BAB I
Introduction

1.1. Background

Corporate governance is defined as "the system by which companies are directed and provide accountability to stakeholders" (Corporate Governance Council of Singapore, 2012a). A key objective of corporate governance is to safeguard the integrity of the company's financial reporting process to provide reasonable assurance that the financial statements give an accurate and fair view of its operations and finances.

Good corporate governance protects the interests of key stakeholders and enhances corporate performance. An essential pillar of good corporate governance is the Board of Directors. Directors of a company have a legal and fiduciary responsibility to manage governance risks. Directors must be vigilant in managing risks that may impact the company's operations and financial statements. The Board is ultimately responsible for ensuring the reliability of financial reporting.

Modern corporate governance principles support an approach that considers and balances the legitimate and reasonable needs, interests, and expectations of its stakeholders in an inclusive, ethical, and sustainable manner as part of its decision-making. Corporate boards include those who pursue wealth creation as the sole objective and ethically responsible individuals who seek to improve social and environmental performances. Corporate governance has become a mainstream concern of discussion in corporate boardrooms, educational meetings, and policy circles worldwide (Claessens,2006). Interest in corporate governance has increased since the turn of the century due to corporate fraud, managerial misconduct, and negligence, and massive loss of shareholder wealth (Krechovska,2014)

Like Enron and WorldCom, corporate collapses have led to the realization of the effect and importance of a robust corporate governance system on companies' financial performance. In 2009 global economic recession called for an increasing need to promote good corporate governance across the globe. However, recent corporate problems and business failures have spurred a lively debate on whether firms are adequately governed. Studies on corporate governance have focused more on developed countries, and little has been done in developing countries. There are many reasons for such an explosive interest in this research, but the main reason is corporate governance problems (Alen,2005). Such explosive interest has resulted in heightened interest in the issue among researchers and policy-makers due to a series of unexpected corporate failures that have reignited and increased concerns regarding the effectiveness of board oversight (Hsu,2014).

In Africa, there have been many corporate collapses and financial crises in recent years because of a lack of corporate governance effectiveness. The South African Government recommends that a corporate governance structure comprises an appropriate balance of knowledge, diversity, and independence for discharging their duties objectively and more efficiently. Then, Dzingai(2017) does research examines the effect of corporate governance structures on firm financial performance. They were choosing secondary data of selected Johannesburg Stock Exchange (JSE), Socially Responsible Investment (SRI) Index-listed mining firms' sustainability reports, and integrated annual financial statements are used.

Using panel data analysis of the random-effects model, they determined the relationship between board independence and board size and the return on equity (ROE) for 2010–2015. They found a weak negative correlation between ROE and Board size and a weak but positive correlation between ROE and Board independence. Additionally, there is a positive but weak correlation between ROE and sales growth, but a negative and weak relationship between ROE and firm size. The research recommends that effective corporate governance through a small useful board and monitoring by an independent board result in increased firm financial performance. Then recommend that South African companies comply with the South African government rule recommendations, not as a liability but as an ethical investment that may likely yield financial benefit in the long-term. Although complying with corporate governance principles does not necessarily translate into a significant economic benefit, firms should, however, continue to adopt corporate governance for ethical reasons to meet stakeholder's social and environmental needs for sustainable development.

The other research is according to Khanifah (2020) the study aims to examine the effect of corporate governance disclosure on bank performance by building a corporate governance disclosure index (CGDI) for 10 Islamic banks operating in Iran, Saudi Arabia, and Malaysia. The result found that Islamic banks with a higher corporate governance disclosure level reported high operating performance measured by ROA. In contrast to the expectation, ROE's financial performance is not significantly related to the disclosure of sharia bank governance.

Mining industries are one of the industrial sectors that gives a significant contribution to national investment and export. According to the University of Indonesia Institute of Economic and Community Research (LPEM) study in Finance (2017), one of the mining companies in Indonesia, PT Freeport Indonesia, contributed 91% of Mimika Regency's GRDP, 37.5% of Papua Province's GRDP, and 0,8% of Indonesia's GDP. It has a significant contribution to the growth of national and international industries.

According to Kontan (2018), the implementation of Good Corporate Governance in ANTAM is based on several parameters: (1) BUMN Scorecard, (2) OJK Open Corporate Governance, (3) ASEAN Corporate Governance Scorecard, (4) ASX Corporate Governance Principles and Recommendation According to PT. ANTAM website, PT. ANTAM got an A (excellent) in the mining category and a Special Award of all categories. Johan NB Nababan as the director of PT. ANTAM realizes that Good Corporate Governance is vital in the operation of the company.

So, the researcher wants to try the research in Indonesia Mining Companies. Because Governance structure (Board of Commissioners) as a part of Corporate Governance Disclosure Index and more specifically have a relationship with Financial performance in ROA and ROE?

1.2. Problem formulation

Based on this background, the researchers formulated the problem from this study:

1. Does implementing a Good Corporate Governance structure affect the profitability proxied by ROA on Mining Companies in 2017-2019?
2. Does applying a Good Corporate Governance structure affect the profitability of ROE on Mining Companies in 2017-2019?

1.3 Research Objective

1. To test and analyze the effect of Good Corporate Governance structure on profitability proxied by ROA on Mining Companies in 2017-2019
2. To test and analyze the effect of Good Corporate Governance structure on profitability proxied by ROE on Mining Companies in 2017-2019

1.4 Research Benefit

This research is expected to:

1. Give knowledge about Governance structure and Profitability
2. Give information related to the implementation of Governance structure and profitability in Mining Companies.

1.5. Writing Systematic

Writing this research will divide into five chapters. They will be prepared as follows: Chapter I, Introduction, discusses the general description that becomes research. It consists of background, problem definition, research objective, research benefit, and writing systematically.

Chapter II, Literature Review, discusses the theory that has a relation with the research problem. It consists of previous research and theoretical basis, which helps think base to solve the problem.

Chapter III, Research Method, provides an overview of the plan for doing the research. Along with theories from the literature review, this chapter will encompass the research. This chapter includes research, research limitation, types and source of data, and analysis method.

Chapter IV, Analysis and Discussion, contains data processing result based on the research method.

The last chapter, Chapter V, Conclusion, and Suggestion, contains a conclusion about the research result. It also contains a suggestion for the next research.