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Role of Good Corporate Governance as a Moderating Variable of the Influence of Financial Performance and Company Size on Company Value

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Abstract

The value of the company is the perception of investors toward the company, which is often linked to the share price. The high share price makes the value of a company is also high. The stock price is the price that occurs when stock in trade in the market. There are several factors that affect the value of the company. This research aims to obtain empirical evidence the effect of financial performance and firm size to firm value with and Good Corporate governance (GCG) as a moderating variable. Sample in this research is the firm of manufacture which enlist in Indonesia Stock Exchange from periode 2018 to 2019, obtained sample is 124 sample with 248 observation. The data analysis used is regression analysis moderation. Results of research refer that the financial FP has a positive effect on FV, FS has not a positive effect on FV, GCG has not a positive effect on FV, GCG has not a strengthen positive effect of FP on FV. GCG has not a strengthen positive effect of FS on FV.

Keywords
corporate social responsibility; good corporate governance; firm size; firm value; financial performance

I. Introduction

The importance of company value makes investors more selective in investing and investing. The value of the company will give a positive signal to investors to invest in a company. Firm value provides prosperity to shareholders. However, in achieving this goal, a conflict arises between managers and shareholders which is called the agency problem. The agency problem arises because the manager does not provide information to the shareholders about the actual state of the company for their interests while the shareholders also have an interest. The higher the company's leverage, the company tends to generate less cash, this is likely to affect the occurrence of earning management. Companies with high debt or leverage ratios tend to hold their profits and prioritize the fulfillment of debt obligations first. According to Brigham and Ehrhardt (2013), the greater the leverage of the company, it tends to pay lower dividends in order to reduce dependence on external funding. So that the greater the proportion of debt used for the capital structure of a company, the greater the number of liabilities that are likely to affect shareholder wealth because it affects the size of the dividends to be distributed. (Yanizzar, et al. 2020)

ROA describes the company's financial performance in generating net income from assets used for company operations. The higher ROA indicates that the company's performance is getting better in generating profits so that it will improve the company's image which in turn also increases the value of the company in the view of stakeholders (Laksitaputri, 2012).

Implementation of Good Corporate Governance through implementation of its principles is an important step because it relates to increase in company value. Good

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Corporate Governance is expected to be a tool to provide confidence to investors that the company is able to provide return on and that they have invested (Berliani, 2017).

Based on research results (Amanah and Forma, 2018; Riduwan, 2017; Indriyani, 2017; Imron, et al, 2013) ROA has positive influence to the firm value. Company size have an influence to firm value (Imron, et al, 2013), but this is not in line with research (Berliani, 2017). Therefore the researcher gives the title "Role Of Good Corporate Governance As A Moderating Variable Of The Influence Of Financial Performance And Company Size On Company Value".

II. Review of Literature

2.1 Agency Theory

Meckling and Jansen as the inventors of agency theory in 1976 put forward Agency Theory is a theory that describes the close contractual relationship between the agent and the principal. The definition of a contractual relationship is as cooperation based on a contract between two or more parties. (Aprilia, 2017) describes agency theory based on the following assumptions:

(Aprilia, 2017) describes agency theory based on the following assumptions: Human nature, Organization, Information assumption.

(Meliana & Hartono, 2019) explained that principals always expect high investment returns, while agents have an interest in getting maximum compensation. This illustrates the existence of a conflict of interest (conflict of interest) between the owners of capital and the managers of capital or company management. With the tendency of agents to act no longer to achieve company goals but more motivated towards compensation with illegal schemes. The implementation of agency theory in this research is a tangible manifestation of achieving the company's vision and mission. With a mutually agreed contract, the owner of the capital gives confidence to the agent in making decisions.

2.2 Financial Performance (FP)

Financial performance is a work performance that has been achieved by the company in a certain period and stated on the company's financial statements. The ratio used in assessing the company's financial performance in this study is the profitability ratio.Return on Assets is one of the ratios of profitability. This ratio shows the company's success in generating company profits over the total assets available within the company. ROA measures how effective the company is in utilizing existing economic resources to generate profits (Fahrizal, 2013). If this ratio is high, it shows that the total assets used are capable of generate profits for the company. On the other hand, if this ratio is low, then shows that the total assets used to operate the company get a loss.

2.3 Firm Size (FS)

According to (Suryani, 2021), company size is a scale or value that can classify a company into large or small categories based on total assets, log size, and so on. The size of the company in this study is measured by the total assets contained in the company (Anggreni & Febrianti, 2019).

2.4 Good Corporate Governance (GCG)

The Forum for Corporate Governance in Indonesia in Boediono (2005) defines Good Corporate Governance as a set of rules that determine the relationship between shareholders, management, creditors, government, employees, and shareholders other internal and external interests in relation to rights and obligations them, or in other words the system that directs the company and controls company.

2.5 Firm Value (FV)

The value of the company is a picture of how good or bad management is In managing the company, this can be seen in terms of its financial performance on how a company uses its assets and capital to get maximum profit. Company value is considered very important because: considered to influence investors' perception of the company (Berliana, 2017).

2.6 Research Concept Framework)

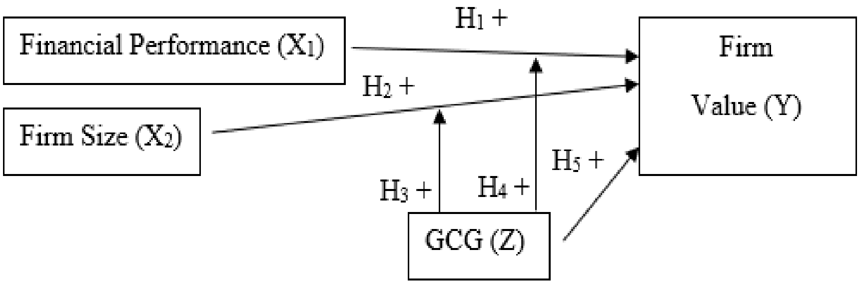

Figure 1. *Research Concept Framework*

2.7 Hypothesis

Return on Assets (ROA) is the company's overall ability to generate profits with the total amount of assets available within the company. Based on research results (Amanah and Forma, 2018; Riduwan, 2017; Indriyani, 2017; Imron, et al, 2013) ROA has positive influence to the firm value. According to this exposure the hypotheses proposed as follow:

H1: FP has a positive effect on FV

According to (Suryani, 2021), company size is a scale or value that can classify a company into large or small categories based on total assets, log size, and so on. The size of the company in this study is measured by the total assets contained in the company (Anggreni & Febrianti, 2019). According to this exposure the hypotheses proposed as follow:

H2: FS has a positive effect on FV

Mechanisms in corporate governance supervision are divided into two groups, namely internal and external mechanisms. Internal mechanisms are a way of controlling company by using internal structures and processes such as general meetings shareholders, composition of the board of directors, composition of the board of commissioners and meetings with the board of directors (Berliani, 2017). While the external mechanism is a way of influencing company other than by using internal mechanisms, such as company and market mechanisms. According to this exposure the hypotheses proposed as follow:

H3: GCG has a positive effect on FV

H4: GCG strengthens the positive effect of FP on FV

Independent commissioner has positive influence to the firm value because the large numbers of the members of independent commissioner reflects that commissioner has conducted supervision and they are in a good coordination and in maintaining the balance of the majority and the minority of stockholders (Berliani, 2017)

H5: GCG strengthens the positive effect of FS on FV

III. Research Method

In this research, the appropriate method to obtain empirical evidence is the quantitative method and panel data regression processing by SPSS 23 software. Conducted through a causality test (Sekaran.et.al., 2020). The sample used is banking companies listed on the Indonesia Stock Exchange for the period 2018-2019. The data sample obtained through idx.co.id and/or each companies website with purposive sampling technique.

3.1 Variabel of Operational

a. Variabel of Dependent

Variabel of Dependent (Y) is FV were calculated using the Tobin's Q, The Q ratio was popularized by Nobel Laureate James Tobin and invented in 1966 by Nicholas Kaldor. As for the formula as follows:

$$\text{Tobin's Q} = \frac{\text{Equity Market Value}}{\text{Equity Book Value}}$$

a. Variabel of Independent

Variable of independent (X) is a variable that has an influence on the dependent variable. Acting as the independent variable is the Fraud Star element. Measurement variabel of Independent variabel are follows:

Variabel	Measurement	Scale	Reference
FP	$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$	Ratio	Sawir, 2005
FS	LN (Total Asset)	Ratio	Anggreni & Febrianti, 2019
GCG	$\frac{\text{Total Komisari Independen}}{\text{Total Dewan Komisaris}}$	Ratio	(Skousen et al, 2009)

Regression Equation as follow:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + + \beta_4 X_4 + \beta_5 X_1 Z + \beta_6 X_2 Z + \beta_7 X_3 Z \varepsilon$

………………......(2)

Information:

Y : FV

α : Konstantra Regresi

ß1 – ß4 : Koefisien Regresi

X_1 : FP

X_2 : FS

Z : GCG

$X_1 Z$: Interaction between FP and GCG

$X_2 Z$: Interaction between FS and GCG

ε : Error Term

IV. Result and Discussion

4.1 e-Government Innovation

Table 1. Purposive Sampling Results

Keterangan	Jumlah
Perusahaan Yang Terdatar Di Bursa Efek Indonesia berturut-turut selama periode 2018-2019	143
Perusahaan yang tidak menyajikan laporan tahunan secara lengkap selama periode 2018-2019	(0)
Perusahaan perbankan yang tidak menyajikan data secara komprehensif terkait dengan relevansi variable penelitian dari tahun 2018-2019	(19)
Jumlah Sampel Perusahaan	124
Jumlah Tahun Penelitian	2
Jumlah Sampel	248
Uji *Outlier*	(52)
Jumlah Sampel Selama Periode Penelitian	196

Source: Data processed (2022)

Table 2. Statistic of Descriptive

		Statistic of Descriptive			
Variabel	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
X1_FP	196	- 0.40	2.10	0.07	0.21
X2_FS	196	25.31	33.49	28.53	1.58
Z_GCG	196	-	0.80	0.40	0.12
Y_NP	196	0	27	1.99	3.56
Valid N (listwise)	196				

Source: Data processed by SPSS 23 (2022)

Table 3. Results of Normality Test
One-Sample Kolmogorov-Smirnov Test

	Unstandardized Residual
Asymp Syg	0.056

Table 4. Results of Multicollinearity Test

Variabel	**Tolerance**	**VIF**
X1_FP	0.990	1.011
X2_FS	0.976	1.024

Z_GCG	0.769	1.300
FP_ZGCG	0.949	1.054
FS_ZGCG	0.796	1.257

a. Dependent Variable: Y_NP

Source: Data processed by SPSS 23 (2022)

The VIF value is < 10 and the tolerance value is 0.1, so it is concluded that there is no multicollinearity.

Table 5. Results of Heteroscedasticity

Model	Prob.	Threshold	Conclusion
X1_FP	0.216	0.05	No Heteroscedasticity
X2_FS	0.914	0.05	No Heteroscedasticity
Z_GCG	0.300	0.05	No Heteroscedasticity
FP_ZGCG	0.809	0.05	No Heteroscedasticity
FS_ZGCG	0.366	0.05	No Heteroscedasticity

Source: Data processed by SPSS 23 (2022)

Table 6. Coefficient of Determination Results

Model	Adjusted R^2	Conclusion
Multiple Linier Regression	0.146	Describes the variation of the dependent variable of 14.6% has a positive effect on FV

Source: Data processed by SPSS 23 (2022)

It means that 14.6% combination of all independent variables can predict the dependent FFS. While the remaining 83.4% is influenced by other variables out of scope the research.

Table 7. Result of T (Partial) Test

Model	Hypothesis	Coefficients	Sig.2 (Prob)	Conclusion
Costant		1392786954,724	0.000	
X1_FP	+	19,437	0.00	H1 Accepted
X2_Size	+	-,059	0.15	H2 Rejected
Z_GCG	+	-,753	0.00	H3 Rejected
FP_ZGCG	+	1,661	0.19	H4 Rejected
FS_ZGCG	+	-,002	0,42	H5 Rejected

Source: Data processed by SPSS 23 (2022)

Regression Equation:
FV = 1391 + 19.437 FP - 0.059 FS – 0.753 GCG + 1.661 FP_ZGCG - 0.002 FS_ZGCG i

V. Conclusion

Based on the results of the analysis and discussion carried out and to answer the research objectives proposed, it can be said as follows:

1. FP has a positive effect on FV.
2. FS has not a positive effect on FV.
3. GCG has not a positive effect on FV.
4. GCG has not a strengthen positive effect of FP on FV.
5. GCG has not a strengthen positive effect of FS on FV

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