Good Corporate Governance on Firm Value in the LQ45 Index (Indonesia Stock Exchange)

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Abstract. The company does not only aim to seek profit but also to maximize its value, which is reflected in the company's share price. Good corporate governance is a system that regulates the relationship between managers, creditors, and employees by considering their rights and obligations to create added value for the company. This study aims to examine the effect of good corporate governance on firm value. The research was conducted on companies listed on LQ45 on the Indonesian Stock Exchange from 2017 to 2021. The sample was determined by purposive sampling with a sample size of 45. In this study, the independent variables were board independence, institutional ownership, and audit committee, while the dependent variable was firm value. The researchers used multiple linear regression analysis with EViews as a calculation tool to get good results. The EViews 10 testing tool was utilized, which includes descriptive statistics and a t-test. The findings of this study show that board independence has no impact on business value, and institutional ownership has no impact on firm value. Other studies have found that the audit committee has a considerable impact on the firm's worth. To enhance good governance and consider investing in the firm, corporations are encouraged to pay more attention to board independence, institutional ownership, and audit committees.

Keywords: good corporate governance · board independence · institutional ownership · audit committee · firm value

1 Introduction

The company value is the main factor in the investor's decision to invest in a company. To maximize the company value, which is reflected in the stock price, a company can improve the quality and quantity. The company's value can provide maximum prosperity for shareholders if the company's share price increases.

With the development of the company in various sectors and the territory of Indonesia, especially the shares of companies listed on LQ45 on the Indonesian Stock Exchange, the shares of the incorporated company are in very good financial condition and have been operating for many years. Therefore, LQ45 is constantly monitored by the Indonesia Stock Exchange to encourage investors to invest because all LQ45 companies will have high dividends and their companies are above the stock market.

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The company's success in achieving its goals can be judged by its performance, which is also an essential factor for internal and external parties when making investment decisions. This is very important so that resources can be optimal and efficient. If a company's financial performance is considered good, investors will be more confident investing in that company. This condition becomes a reference for companies, including companies included in LQ45, in order to attract stock market investors to invest in their companies.

The value of a company is reflected in stable prices that may rise in the long run. The greater the company's value, the higher the stock price. Firm value is critical because it relates to the company's performance and influences investors' perceptions of it. Firm value is frequently linked to stock prices, with the higher the stock price, the higher the firm value and shareholder wealth.

In assessing the company, stakeholders can judge based on the value of the company's market capitalization. If the market capitalization is large or growing, it will be an important measure of the success or failure of the company. Stakeholders as providers of company capital are very dependent on the company's management. Stakeholders believe that managers are people with more capacity than others. In the process between managers and shareholders, the conflict is called agency conflict.

Therefore, it is necessary to implement good corporate governance to anticipate this. This study's good corporate governance proxies were board independence, institutional ownership, and audit committee.

Previous research looked at how governance arrangements, intellectual capital disclosure, and business value differed [1]. Board independence has an impact on the value of a company, whereas institutional ownership has no impact. Other research, such as the influence of independent boards of commissioners, institutional ownership, and audit committees on business value [2], have produced different conclusions. The findings of the study demonstrate that an independent board of commissioners and institutional ownership have little impact on business value, whereas the audit committee has no impact. Budiharjo [3] also looked at the impact of environmental performance, effective corporate governance, and leverage on the value of a company.

The difference between this study and previous research is that the variables chosen as independent variables are gender diversity, educational background, foreign ownership, and intellectual capital, which were adopted from previous research by adjusting the conditions in Indonesia. The next difference in this research is the development of previous research on the effect of an independent board of commissioners, institutional ownership, and audit committee on firm value. Moreover, the next difference is environmental performance and leverage adapted from previous research.

Another difference lies in the selection of the research population. The previous research population used the manufacturing industry sector listed on the Indonesian stock exchange from 2017 to 2021. This research is also motivated by the inconsistency of the results of previous studies.

1.1 Signaling Theory

Signaling theory explains how managers communicate the signal of success or failure in managing to shareholders. Disclosures made by a company can be considered to contain information if the disclosure can cause market changes in the form of an increase in stock prices [4]. If the disclosure contains positive information, it will give a positive signal and vice versa.

1.2 Agency Theory and Stakeholder Theory

The working connection between firm owners and management is explained by agency theory. This theory states that business value cannot be maximized if appropriate incentives or controls are not effective enough to prevent company managers from using their discretion to maximize profits [5]. This theory suggests a major delegation to business managers to run the business.

Stakeholders in a company are people related to the company who are influenced by or can operate the company and the decision-making process [4]. Based on stakeholder theory, it can be explained that managers tend to improve managerial abilities and use these abilities to create value, which has an impact on higher levels of welfare for company stakeholders.

1.3 Firm Value

Firm value reflects the company's debt and equity market value [6]. Shareholders will encourage the company to achieve its goal of maximizing shareholder wealth. Shareholder welfare can be achieved by maximizing the value of the company. Firm value is the present value of shareholder profits expected to be obtained in the future.

1.4 Good Corporate Governance

Good corporate governance (GCG) is a system that regulates the relationship between managers, creditors, and employees by considering their rights and obligations to create added value for the company [7]. Good corporate governance is needed to ensure that managers make investment decisions efficiently and effectively, following the principal's wishes. With GCG, it is expected to reduce negative income management practices, and supervision that suppresses perpetrators of deviant behavior will carry out their functions correctly and adequately.

1.5 Board Independence

Board independence is a member of the board of commissioners appointed but has never been affiliated with or dealt directly with the organization. In its function, board independence is appointed to be considered helpful for the organization.

1.6 Institutional Ownership

Institutional ownership is ownership by a bank, company, or other. It can act by supervising the company, disciplining management by influencing the company's leadership [8], with institutional ownership can be a supervisor of company management. In Indonesia, institutional ownership is the largest ownership in a company. Institutional ownership can indirectly affect the company's internal. There is optimal oversight of institutional ownership in firms, so a high level of institutional ownership will result in greater oversight by institutional investors to prevent managers' opportunistic behavior.

1.7 Audit Committee

The audit committee's effectiveness can occur because of the characteristics of the committee, such as the committee size. To be effective in controlling and monitoring the behavior of managers, the audit committee must have a sufficient number of members to fulfill its responsibilities with adequate resources. The audit committee plays an essential role in ensuring the quality of financial reporting and corporate responsibility [2]. The audit committee acts as a liaison between external auditors and management and bridges the information asymmetry between the two; therefore, the audit committee's role is very important for the company.

2 Research Method

This study describes the variables that affect firm value in companies listed on LQ45 on the Indonesian stock exchange. In this study, the dependent variable was firm value, while the independent variables were board independence, institutional ownership, and audit committee. This study used secondary data with the time series method in the 2019–2020 period. The population in this study were all companies listed on LQ45 on the Indonesian Stock Exchange.

Secondary data in this study were taken from www.idx.co.id website and the annual report of companies listed on LQ45 on the Indonesian Stock Exchange (IDX). The statistical data processing used was the EViews 4.1 program with a significant degree of 95% or an error rate of 0.05. Linear regression model shows in Eq. (1) below:

$$Y = a + b1X1it + b2X2it + b3X3it + e \tag{1}$$

Note:
Y = *Firm value*
a = Coefficient
X_{1it} = *Board independence*
X_{2it} = *Institutional Ownership*
X_{3it} = *Audit Committee*
e = *error* (residual error)

3 Results and Discussion

From Table 1, it can be seen that the number of observations made for firm value, board independence, institutional ownership, and audit committee in this study was 225 observations from 2017 to 2021.

Table 1. Descriptive Statistics

Ownership	Firm Audit	Value Committee	Independence Board	Institutional
Mean	3.438	0.424	0.209	3.576
Median	1.485	0.400	0.054	3.000
Max	82.440	1.500	9.191	8.000
Min	0.240	0.110	0.0002	2000000
Std. Dev.	8.633	0.162	0.870	1.017
Observation	225	225	225	225

Source: Processed Data, 2022

Table 2. Multiple Linear Regression Test

Variable	Coefficient	t-Statistics
C	2.565888	1.023420
Independence Board	9.516233	2.711360
Institutional Ownership	−0.699086	−1.068432***
Audit Committee	−0.847003	−1.512709**
R-Squared		0.044004
Adjusted R-squared		0.031026
F-statistics		3.390803*
Durbin-Watson Stat		0.805695

Source: Data processed, 2022; Note: ***, **, * significant at 1%, 5% and 10% levels

The minimum firm value in this study is 0.240000, and the maximum value is 82.44000. The average firm value is 3.438259 with a standard deviation of 8.632552. In addition, there is board independence which has a minimum value of 0.110000 and a maximum value of 1.500000. The average value of board independence is 0.424018 with a standard deviation of 0.162033. Furthermore, the observations made for institutional ownership in this study were 225 observations with a minimum value of 0.000200 and a maximum value of 9.191400.

Institutional ownership has an average value of 0.208517 and a standard deviation of 0.869591. Furthermore, the audit committee's minimum score is 2.000000, with a maximum value of 8.000000. The audit committee's average value is 3.575893, with a standard deviation of 1.017140. On the basis of Table 2, it can be determined that the regression equation model used in this investigation may be found in Eq. (2).

$$Y = 2.565888 + 9.516233\,\text{Broad Independence} + -(0.699086)\text{Institutional Ownership} + -0.847003\,\text{Audit Committee} + \text{e} \tag{2}$$

The factors that influence corporate governance, in this case, indicate that board independence and institutional ownership have no significant effect on firm value. While the audit committee has a significant positive effect on firm value, meaning that the audit committee can increase the value of companies listed on LQ45 on the Indonesian Stock Exchange.

4 Conclusion

Based on the findings of the study, it can be concluded that the independent board of the companies listed in LQ45 has no impact on firm value because the independent board lacks oversight of the board of directors, causing the board of directors' performance to be considered less effective, which, in turn, has no impact on the decline in firm value. Institutional ownership in companies listed in LQ45 has no effect on firm value because the value of institutional ownership cannot be influenced by government ownership and also family ownership between investors and institutions and tends to be seen by the market as the direction of the company's work in accordance with professionals, not for the benefit of institutional investors and ignoring investors. The audit committee of companies listed in LQ45 has no effect on firm value because it is in accordance with internal agency theory as the audit committee controls the contribution to the board of commissioners which can guarantee to increase business value. In addition, the number of audit committees is one of the determining factors in increasing the effectiveness of the special audit function related to conflicts of interest and existing actions in the company. This study implies that companies with institutional ownership need to monitor company management, control becomes effective, and opportunistic behavior in data management is reduced. In addition, the company must improve the board independence function to increase firm value. As the party that oversees, the audit committee can ensure the reliability of the information presented by management.

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