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

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ABSTRACT

Numerous studies demonstrate that financial performance has a significant impact on a company's value. The progress of science, however, revealed that Good Corporate Governance tends to have a significant effect in the value of organizations whose financial performance is influential. This study's objective is to examine the relationship between financial performance and the value of a company, with good corporate governance serving as a moderating variable. The observation period for this quantitative investigation was between 2017 and 2020. This study utilizes secondary data. Analytical instruments employing Descriptive Statistics, Inferential Statistics, Partial Least Square Model Analysis (PLS), Model – Outer Model Evaluation (Convergent Validity Test and Reliability Test), Model Evaluation – Inner Model, and Hypothesis test. Using Smart PLS, each variable is analyzed. This study is anticipated to provide information on the extent to which the function of Good Corporate Governance adds to the value of the company, among other things. The results of this research will be able to provide suggestions for how each firm could approach the application of Good Corporate Governance in its annual report. The results indicated that financial success had no meaningful impact on the company's worth. Good corporate governance cannot increase the correlation between a company's financial performance and its market value. This renders Good Corporate Governance incapable of balancing financial success and corporate value.

Keywords: *Customize Financial Performance; Company Value; Good Corporate Governance*

1. INTRODUCTION

The business world is overgrowing today. This development was followed by intense competition between companies. So that managers are required to implement the right business strategy to improve performance. Companies certainly want their companies to continue developing, have sound financial performance, have high corporate values, and continue to increase. One of the company's goals is to increase the value of the business over the time of the long term.

In general, the company's growth, increasing profits, and financial performance are seen as determining the company's value. Academics widely study various theories about corporate value creation in case studies and theory tests. Several results show that financial performance plays an essential role in generating good corporate value. The extent to which GCG can influence financial performance in creating corporate value becomes a question.

The share price supplied by corporations that issue shares on the capital market is indicative of the company's value. The financial performance revealed in the company's yearly financial statistics determines the company's high and low value. If the primary objective of each company is to maximize profit, there will be a significant relationship between financial performance and firm value. An increase in profit indicates that good financial performance will be able to stimulate investor interest in investing, since the value of the company is the investor's appreciation of the work [12].

Financial performance has been believed to measure company value for a long time. Many research results show that, although financial performance plays an

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essential role in shaping company value, few also give contradictory results. The development of science today raises a new fact: there is a tendency for GCG to play an essential role in influencing the relationship between financial performance and firm value. This allows the existence of factors that affect the company's value from the performance of sound financial statements. One of the influencing factors is corporate governance. Financial performance looks at how well the company has followed and used the rules for financial implementation.

Return on Assets (ROA), Return on Equity (ROE), and Good Corporate Governance are some of the things that affect the value of a company (GCG). ROA is a measure of how well a company uses its assets in the short term. The higher the ROA ratio, the more effective using these assets in generating profits (Wijaya and Nanik). ROE describes the extent to which the company manages its capital effectively. The ability of a corporation to pay dividends is strongly correlated with its profitability. Profitability is a measure of management's capacity to make profits for investors, therefore potential investors examine a company's profitability while evaluating a business.

GCG is an effort to build a solid and sustainable company. The implementation of GCG is expected to improve company management that is more transparent for stakeholders and affects the achievement of company value. Companies must guarantee that the cash they spend for finance, investment, and corporate expansion are utilized as effectively as possible and that management works in the best interests of the firm.

In recent years, many companies have realized the importance of implementing GCG as part of the company's business strategy. There are GCG concerns when ownership and control of the firm are separated. The separation is based on agency theory, which necessitates the separation between firm ownership and control. Management has a tendency to focus on increasing profits rather than achieving organizational objectives. The corporation is also required to have good corporate governance, or GCG, in addition to its strong financial performance. Good GCG highlights the management's attempts to attract investors through effective asset and capital management. The company's management of its assets and money is reflected in its financial performance. If the management is performed correctly, its value will rise naturally.

This phenomenon raises the question of how GCG can influence financial performance in creating corporate value. On this basis, it is essential to conduct a study to determine whether financial performance directly influences firm value or whether other factors can strengthen and weaken this influence. The results of this study are expected to provide an overview of how to form an excellent corporate value. The results of this study are also expected to provide information on what to do to increase company value.

2. METHOD

2.1. Sampling Criteria and variables

a. Manufacturing companies listed on the IDX.
b. No loss during the observation period
c. Companies that have been listed on the IDX for 4 consecutive years.
d. Manufacturing companies that have managerial ownership.

The variables used in this study are described in Table 1.

Table 1 Variable

Independent Variable	Moderate Variable	Dependent Variable
Return on Assets (ROA) and Return on Equity (ROE)	Tobin’s Q	Good Corporate Governance (GCG)

2.2. Place and time of research

This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020

2.3. Data analysis method

The steps in running PLS for data analysis and structural modeling are as follows:

a. Designing a structural model (Inner Model) and measurement model (Outer Model) (Table 2)
b. Draw path diagrams
c. Determine how many blocks (variable latent) will be built with indicators on each latent variable.
d. Estimation of each latent variable
e. Update inner relation, then update outer relation
f. Evaluation criteria for the goodness of fit include measurement models and evaluation of structural models.
g. Testing with model interpretation. Interpretation based on structural model results
h. Structural model testing predicts causal relationships between variables or test hypotheses.
i. Testing the model structurally by clicking the calculate and bootstrapping it to determine the effect of direct and not directly between variables.
j. Evaluation of Partial Linear Square (PLS) Model

Table 2 Rule of Thumb Measurement Model

Parameter		*Rule Of thumb*
Convergent Validity Test	Loading factor	More than 0.5
	Average variance Extracted (AVE)	More than 0.5
	Communality	More than 0.5
Discriminant Validity Test	Cross Loading	More than 0.7 in one variable
	AVE roots and Latent variable correlation	AVE roots > Latent variable correlation
Reliability Test	Cronbach's alpha	> 0,07 for confirmatory research 0,06 is still acceptable for exploratory research
	Composite reliability	> 0,07 for confirmatory research 0,06 is still acceptable for exploratory research

3. RESULT AND DISCUSSION

Table 3 the loading factor value, shows the Tobins'Q, ROA, ROE, and managerial ownership variables is more significant than 0.7. indicator is declared valid.

Table 4 shows the results of Cronbach's alpha values on Tobins'Q variables, ROA, ROE, and managerial ownership >0.6 and composite reliability results >0.7. These results indicate that the data is declared reliable.

Table 5 shows the R- Square value of the Tobins'Q variable of 5.3%; this value means that ROA, ROE can explain the Tobins'Q variable and managerial ownership of 5.3% while the remaining 94.7% can be explained by other variables not included in this study.

The Goodness of Fit (GoF) test aims to determine the level of suitability and feasibility. The GoF value is divided into three categories, namely 0.1 means small, 0.25 means medium, 0.38 means significant.

Table 3 Loading Factor

Variable	Loading Factor	Description
Tobins'Q	1.000	Valid
ROA	1.000	Valid
ROE	1.000	Valid
KM	1.000	Valid

Table 4 Reliability Test

Variable	Composite reliability	Cronbach alpha	Description
Tobins'Q (Y)	1.000	1.000	Reliable
ROA (X1)	1.000	1.000	Reliable
ROE (X2)	1.000	1.000	Reliable
KM (Z)	1.000	1.000	Reliable

Table 5 R Square

Variable	R-Square	R-Square Adjusted
Tobins'Q (Y)	0.053	-0.060

Table 6 AVE dan R Square

Variable	AVE	R-Square
Tobin's Q (Y)	1.000	0.053
ROA (X1)	1.000	
ROE (X2)	1.000	
KM (X3)	1.000	
Average	1.000	0.053

3.1. Hypothesis Test

The basis used in direct hypothesis testing is the output image and the values contained in the output path coefficients. From the Figure 1, it can be seen that the path coefficients from the PLS bootstrapping test are as follows (Table 6).

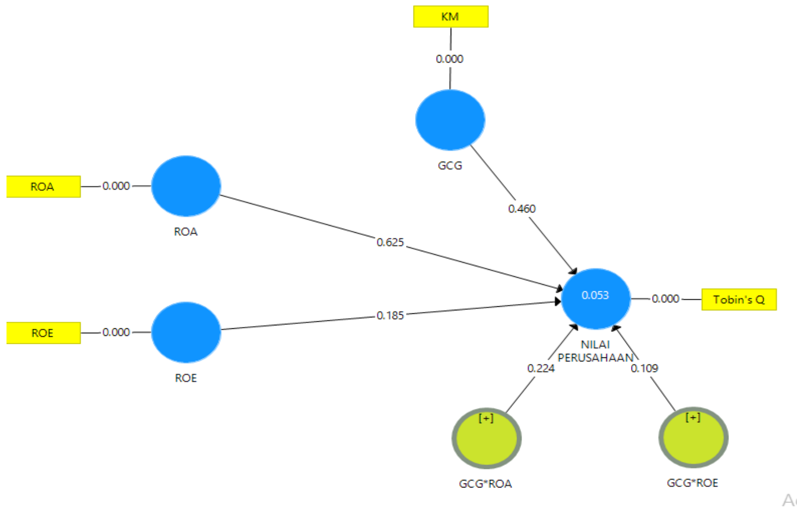

Figure 1 Test

Table 6 Hypothesis Test

Variable	Original Sample (O)	Sample Mean	Standard Deviation (STDEV)	T-Statistic (|O/STDEV|)	P-Value
ROA -> *Tobins'Q*	-0.242	-0.254	0.388	0.625	0.533
GCG*ROA -> *Tobins'Q*	-0.106	-0.286	0.471	0.224	0.823
ROE -> *Tobins'Q*	-0.059	-0.068	0.320	0.185	0.853
GCG*ROE -> *Tobins'Q*	-0.049	-0.038	0.447	0.109	0.913

3.1.1. Return on Assets (ROA) significantly affects the value of manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020.

First, we examine the hypothesis that Return on Assets (ROA) has a large impact on business value. This study's findings refute the first hypothesis, which hypothesized that the ROA variable has no substantial and negative influence on the firm value of consumer goods manufacturers listed on the Indonesia Stock Exchange (IDX) in 2017-2020. Where the T-statistic value is 0.625% of the T-table value and the p-value is greater than 0.05.

The ROA variable has no direct effect on firm value. The results of this study are contrary to what was stated by Wijaya and Nanik that Return on Assets shows how much effect the company uses its assets in the short term. The higher the ROA ratio, the more effective using these assets in generating profits. The negative relationship of the low Return on Assets value in manufacturing companies in the consumer goods sector in 2017-2020 is due to the funds spent for company operations that are not by the profits earned. Return on Assets (ROA) cannot be used as a research indicator. Management is likely to focus more on short-term goals rather than long-term goals, so managers tend to make short-term decisions that are more profitable but have negative consequences in the long run.

3.1.2. Good Corporate Governance can moderate the relationship of Return nn Assets (ROA) to the value of manufacturing companies on the Indonesia Stock Exchange in 2017-2020.

Good Corporate Governance can regulate the association between Return on Assets (ROA) and the market value of manufacturing businesses listed on the Indonesia Stock Exchange between 2017 and 2020. This study's findings refute the second hypothesis that the ROA variable improved by Good Corporate Governance cannot strengthen the association between ROA and the value of consumer goods manufacturing businesses listed on the Indonesia Stock Exchange (IDX) in 2017-2020. Where the T-statistic value is more than 2.00 and the p-value is greater than 0.05.

Thus, it may be concluded that the moderating effect of Good Corporate Governance cannot increase the link between ROA and company value. According to studies done by Muida and Akmalia, the link between financial performance and business value is unaffected by GCG, as evaluated by management ownership. The negative relationship between managerial ownership and firm value as measured by ROA in this study is attributable to the maximization of firm value and the implementation of good corporate governance. Typically, there is a conflict of interest between managers and shareholders, also known as the agency problem. This occurs because the boss puts personal interests first. In addition, the shareholders believe that the management will reduce corporate earnings and effect the stock price, so decreasing the value of the company.

3.1.3. Return On Equity (ROE) significantly affects the value of manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020.

The conclusion of Hypothesis Testing 3 is that Return on Equity (ROE) has a considerable impact on business value. This study's findings refute the first hypothesis, which hypothesized that the Return on Equity (ROE) variable does not have a substantial and negative influence on the firm value of consumer goods manufacturers listed on the Indonesia Stock Exchange in 2017-2020. Where the T-statistic value is 0.185 from the T-table mean and the p-value is more than 0.05.

This research is consistent with Robiyanto et al. and Carningsih's findings that ROE has no effect on company value. This study's findings contradict those of Fatimah et al., Muida, and Putri, who claimed that ROE had a positive and statistically significant impact on company value. The results of the third hypothesis are rejected due to ineffective capital management by management. A high Return on Equity (ROE) figure will affect the stock price, resulting in a greater return for shareholders.

3.1.4. Good Corporate Governance can moderate the relationship of Return on Assets (ROA) to the value of manufacturing companies on the Indonesia Stock Exchange in 2017-2020.

Good Corporate Governance can regulate the association between Return on Assets (ROA) and the market value of manufacturing businesses listed on the Indonesia Stock Exchange between 2017 and 2020. This study's findings refute hypothesis 4 that Good Corporate Governance cannot increase the association between ROE and the value of consumer goods manufacturing businesses listed on the Indonesia Stock Exchange (IDX) in 2017-2020. Where the T-statistic value is more than 2.00 and the p-value is greater than 0.05.

This renders the variable of managerial ownership irrelevant to the link between ROE and business value. This study's findings concur with Muida and Akmalia's conclusion that GCG has no impact on the link between financial performance and business value. The negative relationship between managerial ownership and firm value through ROE in this study is caused by the fact that the managerial ownership structure in Indonesia is still minimal and dominated by families. This minimal managerial ownership allows the managers and shareholders to be different people, which causes different interests and goals to reduce the company's value.

4. CONCLUSION

Return On Assets (ROA) and Return On Equity (ROE) have no negative influence on business value that is statistically significant. The link between Return On Assets (ROA) and Return On Equity (ROE) and business value is unaffected by Good Corporate Governance. The link between Return On Assets (ROA) and Return On Equity (ROE) and business value cannot be moderated by managerial ownership.

5. SUGGESTION

When investing in shares, investors should pay closer attention to a company's financial position, as shown not just in financial reports but also in the extent to which it implements Good Corporate Governance (GCG). Good Corporate Governance (GCG) proxies might be utilized for future study. In addition to financial performance, a number of other ratios can be utilized to get more precise and precise outcomes.

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