The Effect of Good Corporate Governance Mechanism on Firm Value with Financial Performance as a Moderation Variable

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ABSTRACT: This study aims to examine the effect of good corporate governance mechanisms consisting of managerial ownership (KM), audit committee (KA), board of commissioners (DK), and board of directors (DD) on firm value (PBV) and financial performance (ROA) as moderating variable. In this study the population used is a banking company listed on the Indonesia Stock Exchange (IDX). The number of samples collected was 15 companies within a 5 year research period. The selected sample was carried out using a purposive sampling technique. The results showed that managerial ownership has a positive and significant effect on firm value, audit committee has no significant effect on firm value, the board of commissioners has no significant effect on firm value, the board of directors has a positive and significant effect on firm value, financial performance can moderate the effect of managerial ownership on firm value, financial performance does not moderate the effect of the audit committee on firm value, financial performance does not moderate the effect of the board of commissioners on firm value, financial performance moderates the effect of the board of directors on firm value.

KEYWORDS: managerial ownership, audit committee, board of commissioners, firm value, price to book value, return on assets

I. INTRODUCTION

The Indonesian economy is growing rapidly with easy access to transactions provided by banking companies, both state-owned and private banks. The establishment of a company must have a clear purpose. There are several purposes for the establishment of a company. The first goal is to achieve maximum profit. The second goal is to prosper the company owner or shareholder. While the third goal of the company is to maximize the value of the company which is reflected in the stock price. The objectives of the three companies are substantially not much different. It’s just that the emphasis to be achieved by each company is different from one another (Harjito, Martono, & Tohrin, 2022).

The company's value describes the amount of the company’s equity with the company's debt in a certain period. Indriastuti, Suhendi, & Hanafi., (2020) states the value of the company is the price that must be paid by prospective buyers if the company is sold. According to Yanti & Patrisia., (2019) said that the success of the Corporate Value created by the company is a reflection of shareholder prosperity, corporate value can provide maximum shareholder prosperity if the stock price increases. The increasing value of the company is expected to attract interest and increase the confidence of investors to invest their funds in the company. A high increase in corporate value is a long-term goal that should be achieved by the company, in the process of increasing corporate value it is necessary to implement Good Corporate Governance (good corporate governance) (Widiatmoko, 2020). Improving the quality of good corporate governance in companies is expected to be able to improve and improve supervision of company performance so that companies become more controlled. To achieve better and more controlled company performance, a good corporate governance mechanism is needed. Good corporate governance mechanisms are procedures, procedures, and company rules to produce good corporate governance so that it can provide company benefits (Nuswantara, Carolina, & Krisprimandoyo, 2020).

The implementation of Good Corporate Governance in a company will increase the value of the company because in GCG there are principles of transparency and accountability which indicate that companies must have clarity and transparency that will be presented by investors, with clarity and openness implemented by the company will increase investors' sense of security to can invest in the company (Kong, Famba, Kuraone, Chituku-Dzimiro, & Sun, 2020)..<br />

The basic principles of GCG consist of fairness, accountability, transparency, independence and responsibility. While the mechanism of GCG includes: the number of commissioners, the independence of the board of commissioners, the size of the board of directors, and the existence of an audit committee. Based on the basic principles and mechanisms of GCG, it is hoped that it will be able to optimize company performance and company value by implementing a good control system for company
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Managers. So that the company is developing in a better direction with the development of the company's stock price as an indicator of assessment and the impact on achieving company value as desired (Yanti & Patrisia, 2019). Corporate governance also provides a structure that facilitates the determination of the goals of a company, as well as a tool for monitoring company performance techniques (Abbas, Kalantari, & Abbas, 2012). The company's financial performance is one of the factors seen by potential investors to determine investment. For companies to maintain and improve financial performance is a must so that the company's shares continue to exist and remain in demand by investors. The better the company's performance, the higher the return that will be obtained by investors. Financial performance describes the level of soundness and financial condition of the company in a certain period. According to Rosiana & Mahardhika, (2021), an assessment of banking performance is one of the benchmarks for society to give trust to banks. This study uses profitability ratios in the form of ROA as a measure of a bank's financial performance, because in determining the soundness level of a bank, Bank Indonesia as a banking supervisor pays more attention to assets where most of the funds come from public deposits (Rivai, Sudarto, & Veitzal, 2013).

II. HYPOTHESES DEVELOPMENT

Managerial Ownership and Corporate Values
Managerial share ownership is the shareholder of managers and directors who are actively involved in decision making (Rahman & Reja, 2015). Managers who are also shareholders will of course align their interests as managers with their interests as shareholders. The research results of Indriastuti et al., (2020) showed that managerial ownership has a positive and significant effect on firm value. Based on the description above, the development of the hypothesis derived is:

H$_2$: Managerial ownership has a positive effect on firm value.

Audit Committee and Corporate Values
The audit committee is an important component of good corporate governance. By ensuring the integrity and quality of financial reports, the audit committee helps protect the interests of shareholders and maintain public trust in the company. The results of research from Alsaghr, Belkhaoui, & Aldosari., (2018) and Widiatmoko (2020) show that the audit committee has a positive and significant effect on firm value. Based on the description above, the development of the hypothesis derived is:

H$_2$: The audit committee has a positive effect on firm value.

Board of Commissioners and Corporate Values
The board of commissioners is tasked with controlling and providing direction to the board of directors. The board of commissioners does not have direct authority over the company. The main function of the board of commissioners is to oversee the completeness and quality of report information on the performance of the directors. Therefore, the position of the board of commissioners is very important in bridging the principal's interests in a company. Research by Nuryana & Dwi Surjandari., (2019) and Nuswantara et al., (2020), found that the board of commissioners has a positive effect on company value. Based on the description above, the development of the hypothesis derived is:

H$_2$: The board of commissioners has a positive effect on firm value.

Board of Directors and Corporate Values
The board of directors in the company will determine the policies to be taken or the company's strategy in the long term and short term (Yanti & Patrisia, 2019). In order for the implementation of the duties of the directors to run effectively, one of the principles that needs to be fulfilled is that the composition of the directors must be in such a way as to enable appropriate, fast and effective decision-making, and can act independently (Abdel-Azim & Soliman, 2020). Research by Widiatmoko (2020) and Filip, Vesna, & Kiril., (2014), found that the board of directors has a positive effect on company value. Based on the description above, the development of the hypothesis derived is:

H$_2$: The board of directors has a positive effect on firm value.

Managerial Ownership and Firm Value with Financial Performance as Moderating Variables
Managerial ownership can help reduce agency conflicts between shareholders and management. Managers who own company shares tend to act in ways that benefit shareholders, because they are also shareholders who have an interest in the long-term success of the company. The results of research by Oleiwi et al., (2019) show that financial performance variables have an impact on the relationship between managerial ownership and firm value. Based on the description above, the development of the hypothesis derived is:

H$_2$: Financial performance moderates the effect of managerial ownership on firm value.
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Audit Committee and Corporate Values with Financial Performance as Moderating Variables
The application of GCG principles means that the company will have an audit committee and independent commissioners as parties who carry out supervision and control in creating fairness, transparency, accountability and responsibility. The proportion of audit committee independence has a positive relationship between the audit committee and the reduced pressure of managers on the audit committee in preparing financial reports. Research conducted by Kryeziu & Hoxha., (2021) found that financial performance has an impact on the relationship between audit committees and firm value. Based on the description above, the development of the hypothesis derived is:

H6: Financial performance moderates the effect of the audit committee on firm value.

Board of Commissioners and Corporate Values with Financial Performance as Moderating Variables
The board of commissioners in a company places more emphasis on the monitoring function of the directors' policy implications. The role of the commissioner is expected to minimize agency problems that arise between the board of directors and shareholders. The board of commissioners plays an important role in directing strategy and overseeing the running of the company and ensuring that managers really improve company performance as part of company goals. Nikolić, Nielsen, & Peković., (2022) found that financial performance variables have an impact on the relationship between the board of directors and company value. Based on the description above, the development of the hypothesis derived is:

H7: Financial performance moderates the effect of the board of commissioners on firm value.

Board of Directors and Company Value with Financial Performance as Moderating Variable
Good corporate governance is proposed and is expected to be able to provide improvements to company performance through monitoring management performance and ensuring management accountability to stakeholders based on the applicable regulatory framework. Parties - parties who have certain interests will carry out the preparation of financial statements in accordance with their wishes. This often happens and is considered entrenched in the management of a company. This is due to supervision that is still not optimal by the company and the rules and standards for accounting, auditing and the principle of transparency which are still weak in application. Therefore, good supervision and control need to be carried out to prevent fraud from occurring. Thus it is necessary to have a party whose role is to control and oversee the actions and decisions of the company's managers, which in the end the management of the company runs in a healthy, clean and responsible manner. Research conducted by El-Charaani, Abraham, & Skaf., (2022) found that financial performance has an impact on the relationship between the board of directors and company value. Based on the description above, the development of the hypothesis derived is:

H8: Financial performance moderates the effect of the board of directors on firm value.

III. RESEARCH METHODE

Population and Sample
The population taken for this study is a banking company listed on the Indonesian Stock Exchange. Sampling from this study used a purposive sampling method with the following criteria: (1) Banking companies listed on the Indonesia Stock Exchange in the 2016-2020 research period, (2) Banking companies that issued complete annual financial reports for the 2016-2020 period, (3) Companies that provide data according to research variables during the 2016-2020 period.

Research variable
The variables in this study consist of one dependent variable, namely firm value, one independent variable of good corporate governance which is proxied to be 4 including managerial ownership, audit committee, board of commissioners, and board of directors, and one variable of financial performance moderation. The following table is the variables and variable measurements.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Symbol</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent variable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm Value</td>
<td>PBV</td>
<td>Price per share/Book value per share</td>
</tr>
<tr>
<td>Independent variable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial ownership</td>
<td>MOWN</td>
<td>Share owned by management/Total share</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>AC</td>
<td>The number of audit committee</td>
</tr>
<tr>
<td>Board of Commissioner</td>
<td>BOC</td>
<td>The number of board of commissioners</td>
</tr>
</tbody>
</table>
Data analysis

Testing the hypothesis of this study uses multiple regression analysis with a significance level of 0.05, meaning that the hypothesis is accepted if the significance value of each variable is less than 0.05. The regression equation as follows:

\[ PBV = \alpha + \beta_1 \text{MOWN} + \beta_2 \text{AC} + \beta_3 \text{BOC} + \beta_4 \text{BOD} + \beta_5 \text{MOWN} \times \text{ROA} + \beta_6 \text{AC} \times \text{ROA} + \beta_7 \text{BOC} \times \text{ROA} + \beta_8 \text{BOD} \times \text{ROA} + \epsilon \]

IV. RESULT AND DISCUSSION

Descriptive Statistics

Descriptive analysis is usually used by researchers to display an overview of the sample data to be studied. In this study, an overview of the research sample will be shown including the mean, standard deviation, minimum value, and maximum value of each variable that will be used in research such as MOWN, AC, BOC, BOD, PBV, and ROA.

Table 2. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOWN</td>
<td>75</td>
<td>0,00</td>
<td>0,24</td>
<td>0,0485</td>
<td>0,06506</td>
</tr>
<tr>
<td>AC</td>
<td>75</td>
<td>1,00</td>
<td>9,00</td>
<td>3,8667</td>
<td>1,30832</td>
</tr>
<tr>
<td>BOC</td>
<td>75</td>
<td>3,00</td>
<td>10,00</td>
<td>6,0267</td>
<td>2,08582</td>
</tr>
<tr>
<td>BOD</td>
<td>75</td>
<td>3,00</td>
<td>12,00</td>
<td>8,3867</td>
<td>2,81355</td>
</tr>
<tr>
<td>PBV</td>
<td>75</td>
<td>0,53</td>
<td>37,88</td>
<td>3,3840</td>
<td>6,42258</td>
</tr>
<tr>
<td>ROA</td>
<td>75</td>
<td>-15,89</td>
<td>4,00</td>
<td>1,1704</td>
<td>3,31024</td>
</tr>
</tbody>
</table>

Source: Data processed

Based on table 2 it can be seen that good corporate governance which is proxied by MOWN has a mean value of 0.0485 with a minimum value of 0.00 and a maximum value of 0.24. AC has a mean value of 3.8667 with a minimum value of 1.00 and a maximum value of 9.00. BOC has a mean value of 6.0267 with a minimum value of 3.00 and a maximum value of 10.00. BOD has a mean value of 8.3867 with a minimum value of 3.00 and a maximum value of 12.00. Meanwhile, the company value proxied by PBV (Price to Book Value) has a mean value of 3.3840 with a minimum value of 0.53 and a maximum value of 37.88. The financial performance proxied by ROA (Return on Assets) has a mean value of 1.1704 with a minimum value of -15.89 and a maximum value of 4.00.

Hypothesis Test Results

The t test in this study was used to determine the partial effect of the independent variables on the dependent variable. The following test results were obtained:

Table 3. Hypothesis test result

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOWN</td>
<td>0.391</td>
<td>10.96</td>
<td>3.52</td>
<td>0.001</td>
</tr>
<tr>
<td>AC</td>
<td>-0.116</td>
<td>0.532</td>
<td>-1.069</td>
<td>0.289</td>
</tr>
<tr>
<td>BOC</td>
<td>-0.254</td>
<td>0.477</td>
<td>-1.643</td>
<td>0.105</td>
</tr>
<tr>
<td>BOD</td>
<td>0.61</td>
<td>0.345</td>
<td>4.041</td>
<td>0.000</td>
</tr>
<tr>
<td>MOWN*ROA</td>
<td>0.567</td>
<td>2.816</td>
<td>4.803</td>
<td>0.000</td>
</tr>
<tr>
<td>AC*ROA</td>
<td>-0.352</td>
<td>0.199</td>
<td>-0.993</td>
<td>0.324</td>
</tr>
<tr>
<td>BOC*ROA</td>
<td>-0.469</td>
<td>0.180</td>
<td>-1.088</td>
<td>0.280</td>
</tr>
<tr>
<td>BOD*ROA</td>
<td>0.939</td>
<td>0.107</td>
<td>2.857</td>
<td>0.006</td>
</tr>
</tbody>
</table>

Source: Data processed
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Effect of managerial ownership on firm value
Based on table 3 it is known that the significance value of the MOWN variable is 0.001 which is smaller than 0.05 and the beta value is 0.391 which indicates a positive direction. Increased managerial ownership can illustrate that the company will continue to grow because company ownership is an investment that comes from the managers and boards that manage the company, so that when managerial ownership increases, the value of the company will also increase. So it can be concluded that the MOWN variable can affect the PBV variable.

The results of this study support the first hypothesis which states that managerial ownership has a positive effect on firm value. These results are in line with research conducted by Indriastuti et al., (2020) and Abbasi et al., (2012) which states that managerial ownership has a positive and significant effect on firm value, so that H1 is accepted.

Effect of the audit committee on firm value
Based on table 3 it is known that the significance value of the AC variable is 0.289 which is greater than 0.05 and the beta value is -0.116 indicating a negative direction. The main task of the audit committee is designed to increase transparency, minimize risk, ensure compliance, improve internal control, and increase corporate value through independent oversight of the company's financial reports and business processes, which does not require a large number of tasks to perform. So it can be concluded that the AC variable cannot affect the PBV variable.

The results of this study do not support the second hypothesis which states that the audit committee has a positive effect on firm value. The results of this study are in line with research conducted by Alsagr et al., (2018), Nuryana & Dwi Surjandari., (2019) and Kakar et al., (2021) which state that the audit committee has no influence on firm value, so H2 is rejected.

Effect of the board of commissioners on company value
Based on table 3 it is known that the significance value of the BOC variable is 0.105 which is greater than 0.05 and the beta value is -0.254 indicating a negative direction. The size of the board of commissioners is not too influential because what influences it is not the number or quantity of the board of commissioners but the individual ability (skills) of the board of commissioners themselves in providing strategic direction for the long-term interests of the company, so that the number does not really affect the level of company value. So it can be concluded that the BOC variable cannot affect the PBV variable.

The results of this study do not support the third hypothesis which states that the board of commissioners has a positive effect on firm value. The results of this study are in line with the results of research conducted by Doğan & Ekşi., (2020), Babić, Nikolić, & Simić., (2020) and Arouri, Hossain, & Muttaakin., (2011) which states that the board of directors has no influence on company value, so H3 is rejected.

Effect of the board of directors on company value
Based on table 3 it is known that the significance value of the BOD variable is 0.000 which is smaller than 0.05 and a beta value of 0.610 indicates a positive direction. The board of directors has the task of overseeing company management, making strategic decisions, ensuring compliance, maintaining financial stability, and promoting the long-term interests of the company and its stakeholders, and for these tasks to be carried out properly, an adequate number of board of directors is required. So it can be concluded that the BOD variable can affect the PBV variable.

The results of this study support the fourth hypothesis which states that the board of directors has a positive effect on firm value. The results of this study are in line with the results of research conducted by Asare, Muah, Frimpong, & Anyass., (2022), Yanti & Patrisia., (2019) and Filip et al., (2014) which stated that the board of directors has a positive and significant effect on firm value, so that H4 is accepted.

Effect of financial performance in moderating the relationship between managerial ownership and firm value
Based on table 3 it is known that the significance value of the MOWNxROA variable is 0.000 which is smaller than 0.05. So it can be concluded that the ROA variable can moderate the relationship between the MOWN variable and the PBV variable. The results of this study support the sixth hypothesis which states that financial performance moderates the effect of managerial ownership on firm value, so that H5 is accepted. These results are not in line with research conducted by Purwitaningsari (2021) which states that financial performance does not positively moderate managerial ownership of company value.

Effect of financial performance in moderating the relationship between the audit committee and firm value
Based on table 3 it is known that the significance value of the ACxROA variable is 0.324 which is greater than 0.05. So it can be concluded that the ROA variable cannot moderate the relationship between the AC variable and the PBV variable. The results of this study do not support the seventh hypothesis which states that financial performance moderates the effect of the audit
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committee on firm value. This result is in line with the results of research conducted by Purwitaningsari (2021) which states that financial performance does not moderate the effect of the audit committee on firm value, so H6 is rejected.

Effect of financial performance in moderating the relationship between the board of commissioners and company value

Based on table 3 it is known that the significance value of the BOCxROA variable is 0.280 which is greater than 0.05. So it can be concluded that the ROA variable cannot moderate the relationship between the BOC variable and the PBV variable. The results of this study do not support the eighth hypothesis which states that financial performance moderates the effect of the board of commissioners on firm value, so H7 is rejected. These results are not in line with research conducted by Tutut Suhartanti and Nur Fadjrih Asyik (2015) which states that financial performance has an impact on the influence of the board of commissioners on firm value.

The influence of financial performance in moderating the relationship between the board of directors and company value

Based on table 3 it is known that the significance value of the BODxROA variable is 0.006 which is smaller than 0.05. So it can be concluded that the ROA variable can moderate the relationship between the BOD variable and the PBV variable. The results of this study support the ninth hypothesis which states that financial performance moderates the effect of the board of directors on firm value, so that H8 is accepted. These results are not in line with research conducted by Purwitaningsari (2021) which states that financial performance does not moderate the positive influence of the board of directors on company value.

V. CONCLUSIONS

This study aims to determine the effect of good corporate governance on firm value with financial performance as a moderating variable. The objects of this research are banking companies listed on the Indonesia Stock Exchange for the 2016-2020 period. Based on the research that has been done, the following conclusions can be drawn:

Managerial ownership (MOWN) has a significant effect on firm value (PBV). The results of this study support the research conducted by Saputra (2010) and Mukhtaruddin, et. al. (2014). The audit committee (AC) has no significant effect on firm value (PBV). The results of this study support the research conducted by Mukhtaruddin, et. al. (2014) and Anggie Indah Purwitaningsari (2021). The board of commissioners (BOC) has no significant effect on firm value (PBV). The results of this study support the research conducted by Mukhtaruddin, et. al. (2014). The board of directors (BOD) has a significant effect on firm value (PBV). The results of this study support the research conducted by Marini and Marina (2017).

Financial performance (ROA) can moderate the relationship between managerial ownership and firm value positively. The results of this study do not support the results of research conducted by Purwitaningsari (2021). Financial performance (ROA) cannot moderate the relationship between the audit committee and firm value. The results of this study support the results of research conducted by Purwitaningsari (2021). Financial performance (ROA) cannot moderate the relationship between the board of commissioners and company value. The results of this study do not support the results of research conducted by Tutut Suhartanti and Nur Fadjrih Asyik (2015). Financial performance (ROA) can positively moderate the relationship between the board of directors and company value. The results of this study do not support the results of research conducted by Purwitaningsari (2021).

REFERENCES


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