

The Effect of Good Corporate Governance on a Firm's Value with Financial Performance as the Intervening Variable (Empirical Study on State-Owned Enterprises Listed on IDX 2012-2016)

Inggrid Tannya Larasati^a, Khusnul Prasetyo^{b*}, ^{a,b}Department of Accountancy, Faculty of Economics and Business, Universitas Airlangga, Email: khusnul.prasetyo@feb.unair.ac.id

The purpose of this research is to examine the effect of good corporate governance on a firm's value with financial performance as the mediating variable. The secondary data used was data published on state-owned enterprise companies listed in the Indonesia Stock Exchange from 2012-2016. The sampling technique used was purposive sampling. There were 89 state-owned enterprise companies listed in the 2012-2016 period. Hypothesis testing was done by using a regression analysis model contained in SPSS version 20 for windows. The results of this study showed: 1) financial performance did not mediate the relationship between the size of the board and a firm's value; 2) financial performance mediates the relationship between the size of the independent commissioners and a firm's value; 3) financial performance did not mediate the relationship between the size of the audit committee and a firm's value.

Key words: *Size of Board Director, Size of The Audit Committee, Size of Independent Commissioners, Financial Performance, Firm Value.*

Introduction

For a company, good corporate governance is an indicator of good company performance. Based on PER-01/MBU/2011, article 1 states that good corporate governance (hereafter referred to as GCG) refers to the principles underlying the process and mechanism of company management, which are based on laws and business ethics. The existence of these regulations should allow the company to implement GCG optimally, but this does not seem to be the case. While many companies seem to use GCG to the maximum, it is often only a formality. This can be seen from the many allegations of misconduct that occur in state-owned companies, such as corruption. In 2013, the case of the Hambalang project, which struck PT Adhi Karya became widely discussed. Furthermore, in 2015 there was a corruption case again involving officials and employees of the state-owned enterprises.

The proper implementation of GCG has an impact on the company's financial performance. One of the most important elements in corporate governance is the transparency of information that is open to all interested parties (Tandean and Winnie, 2016). Profitability is considered to be the most accurate measure of financial performance as potential investors will be attracted to companies with high profits. To get a return on their investment as reasonably, appropriately, and efficiently as possible, a good corporate governance system will provide effective security for shareholders and creditors, while ensuring that management is performing the best they can in relation to the company's interests (Wardhana et al., 2019). This is why the value of the firm, which is reflected by its stock price, will increase, because the demand for the company's shares tends to go up.

Several previous studies have empirically concluded that GCG influences financial performance. Research conducted by Sulistyowati (2017), for example, shows that the size of the board of directors has a positive effect on financial performance. Riyadh et al. (2019) found that board size has a significant impact on increasing corporate performance. Research conducted by Rahmawati and Handayani (2017) shows that the size of the audit committee affects financial performance. A study conducted by Raharjo and Andini (2016) shows that independent commissioners have a positive effect on Return on Assets. Furthermore, Putri (2016) shows that financial performance has a positive and significant influence on a firm's value. This study intends to combine the two previous studies. Haryono and Paminto's research (2015) can prove that financial performance mediates the relationship between GCG and a firm's value.

This study specifically aims to examine the effect of good corporate governance on a firm's value with financial performance as a mediating variable. It uses samples of state-owned companies listed on the Indonesia Stock Exchange from 2012-2016. The sampling technique used was purposive sampling, and it produced 89 listed state-owned enterprises in the 2012-

2016 period. Hypothesis testing was performed using the regression analysis model contained in SPSS version 20 for windows. The results of this study indicate: 1) financial performance does not mediate the effect of the size of the board and the firm's value; 2) financial performance mediates the effect of independent commissioner size and the firm's value; 3) financial performance does not mediate the effect of the size of the audit committee and the firm's value.

This research will proceed with the following arrangement: a literature review; an explanation of the variables and samples as well as research models; empirical analysis results and hypothesis testing results; and a summary or conclusion of the study, including suggestions for further research.

Literature Review

Theoretical Basis

Signalling theory suggests how a company should give users signals of financial statements (Kusumawardhani, 2011). These signals can be in the form of profit/loss experienced by the company, expenses, or costs incurred by the company, or other financial data (Wahyudiono, 2014). This theory emphasizes the importance of companies providing information to external parties.

Jensen and Meckling (1976) argue that Agency Theory explains the problems that arise from the way shareholders rely on managers to provide services on their behalf. Agency problems arising from the separation of management and ownership underlie the emergence of Agency Theory. It says that a company's performance is affected by a conflict of interest between the agent and the principal, which arises when each party tries to achieve or maintain their desired level of prosperity (Jensen & Meckling, 1976).

According to Rika and Islahudin (2008), a firm's value is defined as market value. Kamil (2014) states that the value of the firm is one indicator of a company's health and its worth as an investment. Furthermore, the value of the firm is also one of the most important objectives in the establishment of a company.

Tjager et al. (2003) state that corporate governance is: "Administrative mechanisms that govern the relationships between company management, commissioners, directors, shareholders, and other stakeholder groups. These relationships are manifested in the form of various game rules and incentive systems as a framework needed to determine company goals and ways of achieving goals and monitoring the resulting performance". GCG principles include: transparency, accountability, responsibility, independence, and fairness.

The Relationship between the size of the Board of Directors and Financial Performance

The board of directors has an important role in a company, which is to reduce agency conflicts that occur between managers and shareholders through its influence. The role that the board of directors' play affects the internal conditions in the company and minimizes conflicts of interest in order to increase the value of the firm. As the research conducted by Putra (2016) maintains, the size of the board of directors has a positive effect on a firm's value. Internal interests encourage companies to improve financial performance. Research conducted by Hidayat (2016) shows that the size of the board of directors has a positive influence on financial performance.

H1: Financial performance mediates the effect of board size and firm value

The Relationship between the size of Independent Commissioners and Financial Performance

To create companies with good governance, independent commissioners are in the best position to carry out monitoring functions (Sari, 2010; Tina, et.al 2017). The relationship between independent directors and company performance is supported by the view that having an independent commissioner will be able to provide supervisory functions in the company—both independently and objectively—to increase the value of the firm. This is consistent with the research conducted by Berliani and Riduwan (2017) which shows that the size of independent commissioners has a positive effect on a firm's value. In order to improve a company's financial performance, independent commissioners are also expected to ensure clean and healthy company operations. Research conducted by Sari and Priyadi (2017) shows that independent commissioners have a significant positive effect on performance.

H2: Financial performance mediates the effect of the size of the independent commissioner and a firm's value

The Relationship between the size of the Audit Committee and Financial Performance

According to Focker (1992), the audit committee is an effective tool to conduct supervision, reduce agency costs, improve the way in which company information is disclosed, and by extension, increase the firm's value. Research conducted by Surjadi and Tobing (2016) shows that the size of the audit committee has a positive effect on a firm's value. The audit committee also has an important and strategic role in maintaining the credibility of the financial statement preparation process. It can also maintain the creation of an adequate corporate system and can implement good corporate governance. Research conducted by

Kusdiyanto (2016) shows that the audit committee has a significant positive effect on financial performance.

H3: Financial performance mediates the effect of the size of the audit committee on a firm's value

Research Methods

Samples and Data Sources

The approach of this study was to employ quantitative methods. The data used in this study is secondary data. Annual financial reports were obtained from the Indonesia Stock Exchange website¹. In this study, the sampling technique was determined by using purposive sampling. Purposive sampling is done by taking a sample from the population, based on certain criteria. The criteria referred to are as follows:

1. State-owned enterprises that have gone public or IPO (Initial Public Offering) since 2012-2016
2. Companies that have published complete data on the board of directors, independent commissioners and audit committees from 2012-2016

Based on these criteria, the sample in this study amounted to 89 samples.

Definition of Variable Operation

Independent Variable

The independent variable in this study is good corporate governance, the proxy used includes:
The size of the Board of Directors

According to Debby et al. (2014), the size of the board of directors can be formulated as follows:

$$UDD = \sum \text{Number of Board Directors}$$

The size of the Independent Commissioners

Independent commissioners compare the number of independent commissioners a company has with the total number of members of the board of commissioners. According to Darwis (2009), the size of independent commissioners can be formulated as follows:

¹ www.idx.co.id

$$UKI = \frac{\text{Number of Independent Commissioners}}{\text{Number of Board of Commissioners Members}}$$

The size of the Audit Committee

The audit committee functions to assess the activities and results from the audits of internal and external auditors. According to Isnanta (2008), the audit committee is calculated as follows:

$$UKA = \sum \text{Number of Audit Committee}$$

Dependent Variable

The dependent variable in this study is the firm's value. A company's value will be calculated using Tobin's Q. According to White et al. (2002), in Etty (2009), Tobin's Q ratio is calculated as follows:

$$\text{Tobin's Q} = \frac{EMV + D}{EBV + D}$$

Intervening Variable

The intervening variable in this study is financial performance. Financial performance in this study uses the profitability ratio with the Return on Asset (ROA) proxy. According to Brigham and Houston (2006: 90), this ratio is formulated as follows:

$$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$$

Control Variable

Firm's Size

According to Waryanto (2010), a company's size is formulated as follows:

$$\text{SIZE} = \log (\text{Total Asset Value})$$

Leverage

Leverage is calculated using the debt-to-equity ratio (DER); this refers to the research done by Indah Sulistyowati (2017). DER is formulated as follows:

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Analysis Techniques and Research Models

Path analysis is used to determine whether a variable can interfere with the relationship between independent and dependent variables. The equation in this study was calculated based on the following:

$$ROA = \alpha + \beta_1 UDD + \beta_2 UKI + \beta_3 UKA + \beta_4 SIZE + \beta_5 DER + e$$
$$\text{Tobin's Q} = \alpha + \beta_6 UDD + \beta_7 UKI + \beta_8 UKA + \beta_9 ROA + \beta_{10} SIZE + \beta_{11} DER + e$$

Notes:

- UDD : Size of the Board of Directors
- UKI : Size of the Independent Commissioners
- UKA : Size of the Audit Committee
- Tobin's Q : Firm's value
- ROA : Financial performance
- A : Constants of the regression equation
- b_1 - b_{11} : Path coefficient
- e : Error term, the estimator error level in the study

Mediation testing can also be carried out using the Sobel test. This is done by testing the indirect effect of independent variables with the dependent variable through intervening variables. The influence is calculated by:

$$Sab = \sqrt{b^2 Sa^2 + a^2 Sb^2 + Sa^2 Sb^2}$$

Notes:

- a = coefficient a
- b = coefficient b
- Sa = standard error coefficient a
- Sb = standard error coefficient b
- Sat = magnitude of error standard indirect effect

To test the significance of the indirect effect, calculate the t value of the ab coefficient with the following formula:

$$t = \frac{ab}{sab}$$

The results of the analysis will compare the value of t_{count} . If the t_{count} is greater than t_{table} with a significance level of 0.10 which is 1.65, it can be said that the intervening variable mediates the relationship between the independent variable and the dependent variable.

Findings and Discussion

Descriptive Statistics

Table 1: Descriptive Statistics

	Minimum	Maximum	Mean	Std Deviation
Tobin's Q	0,831	1,505	1,062	0,129
ROA	-0,118	0,304	0,059	0,071
UDD	3	11	6,74	1,819
UKI	0,2	0,625	0,402	0,094
UKA	2,0	8,0	4,123	1,232
SIZE	10,294	15,016	13,368	1,022
DER	0,000657	11,395	2,773	2,880

The average Tobin's Q in 2012-2016 is 1.062, while the standard deviation is 0.129. The minimum value of Tobin's Q is 0.831 and the maximum value is 1.505. The average value of ROA in 2012-2016 is 0.059, while the standard deviation is 0.071. The minimum value of ROA is -0.118 and the maximum value is 0.304. The average value of UDD in 2012-2016 is 6.74, while the standard deviation is 1.819. The minimum value of UDD is 3 and the maximum value is 11. The average value of UKI in 2012-2016 is 0.402, while the standard deviation is 0.094. The minimum value of UKI is 0.2 and the maximum value is 0.625. The average value of UKA in 2012-2016 is 4.123, while the standard deviation is 1.232. The minimum value of UKA is 2.0 and the maximum value is 8.0. The average value of SIZE in 2012-2016 is 13,368, while the standard deviation is 1,022. The minimum value of SIZE is 10.294 and the maximum value is 15.016. The average value of DER in 2012-2016 is 2.773, while the standard deviation is 2.880. The minimum value of DER is 0,000657 and the maximum value is 11,395.

The Classic Assumption Test

The Kolmogorov-Smirnov test results in the normality test showed that the data was normally distributed (above 5%). There was no autocorrelation in the data used in this study, nor was there multicollinearity between the variables in the regression model. The results of the tests were not affected by heteroscedasticity assumptions.

In the first regression, 1) Analysis of the study showed that the coefficient of the size of the board of directors was negative at -0.011. This implies that every one addition to the board of directors will reduce the financial performance by 0.011 with other variables constant.

2) Research analysis shows that the coefficient value of the size of the independent commissioner is positive at 0.168. This indicates that the independent commissioner has a strong carrying capacity for improving financial performance. This illustrates the understanding that each addition of an independent commissioner will improve the financial performance by 0.168, assuming other variables are constant.

The Regression Model Analysis

Table 2: Testing Regression I and II

	Description	Standard Error	B	Sig	R ²
1 st Regression Dependent Variable: ROA	UDD	0,006	-0,011	0,073	0,179
	UKI	0,083	0,168	0,047	
	UKA	0,006	0,010	0,106	
	SIZE	0,010	0,023	0,026	
	DER	0,003	-0,012	0,000	
2 nd Regression Dependent Variable: Tobin's Q	UDD	0,010	-0,026	0,013	0,257
	UKI	0,0146	0,370	0,013	
	UKA	0,011	0,002	0,880	
	ROA	0,188	0,604	0,002	
	SIZE	0,018	0,025	0,166	
	DER	0,006	-0,005	0,340	

3) Research analysis shows that the value of the size of the audit committee coefficient is positive at 0.010. This indicates that the audit committee has a strong carrying capacity for improving financial performance. This illustrates the understanding that adding an audit committee will improve the financial performance by 0.010, assuming other variables are constant.

In the second regression, 1) Research analysis shows that the coefficient of the size of the board of directors is negative at 0.026. This illustrates the understanding that every one addition to the board of directors will reduce the value of the company by 0.026 provided that other variables are constant. 2) Research analysis shows that the coefficient of the size of the independent commissioner is positive at 0.370. This indicates that the independent commissioner has a strong carrying capacity for increasing the value of the firm. This illustrates the understanding that each addition of an independent commissioner will increase the value of the company by 0.370 assuming other variables are constant. 3) Research

analysis shows that the value of the size of the audit committee coefficient is positive at 0.002. This indicates that the audit committee has a strong carrying capacity for increasing the value of the firm. This illustrates the understanding that every one addition to the audit committee will increase the value of the firm by 0.002, assuming other variables are constant. 4) Research analysis shows that the coefficient of financial performance has a positive value of 0.604. This indicates that financial performance has a strong carrying capacity to increase the value of the firm. This illustrates the understanding, that with quality, financial performance will increase the value of the firm by 0.604, assuming other variables are constant.

The Relationship between the Size of the Board of Directors and Financial Performance

Using the first and second regression tests, in order to prove the financial performance variable can mediate whether or not the size of the board of directors influences the firm's value, the following Sobel² calculations will be carried out as follows:

Table 3: The First Sobel Hypothesis Test

Input	Test Statistics	Std Error	p-value
a	-0,011	-1,5923	0,0041
b	0,604		
Sa	0,006		
Sb	0,188		

Based on table 4, the t-value obtained is $-1.5923 < t\text{-table value } 1.65$ (sig.10%) and $p\text{-value of } 0.1113 > 0.10$ (sig.10%) so there is no influence from the size of the board of directors and the value of the company with financial performance as a mediating variable. This shows that the first hypothesis was rejected (H_1 rejected).

Financial performance cannot mediate the relationship between the size of the board of directors and a firm's value,. This does not follow the first hypothesis, so it can be stated that the first hypothesis is rejected (H_1 is rejected). These results are in accordance with the results of testing in the first and second regressions. A simultaneous calculation is performed to determine the mediation between the dependent and independent variables. More or less members in a company's board of directors risks internal company conflict. This is because it takes time to achieve harmony. If the board is not capable and/or lacks expertise, they will not properly contribute to the company's financial performance. Financial performance that is underserved will have an impact on the value of the firm. The results of this study support the

² www.quantpsy.org

research conducted by Swendari and Jikrillah (2016) which states that the number of members on the board of directors does not affect financial performance.

The Relationship between the Size of the Independent Commissioners and Financial Performance

Using the first and second regression tests, in order to prove the financial the value of the firm, the following calculation will be carried out:

Table 4: Second Sobel Hypothesis Testing

Input		Test Statistics	Std Error	<i>p-value</i>
A	0,168	1,713	0,059	0,0868
B	0,604			
Sa	0,083			
Sb	0,188			

Based on table 5, the t-value is $1.713 > t\text{-table value } 1.65$ (sig. 10%) and p-value is $0.0868 < 0.10$ (sig. 10%) so that positive and significant financial performance can mediate the effect of the size of the independent commissioner on the value of the firm; this shows that the second hypothesis is accepted (H₂ is accepted).

Financial performance can mediate the relationship between the size of the independent commissioner and the value of the firm. This is in accordance with the second hypothesis, so it can be stated that the second hypothesis is accepted (H₂ is accepted). These results are in accordance with the results of testing in the first and second regressions. Then a simultaneous calculation is performed to determine the mediation between the dependent variable and the independent variable. This is in accordance with the agency theory that the information asymmetry is caused by opportunistic behaviour on the part of management. In this case, independence from the board is needed to monitor and control the behaviour of the management (Jensen and Meckling, 1976). The number of independent members of the board influences the implementation of the oversight function. Moreover, an independent commissioner acts as a mediator in disputes that occur between internal managers and offers advice to management. The relationship between independent commissioners and the company's performance is supported by the view that independent commissioners are expected to be able to provide supervisory functions to the company independently and objectively. The results of this study support the research done by Agus Santoso in 'The Effect of *Good Corporate Governance* on Firm Value with Financial Performance as an intervening variable'. However, the research conducted by Ratih and Setyarini entitled *The Effect of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) on Company Value with Financial Performance as an intervening variable*, does not support the results of this study.

The Relationship between the size of the Audit Committee and Financial Performance

Using the first and second regression tests, in order to prove the financial performance variable can mediate whether or not the size of the audit committee influences a firm's value, the following calculations will be carried out thus:

Table 5: Third Sobel Hypothesis Testing

Input		Test Statistics	Std Error	<i>p-value</i>
a	0,010	1,4794	0,004	0,139
b	0,604			
Sa	0,006			
Sb	0,188			

Based on table 6, the t-value is 1.479 <t-table value 1.65 (sig. 10%) and p-value is 0.139> 0.10 (sig. 10%), so there is no influence from the size of the audit committee on the company's value, with financial performance as a mediating variable; this shows that the third hypothesis is rejected (H_3 is rejected).

Financial performance cannot mediate the relationship between the size of the audit board and a firm's value; this is not in accordance with hypothesis three, so the hypothesis can be approved (H_3 rejected). These results are consistent with the results of testing in the first and second regressions. Then a calculation is performed to determine the existence of mediation between the dependent variable and the independent variable. The existence of an audit committee invited to a company is only a fulfillment of the company's obligations to the regulations that apply in its implementation. Therefore, there is no need to fulfil obligations, the supervisory function of the audit committee does not run effectively so that it can handle fraud on financial statements. The results of this study support the research done by Ayu Nur Aini et al. (2017).

Conclusion

The main conclusions of this study are:

- 1) Financial performance cannot mediate the relationship between the size of the board of directors and a firm's value
- 2) Financial performance can mediate the relationship between the size of the independent commissioners and a firm's value
- 3) Financial performance cannot mediate the relationship between the size of the audit committee and a firm's value.



Based on the conclusions, the following suggestions can be made:

- 1) The board of directors and the audit committee do not affect the value of the firm with financial performance as an intervening variable. The company should consider the board members' competence, expertise, and internal control system so that the company's financial performance and value can be properly contributed to.
- 2) Shareholders should make decisions regarding the appointment and election of the members of the board of directors, audit committee, and independent commissioners. This is so that GCG in the company can run well and attract investors to invest.
- 3) The next step in this research is to add independent variables, such as AGM and the remuneration committee
- 4) Further research is expected to increase the number of samples and extend the time of the study.

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