Good Corporate Governance Principles And Company Value: The Impact Of Financial Performance

Arfianty[1*], Yadi Arodhiskara[2],Imran Rosadi[3*], Fatimah[4]
arfiantyarfan@gmail.com; imranrosadi020873@gmail.com

[1]Universitas Muhammadiyah Parepare, Indonesia

Abstrack In addition to examining how Good Corporate Governance (GCG) influences the relationship between financial performance and the value of manufacturing companies listed on the Indonesia Stock Exchange, the study aims to ascertain how the value of manufacturing companies on the Indonesia Stock Exchange affects financial performance. The data analysis techniques used in this study are: This study uses a quantitative approach method by testing data, descriptive analysis between variables and verification analysis to test and determine the magnitude of the effect of the variable between financial performance on the value of manufacturing companies on the Indonesia Stock Exchange for the 2017-2017 period. 2019 and also uses Moderated Regression Analysis (MRA) in moderating the relationship of financial performance to the value of manufacturing companies on the Indonesia Stock Exchange for the period 2017-2019. The results of the research conclusions based on the test were obtained for ROE not having a significant effect on Tobins Q. The t value of (-0.413) and significance level of 0.681 (> 0.05) both pointed to this. Although it has a negative parameter coefficient, good corporate governance (managerial ownership) significantly affects the relationship between ROE and Tobins Q. The regression analysis results utilizing the Moderated Regression Analysis (MRA) test, which have a Rsquare value after the moderating variable is removed, suggest this (0.3 percent).

Keywords : Financial Performance, Firm Value, Managerial Ownership, Manufacturing Company

1 Introduction

The development of the business world in the current era of globalization is experiencing a very rapid growth rate, this is accompanied by more and more innovations in the field of knowledge and technology and is supported by advances in the field of information, so that it becomes one of the media in supporting the development of every company because of the ease of obtaining information. . This condition also leads companies to be able to compete competitively through efficient and effective use of their resources.

Financial statements are a form of information that can be used as a source of information from companies in showing a capability or business feasibility value to the public. Healthy or not a company will be assessed through the presentation of their financial statements, and also become the basis for the public in this case investors to be able to make decisions in the field of investment. The Statement of Financial Accounting Concepts (SFAC) outlines that one of the purposes of a financial report is to serve as a source of information for users, while also being a means of evaluation as a basis for assessing the company's financial position.

The presentation of financial conditions in a company's financial statements will of course change every year, with these changes becoming the basis for user information in making decisions. Users of information referred to in this case are elements with an interest in decision making, or it can be said that in addition to the interests of the company, the information presented in the financial statements is also very much needed by suppliers, investors, employees, the government (especially in terms of taxation).

The existence of a company's financial statements, apart from being a benchmark for managerial performance, can also be used as a reference for user information, this is also mandated in Government Regulation Number 24 of 1998 concerning Financial Information, especially in Article 2 where it is emphasized that every company whether it is handled by the government or private parties are required to submit financial reports and financial report documents are open and can be known by the public or the public.

Measuring the value of a company is perceived by the public as a form of success that can be achieved or achieved by a company and is often associated with the number and price of shares offered. The use of shares as a benchmark in assessing the success of a company is based on the consideration that the better the performance of an issuer, the better the public assessment will be and of course this will greatly affect the products offered, including stocks.

Measuring the performance of an issuer or company can certainly be seen from the performance of the financial statements presented to the public, and the nature of the financial statements is valid, not engineered, where measuring the value of the company is usually done through two approaches, namely based on book value and market value. The calculation using book value is done by subtracting the book value from total assets to total liabilities. Meanwhile, for calculations using market value, equity is calculated by multiplying the market price with the number of shares outstanding.

ICBAE 2022, August 10-11, Purwokerto, Indonesia

DOI 10.4108/eai.10-8-2022.2320842

The public in giving an assessment of a company sometimes does not use one of these forms of assessment as a basis with the consideration that when referring to the use of the book value principle, it is suspected that there is manipulative in the management of financial transactions. Meanwhile, if it is based on market value, it is feared that there will be a game from speculators on stock prices in order to make a profit. Lingga and Suaryana (2017) state that one strategy is to use the Tobin's Q ratio model to merge the two measurement models.

The combination of book value and market value by measuring the ratio of market value (outstanding market value plus company debt) to the company's asset value is the ratio model used. This measurement model is considered superior because it can summarize information that is considered relevant to the investment value of a company as well as can provide an overview to the public about the extent to which the market values the company through various aspects as a form of implementation of a financial performance.

A company is said to be successful in generating profits if it can later support prospects, growth and development potential by optimizing existing resources, which is one of the basics in measuring financial performance in a company in accordance with the standard goals that have been set. The form of performance measurement in each company is carried out in order to improve all forms of operational activities in relation to competition against competitors. Therefore, every certain period of time the company is deemed necessary to conduct an analysis of its financial performance in order to obtain accurate information about the condition of the company in general.

Methodology

The approach taken in this research is quantitative where by prioritizing the principle of psychology, while to be able to obtain data accurately in accordance with the objectives to be achieved in this study, the measurement of company value based on financial performance by looking at the role of Good Corporate Governance, will be focused on the company. As for the media utilized for measurement through time series models, notably business data for 2017-2019 through websites at www.idx.co.id and www.ivesnesia.com, manufacturers listed on the Indonesia Stock Exchange. This study project was conducted from Desember 2020 to February 2021.

Conducting research with the time series model will of course focus on document management as the main source of information, where the reference is the Company's Annual Report which will then be analyzed including disclosures on ROE, Managerial ownership model, Institutional, Number of Audit Committees, the percentage of Independent Commissioners, and other information thought to be pertinent to the needs of the research.

Based on the quantitative approach that is used as the basis for managing Data Analysis Techniques in a study, there are several data analysis techniques that will be carried out, including: Multiple Linear Regression Test, Classical Assumption Test, t Test, F Test, Coefficient of Determinants (R2), Model Test and the MRA test (Moderate Regression Analysis)

Data analysis techniques are the basis for analyzing a study, specifically for research with a quantitative approach there are several methods that can be used, namely through the Classical Assumption Test, Determinant Coefficient (R2), Multiple Linear Regression Test, t test and F test, against the model Moderation analysis using the MRA (Moderate Regression Analysis) test model in this study is used to see whether the object or variable that is used as a moderator is able to strengthen the independent variable and the dependent variable.

Results and Discussion

Research result

1. Descriptive Analysis Results

Test are conducted by descriptively analyzing each variable while accounting for the indicators employed, and the outcomes of the analysis are then displayed in the following table.

Table 1. Descriptive Statistics Test Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	63	.22	139.97	18.3610	27.95507
GCG	63	.00	.96	.4537	.37969
Tobins`Q	63	.10	1.29	.5486	.26142
Valid N (listwise)	63				

Source: Secondary data processed through SPSS 23, 2021

Based on the results of the descriptive analysis of the ROE, GDG and Tobin'Q values, it can be described as follows:

a. ROE Variable

Interpretation of the question indicator that is used as a reference for measuring the ROE variable, obtained a minimum value of 0.22 where the data is based on a comparison of the ROE value against the financial statements of all companies studied and the results are interpreted in the financial statements of PT Chitose Internasional Tbk in 2019

Meanwhile, the maximum value obtained is 139.97 which is the interpretation of the Financial Statements of PT Unilever Indonesia Tbk. The average value of this variable, as determined by comparing its minimum and maximum values, was 18.3610, with a standard deviation of 27.95.

b. Variable of Good Corporate Governance (GCG)

The interpretation of the results of the analysis for this variable shows that the minimum value of the average value of interpretation for each indicator is 0.00 and this is indicated by PT. Indofood Sukses Makmur Tbk, PT Chitose Internasional Tbk, PT Astra International Tbk, PT Sumi Indo Kabel.in 2019

While the maximum value from the results of the descriptive analysis of the variables obtained a value of 0.96 at PT Trisula Textile Industries Tbk in 2019. So from the comparison of the maximum and minimum values, the average value is 0.4537 and the standard deviation value is 0.37969.

c. Tobins Q variable

Descriptive Analyst for the Tobins Q variable based on the interpretation of the indicators used as a reference, it can be seen that the minimum Tobin Q value is 0.10 which is obtained from the results of the financial statements of PT. Multi Prima Sejahtera Tbk in 2019, while the Maximum value of 1.29 was obtained in the Financial Statements of PT Langgeng Makmur Industri Tbk in 2019. When comparing the minimum and highest values, a value of 0.5486 with a standard deviation of 0.261 was found as the average.

2. Classical Assumption Test

a. Normality Test Results

One form of classical assumption test that is often used in measuring the feasibility of a study is through the Normality Test, where from the results of the analysis for this test it can be seen whether the level of answers from each respondent has been able to be normally distributed.

The results of the analysis for the normality test of the respondents' answers to each variable can be seen in the following table:

Table 2 : Data Normality Test Results with Kolmogorov-Smirnov One-Sample Kolmogorov- Smirnov Test Statistical Test

		Unstandardized Residual
N		63
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.26117482
Most Extreme Differences	Absolute	.089
	Positive	.089
	Negative	-.072
Test Statistic		.089
Asymp. Sig. (2-tailed)		.200[c,d]

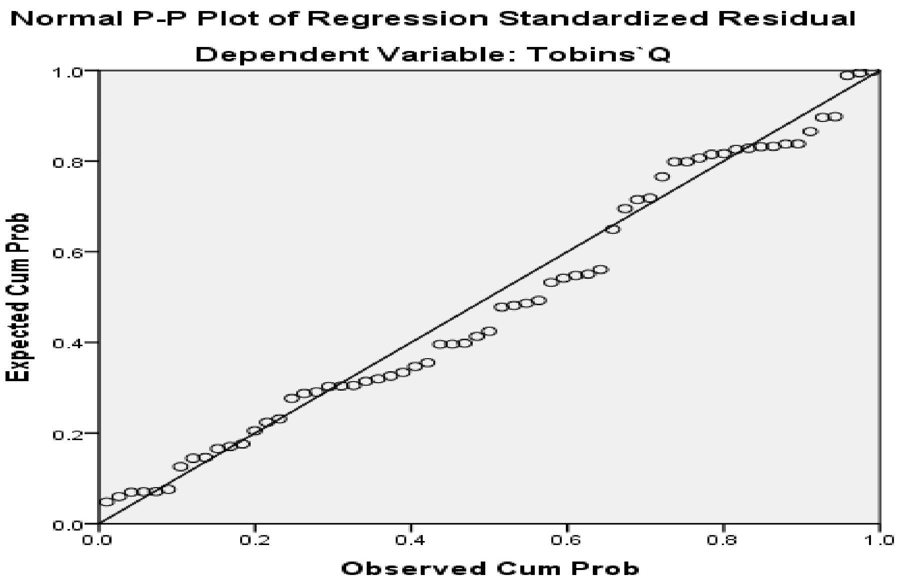
a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: Secondary data processed through SPSS 23, 2021

The basis for making a decision on a Normality Test is if the Asymp value. Sig. (2-tailed) above the probability value of 0.05, it is considered that the respondent's answers have been distributed normally and the research can be carried out using indicators from the variables studied.

The results of the analysis for each variable show that the Asymp value. Sig. (2-tailed) is 0.200 or greater than the probability value of 0.05 so that it can be stated that the respondents' answers have been normally distributed.

Figure 1: Normal P-Probability Plot Test Results



b. Heteroscedasticity Test Results

Tests using the Heteroscedasticity Test or in other words the variance or residuals carried out in the study do not have anything in common with other observations, basically it can be done using several methods, one of which is using the Glacier Test, namely registering the independent variables with their residual values through the basis of taking decisions as follows:

1) If the significance value (Sig) of Independent Variable Regression with Residual > 0.05 value, it can be said that there is no heteroscedasticity in regression testing
2) If the significance value (Sig) of Independent Variable Regression with Residual < 0.05 value, it can be said that there is Heteroscedasticity in regression testing

Table 3. Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.148	.029		5.063	.000
	ROE	-.001	.001	-.161	-1.310	.195
	GCG	.170	.050	.416	3.378	.001

a. Dependent Variable :Abs_Res

Source : processed data results, 2021

The analysis' findings show that each variable has a heteroscedastic relationship based on the value of the independent variable regression with residual. So that to produce accurate research and so that the variance in the study can be stated that there is no heteroscedasticity relationship, then steps are taken to normalize the data through the Natural Logarithm method, so that from these results an image like the following table is obtained:

Table 4: Heteroscedasticity Test Results After Data Transformation

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.315	.148		2.126	.038
	LN_ROE	-1.752	.000	-.062	-.480	.633
	LN_GCG	.014	.412	.004	.034	.973

a. Dependent Variable: Abs_Res2

Based on the standard of decision making on the management of the Heteroscedasticity Test after data transformation using Natural Logarithms, it can be concluded that the significance value (Sig) of Independent Variable Regression with Residual is greater than the alpha value of 0.05, which means that there are no symptoms of Heteroscedasticity

c. Multicollinearity Test

As a basis for measuring the Multicollinearity Test where data transformation has been carried out through Natural Logarithms, the results of the analysis obtained using SPSS can be described in the following table:

Table 5.Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
		B	Std. Error	Beta	Tolerance	VIF
1	(Constant)	.176	.154			
	LN_ROE	-1.252E-5	.000	-.042	.995	1.005
	LN_GCG	.509	.428	.152	.995	1.005

a.Dependent Variable : Tobins'Q

Source: processed data results, 2021

Based on the decision-making mechanism for the multicollinearity test, from the results of the analysis it can be concluded that for all independent variables there is no multicollinearity relationship, because the tolerance values are all above 0.01 while the VIF values are all below the value 10.

3. Results of Hypothesis 1 Model (H1)

a. Coefficient of Determination Test

The results of the determinant test, goddness fit to test, or feasibility test of each independent variable can be used to determine the degree of each independent variable's impact on the dependent variable. The results of the analysis for the goddness fit to test are displayed in the folloeing table.

Table 6. Goodness Fit of Test
Summary Model[a]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.053[a]	.053	-.014	1.14196

a.Predictors : (Constant), LN_ROE

The resultant image demonstrates that all independent variables have an overall influence of 53.0 percent on the dependent variable, which is a tolerance value.

b. Partial Test and Simultaneous Test (F Test) (t test)

1). Partial Test

The Partial test intended in this study is to see the pattern of the relationship between the ROE Variable and the Value of the GCG Variable on Firm Value using the principles in Tobin Q. The following table shows the findinngs of the analysis:

Table 7. partial Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.148	0.029		5.063	0.000
	ROE	0.001	0.001	-0.161	-1.310	-0.195
	GCG	0.170	0.050	0.416	3.378	0.001

The results of these tests, if carried out individually, show that the ROE variable does not have a significant effect on firm value through the principles of Tobin Q.

Meanwhile, GCG can be said to have a significant effect on firm value.

2). Hypothesis Test

Hypothesis testing in this study uses the principles based on the MRA (Moderate Regression Analysis) Test method with the Determinant Test approach as follows

Hypothesis test 1

Table 8. Hypothesis Testing LN_ROE and Against LN_ Tobins'Q
Model Summar

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.050[a]	,002	-,048	,26765

After being approached with GCG Moderation with the Determinant Test model, the following picture is obtained:

Table 9. Hypothesis Testing LN_ROE-LN_GCG and Against LN_ Tobins'Q

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.053[a]	.003	-.014	1.14196

These results show that after the Moderation Test is carried out, it can be seen that ROE can be strengthened through GCG on Company Value.

3). Simultaneous Test

From the output of the F test results contained in the table above, it can be obtained a probability value (F count) of 0.170 and significant at 0.681. So it can be concluded that simultaneously the independent variable has no significant effect on the dependent variable, namely LN Tobins Q.

Table 10. Test Results LN_ROE Against LN_Tobins`Q

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.222	1	.222	.170	.681[b]
	Residual	79.548	61	1.304		
	Total	79.771	62			

a. Dependent Variable: LN_Tobins`Q

a. Predictors: (Constant), LN_ROE

Discussion

1. Interpretation of Results

From the results of the study finally found several results that provide answers to the relationship of each variable. The results of this study indicate that ROE (Return Of Equity) has no effect on Tobins Q, but Good Corporate Governance (GCG) as Managerial Ownership (KM) is able to affect the relationship between ROE and Tobins Q although the direction is negative (weakening).

2. The effect of financial performance on firm value

As for the results of the partial test of ROE on firm value, ROE is well acknowledged to have no impact on a company's worth. These results support several studies conducted by [6], [14]Sasongko and Wulandari (2006), Sry Wahyuni (2009) that there is no effect between ROE and firm value. And some previous studies are not supported by this research because some differences include the use of different profitability on financial performance variables, such as the research conducted by Ni Wayan Yunasih & Made Gede Wirakusuma (2007) with the results of financial performance research having an effect on firm value by using ROA profitability. (Return Of Assets).

3. The influence of Good Corporate Governance (GCG/KM) on the relationship between financial performance and firm value

The interaction variables of ROE and GCG (KM) have an inverse relationship. From the results of the study, it is known that as GCG (KM) increases, the relationship between ROE and Tobin’s will decrease. This supports the research of Demsetz (1983), Fama and Jensen (1983) which show that at a certain stage, the level of managerial ownership does not always have a positive linear relationship with firm value.

Conflicts arising from agency theory are caused by differences in interests between an agent in this case the manager and the shareholders/owners. A manager is seen to be able to balance the interests of the ownner and management, meaning that the more ownership a manager has, the more valuable the company is. According to Demsetz (1983), Fama and Jansen (1983), in relatively low insider ownership, control effectiveness and the ability to equalize interests between owners and managers will have a significant impact on firm value. However, at high insider ownership, this mechanism will reduce its effectiveness. This condition gives rise to Management Entrenchment, which states that high insider ownership will have an impact on the tendency of managers to act in their own interests, because insiders have high voting rights in determining policies, resulting in the owner's inability to carry out control mechanisms properly, this will lead to a decrease the value of the company because there is no unequal interest between managers and owners, namely minority shareholders..

Stulz (1988) and Weston et.al (1998) have empirically proven the entrenchment hypothesis, and found that managers tend to behave opportunistically at high levels of share ownership and make non-optimal decisions that override the interests of the owners. Morck et.al (1989) found three patterns of relationship, a positive linear relationship occurred at the managerial ownership level of 0-5%, a negative relationship at the manager ownership level of 5-25%, and returned positive at the ownership level above 25%. This figure supports the average level (mean) of managerial ownership in the sample companies in Table 5.3 Descriptive Statistics Test Results which show the number 0.4537 or 45.37%.

Conclusions and Suggestuions

From the results of the analysis of the 182 sample companies from 2017-2019 in this study, we can draw the following conclusion:

Tobins Q is not significantly impacted by ROE. The t value (-0.413) with a significance level of 0.681 (> 0.05) indicates this. Thus, hypothesis 1 in the study which states "Financial performance has a positive effect on firm value" is not accepted while Good Corporate Governance (Managerial Ownership) has a significant effect on the relationship between ROE and Tobins Q, although it has a negative parameter coefficient.

Suggestions

for further research:

1. Further research should increase the number of research samples and also be able to involve other industrial sectors in order to reflect the reaction of the capital market as a whole, not only from manufacturing companies.
2. Further research can use financial performance proxies and other GCG proxies, such as PBV, leverage, board of commissioners, independent commissioners, audit committee or other predetermined criteria.

Limitations

This study has several limitations that may interfere with the results of the study, including:

1. This study only takes samples from manufacturing companies, because manufacturing companies are closest to the environment and are the largest industrial sector on the stock exchange, so they do not reflect the reaction of the capital market as a whole.
2. The results of this study do not fully reflect the impact of financial success because Return on Equity (ROE) is only used as a proxy in this study.

The Good Corporate Governance (GCG) mechanism involved in this study is only a managerial ownership mechanism due to other data limitations, therefore it does not fully represent the GCG mechanism.

REFERENCES

[1] Aryani, Dwinita.. "A Study of Financial Performance and Corporate Social Responsibility on Good Corporate Governance and Corporate Values". Journal of Management STIE Malangkucecwara. (2012)

[2] Afiffudin, Beni Ahmad Saebani. Qualitative Research Methodology. Bandung: Faithful Library.(2009)

[3] Anggitasari, Niyanti. The Effect of Financial Performance on Firm Value with Disclosure of Corporate Social Responsibility and Good Corporate Governance Structure as Moderating Variables. Thesis of the Faculty of Economics and Business, Diponegoro University, Semarang.(2012)

[4] Adisusilo, Sutarjo. Learning the Value of Character Construction and VCT as an Innovative Approach to Affective Learning. Jakarta: PT Rajagrafindo Persada (2013)

[5] Christian and Tarigan. Managerial Ownership: Debt Policy, Company Performance and Value. Petra Christian University Journal.(2007)

[6] Herdinata, Christian, “Good Corporate Governance vs. Bad Corporate Governance: Fulfillment of Interests Between Majority Shareholders and Minority Shareholders”, The 2nd National Conference UKWMS, Surabaya.(2008)

[7] Hanafi, Mahmud and Abdul Halim,Financial Statement Analysis, first edition, Yogyakarta: UPP AMP YKKPN.(1996)

[8] Herawaty, Vinola, “The Role of Corporate Governance Practices as Moderating Variables From the Effect of Earnings Management on Firm Value”, 11 Pontianak National Accounting Symposium 23-24 July (2008)

[9] IICG, 22 February, “Corporate Governance”, http://www.iicg.org. accessed 22 February (2010)

[10] Rachmawati, Andri and Triatmoko, Hanung, “Analysis of Factors Affecting Earnings Quality and Firm Value”, National Accounting Symposium 10, Makassar.(2007)

[11] Sulistiono.. "The Influence of Managerial Ownership, Capital Structure, and Firm Size on firm value in manufacturing companies on the Indonesia Stock Exchange in 2006-2008". Thesis. Semarang : Faculty of Economics UNNES (2010)

[12] Sofyanigsih, Sri. Ownership Structure, Dividend Policy, Debt Policy, and Company Value. Dynamic Finance and Banking Vol. 3, No. 1 (2011).

[13] Wahyudi, Untung and Pawestri, Hartini Prasetyaning, “Implications of Ownership Structure on Firm Value: With Financial Decisions as Intervening Variables”, Padang National Accounting Symposium, 23 26 August 2006. Widyagama University Malang, (2006)

[14] Wibowo, Lucky Bani, “The Effect of Value Added Economics and Company Profitability on Shareholder Returns”, Indonesian Islamic University, Yogyakarta.(2005)

[15] Yuniasih, Ni Wayan and Wirakusuma, Made Gede, "The Influence of Financial Performance on Company Value With Disclosure of Corporate Social Responsibility and Good Corporate Governance as Moderating Variables", Udayana University, Bali. (2007)

[16] Yusran Bachtiar, Application of the Activity Based Costing Method in Determining the Amount of Inpatient Service Rates at St Khadijah Pinrang Hospital" Muhammadiyah University of Parepare, Parepare (2009)

[17] www.idx.com and www.invesnesia.com in the first access on December 3, 2021 until the results of the research have been obtained as a whole (2021)