The Effect of Good Corporate Governance on Firm Value With Profitability as Moderating

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Abstract

Corporate sustainability is a significant concern in a business. The sustainability of a company can be reflected in the value of the company The worth of the firm increases as the price of the shares rises Information on high stock prices can provide a guarantee or picture to the public that the company is performing well. To maintain good judgment, companies must implement good corporate governance in their business activities. This form of study is quantitative, whereas quantitative research involves systematic examinations of a phenomenon by gathering data that can be assessed using mathematics, statistics, and computing. Path analysis is used to assess this study's structural equation modelling (SEM) data.

It is clear from the findings and debate that managerial and institutional ownership, two measures of corporate governance, do not have a direct impact on business value. Good corporate governance directly impacts the value of the company, with profitability measured by the return on equity.

Keywords:Good Corporate Governance, Profitability, and Firm Value

A. INTRODUCTION

Corporate sustainability is a significant concern in a business. The sustainability of a company can be reflected in the value of the company. Firm value is defined as investors' perception of the company's success which is always associated with high and low stock prices (Randy and Juniarti: 2013). The higher the stock price, the higher the company's value (Septiyuliana, 2016). The stock price is the value of each sheet of paper that can be valued with the value of a currency formed naturally in the capital market, which is colored by the element of demand and supply for a price value following what investors want (Linanda, 2018).

Information on high stock prices can provide a guarantee or picture to the public that the company is performing well. To maintain good judgment, companies must implement good corporate governance in their business activities. The practice and application of Good Corporate Governance are expected to improve the company's performance in terms of finance and operations in business entities (Melia, 2015). Thus the implementation of Good Corporate Governance is also expected to increase the value of shares and, of course, can assist managers in managing the return on shares to shareholders. Nevertheless, the implementation of these applications is still a challenge for the company in its implementation.

Challenge for the company in its implementation is described in the research conducted by Dewi Widyaningsih (2018), in which the results of her research state that "good corporate governance as proxied by managerial ownership, institutional ownership, independent commissioners, and audit committees simultaneously affects firm value. However, managerial ownership and audit committee partially have a significant positive effect on firm value, while institutional ownership and independent commissioners have no significant positive effect on firm value". Ardesta and Andayani (2020) research show that "Good Corporate Governance has a significant effect, which also means that every change in the value of Good Corporate Governance will be followed by a change in the value of the company as proxied by the value of Tobin's Q". J.C. research. Sumanti and Mangantar (2015) show that Managerial Ownership, Debt Policy, and Dividend Policy have no significant effect on Firm Value.

As described, the differences in the research result indicate that implementing Good Corporate Governance is still a challenge for business entities. With the differences in the previous research, the researcher wants to do research as a development of existing research by adding a profitability variable as a moderator.

B. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT
1. Literature Review
a. Agency Theory (Agency Theory)

According to agency theory, the business serves as a meeting place between its owner (principal) and management (agent). Due to the agent acting against the principal's intentions, conflicts between the principle and the agent are conceivable. A financial report that is developed and made using accounting figures might result in disputes between interested parties, according to Jensen and Meckling, who are cited by Sari (2018: 8).

b. Signal Theory (Signalling Theory)

According to signal theory, businesses are enticed to provide third parties access to information about their business organizations. This idea can assist firms in exposing efforts and demonstrate how corporate governance principles are being implemented in these entities to build a positive reputation in the community and the market (Subramaniam et al., 2009). A corporation eager to accurately share information about its entity might be seen as being informative and giving itself up to the market regarding its existence. Extensive disclosure also signifies outstanding consistency.

c. Good Corporate Governance

The Turnbull Report from the UK discusses corporate governance. as an internal control system for a company whose main objective is to manage significant risks to meet its commercial objectives by safeguarding corporate assets and increasing long-term shareholder investment value (Effendi: 2009).

d. Profitability (Return On Equity)

One form of profitability ratio is the return on equity, which measures the company's capacity for profit-seeking. This ratio also gauges how well a company's management performs (Kasmir, 2019, p. 206).

e. Firm Value

Silvia Indrarini (2019:2) defines company value as the perception of investors on the success of the management/manager in managing the resources of the entrusted entity/company. Of course, it is associated with high stock prices.

2. Hypothesis Development

a. the effect of good corporate governance on firm value.

Companies in Indonesia are owned, run, and controlled by families (Herdinata: 2008). Good corporate governance emerged and developed from this phenomenon. Agency theory requires a separation between management ownership and corporate control. Several studies have been conducted to measure the effect of good corporate governance on firm value and found mixed results. Dewi Widyaningsih (2018) states that "managerial ownership and audit committee have a significant positive effect on firm value, while other independent variables (institutional ownership and independent commissioners) have a positive but not significant effect on firm value". Davis Ardesta and Wuryan Andayani (2020), who obtained GCG results, significantly influenced the company's value where every change in the value of GCG. Based on this description, the alternative hypotheses proposed are as follows:

H1: institutional ownership has a positive effect on firm value.

H2: Managerial ownership has a positive effect on firm value.

b. the effect of return on equity on firm value.

The higher the return on equity in a company, the greater the value of the company's profitability. Profitability can be a positive signal for investors or shareholders to invest in obtaining an inevitable return. The rate of return (return) obtained describes how well the company's value is in the eyes of investors. Suppose the company manages to book a significant profit level. A significant profit level will motivate investors or shareholders to invest in company shares, so that share prices and demand for shares will increase. This motif is in line with Wahyuni's research (2013) which shows that the ROE profitability ratio significantly affects stock prices. Based on this, the hypotheses proposed in this study are as follows:

H3: return on equity has a positive effect on firm value.

c. the effect of good corporate governance on firm value moderated by return on equity

Many studies on the factors that affect firm value have been carried out. Some have examined that firm performance affects firm value. However, many have researched the opposite. In Indonesia, research has used GCG as a moderating variable to determine the effect of ROE on firm value due to the inconsistency of various research results. The researcher uses managerial ownership as a measure of GCG. Considerable ownership control has lower incentives to engage in self-serving behavior that does not increase firm value and may have more tendency to apply conservatism accounting policies to improve earnings quality. Based on this description, the alternative hypotheses proposed are as follows:

H4: return on equity can moderate institutional ownership with firm value.

H5: return on equity can moderate managerial ownership with firm value.

C. RESEARCH METHOD

1. Research Type Test

This form of study is quantitative, whereas quantitative research involves systematic examinations of a phenomenon by gathering data that can be assessed using mathematics, statistics, and computing. Path analysis is used to assess this study's structural equation modelling (SEM) data.

2. Data Source

This study uses secondary data downloaded from IDX.co.id as financial report data for food and beverage companies in 2019 and 2021.

3. Population And Sample

The research population uses food and beverage sector companies listed on the Indonesia Stock Exchange from 2019-2021, as many as 26 companies. Purposive sampling technique with the following criteria: registered consecutively from 2019-2021; no loss at that time. This research technique obtains a sample of 12 companies and data as many as 36 financial statements.
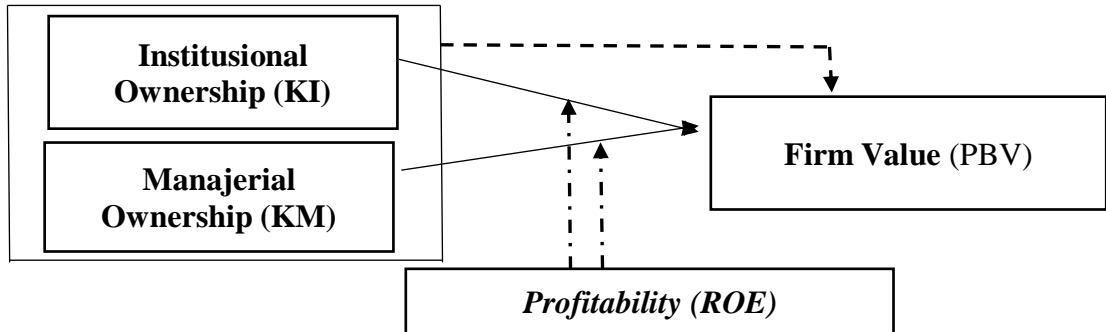
4. Research design

Figure 1. Research design

Keterangan:

Partial influence of KI and KM on PBV	=	——————▶
simultanous influence of KI and KM on PBV	=	- - - - - -▶
Effect of moderating variable	=	- · - · - · -▶

D. RESULTS AND DISCUSSION
1. Result
a. Normality test

When determining whether the distribution of data in a collection of variables or data is typically distributed or not, a test known as a "normality test" is used (Ghozali, 2018). The following are the results of normality testing:
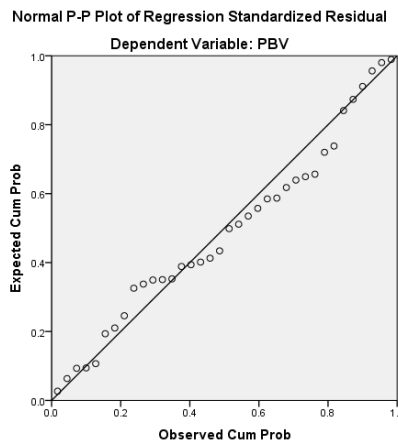

Figure 2. Normality Test

From the figure, it can be concluded that the data is usually distributed because the points are around the diagonal line.

b. Multicollinearity Test

When independent variables or independent variables that are not independent are correlated, this phenomenon is known as multicollinearity. The multicollinearity test is used to determine if independent variables in a regression model are correlated with one another (Ghozali, 2018). The research data are outstanding and suitable for future study because all of the VIF values in the table above are less than 10, indicating no multicollinearity..

Table 1. Multicollinearity Test

		Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
Model		B	Std. Error	Beta	Tolerance	VIF
1	(Constant)	-2.419	5.199			
	KI	4.764	6.533	.201		4.976
	KM	-.415	6.388	.200		4.990
	ROE	.294	.025	.986		1.014

a. Dependent Variable: PBV

Source: SPSS Output, 2022

c. Heteroscedasticity Test

The heteroscedasticity test is used in regression model research to determine if the deviations between observations are equal. The heteroscedasticity test aims to determine if there is an inequality in variance between the residual values of different observations in the regression model (Ghozali, 2018). It may be accomplished by observing the Scatter p-plot graph's output from SPSS and determining whether any particular patterns emerge (wavy, widened, then narrowed). This picture below shows the
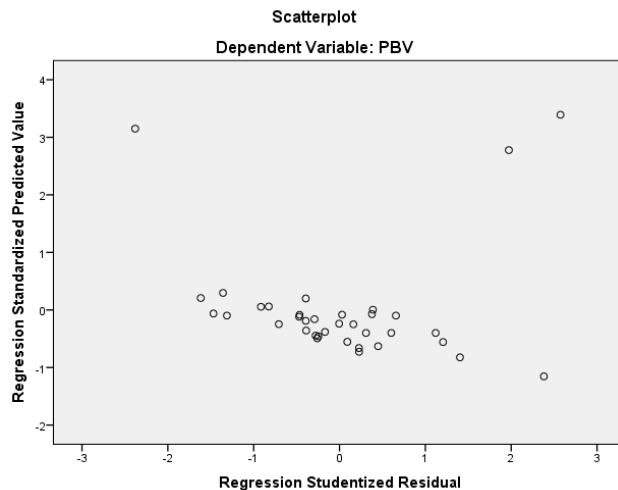
resultant:

Figure 4. Scatter p-plot

From the picture above, it can be seen whether there is a particular pattern (wavy, widened, then narrowed). So it is said that in this test, there is no heteroscedasticity.

d. Autocorrelation Test

The autocorrelation test seeks to determine whether there is a relationship between the residual confounding error (residual) in period t and errors in period t-1 (prior) in linear regression (Ghozali, 2018). Using SPSS, the following table displays the results of calculating tests:

Table 2 Autocorrelation Test

Model	Durbin-Watson
1	2.311

Source: SPSS Output, 2022

From the table above, it can be obtained that the DW (Durbin-Watson)/d value is 2,311, with N as much as 42, and K (Variable) as 3, then dL = 1,098 and dU value = 1,442, then the

value (4–d) = 2,307. Thus, 2,307 > 1,442 or (4-DW > DU) are met. So it is said that there is no autocorrelation.

e. Multiple Linear Regression Test

The results of the multiple linear regression test, namely the effect of profitability and institutional ownership on firm value, are presented in table 3 below:

Table 3 Results of Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-2.419	5.199		-.465	.645
	KI	4.764	6.533	.122	.729	.471
	KM	-.415	6.388	-.011	-.065	.949
	ROE	.294	.025	.881	11.623	.000

a. Dependent Variable: PBV

Source: SPSS Output, 2022

Based on table 3, the constant value in the regression equation is -2.419. The regression coefficient for the institutional ownership variable is 4.764, and the coefficient for the managerial ownership variable is -0.415, with a significance value above 0.05. Thus, institutional ownership and managerial ownership have no direct effect on firm value (h1 and h2 are rejected). While profitability directly affects firm value as evidenced by a significance value of 0.00 < from 0.05 (h3 is accepted).

f. Simultaneous Test (F)

The F test is used to determine whether or not the influence of two independent variables, profitability, and institutional ownership, on firm value is carried out together.

Table 4 Simultaneous Test (F)

Model		Sum of Squares	df	Mean Square	F	Sig.
			ANOVAª			
1	Regression	3025.221	3	1008.407	48.203	.000ᵇ
	Residual	669.440	32	20.920		
	Total	3694.661	35			

a. Dependent Variable: PBV

b. Predictors: (Constant), ROE, KI, KM

Source: SPSS Output, 2022

Table 4 shows that the significance level is 0.000 <0.05, and the calculated F value is 48.203. Thus, it can be said that institutional ownership, managerial ownership, and profitability simultaneously affect firm value.

g. Coefficient of Determination (R2)

Coefficient determination is used to determine what percentage of the influence of the independent variable on changes in the dependent variable.

Table 5 Results of the Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905ᵃ	.819	.802	4.57384

a. Predictors: (Constant), ROE, KI, KM

b. Dependent Variable: PBV

Source: SPSS Output, 2022

The value of R Square is 0.819. It indicates that 81.3% of firm value can be explained by institutional ownership, managerial ownership, and profitability variations.

h. Test profitability (moderating) variables the effect of good corporate governance on firm value.

It can be concluded that good corporate governance is proxied by and managerial ownership has no direct (partial) effect on firm value; thus, it can be said that the value of R square is nil.

Table 6 Test of KI and PBV. moderating variables

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	7.606	2.772		2.744	.010
	KI	-8.897	3.892	-.229	-2.286	.029
	ROE	-.292	.132	-.874	-2.207	.035
	KIxROE	.774	.173	1.849	4.482	.000

a. Dependent Variable: PBV

Source: SPSS Output, 2022

Table 7 Test of KM and PBV Moderating Variables

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.543	1.031		.527	.602
	KM	9.403	5.335	.247	1.762	.048
	ROE	.320	.024	.958	13.247	.000
	KMxROE	-.799	.267	-.418	-2.988	.005

a. Dependent Variable: PBV

Source: SPSS Output, 2022

While tables 6 and 7 show the results of the partial significance of the variables, all of which show numbers below 0.05. Thus, it is said that the existence of profitability as a moderator makes good corporate governance proxied by institutional ownership, and managerial ownership has a direct (partial) effect on firm value.

Table 8 R Square KI to PBV moderated ROE

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Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
					Change Statistics					
1	.943^a	.889	.878	3.58527	.889	85.143	3	32	.000	2.355

a. Predictors: (Constant), KIxROE, KI, ROE

b. Dependent Variable: PBV

Source: SPSS Output, 2022

Table 9 R Square KM to PBV moderated by ROE

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
					Change Statistics					
1	.925^a	.856	.842	4.07764	.856	63.402	3	32	.000	2.270

a. Predictors: (Constant), KMxROE, ROE, KM

b. Dependent Variable: PBV

Source: SPSS Output, 2022

From table 8, the R Square value of KI against PBV moderated by ROE is 0.889. Table 9 R Square KM to PBV moderated ROE of 0.856. With this difference, the profitability variable can moderate/strengthen the effect of institutional ownership and managerial ownership on firm value. Profitability in this study is quasi-moderate because it can moderate the relationship between predictor variables and dependent variables where the pseudo-moderating variable interacts with predictor variables and predictor variables.

E. CONCLUSIONS AND SUGGESTIONS
1. Conclusion
It is clear from the findings and debate that managerial and institutional ownership, two measures of corporate governance, do not have a direct impact on business value. Good corporate governance directly impacts the value of the company, with profitability measured by the return on equity.
2. Suggestions
Suggestions that can be given in connection with this research, the company should continuously improve performance by implementing good corporate governance properly. For further research, other proxies can be added to measuring good corporate governance because, in this study, only institutional and managerial ownership are used. This proxy is, at the same time, a limitation of this study.

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