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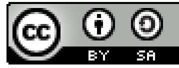

Application Of Business Ethics and Good Corporate Governance To Company Financial Performance

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Abstract. This research aims to assess the relationship between the implementation of business ethics, Good Corporate Governance (GCG) practices, the role of the board of directors, and managerial accounting practices on company financial performance. Through a comprehensive literature analysis, evaluating empirical evidence from a number of relevant studies in this theme. The findings show that implementing strong business ethics can increase shareholder and creditor trust, which in turn has a positive impact on a company's financial performance. Furthermore, effective GCG practices, including transparency, accountability and independence of the board of directors, have been proven to have a significant impact on improving a company's financial performance. The role of the board of directors as a supervisor and strategic advisor also has an important role in ensuring compliance with ethical standards and GCG principles. On the other hand, thorough managerial accounting practices can help management make better decisions, which ultimately improves the company's financial performance. Therefore, uniting business ethics, GCG, the role of the board of directors, and managerial accounting is the main key in improving the company's overall financial performance. Keywords: Business Ethics, Good Corporate Governance, Board of Directors, Financial Performance.

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INTRODUCTION

The company was established with various objectives. Besides seeking profits, they also aim to survive in the industry market for as long as possible. Therefore, companies need to plan appropriate steps to ensure their sustainability. One step that can be taken is by ensuring the continuity of financial health. To achieve this, implementing ethical principles in business operations has become a common approach used today to maintain and enhance the financial health of the company.

(Maulana & Haryadi, 2022) The importance of business ethics cannot be overlooked as it contributes to enhancing the performance of the company and creating a healthy business environment. According to responsible business researchers, a business that considers the interests of stakeholders in every decision is deemed as a good practice. To achieve this goal, regulations are necessary to ensure that business operations remain within an ethical framework acceptable to all involved parties. Business ethics serve as a watchdog to ensure that management continues to be accountable in meeting the needs of not only shareholders but also stakeholders comprehensively.

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In the 1970s, the idea of business ethics first emerged in the United States. Subsequently, around the 1980s, this concept began to spread and develop in Western Europe as a new field of study. By the 1990s, business ethics became a global phenomenon reaching various parts of the world, not limited to Western regions such as Europe and the United States. One way to implement the principles of business ethics is by adopting Good Corporate Governance (GCG) Principles. (Cahyani et al., 2024)

Business ethics and GCG are not only moral obligations but also crucial factors in determining the financial performance of a company. These principles form a framework that guides the behavior of the company in its interactions with various parties, from shareholders to employees and the wider community. According to Fajri (2018), referring to the work of Hamdani (2016:20) in his book "Good Corporate Governance: Ethical Perspectives in Business Practice," GCG can be defined as a system that provides guidance and oversight to the activities of a company. This definition highlights the importance of GCG in building trust, fostering cooperation, and shaping a shared vision among all parties involved in the company. Its aim is to address potential conflicts of interest between these parties and management. (Uci Rosalinda et al., 2022)

Amid technological advancements and globalization, business competition is becoming increasingly fierce and modern. In this context, companies are required to continually improve their performance to remain relevant. The performance of a company is a crucial factor considered by investors in assessing their investment potential. The growth of a company can be seen through its financial performance. Evaluating financial performance is crucial for understanding the financial situation of the company. To maintain financial performance to remain competitive, continuous improvement efforts are required. In this framework, efficient control mechanisms are necessary to direct the operational activities of the company and acknowledge the diverse interests of the parties involved. (Aprila, 2022).

Various factors influence financial performance, including the implementation and principles of good corporate governance. This is essential for every company to survive and compete in a competitive business environment. Thus, companies can consistently apply business ethics principles and create a healthy, efficient, and transparent working environment. In the context of this research, the quality of corporate governance is assessed through elements such as the board of commissioners, board of directors, audit committee, independent commissioners, and institutional ownership.

According to FCGI, it is important for the Board of Commissioners to implement good corporate governance by supervising the company's strategy and management. The OECD states that the board of directors is responsible for the use of company resources. The audit committee, according to IKAI, strengthens financial and risk supervision. Independent commissioners, according to the National Committee for Governance Policy, are board members with no business connections. Institutional ownership, such as Susanto & Pricilia, refers to shares by institutions for management supervision (Aprila, 2022).

Although the importance of business ethics and good corporate governance (GCG) principles has been widely recognized, there is still ongoing debate regarding the best methods to implement them and their impact on a company's financial performance. Some studies highlight a positive correlation between ethical business practices, GCG implementation, and financial performance, while other studies produce varying and even contradictory findings.

Therefore, in this literature review, we will further explore the existing empirical evidence on the correlation between the implementation of business ethics, GCG practices, and corporate financial performance. We will analyze findings from related studies in an effort to gain a more comprehensive understanding of how these factors are interconnected and how they influence a company's financial results.

LITERATURE REVIEW

Agency Theory

In this research, we use agency theory. Jensen and Meckling (1976) explain that agency relationships occur when owners (who are usually investors) make contracts with other people (agents) who have special expertise to manage the company on their behalf. Agency theory reflects the separation of roles between owners and managers. The company, as a place where owners and managers meet, can cause conflict because the manager's actions may not be in accordance with what the owner expects. In terms of authority and responsibility, the owner and manager are bound by the work contract agreed upon by both of them, including the delegation of decision-making authority from the owner to the manager. Therefore, it is possible that managers do not always act in the interests of owners (Anandayama & Suwardi, 2021).

Business Ethics

The concept of "business ethics" involves two elements, namely "ethics" which is related to the application of values, and "business" which includes all efforts to achieve profit.

In the context of the business world, "business ethics" reflects the use of values in managing a company (Maulana & Haryadi, 2022). Business ethics is part of the philosophical approach that regulates individual and organizational behavior in the business environment. It involves concepts such as fairness, integrity, transparency, social responsibility, and ethical considerations in making business decisions. Business ethics highlights the importance for companies to not only focus on financial profits alone, but also consider the social, environmental and economic impacts of their activities. This includes a company's interactions with employees, consumers, suppliers, local communities, and the general public. In addition, business ethics also includes compliance with applicable laws and regulations, as well as widely accepted moral standards (Judijanto et al., 2024).

The aim of business ethics is to increase the moral awareness of business people so that they run business honestly and ethically, not with dishonest practices. Business ethics encourages business people to create a positive business image and management, so that their business is appreciated by those who prioritize ethical values in the business world. Apart from that, it also aims to eliminate the negative image of dishonest and unfair business practices. Business activities have ethical implications, therefore, business people need to be ethically responsible in running their business (Sumari, 2020).

Good Corporate Governance

There are two main theories related to corporate governance, namely stewardship theory and agency theory (Shaw, 2003). Stewardship theory is rooted in philosophical assumptions about human nature, which emphasize that humans are basically reliable, act responsibly, and have integrity and honesty in their relationships with other people. This theory emphasizes the importance of the trust relationship expected by shareholders. In other words, stewardship theory views management as an entity that can be trusted to act in the interests of the public and other related parties (Nurvita, 2020).

Use of institutional resources to manage community problems and affairs. On the other hand, corporate governance encapsulates a series of processes, rules, policies, laws and institutions that influence the way a company or corporation is directed, regulated and controlled. Therefore, GCG, which initially focused more on the performance and financial aspects of the company, has now developed to include all stakeholders and includes a code of ethics and behavior to ensure compliance with GCG principles.

According to research (Trisnaningsih, 2007), Good Governance refers to administrative management that is based on ethical principles and emphasizes professionalism in business activities and formation. This explains that a thorough understanding of corporate governance involves creating regulations that regulate relationships between stakeholders such as shareholders (investors), company management, government, creditors, employers, apprentices, and other parties who have related rights and obligations. This forms a system for organizing and controlling companies, so that they can carry out their functions effectively in achieving organizational or company goals.

Board of Directors

The board of directors is the main decision-making body in a company whose task is to manage the running of the company. They have the responsibility to set strategy, formulate operational policies, and ensure that company management runs well (Intia & Azizah, 2021).

The results of research conducted by (Silvianti et al., 2023) concluded that the existence of a board of directors has a positive effect on the company's financial performance. The presence of more members on the board of directors is associated with improved financial performance, because it facilitates a more efficient division of tasks and responsibilities, as well as more effective decision making. This finding is supported by previous research, including studies conducted by (Rosiana & Mahardika, 2020), (Maf'ulla & Rachmawati, 2024), and (Fitrianingsih et al., 2022), This research shows that the presence of a board of directors has a beneficial effect on the financial performance of banking companies, especially in terms of return on assets (ROA). Apart from that, research by (Rizki & Wuryani, 2021) also confirms that the level of quality of performance of the board of directors has a positive relationship with the company's financial performance. In other words, the higher the quality of the board of directors' performance, the better the company's financial performance.

Agency theory also states that the presence of a board of directors plays an important role. Increasing the number of members of the board of directors as company agents can improve operational management and decision making, which in the end can increase company profits.

Financial Performance

Sanjaya Surya (2018:282) stated in Nikmah (2021) Financial performance refers to the level of achievement achieved by a company in managing its finances effectively. This performance is the result of the efforts of individuals or groups within an organization in

accordance with their duties and responsibilities, which aims to achieve organizational goals legally, in accordance with legal regulations, and following applicable moral and ethical standards.

Financial performance does not always improve; sometimes it can decrease. One way to evaluate a company's financial performance is to analyze its financial reports using various financial ratios. Regular evaluation of financial performance is very important for management because it becomes the basis for future decision making and is used as a basis for providing rewards or sanctions to employees. In this research, profitability ratios are used as a tool to assess financial performance.

RESEARCH METHODS

This article uses the Systematic Literature Review (SLR) method. The SLR research approach involves steps such as collecting data from various literature sources, reading and recording important information, and managing research materials with the aim of identifying solutions through comprehensive literature analysis (Komala et al., 2023).

The use of a Systematic Literature Review (SLR) involves the process of identifying, assessing, evaluating, and interpreting all previous research findings. The aim is to answer the research questions that have been set. The steps of a Systematic Literature Review include grouping, identifying, collecting and analyzing research findings related to the implementation of business ethics in Good Corporate Governance (GCG) and its impact on financial performance.

The Systematic Literature Review (SLR) technique relies on various online applications such as Google Scholar, Mendeley, and other platforms to collect relevant references. This Literature Review article uses information from articles published within the last five years, from 2019 to 2024.

RESULTS AND DISCUSSION

According to Cahyani et al, with the research title Implementation of Business Ethics through Good Corporate Governance (GCG) on the Financial Performance of Conventional Banking, it resulted in the finding that GCG exists to reduce the possibility of conflict between agents (management) and principals (owners), so that GCG cannot be separated from theory. agency. The study also shows that the Independent Director, Audit Committee, and Board of Commissioners do not have a significant impact on the financial performance of conventional

banking, while the Board of Directors and GCG influence the financial performance of conventional banking. (Cahyani et al., 2024).

Based on this research, factors in implementing GCG have the potential to influence the financial performance of banking companies in various ways. The role of the Independent Commissioner, Audit Committee and Board of Commissioners does not show a significant impact on financial performance, however the Board of Directors actually plays a positive role in improving the company's financial performance.

Aprilia said that in this era of globalization, technological developments are increasingly rapid and modern, which has triggered business competition to become increasingly fierce. In this situation, intense competition demands that companies maintain and improve their performance. This is important because company performance is one of the main factors considered by investors in assessing their investment potential. Thus, investors can make wise investment decisions based on evaluating the company's performance (Aprila, 2022).

From research entitled "The Influence of Good Corporate Governance on Company Financial Performance" it was found that the role of the board of directors has a positive impact on the company's financial performance. However, there is no significant influence of the board of commissioners, audit committee, independent commissioners, and institutional ownership on the company's financial performance.

In another research entitled "Business Ethics, Corporate Governance and Stakeholders" by Maulana & Haryadi, it was emphasized that to maintain high standards of business ethics, companies need to implement strong corporate governance practices (good corporate governance). Gradually, good corporate governance can become the foundation for companies that want to expand into the global market. However, in reality, the principles of business ethics are often ignored, and the implementation of good corporate governance is often only seen as a legal obligation. This causes many businesses to take unethical actions, which ultimately harm stakeholders (Maulana & Haryadi, 2022).

The research concludes that ethics in business, stakeholders and corporate governance are elements that are interrelated and cannot be separated. Business must be run on ethical principles, and to ensure that happens, corporate governance needs to pay attention to them. A business that is managed with integrity will safeguard the interests of stakeholders so that they are not neglected or harmed. When a company pays attention to stakeholders, this shows the

company's commitment to the continuity of its business in the future, not just focusing on short-term profits.

Based on previous research, analysis has been carried out on various aspects of implementing Good Corporate Governance (GCG). There are six studies and articles that discuss the impact of GCG on the financial performance of banking companies. In this context, researchers use variables such as independent commissioners, audit committees, board of commissioners, board of directors, and GCG as the focus of research related to the impact of GCG on financial performance. The following are findings resulting from previous research (Cahyani et al., 2024).

Board of Directors

The board of directors is a key component in the leadership hierarchy of a company which is tasked with managing the company. The primary responsibilities of the board of directors include setting strategic direction, formulating operational policies, and ensuring continuity of company management. (Intia & Azizah, 2021).

Research conducted by (Aprila et al., 2022) concluded that the existence of a board of directors has a positive effect on the financial performance of a company. The company's financial performance tends to increase along with an increase in the number of members of the board of directors. This is due to increased effectiveness and efficiency in the division of tasks, responsibilities and decision making among members of the board of directors. The results of this research are supported by research conducted by Rosiana & Mahardhika (2020); (ROA), has a beneficial impact on the financial performance of banking companies. Apart from that, it is also supported by research by (Rizki & Wuryani, 2021) which states that this analysis confirms that the involvement of the board of directors has a significant effect on financial performance, and the higher the level of excellence in the performance of the board of directors, the better the company's financial performance.

Business Ethics and Good Corporate Governance

GCG is a structure tasked with overseeing the running of the company. This concept is closely related to agency theory initiated by Jensen and Meckling. They describe situations in which managers act as “agents” representing shareholders referred to as “principals.” In this perspective, managers are considered as an extension of shareholders because they are given the mandate to make business decisions on behalf of shareholders. This agency theory describes the complex relationship between shareholders and company management.

GCG is a set of regulations developed to manage interactions between these various parties. According to the definition of GCG provided by the Forum for Corporate Governance in Indonesia (FCGI), the main objective of GCG is to supervise the company by maintaining harmonious relationships between shareholders, company management, creditors, government, employees and other stakeholders, both internal and external. outside the company (Hdyan, 2023).

Research conducted by (Hdyan, 2023) Using a quantitative approach, this research involved 46 banking companies listed on the Indonesia Stock Exchange (BEI) during the 2015-2019 period. The results of the analysis conclude that overall, the implementation of Good Corporate Governance (GCG) together has a major impact on the financial performance of banking companies. This finding is in line with previous research conducted by (Rosiana & Mahardika, 2020). The conclusion of this research is that overall, the implementation of Good Corporate Governance (GCG) has a positive impact on financial performance. Financial performance is measured by return on assets and capital adequacy ratio. Research conducted by Rosiana & Mahardhika involved 43 banking companies listed on the Indonesia Stock Exchange (BEI) during the 2014-2017 period.

The study conducted by (Fitrianingsih et al., 2022) This research produced different conclusions from previous research. If a previous study conducted by Rosiana & Mahardhika confirmed that GCG has a positive impact on financial performance, research conducted by Fitrianingsih and Asfaro concluded that Good Corporate Governance (GCG) does not significantly influence the financial performance of return on assets (ROA) in banking companies. . This research is correlational in nature and uses quantitative data, with the research population consisting of 43 sub-sector banking companies listed on the Indonesia Stock Exchange. The sample selection criteria include sub-sector banking companies listed on the Indonesia Stock Exchange in the period 2013 – 2017, as well as sub-sector banking companies that did not issue annual reports in the same period.

CONCLUSIONS

Based on the results of existing research, it can be concluded that Good Corporate Governance (GCG) and Business Ethics are closely related to agency theory. This theory highlights the possibility of a conflict of interest between management as agents and company owners as principals, especially due to separation of ownership. Therefore, implementing GCG principles is considered important to reduce the risk of conflict. In practice, several special

organizational structures are used in implementing GCG, such as Independent Commissioner, Audit Committee, Board of Commissioners and Board of Directors.

Previous research results show that Good Corporate Governance (GCG) has an impact on financial performance, whether significant or not. These differences in results could be caused by variations in the analytical methods used. Studies that show a significant impact of GCG tend to draw conclusions simultaneously, while those that show an insignificant impact tend not to do so.

In addition, according to research conducted by Fitrianingsih & Asfaro (2022), it was found that the influence of GCG on financial performance was not significant, using the agency theory approach only. However, different findings were obtained from research by Rosiana & Mahardhika (2021), which stated that GCG has an important impact on financial performance, by combining agency theory and Resource Based Theory.

Ethics in the world of business, stakeholders, and corporate governance are interconnected parts. Companies that operate with ethical principles must be managed properly by corporate governance to ensure compliance with these values. Maintaining business ethics will ensure that the interests of all parties are protected from neglect or harm. When companies pay attention to their stakeholders, it shows their commitment to future business continuity, rather than simply seeking short-term profits.

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