

The Effects of Financial Performance on Firm Value and Good Corporate Governance: Evidence from Indonesia

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The purpose of this study is to determine the effect of financial performance on the value of manufacturing companies in Indonesia, as well as to find out whether good corporate governance can be a moderating variable on the effect of financial performance. The population used is manufacturing companies on the Indonesia Stock Exchange in 2017-2018. In this study, a sample of 129 was obtained. The analytical method used was MRA analysis. The results of this study are the financial performance proxy by return on asset proven to affect the value of the company. However, good corporate governance which is proxy by managerial ownership and independent board of commissioners has no effect on the relationship of financial performance to firm value. In other words, the good corporate governance variable which is proxy by managerial ownership and independent board of commissioners is not proven as a moderating variable on the relationship between financial performance variables and firm value.

Key words: *Financial performance, Firm value, Good corporate governance.*

Introduction

The establishment of a company is inseparable from the assessment of various parties. A company can be considered good if it is able to compete, survive, even develop. Increasing the value of a company will also increase the welfare of the owner. In an effort to achieve good firm value, of course, a company must be able to optimise its operating activities to generate profits on target. Profit is one of the indicators of a company's financial performance. Financial performance is one of the determinants of company value (Chabachib et al., 2019). With good financial performance and high firm value

achievements, it can be a good signal for investors in making investment decisions (Agrawal et al., 2019).

Financial performance is an indicator of a company's ability to generate profits. The measures used are financial ratios. Financial performance in this study was measured using Return on Assets (ROA). Research on the influence of ROA on firm value has been widely carried out. Arora and Sharma (2016) found the results of ROA research to have a positive effect on firm value. Kamal, Salleh, and Ahmad (2016) found the same results. However, it is different from Kodongo et al. (2015) who found that ROA has a negative effect on firm value. The inconsistent research results can be estimated because of several other factors that can contribute to strengthen or weaken the effect of ROA on company value. Putri and Christiawan (2014) examined the role of Good Corporate Governance (GCG) as ROA moderating company value and presented the results of research that GCG proved to be a moderating variable.

GCG is a good practice in managing a company. A company that is considered good is also expected to have proper management. The application of GCG can be seen from the perspective of the agency relationship. In the agency relationship, there is a separation of interests between the owner and manager (Jensen and Meckling, 1976). GCG problems will occur because the owners and managers of companies have different interests. In agency theory, it is stated that management tends to increase profits related to personal rather than company profits. Therefore, in the GCG mechanism, there is managerial ownership which is one indicator. Because it is assumed that the participation of managers as one of the owners of the company is expected to reduce agency conflicts and good governance processes can be realised, the higher managerial ownership of the company will encourage management to take part in maximising the interests of the shareholders. It is hoped that management will make every effort to the interests of shareholders.

The application of GCG is also closely related to the enforcement of ethics in doing business. Therefore, the application of GCG is also a good image of a company. A good image will certainly increase the value of the company in the eyes of the public. In this case, another indicator of the GCG mechanism, namely the existence of an independent board of commissioners, plays a vital role (Pamungkas et al., 2018). The independent board of commissioners can conduct oversight in the effort to uphold business ethics, supervising that company managers work in accordance with the company's goals in improving performance. If the company's performance increases, the company's value will also increase. Research on the role of GCG as a moderating variable between performance and firm value has been widely carried out. Black et. al (2012) found that GCG was one of the determinants of a company's market value. Research (Chabachib et al., 2019; Lozano et al., 2016) found

evidence that corporate governance is something that can be considered in predicting the effect of company performance on firm value.

The background description above can underlie the formulation of the problem in this study. The formulation of the problems in this study: first, is there an influence between financial performance and manufacturing company value in Indonesia? Second, can GCG be a moderating variable on the effect of financial performance on the value of manufacturing companies in Indonesia? The purpose of this study is to determine the effect of financial performance on the value of manufacturing companies in Indonesia, as well as to find out whether GCG can be a moderating variable on the effect of financial performance on the value of manufacturing companies in Indonesia.

Literature Review and Hypotheses Development

Financial Performance and Firm Value

Signal theory illustrates that a company has a goal of providing good information to the users. The information provided is in the form of financial statements. The effort aims to reduce the occurrence of information asymmetry between company managers and parties outside the company. Hassan and Halbouni 2013 found the results of ROA research have a positive effect on firm value. There are many results of the same previous research that financial performance influences firm value (Bachoo et al., 2013; Ilmi et al., 2017; Ochejo et al., 2019; Putri & Christiawan, 2014; Qiu et al., 2016; Setiawanta, 2019). Supported Kodongo et al. (2015), Putri and Wirajaya (2017) found the same results. This can support the hypothesis in this study.

H1: Financial performance has a positive effect on firm value.

Managerial Ownership in the Relationship between Financial Performance and Firm Value

GCG or good governance is an effort made by a company to support the achievement of objectives. Good governance can be seen from the company's financial performance that has been achieved. With the achievement of good financial performance can affect the increase in company value. A company with a good governance system is expected to have a good corporate performance, thereby affecting the increase in stock prices, where the stock price is one indicator of company value. In this study, GCG was measured using two proxy parts of the GCG mechanism. The first GCG mechanism is managerial ownership in the company (Utomo et al., 2018). It is related that the existence of managerial ownership can provide support to increase the value of the company. Cheung et al. (2015) found that management

ownership influences company value. According to Mirza (2013), it is stated that managerial ownership can be a moderating variable in the relationship between profitability and firm value. Based on the description, the hypothesis in this study is arranged as follows:

H2: Managerial ownership affects the relationship of financial performance with firm value.

Independent Board of Directors in the Relationship between Financial Performance and Firm Value

The second GCG mechanism used as a moderating variable in this study is the composition of the independent board of commissioners. The composition of the independent board of commissioners is expected to influence the company's management in financial reporting. Thus it is hoped, through the supervisory role carried out, the composition of the independent board of commissioners can support the creation of quality financial reports. Quality financial statements can be used by investors in seeing the financial performance of a company (Utomo et al., 2019). This is a positive signal for parties outside the company to see the value of a company. According to Siddiqui (2015), it was found that the GCG mechanism as measured by the presence of an independent board of commissioners affected the company's financial performance. Research conducted by Kodongo et al. (2015) found evidence that the number of boards of commissioners was able to be a moderating variable on the relationship between profitability and firm value. This is supported by the results of research conducted by Chabachib et al. (2019), Putri and Christiawan (2014) which found that GCG which is proxy by an independent board of commissioners is able to be a moderating variable of the relationship between profitability and firm value.

H3: Independent board of directors influences the relationship between financial performance and firm value.

Research Methods

This study uses a quantitative approach. In a quantitative approach will look at the causal relationship. The independent variable in this study is financial performance which is proxy by ROA. The GCG variable is a moderating variable. The GCG in this study is proxy by the managerial ownership variable and the independent board of commissioners. At the same time, company value is the dependent variable which is proxied by Tobin's Q.

Population

The population in this study is manufacturing companies in Indonesia which are listed on the Indonesia Stock Exchange (IDX) in 2017-2018. The method of selecting samples using

nonprobability sampling is purposive sampling. Purposive sampling is the selection of samples based on criteria. The criteria used are: (1) Manufacturing companies listed on the IDX successively in 2017-2018; (2) The company has audited financial statements ending 31 December and publishes on the IDX official website; (3) Financial reports use the rupiah in its reporting; (4) The company's financial statements contain all the data needed in research. With these criteria, the sample obtained was 73 companies with 2 years of observation, so there were 146 observations. Data that can be used after fulfilling the normality assumption are 129 observations. Data were obtained from the Indonesian Capital Market Directory (ICMD) and financial reports downloaded from the website www.idx.co.id.

This study uses firm value as the dependent variable. Company value is measured by Tobin's Q. According to Tobin's Q formula, it can be calculated as follows:

$$\frac{((CP \times \text{Total Stock}) + TL + I) - CA}{TA}$$

CP = Closing Price

TL = Total Liabilities

I = Inventory

CA = Current Assets

TA = Total Assets

The independent variable in this study is the financial performance proxied by ROA. ROA is calculated by dividing net income after tax by total assets. At the same time, the moderating variable used GCG. In this study using two (2) GCG mechanisms, namely managerial ownership and independent commissioners. Managerial ownership is measured by the large percentage of shares owned by managers, directors and commissioners, i.e. the total shares owned by managers, directors and commissioners compared with the total outstanding shares. Whereas independent commissioners are measured using a comparison between the number of independent commissioners divided by the total number of boards of commissioners.

This research uses quantitative statistical methods. Model testing and hypothesis testing are performed using Moderate Regression Analysis (MRA) analysis. According to Ghazali (2016), MRA is a test to analyse the moderating model by maintaining the integrity of the sample used.

Result

Statistical Descriptive Test

Descriptive testing in this study resulted in the mean value of all variables greater than the standard deviation value. This can be interpreted that the data in this study is good for use.

Classic assumption test. Testing classic assumptions is done using SPSS 22.0 for Windows. The following Table 1. is the output of normality testing using the Kolmogorov-Smirnov test:

Table 1: First Normality Testing one-Sample Kolmogorov-Smirnov Test

	Unstandardised Residual
N	146
Test Statistic	.193
Asymp. Sig. (2-tailed)	.000 ^c

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.

The first Normality Test using the Kolmogorov-Smirnov test obtained a significance value of 0,000. This value is smaller than 0.05, so the residual value of the data is said to be not normally distributed. To meet the assumption of normality, this study uses the outlier method. Based on this method, there are 17 extremes that must be excluded from the sample. The normality test with 129 samples obtained results that have a significance value of 0.200. This value is greater than 0.05, so the residual value of the data has a normal distribution or meets the assumption of normality. The test is shown in the following table 2.:

Table 2: Second Normality Testing One-Sample Kolmogorov-Smirnov Test

	Unstandardised Residual
N	129
Test Statistic	.064
Asymp. Sig. (2-tailed)	.200 ^{e,d}

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

Table 3: Heteroscedasticity Testing.

	Unstandardised Residual
Model	Sig.
(Constant)	.018
DKI	.793
Manaj Own	.191
ROA	.817
M1	.772

The second classic assumption test conducted is heteroscedasticity test. Heteroscedasticity test is done by using the Glejser test with the output results in the following Table 3. The results of these tests indicate that the model of this study was not exposed to the symptoms of heteroscedasticity. This is seen from the significance value of the regression equation with the absolute residual dependent variable. The significance value of all variables is over 0.05, which can be interpreted that the regression model in this study is free from symptoms of heteroscedasticity.

The next classic assumption test is the autocorrelation test. Autocorrelation test is done by looking at the Durbin-Watson values. The Durbin-Watson value of 2.333 is located in an area free from autocorrelation.

Model Feasibility Test

Determination Coefficient Test is a test used to see the ability of the variation of the independent variables used in the model in explaining the variation of the dependent variable. The coefficient of determination can be indicated by the value of Adjusted R Square in the following Table 4:

Table 4: Testing the coefficient of determination

Model	R	R Square	Adjusted R Square
1	.327 ^a	.107	.071

a. Predictors: (Constant), M2, DKI, ROA, Manaj Own, M1

b. Dependent Variable: Firm Value

In this study, the coefficient of determination is obtained from the adjusted R Square value of 0.071. This means that 7.1% of the variation of the firm value variable can be explained from the ROA variable and the moderating variable used.

T Statistical Test (Hypothesis Testing)

Statistical Test t is a test that aims to determine whether there is a partial effect of each independent variable on the dependent variable. The following table shows the output results from the t-test statistics in Table 5:

Table 5: Hypothesis Test

	Unstandardised	Coefficients	Standardised		
	B	Std. Error	Beta	T	Sig.
1 (Constant)	-2.136	.790		-2.704	.008
DKI	2.557	1.288	.449	1.985	.049
Manaj Own	2.769	2.218	.383	1.248	.214
ROA	4.314	1.934	1.036	2.230	.028
M1	-5.406	2.960	-.698	-1.826	.070
M2	-5.300	5.212	-.471	-1.017	.311

a. Dependent Variable: Firm Value

Statistical Test F

Statistical Test F is a test used to see the effect of all independent variables on the dependent variable. The table below is the output of the testing model:

Table 6: Test Statistics F

Model	Df	F	Sig.
Regression	5	2.949	.015 ^b
Residual	123		
Total	128		

The table above is the output of statistical testing F. The significance value of 0.015 is smaller than the significance level of 0.05, so it can be concluded that the model in this study is proven to be good and hypothesis testing can be done.

Discussion

Financial Performance on Firm Value

The independent variable in the study is financial performance measured by ROA. In the t statistical test, the value of the probability of ROA significance is 0.028. This value is smaller than the real level of 0.05. So it can be concluded that the first hypothesis in this study was accepted. Financial performance that is proxied by ROA is proven to affect the value of the company. This indicates that the increase in financial performance as indicated by the rise and fall of ROA will affect the better or worse the value of the company. The results of this study are in line with the signal theory that illustrates that the company's goal is to convey all forms of good information through financial statements to all interested parties. Illustrates that a company has the aim of providing useful information to the users. The purpose of

delivering that information is to reduce the asymmetry of information that can occur between the company manager and all parties outside the company (Chabachib et al., 2019; Ghozali et al., 2019; Isgiyarta et al., 2019). The results of this study support the research produced by Crisóstomo et al. (2011), Mishra and Mohanty (2014), Nurdin and Kasim (2018), Qiu et al. (2016), Setiawanta (2019), Putri and Christiawan (2014) who found that financial performance influences firm value.

Financial Performance and Managerial Ownership

The test results in this study indicate that the interaction variable between ROA and managerial ownership has a significance probability value of 0.311. This value is greater than the real level value of 0.05. The second hypothesis which states that Managerial Ownership influences the relationship between ROA and Tobin's Q is not accepted. Managerial ownership is not able to be a moderating variable between ROA and Tobin's Q. The results of this study are not in accordance with signal theory. The mechanism of GCG in the form of manager's involvement in the ownership of shares is an effort made by a company to support the achievement of objectives. This governance mechanism can also produce good performance from the company so that it can influence the increase in the value of the company (Chabachib et al., 2020; Isgiyarta et al., 2019; Setiawanta & Purwanto, 2019; Tristiarini et al., 2017; Widiatmoko et al., 2020). However, in this study, it was not proven that share ownership by managers would improve financial performance so that it would increase the value of the company. Improving the company's financial performance is not solely because the management as a manager is involved in share ownership. Usually, management has an interest in improving company performance even though they are not involved in the ownership of shares. Improved performance can also contribute to their achievements as managers. So when management is involved in owning or not owning the shares of the company he manages, they will continue to fight for the performance of the company they manage. The results of this study do not support the research of (Arora & Sharma, 2016) who found that managerial ownership proved to be a moderating variable on the relationship between profitability and firm value.

Financial Performance on Firm Value and Good Corporate Governance

The test results in this study indicate that the interaction variable between ROA and the Independent Board of Commissioners Composition has a significance probability value of 0.07. This value is greater than the real level value of 0.05. The third hypothesis which states that the Independent Board of Commissioners influences the relationship between ROA and Tobin's Q is not accepted. The Independent Board of Commissioners is not able to be a moderating variable between ROA and Tobin's Q. The results of this study are not in accordance with signal theory. Good governance in a company is expected to be able to

bring the company to have a good performance and be able to report good performance in the financial statements so that it will affect the value of the company in the eyes of investors (Pamungkas et al., 2018). However, in this study illustrates that the ability of financial performance as measured by ROA in influencing company value does not depend on governance mechanisms as measured by using an independent board of commissioners. The size of the composition of the independent board of commissioners does not contribute to management in generating ROA that can affect the value of the company in the eyes of investors (Chabachib et al., 2019; Oktari et al., 2018; Pamungkas et al., 2018). The results of this study contradict the research results of Putri and Christiawan (2014) who found that GCG proxied by an independent board of commissioners was able to be a moderating variable in the relationship between profitability and firm value.

Conclusion

Based on the analysis and discussion described earlier, the following conclusions can be drawn. Return on Assets (ROA) is proven to affect the value of the company in manufacturing companies on the Indonesia Stock Exchange in 2017-2018. GCG, which is proxied by the Managerial Ownership variable as a moderating variable, is proven to have no effect on the relationship between ROA and firm value. In other words, managerial ownership is not a moderating variable on the relationship of ROA and firm value. GCG proxied by the Independent Board of Commissioners is proven to have no effect on the relationship between ROA and company value. In other words, the Independent Board of Commissioners is not a moderating variable.

Meanwhile, the limitations of this study are the low coefficient of determination (R square) produced. This means that the use of the independent and moderating variables in this study are only able to explain the variation of the dependent variable by 7.1%. Based on these limitations, the researcher recommends that future research use independent variables and other moderating variables, or use different proxies.

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