



## **GOOD CORPORATE GOVERNANCE AS A MODERATING VARIABLE IN THE IMPACT OF FINANCIAL PERFORMANCE ON COMPANY VALUES**

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### **Abstract**

In the sector of the manufacturing industry that has *gone public*, the value of the company is very important to attract investors. One thing that is thought to affect the value of the company is financial performance. This study aims to determine the effect of financial performance on firm value with *Good Corporate Governance* as a moderating variable. In this study, financial performance is proxied by *Return on Assets* (ROA), firm value is proxied by *Price to Book Value* (PBV) and *Good Corporate Governance* is proxied using managerial ownership. The data in this study uses secondary data taken from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019. The results of this study indicate that financial performance has an effect on firm value, but *Good Corporate Governance* cannot moderate the effect of financial performance on firm value.

**Keywords:** financial performance, firm value, *good corporate governance*

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### **INTRODUCTION**

The company's main goal is to prosperity the stockholders. One of the ways used to stock prosperity is by increasing the price of company shares owned by stockholders. The increase in stock prices is one indicator of an increase in company value, so companies need to try to increase their company value (Erdianty & Bintoro,2015).

Firm value is how investors perceive a stock price. A high stock price indicates the high value of the company. This means that investors believe that the company's prospects are good and its performance is good so that in the end it can prosper the shareholders (Savitri et al,2021). The value of the company in this study is measured by using the ratio of the stock market price to its book value or often referred to as *Price To Book Value* (PBV). *Price To Book Value* (PBV) is widely used by securities analysts to estimate stock prices in the future. Where the calculation result of the stock market price against the book value shows the comparison between the performance of the company's shares in the stock market with its book value. Companies with relatively high returns on equity usually have a stock market price many times greater than book value than companies with low returns on equity. Companies that have a higher PBV indicate that the company's future performance is considered more prospective by investors, (Mintarti & Asmapane, 2018).

An increase in the value of the company can be shown by an increase in the company's financial performance. Financial performance can be said to be one of the factors that influence the development of a company in achieving its goals (Purwantoro,2020). To achieve its objectives, a company must also have effectiveness and efficiency in carrying out all its operational activities. The company has

effectiveness if the stakeholders can bring the company to achieve the goals set. Companies also need efficiency so that all inputs produce maximum output for the company, (Dandy & Nugroho,2020).

Measurement of financial performance can be done by assessing the analysis of financial statements. Financial performance can be measured by the level of company profitability. This study uses a profitability ratio proxied by *return on assets*. *Return on assets* is a measure of profitability from the point of view of company assets, (Rismawati & Dana, 2016). The greater the *return on assets* reflects the company's ability to generate profits by using its assets so that it will further increase the company's attractiveness to investors (Wijaya & Linawati, 2015).

Good governance (*Good Corporate Governance*) is also very influential on the value of the company. If the company does not have good governance then its performance will also not be good, on the contrary, if the company has good governance then the goals will be more focused, the performance will be good including the financial performance. Good financial performance will increase the value of the company, (Dandy & Nugroho,2020).

*Good corporate governance (GCG)* can be defined as the structures, systems, and processes used by the company's organs to provide added value to the company on an ongoing basis in the long term. GCG is a system that regulates how the organization is operated and controlled properly. In this study, GCG is proxied by using managerial ownership.

Managerial ownership is a situation where the manager owns the company's shares or in other words, the manager is also a shareholder of the company. Managerial ownership can be measured by the percentage of shares owned by management. Managerial ownership is quite strong in implementing GCG because it plays an important role in implementing GCG with existing principles (Erdianty & Bintoro, 2015).

Good financial performance will be able to increase the value of the company. This shows that good financial performance will give a signal to investors to buy shares of the company. If the sale of shares is good, the share price will increase, which means that the value of the company will increase (Wijaya, 2017). The signal theory states that companies are required to provide good signals regarding financial statements. Signal theory explains how companies should provide signals to users of financial statements. If the signal given by the company is good or *good news* then the market reaction will be good and have an impact on increasing financial performance. Good financial performance will be able to increase the value of the company, (Cecilia et al, 2015).

## **METHOD**

This research is quantitative research that uses secondary data. The data is taken from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019. Sampling using the purposive sampling method provided that the companies are listed consecutively from 2017-2019 and provide complete data for this research. The data is processed with the SPSS

program. The test that will be carried out is the classical assumption test, simple linear regression, t-test, and then *Moderated Regression Analysis (MRA)* is carried out.

## RESULTS AND DISCUSSION

This study aims to see whether financial performance affects firm value and whether *Good Corporate Governance* can moderate the effect of financial performance on firm value. So that in this study two hypotheses were taken, namely:

1. H1: Financial performance has a positive effect on firm value
2. H2: *Good Corporate Governance* moderates the effect of financial performance on firm value.

### *Classic assumption test*

Table 1. Classic assumption test

	<b>Normality</b>	<b>Multicollinearity</b>	<b>Heteroscedasticity</b>
asyp. Sig	0,229		
VIF		1,000	
Tolerance		0,900	
Sig			0,516

The normality test aims to test whether in the regression model the dependent variable and the independent variable have a normal distribution. *This study used the Kolmogorov-Smirnov (K-S)* non-parametric statistical test. If the *Kolmogorov-Smirnov* value has a significant level above a  $> 0.05$ , it means that the regression meets the assumption of normality (Ghozali, 2013). *Table 1 shows that the Asymp value.* Sig shows the number 0.229 which is greater than 0.05, which means that the dependent variable and the independent variable are normally distributed.

Multicollinearity test can be done by calculating the value of *variance inflation factor (VIF)* and *tolerance value* of each independent variable. The *cut-off value* that is generally used to indicate the presence of multicollinearity is the *Tolerance* value of 0.10 or the same as the VIF value 10, (Ghozali, 2013). Table 1 shows that the VIF value is 1.00 and the *tolerance* value is 0.900, so it can be said that the model is free from multicollinearity.

The heteroscedasticity test aims to test whether in the regression model there is a variable inequality from the residual of one observation to another observation. The heteroscedasticity test can also be seen by using a statistical test, namely the glejser test. *If the value of sig 0.05, it is said that the model meets the requirements of heteroscedasticity,* (Ghozali, 2013). In Table 1, heteroscedasticity is indicated by a sig value of 0.516 where 0.05.

### *Simple Linear Regression Analysis*

This analysis is used to determine how much influence the independent variable has on the dependent variable.

Table 2, Simple Linear Regression Analysis

Coefficients <sup>a</sup>						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	.779	.036		21.646	.000
	ROA_X1	.013	.014	.065	.960	.038

a. Dependent Variable: PBV\_Y

From Table 2, a simple linear regression equation formula can be made as follows:

$$PBV = 0.779 + 0.13ROA + e$$

Information :

PBV = *Price to Book Value* (Company value)

ROA = *Return on assets* (Financial Performance)

The simple linear regression equation formula has a constant value ( $\alpha$ ) of 0.779, which means that if the ROA (financial performance) is considered zero, then the PBV (firm value) is 0.779.

The ROA (financial performance) regression coefficient shows the number 0.13, which means that if the ROA (financial performance) increases by 1 unit, the PBV (company value) will increase by 0.13.

### *t-test*

The t-test was used to test the significance of the relationship between the independent variable and the dependent variable. Does the independent variable affect the dependent variable separately or partially? According to Ghazali, (2013), the basis for decision making is by using a significance probability number, namely: if the significance probability number is  $> 0.05$ , then the independent variable does not have a significant effect on the dependent variable. And if the probability of significance is  $< 0.05$ , then the independent variable has a significant effect on the dependent variable.

Table 2 shows the sig value of the ROA variable showing the number 0.038 where the number is 0.05 which means that financial performance (ROA) has a positive effect on firm value. This means that hypothesis 1 is accepted.

### **Moderated Regression Analysis (MRA)**

*Moderated Regression Analysis (MRA)*, interaction test data is a special application of linear multiple regression where the regression equation contains an interaction element (multiplication of two or more independent variables) with the following equation formula:

$$PBV = a + b_1 ROA + b_2 GCG + b_3 ROA, GCG + e$$

The multiplication variable between ROA and GCG is also called the moderating variable because it describes the moderating effect of GCG on the relationship between ROA and PBV.

### ***Interaction Moderation***

Table 3. Interaction Moderation

	sig	Adjusted R <sup>2</sup>
Moderating_1	0,934	0,002

Source: Processed data

Table 3 shows that the significant value of interaction moderation is 0.934 where the value is  $> 0.05$ , so it can be said that firm value cannot moderate the effect of financial performance on firm value. While the *adjusted R square* value is 0.002, which means that it shows that the influence of financial performance on firm value with firm size as moderating is 0.2% while the remaining 99.8% is influenced by other variables.

### ***Absolute Difference Moderation***

Table 4. Absolute Difference Moderation

	sig	Adjusted R <sup>2</sup>
Moderating_2	0,250	0,008

Source: Processed data

Table 4 shows that the significant value of absolute difference moderation is 0.250 where the value is  $> 0.05$ , so it can be said that firm value cannot moderate the effect of financial performance on firm value. While the *adjusted R square* value is 0.008 which means that it shows that the influence of financial performance on firm value with firm size as moderating is 0.8% while the remaining 99.2% is influenced by other variables.

### ***Residual Moderation***

Table 5. Residual moderation

	sig	Adjusted R <sup>2</sup>
Moderating_3	0,231	0,002

Source: Processed data

Table 4 shows that the significant value of residual moderation is 0.231 where the value is  $> 0.05$ , so it can be said that firm value cannot moderate the effect of financial performance on firm value. While the *adjusted R square* value is 0.002, which means that it shows that the influence of financial performance on firm value with firm size as moderating is 0.2% while the remaining 99.8% is influenced by other variables.

## CONCLUSION

Based on the analysis that has been done, it can be concluded that:

1. Financial performance has a significant positive effect on firm value. This means that financial performance will be able to attract investors to increase their investment by buying company shares, so the stock will experience a price increase. The increase in stock prices is one indicator of an increase in the value of a company because investor confidence increases.
2. *Good Corporate Governance* is not able to moderate the influence of financial performance on firm value. In this study, *Good Corporate Governance* is proxied by Managerial Ownership. Not all Manufacturing companies listed on the IDX in 2017-2019 used as samples in this study have managerial ownership.
3. Suggestions to further researchers to use other proxies in measuring *Good Corporate Governance*.

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