Impact Factor (SJIF): 6.092 E-ISSN: 2583-1615

International Journal of Research in Academic World

Received: 06/February/2023 IJRAW: 2023; 2(3):131-135 Accepted: 02/March/2023

The Effect of Good Corporate Governance on Performance and Firm Value

*1Istutik, 2Nur Rokhmah and 3Widanarni

*1, 2, 3Department of Accounting, STIE Malangkucecwara, Malang, Indonesia.

Abstract

The research is aimed to determine the effect of managerial ownership, the size of the board of commissioners and the size of the board of directors on the performance and value of companies engaged in finance listed on the Indonesia Stock Exchange for the period 2017-2020. The research method used in this research is quantitative research and the analysis method from this research has been done by using multiple regressions analysis technique. The results showed that managerial ownership, the size of the board of commissioners and the size of the board of directors had no effect on the company's performance and value.

Keywords: Good corporate governance, performance, the value

Introduction

According to IICG (The Indonesian Institute for Corporate Governance), the concept of Good Corporate Governance is the direct circuit and controlling a company so that the company's operations are running in accordance with the expectations of stakeholders. The concept of good corporate governance is based on agency theory, which functions as a tool to give confidence to investors that they will receive a return from the funds they invested. The implementation of good corporate governance is very important and is a key to success for companies to gain profit in long term and can be used as a reference to compete fairly in global business. The importance of implementing good corporate governance is increasingly emphasized after the bankruptcy of large companies, and economic crisis that occurred in various countries. We often hear many companies that have been slumped because reckless investment so there is a lot of fraud or the practice of corruption, collusion, and nepotism occurred, resulting in an economic crisis and crisis of investor confidence.

Issues Good Corporate Governance in Indonesia have been prominent since 1998 (Nabila Putri *et al.*, 2021) [13]. This happens because lack of transparency, low corporate governance, financial reporting is not efficient or fraud in reporting and law enforcement is still relatively lacking. Where it's the cause of the collapse of the company (Bukhori *et al.*, 2012) [3].

Case faced by PT. Jiwasraya and PT. Bumiputera caused by fundamental problems of reckless investment. The occurrence of reckless investment due to the absence of a guideline portfolio that regulates max investment in high risk assets. So, demand for the realization of good governance is very necessary (Noviardhi & Hadiprajitno, 2013) [14].

After observing the financial scandal that was revealed, people asking the principle of Good Corporate Governance on transparency, accountability, responsibility, independency, and fairness in companies' hasn't been implemented. Efforts to overcome reckless investment need to be supervised with good corporate governance mechanism. Good corporate governance is a rule, procedure and relationship must be clear between all parties involved in decision making (R. Tarigan & Prawihatmi, 2017) [16].

Good corporate governance mechanism includes managerial ownership, board of commissioners, board of directors, etc. The mechanism will improve supervision for the better. And the application of good corporate governance can increase the value of a company (Mutmainah, 2015) [11]. The influence of Good Corporate Governance mechanism proxied by Independent Proportions Board of Commissioners, Institutional Ownership, and The Audit Committee partially has a negative effect on Firm Value (Leksono & Vhalery, 2018) [9].

The improvement of good corporate governance is currently undergoing fundamental changes, although in the country the application is quite low, there is an effort to increase in the business world can be felt by increase. The application of good corporate governance is expected to bring changes to the performance and value of company effective and efficient can provide benefits to stakeholder (Tertius & Christiawan, 2015) [19].

Based on the background description above, the application of good corporate governance greatly affect the performance and value of the company, so this research is "The Effect Of Good

***Corresponding Author:** Istutik

Corporate Governance On Performance And Firm Value (Empirical Studies Of Finance Companies Listed In The Indonesia Stock Exchange period 2017-2020)

Theory Framework and Hypothesis Development
Theory Framework

According (Organization for Economic Co Operation and Development, 2015) corporate governance is collection of relationship between company management, board, shareholders, and other parties have interests with the company. Good corporate can provide good stimuli for board and management to achieve goals which are a company interest that encourage companies to use resources efficiently.

Good corporate governance is a system in which there is rule can help good relationship for internal and external parties to avoid conflict/cases from each other who related to the company. Good corporate governance have 5 principle, they are transparency, accountability, responsibility, independency, and fairness.

Indicator in this research is managerial ownership, board of commissioners, board of directors. Managerial ownership is the situation where manager have stock in company, in other word manager are also shareholders. With ownership, management will participate actively in decision making.

The large board size can provide benefits and losses for companies. The advantage of a large board size in a company can manage it's resources better. Skill exchange, brainstorm, an information in board will be broader and varied. Loss of large board size is can improve the problems of communication and coordination. This problems can reducing the ability of board to controlling and supervising 'management', so can give rise to agency problems between management and principal.

The ability of the board directors is critical of success factors the company in achieving goals. The role of the board directors is very important in setting the company's strategy and being a connection between the companies with external environment. The company's external environment relationships at built connection and network capabilities to reduce the uncertainty of the company's environment in meeting the company's resource requirements.

Financial performance is a display of other financial conditions. Financial performance is one of factors that show effectiveness and efficiency of an organization in order to achieve goals (Kartika, 2021) [7].

Firm value called the company's market values is the price that the prospective buyer are willing to pay if the company is sold. Firm value is perception investor to company associated with stock prices. Company value is basically measured from sever an aspects, one of them is company's stock market price because the market price of the company's stock reflects the investor's assessment of the overall equity held.

Hypotheses

1. **Effect of Managerial Ownership on Company Performance**

Managerial ownership is a condition in a company where an agers have share in the company shelter it. Managerial ownership affects the company's performance in terms of making decisions made by managers. But the investors it's not enough to guarantee that manager will not commit fraud to fulfill his personal interest because the share owned by management aren't large enough to be able to provide benefits.

Based on research by Handayani, 2021[5] and Aprilia & Wuryani, 2021 [1] saying managerial ownership has not effect on company performance.

H$_1$: Managerial ownership has effect on company performance.

2. **Effect of Number Board Commissioner on Company Performance**

The size of the board commissioners is the number of councils in a company. The number of this council affect the company performance. The board commissioner have a lot positive effect namely a lot of exchange expertise and thoughts, while negatively is a barrier in term of communication.

Based on research by (Handayani, 2021) [5] saying a board commissioners has not effect on company performance.

H$_2$: Number board commissioner has effect on company performance.

3. **Effect of Board Directions Company Performance**

The ability of the board directors is determining factor for the company's success in achieving its goals. But the high number of independent board of directors may only meet the company formalities in implementing regulations regarding of good corporate governance so supervision carried out by the board directors of independent hasn't been able to reduce the risk that occur in the management of the company. Siahaan, FOB (2013) [18] the board size have an influence on firm value. Mukhtaruddin *et al* (2019) [12] good corporate governance has an insignificant positive effect on firm value.

Based on research by (Rudiwantoro, 2022) [17] saying number of board directors has effect on company performance.

H$_3$: Number of board directors has effect on company performance.

4. **Effect of Managerial Ownership on Firm Value**

Managerial ownership is the condition of a company where managers have share in their companies. But, increased managerial ownership will reduce the firm value where this cause by managerial ownership that hasn't been 100% in the company so its not responded by investor as a positive signal in increasing the company's value.

According to (Berliani & Riduwan, 2017) [2] in their research managerial ownership has a positive effect on firm value.

H$_4$: Managerial ownership has effect on firm value.

5. **Effect of Board Commissioner on Firm Value**

The independent board of commissioner has the task of increasing security of financial statement fraud. if they are carry out their duties properly and the supervision of financial statements is carried out well it will increase the value of the company and vice versa (Marini & Marina, 2017) [10] saying on research number of board commissioner has effect on firm value.

H$_5$: Number of board commissioner has effect on firm value.

6. **Effect of Board Directors on Firm Value**

The large number of board directors will cause difficulty communication and coordination. The number of board member also resulted in mane debates and misunderstanding. The high proportion of the board director will reduce the value of the company because it can reduce the effectiveness of company performance.

Based on research by (Gatot Nazir Ahmad *et al*., 2020) [4] and (Marini & Marina, 2017) [10] found the size of the board director affect the firm value.

H_6: Number of board director has effect on firm value.

Method

This research was quantitative research. The quantitative research method is a method is inductive, objective, and scientific where the data obtained the form of number (score, value) or statements that are assessed and analyzed by statistical analysis (Hermawan, 2019) [6]. The approach used is quantitative-causal, this study explains the causes between variable in research through testing hypotheses that have been proposed.

This research using secondary data collected from data annual report obtained from the official website namely Indonesia Stock Exchange (IDX) and websites related to the company.

The selection of this research sample uses the purposive sampling method aimed getting a sample in accordance with the criteria. The criteria in this research

1. Financial companies listed on the Indonesia Stock Exchange.
2. Companies publish financial and annual reports.
3. Available regarding information in research revealed by annual report company.

This research sample amounted to 11 companies, can be seen from this table:

Table 1: List of Company Names

No	Code	Company Name
1	JMAS	Asuransi Jiwa Syariah Jasa Mit
2	BRIS	Bank Syariah Indonesia Tbk
3	BTPS	Bank BTPS Syariah Tbk
4	NICK	Charnic Capital Tbk
5	POLA	Pool Advista Finance Tbk
6	TUGU	Asuransi Tugu Pratama Indonesia Tbk
7	FUJI	Fuji Finance Indonesia Tbk
8	LIFE	Asuransi Jiwa Sinarmas Tbk
9	SFAN	Surya Fajar Capital Tbk
10	AMAR	Bank Amar Indonesia Tbk
11	AMOR	Ashmore Asset Management Indonesia Tbk

The independent variable in this research is Good Corporate Governance have three indicators namely managerial ownership, the size of board commissioners, and the size of board director. The dependent variable in this research is performance and firm value. Data analysis method in this research use descriptive statistics, classical assumption and hypothesis tests.

Results and Discussion

Table 2: Statistical T Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.008	.024		-.338	.737
	KM	.010	.018	.085	.538	.593
	DK	.023	.029	.123	.787	.436
	DD	.033	.030	.176	1.120	.269

a. Dependent Variable: Kinerja

The history of the financial company began on Sept 29, 1945 the minister of finance at this time is A.A Maramis issued a decree with three important decisions. First, doesn't recognize the rights and authority of the Japanese army government officials to issue and sign the orders to pay money and other documents related to state expenditure. The second, as of sept 29,1945 the right and authority of the aniseese army government officials were handed over to the appointed and responsible state treasure aide to the minister of finance. Third, state treasury offices and all agencies that carry out the State Treasury (Post Office) must reject payment for a warrant for paying money that is not signed by the State Treasurer Assistant. With the issuance of the decree, a new round of independent state finances began.

In Indonesian, company engaged in finance have existed since old time. This company functions as a financial manager who ensures the implementation of development in government. Economic development will run smoothly if accompanied by good administration in the management of state finances. Financial management carried out on funds raised from the public, including in the form of tribute, taxes, customs and excise, and so forth.

Reporting from the Financial Service Authority Site (OJK), what is meant by the financial services industry is a collection of companies or institutions, including supporting institutions engaged in financial service. Financial service in the financial sector or other service related to finance but not limited to banks, finance institutions, securities companies, mutual funds managers, custodians, trustees, storage and settlement institutions, foreign exchange traders.

Financial companies have a great function and role for the state and society. Every financial institution has benefits including:

1. Benefits of liquidity
2. The transfer of assets
3. Reallocation of income
4. Ease of transaction

The Research Result are Presented Below: Statistical test T From the results of this test, the t table is obtained at 2,02108 and is greater than the results of t count of the three variables namely KM, DK and DD so that Ho is accepted and Ha is rejected, meaning statistically the data against the dependent variable

Table 3: Statistical t Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.977	.407		4.859	.000
	KM	-.221	.312	-.109	-.708	.483
	DK	-.690	.503	-.208	-1.372	.178
	DD	-.801	.515	-.238	-1.555	.128

a. Dependent Variable: FirmValue

From the results of this test, the t table is obtained at 2,02108 and is greater than the results of t count of the three variables namely KM, DK and DD so that Ho is accepted and Ha is rejected, meaning statistically the data against the dependent variable.

1. **Effect of Managerial Ownership (KM) on Company Performance in Financial Companies Listed on the Indonesia Stock Exchange**

The results of data processing using SPSS version 22.0 managerial ownership variables have a significant value of 0,593 > 0,05 and t count (0,538) < t table (2,02108) which shows that this variable does not affect the company's performance. This can be seen from very low descriptive statistics, 0,7552 with minimum value of 0,39 and maximum value of 1, 20. Because the amount of circulating stock capital, the majority of no changes in shares are invested or there's no issuance of new share and the percentage of managerial ownership of the majority has decreased.

Effective corporate governance in the long run can improve financial performance and fortune shareholders. Theoretically practice of GCG can increase company value including improving financial performance, reducing risk that is detrimental due to management actions that tend to benefit themselves and generally GCG can increase investor confidence. Managerial ownership that is too low allows management to not be actively participating in making a good decision in the company. In addition, managers as minority shareholders have not been enough to have a sense of ownership of the company so that managers cannot harmonize differences in objectives based on the position between the interests of shareholders from outside management and shareholders owned by management so that other problems can arise due to conflicts between shareholders from outside management and management is not resolved. This result of this research are accordance with research (Handayani, 2021) [5] that managerial ownership doesn't have a significant effect on company performance.

2. **Effect of the Board Commissioners (DK) on company performance in financial companies listed on the Indonesia Stock Exchange**

The results of data processing using SPSS version 22.0 managerial ownership variables have a significant value of 0,436 > 0,05 and t count (0,787) < t table (2,02108) which shows that this variable does not affect the company's performance. These results indicate that the high number of independent board of commissioners may only be to fulfill the company's formality requirements in implementing regulations regarding Good Corporate Governance. So that supervision carried out by the Board of Commissioners Independent has not been able to reduce the risks that occur in the company's management. This result of this research are accordance with research (Handayani, 2021) [5] that board of commissioners doesn't have a significant effect on company performance.

3. **Effect of Board Directors (DD) on company performance in financial companies listed on the Indonesia Stock Exchange**

The results of data processing using SPSS version 22.0 managerial ownership variables have a significant value of 0,269 > 0,05 and t count (1,120) < t table (2,02108) which shows that this variable does not affect the company's performance. These results indicate that the high number of independent board of director may only be to fulfill the company's formality requirements in implementing regulations regarding Good Corporate Governance. So that supervision carried out by the Board of director Independent has not been able to reduce the risks that occur in the company's management.

4. **Effect of Managerial Ownership (KM) on Firm Value in Financial Companies Listed on the Indonesia Stock Exchange**

The results of data processing using SPSS version 22.0 managerial ownership variables have a significant value of 0,483 > 0,05 and t count (0,708) < t table (2,02108) which shows that this variable does not affect the firm value. Increased managerial ownership will reduce the value of the company which is caused by managerial ownership that has not been 100% in companies engaged in finance from 2017-2020. So this results in the not responded by investors as a positive signal in increasing the company's value. The results of this research are in accordance with research (Laksono & Kusumaningtias, 2021) that managerial ownership doesn't significantly affect the firm value.

5. **Effect of the Board of Commissioners (DK) on firm value in financial companies listed on the Indonesia Stock Exchange**

The results of data processing using SPSS version 22.0 managerial ownership variables have a significant value of 0,178 > 0,05 and t count (1,352) < t table (2,02108) which shows that this variable does not affect the firm value. The Independent Board of Commissioners has the task of increasing security of financial statements fraud. If the Board of Commissioners carry out their duties properly and the supervision of financial statements is carried out well it will increase the value of the company. But what happened in this study was that the independent board of commissioners did not affect the company's value because the value of Tobin's Q each company experienced a significant ups and downs which would make investors worry about the shares it was planted in the financial company object of research. The results of this research are in accordance with research (Laksono & Kusumaningtias, 2021) [8] that board of commissioner doesn't significantly affect the firm value.

6. **Effect of Board of Directors (DD) on firm value in financial companies listed on the Indonesia Stock Exchange.**

The results of data processing using SPSS version 22.0 managerial ownership variables have a significant value of 0,128 > 0,05 and t count (1,555) < t table (2,02108) which shows that this variable does not affect the firm value. The large number of board of directors will cause difficulty communication and coordination. The number of board members also resulted in many debates and misunderstandings. The high proportion of the Board of Directors will reduce the value of the company because it can reduce the effectiveness of company performance. This certainly affects the existing investors and joins the company. The decline in the value of the company, the decreasing the level of investor confidence

Conclusion

The Researcher Concluded That

1. Managerial ownership partially does not affect the company's performance or H_0 accepted and H_1 rejected because have a significant value of 0,593 > 0,05 and t count (0,538) < t table (2,02108) which shows that this variable does not affect the company's performance.
2. Board of commissioners partially does not affect the company's performance or H_0 accepted and H_1 rejected because have a significant value of 0,436 > 0,05 and t

count (0,787) < t table (2,02108) which shows that this variable does not affect the company's performance

3. Board of director partially does not affect the company's performance or H_0 accepted and H_1 rejected because have a significant value of 0,269 > 0,05 and t count (1,120) < t table (2,02108) which shows that this variable does not affect the company's performance
4. Managerial ownership partially does not affect the firm value or H_0 accepted and H_1 rejected because have a significant value of 0,483 > 0,05 and t count (0,708) < t table (2,02108) which shows that this variable does not affect the firm value.
5. Board of commissioners partially does not affect the firm value or H_0 accepted and H_1 rejected because have a significant value of 0,178 > 0,05 and t count (1,372) < t table (2,02108) which shows that this variable does not affect the firm value.
6. Board of director partially does not affect the firm value or H_0 accepted and H_1 rejected because have a significant value of 0,128 > 0,05 and t count (1,555) t table (2,02108) which shows that this variable does not affect the firm value.

References

1. Aprilia H, Wuryani E. Pengaruh Good Corporate Governance Terhadap Kinerja Perusahaan Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Tahun 2017-2019. *Jurnal Ilmu Komputer, Ekonomi Dan Manajemen (JIKEM)*. 2021; 1(1):42-61.
2. Berliani C, Riduwan A. Pengaruh Good Corporate Governance, Kinerja Keuangan, dan Ukuran Perusahaan terhadap Nilai Perusahaan. *Jurnal Ilmu Dan Riset Akuntansi*. 2017; 6(3):1037-1051.
3. Bukhori Iqbal, Raharja. Pengaruh GCG dan Ukuran Perusahaan Terhadap Kinerja Perusahaan (Studi Empiris pada Perusahaan yang Terdaftar di BEI). *Dipenogoro of Journal Accountign*, 2012.
4. Gatot Nazir Ahmad, Rizal Lullah, M. Edo S. Siregar. Pengaruh Keputusan Investasi, Keputusan Pendanaan, Kebijakan Dividen, Dan Ukuran Dewan Komisaris Terhadap Nilai Perusahaan Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2016-2018. *JRMSI-Jurnal Riset Manajemen Sains Indonesia*. 2020; 11(1):169-184.
5. Handayani M. *Pengaruh Good Corporate Governance Terhadap Kinerja Keuangan Pada Perusahaan BUMN Yang Terdaftar Di Bursa Efek Indonesia*. *March*, 2021.
6. Hermawan I. *Metodologi Penelitian Pendidikan (Kualitatif, Kuantitatif dan Mixed Method)*. Hidayatul Quran Kuningan, 2019.
7. Kartika SI. Pengaruh Perencanaan Pajak dan Kinerja Keuangan terhadap Nilai Perusahaan pada Perusahaan Manufaktur yang terdaftar di BEI. *Proceding Seminar Nasional Kewirausahaan*. 2021; 2(1):907-915.
8. Laksono BS, Kusumaningtias R. Pengaruh Good Corporate Governance Terhadap Kinerja Keuangan dan Nilai Perusahaan Sektor Aneka Industri Tahun 2016-2018. *Jurnal Akuntansi Unesa*. 2021; 9(2):1-12.
9. Leksono Ari Wahyu, Vhalery Rendika. The Effect of Good Corporate Governance Mechanism and Financial Performance on Firm Value of Banking Sector Listed on Indonesia Stock Exchange (BEI) Period of 2012 – 2016, *International Journal of Innovative Science and Research Technology*. 2018; 3(9).
10. Marini Y, Marina N. Pengaruh Good Corporate Governance Terhadap Nilai Perusahaan (Studi Empiris Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia). *Jurnal Humaniora*. 2017; 1(1):1-14.
11. Mutmainah. Analisis Good Corporate Governance Terhadap Nilai Perusahaan. *Eksis: Jurnal Riset Ekonomi Dan Bisnis*. 2015; 10(2).
12. Mukhtaruddin, Ubaidillah, Kencana Dewi, Arista Hakiki. Nopriyanto, Good Corporate Governance, Corporate Social Responsibility, Firm Value, and Financial Performance as Moderating Variable, Indonesian Journal of Sustainability Accounting and Management. 2019; 3(1):55-64. https://doi.org/10.28992/ijsam.v3i1.74.
13. Nabila Putri RS, *et al* DK, Astie Saraswati. Pengaruh Good Corporate Governance terhadap Kinerja Keuangan, *Jurnal Ilmiah MEA*. 2021; 5(1):357-379.
14. Noviardhi MT, Hadiprajitno PB. Analisis pengaruh tata kelola perusahaan terhadap manajemen laba. *Diponegoro Journal of Accounting*. 2013; 2(1):65-73.
15. OECD. The OECD Principles of Corporate Governance. *Principles of Corporate Governance*. 2015; 216:347-416.
16. R Tarigan L, Prawihatmi CY. Peran Mekanisme Good Corporate Governance Terhadap Kinerja Keuangan Perbankan Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Riset Ekonomi Dan Bisnis*. 2017; 10(2):125. https://doi.org/10.26623/jreb.v10i2.1133
17. Rudiwantoro A. Pengaruh Dewan Komisaris, Dewan Direksi, Komite Audit, Dan Ukuran Perusahaan Terhadap Kinerja Keuangan. *Inspirasi Ekonomi Jurnal Ekonomi Manajemen*. 2022; 3(4):41-51.
18. Siahaan FOB. The effect of good corporate governance mechanism, leverage, and firm size on firm value, GSTF Journal on Business Review (GBR). 2013; 2(4).
19. Tertius MA, Christiawan YJ. *Pengaruh Good Corporate Governance terhadap Kinerja Perusahaan pada Sektor Keuangan*. 2015; 3(1).