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The Effect of Good Corporate Governance On Company Value With Profitability As Variable Intervening

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ABSTRACT
The study was purpose to examine and analyze the effect of good corporate governance on firm value with profitability as an intervening variable. Research is included in explanatory research. As population is general banking listed on the Indonesia Stock Exchange for 2018-2020 period as many as 45 banks. Sampling technique with purposive sampling obtained a sample size of 29 banks. The unit of analysis is the financial statement and annual reports of general banking companies. Data analysis using path analysis with hypothesis testing using t test. Results of hypothesis testing using path analysis showed that good corporate governance has a significant effect on firm value. Good corporate governance has a significant effect on profitability-ROA. Profitability-ROA has a significant effect on firm value. Sobel test results found that the variable Profitability-ROA does not mediate the effect of good corporate governance has a significant effect on firm value. As conclusion there is an effect of good corporate governance on profitability and firm value. However, the Profitability-ROA variable does not mediate the effect of good corporate governance, which has a significant effect on firm value.

Keywords: Corporate value, Good corporate governance, Profitability, Return on asset ratio.

INTRODUCTION

Agency theory explains that investors acting as principals want their investment returns to increase or get increased profits, while management acting as agents of the principal wants to increase the financial compensation they will receive. The increase in profits earned means an increase in the share price in order to maximize the value of the company. The higher the share price, the higher the company value. High company value is the desire of company owners, because high company value shows the prosperity of shareholders.

Company value is the economic benefit of asset ownership, or the most likely price paid for an asset in exchange so that value is not a fact (Indonesian Society of Valuation Professionals (MAPPI), 2015).

According to Djaja (2017) company value can be measured in various ways which are summarized in 3 broad categories, namely economic valuation methods, relative valuation methods and asset-based methods. One of the models in relative valuation is the Book Model using Price to Book technique. Price to book technique is suitable for companies that have a stable asset base and assets that are a very dominant component in the company, for example companies engaged in the financial industry such as banks, Multifinance, insurance, and property / real estate companies.

GCG is theoretically considered capable of increasing company value and company performance, but in some cases GCG does not always increase company value. Based on the results of the assessment of the ASEAN Corporate Governance Scorecard (ACGS) criteria, there are 10 listed companies (issuers) on the national exchange that are included in the “ASEAN Asset Class” category published in 2019. Companies included in the ASEAN Asset Class of 10 issuers, 7 of which are engaged in banking. While the other 3, 1 issuer (JSMR) is engaged in construction, 1 issuer (EXCL) is engaged in telecommunications and 1 issuer (ANTM) is engaged in mining. This shows that the performance is a good signal for investors.

Good corporate governance (GCG) and profitability are both efforts to increase a company's value. GCG can help a company create an environment of trust, transparency, and accountability, which can promote long-term capital and financial stability. Corporate governance (CG) are the principles, procedures, and laws that control how corporations are conducted, managed, and governed (Diwanti, 2020). A well-defined CG system is designed to benefit all corporate owners by ensuring that the firm behaves lawfully and ethically, in accordance with best practices and company rules (Gitman & Zutter, 2015). The approach aims to achieve more transparent firm management for stakeholders. GCG began as a response to financial crises in industrialized countries, but as businesses became more complicated, it spread to other countries like Indonesia. Indonesia's monetary crisis, which began in 1997, has affected the economy and led to the bankruptcy of numerous banks and significant corporations.

Good company value can be defined as good corporate governance. Tanasya and Handayani (2020) suggest that it can boost profitability and reduce future losses, thus increasing firm value. Sunardi's (2019) research suggests that the issue of corporate governance stems from agency theory. This theory posits that when a company's management is separated from its owner, each shareholder, investor, director, and manager has a distinct role in the business. According to Cardilla et al. (2019), agency theory governs the interaction between owners and managers, requiring managers to prioritize the interests of the owners or shareholders when making decisions. The institution effectively monitors managerial performance, resulting in increased corporate earnings. A company's strong profitability affects its value.

Purwanto and Bilian (2017) define profitability as a company's ability to make profits, whereas return to equity (ROE) refers to the owner's return on investment. The ROE ratio is the percentage of earnings after taxes divided by equity. According to the signaling theory, firm executives who have more information about their company should share this information with investors through annual reports to raise the company's worth (Scott, 2012). According to Rumapea (2017), a company's profitability for investors, shareholders, and stakeholders is a key indicator of its quality. A company's stock price is affected by its profitability levels. Researchers should investigate how profitability might improve corporate governance and raise firm value.

LITERATURE STUDY

The positive performance is an indicator that the company has a better value than companies that show negative performance. Company performance is often indicated by profitability ratios. The profitability ratio that shows the efficient use of company assets is ROA. According to Kasmir (2019) states that if the company has a high profitability ratio (Return On Asset), this shows the effectiveness in managing the company's overall operations. Conversely, if the company has a smaller profitability ratio, it is certainly said that it is not good at managing the company's overall operations, resulting in decreased company profits.

According to Gibson, (1999) ROA serves to measure how effective the company is in generating profits based on the wealth it has. The greater the ROA, it means that the use of assets by the company is more efficient in operating so as to increase company profits. Through an increase in company profits, the company's value will also increase.

Haryati & Ayem's research (2014) states that ROA and EPS have a significant influence on firm value. Jihadi et al., (2021) show the results of profitability (ROA) has a significant effect on firm value. Slightly different in Salempang's research (2016), which examines ROA, DER and Sales Growth on firm value, shows the results have a significant effect simultaneously but ROA has no significant effect on partially.

Alkake's research, et.al (2019) The results of the study have had a varied impact, CEO Tenure does not affect company performance, the number of Audit committee meetings has the greatest effect on adding to company performance and Board Size (number of directors) and board composition have a positive effect on company performance. The financial performance indicator in this study uses return on assets (ROA).

Utomo & Ariska (2021) show that institutional ownership as a proxy for GCG and profitability has a positive and significant effect on firm value. Gwenda and Juniarti (2013) also stated that by implementing GCG values in the industrial sector company group, the company value will increase. The results of this study contradict the results of Amanti's research (2012) which concluded that GCG has no significant effect on firm value. With regard to GCG with profitability, research by Putra, Zakaria, Hidayat, and Adelina (2019) states that the implementation of corporate governance in public banking has no significant effect on company profitability.

This study predicts that profitability strengthens the relationship between Good Corporate Governance and firm value. According to research conducted by Permatasari & Gayatri (2016), it was found that profitability (ROA) was able to moderate the effect of GCG on the value of companies that entered well based on the CGPI ranking. The existence of profitability will strengthen the positive influence between GCG and firm value. The results of this study contradict research conducted by Putri and Trisnaningsih (2021) which states that profitability is unable to become an intervening variable in influencing the relationship between Good Corporate Governance (GCG) with the proxies of managerial ownership and institutional ownership on firm value.

Based on this background, it is known that banking companies that are included in the category of implementing good governance according to the ASEAN Good Corporate Governance Scorecard in a year later tend to show a poor average share price. There are even some companies that have experienced a very deep decline in stock prices. This is an interesting phenomenon to be studied further related to corporate governance in the commercial banking sector. Based on the variables examined in this study, it shows that the results of previous studies still show many contradictory results with other research results. Therefore, researchers consider it important to conduct similar research with the object of public banking companies. The dependent variable proxy in this study is Price To Book (P / B) Multiple this is as a filler of the researh gap where previous studies have used price to book value (PBV) and Tobins Q. Profitability is proxied by Return on Assets (ROA) as an intervening variable.

METHOD

This research design is quantitative research. Quantitative research is research that uses numerical data types (Ghozali, 2013). The object of this research is firm value which is influenced by profitability (ROA) and GCG in public banking companies listed on the IDX in 2018-2020. This type of research is classified as associative / correlational research. The population of this study were 45 banking companies. The sampling technique in this study using non probability sampling. Non-probability sampling technique in research is purposive sampling technique. The sample criteria used according to the inclusion criteria are as follows:

1. Commercial banks listed on the Indonesia Stock Exchange for the period 2018-2020
2. Commercial banks that did not experience suspension / delisting in the 2018-2020 period
3. Commercial banks that did not split stock in the 2018-2020 period
4. Not an acquisition/merger bank of the parent bank
5. Commercial banks that publish annual and financial reports for the 2018-2020 period in duplicate.

The data analysis technique uses path analysis which is tested for classical assumptions beforehand. Hypothesis testing uses the t test by applying trimming theory in the formation of the research model.

RESULTS AND DISCUSSION

Results

1. Classical Assumption Test Results

The classic assumption test is needed to test the hypothesis with the path analysis model. The classic assumption tests used include:

a. Normality

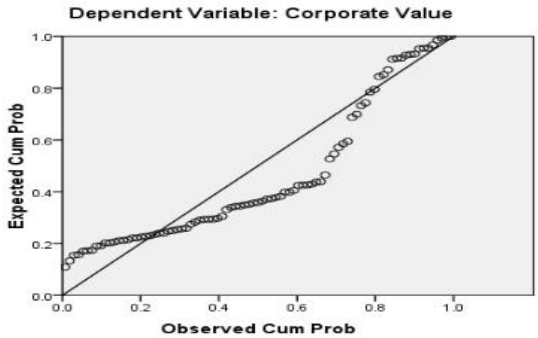

Figure 1. Normality Test Results
Source: Research Data, 2022 (processed by researchers)

Figure 1. shows that the data has a tendency to spread around the diagonal line, which means that the data is normally distributed.

b. Multicollinearity

Table 1. Multicollinearity Test Results

Variable	Tolerance	VIF	Description
Good Corporate Governance (X)	0,827	1,209	Free of multicollinearity symptoms
Profitabilitas-ROA	0,827	1,209	Free of multicollinearity symptoms

Source: Research Data, 2022 (Processed by researchers)

The test results show that the tollerance value> 10 and variance inflation factor < 10. This shows that the model does not have multicollinearity symptoms.

c. Autocorrelation

Table 2. Autocorrelation Test Results

D-W Value	Decree	Description
0,802	Between-2 and +2	Free of autocorrelation symptoms

Source: Research Data, 2022 (processed by researchers)

The results of the autocorrelation symptom test model show that the D-W coefficient is 0.802. The D-W coefficient value is at a value of -2 and +2 as the threshold used. Thus the model is free from autocorrelation symptoms.

d. Heteroscedasticity

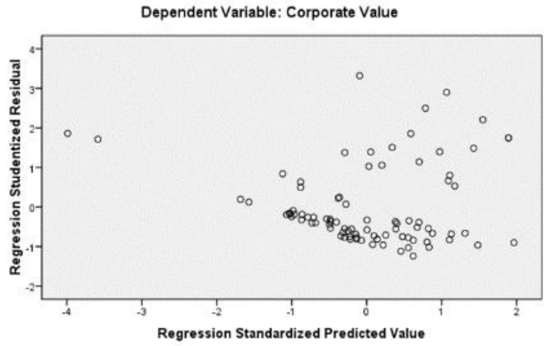

Figure 2. Heteroscedasticity Test Results
Source: Research Data, 2022 (processed by researchers)

The results of the heteroscedasticity test show that it is clear that the distribution of data tends to spread unclearly or without forming a certain pattern. This indicates that the model in the study is free from symptoms of heteroscedasticity.

Hypothesis testing in this study with a path analysis approach (path analysis). The results of hypothesis testing are also complemented by hypothesis testing at the 5% significance level using the t test. The results of hypothesis testing with the IBM SPSS 21.0 statistical computer program are presented in Table 3.

Table 3. Results of Path Analysis

Variable	Path Coefficient	t-count	Sig.	Conclusion
X → Y	105,171	2,277	0,025	H_1 Accepted
X → Z	0,097	4,214	0,000	H_2 Accepted
Z → Y	821,857	4,164	0,000	H_3 Accepted
X → Z → Y	Sobel t-test = 1,293< t-table=1,96			H_4 Rejected

Source: Research Data, 2022 (processed by researchers)

Discussion

a. The effect of Good Corporate Governance on firm value

The results of hypothesis testing as shown in Table 3 obtained the tcount value = 2.277 is greater than the ttable value = 1.989 (tcount> ttable) with a significance value (p) of 0.025 (p>α). These results can be concluded that the hypothesis is accepted, which means that Good Corporate Governance has a significant effect on the value of public banking companies. The results of this study are consistent with the research of Arifani, Gwenda and Juniarti (2013), Laksana (2015) which states that the implementation of Good Corporate Governance can affect company value and performance. GCG in the study is proxied by the audit committee, institutional ownership, and commissioners. Gwenda and Juniarti's research (2013) shows that GCG implementation can affect company value.

This means that the majority of banking companies have complied with OJK regulations which mandate that all listed companies must implement good governance in accordance with applicable regulations. The implementation of good governance has a positive impact on the value of banking companies. This is shown that the value of the company if assessed based on the concept of price to book multiple (P / B). This approach is to calculate the value of the company based on the value of equity (net) by dividing the number of shares outstanding.

The results of this study support the theory of Macey and O'Hara (2003) which states that corporate governance arises because of the separation between ownership and control of the company, or often known as the agency theory problem. The agency problem in the relationship between the owner of capital and the manager is the difficulty of the owner in ensuring that the invested funds are not taken over or invested in unprofitable projects, so that they do not bring returns, so corporate governance is needed to reduce agency problems between owners and managers.

b. The effect of Good Corporate Governance on profitability

The results of hypothesis testing as shown in Table 3 obtained a tcount value = 4.214 greater than the ttable value = 1.989 (tcount> ttable) with a significance value (p) of 0.000 (p>α). These results can be concluded that the hypothesis is accepted, which means that Good Corporate Governance has a significant effect on the profitability of commercial banks as proxied by return on assets (ROA). The results of this study are consistent with the research of Laksana (2015) and Ghalib (2018), which states that the implementation of the principles of Good Corporate Governance can affect the company's financial performance. Halimatusadiah, Sofianty and Ermaya (2015) also state that the implementation of Good Corporate Governance in institutions can increase profitability. Ramos, Reymundo, Pari, Rudas and Rodriguez (2019) have examined GCG

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related to Pillar 1 (shareholders law), Pillar 2 (general meeting of shareholders) and Pillar 5 (information transparency) showing that it has a significant effect on banking profitability performance.

The results of the study prove empirically that the implementation of good corporate governance will have a good impact on company performance. This means that the majority of banking companies have complied with OJK regulations which mandate that all listed companies must implement good governance in accordance with applicable regulations. The implementation of good governance has a positive impact on the achievement of company performance. This is shown that profitability performance proxied by return on assets (ROA) shows a good average performance. This means that most commercial banks are able to show good performance if corporate governance is done well.

The results of this study support the theory of Kikeri (2016) which states that good corporate governance is the rules, standards and organizations in the economic field that regulate the behavior of company owners, directors, and managers as well as the details and description of their duties and authorities and accountability to investors (shareholders and creditors). Furthermore, regarding the purpose of implementing GCG in the organization if it is related to a banking company, it is how to create a system of checks and balances to prevent the possibility of misuse of company resources and still encourage the growth of the company / bank.

c. The effect of profitability on firm value

The hypothesis test results as shown in Table 3 obtained the tcount value = 4.164 is greater than the ttable value = 1.989 (tcount> ttable) with a significance value (p) of 0.000 (p>α). These results can be concluded that the hypothesis is accepted, which means that profitability (ROA) has a significant effect on the value of public banking companies. The results of this study are consistent with the research of Kabajeh, Nu'aimat, & Dahmash (2012), Marsha & Murtaqi (2017) found that ROA has a positive effect on firm value. Other research by Tauke, Murni, Astuti & Tulung (2017) also shows similar results where ROA has a positive and significant effect on firm value as measured by PBV. Profitability ratio and investment opportunity set have a positive and significant effect on firm value.

The results of this study indicate that there is an effect of profitability (ROA) on firm value. This means that most commercial banks are able to show good performance if corporate governance is done well. The achievement of profitability performance will certainly be directly proportional to the value of the company in the eyes of investors. This approach is to calculate the value of the company based on the value of equity (net) by dividing the number of shares outstanding. The results of the study are in accordance with the opinion of Kasmir (2019), which states that if the company has a high profitability ratio (Return On Asset), this shows effectiveness in managing the company's overall operations. Conversely, if the company has a smaller profitability ratio, it is certainly said that it is not good at managing the company's overall operations, resulting in decreased company profits.

d. The effect of Good Corporate Governance on firm value through profitability

As shown in Table 3, the results of the simultaneous effect test are in accordance with the application of the theory of trimming the mediating variable profitability-ROA, the amount of direct effect = 105.171 is smaller than the total effect, namely 184.891. Sobel test results obtained tcount = 1.293 and ttable = 1.96 (c' > c). These results prove empirically that the profitability variable proxied by ROA is not an intervening variable. The test results can be concluded that the hypothesis is rejected, which means that Good Corporate Governance has no significant effect on the value of public banking companies through profitability.

The results of this study have proven that the existence of profitability performance is not able to mediate the effect of Good Corporate Governance on the value of public banking companies. This means that the majority of banking companies have complied with OJK regulations which mandate that all listed companies must implement good governance in accordance with applicable regulations. With the implementation of GCG, it can affect company value. The value of the company itself can be determined by good performance. This good performance can be achieved when the company can apply the principles of good governance. The results of this study are consistent with Adila's research (2021) which concluded that the profitability-ROA variable is not a moderating variable for the effect of GCG on firm value. However, contrary to Widyanti's (2014) research, Wulan, Permatasari & Gayatri (2016) concluded that the presence of profitability will strengthen the positive influence between GCG and firm value.

CONCLUSION

The results of research on the object of public banking companies listed on the Indonesia Stock Exchange for the 2018-2020 period can be concluded that Good Corporate Governance and profitability affect firm value. The study conclusively demonstrates that Good Corporate Governance significantly enhances the value of public banking companies and their profitability, while also revealing that profitability does not mediate the relationship between Good Corporate Governance and firm value. This underscores the critical role of effective governance in driving company performance and value, independent of profitability metrics.

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