The Effect of Financial Performance and Good Corporate Governance on Company Value

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A B S T R A C T

The aim of this research is to determine the effect of financial performance as proxied by return on equity and Good corporate governance as proxied by the GCG index on company value as measured by Tobin's Q. This research method uses a quantitative approach. The sampling technique uses purposive sampling with secondary data sources in the form of financial reports. The objects of this research are 26 companies listed on the Indonesian Stock Exchange. The research results show that financial performance as measured using ROE has no effect on company value. Meanwhile, GCG as measured using the GCG index has a significant positive effect on company value.

1. Introduction

A phenomenon currently occurring in the business world is increasing global competition in companies listed on the IDX. Competition between companies is not only limited to competition in the goods market but also competition in the capital market. For companies that issue shares on the capital market, the share price offered is an indicator of the company's value. The high or low value of a company is determined by the financial performance presented in the company's annual financial information. A significant relationship between financial performance and company value will be visible if you look at the main goal of each company, namely to obtain maximum profits, where an increase in profits shows that good financial performance will be able to increase investors' interest in investing, considering that company value is investors' appreciation of the results. management work in managing company assets (Hasanah et al., 2023).

The long-term goal of companies listed on the IDX is to maximize the company's corporate value which is the result of management's work in several dimensions, including the company's net cash flow from investment decisions, growth and the company's capital costs. Company value is an important concept for investors, because company value is an indicator of the company's overall market value (Hardianti et al., 2023). A high company value indicates a high level of assets on the part of shareholders.

Profitability is a factor that influences the value of the company, if managers are able to manage the company well then, the costs that will be incurred by the company will be more so that the profits generated will be large. The size of this profit will affect the value of the company. Profitability is an important thing that every company must know

to support the growth and development of the company. To find out the profitability of a company, Financial reports to serve detailed information about the company profitability. In this research, profitability is measured using ratios return on equity (ROE) which is used to measure the level of company financial performance. Return on equity (ROE) is a comparison between the bank's net profit and its capital. ROE is a ratio to measure bank management's ability to manage existing capital to obtain net income or net profit after tax (Hasanah et al., 2023).

The second factor that influences company value is Good Corporate Governance (GCG). Good Corporate Governance good governance is a means of managing financial performance so that ownership and control are not separated, with management pursuing personal gain rather than company goals. GCG is closely related to company value, this is because the implementation of GCG principles aims to increase company value through good company performance (Nuryono et al., 2019).

Well-managed management automatically increases the value of the company. The rules for implementing GCG in Indonesia are in the rules regarding the Implementation of Good Corporate Governance in Persero under the Guidance and Supervision of the Minister of Finance which is contained in the Regulation of the Minister of Finance of the Republic of Indonesia Number 88 / PMK.06 /2015. In its implementation, GCG is aimed at encouraging company continuity through management efforts and is based on the principles of transparency, accountability, fairness, responsibility, and independence. Through these implementation efforts, management accountability, supervision, and decision-making processes can be accountable and transparent (Elvina & Karnawati, 2024).

In this research, GCG is measured by the GCG index, which is a measure to determine the quality of the implementation of good corporate governance by the company. The GCG index consists of 32 indicators of GCG implementation following the 2006 GCG general guidelines. There are 32 indicator items in the company's annual report. Measurements are made using dummy variables. If the item is met, a score of 1 is given, but if it is not met, a score of 0 is given. Next, the GCG index will be obtained by adding up the items to obtain a total score for each question. The maximum total index is 32 (as a sign of 100% company compliance in implementing GCG) (Putra & Dewayanto, 2019).

The research results of Wulandari et al., (2023); Hasanah et al., (2023) show that financial performance as measured by ROE has a positive and significant effect on company value. The results of research conducted by Elvina & Karnawati (2024) show that GCG influences company value. By carrying out effective supervision of the company's management performance, the Board of Directors can ensure that the company's objectives are carried out well and in accordance with the interests of shareholders. Meanwhile, research conducted by Nuryono et al., (2019) in their research shows that GCG does not affect company value.

2. Theoritical Framework and Hypothesis

2.1 Agency Theory

Jensen & Meckling (1976) stated that agency theory is an authoritative relationship that exists between two parties. Where one party (principal) delegates dynamic power and responsibility to another party (agent). Agency issues are currently part of the process used in examining the ownership, management, and duties of associations. Agency

Relationship is a working relationship where at least one individual is an investor (principal) and delegates to another party (agent) to offer any type of assistance and decision-making on behalf of a principal. Principals are shareholders who provide facilities and funds to run the organization. Meanwhile, the agent is an organizational administrator who is committed to supervising and managing company management that has been delegated by shareholders (Jensen & Meckling, 1976). The reasons for management to disclose the practice of disclosing financial reports to shareholders are explained in agency theory. The connection with this exploration is the existence of collaboration and interrelated interests between companies and users of financial reports such as creditors, investors, and other users of financial data (Jensen & Meckling, 1976).

The presence of the audit committee as an independent supervisor aims to limit opportunistic administrative behavior. The audit committee will oversee the internal control system and risk management as well as evaluate the board's framework financial reports, as well as audit financial reports. In this way, executives must convey information in the form of disclosures Good Corporate Governance (GCG), and financial reports in a transparent manner, in accordance with the law and free from misstatement to avoid information asymmetry (Sabrina et al., 2021).

2.2 Company Value

Value is closely related to the financial gain/benefit from owning an asset, the appropriateness of the monetary price, the price paid for the asset, the specific use or benefit, the possibility of exchanging goods or services. So, you could say that value is Profit / Usefulness / Utility out of ownership of goods, services or other things, both those that can be measured and those that cannot be measured with money (Ali et al., 2021).

The measurement of company value in this research uses Tobins'Q. This ratio is a very valuable concept because it shows the current financial market's assessment of the rate of return for each additional dollar invested. This ratio is calculated by comparing the ratio between the market value of shares and the book value of company shares. The value of a company can be said to be good if Tobins'q is greater than one (overvalued). The higher the Tobins'q, the better the company value. On the other hand, if Tobins'q is less than one (undervalued), it indicates that the company's value is not good. So, it can change investors' perceptions of the company (Hardianti et al., 2023).

2.3 Hypothesis

2.3.1 Effect of Financial Performance on Company Value

Based on agency theory, the reasons for management to disclose the practice of disclosing financial reports to shareholders are explained in agency theory. The connection with this exploration is the existence of collaboration and interrelated interests between companies and users of financial reports such as creditors, investors, and other users of financial data (Jensen & Meckling, 1976). If managers can manage the company well, the costs incurred by the company will be less so the profits generated will increase. The size of this profit will affect the value of the company. Profitability is an important thing that every company must know to support the growth and development of the company. The profitability of a company can be calculated using information from a financial report. The research

results of Wulandari et al., (2023); Hasanah et al., (2023) show that financial performance as measured by ROE has a positive and significant effect on company value. Based on this, the hypothesis proposed in this research is:

H1: Financial performance has a positive and significant effect on company value

2.3.2 The Influence of Good Corporate Governance on Company Value

Based on agency theory, GCG that is not implemented properly can trigger clashes or conflicts of interest, a decline in company performance due to unhealthy business practices, which can also affect the company's share price. Therefore, companies are required to consider this GCG application. Through the independent application of GCG, a company can be assessed as best practice for increasing company value. The results of research conducted by Elvina & Karnawati (2024) show that GCG influences company value. By carrying out effective supervision of the company's management performance, the Board of Directors can ensure that the company's objectives are carried out well and in accordance with the interests of shareholders. Based on this, the hypothesis proposed in this research is:

H2: Good corporate governance has a positive and significant effect on company value

3. Research Methodology

The data used in this research is secondary data sourced from the company's annual financial reports. Meanwhile, the company objects studied were 26 companies from the 2018 to 2022 period which were also listed on the Indonesia Stock Exchange (BEI). The total research data that has been collected temporarily is 130 data (26 data x 5 years). This research uses company value as the dependent variable, and corporate governance and financial performance as independent variables.

4. Results and Discussion

Table 1 shows that the amount of data from this research is 30 observation data. Descriptive statistical tests produce average values, minimum values, maximum values, and standard deviations based on the total number of sample data consisting of 26 samples over 5 research periods.

Table 1

Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
ROE	130	-2.543	3.555	0.28678	0.740215
TOBIN	130	0.328	20.380	2.51313	3.500344
GCG	130	0.469	0.969	0.85765	0.093429

Source: Processed Data, 2024

The variables in this research are: (a) financial performance as measured by Return on Equity, (b) Good corporate governance measured with Good Corporate Governance Index (GCGI), Company Value as measured by Tobin's Q.

Financial performance is measured by the total sample size of 130 has an average sample value of 0.28678 with a maximum value of 3.555, a minimum value of -2.543, and a standard deviation of financial performance of 0.740215. Company value as measured by Tobin's Q has a sample average value of 2.51313 with a maximum value of 20,380, a minimum value of 0.328, and a standard deviation of financial performance of 0.500344. Good corporate governance is proxied by Good Corporate Governance Index (GCGI) with the total sample size of 130 has an average sample value of 0.8576, with a maximum value of 0.969, a minimum value of 0.469, and a standard deviation of good corporate governance of 0.0934.

Table 2

Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients		
Variabel	B	Std. Error	Beta	t	Sig.
(Constant)	-6.312	1.709		-3.694	0.000
ROE	-0.048	0.252	-0.010	-0.190	0.850
GCG	7.519	2.010	0.201	3.740	0.000

a. Dependent Variable: TOBIN

Source: Proccessed data, 2024

The coefficient value on the financial performance variable as measured by ROE shows -0.048, with a significance level of 0.850 > 0.05. This means that the ROE variable has no effect on company value. So H1 in this study is not supported. The failure to support this hypothesis indicates that the rate of return on equity and firm value produce different directions. This means that an increase in ROE does not affect company value.

Financial performance as measured by ROE in this research indicates the company's inability to generate profits from any capital paid into the Company. This can be reflected in the minimum ROE ratio, which is -2,543, so that if a company has a low ROE value, then this will reduce shareholder returns. Companies that have low returns will not be attractive to investors, thus ROE cannot increase company value and result in share prices decreasing.

Table 2 shows that the GCG coefficient value on company value is 7.519 with a significant value of 0.000 < 0.05. This shows that GCG has a significant positive effect on company value. So H2 in this research is supported. The support of the second hypothesis strengthens the opinion that every business actor must understand the principles of good corporate governance well so that they can apply them in the company's operational activities. GCG can also help increase the trust and confidence of stakeholders and other external parties in the company.

The GCG concept can encourage corporate accountability and transparency. GCG and CSR have a very close relationship with each other. Both are linked by a similar central point regarding the responsibilities of stakeholders. The difference provided by GCG is more focused on the benefits of stakeholders, where companies must create added

value from products and the actions of stakeholders, as well as maintaining the continuity of company value. Based on the concept of creating added value for stakeholders, the principle of responsibility in GCG will increase the value of the Company.

The better a company is at implementing GCG mechanisms, the higher the company value. Implementing GCG will facilitate the management process and also make process monitoring more effective. The level of management supervision influences management to disclose company financial information. Institutional ownership as a mechanism in corporate governance can improve the quality of investment decisions. This is because large institutional ownership will cause pressure on management to reveal responsibility. This is in line with research which finds that corporate governance plays an important role in increasing company value. In addition, the size of the board of independent directors has a positive and significant increase in profitability (Khan & Kamal, 2022).

5. Conclusion

The research results show the ROE variable does not affect company value, so the first hypothesis in this study is not supported. The failure to support this hypothesis indicates that the rate of return on equity and firm value produce different directions. This means that an increase in ROE does not affect company value. Gcg has a significant positive effect on company value, so the second hypothesis in this research is supported. The support of the second hypothesis strengthens the opinion that every business actor must understand the principles of good corporate governance well so that they can apply them in the company's operational activities. GCG can also help increase the trust and confidence of stakeholders and other external parties in the company.

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