

# Implementation of Good Corporate Governance on Regional Company Financial Performance Information

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## Abstrak

Penelitian ini bertujuan untuk menganalisis Penerapan Good Corporate Governance pada Informasi Kinerja Keuangan. Penelitian ini berjenis penelitian kualitatif deskriptif, didukung oleh penelitian-penelitian sebelumnya yang mempunyai kesamaan konsep. Penelitian berlokasi di PDAM Tirta Dharma Kota Parepare. Jenis data yang digunakan adalah data primer hasil wawancara. Menggunakan teknis deskriptif dan teknik males Huberman untuk analisis data. Hasil penelitian menunjukkan bahwa PDAM Tirta Dharma Kota Parepare telah menerapkan prinsip Good Corporate Governance pada informasi kinerja keuangan. Kinerja keuangan PDAM Tirta Dharma Kota Parepare yang diinformasikan dengan prinsip Good Corporate Governance yaitu informasi likuiditas perusahaan, Informasi solvabilitas perusahaan, dan informasi profitabilitas perusahaan.

**Keywords:** *Good Corporate Governance; likuiditas; Solvabilitas; Profitabilitas.*


## Abstract

This study aims to analyze the implementation of Good Corporate Governance on Financial Performance Information. This research is descriptive qualitative research, supported by previous studies with the same concept. The research is located in PDAM Tirta Dharma, Parepare City. The type of data used is primary data from interviews. They use the descriptive technique and Huberman's lazy technique for data analysis. The results showed that PDAM Tirta Dharma Parepare City had applied the principles of Good Corporate Governance to financial performance information. The principles inform the financial performance of PDAM Tirta Dharma Parepare of Good Corporate Governance, namely company liquidity information, company solvency information, and company profitability information.

**Keywords:** *Good Corporate Governance; liquidity; Solvency; Profitability.*

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## INTRODUCTION

Regional-owned enterprises (BUMD), a business institution owned and managed by local governments, have a strategic role in regional economic development (Budhisulistyawati et al., 2016; Mukaromah, 2016). The existence of BUMD is believed to provide a substantial multiplier effect for the community's

economy, especially in the regions, through the opening of new jobs, driving productive economic sectors, and increasing Regional Original Income (PAD). Like a company, BUMD has the task of managing a business with profit prospects, which can be a source of income for the region to finance regional development.

PDAM is a regional company that provides clean water, supervised and monitored by the regional government. PDAM, as a regional company, is given the responsibility to develop and manage a clean water supply system and serve all consumer groups at affordable prices. In addition, PDAM is responsible for day-to-day operations, activity planning, project preparation, and implementation, negotiating with the private sector to develop services to the community. Regional Drinking Water Company (PDAM) is a profit-oriented company. On the other hand, one of the goals of PDAM is to participate in implementing regional development in particular, and national economic development, in general, providing water drinking that is clean, healthy and fulfills health requirements for the community in an area, which is also a form of service provided by the government to the community.

It refers to the Decree of the Minister of Home Affairs No. 47/1999 on Guidelines for the Performance Assessment of PDAMs, which stated that the purpose of establishing PDAMs was to fulfill the service and need for clean water for the community. So that to achieve the above objectives, the implementation and management of PDAMs must be based on the principles and principles of a healthy company economy. For this reason, in the future perspective, the management of Regional Owned Enterprises, including PDAMs, is expected to adopt the principles of good corporate governance (GCG) in its implementation.

GCG is more aimed at the company's control and regulation system so that the actions taken by company executives can be more appropriate and do not harm the community (Prasinta, 2012). GCG concerns morality, work ethics, and good work principles (Nurfadila, 2020). The Forum for Corporate Governance in Indonesia (FCGI) defines Good Corporate Governance as regulations that regulate the relationship between shareholders, company management, creditors, government, employees, and other internal and external stakeholders relating to rights and their obligations (Indra & Yustivandana, 2006). Corporate governance aims to create added value for all interested parties (stakeholders). As defined, it can be understood that GCG is a system and a set of regulations that regulate the relationship between various interested parties (stakeholders), especially in the narrow sense of the relationship between shareholders, the board of commissioners, and the board of directors in order to achieve the company's goals. Thus, the implementation of GCG aims to improve the company's performance. With good corporate governance, the management will increase efficiency and productivity and minimize risks and errors in running their business (Rahmadani & Rahayu, 2017).

One of the essential indicators in assessing company performance is financial performance (Ahmad et al., 2018; Arsyad et al., 2021). Financial performance can be said to be healthy if the company can carry out good business processes and management to generate value for consumers and reduce costs in the long term. From the initial observations made, we found that the information on the financial performance of PDAM Tirta Dharma, Parepare City, did not fully reflect the company's performance. One of the factors causing this condition is the not yet optimal application of the principles of good corporate governance (GCG), which consists of transparency, accountability, responsibility, fairness, and independence. In addition,

another cause is that the performance measurement system based on financial performance information is not yet optimal, which can produce feedback for achieving goals that are more effective and efficient.

So that to obtain a good performance appraisal, it is necessary to apply the applicable assessment principle to avoid results that can obscure and hide the company's ability to achieve an economic value in the future. One of the proper performance appraisal principles to assess the company's performance is to use the principles of GCG, which consist of transparency, accountability, responsibility, fairness, and independence. Combining these five dimensions of Good Corporate Governance is far more comprehensive than the principles that only concern financial aspects. Nevertheless, many companies, especially BUMN and BUMD, still apply it solely because they follow the law and avoid sanctions, compared to the awareness of making the GCG principles part of the company culture.

In the modern economy, management and management of companies are increasingly separated from corporate ownership. When there is a separation between the owner (principal) and the manager (agent) in a company, there is a possibility that the owner's wishes are ignored. This fact, and the realization that agents are expensive, set the foundation for a complex but valuable group of ideas known as agency theory. When the owner (or manager) delegates decision-making authority to another party, the two parties have an agency relationship. Agency relationships, such as those between shareholders and managers, will be effective as long as managers make investment decisions that are consistent with the interests of shareholders.

Jensen & Meckling, (1976) stated that agency theory is a concept that describes the relationship between the principal (contract giver) and agent (contract recipient), the principal contracts the agent to work for the interests or goals of the principal so that the principal gives decision-making authority to the agent to achieve goals. The agent is responsible for achieving these goals and the agent and the principal. One very important in agency theory is decentralization or delegation of decision-making authority from the principal to the agent. The agency relationship is expected to create goal alignment between the principal and the agent. However, between the both, there may still be differences in achieving their respective goals so that a control system is needed (Supyono, 2018). Agency theory is expected to reduce agents' actions beyond the control of the principal, regarding zero-sum games, into the solution of a plus-sum game to ensure the prosperity of the principal and the agent. However, agency theory still has several weaknesses, including the position of top management and principal to the management of organizational units below it.

When the interests of managers differ from those of owners, the decisions made by managers are likely to reflect the preferences of managers compared to owners (Rahim et al., 2019; Hasanuddin et al., 2021). The agency relationship perspective is the basis for understanding the relationship between managers and shareholders (Muslim et al., 2019). An agency relationship is a contract between the manager (agent) and the shareholders (principal). The agency relationship sometimes creates problems between managers and shareholders (Siagian & Tresnaningsih, 2011). Conflicts can occur because humans are economic creatures who have a self-interested nature. Shareholders and managers have different goals, and each wants their goals fulfilled. The result is the emergence of a conflict of interest. Shareholders want a more significant and faster return on their investment. In contrast, managers want their interests to be accommodated by providing the maximum compensation or incentives

for their company performance. So that, to overcome this conflict, it is necessary to have good corporate governance within the company to give the owner confidence and trust in managers that they can utilize all resources optimally so that the company's profitability can increase.

Siagian (2011) states that agency theory uses three assumptions of essential human nature: Humans are generally self-interested. Humans have limited thinking power regarding the perception of the future (bounded rationality). Humans always avoid risk (risk-averse). From the assumption of human nature, it can be seen that this nature triggers agency conflicts that often occur between managers and shareholders. Managing companies tend to prioritize personal interests (Hasanuddin et al., 2021). Agency theory implies the existence of information asymmetry between managers as agents and owners (shareholders) as principals. Information asymmetry arises when managers know more about internal information and the company's prospects in the future for other stakeholders.

The implementation of GCG is necessary to build public and international trust as an absolute requirement for companies to develop better and healthier. Wahyudi Prakarsa (2009) explains that good corporate governance is an administrative mechanism that regulates the relationships between company management, commissioners, directors, shareholders, and interest groups (stakeholders). GCG is a system (input, process, output) and a set of rules that regulate the relationship between various interested parties (stakeholders), especially in the narrow sense of the relationship between shareholders, the board of commissioners, and the board of directors in order to achieve company goals. GCG is included to regulate these relationships and prevent significant mistakes in the company's strategy.

The principles of Good Corporate Governance referred to in the Implementation of Good Corporate Governance include:

1. Transparency, namely openness in carrying out the decision-making process and openness in presenting material and relevant information about the company.
2. Accountability, namely clarity of functions, implementation, and accountability of the organization so that the company's management is carried out effectively.
3. Responsibility, namely conformity in the company's management to the applicable laws and regulations and sound corporate principles.
4. Independence is a condition where the company is managed professionally without conflict of interest and influence/pressure from any party not by the applicable laws and regulations and sound corporate principles.
5. Fairness, namely justice and equality, in fulfilling the rights of stakeholders that arise based on agreements and applicable laws and regulations.

GCG will indirectly be able to encourage the utilization of company resources in a more effective and efficient direction, which will help create growth or development of the national economy. GCG can help companies and the national economy by attracting investors' capital at a lower cost by improving the confidence of domestic and international investors and creditors. Assist the company's management in ensuring/guaranteeing that the company has complied with the provisions, laws, and regulations. Building management and Corporate Boards in monitoring the use of company assets and reducing corruption.



To find out the good and bad financial condition of a company, Riyanto, (2007) several things become benchmarks in analyzing and assessing the company's financial condition. Liquidity shows the extent to which the company's ability to meet its short-term obligations or which must be paid immediately. If the company can fulfill its short-term obligations by the predetermined time limit, it can be said that the company is in a liquid state. Conversely, if the company cannot pay its short-term obligations on time, the company is in an illiquid condition. It means that the company's financial condition is not in good condition, and as a result, the company will soon experience financial difficulties. The company's liquidity can be measured using the current, quick, or acid test ratios.

Solvency shows the extent to which the company can pay its long-term obligations or pay its obligations when the company is liquidated. A company can be said to be solvable if it can pay all its debts with its assets. Conversely, if the amount of assets owned by the company is not sufficient to pay off its debts, then the company can be said to be unsolvable. It means that the company's financial condition is not in good condition, and as a result, the company will experience financial difficulties when dissolved. The company's solvency can be measured using debt to equity ratio (comparing total debt with equity), long-term leverage (comparing total long-term debt with equity), and short-term leverage (comparing total short-term debt with total equity).

Profitability is the company's ability to profit during a specific period. Profitability is used to assess the company's success in obtaining profits and measure the company's efficiency in using its assets or capital and profitability. Therefore, profitability can also be said as profitability. High profitability is more important than big profits for company management and investors.

## METHODS

This research was conducted at the Regional Drinking Water Company (PDAM) Tirta Dharma Pare-Pare City on Tirta Dharma Street, Ujung Baru, Soreang, Pare-Pare City, South Sulawesi. In this study, our research data was collected by conducting direct interviews with the directors of PDAM Pare-Pare. The data in this study will be analyzed using a model developed by (Haberman & Miles, 2002), which suggests three steps to analyze interview data. First. Data reduction (data reduction), second. Presentation of data (data display) and third. Conclusion or data verification (conclusion drawing/verification). Data reduction is simplifying data, summarizing data, selecting main things, focusing on essential points, and categorizing data according to its type. The data reduction process uses thematic analysis (Thematic Analysis). Thematic analysis by Braun & Clarke, (2006) is an analytical method to identify, analyze and present patterns (themes) contained in the data. This pattern is expected to provide an overview to understand social phenomena and phenomena (Sugiyono, 2014). Miles & Huberman, (1998) stated that the next stage in qualitative data analysis is data presentation. The presentation of data generally used in qualitative research is the presentation of narrative texts in the form of short descriptions or the like (Sugiyono, 2010). According to Miles and Huberman (1998) drawing conclusions and verification. Conclusions are used to answer research questions. Conclusions are findings in the form of a description of an event that is only understood after being researched, which comes from interpreting the relationship pattern presented (Sugiyono, 2010).

## RESULTS

Transparency is openness in carrying out the decision-making process and openness in presenting material and relevant information about the company. Based on the interviews conducted with the Head of Public Relations of PDAM Tirta Dharma, it is quoted as follows.

“Every company policy and decision-making issued by the director of PDAM Parepare is very open to be known by every PDAM employee and also to PDAM customers in particular and the Parepare city community in general. If the policy is related to employees, the company will notify it through the human resource manager system. And if it is related to customers, it will be conveyed through mass media, electronic media, and PDAM notice boards”.

Based on the statement put forward, it can be said that the company has been able to carry out one of the principles of good corporate governance, namely providing information openly. The provision of transparent information is also explained in detail in the Parepare Municipal PDAM's behavioral guidelines.

### *Accountability*

Accountability is the clarity of the functions, implementation, and accountability of the organization so that the company's management is carried out effectively. Based on the interviews conducted with the Head of Public Relations of PDAM Tirta Dharma, it is quoted as follows.

“The director in carrying out his duties at the end of each year must be accounted for by reporting the results of his work to the Mayor of Parepare as the owner of the company through the supervisory board of PDAM Parepare. Not only annual reports but also quarterly reports and semi-annual reports”.

Based on the explanation above, it can be said that PDAM Parepare has implemented the principles of Good Corporate Governance, namely accountability. The form of accountability is intended to ensure the process of evaluating the results of the company's achievements. In addition, it ensures that every policy change has been effective and efficient.

### *Responsibility*

Responsibility is conformity in the company's management to the applicable laws and regulations and sound corporate principles. The results of interviews conducted with the Head of the Finance Division of PDAM Tirta Dharma are quoted as follows.

"The management of the company is in accordance with applicable laws and regulations and the principles of a healthy company, this can be seen from the results of the annual financial report audit getting an Unqualified Opinion (WTP), where in giving an WTP opinion by an

independent auditor, the director must comply with applicable laws and regulations, only one rule is violated, then the opinion of the WTP will not be given."

Based on the explanation above, it can be said that PDAM Parepare has implemented the principles of Good Corporate Governance, namely accountability. The form of accountability is to ensure that the company's management is by the applicable laws and regulations and the principles of a healthy company. In addition, it ensures that every company policy has been effective and efficient.

### *Independence*

Independence is a condition where the company is managed professionally without conflict of interest and influence/pressure from any party not by the applicable laws and regulations and sound corporate principles. Based on the interviews conducted with the Head of Public Relations of PDAM Tirta Dharma, it is quoted as follows.

"The regional drinking water company (PDAM) of the City of Parepare is managed professionally without any interest and influence or pressure from any party. This is in accordance with the authority given by the Mayor of Parepare through regional regulation Number 1 of 1975 concerning the establishment of PDAM Parepare, in which the director is given autonomy in managing the company without any outside interference".

Based on the explanation above, it can be said that PDAM Parepare has implemented the principles of Good Corporate Governance, namely independence. The form of independence is intended to ensure that the management of the company is not held hostage by interests that can harm the livelihood of the community through the use of clean water. In addition, it ensures that every policy that is decided is based on professional considerations.

### *Fairness*

Fairness is justice and equality in fulfilling the rights of stakeholders that arise based on agreements and applicable laws and regulations. Based on the interviews conducted with the Head of Public Relations of PDAM Tirta Dharma, it is quoted as follows.

"This can be seen by involving all PDAM employees by signing an integrity pact."

Based on the explanation above, it can be said that PDAM Parepare has implemented the principles of Good Corporate Governance, namely Fairness. The signing of the integrity pact shows that there is a commitment by the company to uphold integrity in every company activity.

**Information on financial performance at PDAM Tirta Dharma****Liquidity Information**

Liquidity information is information that shows the extent of the company's ability to meet its short-term obligations or which must be paid immediately. If the company can fulfill its short-term obligations by the predetermined time limit, it can be said that the company is in a liquid state. On the other hand, if the company cannot pay its short-term obligations on time, the company is in a liquid state. It means that the company's financial condition is not in good condition, and as a result, the company will soon experience financial difficulties. The company's liquidity can be measured using the current ratio.

The information on the liquidity of PDAM Tirta Dharma City of Parepare is described in table 4.

**Table 4. Liquidation Value as measured by the Current Ratio for 2019-2020**

Year	Current Ratio		
	Current assets	Current Liability	CR
2019	9,384,644,485	6,231,409,637	1.51
2020	9,879,644,377	996,558,195	9.91

Based on the description of table 4, it can be seen that the Liquidity value as measured by the company's 2019 current ratio is 1.51. Meanwhile, the company's 2020 current ratio is 9.91. Thus it can be said that there is an increase in the value of liquidity.

**Solvability**

Solvency information is information that shows the extent of the company's ability to pay its long-term obligations or pay its obligations when the company is liquidated. A company can be said to be solvable if it can pay all its debts with its assets. Conversely, if the amount of assets owned by the company is not sufficient to pay off its debts, then the company can be said to be unsolvable. It means that the company's financial condition is not in good condition, and as a result, the company will experience financial difficulties when dissolved. The company's solvency can be measured using debt to equity ratio (comparing total debt with equity), long-term leverage (comparing total long-term debt with equity), and short-term leverage (comparing total short-term debt with total equity).

The information on the Solvability of PDAM Tirta Dharma Parepare City is explained in table 5.

**Table 5. Solvency Value as measured by Debt to Equity Year 2019-2020**

Year	Debt To Equity		
	Total Debt	Company Capital	DER
2019	6,437,411,409	15,619,954,908	0.41
2020	2,463,239,628	26,685,198,173	0.09

Based on the description of table 5, it can be seen that the Solvency value as measured by the company's Debt to equity ratio in 2019 is 0.41. Meanwhile, the company's Debt to equity ratio in 2020 is 0.09. Thus it can be said that there is a decrease in Solvency value.



### ***Profitability***

Profitability information is information that describes the company's ability to earn a profit during a specific period. Profitability is used to assess the company's success in obtaining profits and measure the company's efficiency in using its assets or capital and profitability. Therefore, profitability can also be said as profitability. High profitability is more important than big profits for company management and investors. This study uses Return on Assets (ROA) to measure the company's profitability. The information on the profitability of PDAM Tirta Dharma Parepare City is described in table 6.

**Table 6.** Profitability Value as measured by ROA for the Year 2019-2020

Year	Return on Asset		
	Profit before tax	Total Assets	ROA
2019	2,229,856,859	22,057,366,316	0.10
2020	483,845,143	29,148,437,802	0.02

Based on the description of table 6, it can be seen that the Profitability value as measured by the company's ROA in 2019 is 0.10. Meanwhile, the company's ROA in 2020 is 0.02. Thus, there is a decrease in the value of profitability as measured by ROA. Meanwhile, some summary findings from interviews with PDAM Tirta Dharma Parepare City revealed three main obstacles.

"The first obstacle is that PDAMs are required to deposit PAD to the local government, the problem is that the tariff does not match the cost of production. the second concerns the problem of PDAM water quality, there are still some wells that are still high in iron. Third, the electricity cost is too expensive. Well, that's the problem."

PDAM Parepare has three obstacles that can hinder its financial performance. First, the rate determination for depositing dividends to the regional treasury is not by production costs. So that the company has difficulty pursuing the target of depositing with the production costs used. Second, the problem of water quality, PDAM is still finding some wells that are still high in iron, high iron in water can reduce the stock of water available and distributed to the community and other water consumers. Third, the cost of electricity is too high. High electricity costs can increase production costs. The high cost of production requires PDAM to increase prices to meet the target. However, this policy is difficult to implement because PDAM is a regional company tasked with managing water resources for the livelihood of the entire community.

### ***Discussion***

#### ***Implementation of Good Corporate Governance (GCG) on PDAM financial performance information***

Good corporate governance is an administrative mechanism that regulates the relationships between company management, commissioners, directors, shareholders,

and interest groups (stakeholders). The relationship in question is a professional, ethical relationship based on openness, accountability, responsibility, independence, and justice. Every company must be able to implement the principles of Good Corporate Governance. Based on the research results described above, it is known that the Regional Water Company Tirta Dharma Parepare City has implemented the principles of Good Corporate Governance on financial performance information. These results can be seen from information disclosure, financial reporting accountability, and financial accountability shown in the information on the financial performance of the Tirta Dharma Regional Water Company as measured by the company's Liquidity value, Company Solvency Information, and Profitability Information. These results can be described in table 7.

**Table 7.** Financial Performance Information in 2019-2020

Year	Financial Performance Information			Average
	Liquidity (CR)	Solvency (DER)	Profitability (ROA)	
2019	1.51	0.41	0.10	0.67
2020	9.91	0.09	0.02	3.34
Total	5.71	0.25	0.06	

Based on table 7, it can be seen that the financial performance information at PDAM Tirta Dharma Parepare City for two years, namely the 2019 - 2020 period, decreased in solvency value from 0.41 to 0.09 with an average of 0.25. The decline in financial performance also occurred in the profitability value from 0.10 to 0.02 with an average of 0.06. Meanwhile, the financial performance increased in the liquidity value from 1.51 to 9.91 with an average of 5.71. Meanwhile, information on the financial performance of PDAM Tirta Dharma, Parepare City, every year, namely the 2020 period, shows that financial performance only revolves around the average financial performance of 3.34. The lowest financial performance is the value of profitability. The highest is the value of Liquidity. Compared with the financial performance of PDAM Tirta Dharma, Parepare City every year, namely the 2019 period, there is an increase in the financial performance of 2.67. Thus it can be said that the financial performance information based on observations per year has increased. However, based on the results of the interviews described above, the increase in financial performance in the last two years has not contributed to the increase in Parepare's local revenue. Thus it can be said that the increase in financial performance occurred but was low.

Based on the review of the principle of independence, the results of improving financial performance can provide information that PDAM Tirta Dharma City of Parepare can work independently and contribute to helping increase the original income of the local government of Parepare City. However, based on the findings of the research that has been stated above, several obstacles can hinder the process, including the high cost of electricity and reducing the stock of clean water that is available and distributed to the community and other water consumers due to several clean water wells with high iron levels.

PDAM Tirta Dharma City of Parepare took two steps: first, adjusting prices. In other words, the company will increase the price of clean water. In contrast, the second step is to classify electricity payments based on business and public service orientation. PDAM Tirta Dharma, as a regionally owned company, is still oriented to public services, namely providing clean water to the community, so it must be classified into a group of electricity user companies with a public service orientation. This step is expected to reduce production costs through electricity costs to get clean water at low and affordable prices.

## CONCLUSION

Based on the results of the research and discussion that have been described, the research concludes that PDAM Tirta Dharma Pare-Pare has applied the principles of Good Corporate Governance to the financial performance information, namely the Principles of Openness, Accountability, Responsibility, Independence, and Fairness. The principles inform the financial performance of PDAM Tirta Dharma in Pare-Pare City of Good Corporate Governance, namely company liquidity information, company solvency information, and company profitability information. The results of the financial performance of PDAM Tirta Dharma Pare-Pare City for two years, namely the 2019 - 2020 period, decreased in solvency value from 0.41 to 0.09 with an average of 0.25. The decline in financial performance also occurred in the profitability value from 0.10 to 0.02 with an average of 0.06. Meanwhile, the financial performance increased in the liquidity value from 1.51 to 9.91 with an average of 5.71.

It is suggested to the head of PDAM Tirta Dharma in Pare-Pare City to pay attention to the principles of Good Corporate Governance because it can support financial performance information. The research findings show that the application of Good Corporate Governance can improve financial performance information. It is recommended to PDAM Tirta Dharma Pare-Pare City to improve financial performance information consistently. One of the suggestions that can be given is implementing the principles of Good Corporate Governance. For further research, it is hoped that researchers will change the formulation of analytical methods and informants and research samples to ensure the accuracy and consistency of research results.

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