stakeholders in terms of the rights and obligations of each party (Tejedo-Romero & Araujo, 2022). Therefore, companies must maintain internal control mechanisms with control activities with suppliers, risk assessment, monitoring and control environment, and proper provision of resources, as corporate governance impacts financial performance (Altaf et al., 2022). If the company has implemented internal control and good corporate governance, the company's profits can increase (Oppong et al., 2024). Therefore, the company's financial performance can be improved by implementing good corporate governance (Dimes et al., 2023).

Research conducted by Hermanto et al. (2021) states that good corporate governance increases the trust of stakeholders in a company. In this case, a company has better financial performance if the company implements good corporate governance (Kasbar et al., 2023). If a company has good corporate governance, its financial performance will increase, conversely, the company's financial performance can decrease if the company has bad corporate governance (Abang'a et al., 2022). The hypothesis proposed in this research is as follows:

H1: Good corporate governance has a positive effect on financial performance

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The Relationship of the Whistleblowing System to Financial Performance

Agency theory states that agents and principals have different interests. The differences in interests that arise can give rise to problems, which are also called agency problems (Teichmann & Falker, 2021). This problem can occur because the agent has more information about the company than the principal himself (Wijayanti et al., 2024). Therefore, sometimes agents want to fulfill their interests by committing fraud. Thus, companies need an effective whistleblowing system to overcome detrimental actions by individuals or groups (Alleyne et al., 2019).

A whistleblowing system is a system that allows employees, customers, and other stakeholders to report unethical behavior, violations of law or company policy without fear of retaliation (Mbago et al., 2018). The whistleblowing system will encourage employees to prevent fraud and corruption by reporting it to the authorities (Ebaid, 2023). A whistleblowing system allows companies to meet applicable ethical standards in running their business (Manesh et al., 2024). The whistleblowing system can also overcome fraudulent intent that can determine a person's behavior so that corporate governance can be well controlled (May-Amy et al., 2020). Fraud is a deliberate action that can be carried out by a person or even more than one person to take advantage of themselves or a group (Manesh et al., 2024). In this case, someone who takes advantage of himself can harm other parties. Companies that suffer losses tend to have poor financial performance. Based on the description above, it can be concluded that the financial performance of companies with a whistleblowing system is better than companies that do not have a whistleblowing system, so the hypothesis proposed in this research is as follows.

H2: Whistleblowing system has a positive effect on financial performance

The Relationship of the Whistleblowing System to Good Corporate Governance and Financial Performance

A whistleblowing system is a policy that encourages customers, employees, and shareholders to report detrimental actions to the company or stakeholders (Claudia et al., 2023). In this case, the whistleblowing system allows employees to report any errors or unethical behavior within the company without fear of risk (Mbago et al., 2018; Manesh et al., 2024). By providing a safe and confidential system for whistleblowers, the whistleblowing system can help identify and resolve problems before they become more serious and ultimately protect the interests of the company, stakeholders, and society as a whole (Friedrich & Quick, 2024; Alleyne et al., 2019). A company can run a whistleblowing system internally if the company's team is strong, and an external whistleblowing system can be used if corporate governance is weak (Smaili & Arroyo, 2021). Internal and external whistleblowing systems handle corporate behavior that violates the law (Karpacheva & Hock, 2024).

The whistleblowing system is part of the internal control system, which prevents deviant behavior and fraud and improves the implementation of good corporate governance (Triantoro et al., 2019). Good corporate governance with board compliance can impact increasing financial performance (Kasbar et al., 2023). The whistleblowing system is a strategy for developing and maintaining an ethical environment, starting with the board director, managers, and all employees in the company so that good corporate affairs can run excellently (Smaili, 2021). This is because the whistleblowing system refers to a set of policies, procedures, and practices that ensure the company is run following the principles of good corporate governance (Dammak et al., 2024). Apart from that, internal and external whistleblowing systems can help companies detect fraudulent acts that occur in companies (Karpacheva & Hock, 2024). Based on the description above, it can be concluded that the influence of good corporate governance on financial performance in companies that implement a whistleblowing system is stronger than in companies that do not implement a whistleblowing system (Wijayanti et al., 2024). The hypothesis proposed in this research is as follows:

H3: The whistleblowing system strengthens the influence of good corporate governance on financial performance

Use of Control Variables size, age, and leverage on financial performance

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Good corporate governance impacts financial performance (Aslam et al., 2024; Oppong et al., 2024; Dimes et al., 2023; Kasbar et al., 2023; Abang'a et al., 2022). Company size is an essential consideration because companies have different total assets. Firm size impacts increasing environmental performance but does not significantly impact the UAE organization's operational, economic, and social performance (Younis & Sundarakani, 2020). Company size shows the company's ability to run a business with its assets, so the more significant the assets the company has, the more impact it has on the size of the company's activities (Yilmaz & Samour, 2024). Company size is a measurement scale that shows how big or small a company is through its total assets and total sales (Dakhli, 2021). Companies divided based on size can be used by investors when deciding to invest. Large companies can provide adequate information to investors so that many investors are interested, which results in the ease of obtaining capital on the stock exchange. The age of a company is important because it has strong relationships with other companies and is well-known by investors. The company's age positively impacts investors because they know it has performed well. Conversely, if it has poor performance, it will impact reducing competitiveness. The increasing age of the company impacts increasing business because it has sufficient experience. The company's firm age does not impact improving the UAE organization's operational, economic, social, and environmental performance (Younis & Sundarakani, 2020). Company performance can be determined by leverage as a source of funding for the company, which is obtained from an internal company which is said to retain earnings and depreciation from an external company in the form of debt or the issuance of new shares and has an influence on financial performance (Novitasari & Tarigan, 2022). The leverage held by 536 non-financial firms in MENA region countries has a negative impact on financial performance (Yilmaz & Samour, 2024). Leverage is a company's obligation to fulfill its obligations if it is to be liquidated (Dakhli, 2021) or its ability to pay back long-term debt (Hegde et al., 2023). The hypothesis proposed in this research is as follows:

H3: The size of the company influences financial performance

H3: The age of the company influences financial performance

H3: Company leverage influences financial performance

Research Methods

Based on the explanation above, several variables can be described that are used to analyze this research data. The analysis model in this research uses quantitative data with good corporate governance as the independent variable. Meanwhile, the dependent variable in this research is financial performance. The following is the analytical model used in this research to test the hypothesis. Based on the analysis model in Figure, the hypothesis will be tested using the multiple linear regression method with equation 1.

$$ROA_{it} = \alpha + \beta_1 KI_{it} + \beta_2 WBS_{it} + \beta_3 WBS_{it} * IC_{it} + \beta_4 SIZE_{it} + \beta_5 AGE_{it} + \beta_6 DER_{it} + \varepsilon \quad \text{(Eq.1)}$$

Note

ROA_{it} = financial performance of company i in period t

α = constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ = variable regression coefficient

IC_{it} = corporate governance index of company i in period t

WBS_{it} = company i's whistleblowing system in period t

$WBS_{it} * IC_{it}$ = interaction of company i's whistleblowing system in period t with company i's corporate governance index in period t

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$SIZE_{it}$ = size of company i in period t

AGE_{it} = age of company i in period t

DER_{it} = leverage (Debt Equity Ratio) of company i in period t

ε = error

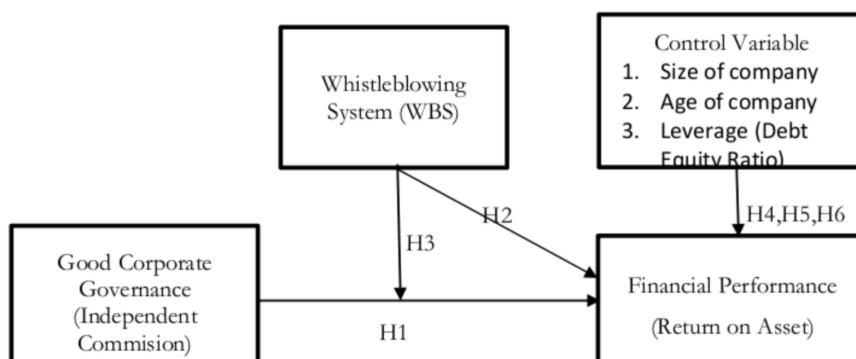

Figure 1. Hypothesis Analysis Model

Calculations are carried out by establishing operational definitions of variables and their measurements. In measuring financial performance in this research, the Return on Assets (ROA) formula is used in the profitability ratio. The ROA formula is in equation 2.

$$ROA = \frac{\text{Net income}}{\text{Total assets}} \qquad \text{(Eq. 2)}$$

This research determines that good corporate governance is measured using the independent commissioner ratio formula. Independent commissioners are members of the board of commissioners who do not come from affiliated parties. Therefore, the president commissioner or vice president commissioner who holds the same position as the independent commissioner is not considered an independent commissioner because they still have an affiliation with the company. The independent commissioner (IC) ratio formula is in equation 3.

$$IC = \frac{\text{Number of independent commissioners}}{\text{Number of commissioners}} \qquad \text{(Eq. 3)}$$

The measurement of the whistleblowing system is carried out using dummy variables. The number 1 (one) indicates that the company uses a whistleblowing system, while the number 0 (zero) indicates that the company does not use a whistleblowing system. The use of the whistleblowing system in companies can be observed through the company's annual report. In the research, it was determined that company size was measured using the natural logarithm of the total assets of a company with equation 4.

$$SIZE = \ln(\text{Total assets}) \qquad \text{(Eq. 4)}$$

Meanwhile, the measurement of company age was carried out using the natural logarithm of the difference between the year of research and the year the company was founded in Equation 5. This study measured leverage using the Debt-Equity Ratio (DER) formula. DER formula in equation 6.

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$$\text{AGE} = \ln(\text{Research year} - \text{Year the company was founded}) \quad \text{(Eq. 5)}$$

$$\text{THE} = \frac{\text{Total liabilities}}{\text{Total equity}} \quad \text{(Eq. 6)}$$

This research uses quantitative data, which can be measured or calculated numerically. The data was obtained from the company's financial and annual reports for 2018-2022. Meanwhile, data regarding indications of implementing the whistleblowing system can be obtained by looking at the company's annual report. Financial reports and 5-year annual reports are the data sources used. In addition, data was collected from financial reports and annual reports of companies listed in LQ45. The population is all research objects with the same quantity and characteristics to study and conclusions drawn. This research utilizes all companies listed on the market index containing 45 issuers (LQ45) from February 2018 to January 2023. Meanwhile, the sample is part of the population to be studied. The purposive sampling method is a sampling method chosen based on certain criteria. The criteria that can be used for the sample in this research are, first, companies that have been included in LQ45 from February 2018 to January 2023. Second, companies have annual reports for the 2018-2022 period. Third, companies use the rupiah currency (IDR) to make annual reports, and fourth, financial sector companies are not involved.

In the process of finding data to be researched, the unit of analysis is defined as the research subject determined by the dependent variable, which becomes the focus or component studied so that the validity and reliability of the research can be maintained. Researchers sometimes need help distinguishing objects, subjects, and data sources. The research uses a quantitative approach by conducting panel data regression analysis. Observational measurements are very important in this quantitative research. Tools prepared based on indicators of the variables studied are used to collect data, ultimately producing quantitative data. All quantitative data used is then grouped and calculated to assist in obtaining the data that has been collected using GRETL. The stages of data analysis are determining the estimation model, testing classical assumptions, and testing hypotheses.

Analysis and discussion

This research uses GRETL software to test the data. This research uses a sample of companies involved in LQ45 from February 2018 to January 2023. The number of samples used in this research was 71 companies involved in LQ45 from February 2018 to January 2023. Then, the 71 samples were multiplied by five years for the research period. So, the total samples obtained were 355 samples. However, of the 71 companies included in LQ45 for February 2018 to January 2023, 32 companies did not comply with the predetermined sampling criteria, so these companies could not be used in data analysis. The final total of samples that can be used is according to the criteria in Table 1.

Table 1. Determination of data samples

Sample Criteria	Number of Observations
Companies that have entered LQ45 for the period February 2018 to January 2023	71
The company does not have an annual report for the 2018-2022 period	(7)
The company does not use the rupiah currency (IDR) in preparing annual reports	(15)
Financial sector companies	(10)
Number of companies that meet the criteria as a sample	39
Number of years of research	5
Number of samples studied	195

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The number of samples of companies tested was 39 that met the requirements for five years, so the total sample size was 195. Test characteristics were obtained by carrying out descriptive statistical tests in Table 2.

Table 2. Descriptive statistical for samples

Variable	N	Mean	Minimum	Maximum
Return on Asset (ROA)	195	0.07	-0.19	0.47
Independent commissioner (IC)	195	0.38	0.00	0.83
Size	195	31.14	29.21	33.66
Age	195	3.61	2.20	4.76
Debt-Equity Ratio (DER)	195	1.53	0.11	9.87

Table 2 shows that the average return on assets (ROA) variable for the company is 0.07, which means that, on average, the company can earn a profit of 7% of its total assets. The lowest value of the ROA variable is -0.19, which means that the company experienced a loss of 19% of its total assets. Meanwhile, the highest value of the ROA variable is 0.47, which means that the company experienced a profit of 47% of its total assets. In addition, it is shown that the average KI variable is 0.38, which indicates that the average number of independent commissioners in the company is 38% of the number of commissioners in the company. The lowest value of the KI variable is 0.00, which means that the company does not have an independent commissioner. However, the KI variable has the highest value of 0.83, which indicates that the number of independent commissioners in the company is 83% of the number of commissioners in the company.

The whistleblowing system (WBS) variable is a dummy variable, so descriptive statistical testing of the variable is divided into 2, including samples with a whistleblowing system and samples without a whistleblowing system. The number of samples with a whistleblowing system was 153, while the number of samples without a whistleblowing system was 42.

Table 3. Descriptive statistical for samples Whistleblowing System

Variable	**N**	**Mean**	**Minimum**	**Maximum**
Dummy with whistleblowing system (WBS)				
Return on Asset (ROA)	153	0.08	-0.19	0.47
Independent commissioner (IC)	153	0.36	0.00	0.83
Size	153	31.18	29.21	33.66
Age	153	3.59	2.20	4.76
Debt-Equity Ratio (DER)	153	1.64	0.11	9.87
Without using a whistleblowing system (WBS)				
Return on Asset (ROA)	42	0.05	-0.03	0.18
Independent commissioner (IC)	42	0.44	0.17	0.75
Size	42	30.96	29.26	32.13
Age	42	3.69	3.14	4.23
Debt-Equity Ratio (DER)	42	1.13	0.14	2.89

The data in Table 3 shows that the average ROA variable for companies with a whistleblowing system is 0.08, while the average ROA variable for companies without a whistleblowing system is 0.05. This shows that the average ROA variable for companies with a whistleblowing system is higher than the average ROA variable for companies without a whistleblowing system. In addition, it is shown that the average IP variable for companies with a whistleblowing system is 0.36, while the average IP variable for companies without a whistleblowing system is 0.44. This shows that the average IP variable for companies with a whistleblowing system is lower than the average IP variable for companies without a whistleblowing system. After

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conducting descriptive statistical testing, the researcher tested the estimation model to select the best model with the GRETL application.

From the sample data that has been obtained, the p-value of each test model is calculated to obtain the correct estimation model. The results of the estimation model test can be seen in Table 4, as follows.

Table 4. Estimation Model Test Table

Data Panel	P-value	Results
Chow test	3.48406E-24	Fixed effect model
Lagrange multiplier test	1.64191E-29	Random effect model
Hausman test	0.0363748	Fixed effect model

Based on the results in Table 4, it is shown that the Chow test panel data obtained a p-value of 3.48406e-24, which indicates that the p-value is smaller than 0.05, so the estimation model used is the fixed effect model. The results of this test show that Ho is rejected, so we use an alternative model, namely the fixed effect model. Based on Table 4, the results of the Lagrange multiplier test obtained a p-value of 1.64191e-29, which indicates that the p-value is smaller than 0.05, so the estimation model used is the random effect model. The results of the Lagrange multiplier test have rejected Ho, so an alternative model is used, namely the random effect model. Based on Table 4, the results of the Hausman test obtained a p-value of 0.0363748, which indicates that the p-value is smaller than 0.05, so the estimation model used is the fixed effect model. The results of the Hausman test rejected Ho, namely the random effect model, so an alternative model was used, namely the fixed effect model. Based on the results of the three Chow tests, Lagrange multiplier, and Hausman test, it can be concluded that the fixed effect model is the best estimation model to use. After tests are carried out to determine the best estimation model, a heteroscedasticity test is carried out.

The heteroscedasticity test aims to determine whether there is an inequality in the residual variance between observations in the regression model. To determine heteroscedasticity, researchers used White's test. Through the results of White's test, a p-value of 0.000068 (< 0.05) was obtained, so it was concluded that the research data showed a heteroscedasticity problem. The research data shows a heteroscedasticity problem, so Weighted Least Squares (WLS) are used because the estimation model chosen is a fixed effect model. The results of hypothesis testing are obtained according to those presented in Table 5.

Table 5. Hypothesis Test Table

Variable	Coefficient	Std. Error	t-ratio	p-value
Const	0.465668	0.069974	6.655	3.02E-10 ***
IC	0.030571	0.017897	1.708	0.0893 *
WBS	0.005302	0.010062	0.527	0.5988
ICWBS	0.056221	0.024668	2.279	0.0238 **
Size	-0.013411	0.002291	5.855	2.09E-08 ***
Age	0.002406	0.005933	0.406	0.6856
THE	-0.016382	0.001654	-9.907	6.96E19 ***

Notes (* significant at 0.1; ** at 0.05 and *** at 0.01)

Based on Table 5, it is found that the independent commission (IC) variable has a significant influence with a p-value of 0.0893 (<0.1) or t-ratio of 1.708 (>1.65) and is positive with a coefficient of 0.030571 on return to assets (ROA) so that the first hypothesis (H1) can be accepted at a significance level of 0.1. These results indicate that good corporate governance, as measured using the independent commission (IC), has a positive effect on increasing return to asset (ROA) financial performance. The second hypothesis (H2) states that the whistleblowing system strengthens the influence of good corporate governance on financial performance. The results in Table 5 show that the p-value is 0.5988 (>0.05), and the t-ratio is 0.527 (<0.05),

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so the second hypothesis is rejected. The whistleblowing system (WBS) does not significantly influence return to assets (ROA).

The third hypothesis (H3) for the independent commission variable is good corporate governance with the moderating variable whistleblowing system, which is shown in ICWBS with a p-value of 0.0238 (<0.05) or t-ratio 2.279 (>1.96) and positive with a coefficient of 0, 056221 on return to assets (ROA) so that the third hypothesis can be accepted at a significance level of 0.05. Based on Table 5, the control variable obtained sequentially is the fourth hypothesis (H4), with the first control variable, namely the size of the company on return to assets (ROA), obtaining a p-value of 0.01 or t-ratio of 5.855 (>2.364) and negative with a coefficient of -0.013411 on return to assets (ROA), so that the fourth hypothesis can be accepted at a significance level of 0.01. The fifth hypothesis (H5) with the second control variable, namely the age of the company on return to assets (ROA), obtained a p-value of 0.6856 (>0.05) or t-ratio of 0.406 (<1.96) and positive with a coefficient of 0.002406 on return to assets (ROA), so the fifth hypothesis is rejected at the 0.05 significance level. The sixth hypothesis (H6) with the third control variable, namely leverage (debt-equity ratio) on return to assets (ROA), obtained a p-value of <0.01 or t-ratio -9.907 (<-2.364) and a coefficient of -0.016382 on return to assets (ROA), so that the sixth hypothesis is accepted at the significance level of 0.01.

Based on the results of the hypothesis test presented in Table 5, it is said that independent commission (IC) influences return to assets (ROA). The ratio of independent commissioners in a company positively and significantly impacts financial performance, so Hypothesis 1 is accepted. The role of the independent commission (IC) is to encourage and create a more independent and objective climate for the company. Independent commission (IC) can carry out duties, responsibilities, and authority to supervise the actions of the Board of Directors and provide advice to the Board of Directors if necessary. This condition makes the independent commission (IC) capable of providing superior corporate governance to increase return to assets (ROA). These results prove the existence of agency theory, which says that there is a need for the supervision of company management so that it can work in the interests of the company owner (Kurniati, 2019). The independent commissioner aims to supervise the agent's performance so that he can provide the best for the principal. This is in line with previous research which found that good corporate governance improves a company's financial performance (Hermanto et al., 2021; Catch & release, 2021; Markonah & Prasetyo, 2022; Usman & Yakubu, 2019; Huang et al., 2015; Ahmed & Tahir, 2024; Barros et al., 2021; Aslam et al., 2024; Altaf et al., 2022; Oppong et al., 2024; Dimes et al., 2023; Kasbar et al., 2023; Abang'a et al., 2022).

Based on the hypothesis test results presented in Table 5, the whistleblowing system does not affect financial performance. This means that the presence or absence of a whistleblowing system does not affect the company's financial performance. The research results differ from research results, which state that whistleblowing systems in companies can improve corporate governance (Alleyne et al., 2019; Ebaid, 2023; Manesh et al., 2024; May-Amy et al., 2020). These results also do not prove the existence of agency theory, which says that agency problems arise when there is information asymmetry between the agent and the principal (Usman & Yakubu, 2019). This condition is caused by information asymmetry, which is considered a trigger for fraud. Apart from that, in Indonesian culture, there is still fear when people want to report fraud. Apart from that, companies in Indonesia also consider the whistleblowing system to be a policy that is not necessarily implemented well in practice. The independent commission accepts the third hypothesis as good corporate governance with the moderating variable whistleblowing system shown in ICWBS, which influences return to assets (ROA). Companies that are committed to implementing good corporate governance, as demonstrated by the existence of an independent commission (IC) and strengthened by the established whistleblowing system, have a more significant impact on return to assets (ROA). Good corporate governance and increasingly strong company reliance on the values of integrity, transparency, protection of public interests, and implementation of the code of ethics and applicable regulations can increase high returns to assets (ROA). The existence of a whistleblowing system will be maximized if independent commissioners carry it out. In this case, the independent commissioner is tasked with supervising the whistleblowing system so that it will be more effective under the supervision of the independent commissioner. The research results support research results state that independent

commissions as good corporate governance with the moderating variable whistleblowing system influence increasing return to assets (Manesh et al., 2024; Friedrich & Quick, 2024; Alleyne et al., 2019; Smaili & Arroyo, 2021; Karpacheva & Hock, 2024; 2023; Smaili, 2021; Dammak et al., 2024; Karpacheva & Hock, 2024; Wijayanti et al., 2024)

The control variable obtained for the fourth hypothesis (H4) with the first control variable, namely the size of the firm on return to assets (ROA), was found to have a negative effect on return to assets (ROA). Bank companies in Indonesia, which have a large size in terms of total assets and total sales, cannot reflect good growth and development and stable sales conditions to increase large returns on assets because the profits they earn tend to be small compared to banks whose size is relatively small. After all, Strict government regulations regulate it. The results of this research are different from those of Younis and Sundarakani (2020), who state that company size has no impact on the company's economic, social, and operational impacts. The research results also differ from those of Yilmaz and Samour (2024), who stated that firm size impacts increasing the return on assets of MINA companies in regional countries. The research results align with Dakhli (2021), who states that company size does not significantly impact the return on assets in 32 financial firms for the 2007-2018 period in French listed firms.

The control variable determined for the fifth hypothesis (H5) is the firm's age on return to assets (ROA). It was found that it did not affect return to assets (ROA). These results indicate that the company's length of operation does not impact return to assets, but operational and economic performance can increase profitability. The research results are in line with research by Younis and Sundarakani (2020), which states that the age of a firm has no impact on increasing firm performance. The third control variable with leverage obtained positively impacts return to assets (ROA). The research results show that the higher the company's leverage value, the more impact it has on its ability to fulfill long-term obligations. The research results differ from research results, which state that leverage can impact increasing financial performance (Novitasari & Tarigan, 2022; Dakhli, 2021). The research results align with the results of Yilmaz and Samour (2024), which states that company leverage has a negative impact on financial performance.

The research results practically contribute to company owners' ability to implement corporate governance by forming an independent commission (IC). Company owners and management need to build a whistleblowing system for all company components to increase transparency and maintain integrity values. Theoretical contribution to research by enriching financial performance theory and agency theory. Companies can produce financial performance by establishing an independent commission (IC) and a whistleblowing system.

Conclusions and recommendations

The company strives to improve good corporate governance to increase competitiveness efficiently and effectively. The company's ability to manage can increase profitability so that the company's financial performance can increase. Good corporate governance is created by companies following government regulations and forming an independent commission not affiliated with public companies. The independent commission that was formed is tasked with monitoring performance and good corporate governance. The research results show that good corporate governance has a positive and significant impact on financial performance, which means that if the number of independent commissioners and their roles increase, it will improve the company's financial performance. The independent commission in charge of the company in carrying out its responsibilities must be supported by its internal system so that transparency and integrity of all components can run well. It is necessary to implement a whistleblowing system. The independent commission in place at the company to carry out good corporate governance and supported by a whistleblowing system can produce positive financial performance and increase to 0.0562. The whistleblowing system strengthens the influence of good corporate governance on financial performance positively and significantly, which means that the increase in financial performance due to the increase in the proportion of independent commissioners in companies that have a whistleblowing system is higher when compared to companies without a whistleblowing system. However, different results were obtained, namely that the whistleblowing system did not directly influence the company's financial performance

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because employees were still worried and afraid of the sanctions they would receive. Apart from that, there is no organizational culture that protects the reported parties, so it has not had a direct impact on financial performance. This research has limitations because it does not include all companies on the Indonesian stock exchange. Companies still operate in a different financial sector from non-financial sector companies. Hence, the data processing results for financial sector companies are different from those for non-financial sector companies.

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